

PINNACLE WEST CAPITAL CORP

FORM 10-K (Annual Report)

Filed 03/14/01 for the Period Ending 12/31/00

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

PINNACLE WEST CAPITAL CORP

FORM 10-K (Annual Report)

Filed 3/14/2001 For Period Ending 12/31/2000

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

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549 FORM 10-K

(Mark One)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000

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)
400 North Fifth Street, P.O. Box 53999
Phoenix, Arizona 85072-3999
(Address of principal executive offices, including zip code)

86-0512431
(I.R.S. Employer Identification No.)

(602) 250-1000
(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 8, 2001	Aggregate Market Value Of Shares Held By Non-Affiliates As Of March 8, 2001
Common Stock, No Par Value	84,727,490	\$3,944,064,660(a)

(a) Computed by reference to the closing price on the composite tape on March 8, 2001, 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 past 90 days. Yes 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 any amendment to this Form 10-K.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement relating to its Annual Meeting of Shareholders to be held on May 23, 2001 are incorporated by reference into Part III hereof.

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GLOSSARY

ACC - Arizona Corporation Commission

ACC Staff - Staff of the Arizona Corporation Commission

AFUDC -allowance for funds used during construction

AISA - Arizona Independent Scheduling Administrator

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

APS - Arizona Public Service Company, a subsidiary of the Company

APSES - APS Energy Services Company, Inc., a subsidiary of the Company

Cholla - Cholla Power Plant

Cholla 4 - Unit 4 of the Cholla Power Plant

Citizens - Citizens Communications Company

Company - Pinnacle West Capital Corporation

CPUC - California Public Utility Commission

DIG - Derivatives Implementation Group

DOE - United States Department of Energy

EITF - Emerging Issues Task Force

El Dorado - El Dorado Investment Company, a subsidiary of the Company

EPA - United States Environmental Protection Agency

ERMC - Energy Risk Management Committee

FASB - Financial Accounting Standards Board

FERC - United States Federal Energy Regulatory Commission

FIP - Federal Implementation Plan

Four Corners - Four Corners Power Plant

GAAP -generally accepted accounting principles in the United States of America

ISO - California Independent System Operator

ITC -investment tax credit

KW - kilowatt, one thousand watts

KWh -kilowatt-hour, one thousand watts per hour

MW - megawatt, one million watts

MWh -megawatt-hours, one million watts per hour

1992 Energy Act - National Energy Policy Act of 1992

NPC - Nevada Power Company

NPUC - Nevada Public Utility Commission

NRC - United States Nuclear Regulatory Commission

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

Palo Verde - Palo Verde Nuclear Generating Station

PG&E - PG&E Corp.

Pinnacle West Energy - Pinnacle West Energy Corporation, a subsidiary of the
Company

PX - California Power Exchange

RTO - Regional Transmission Organization

Rules - ACC retail electric competition rules

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

SCE - Southern California Edison

SFAS - Statement of Financial Accounting Standards

SunCor - SunCor Development Company, a subsidiary of the Company

PART I

ITEM 1. BUSINESS

OVERVIEW OF OUR BUSINESS

We were incorporated in 1985 under the laws of the State of Arizona and own all of the outstanding common stock of APS. APS is Arizona's largest electric utility and provides retail and wholesale electric service to the entire state with the exception of Tucson and about one-half of the Phoenix area. APS also generates and, directly or through our power marketing division, sells and delivers electricity to wholesale customers in the western United States.

Our other major subsidiaries are:

- * Pinnacle West Energy, through which we intend to conduct our unregulated generation operations;
- * APS Energy Services, which sells energy and energy-related products and services in competitive retail markets in the western United States;
- * SunCor, which is a developer of residential, commercial, and industrial real estate projects in Arizona, New Mexico, and Utah; and
- * El Dorado, which is primarily a venture capital and investment firm.

We discuss each of these subsidiaries in greater detail below.

At December 31, 2000, we employed about 7,200 people, including the employees of our subsidiaries. Of these employees, 5,300 were employees of our major subsidiary, APS, and employees assigned to joint projects of APS where APS serves as project manager. About 1,900 people were employed by the parent company and our other subsidiaries. Our principal executive offices are located at 400 North Fifth Street, Phoenix, Arizona 85004 (telephone 602-250-1000).

See "Financial Review - Business Segments" in Item 7 and Note 18 of Notes to Consolidated Financial Statements in Item 8 for a discussion of our business segments.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements based on current expectations and we assume no obligation to update these statements. Because actual results may differ materially from expectations, we caution readers not to place undue reliance on these statements. A number of factors could cause future results to differ materially from historical results, or from results or outcomes currently expected or sought by us. These factors include the ongoing restructuring of the electric industry; the outcome of regulatory and legislative proceedings relating to the restructuring; regional economic and market conditions, including the California energy situation, which could affect customer growth and the cost of power supplies; the cost of debt and equity capital; weather variations affecting local and regional customer energy usage; conservation programs; the successful completion of our generation expansion program; regulatory issues associated with generation

expansion, such as permitting and licensing; our ability to compete successfully outside traditional regulated markets (including the wholesale market); technological developments in the electric industry; and the strength of the stock market (particularly the technology sector in which El Dorado is currently invested) and the real estate market in SunCor's market areas, which include Arizona, New Mexico and Utah.

BUSINESS OF ARIZONA PUBLIC SERVICE COMPANY

Following is a discussion of the business of APS, our major subsidiary.

GENERAL

APS was incorporated in 1920 under the laws of Arizona and is Arizona's largest electric utility, with more than 850,000 customers. APS 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. APS also generates and, directly or through our power marketing division, sells and delivers electricity to wholesale customers in the western United States. During 2000, no single purchaser or user of energy accounted for more than 3.5% of total electric revenues.

At December 31, 2000, APS employed 5,300 people, which includes employees assigned to joint projects where APS is project manager. APS' principal executive offices are located at 400 North Fifth Street, Phoenix, Arizona 85004 (telephone 602-250-1000).

REGULATION AND COMPETITION

RETAIL

The ACC regulates APS' retail electric rates and its issuance of securities. The ACC must also approve any transfer of APS' utility property and transactions between APS and affiliated parties. See "Financial Review - Business Outlook - Competition and Industry Restructuring" in Item 7 and Note 3 of Notes to Consolidated Financial Statements in Item 8 for a discussion of electric industry restructuring in Arizona, including APS' 1999 Settlement Agreement, the ACC retail electric competition rules, and the legal challenges to both the 1999 Settlement Agreement and the Rules.

Although the Rules allow retail customers to have access to competitive providers of energy and energy services, APS is the "provider of last resort" for standard offer customers under rates that have been approved by the ACC. These rates are fixed until July 1, 2004. The 1999 Settlement Agreement allows APS to seek adjustment of these rates in the event of emergency conditions or circumstances, such as the inability to secure financing on reasonable terms, or material changes in APS' cost of service for ACC-regulated services resulting from federal, tribal, state or local laws, regulatory requirements, judicial decisions, actions or orders. Energy prices in the western wholesale market vary and, during the course of the last year, have been volatile. At various times, prices in the spot wholesale market have significantly exceeded the amount included in APS' current retail rates. APS expects these market conditions to continue in 2001. We believe we have adequately supplemented our current generation portfolio with power purchased through contracts and hedging techniques that limit exposure to the volatile spot wholesale power market. However, in the event of shortfalls due to unforeseen increases in load demand or generation outages, we may need to purchase additional supplemental power in the wholesale spot market. Unless APS is able to obtain

an adjustment of its rates under the 1999 Settlement Agreement, there can be no assurance that APS would be able to fully recover the costs of this power.

As discussed in "Financial Review - Electric Competition (Retail)" in Item 7 and in Note 3 of Notes to Financial Statements in Item 8, the 1999 Settlement Agreement authorizes APS to transfer its competitive generation assets and services to one or more corporate affiliates no later than December 31, 2002. APS intends to move its generation assets to Pinnacle West Energy within that timeframe. Following its receipt of these generation assets, Pinnacle West Energy expects to sell its power at wholesale to our power marketing division (Power Marketing). Power Marketing, in turn, is expected to sell power to APS and to non-affiliated power purchasers. APS is expected to meet fifty percent of its energy needs under a power purchase agreement with Power Marketing. As required by the Rules, APS will acquire the remaining fifty percent of its energy needs through a competitive bid process in which Power Marketing may participate. We believe these arrangements will allow us to manage APS' exposure to the wholesale power market during the period within which APS' rates are fixed, as discussed in the preceding paragraph.

In addition to the introduction of competition pursuant to the 1999 Settlement Agreement and the Rules, APS is subject to varying degrees of competition from other utilities in its region (such as Tucson Electric Power Company, Southwest Gas Corporation, and Citizens Communications Company) as well as cooperatives, municipalities, electrical districts, and similar types of governmental organizations (principally Salt River Project). APS also faces competition from low-cost hydroelectric power and parties that have access to preferential low-priced federal power and other subsidies. In addition, some customers, particularly industrial and large commercial customers, may own and operate facilities to generate their own electric energy requirements.

WHOLESALE

We compete with other utilities, power marketers, and independent power producers in the sale of electric capacity and energy in the wholesale market. We expect competition in the wholesale market will remain vigorous. The FERC regulates rates for wholesale power sales and transmission services. During 2000, approximately 46% of our electric operating revenues resulted from such sales and services. APS transferred the wholesale power marketing function to the parent company during 2000.

See "Financial Review - Capital Resources and Cash Requirements - Pinnacle West Energy" and Note 12 of Notes to Consolidated Financial Statements for information regarding generation expansion plans.

The 1992 Energy Act and the FERC's rulemaking activities have established the regulatory framework to open the wholesale energy market to competition. The 1992 Energy Act permits utilities to develop independent electric generating plants for sales to wholesale customers, and authorizes the FERC to order transmission access for third parties to transmission facilities owned by another entity. The 1992 Energy Act does not, however, permit the FERC to require transmission access to retail customers. Open-access transmission for wholesale customers provides energy suppliers, including us, with opportunities to sell and deliver electricity at market-based prices.

On December 20, 1999, the FERC issued its Order No. 2000 regarding Regional Transmission Organizations (RTO). In its order, the FERC stressed the voluntary nature of RTO participation by utilities and set minimum characteristics and functions that must be met by utilities that participate in RTOs. The order provides for an open, flexible structure for RTOs to meet the needs of the market, and provides for the possibility of incentive ratemaking and other benefits for utilities that participate in an RTO.

The characteristics for an acceptable RTO include independence from market participants, operational control over a region large enough to support efficient and nondiscriminatory markets, and exclusive authority to maintain short-term reliability. As required by the FERC order, APS, along with several neighboring transmission owners located in the southwestern United States, filed a report with the FERC on October 16, 2000 that detailed the progress in establishing an RTO that would be responsible for ensuring transmission reliability and nondiscriminatory access to the regional transmission grid. APS expects that Desert STAR, the non-profit corporation named in the filing, will make additional filings with the FERC in the near future to establish itself as an RTO for the region. See "Financial Review - Business Outlook - California Energy Market Issues" in Item 7 for a discussion of the energy situation in California.

The ACC retail electric competition rules require the formation and implementation of an Arizona Independent Scheduling Administrator Association. The AISA is anticipated to be a temporary organization until the formation and implementation of an independent system operator or RTO. APS, as an "Affected Utility" under the Rules, participated in the creation of the AISA. Recently, the board of AISA approved a set of operating protocols that have been filed with the FERC. The operating protocols were partially rejected and the remainder are currently under review.

See "Financial Review - Business Outlook - Competition and Industry Restructuring" in Item 7 and Note 3 of Notes to Consolidated Financial Statements in Item 8 for additional information about the ACC Rules and the legal challenges to the Rules.

REGULATORY ASSETS

Our major regulatory assets are deferred income taxes and rate synchronization cost deferrals. As a result of our 1999 Settlement Agreement, we discontinued the application of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," for our generation operations. As a result, we tested the generation assets for impairment and determined that the generation assets were not impaired. Pursuant to the 1999 Settlement Agreement, we reported a regulatory disallowance (\$140 million after income taxes) as an extraordinary charge on the 1999 income statement. Prior to the 1999 Settlement Agreement, under a 1996 regulatory agreement, the ACC accelerated the amortization of substantially all of our regulatory assets to an eight-year period that would have ended June 30, 2004. The regulatory assets to be recovered under the 1999 Settlement Agreement are being amortized pursuant to a revised amortization schedule. See Notes 1, 3, and 10 of Notes to Consolidated Financial Statements in Item 8 for additional information.

GENERATING FUEL AND PURCHASED POWER

2000 ENERGY MIX

APS' sources of energy during 2000 were: purchased power - 46.0% (approximately 88% of which was for wholesale power operations); coal - 27.9%; nuclear - 19.8%; gas - 6.0%; and other (includes oil, hydro and solar) - 0.3%.

COAL SUPPLY

CHOLLA APS purchases most of Cholla's coal requirements 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. Cholla has sufficient coal under current contracts to ensure a reliable fuel supply through 2005. APS purchases a portion of Cholla's coal requirements on the spot market to take advantage of competitive pricing options. Following expiration of current contracts, APS believes that numerous competitive fuel supply options will exist to ensure continuous plant operation. We expect the current supplier to continue to provide most of Cholla's low sulfur coal requirements through the current contract. APS believes that there are sufficient reserves of low sulfur coal available from other suppliers to ensure the continued operation of Cholla for its useful life.

FOUR CORNERS APS purchases all of Four Corners' coal requirements from a coal supplier with a long-term lease of coal reserves owned by the Navajo Nation. Four Corners is under contract for coal through 2004, with options to extend the contract through the plant site lease expiration in 2017. The Four Corners lease waives, until July 2001, the requirement that APS and its fuel supplier pay certain taxes to the Navajo Nation. The coal supplier currently pays a possessory interest tax to the Navajo Nation, which is reimbursed by the Four Corners participants. The coal supplier, the Navajo Nation, and the Four Corners participants agreed to investigate alternative contractual arrangements and business relationships before the expiration of tax waivers in an effort to permit the electricity generated at Four Corners to be priced competitively. APS anticipates that the Navajo Nation will levy additional taxes upon the expiration of the tax waivers; however, APS cannot currently predict the outcome of this matter or the amount of any additional taxes.

NAVAJO GENERATING STATION The Navajo Generating Station's coal requirements are purchased from a supplier with long-term leases from the Navajo Nation and the Hopi Tribe. The Navajo Generating Station is under contract with its coal supplier through 2011, with options to extend through the plant site lease expiration in 2019. The Navajo Generating Station lease waives certain taxes through the lease expiration in 2019. The lease provides for the potential to renegotiate the coal royalty in 2007 and 2017, which may impact the fuel price.

See "Properties - Accredited Capacity" in Item 2 for information about APS' ownership interest in Cholla, Four Corners, and the Navajo Generating Station. See Note 12 of Notes to Consolidated Financial Statements in Item 8 for information regarding our coal mine reclamation obligations.

NATURAL GAS SUPPLY

APS purchases the majority of its natural gas requirements under contracts with a number of natural gas suppliers. APS' natural gas supply is transported pursuant to a firm transportation service contract with El Paso Natural Gas Company. We anticipate that the natural gas requirements for our generation expansion plans (see Note 12) will be met with these contracts. We continue to analyze the market to determine the most favorable source and method of meeting our natural gas requirements.

NUCLEAR FUEL SUPPLY

The fuel cycle for Palo Verde is comprised of the following stages:

- * mining and milling of uranium ore to produce uranium concentrates;
- * conversion of uranium concentrates to uranium hexafluoride;
- * enrichment of uranium hexafluoride;
- * fabrication of fuel assemblies;
- * utilization of fuel assemblies in reactors; and
- * storage and disposal of spent fuel.

The Palo Verde participants have made contractual arrangements to obtain quantities of uranium concentrates anticipated to be sufficient to meet operational requirements through 2002. Spot purchases on the uranium market will be made, as appropriate, in lieu of any uranium that might be obtained through contractual options. Existing uranium concentrates contracts and options could be utilized to meet approximately:

- * 77% of requirements in 2003;
- * 77% of requirements in 2004;
- * 44% of requirements in 2005 through 2007; and
- * 16% of requirements in 2008 and beyond.

The Palo Verde participants have contracts and options for uranium conversion services that could be utilized to meet approximately:

- * 75% of requirements in 2001; and
- * 80% of requirements in 2002.

The Palo Verde participants have an enrichment services contract and an enriched uranium product contract that furnish enrichment services required for the operation of the three Palo Verde units through 2003. In addition, existing contracts will provide fuel assembly fabrication services until at least 2015 for each Palo Verde unit.

APS is currently pursuing several offers to procure the uranium, conversion services and the enrichment services components of nuclear fuel to meet all of Palo Verde's requirements through 2008.

SPENT NUCLEAR FUEL AND WASTE DISPOSAL Pursuant to the Nuclear Waste Act, the DOE must accept and dispose of all spent nuclear fuel and other high-level radioactive wastes generated by domestic power reactors. The NRC requires operators of nuclear power reactors to enter into spent fuel disposal contracts with the DOE. Under the Nuclear Waste Act, the DOE was to develop a permanent repository for the storage and disposal of spent nuclear fuel by 1998. The DOE has announced that such a permanent repository cannot be completed before 2010, and that it does not intend to begin accepting spent fuel prior to that date.

In November 1997, the United States Court of Appeals for the District of Columbia Circuit (D.C. Circuit) issued a decision precluding the DOE from excusing its own delay, but refused to order the DOE to begin accepting spent nuclear fuel. Based on this decision, a number of utilities filed damages lawsuits against DOE in the Court of Federal Claims. In decisions that became final in December 2000, the United States Court of Appeals for the Federal Circuit held that utilities do not

have to exhaust the DOE administrative claims before filing lawsuits for damages against the DOE in the Court of Federal Claims.

Bills have been introduced in prior sessions of the U.S. Congress contemplating the construction of a central interim storage facility, but no bill has been enacted into law. We cannot currently predict what steps will be taken in this area by the current 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). According to DOE spokespersons, the fund 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 existing fuel storage pools at Palo Verde and is in the process of completing construction of a new facility for on-site dry storage of spent fuel. With the existing storage pools and the addition of the new facility, APS believes that spent fuel storage or disposal methods will be available for use by Palo Verde to allow its continued operation through the term of the operating license for each Palo Verde unit. See "Palo Verde Nuclear Generating Station" in Note 12 of Notes to Consolidated Financial Statements in Item 8 for a discussion of interim spent fuel storage costs.

Although some low-level waste has been stored on-site in a low-level waste facility, 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.

APS believes that scientific and financial aspects of the issues of spent fuel and low-level waste storage and disposal can be resolved satisfactorily. However, APS also acknowledges that their ultimate resolution in a timely fashion will require political resolve and action on national and regional scales which APS is less able to predict. APS expects to vigorously protect and pursue its rights related to this matter.

PURCHASED POWER AGREEMENTS

In addition to that available from its own generating capacity (see "Properties" in Item 2), APS purchases electricity under various arrangements. One of the most important of these is a long-term contract with Salt River Project. The amount of electricity available to APS is 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 322 MW from January through May 2000, and starting June 2000, it changed to 329 MW. In 2000, APS received approximately 1,422,000 MWh of energy under the contract and paid about \$76.7 million for capacity availability and energy received. This contract may be canceled by Salt River Project on three years' notice, given no earlier than December 31, 2003. APS may also cancel the contract on five years' notice, given no earlier than December 31, 2006.

In September 1990, APS entered into a thirty-year seasonal capacity exchange agreement with PacifiCorp. Under this agreement, APS receives electricity from PacifiCorp during the summer peak season (from May 15 to September 15) and APS returns electricity to PacifiCorp during the

winter season (from October 15 to February 15). Until 2020, APS and PacifiCorp each has 480 MW per hour of capacity and a related amount of energy available to it under the agreement for their respective seasons. In 2000, APS received approximately 396,000 MWh of energy under the capacity exchange. APS must also make additional offers of energy to PacifiCorp each year through October 31, 2020. Pursuant to this requirement, during 2000, PacifiCorp received offers of 865,800 MWh and purchased about 218,000 MWh.

CONSTRUCTION PROGRAM

During the years 1998 through 2000, APS incurred approximately \$1.2 billion in capital expenditures. APS' capital expenditures for the years 2001 through 2003 are expected to be primarily for expanding transmission and distribution capabilities to meet growing customer needs, upgrading existing utility property, and for environmental purposes. APS' capital expenditures, including expenditures for environmental control facilities, for the years 2001 through 2003 have been estimated as follows:

(dollars in millions)			
BY YEAR		BY MAJOR FACILITIES	
-----		-----	
2001	\$ 455	Production	\$ 226
2002	401	Transmission and Distribution	924
2003	294		-----
	-----	Total	\$1,150
Total	\$1,150		=====
	=====		

The amounts for 2001 through 2003 exclude capitalized interest costs and include capitalized property taxes and about \$30-\$35 million annually (except 2003) for nuclear fuel. APS conducts a continuing review of its construction program. See "Financial Review - Capital Needs and Resources" in Item 7 for additional information.

MORTGAGE REPLACEMENT FUND REQUIREMENTS

So long as any of its 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 its mortgaged utility plant. APS may satisfy all or any part of this "replacement fund" requirement by using redeemed or retired bonds, net property additions, or property retirements. For 2000, the replacement fund requirement amounted to approximately \$149 million. Certain of the bonds APS has issued under the mortgage that are callable prior to maturity are redeemable at their par value plus accrued interest with cash APS deposits in the replacement fund. These call provisions are subject in many cases to a period of time after the original issuance of the bonds during which they may not be so redeemed.

ENVIRONMENTAL MATTERS

EPA ENVIRONMENTAL REGULATION

CLEAN AIR ACT We are subject to a number of requirements under the Clean Air Act. The Clean Air Act addresses, among other things:

- * "acid rain";
- * visibility in certain specified areas;
- * hazardous air pollutants; and
- * areas that have not attained national ambient air quality standards.

With respect to "acid rain," the Clean Air Act establishes a system of sulfur dioxide emissions "allowances" to offset each ton of sulfur dioxide emitted by affected power plants. Based on EPA allowance allocations, we will have sufficient allowances to permit continued operation of our plants at current levels without installing additional equipment. The Clean Air Act also requires the EPA to set nitrogen oxides emissions limitations for certain coal-fired units. The EPA rule allows emissions from all units within a plant to be averaged to demonstrate compliance with the emission limitation. Currently, nitrogen oxides emissions from all of our units are within the limitations specified under the EPA's rules. We do not currently expect this rule to have a material impact on our financial position, results of operations, or liquidity.

The Clean Air Act requires the EPA to establish a Grand Canyon Visibility Transport Commission to complete a study on visibility impairment in sixteen "Class I Areas" (large national parks and wilderness areas) on the Colorado Plateau. The Navajo Generating Station, Cholla, and Four Corners are located near several Class I Areas on the Colorado Plateau. The Visibility Commission completed its study and on June 10, 1996 submitted its final recommendations to the EPA.

On April 22, 1999, the EPA announced final regional haze rules. These new regulations require states to submit, by 2008, implementation plans to eliminate all man-made emissions causing visibility impairment in certain specified areas, including Class I Areas in the Colorado Plateau. The 2008 implementation plans must also include consideration and potential application of best available retrofit technology for major stationary sources which came into operation between August 1962 and August 1977, such as the Navajo Generating Station, Cholla, and Four Corners.

The rules allow the nine western states and tribes that participated in the Visibility Commission process to follow an alternate implementation plan and schedule for the Class I Areas considered by the Visibility Commission. Under this option, those states and tribes would submit implementation plans by 2003, which would incorporate certain regional sulfur dioxide emissions milestones for the years 2003, 2008, 2013, and 2018 (which includes the application of best available retrofit technology). If the regional emissions in those years were within those milestones, there would be no further emission reduction requirements, and if they were exceeded, then an emission trading program would be implemented to maintain the emissions within those milestones.

The EPA is currently reviewing an "Annex" to the Visibility Commission recommendations that specifies the regional sulfur dioxide emission milestones. The EPA's approval of the Annex would allow the Visibility Commission states and tribes to pursue the alternate implementation of the regional haze rules through 2018. Any states and tribes that implement this option would have to submit revised implementation plans in 2008 to address visibility in those Class I Areas which were not included in the Visibility Commission process. Because the Annex is not final and Arizona and the Navajo Nation have the discretion to choose between the national or the alternate options, the actual impact on APS cannot be determined at this time.

