

PINNACLE WEST CAPITAL CORP

FORM 10-Q (Quarterly Report)

Filed 08/15/94 for the Period Ending 06/30/94

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

PINNACLE WEST CAPITAL CORP

FORM 10-Q (Quarterly Report)

Filed 8/15/1994 For Period Ending 6/30/1994

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

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

QUARTERLY REPORT UNDER SECTION 13 or 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 1994 OR

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

For the transition period from to *Commission file number 1-8962*

PINNACLE WEST CAPITAL CORPORATION

(Exact name of registrant as specified in its charter)

Arizona
(State or other jurisdiction
of incorporation or organization)

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

400 E. Van Buren St., P. O. Box 52132, Phoenix, Arizona
(Address of principal executive offices)

85072-2132
(Zip Code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days.

Yes / / No //

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

Number of shares of common stock, no par value, outstanding as August 11, 1994 87,409,486

Glossary

ACC - Arizona Corporation Commission

ACC Order - Final order of the ACC dated June 1, 1994 approving the 1994 Settlement Agreement

ACC Staff - Staff of the Arizona Corporation Commission

AFUDC - Allowance for funds used during construction

APS - Arizona Public Service Company

cents/kWh - Cents per kilowatt-hour

Company - Pinnacle West Capital Corporation

El Dorado - El Dorado Investment Company

ITCs - Investment tax credits

1991 Settlement - December 1991 retail rate case settlement

1993 10-K - Pinnacle West Capital Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 1993

1994 Settlement Agreement - Rate Settlement Agreement between APS and the ACC Staff dated May 27, 1994

NRC - Nuclear Regulatory Commission

Palo Verde - Palo Verde Nuclear Generating Station

Pinnacle West - Pinnacle West Capital Corporation

SFAS No. 106 - Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions"

SFAS No. 112 - Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits"

SunCor - SunCor Development Company

PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements.

**PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)**

(Dollars in thousands, except per share amounts)

	Three Months Ended June 30,	
	1994	1993
Operating Revenues		
Electric	\$ 417,588	\$ 407,375
Real estate	15,436	6,277
	-----	-----
Total	433,024	413,652
	-----	-----
Fuel Expenses		
Fuel for electric generation	60,090	55,029
Purchased power	16,304	16,577
	-----	-----
Total	76,394	71,606
	-----	-----
Operating Expenses		
Utility operations and maintenance	108,444	94,191
Real estate operations	15,602	8,209
Depreciation and amortization	57,953	55,822
Taxes other than income taxes	57,302	54,669
	-----	-----
Total	239,301	212,891
	-----	-----
Operating Income	117,329	129,155
	-----	-----
Other Income (Deductions)		
Allowance for equity funds used during construction	977	758
Palo Verde accretion income	13,616	18,469
Interest on long-term debt	(57,202)	(63,933)
Other interest	(3,977)	(4,055)
Allowance for borrowed funds used during construction	1,350	1,080
Preferred stock dividend requirements of APS	(6,972)	(7,648)
Other-net	20,095	164
	-----	-----
Total	(32,113)	(55,165)
	-----	-----
Income From Continuing Operations		
Before Income Taxes	85,216	73,990
Income Tax Expense	36,514	35,091
	-----	-----
Net Income	\$ 48,702	\$ 38,899
	=====	=====
Average Common Shares Outstanding	87,418,627	87,193,004
Earnings Per Average Common Share Outstanding:	\$ 0.56	\$ 0.45
	=====	=====
Dividends Declared Per Share	\$ 0.20	--
	=====	=====

See Notes to Consolidated Financial Statements

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(Dollars in thousands, except per share amounts)

