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PINNACLE WEST CAPITAL CORP

FORM 8-K
(Current report filing)

Filed 09/04/12 for the Period Ending 09/04/12

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

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of report (Date of earliest event reported): **September 4, 2012**

Commission File Number	Exact Name of Registrant as Specified in Charter; State of Incorporation; Address and Telephone Number	IRS Employer Identification Number
1-8962	**Pinnacle West Capital Corporation** **(an Arizona corporation)** **400 North Fifth Street, P.O. Box 53999** **Phoenix, AZ 85072-3999** **(602) 250-1000**	**86-0512431**
1-4473	**Arizona Public Service Company** **(an Arizona corporation)** **400 North Fifth Street, P.O. Box 53999** **Phoenix, AZ 85072-3999** **(602) 250-1000**	**86-0011170**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

This combined Form 8-K is separately filed or furnished by Pinnacle West Capital Corporation and Arizona Public Service Company. Each registrant is filing or furnishing on its own behalf all of the information contained in this Form 8-K that relates to such registrant and, where required, its subsidiaries. Except as stated in the preceding sentence, neither registrant is filing or furnishing any information that does not relate to such registrant, and therefore makes no representation as to any such information.

Item 7.01 Regulation FD Disclosure.

Investor and Analyst Meeting

Pinnacle West Capital Corporation ("Pinnacle West") is participating in the Barclays Capital CEO Energy-Power Conference on September 5, 2012. Copies of the slide presentation may be available to investors and analysts as early as September 4, 2012, and are attached hereto as Exhibit 99.1.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

Exhibit No.	Registrant(s)	Description
99.1	Pinnacle West Arizona Public Service Company	Pinnacle West slides for use at the Barclays Capital CEO Energy-Power Conference on September 5, 2012.

SIGNATURES

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

PINNACLE WEST CAPITAL CORPORATION
(Registrant)

Dated: September 4, 2012

By: /s/ James R. Hatfield
James R. Hatfield
Senior Vice President and Chief Financial Officer

ARIZONA PUBLIC SERVICE COMPANY
(Registrant)

Dated: September 4, 2012

By: /s/ James R. Hatfield
James R. Hatfield
Senior Vice President and Chief Financial Officer

Exhibit 99.1

DELIVERING SUPERIOR SHAREHOLDER VALUE

Barclays Capital CEO Energy-Power Conference
September 5, 2012

PINNACLE WEST
CAPITAL CORPORATION

FORWARD-LOOKING STATEMENTS

This presentation contains forward-looking statements based on current expectations, including statements regarding our earnings guidance and financial outlook and goals. These forward-looking statements are often identified by words such as "estimate," "predict," "may," "believe," "plan," "expect," "require," "intend," "assume" and similar words. Because actual results may differ materially from expectations, we caution you not to place undue reliance on these statements. A number of factors could cause future results to differ materially from historical results, or from outcomes currently expected or sought by Pinnacle West or APS. These factors include, but are not limited to: our ability to manage capital expenditures and operations and maintenance costs while maintaining reliability and customer service levels; variations in demand for electricity, including those due to weather, the general economy, customer and sales growth (or decline), and the effects of energy conservation measures and distributed generation; power plant and transmission system performance and outages; volatile fuel and purchased power costs; fuel and water supply availability; our ability to achieve timely and adequate rate recovery of our costs, including returns on debt and equity capital; regulatory and judicial decisions, developments and proceedings; new legislation or regulation, including those relating to environmental requirements and nuclear plant operations; our ability to meet renewable energy and energy efficiency mandates and recover related costs; risks inherent in the operation of nuclear facilities, including spent fuel disposal uncertainty; competition in retail and wholesale power markets; the duration and severity of the economic decline in Arizona and current real estate market conditions; the cost of debt and equity capital and the ability to access capital markets when required; changes to our credit ratings; the investment performance of the assets of our nuclear decommissioning trust, pension, and other postretirement benefit plans and the resulting impact on future funding requirements; the liquidity of wholesale power markets and the use of derivative contracts in our business; potential shortfalls in insurance coverage; new accounting requirements or new interpretations of existing requirements; generation, transmission and distribution facility and system conditions and operating costs; the ability to meet the anticipated future need for additional baseload generation and associated transmission facilities in our region; the willingness or ability of our counterparties, power plant participants and power plant land owners to meet contractual or other obligations or extend the rights for continued power plant operations; technological developments affecting the electric industry; and restrictions on dividends or other provisions in our credit agreements and Arizona Corporation Commission orders. These and other factors are discussed in Risk Factors described in Part I, Item 1A of the Pinnacle West/APS Annual Report on Form 10-K for the fiscal year ended December 31, 2011, which you should review carefully before placing any reliance on our financial statements, disclosures or earnings outlook. Neither Pinnacle West nor APS assumes any obligation to update these statements, even if our internal estimates change, except as required by law.

PINNACLE WEST
CAPITAL CORPORATION

NON-GAAP FINANCIAL MEASURES

In this presentation, we refer to "on-going earnings per share," which is a "non-GAAP financial measure," as defined in accordance with SEC rules. We believe on-going earnings per share provides investors with a useful indicator of our results that is comparable among periods because it excludes the effects of unusual items that may occur on an irregular basis. The appendix contains a reconciliation of on-going earnings per share to our earnings per share attributable to common shareholders based on diluted common shares as reported on our Consolidated Statements of Income, which is the most directly comparable financial measures calculated and presented in accordance with generally accepted accounting principles in the United States of America (GAAP).

Investors should note that non-GAAP financial measures may involve judgments by management, including whether an item is classified as an unusual item. These measures are key components of our internal financial reporting and are used by our management in analyzing the operations of our business. We believe that investors benefit from having access to the same financial measures that management uses.

PINNACLE WEST
CAPITAL CORPORATION

PINNACLE WEST: WHO WE ARE

We are a vertically integrated, regulated electric utility.

NYSE Ticker	PNW
Market Cap	$6 Billion
Enterprise Value	$9 Billion

Principal Subsidiary aps

- Arizona's largest electric utility
- $13 billion assets

Service Territory

- 1.1 million customer accounts
- 34,646 square miles

Customer Growth

- 2.0% average annual growth expected 2012-2015
- 3-4% historical average — well above industry average

2011 Peak Demand – 7,087 MW

PINNACLE WEST CAPITAL CORPORATION

PINNACLE WEST: OUR VALUE PROPOSITION

Our commitment to investors:
Deliver superior shareholder returns through...

PINNACLE WEST
CAPITAL CORPORATION

PINNACLE WEST: OUR VALUE PROPOSITION

Capitalizing on intrinsic growth

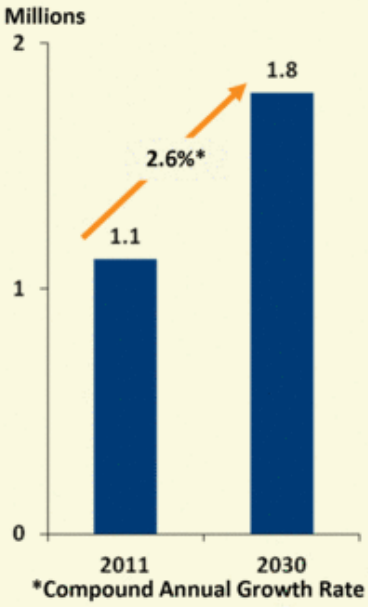
PINNACLE WEST
CAPITAL CORPORATION

POSITIVE LONG-TERM DEMOGRAPHICS

APS's customer growth generally outpaces U.S. and Arizona population growth.