In July 1997, the EPA promulgated final National Ambient Air Quality Standards for ozone and particulate matter. Pursuant to these rules, the ozone standard is more stringent and a new ambient standard for very fine particles has been established. Congress has enacted legislation that could delay the implementation of regional haze requirements and the particulate matter ambient standard; however, the legislation does not preclude the Visibility Commission states and tribes from implementing the alternate regional haze rules discussed above. A federal court determined that the EPA's promulgation of the National Ambient Air Quality Standards violated the constitutional prohibition on delegation of legislative power. The court remanded the ozone standard, vacated the particulate matter standard, and invited the parties that challenged the standards to brief the court on vacating or remanding the very fine particulates standard. On February 27, 2001, the U.S. Supreme Court overruled the federal court's ruling. The Court further held that the EPA could not consider the cost of reducing harmful emissions when setting air quality standards. However, the Court found the EPA implementation policy for the revised ozone standards to be unlawful, and remanded this issue for consideration along with the other preserved challenges to the National Ambient Air Quality Standards. 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. However, APS does not currently expect these rules to have a material adverse effect on its financial position, results of operations, or liquidity.

With respect to hazardous air pollutants emitted by electric utility steam generating units, the EPA recently determined that mercury emissions and other hazardous air pollutants from coal and oil-fired power plants will be regulated. We expect that the EPA will propose specific rules for this purpose in 2003 and finalize them by 2004, with compliance required by 2008. Because the ultimate requirements that the EPA may impose are not yet known, we cannot currently estimate the capital expenditures, if any, which may be required.

Certain aspects of the Clean Air Act may require APS to make related expenditures, such as permit fees. APS does not expect any of these expenditures to have a material impact on its financial position, results of operations, or liquidity.

FEDERAL IMPLEMENTATION PLAN In September 1999, the EPA proposed a FIP to set air quality standards at certain power plants, including the Navajo Generating Station and Four Corners. The comment period on this proposal ended in November 1999. The FIP is similar to current Arizona regulation of the Navajo Generating Station and New Mexico regulation of Four Corners, with minor modifications. APS does not currently expect the FIP to have a material impact on its financial position, results of operations, or liquidity.

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. PRPs may be 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. APS' Ocotillo Power Plant is located in this area. APS is in the process of conducting an investigation to determine the extent and scope of contamination at the plant site. Based on the information to date, including available insurance coverage and an EPA estimate of cleanup costs, APS does not expect this matter to have a material impact on its financial position, results of operations, or liquidity.

MANUFACTURED GAS PLANT SITES APS is currently investigating properties which it now owns or which were at one time owned by it or its corporate predecessors, that 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;
- * such materials constitute an environmental or health risk; and
- * 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, results of operations, or liquidity.

PURPORTED NAVAJO ENVIRONMENTAL REGULATION

Four Corners and the 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 Nation. APS is the Four Corners operating agent. APS 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 Navajo Generating Station 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 the Navajo Generating Station. By separate letters dated October 12 and October 13, 1995, the Four Corners participants and the Navajo Generating Station 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 the Navajo Generating Station. On October 17, 1995, the Four Corners participants and the Navajo Generating Station participants each filed a lawsuit in the District Court of the Navajo Nation, Window Rock District, seeking, among other things, a declaratory judgment that:

- * their respective leases and federal easements preclude the application of the Acts to the operations of Four Corners and the Navajo Generating Station; and

- * the Navajo Nation and its agencies and courts lack adjudicatory jurisdiction to determine the enforceability of the Acts as applied to Four Corners and the Navajo Generating Station.

On October 18, 1995, the Navajo Nation and the Four Corners and Navajo Generating Station participants agreed to indefinitely stay these proceedings so that the parties may attempt to resolve the dispute without litigation. 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. 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. On February 19, 1999, the EPA promulgated regulations setting forth the EPA's approach to issuing Federal operating permits to covered stationary sources on Indian reservations. On April 15, 1999, 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. 99-1146. After the litigation was filed, the EPA indicated it had not determined whether the Clean Air Act would supersede pre-existing binding agreements involving Four Corners and the Navajo Generating Station. On May 5, 2000, the United States Court of Appeals for the District of Columbia upheld the EPA's regulations on treatment of Indian tribes in the same manner as states. However, the Court determined that the impact of this ruling on the pre-existing binding agreements involving Four Corners and the Navajo Generating Station was not ripe for adjudication because the EPA had not made a determination that the Clean Air Act superseded those agreements. On June 29, 2000, at the request of the Court, APS filed a motion to dismiss Four Corners from this petition on the grounds that the impact of the regulations on pre-existing binding agreements was not "ripe" for judicial resolution based on the EPA's issuance of an official notice indicating that it had not yet determined whether the pre-existing binding agreements with Four Corners and Navajo Generating Station were abrogated by the Clean Air Act. The Court ultimately dismissed Four Corners on these grounds.

In April 2000, the Navajo Tribal Council approved operating permit regulations under the Navajo Nation Air Pollution Prevention and Control Act. We believe that the regulations fail to recognize that the Tribe did not intend to assert jurisdiction over Four Corners and the Navajo Generating Station. On July 12, 2000, the Four Corners participants and the Navajo Generating Station participants each filed a petition with the Navajo Supreme Court for review of the operating permit regulations. We cannot currently predict the outcome of this matter.

WATER SUPPLY

Assured supplies of water are important for our generating plants. 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 VS. 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. APS' rights and the rights of the Palo Verde participants to the use of groundwater and

effluent at Palo Verde are potentially at issue in this action. As project manager of Palo Verde, APS 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. Alternatively, APS seeks confirmation of such rights. Three of APS' other power plants are also located within the geographic area subject to the summons. APS' claims dispute the court's jurisdiction over its groundwater rights with respect to these plants. Alternatively, APS seeks confirmation of such rights. The Arizona Supreme Court issued a decision confirming that certain groundwater rights may be available to the federal government and Indian tribes. APS and other parties petitioned the U.S. Supreme Court for review of this decision and the petition was denied. In addition, the Arizona Supreme Court issued a decision affirming the lower court's criteria for solving groundwater claims. APS and other parties filed motions for reconsideration on one aspect of that decision. Those motions have been denied by the Arizona Supreme Court. Litigation on both of these issues will continue in the trial court. No trial date concerning APS' water rights claims 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 its groundwater rights. Alternatively, APS seeks confirmation of such rights. The parties are in the process of settlement negotiations with respect to this matter. No trial date concerning our water rights claims 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, results of operations or liquidity.

BUSINESS OF PINNACLE WEST ENERGY CORPORATION

Pinnacle West Energy Corporation was incorporated in 1999 under the laws of the State of Arizona and is engaged principally in the business of the development and production of wholesale energy. Pinnacle West Energy is the subsidiary through which we intend to conduct our future unregulated generation operations. Pinnacle West Energy's principal offices are located at 400 North Fifth Street, Station 8987, Phoenix, Arizona 85004 (telephone (602) 250-4145).

Pinnacle West Energy's capital expenditures in 2000 were \$193 million. Projected capital expenditures are \$659 million in 2001; \$129 million in 2002; and \$254 million in 2003. The amounts include about \$122 million in 2003 for capital improvements to existing generating facilities. At December 31, 2000, Pinnacle West Energy had total assets of \$229 million.

See Note 3 of Notes to Consolidated Financial statements for information regarding the transfer of APS' generation assets to Pinnacle West Energy. See "Financial Review - Capital Needs and Resources - Capital Resources and Cash Requirements - Pinnacle West Energy" and Note 12 of Notes to Consolidated Financial Statements for information regarding Pinnacle West Energy's generation expansion plans.

BUSINESS OF APS ENERGY SERVICES COMPANY, INC.

APS Energy Services was incorporated in 1998 under the laws of the State of Arizona and is engaged principally in the business of selling unregulated power and related services. APS Energy Services' principal offices are located at 400 East Van Buren Street, Station 8103, Phoenix, Arizona 85004 (telephone (602) 250-5000).

During the first full two years of operations, APS Energy Services' net losses were about \$9 million in 1999 and \$13 million in 2000. At December 31, 2000, APS Energy Services had total assets of \$23 million.

BUSINESS OF SUNCOR DEVELOPMENT COMPANY

SunCor was incorporated in 1965 under the laws of the State of Arizona and is a developer of residential, commercial, and industrial real estate projects in Arizona, New Mexico, and Utah. 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 have approximately 790 full and part-time employees.

SunCor's assets consist primarily of land with improvements, commercial buildings, and other real estate investments. SunCor's largest project is the Palm Valley Master Planned Community, which has approximately 5,000 acres remaining to be developed west of Phoenix at its Palm Valley project in the area of the towns of Goodyear and Litchfield Park, Arizona. SunCor has completed the master plan for development of Palm Valley. There has been significant residential and commercial development at Palm Valley by SunCor and by other developers that have acquired land from SunCor or entered into joint ventures with SunCor. Palm Valley currently includes residential subdivisions with golf courses, hotels, restaurants, commercial and retail stores, medical facilities, elementary and secondary schools, a community college, and a retirement community, known as Pebblecreek.

SunCor projects under development include seven master-planned communities and several commercial projects. The commercial projects and five of the master-planned communities are in Arizona. Other master-planned communities are located near St. George, Utah, and Santa Fe, New Mexico. Several of the master-planned communities and commercial projects are joint ventures with other developers, financial partners, or landowners. SunCor will begin two new projects in 2001:

* Hayden Ferry Lakeside - an 18-acre, mixed-use commercial/residential project located in Tempe, Arizona; and

* StoneRidge - an 1,850-acre, master-planned community with golf course amenities in Prescott Valley, Arizona.

For the past three years, SunCor's operating revenues were about: \$158 million in 2000; \$130 million in 1999; and \$124 million in 1998. For those same periods, SunCor's net income was about: \$11 million in 2000; \$6 million in 1999; and \$45 million in 1998. About \$40 million of SunCor's 1998 net income represents income related to the recognition of a deferred tax asset. The deferred tax asset relates to net operating losses and book/tax basis differences. SunCor is expected

to realize these benefits in subsequent periods pursuant to an intercompany tax allocation agreement. On a consolidated basis, there was no impact to consolidated net income.

SunCor's capital needs consist primarily of capital expenditures for land development and home construction for SunCor's home-building subsidiary, Golden Heritage Homes, Inc. On the basis of projects now under development, SunCor expects its capital needs over the next three years to be: \$75 million in 2001; \$23 million in 2002; and \$14 million in 2003.

At December 31, 2000, SunCor had total assets of about \$462 million. See Note 6 of Notes to 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 master-planned communities and the development of mixed-use residential, commercial, office, and industrial projects.

BUSINESS OF EL DORADO INVESTMENT 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, we may use El Dorado, when appropriate, as our subsidiary for new ventures that are strategic to our principal business of generating, distributing, and marketing electricity. El Dorado's offices are located at 400 North Fifth Street, Station 9988, Phoenix, Arizona 85004 (telephone 602-250-3517).

At December 31, 2000, El Dorado had an investment in a venture capital partnership, a 54% interest in a privately held company specializing in nuclear spent fuel technology, limited partnership interests in two professional sports teams, and an investment in a technology company. See Note 1 of Notes to Consolidated Financial Statements in Item 8 for information regarding El Dorado's investments.

For the past three years, El Dorado's net income was about: \$2 million in 2000; \$11 million in 1999; and \$5 million in 1998. At December 31, 2000, El Dorado had total assets of \$21 million.

ITEM 2. PROPERTIES

ACCREDITED CAPACITY

APS' present generating facilities have an accredited capacity as follows:

	Capacity(kW)

Coal:	
Units 1, 2, and 3 at Four Corners.....	560,000
15% owned Units 4 and 5 at Four Corners.....	222,000
Units 1, 2, and 3 at Cholla Plant.....	615,000
14% owned Units 1, 2, and 3 at the Navajo Plant.....	315,000

	1,712,000

Gas or Oil:	
Two steam units at Ocotillo and two steam units at Saguaro.	435,000 (1)
Eleven combustion turbine units.....	493,000
Three combined cycle units.....	255,000

	1,183,000

Nuclear:	
29.1% owned or leased Units 1, 2, and 3 at Palo Verde.....	1,086,300

Hydro and Solar.....	6,000

Total	3,987,300
	=====

(1) West Phoenix steam units (108,300 kW) are currently mothballed, but are expected to be back in service by summer 2001.

RESERVE MARGIN

APS' 2000 peak one-hour demand on its electric system was recorded on July 25, 2000 at 5,478,500 kW, compared to the 1999 peak of 4,934,700 kW recorded on August 24. Taking into account additional capacity then available to APS under long-term purchase power contracts as well as APS' own generating capacity, APS' capability of meeting system demand on July 25, 2000, amounted to 4,774,600 kW, for an installed reserve margin of (15.3%). 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 2000 peak amounted to 3,501,600 kW, for a margin of (27.5%). Firm purchases, including short-term seasonal purchases, totaling 2,238,000 kW were in place at the time of the peak ensuring the ability to meet the load requirement, with an actual reserve margin of 6.4%.

See "Business of Arizona Public Service Company - Purchased Power Agreements" in Item 1 for information about certain of APS' long-term power agreements.

PLANT SITES LEASED FROM NAVAJO NATION

The Navajo Generating Station and Four Corners are located on land held under easements from the federal government and also under leases from the Navajo Nation. These are long term agreements with options to extend, and we do not believe that the risk with respect to enforcement of these easements and leases is material. The majority of coal contracted for use in these plants and certain associated transmission lines are also located on Indian reservations. See "Generating Fuel and Purchased Power ___ Coal Supply" in Item 1.

See "Generating Fuel and Purchased Power - Coal Supply" in Item 1 for a discussion of changes in the amount of royalty payments and expiration of tax waivers under the Navajo Generating Station and Four Corners leases.

PALO VERDE NUCLEAR GENERATING STATION

PALO VERDE LEASES

See Note 10 of Notes to Consolidated Financial Statements in Item 8 for a discussion of three sale and leaseback transactions related to Palo Verde Unit 2.

REGULATORY

Operation of each of the three Palo Verde units requires an operating license from the NRC. The NRC issued full power operating licenses for Unit 1 in June 1985, Unit 2 in April 1986, and Unit 3 in November 1987. 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

NRC rules on financial assurance requirements for the decommissioning of nuclear power plants provide that a licensee may use an external sinking fund as the exclusive financial assurance mechanism if the licensee recovers estimated total decommissioning costs through cost of service rates or through a "non-bypassable charge." Other mechanisms are prescribed, including prepayment, if the requirements for exclusive reliance on the external sinking fund mechanism are not met. APS currently relies on the external sinking fund mechanism to meet the NRC financial assurance requirements for its interests in Palo Verde Units 1, 2, and 3. The decommissioning costs of Palo Verde Units 1, 2, and 3 are currently included in ACC jurisdictional rates. ACC retail electric competition rules provide that decommissioning costs would be recovered through a non-bypassable "system benefits" charge, which would allow APS to maintain its external sinking fund mechanism. See Note 13 of Notes to Consolidated Financial Statements in Item 8 for additional information about our nuclear decommissioning costs. See "Financial Review - Business Outlook - Competition and Industry Restructuring" in Item 7 and Note 3 of Notes to Consolidated Financial Statements in Item 8 for additional information about the ACC retail electric competition rules and the legal challenges to these rules.

PALO VERDE LIABILITY AND INSURANCE MATTERS

See "Palo Verde Nuclear Generating Station" in Note 12 of Notes to Consolidated 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 OUR PROPERTIES

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

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

See Notes 6, 10, and 11 of Notes to Consolidated Financial Statements in

Item 8 with respect to APS' property not held in fee or held subject to any major encumbrance.

INFORMATION REGARDING PROPERTIES OF PINNACLE WEST ENERGY AND SUNCOR

See "Business of Pinnacle West Energy" and "Business of SunCor Development Company" for information regarding Pinnacle West Energy's and SunCor'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 In June 1999, the Navajo Nation served Salt River Project with a lawsuit naming Salt River Project, several Peabody Coal Company entities, Southern California Edison Company and other defendants, and citing various claims in connection with the renegotiations of the coal royalty and lease agreements under which Peabody mines coal for the Navajo Generating Station and the Mohave Generating Station. THE NAVAJO NATION V. PEABODY HOLDING COMPANY, INC., ET AL., United States District Court for the District of Columbia, CA-99-0469-EGS. APS is a 14% owner of the Navajo Generating Station, which Salt River Project operates. The suit alleges, among other things, that the defendants obtained a favorable coal royalty rate by improperly influencing the outcome of a federal administrative process under which the royalty rate was to be adjusted. The suit seeks \$600 million in damages, treble damages, punitive damages of not less than \$1 billion, and the ejection of defendants "from all possessory interests and Navajo Tribal lands" arising out of the [primary coal lease]. Salt River Project has advised APS that it denies all charges and will vigorously defend itself. Because the litigation is in preliminary stages, we cannot currently predict the outcome of this matter.

See "Environmental Matters" and "Water Supply" in Item 1 in regard to pending or threatened litigation and other disputes. See Note 3 of Notes to Consolidated Financial Statements in Item 8 for a discussion of competition and the ACC retail electric competition rules and related litigation. In December 1999, APS filed a lawsuit to protect its legal rights regarding the rules, and in the 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. ARIZONA CORPORATION COMMISSION, CV 99-21907. On August 28, 1998, APS filed two lawsuits to protect its legal rights under the stranded cost order and in its complaints APS asked the Court to vacate and set aside the order. ARIZONA PUBLIC SERVICE COMPANY V. ARIZONA CORPORATION COMMISSION, CV 98-15728. ARIZONA PUBLIC SERVICE COMPANY V. ARIZONA CORPORATION COMMISSION, 1-CA-CC-98-0008.

APS is a party to a power service agreement with Citizens Communications Company under which APS supplies Citizens with power. By letter dated March 7, 2001, Citizens advised APS that it believes APS has overcharged Citizens by over \$50 million under the agreement since the summer of 2000. APS believes that its charges to Citizens under the agreement are fully in accordance with the terms of the agreement and APS will vigorously defend any contrary claims raised by Citizens.

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

Not applicable.

**SUPPLEMENTAL ITEM.
EXECUTIVE OFFICERS OF THE REGISTRANT**

Our executive officers are as follows:

Name -----	Age at March 1, 2001 -----	Position(s) at March 1, 2001 -----
William J. Post	50	Chairman of the Board and Chief Executive Officer (1)
Jack E. Davis	54	President and President, APS Energy Delivery and Sales (1)
Robert S. Aiken	44	Vice President, Federal Affairs
John G. Bohon	55	Vice President, Corporate Services & Human Resources
Armando B. Flores	57	Executive Vice President, Corporate Business Services
Edward Z. Fox	47	Vice President, Communications, Environment & Safety
Chris N. Froggatt	43	Vice President & Controller
Barbara M. Gomez	46	Treasurer
James M. Levine	51	Executive Vice President, APS Generation
Nancy C. Loftin	47	Vice President & General Counsel
Michael V. Palmeri	42	Vice President, Finance
Martin L. Shultz	56	Vice President, Government Affairs
William L. Stewart	57	President, APS Generation and President, Pinnacle West Energy
Faye Widenmann	52	Vice President and Secretary

(1) member of the Board of Directors

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. Post was elected Chairman of the Board effective February 2001, and Chief Executive Officer effective February 1999. He has served as an officer of the Company since 1995 in the following capacities: from August 1999 to February 2001 as President; from February 1997 to February 1999 as President; and from June 1995 to February 1997 as Executive Vice President. Mr. Post is also Chairman of the Board (since February 2001) and Chief Executive Officer (since February 1997) of APS. He was President of APS from February 1997 until October 1998. In October 1998, he resigned as President and maintained the position of Chief Executive Officer of APS. He was APS' Chief Operating Officer (September 1994-February 1997). Mr. Post is also a director of APS and Blue Cross-Blue Shield of Arizona.

Mr. Davis was elected to his present position effective February 2001. Prior to that time he was Chief Operating Officer and Executive Vice President of Pinnacle West (April 2000-February 2001), Executive Vice President, Commercial Operations of APS (September 1996-October 1998) and Vice President, Energy Delivery and Sales, Generation and Transmission of APS (June 1993-September 1996). Mr. Davis is President of APS (since October 1998) and a director of APS.

Mr. Aiken was elected to his present position in July 1999. Prior to that time he was the Company's Manager, Federal Affairs (November 1986-July 1999).

Mr. Bohon was elected to his present position in July 1999. Prior to that time he was Vice President, Corporate Services and Human Resources of APS (October 1998-July 1999), Vice President, Procurement of APS (April 1997-October 1998) and Director, Corporate Services of APS (December 1989-April 1997).

Mr. Flores was elected to his present position in July 1999. Prior to that time, he was Executive Vice President, Corporate Business Services of APS (October 1998-July 1999), Senior Vice President, Corporate Business Services of APS (September 1996-October 1998) and Vice President, Human Resources of APS (December 1991-September 1996).

Mr. Fox was elected to his present position in July 1999. Prior to that time he was Vice President, Environmental/Health/Safety and New Technology Ventures of APS (October 1995-July 1999).

Mr. Froggatt was elected to his present position in July 1999. Prior to that time he was Controller of APS (July 1997-July 1999) and Director, Accounting Services of APS (December 1992-July 1997).

Ms. Gomez was elected to her present position in August 1999. Prior to that time, she was Manager, Treasury Operations of APS (1997-1999) and Manager, Financial Planning of APS (1994-1997). She was also elected Treasurer of APS in October 1999.

Mr. Levine was elected to his present position in July 1999. Prior to that time he was Senior Vice President, Nuclear Generation of APS (September 1996-July 1999) and Vice President, Nuclear Production of APS (September 1989-September 1996).

Ms. Loftin was elected to her present position in July 1999. She was elected to the positions of Vice President and Chief Legal Counsel of APS in September 1996. Prior to that time, she was Secretary of APS (since April 1987) and Corporate Counsel of APS (since February 1989). She was also elected Vice President and General Counsel of APS in July 1999.

Mr. Palmeri was elected to his present position in August 1999. Prior to that time he was Treasurer of APS and Pinnacle West (July 1997-September 1999) and Assistant Treasurer of Pinnacle West (February 1994-July 1997). He also was elected Vice President, Finance of APS in October 1999.

Mr. Shultz was elected to his current position in July 1999. Prior to that time he held the position of Director of Government Relations for APS (1988-July 1999).

Mr. Stewart was elected to his present position in October 1998. Prior to that time he was Executive Vice President, Generation of APS (September 1996-October 1998) and Executive Vice President, Nuclear of APS (May 1994-September 1996). Mr. Stewart is also President of Pinnacle West Energy.

Ms. Widenmann was elected to her current position in July 1999. Prior to that time, she held the position of Secretary (since 1985) and Vice President of Corporate Relations and Administration (since November 1986). She was also elected Vice President and Secretary of APS in July 1999.

PART II

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

Our common stock is publicly held and is traded on the New York and Pacific Stock Exchanges. At the close of business on March 8, 2001, our common stock was held of record by approximately 39,847 shareholders.

See "Quarterly Stock Prices and Dividends" in Item 6 for a description of the common stock price ranges on the composite tape, as reported in the Wall Street Journal for 2000 and 1999, and the dividends declared during each of the four quarters for 2000 and 1999.

ITEM 6. SELECTED CONSOLIDATED DATA

(dollars in thousands, except per share amounts)

	2000	1999	1998	1997	1996
OPERATING RESULTS					
Operating revenues					
Electric	\$ 3,531,810	\$ 2,293,184	\$ 2,006,398	\$ 1,878,553	\$ 1,718,272
Real estate	158,365	130,169	124,188	116,473	99,488
Income from continuing operations	\$ 302,332	\$ 269,772	\$ 242,892	\$ 235,856	\$ 211,059 (a)
Discontinued operations	--	38,000 (d)	--	--	(9,539) (b)
Extraordinary charge - net of income tax	--	(139,885) (e)	--	--	(20,340) (c)
Net income	\$ 302,332	\$ 167,887	\$ 242,892	\$ 235,856	\$ 181,180
COMMON STOCK DATA					
Book value per share - year-end	\$ 28.09	\$ 26.00	\$ 25.50	\$ 23.90	\$ 22.51
Earnings (loss) per average common share outstanding					
Continuing operations - basic	\$ 3.57	\$ 3.18	\$ 2.87	\$ 2.76	\$ 2.41 (a)
Discontinued operations	--	0.45	--	--	(0.11)
Extraordinary charge	--	(1.65)	--	--	(0.23)
Net income - basic	\$ 3.57	\$ 1.98	\$ 2.87	\$ 2.76	\$ 2.07
Continuing operations - diluted	\$ 3.56	\$ 3.17	\$ 2.85	\$ 2.74	\$ 2.40 (a)
Net income - diluted	\$ 3.56	\$ 1.97	\$ 2.85	\$ 2.74	\$ 2.06
Dividends declared per share	\$ 1.425	\$ 1.325	\$ 1.225	\$ 1.125	\$ 1.025
Indicated annual dividend rate - year-end	\$ 1.50	\$ 1.40	\$ 1.30	\$ 1.20	\$ 1.10
Average common shares outstanding - basic	84,732,544	84,717,135	84,774,218	85,502,909	87,441,515
Average common shares outstanding - diluted	84,935,282	85,008,527	85,345,946	86,022,709	88,021,920
TOTAL ASSETS	\$ 7,149,151	\$ 6,608,506	\$ 6,824,546	\$ 6,850,417	\$ 6,989,289
LIABILITIES AND EQUITY					
Long-term debt less current maturities	\$ 1,955,083	\$ 2,206,052	\$ 2,048,961	\$ 2,244,248	\$ 2,372,113
Other liabilities	2,811,354	2,196,721	2,516,993	2,407,572	2,428,180
Minority interests	4,766,437	4,402,773	4,565,954	4,651,820	4,800,293
Non-redeemable preferred stock of APS	--	--	85,840	142,051	165,673
Redeemable preferred stock of APS	--	--	9,401	29,110	53,000
Common stock equity	2,382,714	2,205,733	2,163,351	2,027,436	1,970,323
Total liabilities and equity	\$ 7,149,151	\$ 6,608,506	\$ 6,824,546	\$ 6,850,417	\$ 6,989,289

- (a) Includes an after-tax charge of \$18.9 million (\$0.22 per share) for a voluntary severance program and about \$12 million (\$0.13 per share) of income tax benefits related to capital loss carryforwards.
- (b) Charges, net of tax, associated with the settlement of a legal matter related to MeraBank, A Federal Savings Bank.
- (c) Charges associated with the repayment or refinancing of the parent company's high-coupon debt.
- (d) Tax benefit stemming from the resolution of income tax matters related to MeraBank, A Federal Savings Bank.
- (e) Charges associated with a regulatory disallowance.

