

PINNACLE WEST CAPITAL CORP

FORM 8-K (Current report filing)

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Address	400 NORTH FIFTH STREET MS8695 PHOENIX, AZ 85004
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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): **June 30, 2011**

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 2.02. Results of Operations and Financial Condition.

Item 7.01. Regulation FD Disclosure.

The following information is furnished pursuant to both Item 2.02 and 7.01.

On August 2, 2011, Pinnacle West Capital Corporation (the “Company” or “Pinnacle West”) issued a press release regarding its financial results for the fiscal quarter ended June 30, 2011 and its earnings outlook for 2011. A copy of the press release is attached hereto as Exhibit 99.1.

The Company is providing a quarterly consolidated statistical summary and a copy of the slide presentation made in connection with the quarterly earnings conference call on August 2, 2011. This information contains Company operating results for the fiscal quarter ended June 30, 2011 and is attached hereto as Exhibits 99.2 and 99.3. The summary and slide presentation are concurrently being posted to the Company’s website at www.pinnaclewest.com, which also contains a glossary of relevant terms.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

Exhibit No.	Registrant(s)	Description
99.1	Pinnacle West APS	Earnings News Release issued on August 2, 2011.
99.2	Pinnacle West APS	Pinnacle West Capital Corporation quarterly consolidated statistical summary for the three-month and six-month periods ended June 30, 2011 and 2010.
99.3	Pinnacle West APS	Pinnacle West Capital Corporation 2nd Quarter 2011 Results slide presentation accompanying August 2, 2011 conference call.

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: August 2, 2011

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

ARIZONA PUBLIC SERVICE COMPANY
(Registrant)

Dated: August 2, 2011

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

Exhibit Index

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**FOR IMMEDIATE RELEASE****August 2, 2011**

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PINNACLE WEST REPORTS SECOND-QUARTER RESULTS

- *Unusually mild weather and higher infrastructure-related costs reduced quarter-versus-quarter earnings*
- *Higher retail electricity sales and lower operations and maintenance expenses help offset negative variables*
- *Company revises 2011 earnings guidance*

PHOENIX — Pinnacle West Capital Corp. (NYSE: PNW) today reported consolidated net income attributable to common shareholders of \$86.7 million, or \$0.79 per diluted share of common stock, for the quarter ended June 30, 2011. This result compares with net income attributable to common shareholders of \$114.8 million, or \$1.07 per diluted share, for the same quarter in 2010.

Excluding results of discontinued operations, Pinnacle West's consolidated on-going earnings in the 2011 second quarter were \$86.0 million, or \$0.78 per share, compared with on-going earnings of \$88.5 million or \$0.82 per share, in the same period a year ago. On-going earnings for both periods exclude results of discontinued operations primarily related to APS Energy Services, the Company's unregulated energy services subsidiary. A reconciliation of reported earnings to on-going earnings is provided at the end of this release.

"Temperatures significantly below historical averages adversely impacted our second-quarter results, as well as our full-year earnings outlook," said Pinnacle West Chairman, President and Chief Executive Officer Don Brandt. "This quarter's extremely mild weather reduced retail sales, and the trend continued through most of July.

"Operationally, we remain committed to our strategies to create value for customers and investors by maintaining excellence in operations, investing in Arizona's sustainable energy future, cultivating an improving regulatory framework and strengthening our financial profile."

The second-quarter on-going results comparison was impacted negatively by the following factors:

- *Unusually mild weather* , especially in May and June, decreased the quarterly results by \$0.02 per share compared to the 2010 second quarter, during which abnormally mild weather adversely affected earnings by \$0.15 per share compared with historically normal conditions. In the 2011 second quarter, there were 375 residential cooling-degree days (a proxy for the effects of weather) — 26.8 percent less than normal and 1.6 percent less than the year-ago second quarter.
- *Higher infrastructure-related costs* decreased earnings by \$0.07 per share, primarily related to higher property taxes and increased depreciation and amortization .

These factors were offset in part by the following positive items:

- *Lower operations and maintenance expenses* , primarily due to the timing and level of planned maintenance at the Company's fossil-fueled generating plants, improved earnings by \$0.03 per share. The variance excludes costs associated with renewable energy, demand-side management and similar regulatory programs, which are offset by comparable amounts of operating revenues.
- *Higher retail customer sales* — excluding the effects of weather variations, but including effects of energy efficiency programs — improved earnings by \$0.02 per share. The increase was primarily related to higher electricity consumption by residential customers, reflecting continuing stabilization of the Arizona economy. Total weather-normalized retail electricity sales grew 0.7 percent compared to the same period a year ago. Likewise, Arizona Public Service Co.'s (APS) customer base increased about 0.3 percent over the same timeframe.

APS, the Company's principal subsidiary, reported a 2.8 percent decrease in net income attributable to common shareholder. For the 2011 second-quarter, APS earned \$87.7 million compared with income of \$90.2 million in the similar 2010 period.

2011 Earnings Outlook

Pinnacle West expects its 2011 consolidated on-going earnings will be in the range of \$2.75 to \$2.90 per diluted share. The Company lowered its expectations from a range of \$3.00 to \$3.15 per diluted share primarily because of abnormally mild weather in the first seven months of the year and higher estimated property taxes, partially offset by lower estimated interest expense.

Key factors and assumptions underlying the outlook remain unchanged, except for the following:

- Actual weather for the first seven months of the year and normal weather patterns for the remainder of the year;
- Total electricity gross margin (operating revenues, net of fuel and purchased power expenses, excluding Renewable Energy Surcharge and similar rate adjusters) of about \$2.01 billion to \$2.06 billion, which was previously expected to be \$2.05 billion to \$2.10 billion;
- Operating expenses (operations and maintenance, excluding costs for Renewable Energy Standard and similar regulatory programs; depreciation and amortization; and taxes other than income taxes) of about \$1.33 billion to \$1.36 billion, which were previously expected to be \$1.32 billion to \$1.35 billion; and
- Interest expense, net of allowances for borrowed and equity funds used during construction, of about \$195 million to \$205 million, which was previously expected to be \$200 million to \$210 million.