Superior Growth

APS Customer Growth



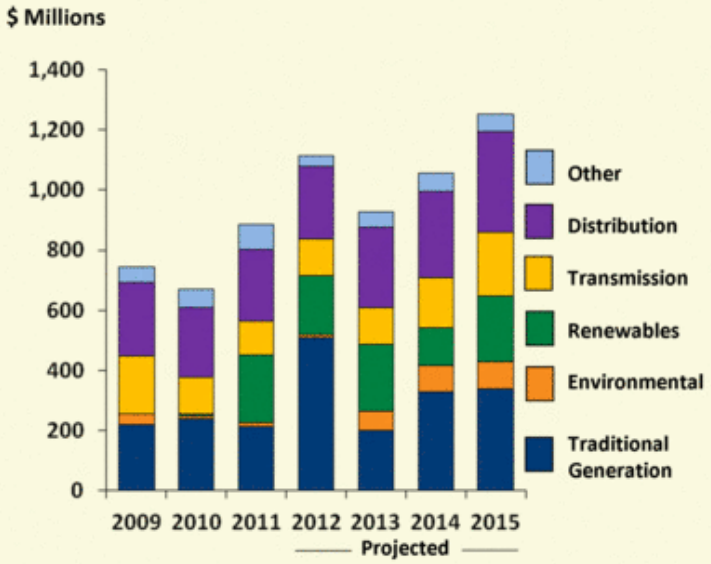
CAPITALIZING ON INTRINSIC GROWTH

PINNACLE WEST CAPITAL CORPORATION

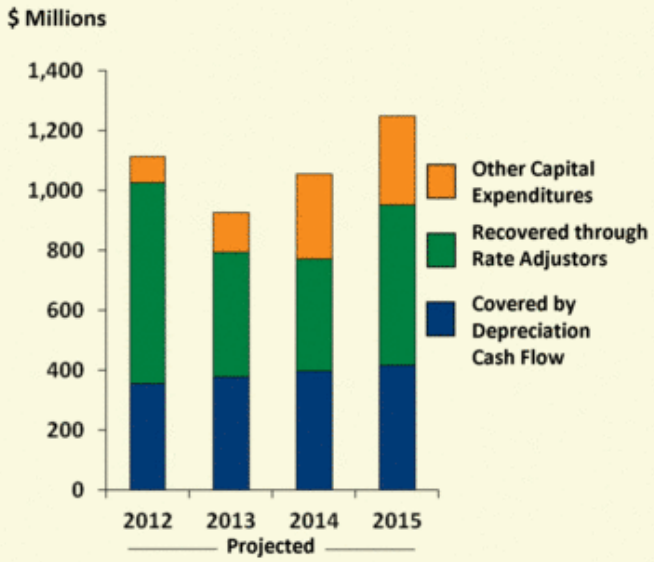
APS CAP EX DRIVES STRONG RATE BASE GROWTH

We expect our rate base will grow 6% per year on average, and we have constructive recovery of capital expenditures.

APS Capital Expenditures by Function



APS Capital Expenditures by Recovery Mechanism



CAPITALIZING ON INTRINSIC GROWTH

PINNACLE WEST CAPITAL CORPORATION

PINNACLE WEST: OUR VALUE PROPOSITION

Maintaining operational excellence

PINNACLE WEST
CAPITAL CORPORATION

OPERATIONAL HIGHLIGHTS

We focus on maintaining top-tier performance companywide.

Customer Satisfaction

- Ranked 3rd highest nationally among 55 large investor-owned electric utilities in 2012 J.D. Power residential customer survey

Strong Nuclear and Coal Baseload Resources

- 2011 capacity factors above or at industry averages
- Palo Verde 20-year license extension approved by U.S. Nuclear Regulatory Commission

Average Annual Outage Time Per Customer

- Top quartile in industry over past several years

Safety

- 2011 lowest number of recordable injuries in company history

Internationally Recognized Environmental, Sustainability and Governance Leader

- Dow Jones North America Sustainability Index (7 consecutive years)
- 15th best in Corporate Responsibility Magazine's "100 Best Corporate Citizens"

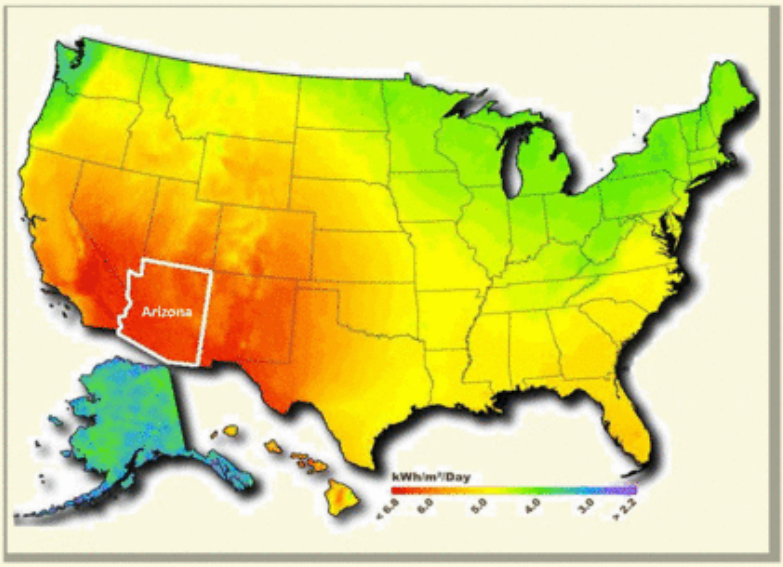
PINNACLE WEST: OUR VALUE PROPOSITION

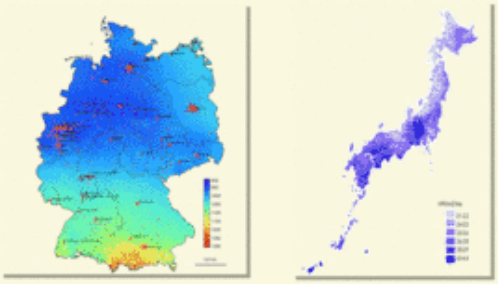
Making compelling capital investments

PINNACLE WEST
CAPITAL CORPORATION

RENEWABLE ENERGY RISES WITH THE SUN

We are helping Arizona become the "Solar Capital of the World."





Germany and Japan are among countries with highest installed solar capacity, yet have solar conditions far inferior to Arizona

APS AZ SUN PROGRAM PROVIDES EARNINGS GROWTH POTENTIAL

Owning solar resources makes sense for our customers and environment and provides returns to our shareholders.

- Up to 200 MW utility-scale photovoltaic solar plants owned by APS
- Up to $975 million capital investment
- In service 2011 through 2015
- Constructive rate recovery through RES until included in base rates
- Commitments to date:
  - 104 MW
  - $446 million capital investment
- 50 MW in commercial operation to date
- Planning and procurement under way for additional projects

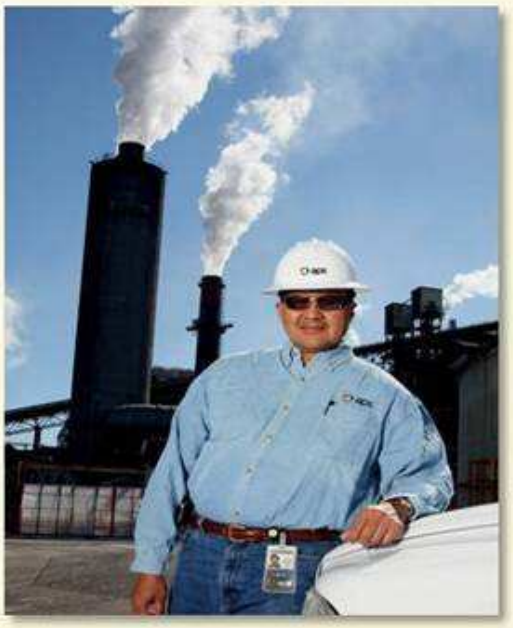
FOUR CORNERS POWER PLANT PROPOSED PLAN

Our proposal represents a balanced solution to new environmental regulations.