(dollars in thousands, except per share amounts)

	2000	1999	1998	1997	1996
ELECTRIC OPERATING REVENUES					
Residential	\$ 880,468	\$ 805,173	\$ 766,378	\$ 746,937	\$ 721,877
Commercial	771,909	733,038	699,016	687,988	678,130
Industrial	146,088	159,329	172,296	164,696	162,324
Irrigation	6,498	7,374	7,288	8,706	9,448
Other	10,719	11,708	10,644	11,842	13,078
Total retail	1,815,682	1,716,622	1,655,622	1,620,169	1,584,857
Wholesale	1,594,541	506,877	300,698	226,828	98,560
Transmission for others	14,766	11,348	11,058	10,295	10,240
Miscellaneous services	106,821	58,337	39,020	21,261	24,615
Total electric operating revenues	\$ 3,531,810	\$ 2,293,184	\$ 2,006,398	\$ 1,878,553	\$ 1,718,272
ELECTRIC SALES (MWH)					
Residential	9,780,680	8,774,822	8,310,689	7,970,309	7,541,440
Commercial	10,057,707	9,543,853	8,697,397	8,524,882	8,233,762
Industrial	2,511,292	2,561,349	3,279,430	3,123,283	3,039,357
Irrigation	87,073	99,669	84,640	112,363	121,775
Other	97,772	94,877	90,927	86,090	84,362
Total retail	22,534,524	21,074,570	20,463,083	19,816,927	19,020,696
Wholesale	21,997,357	15,693,834	10,317,391	9,233,573	3,367,234
Total electric sales	44,531,881	36,768,404	30,780,474	29,050,500	22,387,930
ELECTRIC CUSTOMERS - END OF YEAR					
Residential	762,574	735,359	708,215	680,478	654,602
Commercial	90,273	86,707	83,506	81,246	78,178
Industrial	3,286	3,183	3,084	3,192	3,055
Irrigation	371	754	710	764	841
Other	965	932	895	851	828
Total retail	857,469	826,935	796,410	766,531	737,504
Wholesale	67	73	67	50	48
Total electric customers	857,536	827,008	796,477	766,581	737,552

See "Financial Review" on pages 29-45 for a discussion of certain information in the table above.

QUARTERLY STOCK PRICES AND DIVIDENDS
STOCK SYMBOL: PNW

	2000	High	Low	Close	Dividends Per Share
	----	----	---	-----	-----
1st Quarter		\$32.31	\$26.25	\$28.19	\$ 0.350
2nd Quarter		35.88	27.88	33.88	0.350
3rd Quarter		51.31	33.81	50.89	0.350
4th Quarter		52.22	40.89	47.63	0.375

	1999	High	Low	Close	Dividends Per Share(a)
	----	----	---	-----	-----
1st Quarter		\$43.38	\$35.94	\$36.38	\$ 0.325
2nd Quarter		42.94	36.25	40.25	0.650
3rd Quarter		41.31	34.69	36.38	--
4th Quarter		38.13	30.19	30.56	0.350

(a) Dividends for the 3rd quarter of 1999 were declared in June 1999.

ITEM 7. FINANCIAL REVIEW

INTRODUCTION

In this section, we explain the results of operations, general financial condition, and outlook for Pinnacle West and our subsidiaries: Arizona Public Service Company (APS), Pinnacle West Energy Corporation (Pinnacle West Energy), APS Energy Services Company, Inc. (APS Energy Services), SunCor Development Company (SunCor), and El Dorado Investment Company (El Dorado), including:

- * the changes in our earnings from 1999 to 2000 and from 1998 to 1999;
- * the effects of regulatory agreements on our results and outlook;
- * our capital needs and resources;
- * major factors that affect our financial outlook; and
- * our management of market risks.

OVERVIEW OF OUR BUSINESS

Pinnacle West owns all of the outstanding common stock of APS. APS is Arizona's largest electric utility and provides retail and wholesale electric service to the entire state with the exception of Tucson and about one-half of the Phoenix area. APS also generates and, directly or through our power marketing division, sells and delivers electricity to wholesale customers in the western United States.

Our other major subsidiaries are:

- * Pinnacle West Energy, through which we intend to conduct our unregulated generation operations;
- * APS Energy Services, which sells energy and energy-related products and services in competitive retail markets in the western United States;
- * SunCor, which is a developer of residential, commercial, and industrial real estate projects in Arizona, New Mexico, and Utah; and
- * El Dorado, which is primarily a venture capital and investment firm.

OUR BUSINESS STRATEGIES

Our business strategies are linked to the strong growth characteristics of Arizona and the western regional market. We are committed to the West and are pursuing the following primary strategies:

- * Continuing focus on customer value provided by APS, our regulated "energy delivery" company;
- * Expanding our interests in competitively efficient generation assets in the West through Pinnacle West Energy by developing new plants, increasing our ownership share of plants that we already operate and partially own, and buying plants from other utilities;
- * Aggressively managing costs, with an emphasis on the reduction of variable costs per generating unit (fuel, operations, and maintenance expenses) and on increased productivity through technological efficiencies; and
- * Managing energy activities, including:
 - * continuing expansion of wholesale operations;
 - * managing commodity price risk; and
 - * providing sufficient capacity, energy, and ancillary services to reliably meet obligations to our regulated service customers.

BUSINESS SEGMENTS

As we discuss below in greater detail, APS' 1999 Settlement Agreement with the Arizona Corporation Commission (ACC) authorizes APS to transfer its competitive generation assets and services to one or more corporate affiliates no later than December 31, 2002. We have internally organized our operations into the following two principal business segments, determined by products, services, and regulatory environment:

- * The electricity delivery business segment, which consists of the transmission and distribution of electricity and wholesale activities; and
- * The generation business segment, which consists of our generation activities.

See "Business Segments" in Note 18 for more information about our business segments. In general, we have structured our discussion below based on existing legal entities rather than the operating segments defined by the new organizational structure because we continue to analyze these matters internally by legal entity. The "Results of Operations," for example, primarily reflect the results of APS' operations because APS currently owns substantially all of our assets and produces substantially all of our profits.

Throughout this Financial Review, we refer to specific "Notes" in the Notes to Consolidated Financial Statements that begin on page 54. These Notes add further details to the discussion.

RESULTS OF OPERATIONS

The following is a summary of net income for 2000, 1999, and 1998:

(dollars in millions)

	2000	1999	1998
APS	\$ 307	\$ 267	\$ 246
Pinnacle West Energy	(2)	--	--
APS Energy Services	(13)	(9)	--
SunCor	11	6	45
El Dorado	2	11	5
Parent Company	(3)	(5)	(53)
Income from Continuing Operations	302	270	243
Income Tax Benefit from Discontinued Operations	--	38	--
Extraordinary Charge - Net of Income Taxes of \$94	--	(140)	--
Net Income	\$ 302	\$ 168	\$ 243

2000 COMPARED WITH 1999

Our 2000 consolidated net income was \$302 million compared with \$168 million in 1999. Our 2000 net income increased \$134 million over 1999 primarily because of a \$140 million after-tax extraordinary charge that we recorded in 1999. This charge reflected a regulatory disallowance resulting from an ACC-approved Settlement Agreement related to the implementation of retail electric competition. The resulting increase in our 2000 net income was partially offset by a \$38 million income tax benefit from discontinued operations that we also recorded in 1999. See "Regulatory Agreements" below and Notes 1 and 3 for additional information about the 1999 Settlement Agreement and the resulting regulatory disallowance. See Note 4 for additional information about the income tax benefit from discontinued operations.

Income from continuing operations increased \$32 million, or 12%, over 1999 primarily because of increases in wholesale and retail electric sales and in real estate profits. These positive factors more than offset decreases resulting from the completion of investment tax credit (ITC) amortization in 1999, reductions in retail electricity prices, lower earnings from El Dorado, and miscellaneous factors. See "Regulatory Agreements" below and Note 3 for information on the price reductions. See "Regulatory Agreements" below and Note 4 for additional information about ITC amortization.

In 2000, electric operating revenues increased \$1.2 billion primarily because of:

- * increased wholesale revenues (\$1.1 billion);
- * increases in the number of retail electricity customers and the average amount of electricity used by customers (\$97 million); and
- * weather impacts (\$33 million).

As mentioned above, these positive factors were partially offset by the effects of reductions in retail electricity prices (\$28 million). The increase in wholesale revenues resulted primarily from higher prices and increased activity in western United States wholesale power markets. These revenues were accompanied by increases in purchased power and fuel expense of \$1.0 billion.

Fuel and purchased power expenses were also higher because of higher retail sales volumes and increased prices.

The increase in real estate profits resulted from increases in sales of land and homes by SunCor.

The increase in operations and maintenance expenses, which primarily related to customer growth, was substantially offset by \$20 million of non-recurring items recorded in 1999.

Net other income and expense decreased \$11 million primarily because of a decrease in the market value of El Dorado's investment in a technology-related venture capital partnership. See Note 1 for additional information about the valuation of El Dorado's investments.

1999 COMPARED WITH 1998

Our 1999 consolidated net income was \$168 million compared with \$243 million in 1998. Our 1999 net income decreased \$75 million from 1998 primarily because of a \$140 million after-tax extraordinary charge that we recorded in 1999. This charge reflected a regulatory disallowance resulting from an ACC-approved Settlement Agreement related to the implementation of retail electric competition. The resulting decrease in our 1999 net income was partially offset by a \$38 million income tax benefit from discontinued operations that we also recorded in 1999. See "Regulatory Agreements" below and Notes 1 and 3 for additional information about the 1999 Settlement Agreement and the resulting regulatory disallowance. See Note 4 for additional information about the income tax benefit from discontinued operations.

Income from continuing operations increased \$27 million, or 11%, over 1998 primarily because of increases in retail electricity revenues and lower financing costs. These positive factors more than offset the effects of retail electricity price reductions and higher utility operations and maintenance expense. See "Regulatory Agreements" below and Note 3 for additional information about the price reductions.

In 1999, electric operating revenues increased \$287 million primarily because of:

- * increased wholesale revenues (\$219 million);
- * increases in retail electricity customers and the average amount of electricity used by customers (\$81 million); and
- * miscellaneous factors (\$9 million).

As mentioned above, these positive factors were partially offset by the effects of reductions in retail prices (\$22 million).

The increase in wholesale revenues resulted from higher prices and increased activity in western United States wholesale markets. The revenues were accompanied by an increase in purchased power expenses. Although these activities contributed positively to earnings in both periods, the contribution in 1999 was lower than in 1998.

Operations and maintenance expenses increased \$27 million primarily because of \$20 million of non-recurring items recorded in 1999, including a provision for certain environmental costs. Other increases primarily related to customer growth were partially offset by lower employee benefit costs.

Net other income and expense increased \$10 million primarily because of an increase in the market value of El Dorado's investment in a technology-related venture capital partnership. See Note 1 for additional information about the valuation of El Dorado's investments.

REGULATORY AGREEMENTS

Regulatory agreements approved by the ACC affect the results of APS' operations. The following discussion focuses on three agreements approved by the ACC, each of which included retail electricity price reductions:

- * The 1999 Settlement Agreement to implement retail electric competition;
- * A 1996 agreement that accelerated the amortization of APS' regulatory assets; and
- * A 1994 settlement that accelerated the amortization of APS' deferred ITCs.

1999 SETTLEMENT AGREEMENT

As part of the 1999 Settlement Agreement, APS agreed to reduce retail electricity prices for standard, full offer service customers with loads less than three megawatts in a series of annual decreases of 1.5% on July 1, 1999 through July 1, 2003, for a total of 7.5%. The first reduction of approximately \$24 million (\$14 million after income taxes) included the July 1, 1999 retail price decrease required by the 1996 regulatory agreement (see below). For customers having loads three megawatts or greater, standard offer rates will be reduced in annual increments that total 5% in the years 1999 through 2002.

The 1999 Settlement Agreement also removed, as a regulatory disallowance, \$234 million before income taxes (\$183 million net present value) from ongoing regulatory cash flows. APS recorded this regulatory disallowance as a net reduction of regulatory assets and reported it as a \$140 million after-tax extraordinary charge on the 1999 income statement.

Under the 1996 Regulatory Agreement, APS was recovering substantially all of its regulatory assets through accelerated amortization over an eight-year period that would have ended June 30, 2004. For more details, see Note 1. The regulatory assets to be recovered under the 1999 Settlement Agreement are now being amortized as follows:

(dollars in millions)

1999	2000	2001	2002	2003	1/1 - 6/30 2004	Total
----- \$164	----- \$158	----- \$145	----- \$115	----- \$86	----- \$18	----- \$686

See Note 3 and "Business Outlook - Electric Competition (Retail)" below for additional information regarding the 1999 Settlement Agreement.

1996 REGULATORY AGREEMENT

As part of the 1996 regulatory agreement, APS reduced its retail electricity prices by 3.4% effective July 1, 1996. This reduction decreased annual revenue by about \$49 million annually (\$29 million after income taxes). APS also agreed to share future cost savings with its customers during the term of this agreement, which resulted in the following additional retail price reductions:

* \$18 million annually (\$11 million after income taxes), or 1.2%, effective July 1, 1997;

* \$17 million annually (\$10 million after income taxes), or 1.1%, effective July 1, 1998; and

* \$11 million annually (\$7 million after income taxes), or 0.7%, effective July 1, 1999 (as noted above, this reduction was included in the July 1, 1999 price reduction under the 1999 Settlement Agreement).

1994 RATE SETTLEMENT

As part of a 1994 rate settlement, APS accelerated amortization of substantially all of its ITCs over a five-year period that ended on December 31, 1999. The amortization of ITCs decreased annual consolidated income tax expense by about \$24 million. Beginning in 2000, no further benefits were reflected in income tax expense related to the acceleration of the ITCs (see Note 4).

CAPITAL NEEDS AND RESOURCES

CAPITAL EXPENDITURE REQUIREMENTS

The following table summarizes the actual capital expenditures for the period ended December 31, 2000 and estimated capital expenditures for the next three years:

CAPITAL EXPENDITURES
(dollars in millions)

	(actual)	(estimated)		
	2000	2001	2002	2003
APS				
Delivery	\$ 285	\$ 337	\$ 293	\$ 294
Existing Generation (a)	187	118	108	--
	-----	-----	-----	-----
	472	455	401	294
	-----	-----	-----	-----
Pinnacle West Energy (b)				
Generation Expansion	193	659	129	132
Existing Generation (a)	--	--	--	122
	-----	-----	-----	-----
	193	659	129	254
	-----	-----	-----	-----
SunCor (c)	50	75	23	14
	-----	-----	-----	-----
Other (d)	--	21	9	9
	-----	-----	-----	-----
Total	\$ 715	\$1,210	\$ 562	\$ 571
	=====	=====	=====	=====

(a) Pursuant to the 1999 Settlement Agreement, APS is required to move its generating assets and competitive services no later than December 31, 2002.

(b) Does not include the Southern California Edison (SCE) purchase agreements.

See Note 12 and "Capital Resources and Cash Requirements - Pinnacle West Energy" below.

(c) Consists primarily of capital expenditures for land development and retail and office building construction.

(d) Primarily APS Energy Services.

CAPITAL RESOURCES AND CASH REQUIREMENTS

PINNACLE WEST (PARENT COMPANY)

During the past three years, our primary cash needs were for:

* dividends to our shareholders;

* equity infusions into our subsidiaries, including \$200 million invested in APS from 1996 through 1999 as part of the 1996 regulatory agreement (see Note 3) and \$193 million invested in Pinnacle West Energy for 2000 capital expenditures;

* interest payments; and

* optional and mandatory repayment of principal on our long-term debt.

Over the next three years, we anticipate that our cash needs will fall into these same categories, although we expect our equity infusions into Pinnacle West Energy to continue as it

invests in additional generating facilities (see below) until it begins to finance its own construction needs.

Our primary sources of cash are dividends from our subsidiaries and external financing. For the years 1998 through 2000, total dividends from subsidiaries were \$596 million, which included \$510 million from APS, \$50 million from SunCor, and \$36 million from El Dorado.

Our long-term debt at December 31, 2000 was \$238 million compared to \$106 million at December 31, 1999. We have a \$250 million line of credit, under which we had \$188 million of borrowings outstanding at December 31, 2000. Our debt repayment requirements for the next three years are approximately: \$213 million in 2001, zero in 2002, and \$25 million in 2003.

APS

APS' capital requirements consist primarily of capital expenditures and optional and mandatory redemptions of long-term debt. APS pays for its capital requirements with cash from operations and, to the extent necessary, external financing.

During the period from 1998 through 2000, APS paid for substantially all of its capital expenditures with cash from operations. APS expects to do so in 2001 through 2003, as well.

See the table above for actual capital expenditures in 2000 and projected capital expenditures for the next three years. In general, most of APS' projected capital expenditures are for:

- * expanding transmission and distribution capabilities to serve growing customer needs;
- * upgrading existing utility property; and
- * environmental purposes.

During 2000, APS redeemed approximately \$357 million of long-term debt, including premiums, with cash from operations and from the issuance of long- and short-term debt. APS' long-term debt redemption requirements for the next three years are approximately: \$380 million in 2001; \$125 million in 2002; and zero in 2003. APS made optional redemptions of about \$13 million of long-term debt in February 2001. Based on market conditions and optional call provisions, APS may make optional redemptions of long-term debt from time to time.

As of December 31, 2000, APS had credit commitments from various banks totaling about \$250 million, which were available either to support the issuance of commercial paper or to be used as bank borrowings. At the end of 2000, APS had about \$82 million of commercial paper and no long-term bank borrowings outstanding.

APS' long-term debt was \$2.1 billion at December 31, 2000 and 1999.

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

PINNACLE WEST ENERGY

Pinnacle West Energy has announced plans to build up to 2,800 megawatts (MW) of generating capacity from 2001-2006 at an estimated cost of about \$1.3 billion.

Site	MW
-----	-----
West Phoenix 4	120
West Phoenix 5	530
Redhawk 1	530
Redhawk 2	530
Redhawk 3	530
Redhawk 4	530

TOTAL	2,770
	=====

As discussed in greater detail below, Pinnacle West Energy has also announced plans to purchase Nevada Power Company's (NPC) Harry Allen Power Station and SCE's interest in the Palo Verde Nuclear Generating Station (Palo Verde).

Pinnacle West Energy is also considering additional expansion, which may result in additional expenditures.

Pinnacle West Energy expects to fund its capital requirements through internally generated cash, debt issued directly by Pinnacle West Energy, and capital infusions from the parent company's internally generated cash and external financing.

Pinnacle West Energy is currently planning a 650 MW expansion of the West Phoenix Power Plant and the construction of a natural gas-fired electric generating station of up to four, 530 MW units, near the Palo Verde, called Redhawk. Construction on the 120 MW West Phoenix Unit 4 began in June 2000, with commercial operation of the unit expected in the summer of 2001. Pinnacle West Energy expects construction to begin on the 530 MW West Phoenix Unit 5 in the fall of 2001, with commercial operation beginning in mid-2003. Construction began on the first two units of Redhawk in December 2000, and commercial operation is currently scheduled for the summer of 2002.

Pinnacle West Energy has entered into an agreement with NPC to purchase NPC's 72 MW gas-fired Harry Allen Power Station about 30 miles northeast of Las Vegas, Nevada, for a net purchase price, after adjustments for purchased power commitments, of approximately \$65.2 million. The purchase is subject to filing with and/or approval of various regulatory agencies, including the Federal Energy Regulatory Commission (FERC) and the Nevada Public Utility Commission (NPUC). The filing with the NPUC was made in February 2001. NPC will have the right, but not the obligation, to purchase the output from the Harry Allen plant at market rates, subject to a floor and a cap. As demand grows in the region during the next five years, Pinnacle West Energy expects to add a 480 MW gas-fired, combined cycle unit to the site. The Governor of Nevada recently requested that the NPUC reexamine NPC's divestiture of generation assets. The timing and result of any action by the NPUC is not yet known.

On April 27, 2000, Pinnacle West Energy entered into two separate agreements with SCE to purchase SCE's 15.8% ownership interest in Palo Verde and its 48% ownership interest in the Four Corners Power Plant. Consistent with the agreements, on January 5, 2001, Pinnacle West Energy informed SCE that it would not match a competing bid that SCE received for its Four Corners ownership interest. Therefore, Pinnacle West Energy will not purchase SCE's Four Corners interest under the April 2000 agreement unless the Palo Verde transaction closes, the competing Four Corners transaction does not close, and Pinnacle West Energy acquires the Four Corners interest at the original \$300 million purchase price as a standby purchaser. SCE did not receive any qualified competing bids for its Palo Verde ownership interest, which Pinnacle West Energy agreed to purchase for \$250 million. However, recently-enacted California legislation provides that "no facility for the generation of electricity owned by a public utility may be disposed of prior to January 1, 2006." Unless this California law is amended, Pinnacle West Energy would not be able to acquire SCE's Palo Verde ownership interest pursuant to the original April 2000 agreement.

OTHER SUBSIDIARIES

During the past three years, SunCor and El Dorado each funded all of their cash requirements with cash from operations and, in the case of SunCor, its own external financings. APS Energy Services funded its cash requirements with cash infusions from the parent company.

SunCor's capital needs consist primarily of capital expenditures for land development and retail and office building construction. See the Capital Expenditures Table above for actual capital expenditures in 2000 and projected capital expenditures for the next three years. SunCor expects to fund its capital requirements from internally generated cash and external financings.

As of December 31, 2000, SunCor had a \$120 million line of credit, under which \$110 million of borrowings were outstanding. SunCor's debt repayment obligations for the next three years are approximately: zero in 2001; \$37 million in 2002; and \$74 million in 2003.

El Dorado does not have any capital requirements over the next three years. El Dorado intends to focus on the realization of the value of its existing investments. El Dorado's future investments are expected to be limited to opportunities related to the energy sector.

APS Energy Services' capital expenditures and other cash requirements will be funded from cash invested by the parent company.

ACCOUNTING MATTERS

We adopted a new standard on accounting for derivatives in 2001. As a result, in January 2001 we recognized a \$3 million after-tax loss in net income as a cumulative effect of a change in accounting principles, and a \$64 million after-tax gain in equity (as a component of other comprehensive income). The gain resulted from unrealized gains on cash flow hedges. There are still several unresolved issues related to the application of certain provisions of this new standard as it relates to the electric utility industry. The ultimate resolution of these issues by the Financial Accounting Standards Board (FASB) could result in a material impact to our financial statements and increased volatility in future net income and comprehensive income. See Note 2 for further information. Also, see Note 2 for a description of a proposed standard on accounting for certain liabilities related to closure or removal of long-lived assets.

We prepare our financial statements in accordance with 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 our financial statements. As a result of the 1999 Settlement Agreement (see "Regulatory Agreements" above and Note 3), we discontinued the application of SFAS No. 71 for our generation operations. As a result, we tested the generation assets for impairment and determined that the generation assets were not impaired. Pursuant to the 1999 Settlement Agreement, we reported a regulatory disallowance (\$140 million after income taxes) as an extraordinary charge on the 1999 income statement. See Note 1 for additional information on regulatory accounting and Note 3 for additional information on the 1999 Settlement Agreement.

BUSINESS OUTLOOK

This section describes several major factors affecting our financial outlook.