Conference Call and Web Cast

Pinnacle West invites interested parties to listen to the live web cast of management's conference call to discuss the Company's 2011 second-quarter results, as well as recent developments, at 12 noon (ET) today, August 2. The webcast can be accessed at pinnaclewest.com/presentations and will be available for replay on the website for 30 days. To access the live conference call by telephone, dial (877) 407-8035 or (201) 689-8035 for international callers. A replay of the call also will be available until 11:55 p.m. (ET), Tuesday, August 9, 2011, by calling (877) 660-6853 in the U.S. and Canada or (201) 678-7415 internationally and entering Account number 286, followed by Conference ID number 374825.

General Information

Pinnacle West Capital, an energy holding company based in Phoenix, has consolidated assets of about \$12.5 billion, more than 6,300 megawatts of generating capacity and about 6,700 employees in Arizona and New Mexico. Through its principal subsidiary, Arizona Public Service, the Company provides retail electricity service to more than 1.1 million Arizona homes and businesses. For more information about Pinnacle West, visit the Company's website at pinnaclewest.com.

Dollar amounts in this news release are after income taxes. Earnings per share amounts are based on average diluted common shares outstanding. For more information on Pinnacle West's operating statistics and earnings, please visit pinnaclewest.com/investors.

PINNACLE WEST CAPITAL CORPORATION
NON-GAAP FINANCIAL MEASURE RECONCILIATION
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS
(GAAP MEASURE) TO ON-GOING EARNINGS
(NON-GAAP FINANCIAL MEASURE)

	Three Months Ended June 30, 2011		Three Months Ended June 30, 2010	
	Dollars in Millions	Diluted EPS	Dollars in Millions	Diluted EPS
Net Income Attributable to Common Shareholders	\$ 86.7	\$ 0.79	\$ 114.8	\$ 1.07
Adjustment:				
Discontinued operations, primarily related to APS Energy Services	(0.7)	(0.01)	(26.3)	(0.25)
On-going Earnings	<u>\$ 86.0</u>	<u>\$ 0.78</u>	<u>\$ 88.5</u>	<u>\$ 0.82</u>

NON-GAAP FINANCIAL INFORMATION

In this press release, we refer to “on-going earnings (loss).” On-going earnings is a “non-GAAP financial measure,” as defined in accordance with U.S. Securities and Exchange Commission rules. We believe on-going earnings (loss) provide 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. Investors should note that these non-GAAP financial measures involve judgments by management, including whether an item is classified as an unusual item. We use on-going earnings (loss), or similar concepts, to measure our performance internally in reports for management.

FORWARD-LOOKING STATEMENTS

This press release contains forward-looking statements based on our current expectations, including statements regarding our 2011 earnings outlook. 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 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 outcomes currently expected or sought by Pinnacle West or APS. These factors include, but are not limited to:

- our ability to achieve timely and adequate rate recovery of our costs, including returns on debt and equity capital;
- our ability to manage capital expenditures and other 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 performance and outages;
- volatile fuel and purchased power costs;
- fuel and water supply availability;
- regulatory and judicial decisions, developments and proceedings;
- new legislation or regulation including those relating to greenhouse gas emissions, renewable energy mandates, nuclear plant operations and energy efficiency standards;
- our ability to meet renewable energy requirements 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 Item 1A of the Pinnacle West/APS Annual Report on Form 10-K for the fiscal year ended December 31, 2010 and in Part II, Item 1A of the Pinnacle West/APS Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, which readers should review carefully before placing any reliance on our financial statements, disclosures or our 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.

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PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

(dollars and shares in thousands, except per share amounts)

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30,		JUNE 30,	
	2011	2010	2011	2010
Operating Revenues				
Regulated electricity segment	\$ 798,669	\$ 799,416	\$ 1,446,643	\$ 1,410,841
Other revenues	1,130	3,379	2,003	4,216
Total	<u>799,799</u>	<u>802,795</u>	<u>1,448,646</u>	<u>1,415,057</u>
Operating Expenses				
Regulated electricity segment fuel and purchased power	244,049	251,800	456,056	467,340
Operations and maintenance	210,590	213,609	465,619	419,922
Depreciation and amortization	106,617	102,995	213,200	203,629
Taxes other than income taxes	40,155	31,682	77,779	63,405
Other expenses	1,396	1,325	3,216	2,403
Total	<u>602,807</u>	<u>601,411</u>	<u>1,215,870</u>	<u>1,156,699</u>
Operating Income	<u>196,992</u>	<u>201,384</u>	<u>232,776</u>	<u>258,358</u>
Other				
Allowance for equity funds used during construction	5,924	5,504	11,319	10,893
Other income	557	943	2,247	1,892
Other expense	(3,186)	(5,650)	(4,927)	(7,176)
Total	<u>3,295</u>	<u>797</u>	<u>8,639</u>	<u>5,609</u>
Interest Expense				
Interest charges	60,140	60,751	121,217	121,518
Allowance for borrowed funds used during construction	(3,856)	(3,072)	(7,432)	(6,091)
Total	<u>56,284</u>	<u>57,679</u>	<u>113,785</u>	<u>115,427</u>
Income From Continuing Operations Before Income Taxes	144,003	144,502	127,630	148,540
Income Taxes	<u>50,818</u>	<u>51,188</u>	<u>44,813</u>	<u>43,535</u>
Income From Continuing Operations	93,185	93,314	82,817	105,005
Income From Discontinued Operations				
Net of Income Taxes	<u>654</u>	<u>26,252</u>	<u>1,348</u>	<u>13,664</u>
Net Income	93,839	119,566	84,165	118,669
Less: Net income attributable to noncontrolling interests	<u>7,154</u>	<u>4,769</u>	<u>12,615</u>	<u>9,886</u>
Net Income Attributable To Common Shareholders	<u>\$ 86,685</u>	<u>\$ 114,797</u>	<u>\$ 71,550</u>	<u>\$ 108,783</u>
Weighted-Average Common Shares Outstanding - Basic	109,044	107,355	108,939	104,431
Weighted-Average Common Shares Outstanding - Diluted	109,718	107,764	109,540	104,857
Earnings Per Weighted-Average Common Share Outstanding				
Income from continuing operations attributable to common shareholders - basic	\$ 0.79	\$ 0.82	\$ 0.64	\$ 0.91
Net income attributable to common shareholders - basic	\$ 0.80	\$ 1.07	\$ 0.66	\$ 1.04
Income from continuing operations attributable to common shareholders - diluted	\$ 0.78	\$ 0.82	\$ 0.64	\$ 0.91
Net income attributable to common shareholders - diluted	\$ 0.79	\$ 1.07	\$ 0.65	\$ 1.04
Amounts Attributable To Common Shareholders				
Income from continuing operations, net of tax	\$ 86,001	\$ 88,536	\$ 70,163	\$ 95,099
Discontinued operations, net of tax	684	26,261	1,387	13,684
Net income attributable to common shareholders	<u>\$ 86,685</u>	<u>\$ 114,797</u>	<u>\$ 71,550</u>	<u>\$ 108,783</u>