Economic, environmental and social benefits

Acquire Southern California Edison's 739 MW interest in Units 4 & 5 and shut down 560 MW Units 1 – 3

- Purchase price: $294 million (subject to adjustments)
- Acquisition target date: No earlier than December 2012
- Estimated environmental compliance investment: $300 million
- Arizona, California and other regulatory approvals required
  - Arizona and California approvals obtained
- New coal supply contract negotiations under way

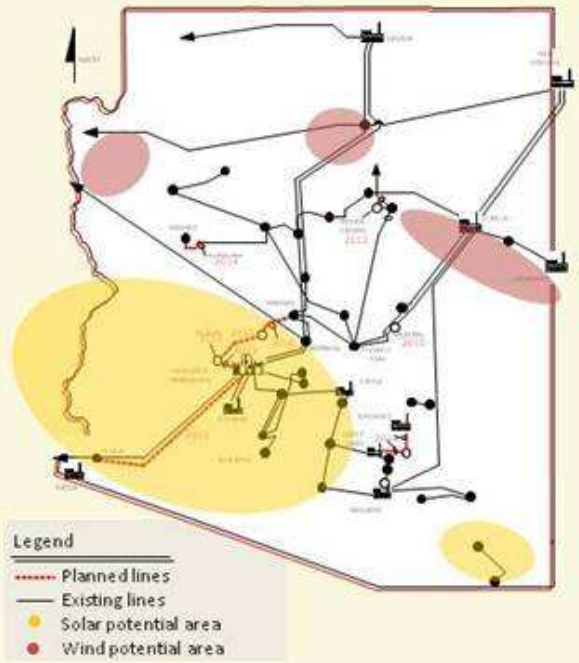


MAKING COMPELLING CAPITAL INVESTMENTS

PINNACLE WEST CAPITAL CORPORATION

TRANSMISSION INVESTMENT ESSENTIAL

Strategic transmission is necessary to maintain reliability and deliver diversified resources to our customers.



- 10-Year Transmission Plan (115-kV and above)
  - $550 million of new transmission investment
  - 269 miles of new lines
- Projects to deliver renewable energy approved by ACC
- Transmission investment diversifies regulatory risk
  - Constructive regulatory treatment
  - FERC formula rates and retail adjustor

PINNACLE WEST: OUR VALUE PROPOSITION

Improving our regulatory environment

PINNACLE WEST
CAPITAL CORPORATION

2012 RETAIL RATE CASE SETTLEMENT KEY BENEFITS FROM INVESTOR PERSPECTIVE

The settlement contains a number of benefits for customers and shareholders.

- Provides financial support APS needs to achieve Arizona's energy goals
- Encourages progress toward sustainable energy future
- Supports renewable energy and energy efficiency
- Continues constructive regulatory framework established in 2009 regulatory settlement
  - Demonstrates collaboration and cooperation among APS and numerous stakeholders
  - Decision approximately one year after filing
- Provides no base rate change for customers and promotes rate gradualism

2012 RETAIL RATE CASE SETTLEMENT
KEY FINANCIAL PROVISIONS – BASE RATES & TIMING

The provisions of the settlement became effective July 1, 2012, as originally requested by APS.

	Annual Revenue Change
Annualized Base Rate Revenue Changes ($ millions)	
Non-fuel base rate increase	$ 116.3
Fuel-related base rate decrease	(153.1)
Revenues related to AZ Sun and other solar projects to be transferred from Renewable Energy Surcharge to base rates	36.8
Net base rate change	$ -0-

2012 RETAIL RATE CASE SETTLEMENT KEY PROVISIONS – OTHER THAN BASE RATES

Other key provisions continue constructive regulatory treatment and limit regulatory lag.

- Post test-year plant additions – 15 months' additions included in rate base
- Constructive new or modified adjustment mechanisms
  - Lost Fixed Cost Recovery (LFCR) rate mechanism to address ratemaking effects of energy efficiency and distributed renewable energy
  - Power Supply Adjustor (PSA) – 100% pass-through
  - Transmission Cost Adjustor (TCA) – streamlined for future rate changes
  - Environmental Improvement Surcharge (EIS) – recovery of certain carrying costs for government-mandated environmental capital expenditures
- Four Corners transaction – procedure to allow APS to request related rate adjustments, if transaction consummated
- Property tax expense deferrals for future tax rate changes
- Current PSA credit on customer bills to continue until February 1, 2013, rather than reset when base rates change effective July 1, 2012
- Next general rate case may be filed on or after May 31, 2015 for rates to become effective on or after July 1, 2016 (4-year stay-out)

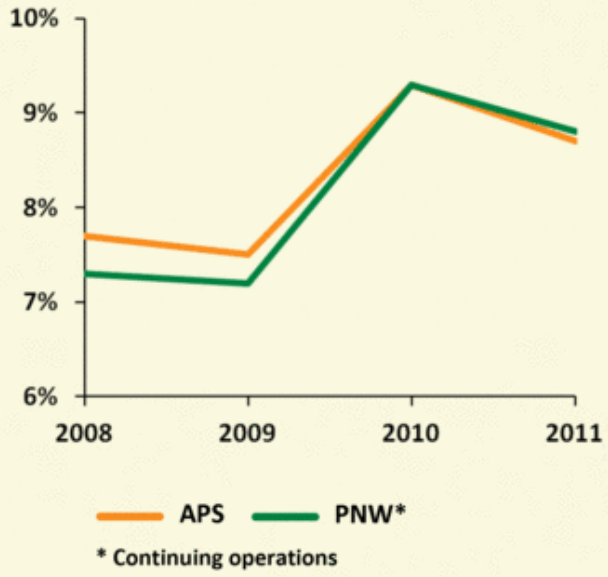
PINNACLE WEST: OUR VALUE PROPOSITION

PINNACLE WEST
CAPITAL CORPORATION

ROE IMPROVEMENT: A MULTI-PRONGED APPROACH

Improving our earned return on equity is one of our top priorities.

Earned ROEs



* Continuing operations

Key Initiatives

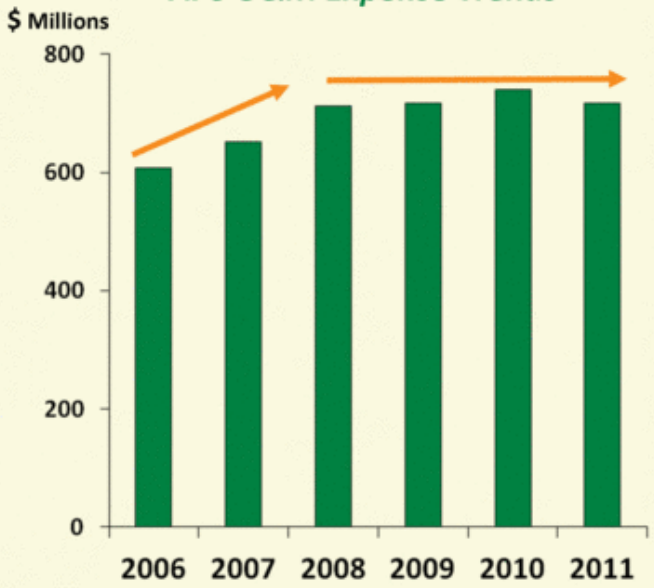
- Supportive electric utility rates
- Regulatory framework improvements
- Cost management initiatives
- Efficiency and effectiveness throughout organization

PINNACLE WEST CAPITAL CORPORATION

STRONG COST MANAGEMENT FOCUS

Our goal is to keep O&M growth in line with retail sales growth.

APS O&M Expense Trends



Excludes RES and demand side management costs.
2011 also excludes $28 million related to prior-period transmission rights-of-way settlement.

- Solid achievements to date
- Initiatives
  - Company-wide benchmarking and evaluations
  - Workforce attrition opportunities
  - Knowledge transfer
  - Process documentation

PINNACLE WEST CAPITAL CORPORATION

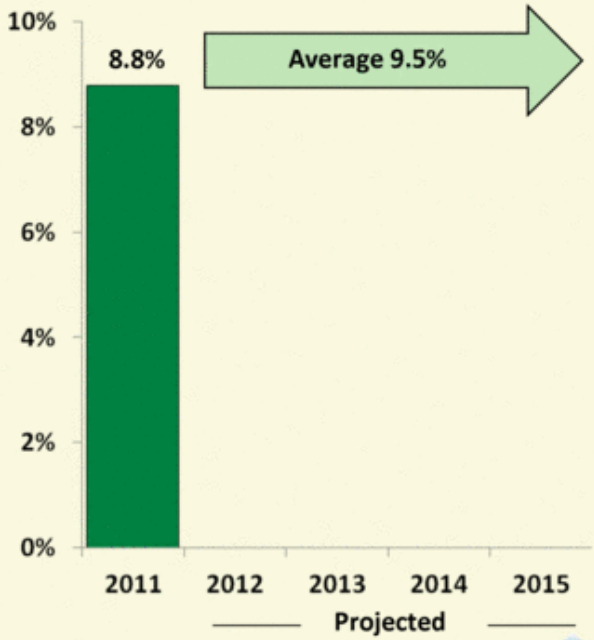
CONSOLIDATED FINANCIAL OUTLOOK

Our on-going earnings have improved.