	Six Months Ended	
	June 30,	
	1994	1993
	-----	-----
Operating Revenues		
Electric	\$ 782,764	\$ 778,678
Real estate	24,860	10,076
	-----	-----
Total	807,624	788,754
	-----	-----
Fuel Expenses		
Fuel for electric generation	118,058	110,037
Purchased power	26,367	27,073
	-----	-----
Total	144,425	137,110
	-----	-----
Operating Expenses		
Utility operations and maintenance	206,065	185,302
Real estate operations	24,263	12,079
Depreciation and amortization	116,148	111,548
Taxes other than income taxes	110,924	106,225
	-----	-----
Total	457,400	415,154
	-----	-----
Operating Income	205,799	236,490
	-----	-----
Other Income (Deductions)		
Allowance for equity funds used		
during construction	1,823	1,410
Palo Verde accretion income	33,596	36,459
Interest on long-term debt	(113,566)	(125,351)
Other interest	(7,964)	(7,943)
Allowance for borrowed funds used		
during construction	2,517	1,966
Preferred stock dividend requirements of APS	(14,482)	(15,537)
Other-net	20,325	452
	-----	-----
Total	(77,751)	(108,544)
	-----	-----
Income From Continuing Operations		
Before Income Taxes	128,048	127,946
Income Tax Expense	57,727	61,573
	-----	-----
Income From Continuing Operations	70,321	66,373
Cumulative Effect of Change in Accounting		
for Income Taxes	--	19,252
	-----	-----
Net Income	\$ 70,321	\$ 85,625
	=====	=====
Average Common Shares Outstanding	87,418,395	87,176,359
Earnings Per Average Common Share Outstanding:		
Continuing Operations	\$ 0.80	\$ 0.76
Accounting Change	--	0.22
	-----	-----
Total	\$ 0.80	\$ 0.98
	=====	=====
Dividends Declared Per Share	\$ 0.40	--
	=====	=====

See Notes to Consolidated Financial Statements

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(Dollars in thousands, except per share amounts)

	Twelve Months Ended June 30,	
	1994	1993
Operating Revenues		
Electric	\$ 1,690,376	\$ 1,694,398
Real estate	47,032	23,818
Total	1,737,408	1,718,216
Fuel Expenses		
Fuel for electric generation	239,455	241,227
Purchased power	68,406	60,472
Total	307,861	301,699
Operating Expenses		
Utility operations and maintenance	421,979	385,766
Real estate operations	50,404	30,518
Depreciation and amortization	228,158	222,272
Taxes other than income taxes	227,044	219,481
Total	927,585	858,037
Operating Income	501,962	558,480
Other Income (Deductions)		
Allowance for equity funds used during construction	2,739	2,961
Palo Verde accretion income	72,017	71,054
Interest on long-term debt	(234,176)	(253,926)
Other interest	(16,526)	(14,849)
Allowance for borrowed funds used during construction	4,704	4,022
Preferred stock dividend requirements of APS	(29,785)	(31,572)
Other-net	17,591	(9,854)
Total	(183,436)	(232,164)
Income From Continuing Operations		
Before Income Taxes	318,526	326,316
Income Tax Expense	144,600	155,992
Income From Continuing Operations	173,926	170,324
Income From Discontinued Operations -- Net of Income Tax	--	6,000
Cumulative Effect of Change in Accounting for Income Taxes	--	19,252
Net Income	\$ 173,926	\$ 195,576
Average Common Shares Outstanding	87,361,921	87,116,077
Earnings Per Average Common Share Outstanding:		
Continuing Operations	\$ 1.99	\$ 1.96
Discontinued Operations	--	0.07
Accounting Change	--	0.22
Total	\$ 1.99	\$ 2.25
Dividends Declared Per Share	\$ 0.60	--

See Notes to Consolidated Financial Statements

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited)

ASSETS
(Thousands of Dollars)

	June 30, 1994	December 31, 1993
	-----	-----
Current Assets		
Cash and cash equivalents	\$ 50,796	\$ 52,127
Customer and other receivables--net	116,372	126,343
Accrued utility revenues	70,472	60,356
Material and supplies	95,031	96,174
Fossil fuel	24,577	34,220
Deferred income taxes	109,519	100,234
Other current assets	16,372	13,782
	-----	-----
Total current assets	483,139	483,236
	-----	-----
Investments and Other Assets		
Real estate investments--net	398,127	402,873
Other assets	138,092	136,074
	-----	-----
Total investments and other assets	536,219	538,947
	-----	-----
Utility Plant		
Electric plant in service, including nuclear fuel	6,560,403	6,462,589
Construction work in progress	156,104	197,556
	-----	-----
Total utility plant	6,716,507	6,660,145
Less accumulated depreciation and amortization	2,094,255	2,058,895
	-----	-----
Net utility plant	4,622,252	4,601,250
	-----	-----
Deferred Debits		
Regulatory asset for income taxes	564,841	585,294
Palo Verde Unit 3 cost deferral	297,167	301,748
Palo Verde Unit 2 cost deferral	174,967	177,998
Other deferred debits	274,170	268,326
	-----	-----
Total deferred debits	1,311,145	1,333,366
	-----	-----
Total Assets	\$ 6,952,755	\$ 6,956,799
	=====	=====