Pinnacle West Capital Corporation

Quarterly Consolidated Statistical Summary
Periods Ended June 30, 2011 and 2010

Line	3 Months Ended June			6 Months Ended June		
	2011	2010	Incr (Decr)	2011	2010	Incr (Decr)
EARNINGS CONTRIBUTION BY SUBSIDIARY (\$ Millions)						
1	\$ 95	\$ 95	\$ —	\$ 88	\$ 111	\$ (23)
2	—	—	—	—	—	—
3	—	—	—	—	—	—
4	—	—	—	—	—	—
5	(2)	(2)	—	(5)	(6)	1
6	93	93	—	83	105	(22)
Income (Loss) From Discontinued Operations - Net of Tax						
7	—	(2)	2	—	(23)	23
8	1	29	(28)	1	37	(36)
9	1	27	(26)	1	14	(13)
10	94	120	(26)	84	119	(35)
11	7	5	2	12	10	2
12	\$ 87	\$ 115	\$ (28)	\$ 72	\$ 109	\$ (37)
EARNINGS PER SHARE BY SUBSIDIARY - DILUTED						
13	\$ 0.86	\$ 0.88	\$ (0.02)	\$ 0.81	\$ 1.06	\$ (0.25)
14	—	—	—	—	—	—
15	—	—	—	—	—	—
16	—	—	—	—	—	—
17	(0.01)	(0.02)	0.01	(0.05)	(0.06)	0.01
18	0.85	0.86	(0.01)	0.76	1.00	(0.24)
Income (Loss) From Discontinued Operations - Net of Tax						
19	—	(0.02)	0.02	—	(0.22)	0.22
20	0.01	0.27	(0.26)	0.01	0.35	(0.34)
21	0.01	0.25	(0.24)	0.01	0.13	(0.12)
22	0.86	1.11	(0.25)	0.77	1.13	(0.36)
23	0.07	0.04	0.03	0.12	0.09	0.03
24	\$ 0.79	\$ 1.07	\$ (0.28)	\$ 0.65	\$ 1.04	\$ (0.39)
25	\$ 33.13	\$ 32.07	\$ 1.06	\$ 33.13	\$ 32.07	\$ 1.06
COMMON SHARES OUTSTANDING (Thousands)						
26	109,718	107,764	1,954	109,540	104,857	4,683
27	109,090	108,511	579	109,090	108,511	579

See Glossary of Terms.

Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Periods Ended June 30, 2011 and 2010

Line	3 Months Ended June			6 Months Ended June		
	2011	2010	Incr (Decr)	2011	2010	Incr (Decr)
ELECTRIC OPERATING REVENUES (Dollars in Millions)						
REGULATED ELECTRICITY SEGMENT						
Retail						
28	\$ 360	\$ 360	\$ (0)	\$ 633	\$ 627	\$ 6
29	380	383	(3)	679	672	7
30	<u>740</u>	<u>743</u>	<u>(3)</u>	<u>1,312</u>	<u>1,299</u>	<u>13</u>
Wholesale revenue on delivered electricity						
31	20	16	4	31	34	(3)
32	16	19	(3)	34	35	(1)
33	8	8	(0)	16	17	(1)
34	15	13	2	55	25	30
35	<u>799</u>	<u>799</u>	<u>(0)</u>	<u>1,447</u>	<u>1,410</u>	<u>37</u>
MARKETING AND TRADING						
36	-	-	-	-	-	-
37	<u>\$ 799</u>	<u>\$ 799</u>	<u>\$ (0)</u>	<u>\$ 1,447</u>	<u>\$ 1,410</u>	<u>\$ 37</u>
ELECTRIC SALES (GWH)						
REGULATED ELECTRICITY SEGMENT						
Retail sales						
38	2,968	2,957	11	5,620	5,532	88
39	3,746	3,719	27	7,020	6,886	134
40	<u>6,713</u>	<u>6,676</u>	<u>37</u>	<u>12,640</u>	<u>12,418</u>	<u>222</u>
Wholesale electricity delivered						
41	270	206	64	413	361	52
42	690	674	16	1,336	1,283	53
43	38	98	(60)	69	299	(230)
44	<u>7,711</u>	<u>7,654</u>	<u>57</u>	<u>14,457</u>	<u>14,361</u>	<u>96</u>
MARKETING AND TRADING						
45	-	-	-	-	-	-
46	<u>7,711</u>	<u>7,654</u>	<u>57</u>	<u>14,457</u>	<u>14,361</u>	<u>96</u>
POWER SUPPLY ADJUSTOR ("PSA") - REGULATED ELECTRICITY SEGMENT (Dollars in Millions)						
47	\$ (77)	\$ (105)	\$ 28	\$ (58)	\$ (87)	\$ 29
48	(16)	(21)	5	(67)	(65)	(2)
49	-	-	-	-	-	-
50	39	29	10	72	56	16
51	<u>(54)</u>	<u>(97)</u>	<u>43</u>	<u>(54)</u>	<u>(97)</u>	<u>43</u>

See Glossary of Terms.