On-Going EPS

As of August 2, 2012.
See key factors and assumptions in appendix.

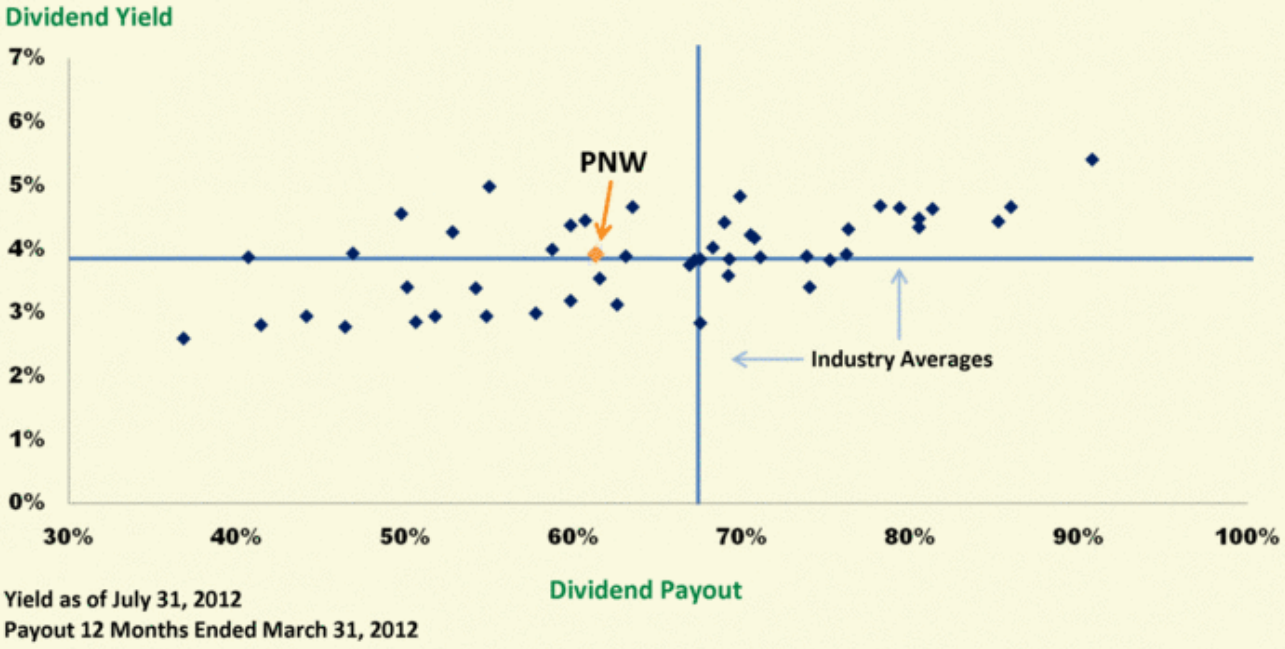
Consolidated Earned ROE Goal



PINNACLE WEST CAPITAL CORPORATION

ATTRACTIVE DIVIDEND YIELD

Pinnacle West's annual dividend is $2.10 per share — providing a solid yield.

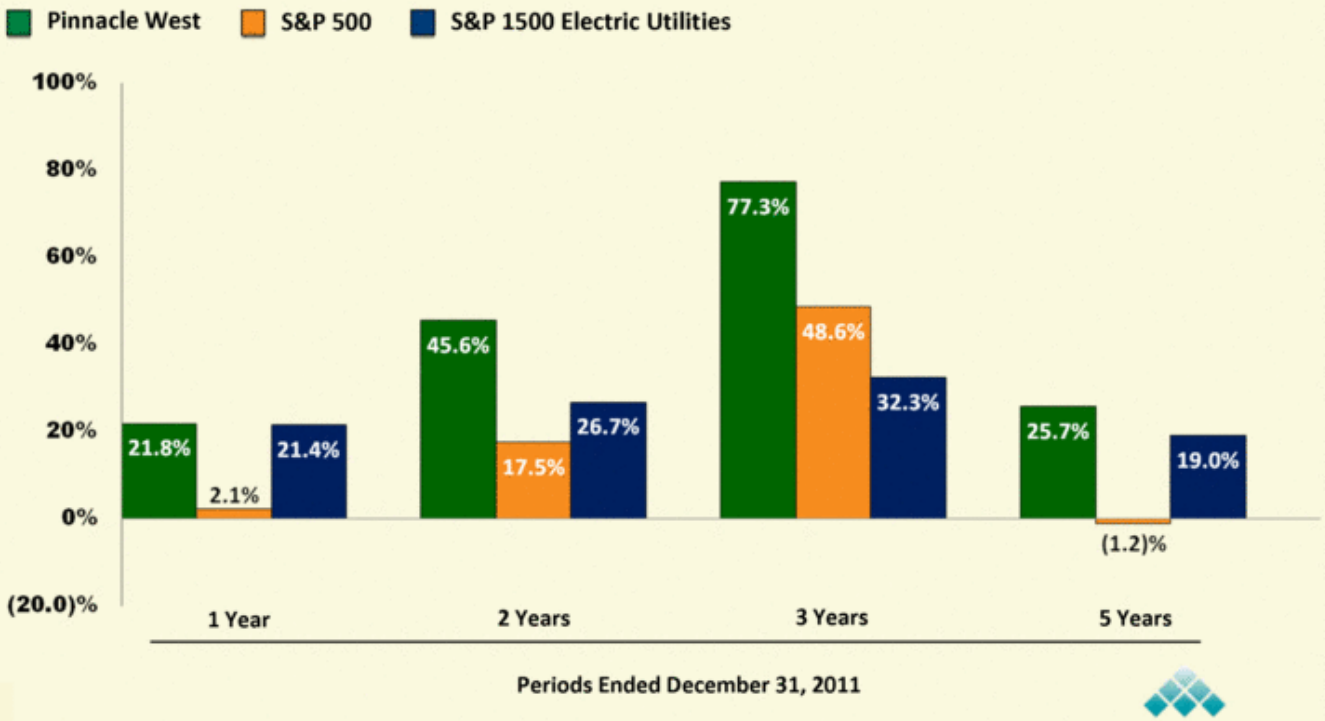


Yield as of July 31, 2012
Payout 12 Months Ended March 31, 2012

PINNACLE WEST CAPITAL CORPORATION

SUPERIOR SHAREHOLDER RETURNS

Our total return to shareholders has outperformed our industry and the broad market over the past five years.



Periods Ended December 31, 2011

STRENGTHENING OUR FINANCIAL PROFILE

PINNACLE WEST CAPITAL CORPORATION

PINNACLE WEST: OUR VALUE PROPOSITION

Our commitment to investors...

Delivering Superior Shareholder Returns

PINNACLE WEST
CAPITAL CORPORATION

APPENDIX

PINNACLE WEST
CAPITAL CORPORATION

A RESPECTED, VETERAN LEADERSHIP TEAM

Our top executives have more than 130 combined years of creating shareholder value in the energy industry.

Don Brandt
Chairman & CEO

- **Jim Hatfield** — SVP & CFO
- **Don Robinson** — APS President & COO
- **Mark Schiavoni** — EVP Operations
- **Randy Edington** — EVP & Chief Nuclear Officer
- **Jeff Guldner** — SVP Customers & Regulation

PINNACLE WEST CAPITAL CORPORATION

2012 ON-GOING EPS GUIDANCE

Key Factors and Assumptions as of August 2, 2012

- Electricity gross margin* (operating revenues, net of fuel and purchased power expenses) about $2.13 billion to $2.18 billion
  - Retail customer growth about 1%
  - Weather-normalized retail electricity sales volume slightly below prior year taking into account effects of customer conservation and energy efficiency and distributed renewable generation initiatives
  - Actual weather for first 6 months of year and normal weather patterns for remainder of year
- Operating expenses* (operations and maintenance, depreciation and amortization and taxes other than income taxes) about $1.33 billion to $1.36 billion
- Interest expense, net of allowances for borrowed and equity funds used during construction, about $180 million to $190 million
- Net income attributable to noncontrolling interests about $30 million to $35 million
- Effective tax rate about 35%

* Excludes O&M of $109 million, and offsetting operating revenues, associated with renewable energy and energy efficiency programs