COMPETITION AND INDUSTRY RESTRUCTURING

ELECTRIC COMPETITION (WHOLESALE)

The National Energy Policy Act of 1992 (1992 Energy Act) and the FERC's subsequent rulemaking activities have established the regulatory framework to open the wholesale electricity market to competition. The 1992 Energy Act amended provisions of the Public Utility Holding Company Act of 1935 and the Federal Power Act to remove certain barriers to a competitive wholesale market. The 1992 Energy Act permits utilities to participate in the development of independent electric generating plants for electricity sales to wholesale customers, and also permits the FERC to order transmission access for third parties to transmission facilities owned by another entity. The 1992 Energy Act does not, however, permit the FERC to issue an order requiring transmission access to retail customers. Open-access transmission for wholesale customers as defined by the FERC's final rules provides energy suppliers, including us, with opportunities to sell and deliver electricity at market-based prices.

ELECTRIC COMPETITION (RETAIL)

On September 21, 1999, the ACC voted to approve the rules that provide a framework for the introduction of retail electric competition in Arizona (the Rules). Among other things, the Rules require most utilities, including APS, to transfer all competitive generation assets and services either to an unaffiliated party or to a separate corporate affiliate. The Rules require the transfer to take place by January 1, 2001, absent a waiver. APS received a waiver in the 1999 Settlement Agreement to allow the transfer of its competitive generation assets and services to affiliates no later than December 31, 2002. Accordingly, we plan to complete the move of such assets and services from APS to the parent company or to Pinnacle West Energy by the end of 2002, as required.

Although the Rules allow retail customers to have access to competitive providers of energy and energy services, APS is the "provider of last resort" for standard offer customers under rates that have been approved by the ACC. These rates are fixed until July 1, 2004. The 1999 Settlement Agreement allows APS to seek adjustment of these rates in the event of emergency conditions or circumstances, such as the inability to secure financing on reasonable terms, or material changes in APS' cost of service for ACC-regulated services resulting from federal, tribal, state or local laws, regulatory requirements, judicial decisions, actions or orders. Energy prices in the western wholesale

market vary and, during the course of the last year, have been volatile. At various times prices in the spot wholesale market have significantly exceeded the amount included in APS' current retail rates. APS expects these market conditions to continue in 2001. We believe we have adequately supplemented our current generation portfolio with power purchased through contracts and hedging techniques that limit exposure to the volatile spot wholesale power market. However, in the event of shortfalls due to unforeseen increases in load demand or generation outages, APS may need to purchase additional supplemental power in the wholesale spot market. Unless APS is able to obtain an adjustment of its rates under the 1999 Settlement Agreement, there can be no assurance that APS would be able to fully recover the costs of this power.

As discussed in Note 3 of Notes to Consolidated Financial Statements in Item 8, the 1999 Settlement Agreement authorizes APS to transfer its competitive generation assets and services to one or more corporate affiliates no later than December 31, 2002. APS intends to move its generation assets to Pinnacle West Energy within that timeframe. Following its receipt of these generation assets, Pinnacle West Energy expects to sell its power at wholesale to our power marketing division (Power Marketing). Power Marketing, in turn, is expected to sell power to APS and to non-affiliated power purchasers. APS is expected to meet fifty percent of its energy needs under a power purchase agreement with Power Marketing. As required by the Rules, APS will acquire the remaining fifty percent of its energy needs through a competitive bid process in which Power Marketing may participate. We believe that these arrangements will allow us to manage APS' exposure to the wholesale power market during the period within which APS' rates are fixed, as discussed in the preceding paragraph.

Under the 1999 Settlement Agreement, the Rules are to be interpreted and applied, to the greatest extent possible, in a manner consistent with the 1999 Settlement Agreement. If the two cannot be reconciled, APS must seek, and the other parties to the 1999 Settlement Agreement must support, a waiver of the Rules in favor of the 1999 Settlement Agreement. Several rural electric cooperatives and the Arizona Consumers Council, a private non-profit public interest group (represented by the Arizona Center for Law in the Public Interest, also a private non-profit public interest organization) have filed court challenges to the Rules. Although these actions do not directly challenge the divestiture provisions of the Rules, they do raise fundamental constitutional issues concerning the ability of the ACC to permit the forces of competition to determine retail electric prices.

On November 27, 2000, a Maricopa County, Arizona, Superior Court judge issued a final judgment holding that the Rules are unconstitutional and unlawful in their entirety due to failure to establish a fair value rate base for competitive electric service providers and because certain of the Rules were not submitted to the Arizona Attorney General for certification. The judgment also invalidates all ACC orders authorizing competitive electric service providers, including APS Energy Services, in Arizona. We do not believe the ruling affects the 1999 Settlement Agreement. The 1999 Settlement Agreement was not at issue in the consolidated cases before the judge. Further, the ACC made findings related to the fair value of APS' property in the order approving the 1999 Settlement Agreement. The ACC and other parties aligned with the ACC have appealed the ruling to the Court of Appeals, as a result of which the ruling is automatically stayed pending further judicial review.

On December 13, 1999, two parties filed lawsuits challenging the ACC's approval of the 1999 Settlement Agreement. Each party bringing the lawsuits appealed the ACC's order approving the APS 1999 Settlement Agreement directly to the Arizona Court of Appeals, as provided by Arizona law. In one of the appeals, on December 26, 2000, the Arizona Court of Appeals affirmed the ACC's approval of the 1999 Settlement Agreement. A decision is still pending on the other appeal, which raises a number of different issues.

Neither party challenging the 1999 Settlement Agreement has raised issues regarding the 1999 Settlement Agreement that could not be remedied by the ACC if the Arizona Court of Appeals remands the 1999 Settlement Agreement to the ACC. However, it is impossible to predict with certainty exactly what the ACC would do in the event the order approving the 1999 Settlement Agreement were invalidated, either in whole or in part. Even aside from the pending litigation, the ACC retains continuing jurisdiction over all orders issued by it and can attempt to "rescind, alter or amend" such order under appropriate circumstances and upon notice and hearing.

In May 1998, a law was enacted by the Arizona legislature to facilitate implementation of retail electric competition in the state. Additionally, legislation related to electric competition has been proposed in the United States Congress. See Note 3 for additional information about the Rules, the 1999 Settlement Agreement, the ongoing litigation related to each, and for legislative developments.

As a result of the foregoing matters, as well as energy market developments, particularly in California (see "California Energy Market Issues" below), electric utility restructuring is in a state of flux in the western United States and around the country.

GENERATION EXPANSION

See "Capital Needs and Resources -- Capital Resources and Cash Requirements - Pinnacle West Energy" and Note 12 for information regarding our generation expansion plans. The planned additional generation is expected to increase revenues, fuel expenses, operating expenses, and financing costs.

CALIFORNIA ENERGY MARKET ISSUES

SCE and PG&E Corp. (PG&E) have publicly disclosed that their liquidity has been materially and adversely affected because of, among other things, their inability to pass on to ratepayers the prices each has paid for energy and ancillary services procured through the California Power Exchange (PX) and California Independent System Operator (ISO).

We are closely monitoring developments in the California energy market and the potential impact of these developments on us and our subsidiaries. We have evaluated, among other things, SCE's role as a Palo Verde and Four Corners participant; APS' transactions with the PX and the ISO; contractual relationships with SCE and PG&E; APS Energy Services' retail transactions involving SCE and PG&E; and power marketing exposures. Based upon the financial transactions to date, we do not believe the foregoing matters will have a material adverse effect on our financial position or liquidity. We cannot predict with certainty, however, the impact that any future resolution, or attempted resolution, of the California energy market situation may have on us or our subsidiaries or the regional energy market in general.

See "Capital Resources and Cash Requirements - Pinnacle West Energy" above for a discussion of Pinnacle West Energy's agreement to purchase SCE's Palo Verde interest.

FACTORS AFFECTING OPERATING REVENUES

Electric operating revenues are derived from sales of electricity in regulated retail markets in Arizona, and from competitive retail and wholesale bulk power markets in the western United States.

These revenues are expected to be affected by electricity sales volumes related to customer mix, customer growth and average usage per customer, as well as electricity prices and variations in weather from period to period.

In APS' regulated retail market area, APS will provide electricity services to standard-offer, full-service customers and to energy delivery customers who have chosen another provider for their electricity commodity needs (unbundled customers). Customer growth in APS' service territory averaged 3.8% a year for the three years 1998 through 2000; we currently expect customer growth to average 3.5% to 4% a year for 2001 through 2003. We currently estimate that retail electricity sales in kilowatt-hours will grow 3.5% to 4.5% a year in 2001 through 2003, before the retail effects of weather variations. The customer growth and sales growth referred to in this paragraph apply to energy delivery customers. As industry restructuring evolves in the regulated market area, we cannot predict the number of APS' standard offer customers that will switch to unbundled service.

Wholesale activities will be affected by electricity prices and costs of available fuel and purchased power in the western United States, as well as competitive market conditions and regulatory and legislative changes in various state and federal jurisdictions. These factors have significantly affected our wholesale power activities and their resultant earnings contributions over the last several years. We cannot predict future contributions from wholesale activities.

Competitive sales of energy and energy-related products and services are made by APS Energy Services in western states that have opened to competitive supply. Such activities are currently not material to our consolidated financial results.

OTHER FACTORS AFFECTING FUTURE FINANCIAL RESULTS

Fuel and purchased power costs are impacted by our electricity sales volumes, existing contracts for generation fuel and purchased power, our power plant performance, prevailing market prices, and our hedging program for managing such costs.

Operations and maintenance expenses are expected to be affected by sales mix and volumes, inflation, and other factors.

Depreciation and amortization expenses are expected to be affected by net additions to existing utility plant and other property, changes in regulatory asset amortization, and our generation expansion program. See Note 1 for the regulatory asset amortization that is being recorded in 1999 through 2004 pursuant to the 1999 Settlement Agreement. Also, see Note 1 regarding current depreciation rates.

Taxes other than income taxes consist primarily of property taxes, which are affected by tax rates and the value of property in service and under construction. We expect property taxes to increase primarily due to our generation expansion program and our additions to existing facilities.

Interest expense is affected by the amount of debt outstanding and the interest rates on that debt. The primary factors affecting borrowing levels in the next several years are expected to be our generation expansion program and our internally generated cash flow.

The annual earnings contribution from our real estate subsidiary, SunCor, is expected to remain modest over the next several years. SunCor's earnings were \$5 million (excluding the effects of a \$40 million deferred tax asset transfer) in 1998, \$6 million in 1999, and \$11 million in 2000.

El Dorado, our investment subsidiary, is affected by market conditions related to its investments. See Note 1 for a discussion of recent events affecting El Dorado's financial results and its outlook. Historical results are not necessarily indicative of future performance for El Dorado. El Dorado's strategies focus on realization of the value of its existing investments. Any future investments are expected to be in the energy business.

Our financial results may be affected by a number of broad factors. See "Forward-Looking Statements" below for further information on such factors, which may cause our actual future results to differ from those we currently seek or anticipate.

We cannot accurately predict the impact of full retail competition on our financial position, cash flows, results of operations, or liquidity. As competition in the electric industry continues to evolve, we will continue to evaluate strategies and alternatives that will position us to compete effectively in a restructured industry.

MARKET RISKS

Our 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

Our major financial market risk exposure is changing interest rates. Changing interest rates will affect interest paid on variable-rate debt and interest earned by our nuclear decommissioning trust fund (see Note 13). Our policy is to manage interest rates through the use of a combination of fixed-rate 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 regulated electricity prices.

The tables below present contractual balances of our long-term debt and commercial paper at the expected maturity dates as well as the fair value of those instruments on December 31, 2000 and December 31, 1999. The interest rates presented in the tables below represent the weighted average interest rates for the years ended December 31, 2000 and December 31, 1999.

Expected Maturity/Principal Repayment
December 31, 2000
(dollars in thousands)

	Short-Term		Variable Long-Term		Fixed Long-Term	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2001	6.64%	\$ 82,775	7.23%	\$ 438,203	6.63%	\$ 25,266
2002	--	--	8.62%	36,890	8.13%	125,000
2003	--	--	8.61%	73,578	6.89%	25,443
2004	--	--	8.87%	268	6.17%	205,000
2005	--	--	8.89%	294	7.28%	400,000
Years thereafter	--	--	4.13%	483,790	7.47%	610,813
Total		\$ 82,775		\$ 1,033,023		\$ 1,391,522
Fair value		\$ 82,775		\$ 1,033,023		\$ 1,422,014

Expected Maturity/Principal Repayment
December 31, 1999
(dollars in thousands)

	Short-Term		Variable Long-Term		Fixed Long-Term	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2000	5.33%	\$ 38,300	10.25%	\$ 87	5.79%	\$ 114,711
2001	--	--	7.00%	336,117	6.70%	27,488
2002	--	--	8.47%	64,085	8.13%	125,000
2003	--	--	5.51%	50,118	6.87%	25,000
2004	--	--	10.25%	130	6.17%	205,000
Years thereafter	--	--	3.19%	479,727	7.87%	900,483
Total		\$ 38,300		\$ 930,264		\$ 1,397,682
Fair value		\$ 38,300		\$ 930,264		\$ 1,366,968

COMMODITY PRICE RISK

Pinnacle West's Energy Risk Management Committee (the ERM) has established risk management guidelines to monitor and manage commodity price risks. The ERM is chaired by Pinnacle West's Vice President of Finance and is comprised of senior executives.

We are exposed to the impact of market fluctuations in the price and transportation costs of electricity, natural gas, coal, and emissions allowances. We employ established procedures to manage risks associated with these market fluctuations by utilizing various commodity derivatives, including exchange-traded futures and options and over-the-counter forwards, options, and swaps. As part of our overall risk management program, we enter into derivative transactions to hedge purchases and sales of electricity, fuels, and emissions allowances/credits. In addition, subject to specified risk parameters established by the Board of Directors and monitored by the ERM, we

engage in trading activities intended to profit from market price movements. In accordance with Emerging Issues Task Force (EITF) 98-10, "Accounting for contracts involved in energy trading and risk management activities," such trading positions are marked to market. These trading activities are part of our wholesale activities and are reflected in the wholesale revenues and expenses.

As of December 31, 2000, a hypothetical adverse price movement of 10% in the market price of our commodity derivative portfolio would have decreased the fair market value of these contracts by approximately \$29 million, compared to a \$6 million decrease that would have been realized as of December 31, 1999. The increase in this exposure over 1999 is a result of the increased volume of hedged positions and increased prices in this portfolio. This analysis does not include the favorable impact this same hypothetical price move would have had on certain underlying physical exposures being hedged with the commodity derivative portfolio.

We are exposed to losses in the event of non-performance or non-payment by counterparties. We use a risk management process to assess and monitor the financial exposure of counterparties. Despite the fact that the great majority of trading counterparties are rated as investment grade by the credit rating agencies, there is still a possibility that one or more of these companies could default, resulting in a material impact on earnings for a given period.

FORWARD-LOOKING STATEMENTS

The above discussion contains forward-looking statements based on current expectations and we assume no obligation to update these statements. Because actual results may differ materially from expectations, we caution readers not to place undue reliance on these statements. A number of factors could cause future results to differ materially from historical results, or from results or outcomes currently expected or sought by us. These factors include the ongoing restructuring of the electric industry; the outcome of the regulatory proceedings relating to the restructuring; regional economic and market conditions, including the California energy situation, which could affect customer growth and the cost of power supplies; the cost of debt and equity capital; weather variations affecting local and regional customer energy usage; conservation programs; the successful completion of our generation expansion program; regulatory issues associated with generation expansion, such as permitting and licensing; our ability to compete successfully outside traditional regulated markets (including the wholesale market); technological developments in the electric industry; and the strength of the stock market (particularly the technology sector in which El Dorado is currently invested) and the real estate market in SunCor's market areas, which include Arizona, New Mexico and Utah.

These factors and the other matters discussed above may cause future results to differ materially from historical results, or from results or outcomes we currently expect or seek.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "Market Risks" in Item 7 for a discussion of quantitative and qualitative disclosures about market risk.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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FINANCIAL STATEMENT SCHEDULE**

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See Note 14 of Notes to Consolidated 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 our financial information rests with management, which has prepared the accompanying financial statements and related information. This information was prepared in accordance with generally accepted accounting principles as appropriate in the circumstances, and based on management's best estimates and judgments. These financial statements have been audited by independent auditors and their report is included on the following page.

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

Periodically the internal control system is reviewed by both our internal auditors and our 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 Committee of the Board of Directors and the independent auditors on a timely basis. By letter dated February 21, 2001, to the Audit Committee, our independent auditors confirmed that they are independent accountants with respect to us within the meaning of the Securities Act and the requirements of the Independence Standards Board.

The Audit 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 Committee, without management present, to discuss the results of their audit work.

Management believes that our 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.

William J. Post

Chris N. Froggatt

William J. Post
Chairman and
Chief Executive Officer

Chris N. Froggatt
Vice President and Controller

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of Pinnacle West Capital Corporation
Phoenix, Arizona

We have audited the accompanying consolidated balance sheets of Pinnacle West Capital Corporation and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of income, retained earnings, and cash flows for each of the three years in the period ended December 31, 2000. Our audits also included the financial statement schedule listed in the Index at Item 14. These financial statements and financial statement schedule are the responsibility of the Corporation's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

DELOITTE & TOUCHE LLP

DELOITTE & TOUCHE LLP

Phoenix, Arizona

February 9, 2001

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

	Year Ended December 31,		
	2000	1999	1998
OPERATING REVENUES			
Electric	\$ 3,531,810	\$ 2,293,184	\$ 2,006,398
Real estate	158,365	130,169	124,188
Total	3,690,175	2,423,353	2,130,586
OPERATING EXPENSES			
Fuel and purchased power	1,934,783	796,109	545,297
Operations and maintenance	450,809	446,777	419,433
Real estate operations	134,422	119,516	115,331
Depreciation and amortization (Note 1)	394,410	385,568	379,679
Taxes other than income taxes	99,780	96,606	103,718
Total	3,014,204	1,844,576	1,563,458
OPERATING INCOME	675,971	578,777	567,128
OTHER INCOME (EXPENSE)			
Preferred stock dividend requirements of APS	--	(1,016)	(9,703)
Net other income and expense	(186)	10,793	609
Total	(186)	9,777	(9,094)
INCOME BEFORE INTEREST AND INCOME TAXES	675,785	588,554	558,034
INTEREST EXPENSE			
Interest charges	171,239	162,381	169,145
Capitalized interest	(21,638)	(11,664)	(18,596)
Total	149,601	150,717	150,549
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	526,184	437,837	407,485
INCOME TAXES (NOTE 4)	223,852	168,065	164,593
INCOME FROM CONTINUING OPERATIONS	302,332	269,772	242,892
Income tax benefit from discontinued operations	--	38,000	--
Extraordinary charge - net of income taxes of \$94,115	--	(139,885)	--
NET INCOME	\$ 302,332	\$ 167,887	\$ 242,892
AVERAGE COMMON SHARES OUTSTANDING - BASIC	84,733	84,717	84,774
AVERAGE COMMON SHARES OUTSTANDING - DILUTED	84,935	85,009	85,346
EARNINGS PER AVERAGE COMMON SHARE OUTSTANDING (NOTE 16)			
Continuing operations - basic	\$ 3.57	\$ 3.18	\$ 2.87
Net income - basic	3.57	1.98	2.87
Continuing operations - diluted	3.56	3.17	2.85
Net income - diluted	3.56	1.97	2.85
DIVIDENDS DECLARED PER SHARE	\$ 1.425	\$ 1.325	\$ 1.225

See Notes to Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

	December 31,	
	2000	1999
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 10,363	\$ 20,705
Customer and other receivables - net	513,822	244,599
Accrued utility revenues	74,566	72,919
Materials and supplies (at average cost)	71,966	69,977
Fossil fuel (at average cost)	19,405	21,869
Deferred income taxes (Note 4)	5,793	8,163
Other current assets	97,998	60,562
Total current assets	793,913	498,794
INVESTMENTS AND OTHER ASSETS		
Real estate investments - net (Note 6)	371,323	344,293
Other assets (Note 13)	318,249	267,458
Total investments and other assets	689,572	611,751
UTILITY PLANT (NOTES 6, 10 AND 11)		
Electric plant in service and held for future use	7,809,566	7,546,314
Less accumulated depreciation and amortization	3,188,302	3,026,194
Total	4,621,264	4,520,120
Construction work in progress	464,540	209,281
Nuclear fuel, net of amortization of \$61,256 and \$66,357	47,389	49,114
Net utility plant	5,133,193	4,778,515
DEFERRED DEBITS		
Regulatory assets (Notes 3 and 4)	469,867	613,729
Other deferred debits	62,606	105,717
Total deferred debits	532,473	719,446
TOTAL ASSETS	\$7,149,151	\$6,608,506

See Notes to Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

	December 31,	
	2000	1999
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 375,805	\$ 186,524
Accrued taxes	89,246	70,510
Accrued interest	42,954	33,253
Short-term borrowings (Note 5)	82,775	38,300
Current maturities of long-term debt (Note 6)	463,469	114,798
Customer deposits	26,189	26,098
Other current liabilities	110,860	26,007
Total current liabilities	1,191,298	495,490
LONG-TERM DEBT LESS CURRENT MATURITIES (NOTE 6)	1,955,083	2,206,052
DEFERRED CREDITS AND OTHER		
Deferred income taxes (Note 4)	1,143,040	1,183,855
Unamortized gain - (Note 10)	68,636	73,212
Other	408,380	444,164
Total deferred credits and other	1,620,056	1,701,231
COMMITMENTS AND CONTINGENCIES (NOTES 3, 12 AND 13)		
COMMON STOCK EQUITY (NOTE 8)		
Common stock, no par value; authorized 150,000,000 shares; issued and outstanding 84,824,947 at end of 2000 and 1999	1,532,831	1,537,449
Retained earnings	849,883	668,284
Total common stock equity	2,382,714	2,205,733
TOTAL LIABILITIES AND EQUITY	\$7,149,151	\$6,608,506

See Notes to Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Year Ended December 31,		
	2000	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES			
Income from continuing operations	\$ 302,332	\$ 269,772	\$ 242,892
Items not requiring cash			
Depreciation and amortization	394,410	385,568	379,679
Nuclear fuel amortization	30,083	31,371	32,856
Deferred income taxes - net	(8,973)	(17,413)	41,262
Deferred investment tax credit	740	(23,514)	(23,516)
Other - net	478	(12,476)	1,190
Changes in current assets and liabilities			
Customer and other receivables - net	(269,223)	(10,723)	(50,369)
Accrued utility revenues	(1,647)	(5,179)	(9,181)
Materials, supplies and fossil fuel	475	(8,794)	(2,797)
Other current assets	(37,436)	(12,968)	(6,186)
Accounts payable	193,502	28,193	34,386
Accrued taxes	18,736	12,591	(22,090)
Accrued interest	9,701	1,387	(1,108)
Other current liabilities	89,714	15,047	(5,235)
(Increase) Decrease in land held	(25,937)	(12,542)	33,405
Other - net	2,605	(4,720)	(39,350)
Net Cash Flow Provided By Operating Activities	699,560	635,600	605,838
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(658,608)	(343,448)	(319,142)
Capitalized interest	(21,638)	(11,664)	(18,596)
Other - net	(41,761)	(16,143)	(2,144)
Net Cash Flow Used For Investing Activities	(722,007)	(371,255)	(339,882)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of long-term debt	651,000	607,791	148,229
Short-term borrowings - net	44,475	(140,530)	48,080
Dividends paid on common stock	(120,733)	(112,311)	(103,849)
Repayment of long-term debt	(558,019)	(510,693)	(286,314)
Redemption of preferred stock	--	(96,499)	(75,517)
Other - net	(4,618)	(11,936)	(3,531)
Net Cash Flow Provided by (Used for) Financing Activities	12,105	(264,178)	(272,902)
NET CASH FLOW	(10,342)	167	(6,946)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	20,705	20,538	27,484
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 10,363	\$ 20,705	\$ 20,538

See Notes to Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
(dollars in thousands)

	Year Ended December 31,		
	2000	1999	1998
Retained earnings at beginning of year	\$ 668,284	\$ 612,708	\$ 473,665
Net income	302,332	167,887	242,892
Common stock dividends	(120,733)	(112,311)	(103,849)
Retained earnings at end of year	\$ 849,883	\$ 668,284	\$ 612,708

See Notes to Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION

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 our subsidiaries: APS, Pinnacle West Energy, APS Energy Services, SunCor, and El Dorado. Significant intercompany accounts and transactions between the consolidated companies have been eliminated.