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Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Periods Ended June 30, 2011 and 2010

Line	3 Months Ended June			6 Months Ended June			
	2011	2010	Incr (Decr)	2011	2010	Incr (Decr)	
AVERAGE ELECTRIC CUSTOMERS							
Retail customers							
52	Residential	992,605	989,122	3,483	996,148	992,088	4,060
53	Business	125,760	125,533	227	125,676	125,465	211
54	Total	1,118,364	1,114,655	3,709	1,121,824	1,117,553	4,271
55	Wholesale customers	47	51	(4)	47	51	(4)
56	Total customers	1,118,411	1,114,706	3,705	1,121,871	1,117,604	4,266
57	Customer growth (% over prior year)	0.3%	0.7%	(0.4)%	0.4%	0.6%	(0.2)%
RETAIL SALES (GWH) - WEATHER NORMALIZED							
58	Residential	3,249	3,215	34	5,861	5,813	48
59	Business	3,848	3,830	18	7,111	7,035	76
60	Total	7,096	7,045	51	12,972	12,848	124
RETAIL USAGE (KWh/Average Customer)							
61	Residential	2,990	2,989	1	5,642	5,576	66
62	Business	29,784	29,628	156	55,857	54,886	971
RETAIL USAGE - WEATHER NORMALIZED (KWh/Average Customer)							
63	Residential	3,273	3,250	22	5,883	5,859	24
64	Business	30,594	30,508	86	56,584	56,073	511
ELECTRICITY DEMAND (MW)							
65	Native load peak demand	6,741	6,440	301	6,741	6,440	301
WEATHER INDICATORS - RESIDENTIAL							
Actual							
66	Cooling degree-days	375	381	(6)	375	381	(6)
67	Heating degree-days	27	19	8	614	520	94
68	Average humidity	14%	16%	(2)%	14%	16%	(3)%
10-Year Averages							
69	Cooling degree-days	512	512	-	512	512	-
70	Heating degree-days	13	13	-	513	513	-
71	Average humidity	18%	18%	-	18%	18%	0%

See Glossary of Terms.

Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Periods Ended June 30, 2011 and 2010

Line	3 Months Ended June			6 Months Ended June			
	2011	2010	Incr (Decr)	2011	2010	Incr (Decr)	
ENERGY SOURCES (GWH)							
Generation production							
72	Nuclear	2,178	2,011	167	4,626	4,376	250
73	Coal	2,988	3,116	(128)	5,938	6,123	(185)
74	Gas, oil and other	1,197	1,196	1	2,038	2,012	26
75	Total generation production	6,363	6,323	40	12,602	12,511	91
Purchased power							
76	Firm load	1,359	1,356	3	1,976	1,827	149
77	Marketing and trading	358	423	(65)	585	844	(259)
78	Total purchased power	1,717	1,779	(62)	2,561	2,671	(110)
79	Total energy sources	8,080	8,102	(22)	15,163	15,182	(19)
POWER PLANT PERFORMANCE							
Capacity Factors							
80	Nuclear	87%	80%	7%	93%	88%	5%
81	Coal	78%	81%	(3)%	78%	81%	(3)%
82	Gas, oil and other	17%	16%	1%	15%	14%	1%
83	System average	48%	46%	2%	48%	46%	2%
ECONOMIC INDICATORS							
Building Permits - Metro Phoenix (a)							
84	Single-family	1,726	1,460	266	3,048	3,387	(339)
85	Multi-family	104	193	(89)	445	457	(12)
86	Total	1,830	1,653	177	3,493	3,844	(351)
Arizona Job Growth (b)							
87	Payroll job growth (% over prior year)	0.2%	(1.9)%	2.1%	0.1%	(3.2)%	3.3%
88	Unemployment rate (%, seasonally adjusted)	9.2%	10.0%	(0.8)%	9.4%	10.1%	(0.7)%

Sources:

- (a) Arizona Real Estate Center, Arizona State University W.P. Carey College of Business
(b) Arizona Department of Economic Security



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2nd Quarter 2011 Results

Forward-Looking Statements



This presentation contains forward-looking statements based on current expectations, including statements regarding our 2011 earnings outlook. 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 achieve timely and adequate rate recovery of our costs, including returns on debt and equity capital; our ability to manage capital expenditures and other 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 performance and outages; volatile fuel and purchased power costs; fuel and water supply availability; regulatory and judicial decisions, developments and proceedings; new legislation or regulation including those relating to greenhouse gas emissions, renewable energy mandates, nuclear plant operations and energy efficiency standards; our ability to meet renewable energy requirements 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 Item 1A of the Pinnacle West/APS Annual Report on Form 10-K for the fiscal year ended December 31, 2010, and in Part II, Item 1A of the Pinnacle West/APS Quarterly Report on Form 10-Q for the quarter ended June 30, 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.

Amounts Attributable to Common Shareholders and Non-GAAP Financial Measures



In this presentation, references to net income and earnings per share refer to amounts attributable to common shareholders.

We present "regulated electricity segment gross margin" per diluted share of common stock. Regulated electricity segment gross margin refers to regulated electricity segment revenues less regulated electricity segment fuel and purchased power expenses. Regulated electricity segment gross margin is a "non-GAAP financial measure," as defined in accordance with SEC rules. The Appendix contains a reconciliation of this non-GAAP financial measure to the referenced revenue and expense line items on our Condensed Consolidated Statements of Income, which are the most directly comparable financial measures calculated and presented in accordance with GAAP. We view regulated electricity segment gross margin as an important performance measure of the core profitability of our operations.

We refer to "on-going earnings" in this presentation, which is also a non-GAAP financial measure. We believe on-going earnings provide 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. Reconciliations of on-going earnings to our net income available to common shareholders are included in this presentation.

Investors should note that these 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.

- **2nd Quarter Results**
- **Arizona Economic Outlook**
- **2011 Earnings Guidance**
- **Credit Ratings, Liquidity and Financing Activities**