2012 – 2015 FINANCIAL OUTLOOK

Key Drivers and Assumptions as of August 2, 2012

- 2012 retail rate settlement effective July 1, 2012
  - Revenue provisions
    - Retail base rate changes effective July 1, 2012
    - Adjustment mechanisms
      - Four Corners acquisition
      - AZ Sun additions to flow through RES until next base rate case
      - Lost Fixed Cost Recovery (LFCR) mechanism assumed to offset 30-40% of revenues lost due to ACC-mandated energy efficiency and distributed renewable generation initiatives
      - Environmental Improvement Surcharge (EIS) assumed to recover up to $5 million annually of carrying costs for government-mandated environmental capital expenditures
  - Cost mitigation provisions
    - Power Supply Adjustor (PSA) – 100% pass-through
    - Potential property tax deferrals – assume 60% of property tax increases relate to tax rates, therefore, will be eligible for deferrals
      - Deferral rates: 25% in 2012; 50% in 2013; 75% in 2014 and thereafter

(continued)

2012 – 2015 FINANCIAL OUTLOOK

Key Drivers and Assumptions as of August 2, 2012 (continued)

- Modestly improving Arizona and U.S. economic conditions
- Retail customer growth to average 2% annually
- Weather-normalized retail electricity sales volume growth:
  - Relatively flat after customer conservation and energy efficiency and distributed renewable generation initiatives
  - Average 2.5% annually before customer conservation and energy efficiency and distributed renewable generation initiatives
- Rate base growth to average 6% annually
- AZ Sun Program – additional 150 MW placed into service in 2012-2015
- Transmission rate increases (FERC formula rates and retail adjustor)
- Four Corners cost deferrals between dates acquired and included in retail rates
- Company-wide operating and capital cost management
- Financing to maintain balanced capital structure for credit ratings and year-end 2014 retail rate case test year
- Interest rates
- Normal weather (except actual for first 6 months of 2012)

NON-GAAP EPS RECONCILIATION

Consolidated On-Going EPS Guidance

	Year 2011 Actual	Year 2012 Guidance*
Net income attributable to common shareholders	$ 3.09	
Less income (loss) from discontinued operations:		
Real estate	(0.01)	
Energy services business	0.11	
On-going EPS	$ 2.99	$ 3.35 - $ 3.50

* As of August 2, 2012

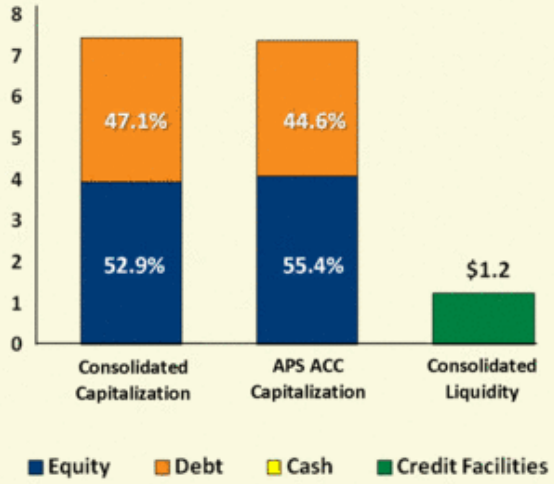
AMPLE FINANCING ACCESS

Investment-grade credit ratings, capitalization and liquidity should provide adequate access to bank and capital markets.

Capitalization & Liquidity

December 31, 2011

$ Billions



2011 - 2012 Major Financing Activities

2011 $1B APS revolver refinancing*

2011 $200M PNW revolver financing*

2011 $175M PNW senior notes refinancing*

2011 $400M APS senior notes refinancing*

2012 $375M APS senior notes refinancing*

2012 APS potential new debt issuance

* Completed

CREDIT RATINGS

We have investment-grade credit ratings.

	APS	Parent
Corporate Credit Ratings		
Moody's	Baa1	Baa2
S&P	BBB	BBB
Fitch	BBB	BBB
Senior Unsecured		
Moody's	Baa1	-
S&P	BBB	-
Fitch	BBB+	-
Outlook		
Moody's	Stable	Stable
S&P	Positive	Positive
Fitch	Stable	Stable

We are disclosing these ratings to enhance understanding of our sources of liquidity and the effects of our ratings on our costs of funds.

PINNACLE WEST CAPITAL CORPORATION

S&P CREDIT METRICS

Our key credit metrics have been improving.

	2007	2008	2009	2010	2011
APS					
FFO / Debt	17.2%	22.1%	22.8%	22.3%	20.8%
FFO / Interest	4.1x	5.1x	4.8x	4.6x	4.6X
Debt / Capitalization	55.2%	57.4%	56.8%	53.0%	53.0%
Pinnacle West					
FFO / Debt	15.7%	18.0%	18.4%	22.5%	20.3%
FFO / Interest	3.7x	4.3x	4.0x	4.6x	4.5X
Debt / Capitalization	57.0%	59.4%	59.8%	55.1%	54.5%

ENVIRONMENTAL, SUSTAINABILITY AND GOVERNANCE LEADERSHIP

We are recognized internationally for our achievements.

Dow Jones Sustainability Indexes Member 2011/12

Ranked on Dow Jones Sustainability Index since 2005

CR's 100 Best 2011

Ranked 15th Overall
Highest for Any Utility

IDC Energy Insights | intelligentutility magazine

Rated 4th Highest
Intelligent Utility

U.S. DOE/EPA
Sustained Excellence since 2008
Partner of the Year since 2005

Chartwell

Best Practices
in Customer Service

CLAREMONT MCKENNA COLLEGE

Social Responsibility Reporting
Highest Overall Score
of U.S. Utilities

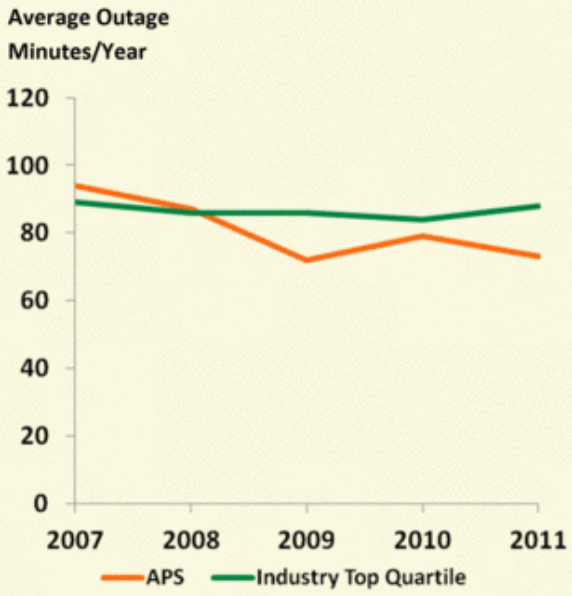
SEPA

Top 10 Utility Solar Ranking

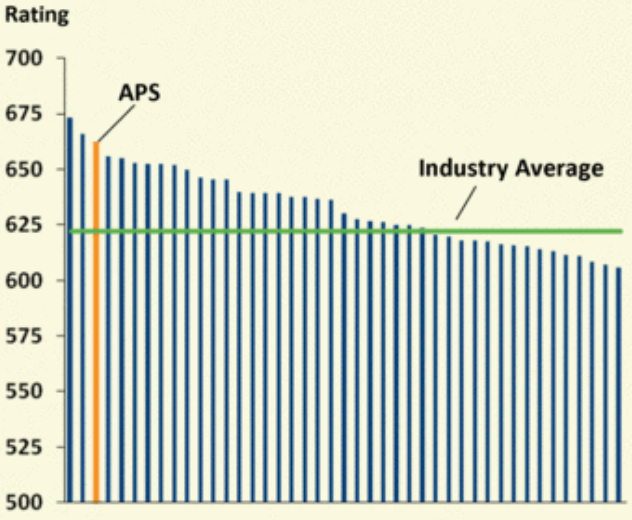
CUSTOMER SATISFACTION: A KEY PRIORITY

Our employees provide top-tier customer service.