APS, our major subsidiary and Arizona's largest electric utility, provides retail and wholesale electric service to the entire state with the exception of Tucson and about one-half of the Phoenix area. APS also generates and, directly or through our power marketing division, sells and delivers electricity to wholesale customers in the western United States. Pinnacle West Energy, which was formed in 1999, is the subsidiary through which we intend to conduct our unregulated generation operations. APS Energy Services was formed in 1998 and sells energy and energy-related products and services in competitive retail markets in the western United States. SunCor is a developer of residential, commercial, and industrial real estate projects in Arizona, New Mexico, and Utah. El Dorado is primarily a venture capital and investment firm.

ACCOUNTING RECORDS

Our accounting records are maintained in accordance with accounting principles generally accepted in the United States of America (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 is regulated by the ACC and the FERC. The accompanying financial statements reflect the rate-making policies of these commissions. For regulated operations, we prepare our financial statements in accordance with 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 our financial statements.

During 1997, the EITF of the FASB issued EITF 97-4. EITF 97-4 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.

The 1999 Settlement Agreement was approved by the ACC in September 1999 (see Note 3 for a discussion of the agreement). Consequently, we have discontinued the application of SFAS No. 71 for our generation operations. As a result, we tested the generation assets for impairment and determined that the generation assets were not impaired. Pursuant to the 1999 Settlement Agreement, a regulatory disallowance removed \$234 million pre-tax (\$183 million net present value) from ongoing regulatory cash flows and was recorded as a net reduction of regulatory assets. This reduction (\$140 million after income taxes) was reported as an extraordinary charge on the income statement during the third quarter of 1999. Prior to the 1999 Settlement

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Agreement, under the 1996 regulatory agreement (see Note 3), the ACC accelerated the amortization of substantially all of our regulatory assets to an eight-year period that would have ended June 30, 2004.

The regulatory assets to be recovered under the 1999 Settlement Agreement are now being amortized as follows:

(dollars in millions)						
1999	2000	2001	2002	2003	1/1 - 6/30 2004	Total
----	----	----	----	----	----	-----
\$164	\$ 158	\$ 145	\$ 115	\$ 86	\$ 18	\$686

The majority of our remaining regulatory assets relate to deferred income taxes (see Note 4) and rate synchronization cost deferrals (see "Rate Synchronization Cost Deferrals" in this Note).

The balance sheets include the amounts listed below for generation assets not subject to SFAS No. 71 (for additional generation information see Note 18):

(dollars in thousands)

	December 31, 2000	December 31, 1999
	-----	-----
Electric plant in service and held for future use	\$ 3,856,600	\$ 3,817,919
Accumulated depreciation and amortization.....	(1,693,079)	(1,664,782)
Construction work in progress.....	304,992	87,819
Nuclear fuel, net of amortization.....	47,389	49,114

UTILITY PLANT AND DEPRECIATION

Utility plant is the term we use to describe the business property and equipment that supports electric service, consisting primarily of generation, transmission, and distribution facilities. We report utility plant at its original cost, which includes:

- * material and labor;
- * contractor costs;
- * construction overhead costs (where applicable); and
- * capitalized interest or an allowance for funds used during construction.

We charge retired utility plant, plus removal costs less salvage realized, to accumulated depreciation. See Note 2 for information on a proposed accounting standard that impacts accounting for removal costs.

We record depreciation on utility property on a straight-line basis. For the years 1998 through 2000 the rates, as prescribed by our regulators, ranged from a low of 3.33% to a high of 20%. The weighted-average rate was 3.40% for 2000, 3.34% for 1999, and 3.32% for 1998. We depreciate non-utility property and equipment over the estimated useful lives of the related assets, ranging from 3 to 30 years.

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

EL DORADO INVESTMENTS

Net other income consists primarily of El Dorado's share in the earnings of a venture capital partnership. The partnership adjusts the value of its investments at the end of each fiscal quarter. The value of El Dorado's investment in the partnership is determined by various factors beyond our control, including equity market conditions. Most of the partnership's investments are in technology-related companies whose share prices are highly volatile.

Prior to June 2000, we recorded our share of the earnings from the partnership, as the partnership adjusted the value of its investment, on a one-quarter lag. This procedure was followed due to time constraints in obtaining and analyzing such results for inclusion in our consolidated financial statements on a current basis. In the second quarter of 2000, we requested a distribution of our share of the investments held by the partnership, and we adjusted our investment to reflect the current market value.

An amendment to the partnership agreement resulted in El Dorado receiving a distribution, subject to certain sale restrictions, of securities representing substantially all of El Dorado's investment in the partnership. We began accounting for the securities as available for sale with changes in fair value recorded in other comprehensive income. Gains and losses from the ultimate sale of such securities will be reflected in our net earnings.

The book value of El Dorado's investment in the partnership was approximately \$7 million at December 31, 2000 and \$21 million at December 31, 1999.

CAPITALIZED INTEREST

Capitalized interest represents the cost of debt funds used to finance construction of utility plants. Plant construction costs, including capitalized interest, are expensed 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 was a composite rate of 6.62% for 2000, 6.65% for 1999, and 6.88% for 1998.

REVENUES

We record electric operating revenues on the accrual basis, which includes 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 for Unit 2 and January 1988 for Unit 3) until the date the units were included in a rate order (April 1988 for Unit 2 and December 1991 for Unit 3). In accordance with the 1999 Settlement Agreement, we are continuing to accelerate the amortization of the deferrals over an eight-year period that will end June 30, 2004. Amortization of the deferrals is included in depreciation and amortization expense on the Statements of Income.

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NUCLEAR FUEL

APS charges nuclear fuel to fuel expense by using the unit-of-production method. The unit-of-production method is an amortization method that is based on actual physical usage. APS divides the cost of the fuel by the estimated number of thermal units that it expects to produce with that fuel. APS then multiplies that rate by the number of thermal units that it produces within the current period. This calculation determines the current period nuclear fuel expense.

APS also charges nuclear fuel expense for the permanent disposal of spent nuclear fuel. The United States Department of Energy (DOE) is responsible for the permanent disposal of spent nuclear fuel, and it charges APS \$0.001 per kWh of nuclear generation. See Note 12 for information about spent nuclear fuel disposal and Note 13 for information on nuclear decommissioning costs.

INCOME TAXES

We file our federal income tax return on a consolidated basis and we file our state income tax returns on a consolidated or unitary basis. In accordance with our intercompany tax sharing agreement, federal and state income taxes are allocated to each subsidiary as though each subsidiary filed a separate income tax return. Any difference between the aforementioned allocations and the consolidated (and unitary) income tax liability is attributed to the parent company.

REACQUIRED DEBT COSTS

For debt related to the regulated portion of APS' business, APS amortizes those gains and losses incurred upon early retirement over the remaining life of the debt. In accordance with the 1999 Settlement Agreement, APS is continuing to accelerate reacquired debt costs over an eight-year period that will end June 30, 2004. The accelerated portion of the regulatory asset amortization is included in depreciation and amortization expense in the Statements of Income.

DERIVATIVE INSTRUMENTS

We are exposed to the impact of market fluctuations in the price and transportation costs of electricity, natural gas, coal, and emissions allowances. We employ established procedures to manage risks associated with these market fluctuations by utilizing various commodity derivatives, including exchange-traded futures and options and over-the-counter forwards, options, and swaps. As part of our overall risk management program, we enter into derivative transactions to hedge purchases and sales of electricity, fuels, and emissions allowances/credits. The changes in market value of such contracts have a high correlation to price changes in the hedged commodity. In addition, subject to specified risk parameters established by the Board of Directors and monitored by the ERMC, we engage in trading activities intended to profit from market price movements.

Gains and losses related to derivatives that qualify as hedges of expected transactions are recognized in revenue or fuel and purchased power expense as an offset to the related item being hedged when the underlying hedged physical transaction closes (deferral method).

Net gains and losses on derivatives utilized for trading are recognized in wholesale revenues on a current basis (the mark to market method). Trading positions are measured at fair value as of the balance sheet date. The net gain was \$9 million for 2000 and \$1 million for 1999.

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

STATEMENTS OF CASH FLOWS

We consider temporary cash investments and marketable securities, with original maturities of less than 90 days, to be cash equivalents for purposes of reporting cash flows. During 2000, 1999, and 1998, we paid interest, net of amounts capitalized, income taxes, and dividends on preferred stock of APS as follows:

	(dollars in millions)		
	Years Ended December 31,		
	2000	1999	1998
	-----	-----	-----
Interest paid	\$132	\$141	\$144
Income taxes paid	219	200	165
Dividends paid on preferred stock of APS	--	1	10

2. ACCOUNTING MATTERS

Effective January 1, 2001, we adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 requires that entities recognize all derivatives as either assets or liabilities on the balance sheet and measure those instruments at fair value. Changes in the fair value of derivative financial instruments are either recognized periodically in income or shareholder's equity (as a component of other comprehensive income), depending on whether or not the derivative meets specific hedge accounting criteria. Hedge effectiveness is measured based on the relative changes in fair value between the derivative contract and the hedged item over time. Any change in the fair value resulting from ineffectiveness, as defined by SFAS No. 133, is recognized immediately in net income. This new standard may result in additional volatility in our net income and comprehensive income.

As a result of adopting SFAS No. 133, we recognized \$118 million of derivative assets and \$16 million of derivative liabilities in our balance sheet as of January 1, 2001. We recorded a \$3 million after-tax loss in net income as a cumulative effect of a change in accounting principles and a \$64 million after-tax gain in equity (as a component of other comprehensive income). The gain resulted from unrealized gains on cash flow hedges.

In December 2000, the FASB's Derivatives Implementation Group (DIG) discussed whether contracts in the electric industry that have some of the characteristics of purchased and written options should qualify for the "normal purchases and sales" scope exception. The DIG did not reach a conclusion on this issue. We account for electricity contracts with characteristics of options as normal purchases and sales if it is probable that the contract will not be settled in cash and will result in the physical delivery of electricity. The DIG also discussed but did not determine whether electricity contracts subject to "bookout" should qualify for the normal exception. A bookout occurs when one party appears more than once in a contract path for the sale and purchase of energy. In that instance, the counterparties may agree that they will not schedule or deliver physical energy that originates and ends with the same counterparty, but rather will settle in cash the amounts due to or from each counterparty. We account for our non-trading electricity transactions that bookout as gross settlement with physical delivery (and eligible for the normal scope exception) if title transfers, gross cash payment is made, and the transaction retains both performance and credit risk. Trading contracts are measured at fair value (mark to market) as discussed in Note 1.

PINNACLE WEST CAPITAL CORPORATION
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Our accounting is reflective of the non-storability of our product and the lack of predictability of the demand for electricity at any point in time. If the FASB or DIG ultimately provides us with contrary guidance, we may be required to mark our non-trading electricity contracts to their fair market values each reporting period, which could have a material impact on our financial statements and add significant net income and comprehensive income volatility that would not be reflective of the nature of our business. If these agreements are required to be treated as derivative instruments, a cumulative effect of a change in accounting principles would be applied in the quarter following final resolution of the issues.

In 1999 we adopted EITF 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities." EITF 98-10 requires energy trading contracts to be measured at fair value as of the balance sheet date with the gains and losses included in earnings and separately disclosed in the financial statements or footnotes. The effects of adopting EITF 98-10 were not material to our 1999 financial statements.

In February 1996, the FASB issued an exposure draft, "Accounting for Certain Liabilities Related to Closure or Removal of Long-Lived Assets." This proposed standard 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 issued a revised exposure draft in February 2000 and we are evaluating the impacts.

3. REGULATORY MATTERS

ELECTRIC INDUSTRY RESTRUCTURING

STATE

1999 SETTLEMENT AGREEMENT. On May 14, 1999, APS entered into a comprehensive Settlement Agreement with various parties, including representatives of major consumer groups, related to the implementation of retail electric competition. On September 23, 1999, the ACC voted to approve the 1999 Settlement Agreement, with some modifications. On December 13, 1999, two parties filed lawsuits challenging the ACC's approval of the 1999 Settlement Agreement. Each party bringing the lawsuits appealed the ACC's order approving the APS 1999 Settlement Agreement directly to the Arizona Court of Appeals, as provided by Arizona law. In one of the appeals, on December 26, 2000, the Arizona Court of Appeals affirmed the ACC's approval of the 1999 Settlement Agreement. A decision is still pending on the other appeal, which raises a number of different issues.

The following are the major provisions of the 1999 Settlement Agreement, as approved:

* APS has reduced, and will reduce, rates for standard offer service for customers with loads less than three MW in a series of annual retail electric price reductions of 1.5% beginning July 1, 1999 through July 1, 2003, for a total of 7.5%. The first reduction of approximately \$24 million (\$14 million after income taxes) included the July 1, 1999 retail price decrease of approximately \$11 million (\$7 million after income taxes) related to the 1996 regulatory agreement. See "1996 Regulatory Agreement" below. Based on the price reduction authorized in the 1999 Settlement Agreement, there was a retail price decrease of approximately \$28 million (\$17 million after taxes), or 1.5%, effective July 1, 2000. For

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

customers having loads three MW or greater, standard offer rates will be reduced in varying annual increments that total 5% in the years 1999 through 2002.

* Unbundled rates being charged by APS for competitive direct access service (for example, distribution services) became effective upon approval of the 1999 Settlement Agreement, retroactive to July 1, 1999, and also became subject to annual reductions beginning January 1, 2000, that vary by rate class, through January 1, 2004.

* There will be a moratorium on retail price changes for standard offer and unbundled competitive direct access services until July 1, 2004, except for the price reductions described above and certain other limited circumstances. Neither the ACC nor APS will be prevented from seeking or authorizing rate changes prior to July 1, 2004 in the event of conditions or circumstances that constitute an emergency, such as an inability to finance on reasonable terms, or material changes in APS' cost of service for ACC-regulated services resulting from federal, tribal, state or local laws, regulatory requirements, judicial decisions, actions or orders.

* APS will be permitted to defer for later recovery prudent and reasonable costs of complying with the ACC electric competition rules, system benefits costs in excess of the levels included in current rates, and costs associated with the "provider of last resort" and standard offer obligations for service after July 1, 2004. These costs are to be recovered through an adjustment clause or clauses commencing on July 1, 2004.

* APS' distribution system opened for retail access effective September 24, 1999. Customers were eligible for retail access in accordance with the phase-in adopted by the ACC under the electric competition rules (see "Retail Electric Competition Rules" below), including an additional 140 MW being made available to eligible non-residential customers. APS opened its distribution system to retail access for all customers on January 1, 2001.

* Prior to the 1999 Settlement Agreement, APS was recovering substantially all of its regulatory assets through July 1, 2004, pursuant to the 1996 regulatory agreement. In addition, the 1999 Settlement Agreement states that APS has demonstrated that its allowable stranded costs, after mitigation and exclusive of regulatory assets, are at least \$533 million net present value. APS will not be allowed to recover \$183 million net present value of the above amounts. The 1999 Settlement Agreement provides that APS will have the opportunity to recover \$350 million net present value through a competitive transition charge (CTC) that will remain in effect through December 31, 2004, at which time it will terminate. Any over/under-recovery due to sales volume variances will be credited/debited against the costs subject to recovery under the adjustment clause described above.

* APS will form a separate corporate affiliate or affiliates and transfer to such affiliate(s) its generating assets and competitive services at book value as of the date of transfer, which transfer shall take place no later than December 31, 2002. Accordingly, APS plans to complete the move of such assets and services from APS to the parent company or to Pinnacle West Energy by the end of 2002, as required. APS will be allowed to defer and later collect, beginning July 1, 2004, sixty-seven percent of its costs to accomplish the required transfer of generation assets to an affiliate.

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

* When the 1999 Settlement Agreement approved by the ACC is no longer subject to judicial review, APS will move to dismiss all of its litigation pending against the ACC as of the date APS entered into the 1999 Settlement Agreement. To protect its rights, APS has several lawsuits pending on ACC orders relating to stranded cost recovery and the adoption and amendment of the ACC's electric competition rules, which would be voluntarily dismissed at the appropriate time under this provision.

As discussed in Note 1 above, we have discontinued the application of SFAS No. 71 for our generation operations.

RETAIL ELECTRIC COMPETITION RULES. On September 21, 1999, the ACC voted to approve the rules that provide a framework for the introduction of retail electric competition in Arizona. Under the 1999 Settlement Agreement, the Rules are to be interpreted and applied, to the greatest extent possible, in a manner consistent with the 1999 Settlement Agreement. If the two cannot be reconciled, APS must seek, and the other parties to the 1999 Settlement Agreement must support, a waiver of the Rules in favor of the 1999 Settlement Agreement. On December 8, 1999, APS filed a lawsuit to protect its legal rights regarding the Rules. This lawsuit is pending, along with several other lawsuits on ACC orders relating to stranded cost recovery, the adoption or amendment of the Rules, and the certification of competitive electric service providers.

On November 27, 2000, a Maricopa County, Arizona, Superior Court judge issued a final judgment holding that the Rules are unconstitutional and unlawful in their entirety due to failure to establish a fair value rate base for competitive electric service providers and because certain of the Rules were not submitted to the Arizona Attorney General for certification. The judgment also invalidates all ACC orders authorizing competitive electric service providers, including APS Energy Services, in Arizona. We do not believe the ruling affects the 1999 Settlement Agreement. The 1999 Settlement Agreement was not at issue in the consolidated cases before the judge. Further, the ACC made findings related to the fair value of APS' property in the order approving the 1999 Settlement Agreement. The ACC and other parties aligned with the ACC have appealed the ruling to the Court of Appeals, as a result of which the ruling is automatically stayed pending further judicial review. The Rules approved by the ACC include the following major provisions:

- * They apply to virtually all Arizona electric utilities regulated by the ACC, including APS.
- * Effective January 1, 2001, retail access was available to all APS retail customers.
- * Electric service providers that get Certificates of Convenience and Necessity from the ACC can supply only competitive services, including electric generation, but not electric transmission and distribution.
- * Affected utilities must file ACC tariffs that unbundle rates for non-competitive services.
- * The ACC shall allow a reasonable opportunity for recovery of unmitigated stranded costs.
- * Absent an ACC waiver, prior to January 1, 2001, each affected utility (except certain electric cooperatives) must transfer all competitive generation assets and services either to an unaffiliated party or to a separate corporate affiliate. Under the 1999 Settlement Agreement,

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

APS received a waiver to allow transfer of its generation and other competitive assets and services to affiliates no later than December 31, 2002. See "1999 Settlement Agreement" above for a discussion of the planned timing of the transfer.

1996 REGULATORY AGREEMENT. In April 1996, the ACC approved a regulatory agreement between the ACC Staff and APS. Based on the price reduction formula authorized in the agreement, the ACC approved retail price decreases (approximate) as follows (dollars in millions):

Annual Electric Revenue Decrease	Percentage Decrease	Effective Date
-----	-----	-----
\$49	3.4%	July 1, 1996
\$18	1.2%	July 1, 1997
\$17	1.1%	July 1, 1998
\$11	0.7%	July 1, 1999 (a)

(a) Included in the first rate reduction under the 1999 Settlement Agreement (see above).

The regulatory agreement also required that we infuse \$200 million of common equity into APS in annual payments of \$50 million from 1996 through 1999. All of these equity infusions were made by December 31, 1999.

LEGISLATION. In May 1998, a law was enacted to facilitate implementation of retail electric competition in Arizona. The law includes the following major provisions:

* Arizona's largest government-operated electric utility (Salt River Project) and, at their option, smaller municipal electric systems must (i) make at least 20% of their 1995 retail peak demand available to electric service providers 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 comparable to those already applicable to public service corporations for establishing the terms, conditions, and pricing of electric services as well as certain other decisions affecting retail electric competition;

* describes the factors which form the basis of consideration by Salt River Project in determining stranded costs; and

* metering and meter reading services must be provided on a competitive basis during the first two years of competition only for customers having demands in excess of one MW (and that are eligible for competitive generation services), and thereafter for all customers receiving competitive electric generation.

GENERAL

APS cannot accurately predict the impact of full retail competition on its financial position, cash flows, results of operations, or liquidity. As competition in the electric industry continues to evolve, APS will continue to evaluate strategies and alternatives that will position it to compete in the new regulatory environment.

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FEDERAL

The 1992 Energy Act and recent rulemakings by FERC have promoted increased competition in the wholesale energy markets. APS does not expect these rules to have a material impact on its financial statements.

Several electric utility industry restructuring bills will undoubtedly be introduced during the current congressional session. Several of these bills are written to allow consumers to choose their electricity suppliers beginning in 2001 and beyond. These bills and other bills 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 comprehensive restructuring of the electric utility industry can occur.

4. INCOME TAXES

INCOME TAXES

Certain assets and liabilities are reported differently for income tax purposes than they are for financial statements. The tax effect of these differences is recorded as deferred taxes. We calculate deferred taxes using the current income tax rates.

APS has recorded a regulatory asset related to income taxes on its Balance Sheet in accordance with SFAS No. 71. This regulatory asset is for certain temporary differences, primarily the allowance for equity funds used during construction. APS amortizes this amount as the differences reverse. In accordance with the 1999 Settlement Agreement, APS is continuing to accelerate its amortization of the regulatory asset for income taxes over an eight-year period that will end June 30, 2004 (see Note 1). We are including this accelerated amortization in depreciation and amortization expense on the Statements of Income. The components of income tax expense for continuing operations are:

(dollars in thousands)

	Year Ended December 31,		
	2000	1999	1998
Current			
Federal	\$ 189,779	\$ 171,491	\$ 105,922
State	42,306	37,501	40,621
	232,085	208,992	146,543
Deferred			
ITC amortization	(8,973) 740	(17,413) (23,514)	41,566 (23,516)
	\$ 223,852	\$ 168,065	\$ 164,593
	=====	=====	=====

The following chart compares pretax income at the 35% federal income tax rate to income tax expense:

PINNACLE WEST CAPITAL CORPORATION
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(dollars in thousands)

	Year Ended December 31,		
	2000	1999	1998
Federal income tax expense at 35% statutory rate	\$ 184,164	\$ 153,243	\$ 142,620
Increases (reductions) in tax expense resulting from:			
Tax under book depreciation	12,328	14,575	17,848
Preferred stock dividends of APS	--	356	3,396
ITC amortization	740	(23,514)	(23,516)
State income tax net of federal income tax benefit	23,555	23,030	22,764
Other	3,065	375	1,481
Income tax expense	\$ 223,852	\$ 168,065	\$ 164,593

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

	Year Ended December 31,	
	2000	1999
(dollars in thousands)		
DEFERRED TAX ASSETS		
Deferred gain on Palo Verde Unit 2 sale/leaseback	\$ 27,056	\$ 29,446
Other	89,416	133,748
Total deferred tax assets	116,472	163,194
DEFERRED TAX LIABILITIES		
Plant-related	1,081,637	1,104,769
Regulatory asset for income taxes	172,082	234,117
Total deferred tax liabilities	1,253,719	1,338,886
Accumulated deferred income taxes - net	\$1,137,247	\$1,175,692

INVESTMENT TAX CREDIT

Because of a 1994 rate settlement agreement, we accelerated amortization of substantially all of our ITCs over a five-year period (1995-1999).

INCOME TAX BENEFIT FROM DISCONTINUED OPERATIONS

In 1999, the income tax benefit from discontinued operations for \$38 million resulted from resolution of tax issues related to a former subsidiary, MeraBank, A Federal Savings Bank.

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. LINES OF CREDIT

APS had committed lines of credit with various banks of \$250 million at December 31, 2000 and \$350 million at December 31, 1999, which were available either to support the issuance of commercial paper or to be used for bank borrowings. The commitment fees at December 31, 2000 and 1999 for these lines of credit ranged from 0.09% to 0.125% per annum. APS had no long-term bank borrowings at December 31, 2000 and \$50 million outstanding at December 31, 1999.

APS' commercial paper borrowings outstanding were \$82 million at December 31, 2000 and \$38 million at December 31, 1999. The weighted average interest rate on commercial paper borrowings was 6.64% for the year ended December 31, 2000 and 5.33% for the year ended December 31, 1999. By Arizona statute, APS' short-term borrowings cannot exceed 7% of its total capitalization unless approved by the ACC.

Pinnacle West had a revolving line of credit of \$250 million at December 31, 2000 and 1999. The commitment fees were 0.15% in 2000 and 0.10% in 1999. Outstanding amounts at December 31, 2000 were \$188 million and at December 31, 1999 were \$56 million.

SunCor had revolving lines of credit totalling \$120 million at December 31, 2000 and \$100 million at December 31, 1999. The commitment fees were 0.125% in 2000 and 1999. SunCor had \$110 million outstanding at December 31, 2000 and \$94 million outstanding at December 31, 1999.