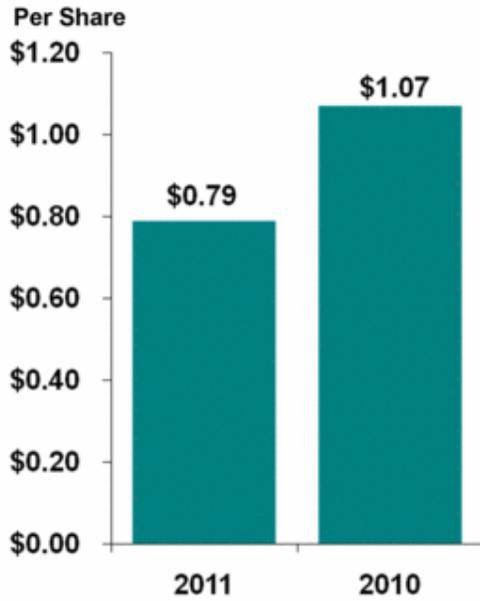
Consolidated EPS Comparisons

2nd Quarter 2011 vs. 2nd Quarter 2010



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Net Income



On-Going Earnings



Non-GAAP EPS Reconciliation

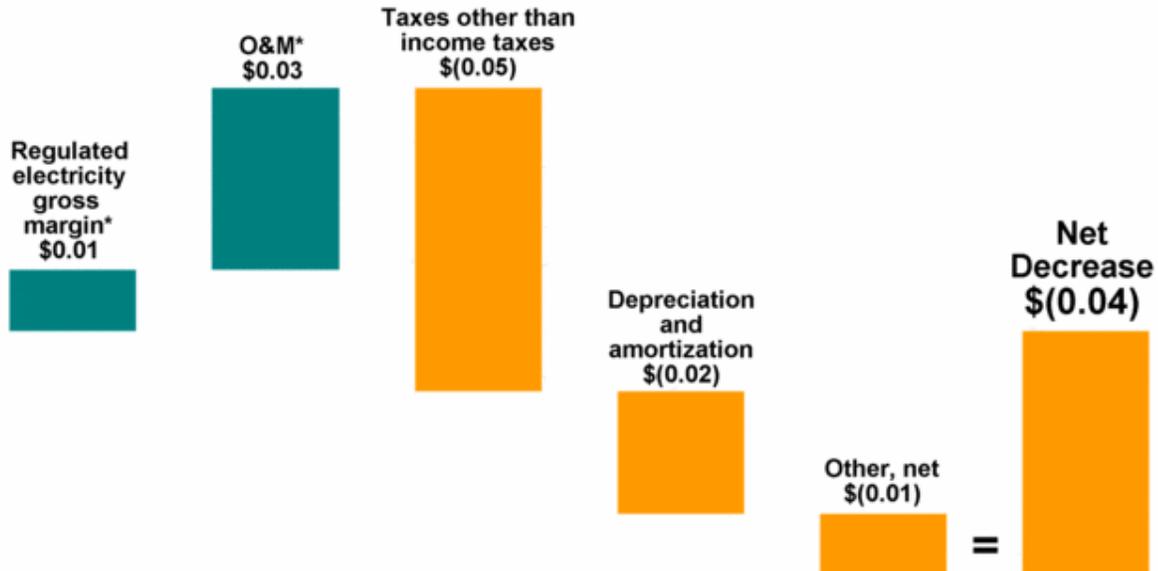
2nd Quarter 2011 vs. 2nd Quarter 2010



	<u>2nd Qtr 2011</u>	<u>2nd Qtr 2010</u>	<u>Change</u>
EPS as reported	\$ 0.79	\$ 1.07	\$ (0.28)
Adjustment:			
Discontinued operations, primarily related to APS Energy Services	<u>(0.01)</u>	<u>(0.25)</u>	<u>0.24</u>
On-going EPS	<u>\$ 0.78</u>	<u>\$ 0.82</u>	<u>\$ (0.04)</u>

On-Going EPS Variances

2nd Quarter 2011 vs. 2nd Quarter 2010



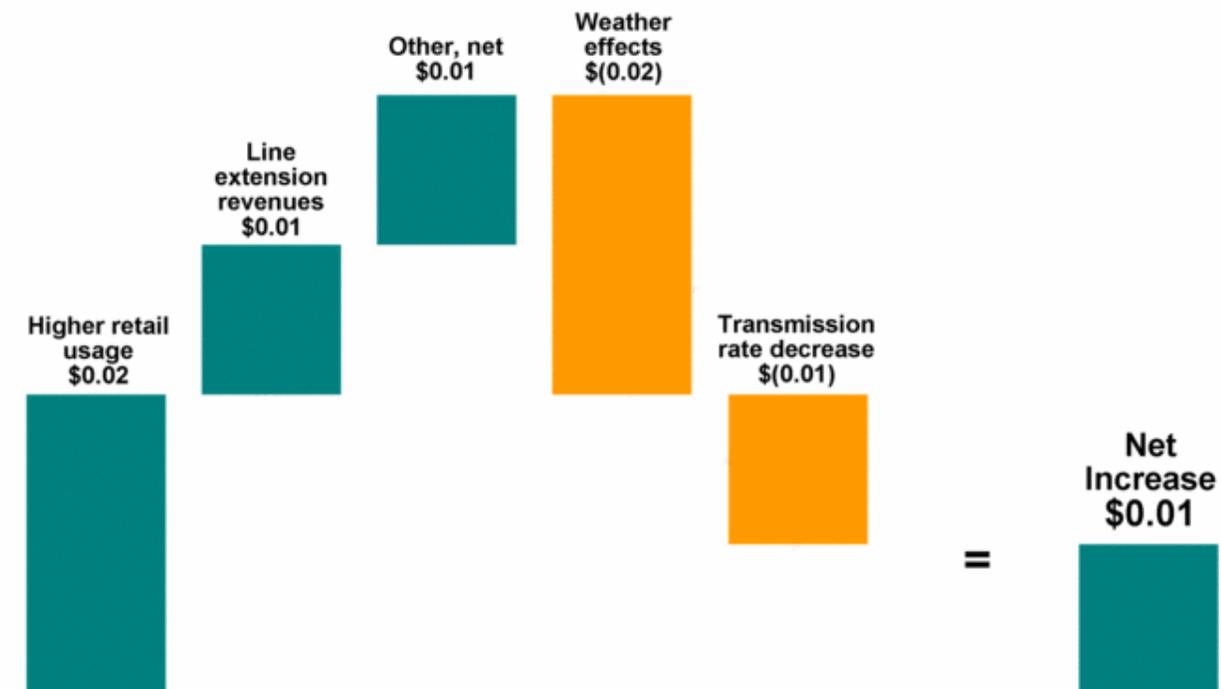
* Excludes costs, and offsetting operating revenues, associated with renewable energy, demand-side management and similar regulatory programs. See non-GAAP reconciliation for regulated electricity gross margin in Appendix.

Regulated Electricity Gross Margin Drivers



2nd Quarter 2011 vs. 2nd Quarter 2010

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See non-GAAP reconciliation in Appendix.