Lowering Outage Time Per Customer



Outstanding Residential Customer Satisfaction Rating



2012 J.D. Power Residential Customer Survey

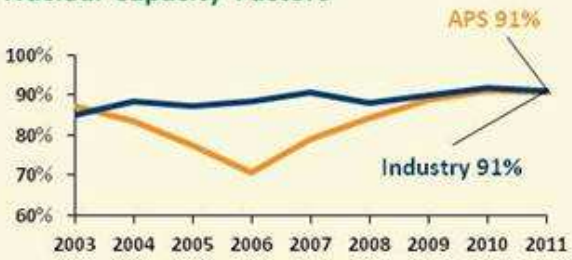
MAINTAINING OPERATIONAL EXCELLENCE

PINNACLE WEST CAPITAL CORPORATION

SUPERIOR POWER PLANT PERFORMANCE

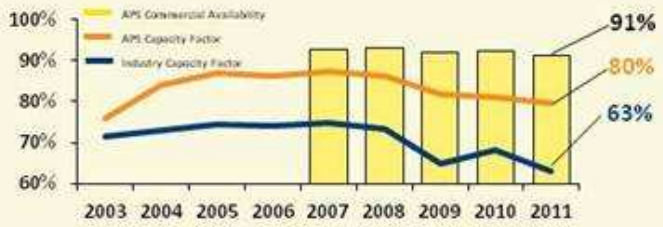
Our nuclear and coal plants are strong baseload resources.

Nuclear Capacity Factors



- 3,937 MW total managed capacity
- 1,146 MW total APS share
- 2014 goals:
  - Consistent site capacity factor greater than 92%
  - Operating costs excluding fuel less than $0.02/kWh
  - Top-quartile safety
- 20-year license extension approved by U.S. Nuclear Regulatory Commission

Coal Performance Metrics



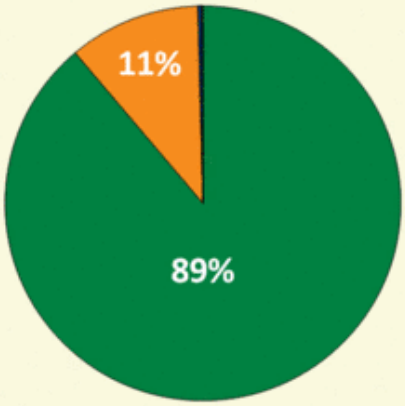
- 2,747 MW total managed capacity
- 1,753 MW APS share
- Fleet operating strategy
- Commercial availability metric measures plant reliability during high-demand periods and market responsiveness

MAINTAINING OPERATIONAL EXCELLENCE

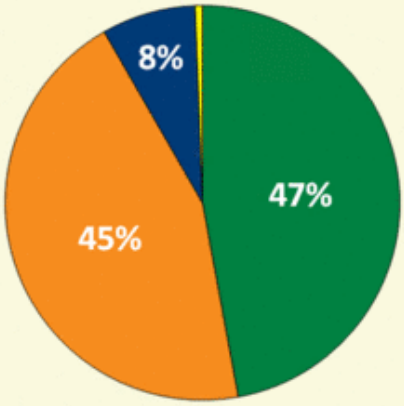
PINNACLE WEST CAPITAL CORPORATION

2011 RETAIL CUSTOMER, SALES AND REVENUE MIXES

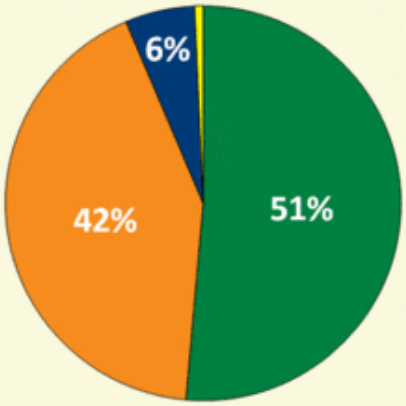
Our business mix is attractive due to favorable climate and other conditions in our market area.



Customers
Year-End
1.1 Million



Retail Sales
28,210 GWh

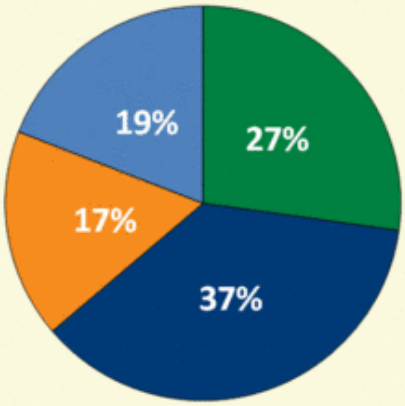


Operating Revenues
$3.0 Billion

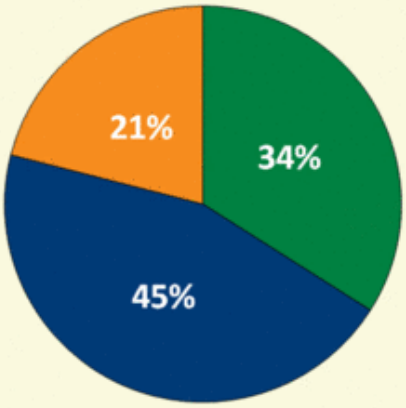
Residential Commercial Industrial Other

2011 APS GENERATION AND ENERGY FUEL MIXES

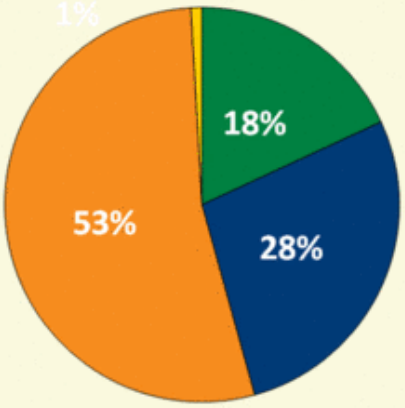
Our balanced resource mix provides our customers reliability and manages price volatility.



Energy
Fuel Mix
33,407 GWh



Generation
Fuel Mix
27,055 GWh



Generation
Capacity Mix
6,343 MW

Nuclear Coal Gas & Oil Purchased Power Solar

MAINTAINING OPERATIONAL EXCELLENCE

PINNACLE WEST
CAPITAL CORPORATION

ARIZONA CORPORATION COMMISSIONERS

The new composition provides opportunities for additional relationships and process efficiencies.

Terms Through January 2013

Sandra Kennedy
(Dem)

Paul Newman
(Dem)

Bob Stump
(Rep)

Terms Through January 2015

Brenda Burns
(Rep)

Gary Pierce (Rep)*
Chairman

* Term limited

2012 RETAIL RATE CASE SETTLEMENT
KEY FINANCIAL ASSUMPTIONS

Updated rate base, cost of capital and fuel prices underpin the settlement amounts.

Rate base	$5.7 billion
Allowed return on equity	10%
Capital structure	
Long-term debt	46.1%
Common equity	53.9%
Base fuel rate (¢/kWh)	3.21¢
Projected fuel-price year for base fuel rate	2012
Test year ended December 31, 2010 adjusted for post-test year plant additions	

2009 REGULATORY SETTLEMENT POSITIONED APS WELL THROUGH 2012

APS's 2009 regulatory settlement contained a number of investor benefits.

- Strengthened APS's earned ROE and financial condition
- Supported common dividend
- Demonstrated increased cooperation among APS, ACC Staff, residential consumer advocate (RUCO) and other intervenors
- Allowed opportunity to help shape Arizona's energy future outside continual rate cases
- Provided earnings support until next base rate case
  - Estimated pretax earnings benefits: $165 million, 2010; $180 million, 2011; and $254 million, 2012
- Established expedited process for future base rate cases

2009 REGULATORY SETTLEMENT SUMMARY

The settlement provisions included earnings support until APS's next rate case decision.

Estimated Pretax Earnings Benefits*

$ Millions

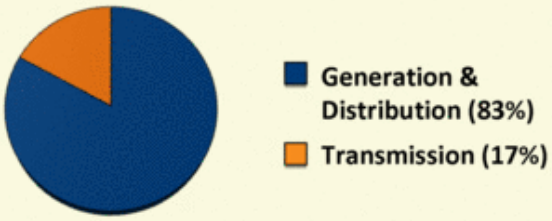
	2010	2011	2012
Settlement agreement terms			
Base rate increase	$ 207	$ 207	$ 207
Line extensions treated as revenue	23	25	49
Pension and OPEB deferrals	–	13	29
Palo Verde depreciation reduction	_	_	34
Subtotals	230	245	319
Less interim base rate surcharge that ended upon general rate case implementation	(65)	(65)	(65)
Total	$ 165	$ 180	$ 254

*At time of 2009 settlement

OUR REGULATORY MIX AND SOLID GROWTH

The bulk of APS's revenues comes from a regulated retail rate base and a meaningful transmission business.