6. LONG-TERM DEBT

Borrowings under the APS mortgage bond indenture are secured by substantially all utility plant; APS also has unsecured debt; SunCor's debt is collateralized by interests in certain real property; Pinnacle West's debt is unsecured. The following table presents the components of consolidated long-term debt outstanding at December 31, 2000 and December 31, 1999:

PINNACLE WEST CAPITAL CORPORATION
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(dollars in thousands)

	Maturity Dates (a) -----	Interest Rates -----	December 31,	
			2000 -----	1999 -----
APS				
First mortgage bonds	2000	5.75%	\$ --	\$ 100,000
	2002	8.125%	125,000	125,000
	2004	6.625%	80,000	80,000
	2020	10.25%	--	100,550
	2021	9.5%	45,140	45,140
	2021	9%	72,370	72,370
	2023	7.25%	70,650	70,650
	2024	8.75%	121,668	121,668
	2025	8%	33,075	47,075
	2028	5.5%	25,000	25,000
	2028	5.875%	154,000	154,000
Unamortized discount and premium			(5,993)	(5,860)
Pollution control bonds	2024-2034	Adjustable rate(b)	476,860	476,860
Funds held in trust account for certain pollution control bonds			--	(1,236)
Collateralized loan	2000	5.375%-6.125%	--	10,000
Unsecured notes	2004	5.875%	125,000	125,000
Unsecured notes	2005	6.25%	100,000	100,000
Unsecured notes	2005	7.625%	300,000	--
Floating rate notes	2001	Adjustable rate(c)	250,000	250,000
Senior notes (d)	2006	6.75%	83,695	83,695
Debentures	2025	10%	--	75,000
Bank loans	2003	Adjustable rate(e)	--	50,000
Capitalized lease obligation	2000	7.48%(f)	--	7,199
Capitalized lease obligation	2001-2003	7.75%	709	--
			-----	-----
			2,057,174	2,112,111
			-----	-----
SUNCOR				
Revolving credit	2002-2003	(g)	110,000	94,000
Notes payable	2001-2006	(h)	8,163	3,404
Bonds payable	2039	5.85%	5,215	5,335
			-----	-----
			123,378	102,739
			-----	-----
PINNACLE WEST				
Revolving credit	2001	(i)	188,000	56,000
Senior notes	2001-2003	(j)	50,000	50,000
			-----	-----
			238,000	106,000
			-----	-----
Total long-term debt			2,418,552	2,320,850
Less current maturities			463,469	114,798
			-----	-----
Total long-term debt less current maturities			\$1,955,083	\$2,206,052
			=====	=====

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- (a) This schedule does not reflect the timing of redemptions that may occur prior to maturity.
- (b) The weighted-average rate for the year ended December 31, 2000 was 4.06% and for December 31, 1999 was 3.15%. Changes in short-term interest rates would affect the costs associated with this debt.
- (c) The weighted-average rate for the year ended December 31, 2000 was 7.33% and for December 31, 1999 was 6.8525%.
- (d) APS currently has outstanding \$84 million of first mortgage bonds (senior note mortgage bonds) issued 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 its 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 equally with the first mortgage bonds. When APS repays 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.
- (e) The weighted-average rate for the year ended December 31, 2000 was 6.53% and for December 31, 1999 was 5.5%. Changes in short-term interest rates would affect the costs associated with this debt. At December 31, 2000, we had no long-term bank borrowings outstanding.
- (f) Represents the present value of future lease payments (discounted at an interest rate of 7.48%) on a combined cycle plant that was sold and leased back. The capital lease was paid off early and the related asset was purchased in December 2000 (See Note 10).
- (g) The weighted-average rate at December 31, 2000 was 8.61% and at December 31, 1999 was 8.51%. Interest for 2000 and 1999 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 plus 1.75% and lenders' prime plus .25%.
- (i) The weighted-average rate at December 31, 2000 was 7.51% and at December 31, 1999 was 6.825%. Interest for 2000 was based on LIBOR plus 0.75% and interest for 1999 was based on LIBOR plus 0.33%.
- (j) Includes two series of notes: \$25 million at 6.62% due 2001, and \$25 million at 6.87% due 2003.

The following is a list of principal payments due on total long-term debt and sinking fund requirements through 2005:

- * \$463 million in 2001;
- * \$162 million in 2002;
- * \$99 million in 2003;
- * \$205 million in 2004; and
- * \$400 million in 2005.

First mortgage bondholders share a lien on substantially all utility plant assets (other than nuclear fuel and transportation equipment). The mortgage bond indenture restricts the payment of common stock dividends under certain conditions. These conditions did not exist at December 31, 2000.

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. PREFERRED STOCK OF APS

On March 1, 1999, APS redeemed all of its preferred stock. Preferred stock balances of APS at December 31, 2000 and 1999 were zero. Redeemable preferred stock transactions of APS during each of the three years in the period ended December 31, 2000 are as follows:

(dollars in thousands)

	Number of Shares	Par Value Amount
	-----	-----
Balance, December 31, 1997	291,098	\$ 29,110
Retirements		
\$10.00 Series U	(197,087)	(19,709)
	-----	-----
Balance, December 31, 1998	94,011	9,401
Retirements		
\$10.00 Series U	(94,011)	(9,401)
	-----	-----
Balance, December 31, 1999	--	--
	-----	-----
Balance, December 31, 2000	--	\$ --
	=====	=====

8. COMMON STOCK

Our common stock issued during each of the three years in the period ended December 31, 2000 is as follows:

(dollars in thousands)

	Number of Shares	Amount
	-----	-----
Balance, December 31, 1997	84,824,947	\$ 1,553,771
Common stock expense	--	(3,128) (a)
	-----	-----
Balance, December 31, 1998	84,824,947	1,550,643
Common stock expense	--	(13,194) (a)
	-----	-----
Balance, December 31, 1999	84,824,947	1,537,449
Common stock expense	--	(4,618)
	-----	-----
Balance, December 31, 2000	84,824,947	\$ 1,532,831
	=====	=====

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

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. RETIREMENT PLANS AND OTHER BENEFITS

PENSION PLANS

Through 1999, Pinnacle West and its subsidiaries each sponsored defined benefit pension plans for their own employees. As of January 1, 2000, these plans were consolidated and now a single pension plan is sponsored by Pinnacle West for the employees of Pinnacle West and its subsidiaries. A defined benefit plan specifies the amount of benefits a plan participant is to receive using information about the participant. The plan covers nearly all of our employees. Our employees do not contribute to this plan. Generally, we calculate the benefits under these plans based on age, years of service, and pay. We fund the plan by contributing at least the minimum amount required under Internal Revenue Service regulations but no more than the maximum tax-deductible amount. The assets in the plan at December 31, 2000 were mostly domestic and international common stocks and bonds and real estate.

Pension expense, including administrative costs, was:

* \$2 million in 2000;

* \$4 million in 1999; and

* \$11 million in 1998.

The following table shows the components of net pension cost before consideration of amounts capitalized or billed to others:

(dollars in thousands)

	2000	1999	1998
	-----	-----	-----
Service cost - benefits earned during the period	\$ 24,955	\$ 24,982	\$ 24,817
Interest cost on projected benefit obligation	58,361	52,905	51,524
Expected return on plan assets	(77,231)	(68,335)	(54,513)
Amortization of:			
Transition asset	(3,227)	(3,226)	(3,226)
Prior service cost	2,078	2,078	2,078
Net actuarial gain	(1,633)	--	--
	-----	-----	-----
Net periodic pension cost	\$ 3,303	\$ 8,404	\$ 20,680
	=====	=====	=====

The following table shows a reconciliation of the funded status of the plans to the amounts recognized in the balance sheets:

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands)

	2000	1999
	-----	-----
Funded status - pension plan assets more than (less than) projected benefit obligation	\$ (20,730)	\$ 37,275
Unrecognized net transition asset	(16,781)	(20,008)
Unrecognized prior service cost	18,558	20,636
Unrecognized net actuarial gains	(23,816)	(101,153)
	-----	-----
Net pension liability recognized in the balance sheets	\$ (42,769)	\$ (63,250)
	=====	=====

The following table sets forth the defined benefit pension plans' change in projected benefit obligation for the plan years 2000 and 1999:

(dollars in thousands)

	2000	1999
	-----	-----
Projected pension benefit obligation at beginning of year	\$ 742,638	\$ 731,305
Service cost	24,955	24,982
Interest cost	58,361	52,905
Benefit payments	(30,568)	(29,694)
Actuarial (gains)/losses	540	(36,860)
	-----	-----
Projected pension benefit obligation at end of year	\$ 795,926	\$ 742,638
	=====	=====

The following table sets forth the defined benefit pension plans' change in the fair value of plan assets for the plan years 2000 and 1999:

(dollars in thousands)

	2000	1999
	-----	-----
Fair value of pension plan assets at beginning of year	\$ 779,913	\$ 690,271
Actual return on plan assets	1,851	93,977
Employer contributions	24,000	25,359
Benefit payments	(30,568)	(29,694)
	-----	-----
Fair value of pension plan assets at end of year	\$ 775,196	\$ 779,913
	=====	=====

We made the assumptions below to calculate the pension liability:

	2000	1999
	-----	-----
Discount rate	7.75%	7.75%
Rate of increase in compensation levels	4.25%	4.25%
Expected long-term rate of return on assets	10.00%	10.00%

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

EMPLOYEE SAVINGS PLAN BENEFITS

Through 1999, Pinnacle West and its subsidiaries each sponsored defined contribution savings plans for their own employees. As of January 1, 2000, these plans were consolidated and now a single defined contribution savings plan is sponsored by Pinnacle West for the employees of Pinnacle West and its subsidiaries. In a defined contribution plan, the benefits a participant will receive result from regular contributions they make to a participant account. Under this plan, we make matching contributions to participant accounts. We recorded expenses for this plan of approximately \$4 million for 2000, 1999, and 1998.

POSTRETIREMENT PLANS

We provide medical and life insurance benefits to retired employees. Employees must retire to become eligible for these retirement benefits, which are based on years of service and age. For the medical insurance plans, retirees make contributions to cover a portion of the plan costs. For the life insurance plan, retirees do not make contributions to cover a portion of the plan costs. We retain 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 was:

- * \$ 3 million for 2000;
- * \$ 7 million for 1999; and
- * \$ 9 million for 1998.

The following table shows the components of net periodic postretirement benefit costs before consideration of amounts capitalized or billed to others:

	(dollars in thousands)		
	2000	1999	1998
	-----	-----	-----
Service cost - benefits earned during the period	\$ 8,613	\$ 8,939	\$ 7,890
Interest cost on accumulated benefit obligation	19,315	17,366	15,763
Expected return on plan assets	(22,381)	(18,454)	(12,001)
Amortization of:			
Transition obligation	7,698	7,698	7,698
Net actuarial gains	(7,983)	(5,117)	(2,952)
	-----	-----	-----
Net periodic postretirement benefit cost	\$ 5,262	\$ 10,432	\$ 16,398
	=====	=====	=====

The following table shows a reconciliation of the funded status of the plan to the amounts recognized in the balance sheets:

PINNACLE WEST CAPITAL CORPORATION
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(dollars in thousands)

	2000	1999
	-----	-----
Funded status - postretirement plan assets more than (less than) projected benefit obligation	\$ (14,851)	\$ 25,549
Unrecognized net obligation at transition	92,446	100,145
Unrecognized net actuarial gains	(81,280)	(128,309)
	-----	-----
Net postretirement amount recognized in the balance sheets	\$ (3,685)	\$ (2,615)
	=====	=====

The following table sets forth the postretirement benefit plans' change in accumulated benefit obligation for the plan years 2000 and 1999:

(dollars in thousands)

	2000	1999
	-----	-----
Accumulated postretirement benefit obligation at beginning of year	\$ 231,989	\$ 237,679
Service cost	8,613	8,939
Interest cost	19,315	17,366
Benefit payments	(8,905)	(8,761)
Actuarial (gains) losses	12,994	(23,234)
	-----	-----
Accumulated postretirement benefit obligation at end of year	\$ 264,006	\$ 231,989
	=====	=====

The following table sets forth the postretirement benefit plans' change in the fair value of plan assets for the plan years 2000 and 1999:

(dollars in thousands)

	2000	1999
	-----	-----
Fair value of postretirement plan assets at beginning of year	\$ 257,538	\$ 213,410
Actual return on plan assets	(4,436)	42,975
Employer contributions	4,958	9,914
Benefit payments	(8,906)	(8,761)
	-----	-----
Fair value of postretirement plan assets at the end of year	\$ 249,154	\$ 257,538
	=====	=====

We made the assumptions below to calculate the postretirement liability:

	2000	1999
	-----	-----
Discount rate	7.75%	7.75%
Expected long-term rate of return on assets - after tax	8.77%	8.77%
Initial health care cost trend rate - under age 65	7.00%	7.00%
Initial health care cost trend rate - age 65 and over	6.00%	6.00%
Ultimate health care cost trend rate (reached in the year 2002)	5.00%	5.00%

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table shows the effect of a 1% increase or decrease in the health care cost trend rate:

(dollars in millions)

	1% increase	1% decrease
Effect on 2000 cost of postretirement benefits other than pensions	\$ 5	\$ (4)
Effect on the accumulated postretirement benefit obligation at December 31, 2000	43	(34)

10. LEASES

In 1986, APS sold about 42% of its share of Palo Verde Unit 2 and certain common facilities in three separate sale leaseback transactions. APS accounts for these leases as operating leases. The gain of approximately \$140 million was deferred and is being amortized to operations expense over 29.5 years, the original term of the leases. There are options to renew the leases for two additional years and to purchase the property for fair market value at the end of the lease terms. 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.

The average amounts to be paid for the Palo Verde Unit 2 leases are approximately \$49 million per year for the years 2001-2015.

In accordance with the 1999 Settlement Agreement, APS is continuing to accelerate amortization of the regulatory asset for leases over an eight-year period that will end June 30, 2004 (see Note 1). The accelerated amortization is included in depreciation and amortization expense on the Statements of Income. The balance of this regulatory asset at December 31, 2000 was \$33 million.

In December 2000, APS purchased Units 1, 2, and 3 of West Phoenix Power Plant. These units were previously reflected as a capital lease.

In addition, we lease certain land, buildings, equipment, and miscellaneous other items through operating rental agreements with varying terms, provisions, and expiration dates.

Total lease expense was \$58 million in 2000, \$52 million in 1999, and \$55 million in 1998.

Estimated future minimum lease commitments, are approximately \$67 million for each of the years 2001 to 2005 and \$663 million thereafter.

11. JOINTLY-OWNED FACILITIES

APS shares ownership of some of its generating and transmission facilities with other companies. The following table shows APS' interest in those jointly-owned facilities at December 31, 2000. APS' share of operating and maintaining these facilities is included in the income statement in operations and maintenance expense.

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	PERCENT OWNED BY COMPANY -----	PLANT IN SERVICE -----	ACCUMULATED DEPRECIATION -----	CONSTRUCTION WORK IN PROGRESS -----
(dollars in thousands)				
Generating Facilities:				
Palo Verde Nuclear Generating Station Units 1 and 3	29.1%	\$1,824,480	\$ 814,693	\$ 7,414
Palo Verde Nuclear Generating Station Unit 2 (see Note 10)	17.0%	571,573	265,571	29,593
Four Corners Steam Generating Station Units 4 and 5	15.0%	152,717	75,797	--
Navajo Steam Generating Station Units 1, 2, and 3	14.0%	231,509	99,623	4,899
Cholla Steam Generating Station Common Facilities (a)	62.8%(b)	73,382	40,023	686
Transmission Facilities:				
ANPP 500KV System	35.8%(b)	67,987	22,813	--
Navajo Southern System	31.4%(b)	27,290	17,804	55
Palo Verde-Yuma 500KV System	23.9%(b)	9,712	3,844	1
Four Corners Switchyards	27.5%(b)	3,071	1,925	--
Phoenix-Mead System	17.1%(b)	36,418	2,681	--
Palo Verde - Estrella 500KV System	50.0%(b)	--	--	610

(a) PacifiCorp owns Cholla Unit 4 and APS operates the unit for them. The common facilities at the Cholla Plant are jointly-owned.

(b) Weighted average of interests.

12. COMMITMENTS AND CONTINGENCIES

LITIGATION

We are party to various claims, legal actions, and complaints arising in the ordinary course of business. In our opinion, the ultimate resolution of these matters will not have a material adverse effect on our financial statements.

POWER SERVICE AGREEMENT

APS is a party to a power service agreement with Citizens Communications Company (Citizens) under which APS supplies Citizens with power. By letter dated March 7, 2001, Citizens advised APS that it believes APS has overcharged Citizens by over \$50 million under the agreement since the summer of 2000. APS believes that its charges to Citizens under the agreement are fully in accordance with the terms of the agreement and APS will vigorously defend any contrary claims raised by Citizens.

PALO VERDE NUCLEAR GENERATING STATION

Pursuant to the Nuclear Waste Policy Act of 1982, the DOE must accept and dispose of all spent nuclear fuel and other high-level radioactive wastes generated by domestic power reactors. The United States Nuclear Regulatory Commission (NRC) requires operators of nuclear power reactors to enter into spent fuel disposal contracts with the DOE. Under the Nuclear Waste Policy Act

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of 1982, the DOE was to develop a permanent repository for the storage and disposal of spent nuclear fuel by 1998. The DOE has announced that such a permanent repository cannot be completed before 2010, and that it does not intend to begin accepting spent fuel prior to that date.

In November 1997, the United States Court of Appeals for the District of Columbia Circuit (D.C. Circuit) issued a decision precluding the DOE from excusing its own delay, but refused to order the DOE to begin accepting spent nuclear fuel. Based on this decision, a number of utilities filed damages actions against DOE in the Court of Federal Claims. In decisions that became final in December 2000, the United States Court of Appeals for the Federal Circuit held that utilities do not have to exhaust the DOE administrative claims before filing lawsuits for damages against the DOE in the Court of Federal Claims.

APS has existing fuel storage pools at Palo Verde and is in the process of completing construction of a new facility for on-site dry storage of spent fuel. With the existing storage pools and the addition of the new facility, APS believes that spent fuel storage or disposal methods will be available for use by Palo Verde to allow its continued operation through the term of the operating license for each Palo Verde unit.

Although some low-level waste has been stored on-site in a low-level waste facility, 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.

APS currently estimates that it will incur \$113 million (in 2000 dollars) over the life of Palo Verde for its share of the costs related to the on-site interim storage of spent nuclear fuel. As of December 31, 2000, APS had recorded a liability and regulatory asset of \$40 million for on-site interim nuclear fuel storage costs related to nuclear fuel burned to date.

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 \$88 million, subject to an annual limit of \$10 million per incident. Based upon our interest in the three Palo Verde units, our maximum potential assessment per incident for all three units is approximately \$77 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.

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FUEL AND PURCHASED POWER COMMITMENTS

APS is a party to various fuel and purchased power contracts with terms expiring from 2001 through 2021 that include required purchase provisions. APS estimates its contract requirements to be approximately \$277 million in 2001; \$145 million in 2002; \$90 million in 2003; \$83 million in 2004; and \$55 million in 2005. However, this amount may vary significantly pursuant to certain provisions in such contracts that permit APS to decrease its required purchases under certain circumstances.

APS must reimburse certain coal providers for amounts incurred for coal mine reclamation. APS estimates its share of the total obligation to be about \$103 million. The portion of the coal mine reclamation obligation related to coal already burned is about \$58 million at December 31, 2000 and is included in deferred credits-other in the Balance Sheet.

A regulatory asset has been established for amounts not yet recovered from ratepayers. In accordance with the 1999 Settlement Agreement with the ACC, APS is continuing to accelerate the amortization of the regulatory asset for coal mine reclamation over an eight-year period that will end June 30, 2004. Amortization is included in depreciation and amortization expense on the Statements of Income. The balance of the regulatory asset at December 31, 2000 was about \$32 million.

CALIFORNIA ENERGY MARKET ISSUES

SCE and PG&E have publicly disclosed that their liquidity has been materially and adversely affected because of, among other things, their inability to pass on to ratepayers the prices each has paid for energy and ancillary services procured through the PX and the ISO.

We are closely monitoring developments in the California energy market and the potential impact of these developments on us and our subsidiaries. We have evaluated, among other things, SCE's role as a Palo Verde and Four Corners participant; APS' transactions with the PX and the ISO; contractual relationships with SCE and PG&E; APS Energy Services' retail transactions involving SCE and PG&E; and power marketing exposures. Based upon the financial transactions to date, we do not believe the foregoing matters will have a material adverse effect on our financial position or liquidity. We cannot predict with certainty, however, the impact that any future resolution or attempted resolution, of the California energy market situation may have on us or our subsidiaries or the regional energy market in general.

See "Generation Expansion" below for a discussion of Pinnacle West Energy's agreement to purchase SCE's Palo Verde interest.

CONSTRUCTION PROGRAM

Consolidated capital expenditures in 2001 are estimated at:

CAPITAL EXPENDITURES
(dollars in millions)

	2001
APS	\$ 455
Pinnacle West Energy	659
SunCor	75
Other	21

Total	\$ 1,210
	=====

PINNACLE WEST CAPITAL CORPORATION
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GENERATION EXPANSION

Pinnacle West Energy has announced plans to build and acquire up to 2,800 MW of generating capacity from 2001-2006 at an estimated cost of about \$1.3 billion.

Pinnacle West Energy is also considering additional expansion over the next several years, which may result in additional expenditures. Pinnacle West Energy's expenditures are expected to be funded through internally generated cash and debt issued directly by Pinnacle West Energy, as well as capital infusions from Pinnacle West's internally generated cash and debt proceeds.

Pinnacle West Energy is currently planning a 650-megawatt expansion of the West Phoenix Power Plant and the construction of a natural gas-fired electric generating station of up to four, 530 MW units, near Palo Verde, called Redhawk. Construction on the 120 MW West Phoenix Unit 4 began in June 2000, with commercial operation of the unit expected in the summer of 2001. Pinnacle West Energy expects construction to begin on the 530 MW Unit 5 in the fall of 2001, with commercial operation beginning in mid-2003. Construction began on the first two units of Redhawk in December 2000, and commercial operation is scheduled for the summer of 2002.

Pinnacle West Energy has entered into an agreement with NPC to purchase NPC's 72 MW gas-fired Harry Allen Power Station about 30 miles northeast of Las Vegas, Nevada, for a net purchase price, after adjustments for purchased power commitments, of approximately \$65.2 million. The purchase is subject to filing with and/or approval of various regulatory agencies, including FERC and the NPUC. The filing with the NPUC was made in February 2001. NPC will have the right, but not the obligation, to purchase the output from the Harry Allen plant at market rates, subject to a floor and a cap. As demand grows in the region during the next five years, Pinnacle West Energy expects to add a 480 MW gas-fired, combined cycle unit to the site. The Governor of Nevada has recently requested that the NPUC reexamine the divestiture of generation. The timing and result of any action by the NPUC is not yet known.

On April 27, 2000, Pinnacle West Energy entered into two separate agreements with SCE to purchase SCE's 15.8% ownership interest in Palo Verde and its 48% ownership interest in the Four Corners Power Plant. Consistent with the agreements, on January 5, 2001, Pinnacle West Energy informed SCE that it would not match a competing bid that SCE received for its Four Corners ownership interest. Therefore, Pinnacle West Energy will not purchase SCE's Four Corners interest under the April 2000 agreement unless the Palo Verde transaction closes, the competing Four Corners transaction does not close, and Pinnacle West Energy acquires the Four Corners interest at the original \$300 million purchase price as a standby purchaser. SCE did not receive any qualified competing bids for its Palo Verde ownership interest, which Pinnacle West Energy agreed to purchase for \$250 million. However, recently-enacted California legislation provides that "no facility for the generation of electricity owned by a public utility may be disposed of prior to January 1, 2006." Unless this California law is amended, Pinnacle West Energy would not be able to acquire SCE's Palo Verde ownership interest pursuant to the original April 2000 agreement.

13. NUCLEAR DECOMMISSIONING COSTS

APS recorded \$11 million for nuclear decommissioning expense in each of the years 2000, 1999, and 1998. APS estimates it will cost about \$1.8 billion (\$493 million in 2000 dollars) to decommission its share of the three Palo Verde units. The decommissioning costs are expected to be

PINNACLE WEST CAPITAL CORPORATION
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incurred over a 14-year period beginning in 2024. APS charges decommissioning costs to expense over each unit's operating license term and includes them in the accumulated depreciation balance until each unit is retired. Nuclear decommissioning costs are recovered in rates.

APS' current estimates are based on a 1998 site-specific study for Palo Verde that assumes the prompt removal/dismantlement method of decommissioning. An independent consultant prepared this study. APS is required to update the study every three years.

To fund the costs APS expects to incur to decommission the plant, APS established external decommissioning trusts in accordance with NRC regulations. The trust accounts are reported in investments and other assets on the Consolidated Balance Sheets at their market value of \$205 million at December 31, 2000 and \$176 million at December 31, 1999. APS invests the trust funds primarily in fixed income securities and domestic stock and classifies them as available for sale. Realized and unrealized gains and losses are reflected in accumulated depreciation.