Weather Indicators

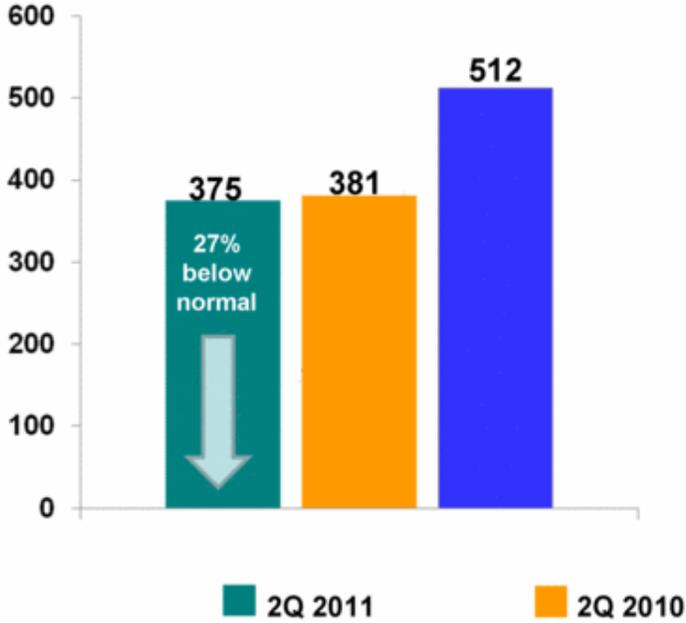
2nd Quarter 2011 vs. 2nd Quarter 2010

Actuals vs. 10-Year Average

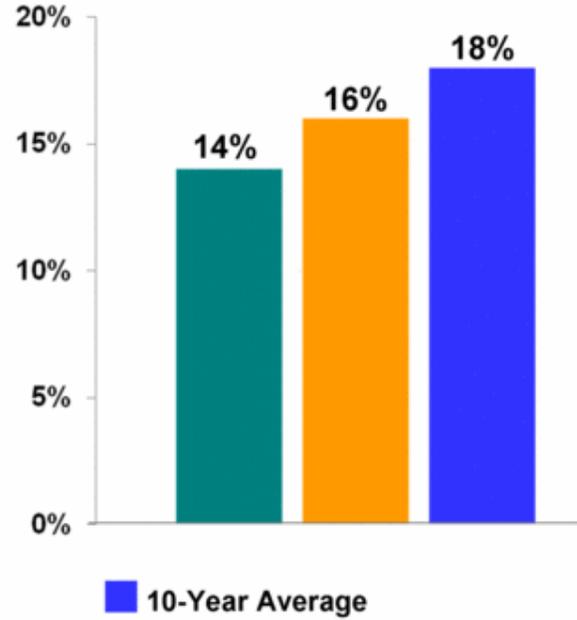


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Residential Cooling Degree-Days*



Average Humidity



* 80° F. base

Second Quarter 2011

Arizona Economic Indicators

Employment & Consumer Spending



Non-Farm Job Growth

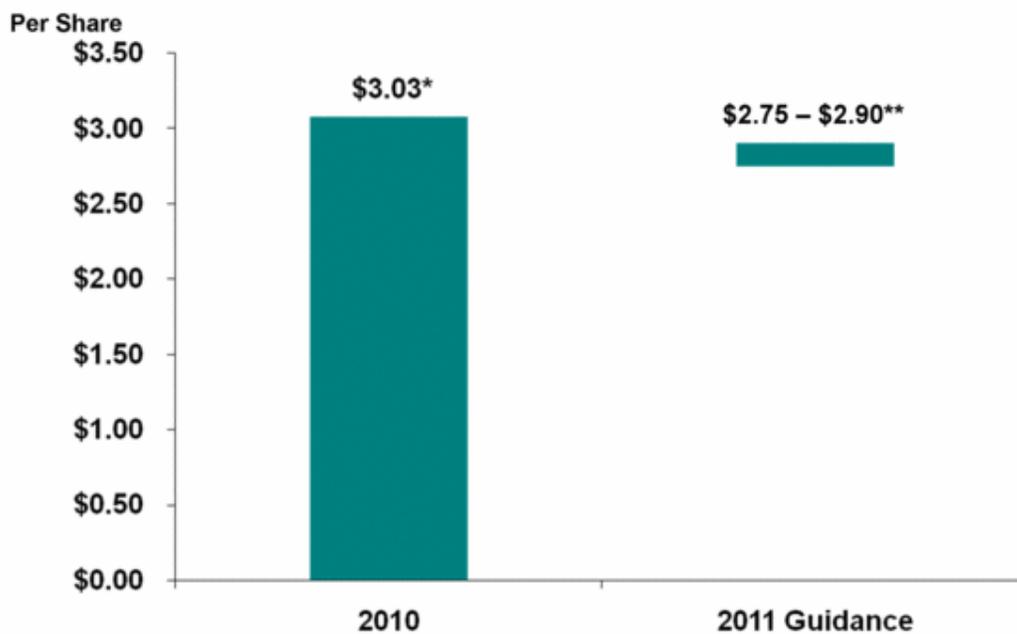


Consumer Spending



Consolidated On-Going EPS Outlook

As of August 2, 2011



* Reflects 2011 reclassification of APS Energy Services as discontinued operation.

**See key factors and assumptions in Appendix.

Credit Ratings



	APS	Parent
Corporate Credit Ratings		
Moody's	Baa2	Baa3
S&P	BBB	BBB
Fitch	BBB-	BBB-
Senior Unsecured		
Moody's	Baa2	-
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.

CEO Discussion Agenda



- **Arizona Regulatory Developments**
- **Renewables and Generation Investments**
- **Utility Operations Update**
- **Looking Ahead**

Appendix

Second Quarter 2011

2011 Retail Rate Case Benefits



The rate case provisions contain 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**
- **Promotes rate gradualism for customers**

2011 Retail Rate Case

Key Financial Components



APS has requested a base rate increase to become effective July 1, 2012.