See Notes to Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited)

LIABILITIES AND EQUITY
(Thousands of Dollars)

	June 30, 1994	December 31, 1993
	-----	-----
Current Liabilities		
Accounts payable	\$ 94,572	\$ 97,489
Accrued taxes	99,043	96,303
Accrued interest	56,817	57,674
Short-term borrowings	119,500	148,000
Current maturities of long-term debt	71,252	78,841
Other current liabilities	62,853	60,845
	-----	-----
Total current liabilities	504,037	539,152
	-----	-----
Non-Current Liabilities		
Long-term debt less current maturities	2,668,052	2,633,620
Other liabilities	8,003	8,246
	-----	-----
Total non-current liabilities	2,676,055	2,641,866
	-----	-----
Deferred Credits and Other		
Deferred income taxes	1,311,170	1,278,673
Deferred investment tax credit	124,585	127,331
Unamortized gain - sale of utility plant	102,948	107,344
Other deferred credits	209,898	221,762
	-----	-----
Total deferred credits and other	1,748,601	1,735,110
	-----	-----
Commitments and Contingencies (Notes 6 and 7)		
Minority Interests		
Non-redeemable preferred stock of APS	193,561	193,561
	-----	-----
Redeemable preferred stock of APS	145,000	197,610
	-----	-----
Common Stock Equity		
Common stock, no par value	1,643,430	1,642,783
Retained earnings	42,071	6,717
	-----	-----
Total common stock equity	1,685,501	1,649,500
	-----	-----
Total Liabilities and Equity	\$6,952,755	\$6,956,799
	=====	=====

See Notes to Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(THOUSANDS OF DOLLARS)

	Six Months Ended	
	June 30,	
	1994	1993
Cash Flows From Operating Activities		
Income from continuing operations before cumulative effect of accounting change	\$ 70,321	\$ 66,373
Items not requiring cash		
Depreciation and amortization	129,799	131,150
Deferred income taxes--net	43,665	65,889
Provision for rate refund	(9,308)	(10,687)
Palo Verde accretion income	(33,596)	(36,459)
Other--net	(2,255)	(3,291)
Changes in current assets and liabilities		
Accounts receivable--net	9,971	40,713
Accrued utility revenues	(10,116)	(11,505)
Materials, supplies and fossil fuel	10,786	5,102
Other current assets	(2,590)	(5,242)
Accounts payable	11,116	(23,574)
Accrued taxes	2,740	(10,148)
Accrued interest	(857)	913
Other current liabilities	11,316	(8,058)
Additions to real estate	(12,277)	(11,009)
Sales of real estate	15,512	6,273
Other--net	(20,786)	27,145
Net Cash Flow Provided By Operating Activities	213,441	223,585
Cash Flows From Investing Activities		
Capital expenditures	(121,691)	(99,942)
Allowance for equity funds used during construction	1,823	1,410
Other--net	(1,699)	(5,386)
Net Cash Flow Used For Investing Activities	(121,567)	(103,918)
Cash Flows From Financing Activities		
Issuance of long-term debt	426,418	147,264
Short-term debt--net	(28,500)	(48,000)
Dividends paid on common stock	(34,967)	--
Repayment of long-term debt	(404,193)	(224,846)
Redemption of preferred stock	(54,096)	(28,040)
Other--net	2,133	2,421
Net Cash Flow Used For Financing Activities	(93,205)	(151,201)
Net Cash Flow	(1,331)	(31,534)
Cash and Cash Equivalents at Beginning of Period	52,127	87,926
Cash and Cash Equivalents at End of Period	\$ 50,796	\$ 56,392
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest, net of amounts capitalized	\$ 113,924	\$ 124,314
Income taxes	\$ 14,350	\$ 17,724