$6.9 Billion Total Approved Rate Base

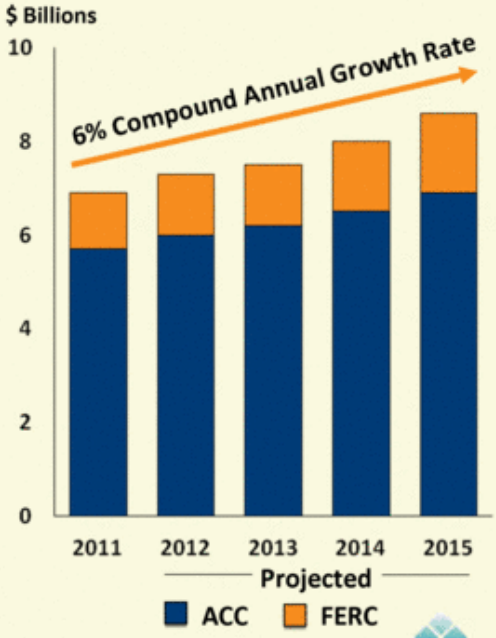


Most Recent Rate Decisions

	ACC	FERC
Rate Effective Dates	7/1/2012	6/1/2012
Test Year Ended	12/31/2010*	12/31/2011
Rate Base	$5.7 B	$1.2 B
Equity Layer	54%	55%
Allowed ROE	10.00%	10.75%

* Adjusted to include post test-year plant in service through March 31, 2012

APS Rate Base Growth



PINNACLE WEST CAPITAL CORPORATION

CONSTRUCTIVE TRANSMISSION RATE REGULATION

We have achieved transmission rate treatment with annual adjustments.

- FERC Formula Rates adopted in 2008
- Adjusted annually with 10.75% allowed ROE
- Based on FERC Form 1 and certain projections
- Retail portion flows through ACC Transmission Cost Adjustor (TCA)
- Recent transmission revenue changes

	Annual Revenue	Rate Effective Dates	Annual Revenue	Rate Effective Dates	Annual Revenue	Rate Effective Dates
Retail Portion (TCA)	$ 18 M	8/1/2012	$ 38 M	7/1/2011	$(10) M	8/1/2010
Wholesale Portion	$ (2) M	6/1/2012	$ 6 M	6/1/2011	$ (2) M	6/1/2010
Total Increase (Decrease)	$ 16 M		$ 44 M		$(12) M	
Equity Ratio	55%		54%		51%	
Rate Base	$1.2 B		$1.2 B		$1.1 B	
Test Year	2011		2010		2009	

SIGNIFICANT REGULATORY PROGRESS

We have achieved a more supportive regulatory structure and improvements in cost recovery timing.

Mechanism	Adopted/ Last Adjusted	Description
Power Supply Adjustor ("PSA")	April 2005 / February 2012	• Recovers variance between actual fuel and purchased power costs and base fuel rate • Includes forward-looking, historical and transition components
Renewable Energy Surcharge ("RES")	May 2008 / January 2012	• Recovers costs related to renewable initiatives • Collects projected dollars to meet RES targets • Provides incentives to customers to install distributed renewable energy
Demand-Side Management Adjustment Clause ("DSMAC")	April 2005 / March 2012	• Recovers costs related to energy efficiency and DSM programs above $10 million in base rates • Provides performance incentive to APS for net benefits achieved • Provides rebates and other incentives to participating customers
Environmental Improvement Surcharge ("EIS")	July 2007 / July 2012	• Mitigates loss of portion of fixed costs related to ACC-approved energy efficiency and distributed renewable generation programs
Retail Line Extension Fees	February 2008 / July 2012	• "Pay as you go" mechanism collects dollars spent for new distribution construction at beginning of project
Transmission Cost Adjustor ("TCA")	April 2005 / August 2012	• Recovers FERC-approved transmission costs related to retail customers • Resets annually as result of FERC Formula Rate process (see below)
FERC Formula Rates	2008 / June 2012	• Recovers transmission costs based on historical costs per FERC Form 1 and certain projected data
Lost Fixed Cost Recovery Mechanism ("LFCR")	July 2012 / July 2012	• Allows recovery of certain carrying costs for government-mandated environmental capital projects • Capped at $5 million annually

A WELL-BALANCED GENERATION PORTFOLIO

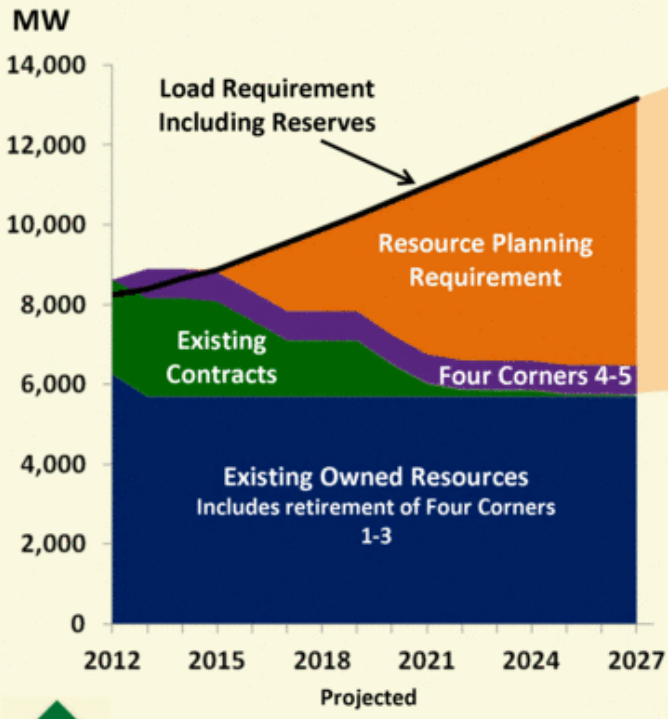
Fuel / Plant	Location	Units	Dispatch	Commercial Ops. Date	Ownership Interest[1]	Net Capacity (MW)
Nuclear						
Palo Verde	Wintersburg, AZ	1-3	Base	1986 - 1989	29.1%	1,146
Total Nuclear						*1,146*
Coal						
Cholla	Joseph City, AZ	1-3	Base	1962 - 1980	100	647
Four Corners	Farmington, NM	1-3	Base	1963 - 1964	100	560
Four Corners	Farmington, NM	4,5	Base	1969 - 1970	15	231
Navajo	Page, AZ	1-3	Base	1974 - 1976	14	315
Total Coal						*1,753*
Gas/Oil - Combined Cycle						
Redhawk	Arlington, AZ	1,2	Intermediate	2002	100	984
West Phoenix	Phoenix, AZ	1-5	Intermediate	1976 - 2003	100	887
Total Gas/Oil - Combined Cycle						*1,871*
Gas/Oil - Steam Turbines						
Ocotillo	Tempe, AZ	1,2	Peaking	1960	100	220
Saguaro	Red Rock, AZ	1,2	Peaking	1954 - 1955	100	210
Total Gas/Oil - Steam Turbines						*430*
Gas/Oil – Combustion Turbines						
Sundance	Casa Grande, AZ	10	Peaking	2002	100	420
Yucca	Yuma, AZ	6	Peaking	1971 - 2008	100	243
Saguaro	Red Rock, AZ	1-3	Peaking	1972 - 2002	100	189
West Phoenix	Phoenix, AZ	1,2	Peaking	1972 - 1973	100	110
Ocotillo	Tempe, AZ	1,2	Peaking	1972 - 1973	100	110
Douglas	Douglas, AZ	1	Peaking	1972	100	16
Total Gas/Oil - Combustion Turbines						*1,088*
Solar						
Hyder	Hyder, AZ	-	As Available	2011 - 2012	100	16
Paloma	Gila Bend, AZ	-	As Available	2011	100	17
Cotton Center	Gila Bend, AZ	-	As Available	2011	100	17
Various	Multiple Arizona Facilities	-	As Available	1996 - 2006	100	5
Total Solar						55
Total Generation Capacity						6,343

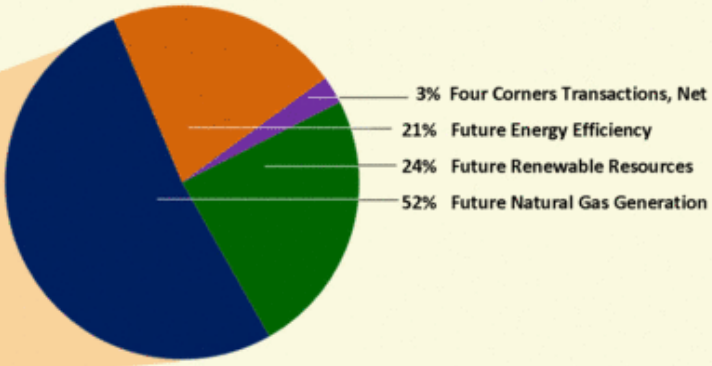
As of February 24, 2012

[1]Includes leased generating plants.