	<u>Annual Revenue Change</u>	
Non-fuel base rate increase	\$ 194.1	6.6%
Amounts transferring from adjustment mechanism revenues		
Renewable Energy Surcharge revenues related to AZ Sun and other solar projects	44.9	
Power Supply Adjustor revenues (refunds)	<u>(143.5)</u>	
Net base rate increase	<u>\$ 95.5</u>	3.3%

2011 Retail Rate Case

Key Financial Assumptions



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

Rate base	\$5.7 billion
Return on equity	11%
Capital structure	
Long-term debt	46.1%
Common equity	53.9%
Base fuel rate (¢/kWh)	3.24
Projected fuel-price year for base fuel rate	2012
Test year ended December 31, 2010	

2011 Retail Rate Case

Details of Request



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

- **Post test-year plant additions through rate effective date**
 - \$259 million AZ Sun projects
 - \$161 million other projects
- **Revenue-per-customer decoupling mechanism**
- **Infrastructure tracker**
 - New generation additions and generation efficiency projects
 - Environmental compliance investments
- **100% Power Supply Adjustor**
- **Remaining portions of AZ Sun program to be recovered through RES until included in base rates (consistent with treatment for first 50 MW)**

APS AZ Sun Program – Phase I



- 100 MW solar photovoltaic plants to be owned by APS
- Up to \$500 million capital investment
- In service 2011 - 2014
- Constructive rate recovery
- Commitments to date:
 - 83 MW with \$384 million capital investment
 - Project summary

Name	Net Capacity	Target Operation Date
Paloma	17 MW	2011
Cotton Center	17 MW	2011
Hyder Phase I	11 MW	2011
Hyder Phase II	5 MW	2012
Chino Valley	19 MW	2012
Luke Air Force Base	14 MW	2013

- Additional procurement initiatives underway

APS AZ Sun Program – Proposed Phase II



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- **Additional 100 MW solar photovoltaic plants to be owned by APS**
- **Up to \$475 million capital investment**
- **In service 2013 through 2015**
- **Rate recovery through RES until included in base rates**
- **To be balanced with purchases from third-party renewable resource developers**
- **Requested in 2012 RES implementation plan filed with ACC July 1, 2011**
- **Decision expected by end of year**

Four Corners Power Plant Transactions



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

- **Purchase price: \$294 million**
- **Acquisition target date: late 2012**
- **Estimated environmental compliance investment: \$300 million**
- **Finance with mix of debt and equity**
- **Arizona, California and other regulatory approvals required**

ACC Procedural Schedule

- **May 31, 2011** **Staff/Intervenor direct testimony filed**
- **June 22, 2011** **APS rebuttal testimony filed**
- **July 14, 2011** **Hearing began**

2011 On-Going EPS Guidance

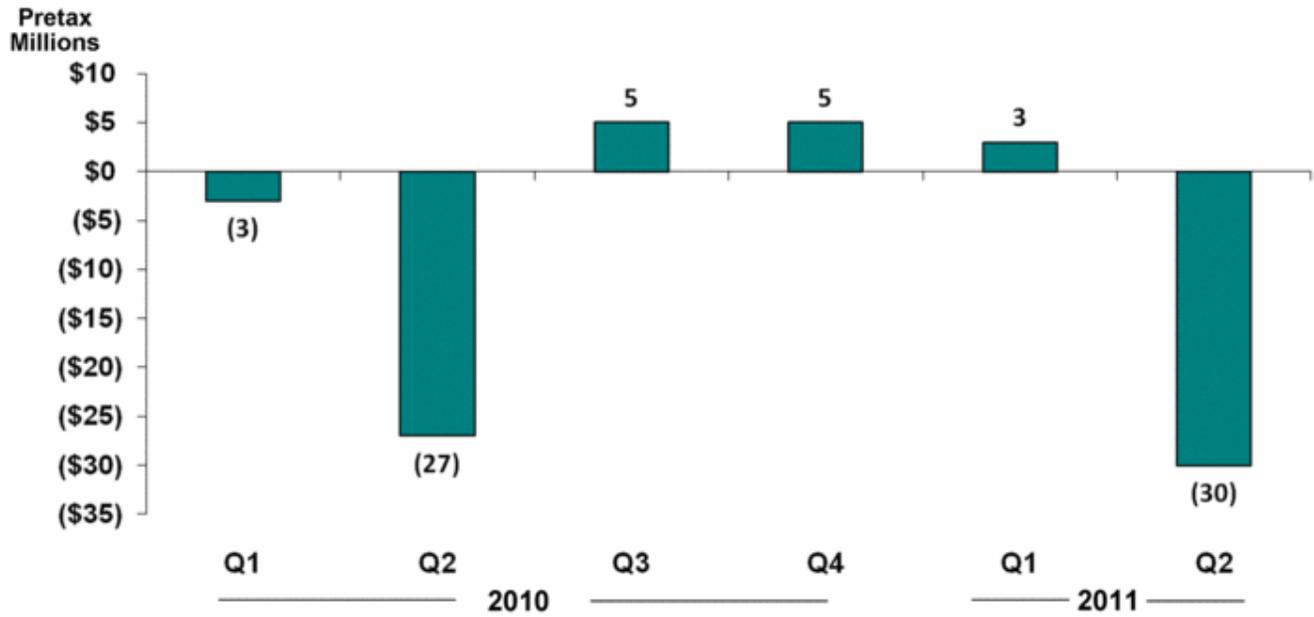
Key Factors and Assumptions as of August 2, 2011



- **Electricity gross margin (operating revenues,* net of fuel and purchased power expenses) about \$2.01 billion to \$2.06 billion, which was previously expected to be \$2.05 billion to \$2.10 billion**
 - Retail customer growth about 1%
 - Weather-normalized retail electricity sales volume growth about 1% taking into account effects of Company's energy efficiency initiatives
 - Actual weather for first 7 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, which was previously expected to be \$1.32 billion to \$1.35 billion**
- **Interest expense, net of allowances for borrowed and equity funds used during construction, about \$195 million to \$205 million, which was previously expected to be \$200 million to \$210 million**
- **Net income attributable to noncontrolling interests about \$25 million to \$30 million, which was previously expected to be \$20 million to \$25 million**
- **Effective tax rate about 34%**
- **Full-year effect of 2010 equity issuance**
- **APS earnings to contribute substantially all of consolidated earnings**