See Note 2 for a proposed accounting standard on accounting for certain liabilities related to closure or removal of long-lived assets.

14. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Consolidated quarterly financial information for 2000 and 1999 is as follows:

(dollars in thousands, except per share amounts)

QUARTER ENDED	2000			
	March 31	June 30	September 30	December 31
Operating revenues				
Electric	\$446,228	\$720,174	\$1,567,960	\$797,448
Real estate	41,889	36,374	39,396	40,706
Operating income (a)	\$ 96,271	\$201,153	\$ 256,001	\$122,546
Net income	\$ 54,070	\$ 89,901	\$ 116,049	\$ 42,312
Earnings per average common share outstanding				
Net income - basic	\$ 0.64	\$ 1.06	\$ 1.37	\$ 0.50
Net income - diluted	\$ 0.64	\$ 1.06	\$ 1.37	\$ 0.50
Dividends declared per share	\$ 0.35	\$ 0.35	\$ 0.35	\$ 0.375

PINNACLE WEST CAPITAL CORPORATION
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(dollars in thousands, except per share amounts)

QUARTER ENDED	1999			
	March 31	June 30	September 30	December 31
Operating revenues				
Electric	\$413,983	\$511,434	\$ 867,630	\$500,137
Real estate	24,533	32,697	26,640	46,299
Operating income (a)	\$ 91,599	\$148,968	\$ 240,294	\$ 97,916
Income from continuing				
Operations	\$ 30,690	\$ 68,702	\$ 125,579	\$ 44,801
Income tax benefit from discontinued operations	--	--	38,000	--
Extraordinary charge - net of income tax	--	--	(139,885)	--
Net income	\$ 30,690	\$ 68,702	\$ 23,694	\$ 44,801
Earnings (loss) per average common share outstanding				
Continuing operations - basic	\$ 0.36	\$ 0.81	\$ 1.48	\$ 0.53
Discontinued operations - Basic	--	--	0.45	--
Extraordinary charge - basic	--	--	(1.65)	--
Net Income - basic	\$ 0.36	\$ 0.81	\$ 0.28	\$ 0.53
Continuing operations - diluted	\$ 0.36	\$ 0.81	\$ 1.48	\$ 0.53
Discontinued operations - Diluted	--	--	0.45	--
Extraordinary charge - diluted	--	--	(1.65)	--
Net Income - diluted	\$ 0.36	\$ 0.81	\$ 0.28	\$ 0.53
Dividends declared per share (b)	\$ 0.325	\$ 0.65	\$ --	\$ 0.35

(a) Electric revenues are seasonal in nature, with the peak sales periods generally occurring during the summer months. Comparisons among quarters of a year may not represent overall trends and changes in operations.

(b) Dividends for the quarter ending September 30, 1999 were declared in June 1999.

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

We believe that the carrying amounts of our cash equivalents and commercial paper are reasonable estimates of their fair values at December 31, 2000 and 1999 due to their short maturities.

We hold investments in debt and equity securities for purposes other than trading. The December 31, 2000 and 1999 fair values of such investments, which we determine by using quoted market values, approximate their carrying amount.

The carrying value of our long-term debt (excluding a capitalized lease obligation) was \$2.42 billion on December 31, 2000, with an estimated fair value of \$2.48 billion. On December 31, 1999, the carrying value of our long-term debt (excluding a capitalized lease obligation) was \$2.31 billion, with an estimated fair value of \$2.29 billion. The fair value estimates are based on quoted market prices of the same or similar issues.

16. EARNINGS PER SHARE

The following table presents earnings per average common share outstanding (EPS):

	2000	1999	1998
	-----	-----	-----
Basic EPS:			
Continuing operations	\$3.57	\$3.18	\$2.87
Discontinued operations	--	0.45	--
Extraordinary charge	--	(1.65)	--
	-----	-----	-----
Net income	\$3.57	\$1.98	\$2.87
	=====	=====	=====
Diluted EPS:			
Continuing operations	\$3.56	\$3.17	\$2.85
Discontinued operations	--	0.45	--
Extraordinary charge	--	(1.65)	--
	-----	-----	-----
Net income	\$3.56	\$1.97	\$2.85
	=====	=====	=====

Dilutive stock options increased average common shares outstanding by 202,738 shares in 2000, 291,392 shares in 1999, and 571,728 shares in 1998. Total average common shares outstanding for the purposes of calculating diluted earnings per share were 84,935,282 shares in 2000, 85,008,527 shares in 1999, and 85,345,946 shares in 1998.

Options to purchase 517,614 shares of common stock were outstanding at December 31, 2000 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. Options to purchase shares of common stock that were not included in the computation of diluted EPS were 506,734 at December 31, 1999 and 244,200 at December 31, 1998.

17. STOCK-BASED COMPENSATION

Pinnacle West offers two stock incentive plans for our and our subsidiaries' officers and key employees.

The plan provides for the granting of new options (which may be non-qualified stock options or incentive stock options) of up to 3.5 million shares at a price per option not less than the fair market value on the date the option is granted. Options vest one-third of the grant per year beginning one year after the date the option is granted and expire ten years from the date of the grant. The plan also provides for the granting of any combination of shares of restricted stock, stock appreciation rights or dividend equivalents.

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The awards outstanding under the incentive plans at December 31, 2000 approximate 1,569,171 non-qualified stock options, 193,992 shares of restricted stock, and no incentive stock options, stock appreciation rights or dividend equivalents.

The FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation" which was effective beginning in 1996. The statement encourages, but does not require, that a company record compensation expense based on the fair value of options granted (the fair value method). We continue to recognize expense based on Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees."

If we had recorded compensation expense based on the fair value method, our net income and earnings per share would have been reduced to the following pro forma amounts:

(dollars in thousands)

	2000	1999	1998
	-----	-----	-----
Net income			
As reported	\$ 302,332	\$ 167,887	\$ 242,892
Pro forma (fair value method)	\$ 301,102	\$ 166,913	\$ 242,177
Earnings per share - basic			
As reported	\$ 3.57	\$ 1.98	\$ 2.87
Pro forma (fair value method)	\$ 3.55	\$ 1.97	\$ 2.86

In order to present the pro forma information above, we calculated the fair value of each fixed stock option in the incentive plans using the Black-Scholes option-pricing model. The fair value was calculated based on the date the option was granted. The following weighted-average assumptions were also used in order to calculate the fair value of the stock options:

	2000	1999	1998
	----	----	----
Risk-free interest rate	5.81%	5.68%	4.54%
Dividend yield	3.48%	3.33%	3.03%
Volatility	32.00%	20.50%	18.80%
Expected life (months)	60	60	60

The following table is a summary of the status of our stock option plans as of December 31, 2000, 1999, and 1998 and changes during the years ending on those dates:

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2000	2000 Weighted Average Exercise Price	1999	1999 Weighted Average Exercise Price	1998	1998 Weighted Average Exercise Price
	Shares		Shares		Shares	
	-----	-----	-----	-----	-----	-----
Outstanding at Beginning of year	1,441,124	\$33.45	1,563,512	\$27.95	1,554,631	\$24.38
Granted	451,450	43.28	458,450	35.95	244,200	46.78
Exercised	(283,819)	20.90	(516,838)	18.19	(217,317)	23.09
Forfeited	(39,584)	39.86	(64,000)	40.36	(18,002)	33.42
	-----		-----		-----	
Outstanding at end of year	1,569,171	37.55	1,441,124	33.45	1,563,512	27.95
	-----		-----		-----	
Options exercisable at year-end	831,537	34.37	835,381	29.69	1,106,165	22.04
	-----		-----		-----	
Weighted average fair value of options granted during the year		11.81		7.05		8.15

The following table summarizes information about our stock option plans at December 31, 2000:

Exercise Prices Per Share	Options Outstanding	Weighted Average Remaining Contract Life (Years)	Options Exercisable
-----	-----	-----	-----
\$10.06	7,000	.50	7,000
15.75	10,000	.90	10,000
17.68	4,900	1.10	4,900
18.13	14,000	1.50	14,000
19.00	58,618	3.90	58,618
19.56	15,000	1.90	15,000
22.13	33,250	3.00	33,250
23.25	14,000	2.50	14,000
27.16	20,000	9.20	5,000
27.44	84,918	4.90	84,918
31.44	87,335	5.90	87,335
34.66	327,113	8.90	118,124
36.56	5,000	8.80	2,083
39.75	170,636	7.00	170,636
41.00	70,000	8.10	44,722
44.03	431,450	9.90	11,985
46.78	215,951	7.90	149,966
	-----		-----
\$10.06-\$46.78	1,569,171		831,537
	=====		=====

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. BUSINESS SEGMENTS

We have two principal business segments (determined by products, services and regulatory environment) which consist of the transmission and distribution of electricity and wholesale activities (delivery business segment) and the generation of electricity (generation business segment). The other amounts include activity relating to the parent company and other subsidiaries including APS Energy Services, SunCor and El Dorado. Eliminations primarily relate to intersegment sales of electricity. Financial data for the business segments is provided as follows:

Business Segments For Year Ended December 31, 2000

(dollars in thousands)

	Generation	Delivery	Other	Eliminations	Total
Operating revenues	\$ 990,415	\$3,531,810	\$ 158,365	\$ (990,415)	\$3,690,175
Operating expense	600,389	2,871,329	138,677	(990,415)	2,619,980
Operating margin	390,026	660,481	19,688	--	1,070,195
Depreciation and amortization	125,220	263,446	5,744	--	394,410
Interest	41,808	96,081	11,712	--	149,601
Pretax margin	222,998	300,954	2,232	--	526,184
Income taxes	87,828	134,692	1,332	--	223,852
Earnings for common stock	\$ 135,170	\$ 166,262	\$ 900	\$ --	\$ 302,332
Total assets	\$2,606,046	\$4,068,510	\$ 474,595	\$ --	\$7,149,151
Capital expenditures	\$ 379,761	\$ 285,455	\$ 49,949	\$ --	\$ 715,165

Business Segments For Year Ended December 31, 1999

(dollars in thousands)

	Generation	Delivery	Other	Eliminations	Total
Operating revenues	\$ 853,755	\$ 2,292,798	\$ 130,555	\$ (853,755)	\$ 2,423,353
Operating expense	522,925	1,672,169	106,876	(853,755)	1,448,215
Operating margin	330,830	620,629	23,679	--	975,138
Depreciation and amortization	121,683	260,374	3,511	--	385,568
Interest and preferred stock dividend requirements	40,753	101,855	9,125	--	151,733
Pretax margin	168,394	258,400	11,043	--	437,837
Income taxes	47,976	111,512	8,577	--	168,065
Income tax benefit from discontinued operations - PNW	--	--	38,000	--	38,000
Extraordinary charge - net of income tax of \$94,115	--	(139,885)	--	--	(139,885)
Earnings for common stock	\$ 120,418	\$ 7,003	\$ 40,466	\$ --	\$ 167,887
Total assets	\$ 2,342,291	\$ 3,795,846	\$ 470,369	\$ --	\$ 6,608,506
Capital expenditures	\$ 110,798	\$ 241,469	\$ 126,581	\$ --	\$ 478,848

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Business Segments For Year Ended December 31, 1998
(dollars in thousands)

	Generation -----	Delivery -----	Other -----	Eliminations -----	Total -----
Operating revenues	\$ 858,340	\$ 2,006,398	\$ 124,188	\$ (858,340)	\$ 2,130,586
Operating expense	522,696	1,414,753	104,061	(858,340)	1,183,170
Operating margin	335,644	591,645	20,127	--	947,416
Depreciation and amortization	135,406	241,168	3,105	--	379,679
Interest and preferred stock dividend requirements	37,045	108,670	14,537	--	160,252
Pretax margin	163,193	241,807	2,485	--	407,485
Income taxes	49,969	109,487	5,137	--	164,593
Earnings for common stock	\$ 113,224	\$ 132,320	\$ (2,652)	\$ --	\$ 242,892
Total assets	\$ 2,399,560	\$ 3,993,740	\$ 431,246	\$ --	\$ 6,824,546
Capital expenditures	\$ 85,767	\$ 241,638	\$ 73,133	\$ --	\$ 400,538

PINNACLE WEST CAPITAL CORPORATION
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

Description -----	Balance at beginning of period -----	Additions -----		Deductions(a) -----	Balance at end of Period -----
		Charged to cost and expenses -----	Charged to other accounts -----		
(dollars in thousands)					
	YEAR ENDED	DECEMBER 31,	2000		
Real Estate Valuation Reserves	\$ 8,000	\$ --	\$ --	\$ 6,000	\$ 2,000
	YEAR ENDED	DECEMBER 31,	1999		
Real Estate Valuation Reserves	\$ 15,000	\$ --	\$ --	\$ 7,000	\$ 8,000
	YEAR ENDED	DECEMBER 31,	1998		
Real Estate Valuation Reserves	\$ 23,000	\$ --	\$ --	\$ 8,000	\$ 15,000

(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" and to "Other Matters - Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's Proxy Statement relating to the Annual Meeting of Shareholders to be held on May 23, 2001 (the 2001 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 "Directors' Compensation," "Human Resources Committee Report on Executive Compensation," "Stock Performance Comparisons," "Executive Compensation," "Option Grants, Exercise, and Holdings," and "Executive Benefit Plans" in the 2001 Proxy Statement.

**ITEM 12. SECURITY OWNERSHIP OF
CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

Reference is hereby made to "Security Ownership of Certain Beneficial Owners and Management" in the 2001 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Reference is hereby made to "Executive Benefit Plans - Employment and Severance Arrangements" and "Other Matters -Business Relationship" in the 2001 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	--	2001 Management Variable Incentive Plan (Pinnacle West)
10.2a	--	2001 Senior Management Variable Incentive Plan (Pinnacle West)
10.3a	--	2001 Officer Variable Incentive Plan (Pinnacle West)
10.4a	--	2001 Management Variable Incentive Plan (APS)
10.5a	--	2001 Senior Management Variable Incentive Plan (APS)
10.6a	--	2001 Officers Variable Incentive Plan (APS)
10.7	--	Four Corners Project Co-Tenancy Agreement Amendment No. 6
10.8a	--	Sixth Amendment to Arizona Public Service Company Deferred Compensation Plan
12.1	--	Ratio of Earnings to Fixed Charges
21.1	--	Subsidiaries of the Company
23.1	--	Consent of Deloitte & Touche LLP

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 -----
3.1	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

EXHIBIT NO. -----	DESCRIPTION -----	ORIGINALLY FILED AS EXHIBIT: -----	FILE NO. (b) -----	DATE EFFECTIVE -----
3.2	Bylaws, amended as of December 15, 1999	4.1 to the Company's Registration Statement on Form S-8 No. 333-95035	1-8962	1-20-00
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
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

EXHIBIT NO. -----	DESCRIPTION -----	ORIGINALLY FILED AS EXHIBIT: -----	FILE NO. (b) -----	DATE EFFECTIVE -----
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
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	Indenture dated as of December 1, 2000 between the Company and The Bank of New York, as Trustee, relating to Senior Debt Securities	4.1 to the Company's Registration Statement No. 333-53150	1-8962	1-25-01
4.16	Indenture dated as of December 1, 2000 between the Company and The Bank of New York, as Trustee, relating to subordinated Debt Securities	4.2 to the Company's Registration Statement No. 333-53150	1-8962	1-25-01

EXHIBIT NO. -----	DESCRIPTION -----	ORIGINALLY FILED AS EXHIBIT: -----	FILE NO. (b) -----	DATE EFFECTIVE -----
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
4.19	Indenture dated as of January 15, 1998 among APS and Chase Manhattan Bank, as Trustee	4.10 to APS' Registration The 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
4.21	Second Supplemental Indenture dated as of February 15, 1999	4.3 to APS' Registration Statement Nos. 333-27551 and 333-58445 by means of February 18, 1999 Form 8-K Report	1-4473	2-22-99
4.22	Third Supplemental Indenture dated as of November 1, 1999	4.5 to APS' Registration Statement No. 333-58445 by means of November 2, 1999 Form 8-K Report	1-4473	11-5-99

EXHIBIT NO. -----	DESCRIPTION -----	ORIGINALLY FILED AS EXHIBIT: -----	FILE NO. (b) -----	DATE EFFECTIVE -----
4.23	Amended and Restated Rights Agreement, dated as of March 26, 1999, between Pinnacle West Capital Corporation and BankBoston, N.A., as Rights Agent, including (i) as Exhibit A thereto the form of Amended Certificate of Designation of Series A Participating Preferred Stock of Pinnacle West Capital Corporation, (ii) as Exhibit B thereto the form of Rights Certificate and (iii) as Exhibit C thereto the Summary of Right to Purchase Preferred Shares	4.1 to the Company's March 22, 1999 Form 8-K Report	1-8962	4-19-99
10.9	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
10.10	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
10.11	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
10.12	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
10.13	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

EXHIBIT NO. -----	DESCRIPTION -----	ORIGINALLY FILED AS EXHIBIT: -----	FILE NO. (b) -----	DATE EFFECTIVE -----
10.14	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
10.15	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
10.16	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
10.17	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
10.18	Amendment No. 4 to Amended and Restated Decommissioning Trust Agreement (PVNGS Unit 2) dated as of January 31, 1992	APS 10.5 to APS' 1996 Form 10-K Report	1-4473	3-28-97

EXHIBIT NO. -----	DESCRIPTION -----	ORIGINALLY FILED AS EXHIBIT: -----	FILE NO. (b) -----	DATE EFFECTIVE -----
10.19	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
10.20	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
10.21	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
10.22	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
10.23	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
10.24	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	3-29-96

EXHIBIT NO. -----	DESCRIPTION -----	ORIGINALLY FILED AS EXHIBIT: -----	FILE NO. (b) -----	DATE EFFECTIVE -----
10.25	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
10.26	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
10.27	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
10.28	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
10.29	Application and Grant of 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
10.30	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
10.31	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
10.32	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

EXHIBIT NO. -----	DESCRIPTION -----	ORIGINALLY FILED AS EXHIBIT: -----	FILE NO. (b) -----	DATE EFFECTIVE -----
10.33	Indenture of Lease, Navajo Units 1, 2, and 3	5(g) to APS' Form S-7 Registration Statement	2-36505	3-23-70
10.34	Application of Grant of rights-of-way and easements, Navajo Plant	5(h) to APS Form S-7 Registration Statement	2-36505	3-23-70
10.35	Water Service Contract Assignment with the United States Department of Interior, Bureau of Reclamation, Navajo Plant	5(l) to APS' Form S-7 Registration Statement	2-394442	3-16-71
10.36	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

EXHIBIT NO. -----	DESCRIPTION -----	ORIGINALLY FILED AS EXHIBIT: -----	FILE NO. (b) -----	DATE EFFECTIVE -----
10.37	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
10.38	Amendment No. 14 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	99.1 to the Company's June 2000 Form 10-Q Report	1-8962	8-14-00
10.39(c)	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 -----
10.40(c)	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
10.41(c)	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
10.42(c)	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
10.46(a)	Pinnacle West Capital Corporation Supplemental Excess Benefit Retirement Plan, as amended and restated, dated December 7, 1999	10.13 to the Company's 1999 Form 10-K Report	1-8962	3-30-00
10.47(a)	Trust for the Pinnacle West Capital Corporation, Arizona Public Service Company and SunCor Development Company Deferred Compensation Plans dated August 1, 1996	10.14 to the Company's 1999 Form 10-K Report	1-8962	3-30-00
10.48(a)	First Amendment dated December 7, 1999 to the Trust for the Pinnacle West Capital Corporation, Arizona Public Service Company and SunCor Development Company Deferred Compensation Plans	10.15 to the Company's 1999 Form 10-K Report	1-8962	3-30-00

EXHIBIT NO. -----	DESCRIPTION -----	ORIGINALLY FILED AS EXHIBIT: -----	FILE NO. (b) -----	DATE EFFECTIVE -----
10.49(a)	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
10.50(a)	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
10.51(a)	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
10.52(a)	Fourth Amendment dated December 28, 1999 to the Arizona Public Service Company Directors Deferred Compensation Plan	10.8 to the Company's 1999 Form 10-K Report	1-8962	3-30-00
10.53(a)	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
10.54(a)	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
10.55(a)	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

EXHIBIT NO. -----	DESCRIPTION -----	ORIGINALLY FILED AS EXHIBIT: -----	FILE NO. (b) -----	DATE EFFECTIVE -----
10.56(a)	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
10.57(a)	First Amendment effective as of January 1, 1999, to the Pinnacle West Capital Corporation, Arizona Public Service Company, SunCor Development Company and El Dorado Investment Company Deferred Compensation Plan	10.7 to the Company's 1999 Form 10-K Report	1-8962	3-30-00
10.58(a)	Second Amendment effective January 1, 2000 to the Pinnacle West Capital Corporation, Arizona Public Service Company, SunCor Development Company and El Dorado Investment Company Deferred Compensation Plan	10.10 to the Company's 1999 Form 10-K Report	1-8962	3-30-00
10.59(a)	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	3-29-96
10.60(a)	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
10.61(a)	Letter Agreement dated July 28, 1995 between Arizona Public Service Company and Armando B. Flores	10.16 to the Company's 1999 Form 10-K Report	1-8962	3-30-00

EXHIBIT NO. -----	DESCRIPTION -----	ORIGINALLY FILED AS EXHIBIT: -----	FILE NO. (b) -----	DATE EFFECTIVE -----
10.62(a)	Letter Agreement dated October 3, 1997 between Arizona Public Service Company and James M. Levine	10.17 to the Company's 1999 Form 10-K Report	1-8962	3-30-00
10.63(a)	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(a)	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
10.65(a)	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(a)	Letter Agreement between APS and William L. Stewart	10.2 to APS' September 1997 Form 10-Q Report	1-4473	11-12-97
10.67(a)	Letter Agreement dated December 13, 1999 between APS and William L. Stewart			
10.68(a)(d)	Key Executive Employment and Severance Agreement between Pinnacle West and certain executive officers of Pinnacle West and its subsidiaries	10.1 to June 1999 Form 10-Q Report	1-8962	8-16-99
10.69(a)	Pinnacle West Capital Corporation Stock Option and Incentive Plan	10.1 to APS' 1992 Form 10-K Report	1-4473	3-30-93
10.70(a)	First Amendment dated December 7, 1999 to the Pinnacle West Capital Corporation Stock Option and Incentive Plan	10.11 to the Company's 1999 Form 10-K Report	1-8962	3-30-00

EXHIBIT NO. -----	DESCRIPTION -----	ORIGINALLY FILED AS EXHIBIT: -----	FILE NO. (b) -----	DATE EFFECTIVE -----
10.71(a)	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
10.72(a)	First Amendment dated December 7, 1999 to the Pinnacle West Capital Corporation 1994 Long-Term Incentive Plan	10.12 to the Company's 1999 Form 10-K Report	1-8962	3-30-00
10.73(a)	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
10.74(a)	Pinnacle West Capital Corporation 2000 Director Equity Plan	99.1 to the Company's Registration Statement on Form S-8 (No. 333-40796)	1-8962	7-3-00
10.75(a)	Pinnacle West Capital Corporation and Arizona Public Service Company Directors' Retirement Plan, as amended and restated on June 21, 2000	99.2 to the Company's Registration Statement on Form S-8 (No. 333-40796)	1-8962	7-3-00
10.76	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

EXHIBIT NO. -----	DESCRIPTION -----	ORIGINALLY FILED AS EXHIBIT: -----	FILE NO. (b) -----	DATE EFFECTIVE -----
10.77	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 APS' 1991 Form 10-K Report	1-4473	3-19-92
10.78(a)	APS Director Equity Plan	10.1 to September 1997 Form 10-Q Report	1-4473	11-12-97
10.79	Territorial Agreement between the Company and Salt River Project	10.1 to APS' March 1998 Form 10-Q Report	1-4473	5-15-98
10.80	Power Coordination Agreement between the Company and Salt River Project	10.2 to APS' March 1998 Form 10-Q Report	1-4473	5-15-98
10.81	Memorandum of Agreement between the Company and Salt River Project	10.3 to APS' March 1998 Form 10-Q Report	1-4473	5-15-98
10.82	Addendum to Memorandum of Agreement between APS and Salt River Project dated as of May 19, 1998	10.2 to APS' May 19, 1998 Form 8-K Report	1-4473	6-26-98
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

EXHIBIT NO. -----	DESCRIPTION -----	ORIGINALLY FILED AS EXHIBIT: -----	FILE NO. (b) -----	DATE EFFECTIVE -----
99.3(c)	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
99.4(c)	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 -----
99.5(c)	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
99.6(c)	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
99.7(c)	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 -----
99.8(c)	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
99.9(c)	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
99.10(c)	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. 1 on December 3, 1986 Form 8	1-4473	12-4-86
99.11(c)	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
99.20(c)	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
99.27	Retail Electric Competition Rules	10.1 to APS' June 1998 Form 10-Q Report	1-4473	8-14-98
99.28	Arizona Corporation Commission Order, Decision No. 61973, dated October 6, 1999, approving APS' Settlement Agreement	10.1 to APS' September 1999 10-Q Report	1-4473	11-15-99
99.29	Addendum to Settlement Agreement	10.1 to the Company's September 2000 Form 10-Q Report	1-8962	11-14-00
99.29	Arizona Corporation Commission Order, Decision No. 61969, dated September 29, 1999, including the Retail Electric Competition Rules	10.2 to APS' September 1999 10-Q Report	1-4473	11-15-99
99.30	Purchase and Sale Agreement for Palo Verde Nuclear Generating Station by and between Southern California Edison Company and Pinnacle West Energy Corporation, dated as of April 27, 2000	99.1 to the Company's March 2000 Form 10-Q Report	1-8962	5-15-00

EXHIBIT NO. -----	DESCRIPTION -----	ORIGINALLY FILED AS EXHIBIT: -----	FILE NO. (b) -----	DATE EFFECTIVE -----
99.31	Purchase and Sale Agreement for Four Corners Power Plant by and between Southern California Edison Company and Pinnacle West Energy Corporation, dated as of April 27, 2000	99.2 to the Company's March 2000 10-Q Report	1-8962	5-15-00

(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, 2000, and the period ended March 13, 2001, the Company filed the following Reports on Form 8-K:

Report dated October 26, 2000, regarding the written materials presented at an analyst conference in Phoenix, Arizona.