RESOURCE PLANNING FOR RELIABILITY AND SUSTAINABILITY

Through a balanced resource mix including renewable resources and energy efficiency programs, we will meet future load growth.





Additional Resources by 2027

- 2012 Four Corners transactions
- Renewables (primarily solar and wind)
- Energy efficiency
- Natural gas

MAKING COMPELLING CAPITAL INVESTMENTS

PINNACLE WEST CAPITAL CORPORATION

FOUR CORNERS POWER PLANT FACTS & FIGURES

	Common	Unit 1	Unit 2	Unit 3	Unit 4	Unit 5
Commercial Operation Date		1963	1963	1964	1969	1970
Original Cost ($M)	$41		$382		$164	
Net Book Value at 6/30/12 ($M)	$27		$0		$130	
Current Depreciation Ends	2038		Mid-2012		2038	2038
Current Expiration Dates						
Site Lease			July 6, 2041			
BHP Coal Agreement			July 6, 2016			
Certain Related Rights-of-Way			July 6, 2041			
Total Employees (549) (75% Native Americans)	48 Common + 75 Matrix		193		233	
Capacity (MW)		170	170	220	770	770
Ownership Percentages						
Arizona Public Service		100%	100%	100%	15%	15%
Southern California Edison		-	-	-	48%	48%
Public Service Company of New Mexico		-	-	-	13%	13%
Salt River Project		-	-	-	10%	10%
El Paso Electric		-	-	-	7%	7%
Tucson Electric Power		-	-	-	7%	7%
Heat Rate (Btu/kWh)		10,816	11,051	10,614	9,443	10,035

ARIZONA'S RENEWABLE RESOURCE AND ENERGY EFFICIENCY STANDARDS

We are committed to aggressive renewable and energy efficiency standards.

Renewable Energy (RES) Minimum Requirements

Portion of retail sales to be supplied by renewable resources

- 5% by 2015
- 15% by 2025

Distributed energy component

- 30% of total requirement by 2012

APS committed to approximately double 2015 requirement

- Pursuant to 2009 regulatory settlement

Energy Efficiency Requirements

Increasing annually 2011-2020

Cumulative energy savings as percent of retail sales

- 3% by 2012
- 9.5% by 2015
- 22% by 2020

AZ SUN PROGRAM SUMMARY

APS is investing in up to 200 MW of solar generation.

Name	Location	Capacity	Developer	Actual or Target COD*
Paloma	Gila Bend, AZ	17 MW	First Solar	Sept. 2011
Cotton Center	Gila Bend, AZ	17 MW	Solon	Oct. 2011
Hyder Phase 1	Hyder, AZ	11 MW	SunEdison	Oct. 2011
Hyder Phase 2	Hyder, AZ	5 MW	SunEdison	Feb. 2012
Chino Valley	Chino Valley, AZ	19 MW	SunEdison	4Q 2012
Yuma Foothills Phase 1	Yuma, AZ	17 MW	AMEC	1Q 2013
Yuma Foothills Phase 2	Yuma, AZ	18 MW	AMEC	4Q 2013
	Total Announced To Date	104 MW		

As of March 31, 2012

* In Service or Commercial Operation Date

RENEWABLE PURCHASE POWER CONTRACTS

Fuel / Contract	Location	Owner/ Developer	Status[1]	PPA Signed	Commercial Operation Date	Term (years)	Capacity Net (MW)
Solar							
Solana	Gila Bend, AZ	Abengoa	UC	Feb-2008	2013	30	250
Ajo	Ajo, AZ	Duke Energy Gen Sacs	IO	Jan-2010	2011	25	5
Prescott	Prescott, AZ	SunEdison	IO	Feb-2010	2011	30	10
Solar 1	Tonopah, AZ	Not Disclosed	UC	Jan-2011	2012	30	15
Solar 2	Tonopah, AZ	Not Disclosed	UD	Jan-2012	2013	30	15
Solar 3	Maricopa County, AZ	Not Disclosed	UD	Jan-2012	2013	30	15
Total Solar							*310*
Wind							
Aragonne Mesa	Santa Rosa, NM	Indigent Asset Mgmt	IO	Dec-2005	2006	20	90
High Lonesome	Mountainair, NM	Foresight / EME	IO	Feb-2008	2009	30	100
Perrin Ranch Wind	Williams, AZ	NextEra Energy	IO	Jul-2010	2011	25	99
Total Wind							*289*
Geothermal							
CE Turbo	Imperial County, CA	California Energy	IO	Jan-2006	2006	23	10
Total Geothermal							*10*
Biomass							
Snowflake	Snowflake, AZ	Ajani	IO	Sep-2005	2008	15	14
Total Biomass							*14*
Biogas							
Glendale Energy	Glendale, AZ	Glendale Energy LLC	IO	Jul-2008	2010	20	3
Landfill 1	Surprise, AZ	Not Disclosed	UC	Dec-2010	2012	20	3
Total Biogas							*6*
Total Renewable Contracted Capacity							629

As of August 2, 2012

[1] UD = Under Development; UC= Under Construction; IO = In Operation

SOLANA: A "SUNNY PLACE"

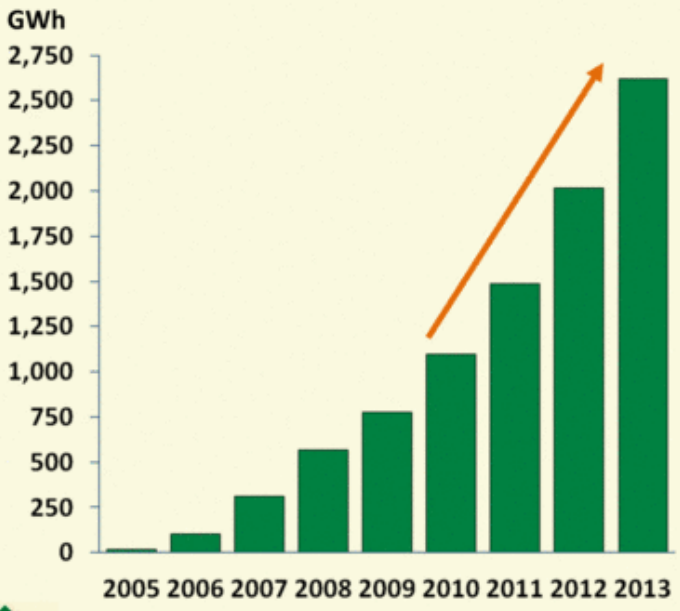
Solana will provide about one-third of APS's renewable energy target by 2015.

- 250-MW 30-year PPA for all output (~900 GWh/year)
- Concentrating solar trough facility 70 miles southwest of Phoenix
- Expected to be first major stored-energy plant in U.S. on targeted 2013 commercial operation date
- Near existing transmission lines
- Thermal storage capability with summer on-peak capacity factor +90%
- To be built, owned and operated by Abengoa Solar
- DOE loan guarantee financing finalized

APS ENERGY EFFICIENCY INITIATIVES

APS plans to continue increasing customers' energy efficiency savings.

Cumulative Annual Energy Savings Associated with EE/DSM Programs



- Portion of lost revenue to be recovered through retail rate adjustor beginning July 1, 2012
- Program costs recovered through retail rate adjustor
- APS to achieve energy savings equal to 5% of retail sales in 2011-2013
- Arizona energy efficiency rules require cumulative savings of 22% of retail sales by 2020