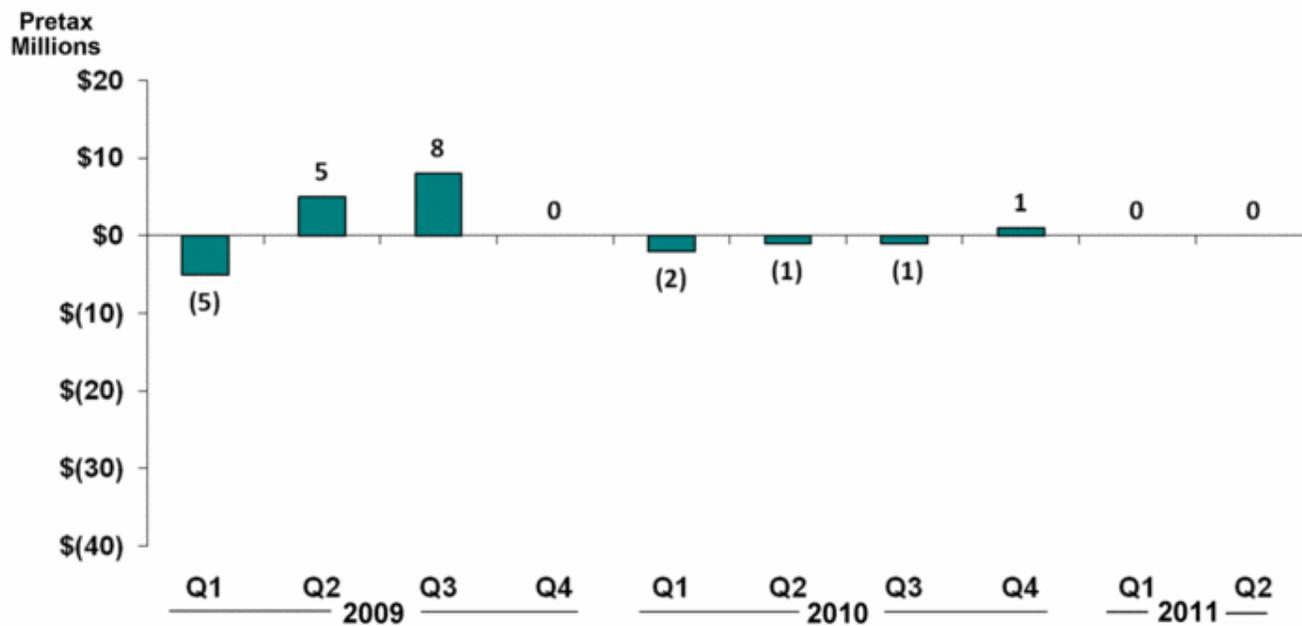
* Excludes O&M, and offsetting operating revenues, associated with renewable energy, demand-side management and similar regulatory programs, as well as \$28 million pretax related to settlement of prior-period Four Corners transmission rights-of-way.

Gross Margin Effects of Weather Variances Versus Normal*



*All periods recalculated to conform to current presentation.

Quarterly Mark-to-Market on Hedge Contracts*

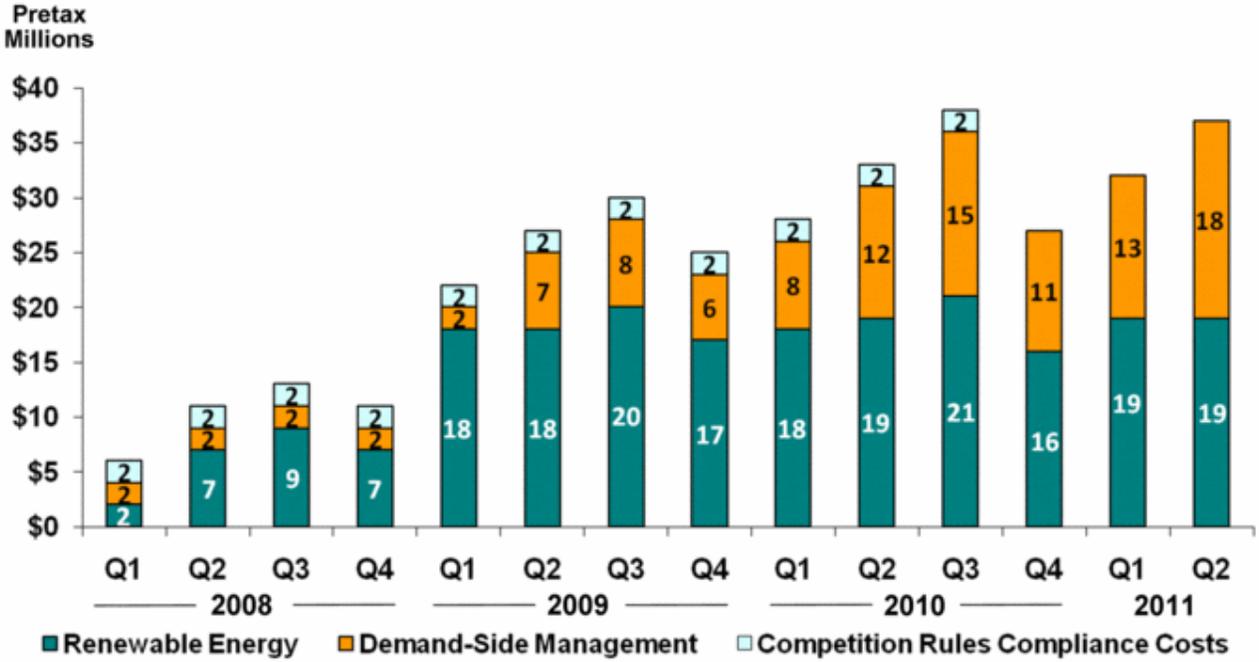


* Related to APS 10% share under Power Supply Adjustor (PSA), net of related deferrals.

Renewable Energy, Demand-Side Management and Similar Regulatory Expenses*



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* O&M expenses related to Renewable Energy Standard and similar regulatory programs are offset by comparable revenue amounts.

Non-GAAP Measure Reconciliation

Regulated Electricity Segment Gross Margin



\$ millions, except per share amounts	Three Months Ended		EPS Change
	June 30,		
	2011	2010	
Regulated electricity segment revenue*	\$ 799	\$ 800	
Regulated electricity segment fuel and purchased power expenses*	(244)	(252)	
Regulated electricity segment gross margin	555	548	\$ 0.04
Less:			
RES, DSM and similar regulatory surcharge revenue**	(35)	(31)	(0.03)
Regulated electricity segment gross margin - adjusted	\$ 520	\$ 517	\$ 0.01

* Line items from Condensed Consolidated Statements of Income.

**RES, Renewable Energy Standard; DSM, Demand-Side management.

Non-GAAP EPS Reconciliation

Year Ended December 31, 2010



	<u>2010</u>
Net income attributable to common shareholders	\$ 3.27
Adjustment - Discontinued Operations	
Real estate operations	0.05
APS Energy Services	<u>(0.29)</u>
On-going EPS	<u>\$ 3.03</u>