Report dated November 27, 2000, regarding: (i) the Court of Appeals affirming the ACC's approval of the 1999 Settlement Agreement; a Maricopa County Superior Court judge's final judgment related to the Rules; the proposed timing of the transfer of generation assets; and issues related to generation expansion.

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 13, 2001

William J. Post

(William J. Post, 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 ----
William J. Post ----- (William J. Post, Chairman of the Board of Directors and Chief Executive Officer)	Principal Executive Officer and Director	March 13, 2001
Jack E. Davis ----- (Jack E. Davis, President)	President and Director	March 13, 2001
Michael V. Palmeri ----- (Michael V. Palmeri, Vice President, Finance)	Principal Financial Officer	March 13, 2001
Chris N. Froggatt ----- (Chris N. Froggatt, Vice President and Controller)	Principal Accounting Officer	March 13, 2001
Edward N. Basha ----- (Edward N. Basha, Jr.)	Director	March 13, 2001

Michael L. Gallagher ----- (Michael L. Gallagher)	Director	March 13, 2001
Pamela Grant ----- (Pamela Grant)	Director	March 13, 2001
Roy A. Herberger, Jr. ----- (Roy A. Herberger, Jr.)	Director	March 13, 2001
Martha O. Hesse ----- (Martha O. Hesse)	Director	March 13, 2001
William S. Jamieson, Jr. ----- (William S. Jamieson, Jr.)	Director	March 13, 2001
Humberto S. Lopez ----- (Humberto S. Lopez)	Director	March 13, 2001
Robert G. Matlock ----- (Robert G. Matlock)	Director	March 13, 2001
Kathryn L. Munro ----- (Kathryn L. Munro)	Director	March 13, 2001
Bruce J. Nordstrom ----- (Bruce J. Nordstrom)	Director	March 13, 2001

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

EXHIBITS TO

FORM 10-K

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

For the fiscal year ended December 31, 2000

Pinnacle West Capital Corporation

(Exact name of registrant as specified in charter)

INDEX TO EXHIBITS

Exhibit No. -----	Description -----
10.1a --	2000 Management Variable Incentive Plan (Pinnacle West)
10.2a --	2000 Senior Management Variable Incentive Plan (Pinnacle West)
10.3a --	2000 Officer Variable Incentive Plan (Pinnacle West)
10.4a --	2000 Management Variable Incentive Plan (APS)
10.5a --	2000 Senior Management Variable Incentive Plan (APS)
10.6a --	2000 Officers Variable Incentive Plan (APS)
10.7 --	Four Corners Project Co-Tenancy Agreement Amendment No. 6
10.8a --	Sixth Amendment to Arizona Public Service Company Deferred Compensation Plan
12.1 --	Ratio of Earnings to Fixed Charges
21 --	Subsidiaries of the Company
23.1 --	Consent of Deloitte & Touche LLP

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

For a description of the Exhibits incorporated in this filing by reference, see

Part IV, Item 14.

Exhibit 10.1a

Under the Company's 2001 Management Variable Incentive Plan, the Chief Executive Officer of the Company, with the approval of the Human Resources Committee of the Board of Directors, annually designates employees to participate in the program, establishes their participation level, and establishes certain financial and operational goals for the Company which must be satisfied in order for variable pay awards to be made. The impact, if any, of each employee's performance on his or her variable pay award is determined by his or her officer. Subject to final approval by the Human Resources Committee of the Board of Directors, the Chief Executive Officer of the Company also determines at year-end the degree to which those goals have been satisfied and the amount of

variable pay to be awarded to participating employees, if any.

Exhibit 10.2a

Under the Company's 2001 Senior Management Variable Incentive Plan, the Chief Executive Officer of the Company, with the approval of the Human Resources Committee of the Board of Directors, annually designates employees to participate in the program, establishes their participation level, and establishes certain financial and operational goals for the Company which must be satisfied in order for variable pay awards to be made. The impact, if any, of each employee's performance on his or her variable pay award is determined by his or her officer. Subject to final approval by the Human Resources Committee of the Board of Directors, the Chief Executive Officer of the Company also determines at year-end the degree to which those goals have been satisfied and

the amount of variable pay to be awarded to participating employees, if any.

Exhibit 10.3a

Under the Company's 2001 Officers Variable Incentive Plan, the Chief Executive Officer of the Company, with the approval of the Human Resources Committee of the Board of Directors, annually designates the officers who will participate in the program, establishes their participation level, and establishes certain financial and operational goals for the Company which must be satisfied in order for variable pay awards to be made. The impact, if any, of each officer's performance on his or her variable pay award is determined by the Chief Executive Officer of the Company, with the approval of the Human Resources Committee. Subject to final approval by the Human Resources Committee of the Board of Directors, the Chief Executive Officer also determines at year-end the degree to which those goals have been satisfied and the amount of variable pay

to be awarded to participating officers, if any.

Exhibit 10.4a

Under APS' 2001 Management Variable Incentive Plan, the Chief Executive Officer of APS, with the approval of the Human Resources Committee of the Board of Directors, annually designates employees to participate in the program, establishes their participation level, and establishes certain financial and operational goals for APS which must be satisfied in order for variable pay awards to be made. The impact, if any, of each employee's performance on his or her variable pay award is determined by his or her officer. Subject to final approval by the Human Resources Committee of the Board of Directors, the Chief Executive Officer of APS also determines at year-end the degree to which those goals have been satisfied and the amount of variable pay to be awarded to

participating employees, if any.

Exhibit 10.5a

Under APS' 2001 Senior Management Variable Incentive Plan, the Chief Executive Officer of APS, with the approval of the Human Resources Committee of the Board of Directors, annually designates employees to participate in the program, establishes their participation level, and establishes certain financial and operational goals for APS which must be satisfied in order for variable pay awards to be made. The impact, if any, of each employee's performance on his or her variable pay award is determined by his or her officer. Subject to final approval by the Human Resources Committee of the Board of Directors, the Chief Executive Officer of APS also determines at year-end the degree to which those goals have been satisfied and the amount of variable pay to be awarded to

participating employees, if any.

Exhibit 10.6a

Under APS' 2001 Officers Variable Incentive Plan, the Chief Executive Officer of APS, with the approval of the Human Resources Committee of the Board of Directors, annually designates the officers who will participate in the program, establishes their participation level, and establishes certain financial and operational goals for APS which must be satisfied in order for variable pay awards to be made. The impact, if any, of each officer's performance on his or her variable pay award is determined by the Chief Executive Officer of APS, with the approval of the Human Resources Committee. Subject to final approval by the Human Resources Committee of the Board of Directors, the Chief Executive Officer also determines at year-end the degree to which those goals have been satisfied

and the amount of variable pay to be awarded to participating officers, if any.

Exhibit 10.7

FOUR CORNERS PROJECT

**CO-TENANCY AGREEMENT
AMENDMENT NO. 6
AMONG**

**ARIZONA PUBLIC SERVICE COMPANY
EL PASO ELECTRIC COMPANY
PUBLIC SERVICE COMPANY OF NEW MEXICO
SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT
AND POWER DISTRICT
SOUTHERN CALIFORNIA EDISON COMPANY
TUCSON ELECTRIC POWER COMPANY**

EXECUTED ORIGINAL

February 3, 2000

FOUR CORNERS PROJECT

**CO-TENANCY AGREEMENT
AMENDMENT NO. 6**

1 PARTIES:

The parties to this Amendment No. 6 to the Four Corners Project Co-Tenancy Agreement are: ARIZONA PUBLIC SERVICE COMPANY, an Arizona corporation (hereinafter referred to as "Arizona"); EL PASO ELECTRIC COMPANY, a Texas corporation (hereinafter referred to as "El Paso"); PUBLIC SERVICE COMPANY OF NEW MEXICO, a New Mexico corporation (hereinafter referred to as "New Mexico"); SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, an agricultural improvement district, organized and existing under the laws of the State of Arizona (hereinafter referred to as "Salt River Project"); SOUTHERN CALIFORNIA EDISON COMPANY, a California corporation (hereinafter referred to as "Edison"); and TUCSON ELECTRIC POWER COMPANY, an Arizona corporation, formerly known as Tucson Gas & Electric Company (hereinafter referred to as "Tucson"), (collectively hereinafter referred to as the "Participants").

2 RECITALS:

This Amendment No. 6 is made with reference to the following facts, among others:

2.1 As of July 19, 1966, the Participants entered into the Four Corners Project Co-Tenancy Agreement, which has since been amended by Amendment Nos. 1 through 5 (as so amended hereinafter referred to as the "Co-Tenancy Agreement").

2.2 The Participants wish to further amend the Co-Tenancy Agreement in order to:

2.2.1 Revise Section 6.11 to require a selling Participant to give written notice of any changes in ownership and to require the Operating Agent to prepare for signature an amendment reflecting such changes in ownership;

2.2.2 Revise Sections 5.27 and 9.5 to clarify that Participants may only vote on actions or determinations relating to those portions of the Four Corners Project in which they have an ownership interest;

2.2.3 Permit a Participant to transfer in whole or in part its undivided interests in the Four Corners Project to the parent of such Participant or to a wholly owned subsidiary of such parent without triggering Section 13; and

2.2.4 Shorten the notice periods specified in Section 13 and clarify that a Participant's right of first refusal extends only to those portions of the Four Corners Project in which they have an ownership interest.

3 AGREEMENT:

In consideration of the mutual benefits to be derived from this Amendment No. 6, the Participants agree as follows:

4 EFFECTIVE DATE:

This Amendment No. 6 shall be effective upon the date when executed by all of the Participants.

5 DEFINITIONS

Section 5.27 of the Co-Tenancy Agreement is amended to read as follows: /

5.27 Participant(s)

One or more entities, including Arizona, El Paso, New Mexico, Salt River Project, Edison and Tucson, with an ownership interest in the Four Corners Project. Except with respect to any rights, benefits, duties, or obligations expressly provided for in any Project Agreement, a Participant's rights, benefits, duties, and obligations under this Agreement are expressly limited to those rights, benefits, duties, and obligations involving that portion of the Four Corners Project in which the Participant has an ownership interest.

6 OWNERSHIP AND TITLES:

Section 6.11 of the Co-Tenancy Agreement is amended to read as follows:

6.11 In the event that any Participant transfers or assigns any of its right, title or interest (collectively, "interest") in and to the Four Corners Project in accordance with the terms and conditions of this Co-Tenancy Agreement, the Participant assigning or transferring such interest shall, upon completion of such transfer or assignment, provide written notice to the other Participants and the Operating Agent, as defined in the Operating Agreement, of any changes in the interests of that Participant in the Four Corners Project. Upon receipt of such notice, the Operating Agent shall prepare for signature by the Participants an amendment to the Co-Tenancy Agreement reflecting such changes.

7 COORDINATION COMMITTEE:

Section 9.5 of the Co-Tenancy Agreement is amended to read as follows:

9.5 Any action or determination of the Coordination Committee shall require the affirmative vote of all Participants, acting through their respective representatives, that have an ownership interest in that portion of the Four Corners Project that is the subject matter of the action to be taken or the determination to be made. Only those Participants with an ownership interest in the portion of the Four Corners Project that is the subject matter of an action or determination may participate in discussions relating to such actions or determinations; provided, however, that this restriction shall apply only when required by a regulatory authority with jurisdiction over the Participant(s), an applicable code of conduct, or a Participant's reasonable competitive concerns.

8 MORTGAGE AND TRANSFER OF PARTICIPANTS' INTEREST:

8.1 Section 12.3 of the Co-Tenancy Agreement is amended by adding new Sections 12.3.6 and 12.3.7 to read as follows:

12.3 Each Participant shall have the right to transfer or assign all or any portion of its respective rights, undivided titles and interests in the Four Corners Project, in, to and under the Project Agreements and/or in the Granted Lands and Leased Lands, without the need for prior written consent of any other Participant, at any time to any of the following:

12.3.1 To any corporation or other entity acquiring all or substantially all of the property of such Participant; or

12.3.2 To any corporation or entity into which or with which such Participant may be merged or consolidated; or

12.3.3 To any corporation or entity the stock or ownership of which is wholly owned by a Participant; or

12.3.4 To any third party transferee in connection with a financing by such Participant involving or relating to such Participant's rights, titles and interests in the Four Corners Project, in, to and under the Project Agreements and/or in the Granted Lands and Leased Lands, without such third party transferee assuming or becoming obligated in any respect to perform any of the obligations of such Participant pursuant to this Co-Tenancy Agreement, provided that any and all such rights, titles and interests transferred to such third party transferee are immediately repurchased by such Participant and are thereupon subject to all of the provisions of this Co-Tenancy Agreement, including, but not limited to, the "right of first refusal" provisions of Section 13 hereof; or

12.3.5 To the Salt River Valley Water Users' Association, an Arizona corporation, in the case of a transfer by Salt River Project; or

12.3.6 To any corporation which owns all of the outstanding common stock of a Participant, or in the case of a Participant which has no common stock, to an entity which owns all of the ownership interest of the Participant (the corporation or entity shall be referred to herein as the "Parent"); or

12.3.7 To any corporation or entity the common stock or other ownership interest of which is wholly owned by the Parent of such Participant.

8.2 A new Section 12.7 is added to read as follows:

12.7 Without implying that any provision other than Article 6 and Article 7 herein allows a Participant to own an undivided ownership interest in any component of the Four Corners Project which is not the same as the undivided ownership interest such Participant owns in every other component, each Participant shall own the same undivided percentage interest in Unit 4 as in Unit 5.

9 RIGHT OF FIRST REFUSAL:

Sections 13.3, 13.4, 13.6, and 13.8 of the Co-Tenancy Agreement are amended to read as follows:

13.3 At least one hundred eighty (180) days prior to its intended date to Assign, and after its receipt of a bona fide written offer of the type described in Section 13.1 above, the Participant desiring to Assign its Transfer Interest shall serve written notice of its intention to do so upon the remaining Participants who have an interest in that portion of the Four Corners Project that is the subject of the Transfer Interest in accordance with Section 23 of this Co-Tenancy Agreement. Such notice to the remaining Participants shall contain the approximate proposed date to Assign, the terms and conditions of said bona fide written offer received by such Participant, and the terms and conditions of the proposed assignment. The terms and conditions contained in such notice shall be at least as favorable to the

remaining Participants as the terms and conditions of said bona fide written offer, or may be the same terms and conditions as set forth in said offer.

13.4 Each remaining Participant having an ownership interest in the portion of Four Corners Project that is the subject of the Transfer Interest, including the Outside Party if such Outside Party is a Participant, shall signify its desire to purchase the entire Transfer Interest, or any percentage interest therein, or not to purchase all or any percentage interest therein, by serving written notice of its intention upon the Participant desiring to Assign and upon the remaining Participants pursuant to Section 23 hereof within one hundred twenty (120) days after such service pursuant to Section 13.3 of the written notice of intention to Assign. Failure by a Participant to serve notice as provided hereunder within the time period specified shall be conclusively deemed to be notice of its intention not to purchase any portion of the Transfer Interest.

13.6 If the remaining Participants, or any one or more of them, should signify its or their intention under Section 13.4 to purchase less than the entire Transfer Interest, the Participant desiring to Assign shall serve written notice of this fact upon the remaining Participants in accordance with Section 23 hereof within ten (10) days after its receipt of the last of the written notices given pursuant to Section 13.4 hereof, or after the expiration of the one hundred twenty (120) day period referred to in Section 13.4 hereof, whichever is earlier.

13.8 When intention to purchase the entire Transfer Interest has been indicated by notices duly given hereunder by the applicable Participant(s) desiring to purchase the Transfer Interest, the Participants shall thereby incur the following obligations:

13.8.1 The Participant desiring to Assign and the Participant(s) desiring to purchase the Transfer Interest shall be obligated to proceed in good faith and with diligence to obtain all required authorizations and approvals to Assign;

13.8.2 The Participant desiring to Assign shall be obligated to obtain the release of any liens imposed by or through it upon any part of the Transfer Interest, and to Assign the Transfer Interest at the earliest practicable date thereafter; and

13.8.3 The Participant(s) desiring to purchase the Transfer Interest shall be obligated to perform all terms and conditions required of it or them to complete the purchase of the Transfer Interest.

The purchase of the Transfer Interest shall be fully consummated within eighteen (18) months following the date upon which all notices required to be given under this Section 13 have been duly served, unless the Participant(s) are then diligently pursuing applications to appropriate regulatory bodies (if any) for required authorizations to effect such assignment or are then diligently prosecuting or defending appeals from orders entered or authorizations issued in connection with such application, in which case the purchase of the Transfer Interest shall be fully

consummated at the earliest possible date following issuance of the requested authorization(s) or the resolution of any appeal.

10 Execution by Counterparts:

This Amendment No. 6 may be executed in any number of counterparts, and upon execution by all Participants, the counterparts shall have the same force and effect as an original instrument and as if all Participants had signed the same instrument. Any signature page of this Amendment No. 6 may be detached from any counterpart of this Amendment No. 6 without impairing the legal effect of any signature thereon, and may be attached to another counterpart of this Amendment No. 6 identical in form hereto but having attached to it one or more signature pages.

11 EFFECT OF AMENDMENTS:

Except as specifically amended herein, this Co-Tenancy Agreement, as previously amended, shall remain in full force and effect.

12 SIGNATURE CLAUSE:

The signatories hereto represent that they have been appropriately authorized to enter into this Amendment No. 6 on behalf of the Participant for whom they sign. This Amendment No. 6 is hereby executed as of this 3rd day of February, 2000.

ARIZONA PUBLIC SERVICE COMPANY

By John R. Denman
Its Vice President - Fossil

EL PASO ELECTRIC COMPANY

By John C. Horne
Its Vice President - Generation

PUBLIC SERVICE COMPANY OF NEW MEXICO

By Patrick Goodman
Its Vice President - Power Production

**SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT**

ATTEST AND COUNTERSIGN

T. A. Lonon

By William P. Schrader

Its President

SOUTHERN CALIFORNIA EDISON COMPANY

By Harold Ray

Its Executive Vice President

TUCSON ELECTRIC POWER COMPANY

By Thomas A. Delawder

Its Vice President

STATE OF ARIZONA)

) ss

County of Maricopa)

The foregoing instrument was acknowledged before me this 21st day of April, 2000, by John R. Denman, Vice President, Fossil, Arizona Public Service Company, on behalf of the corporation.

Christine A. LaBrash
Notary Public

My Commission Expires: August 29, 2003

[SEAL]

STATE OF TEXAS)

) ss

County of El Paso)

The foregoing instrument was acknowledged before me this 9th day of February, 2000, by John C. Horne, Vice President - Generation of El Paso Electric Company, on behalf of the corporation.

Hilda Vargas
Notary Public

My Commission Expires:

June 26, 2001

[SEAL]

STATE OF NEW MEXICO)
) ss
County of San Juan)

The foregoing instrument was acknowledged before me this 4th day of February, 2000, by Patrick Goodman, of Public Service Company of New Mexico, on behalf of the corporation.

Beverly A. Olim
Notary Public

My Commission Expires:

1-16-2001

STATE OF ARIZONA)

) ss

County of Maricopa)

The foregoing instrument was acknowledged before me this 6th day of March, 2000, by William P. Schrader, President of Salt River Project Agricultural Improvement and Power District, on behalf of the corporation.

Margaret A. Sullivan
Notary Public

My Commission Expires: September 16, 2001

[SEAL]

STATE OF CALIFORNIA)
) ss
County of Los Angeles)

The foregoing instrument was acknowledged before me this 9th day of Feb., 2000, by Harold Ray, of Southern California Edison Company, on behalf of the corporation.

Sarah C. Perez
Notary Public

My Commission Expires:

Aug. 6, 2001

[SEAL]

STATE OF ARIZONA)
) ss
County of Pima)

The foregoing instrument was acknowledged before me this 7th day of February, 2000, by Thomas A. Delawder, Vice President, Energy Resources of Tucson Electric Power Company, on behalf of the corporation.

Bertha A. Kissinger
Notary Public

My Commission Expires:

Jan. 21, 2003

[SEAL]

Exhibit 10.8a

**SIXTH AMENDMENT TO
ARIZONA PUBLIC SERVICE COMPANY
DEFERRED COMPENSATION PLAN**

Effective January 1, 1978, ARIZONA PUBLIC SERVICE COMPANY (the "Company") adopted the ARIZONA PUBLIC SERVICE COMPANY DEFERRED COMPENSATION PLAN (the "Plan"). The Plan was subsequently amended and restated several times and the most recent amendment and restatement becoming effective January 1, 1984. The Plan was thereafter amended on December 22, 1986, December 23, 1987, April 4, 1983, August 1, 1984, and December 18, 1996. By this instrument the Company desires to amend the Plan to provide for full vesting in Deferral Option II benefits upon the occurrence of certain changes in control in the Company.

1. This Amendment shall amend only the provisions of the Plan as set forth herein, and those provisions not expressly amended hereby shall be considered in full force and effect.

2. Section V.F is hereby amended in its entirety to read as follows:

F. Termination as an Employee Prior to Completion of the Years of Election.

Except as otherwise provided in Section V.L, in the event that a Participant electing to participate in Deferral Option II ceases to be an employee of the Company or a subsidiary or corporate affiliate of the Company prior to qualifying for Early Retirement under the Pinnacle West Capital Corporation Retirement Plan or under the retirement plan of a participating subsidiary or corporate affiliate, for any reason other than death or disability (as determined in the sole and absolute discretion of the Company), any and all amounts deferred under Deferral Option II will be held for the Participant pursuant to Deferral Option I and the Company and its subsidiaries and corporate affiliates will have no further liability to that Participant under Deferral Option II.

3. Section V.L. is hereby amended and restated in its entirety to read as follows:

L. Change in Control.

(i) In the event of a Participant's termination of employment following a Change in Control, the Participant's Deferral Option II benefits shall become fully vested. Benefits shall be distributed in accordance with Sections V.A, C or D, as applicable.

(ii) For purposes of this Section V.L, "Change of Control" shall have the same meaning as "Change in Control" in the Pinnacle West Capital Corporation, Arizona Public Service Company, SunCor Development Company and El Dorado Investment Company Deferred Compensation Plan, as the same may be amended from time to time.

4. This Amendment shall be effective as of January 1, 2001.

Except as amended hereby, the Company ratifies and confirms the Plan as amended and restated effective January 1, 1984, and as thereafter amended.

ARIZONA PUBLIC SERVICE COMPANY

By Faye Widenmann
Its Vice President and Secretary

Exhibit 21.1

**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

APS Energy Services Company, 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

SCM, 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

Pinnacle West Energy Corporation
State of Incorporation: Arizona

SunCor Realty & Management Company
State of Incorporation: Arizona

Type Two, Inc.
State of Incorporation: Delaware

Exhibit 23.1

INDEPENDENT AUDITORS' 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. 333-52476 and 333-53150 on Form S-3; Registration Statement Nos. 33-47534, 333-40796, 33-54307, and 333-95035 on Form S-8; Post-Effective Amendment No. 1 to Registration Statement No. 33-1720 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 February 9, 2001, appearing in this Annual Report on Form 10-K of Pinnacle West Capital Corporation for the year ended December 31, 2000.

DELOITTE & TOUCHE LLP

Phoenix, Arizona

March 12, 2001

End of Filing

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