See Notes to Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The consolidated financial statements include the accounts of Pinnacle West and its subsidiaries: APS, SunCor and El Dorado. All significant intercompany balances have been eliminated. Certain prior-year balances have been reclassified to conform to the 1994 presentation.
2. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position of Pinnacle West and its subsidiaries as of June 30, 1994, the results of their operations for the three months, six months and twelve months ended June 30, 1994 and 1993, and their cash flows for the six months ended June 30, 1994 and 1993. It is suggested that these consolidated financial statements and notes to consolidated financial statements be read in conjunction with the consolidated financial statements and notes to consolidated financial statements included in the 1993 10-K.
3. The operations of APS are subject to seasonal fluctuations, with variations occurring in energy usage by customers from season to season and from month to month within a season, primarily as a result of changing weather conditions. For this and other reasons, Pinnacle West's consolidated results of operations for interim periods are not necessarily indicative of the results to be expected for the full year.
4. See "Liquidity and Capital Resources" in Part I, Item 2 of this report for changes in capitalization since December 31, 1993.
5. By order dated June 1, 1994 (the "ACC Order"), the ACC approved a Settlement Agreement dated May 27, 1994 (the "1994 Settlement Agreement"), between APS and ACC Staff. The 1994 Settlement Agreement replaces the agreement dated April 20, 1994. Pursuant to the terms of the 1994 Settlement Agreement, APS' annual retail rates were reduced by approximately \$38.3 million, or approximately 2.7%, effective June 1, 1994. APS will also be allowed to recover through a surcharge up to an additional \$6 million for demand side management and renewable resource programs, effective upon ACC approval of its application for such programs. The reduction in retail rates offset by the demand side management surcharge would result in a net rate reduction of approximately 2.2%. The ACC Order is final and non-appealable. The following description of the ACC Order is a summary and is qualified in its entirety by the ACC Order, incorporated herein by reference.

Future Retail Rate Changes

Neither APS nor the ACC Staff will file for a permanent change to APS' general rates and charges prior to December 31, 1996 (the "Rate Moratorium Period"), except (i) in the event of an emergency, such as APS' inability to finance on reasonable terms, or material increases in APS' cost of service as a result of federal, tribal, state or local laws, regulatory requirements or orders; (ii) for changes relating to specific rate schedules or terms and conditions of service that do not significantly affect the overall earnings of APS; and (iii) in the case of certain individual large customers, the ACC Staff will expeditiously review any APS tariff or contract filing for such customers and recommend that such filings be decided promptly by the ACC.

If APS files its next general rate application before January 1, 1998, the ACC will render its decision no later than twelve (12) months after the filing, subject to certain exceptions.

If the next general rate proceeding results in no increase in residential rates, the ACC will compare APS' costs of service during the test period under review for fuel expense and operation and maintenance for all sales (including sales for resale, but excluding interchange and non-traditional sales for resale) to a target cost of service index of 3.63 cents/kWh. Forty-five percent (45%) of any cost savings below the target cost of 3.63 cents/kWh would be added to APS' otherwise appropriate revenue requirement in such rate proceeding. APS' cost of service index for these items during 1993 was 3.71 cents/kWh.

All three Palo Verde units are, and in future rate cases will be, included in APS' rate base as "used and useful," less the net prudence disallowance required by the December 1991 rate case settlement (the "1991 Settlement"). As with any of APS' generating facilities, the ACC can re-examine this position in future general rate cases in the event of significant changes in the operating characteristics, reliability or efficiency of any or all of the Palo Verde units, or if any unit is derated. In addition, the "in-lieu" refund obligation resulting from the 1991 Settlement was deemed fully discharged as of the date of the ACC Order. See Note 3 of Notes to Consolidated Financial Statements in Part II, Item 8 of the 1993 10-K for additional information regarding the 1991 Settlement.

Decommissioning Funding

The rates authorized by the ACC Order would include an annual jurisdictional allowance for decommissioning funding for all three Palo Verde units at the following levels: Unit 1 (\$3.621 million); Unit 2 (\$3.877 million); and Unit 3 (\$3.405 million). See Note 1.G of Notes to Consolidated Financial Statements in Part II, Item 8 of the 1993 10-K for additional information regarding APS' decommissioning obligations.

Renewable Resources/Demand Side Management

APS will spend specified annual amounts over an indefinite period on renewable resources and demand side management projects and, on or before December 31, 1994, will submit to the ACC Staff a three-year renewable resource plan containing specified elements. See Paragraph K

of the ACC Order, incorporated herein by reference, for further details regarding renewable resources and demand side management.

Investment Tax Credits; Depreciation Reversal

APS will, upon the receipt of a favorable ruling from the Internal Revenue Service, amortize below the line approximately \$137 million of its jurisdictional unamortized investment tax credits ("ITCs") over a five year period beginning with calendar year 1995 instead of the current remaining amortization schedule of approximately twenty-five years. After this five year period all such amortized ITCs will be treated as fully restored to APS' rate base in any future ratemaking proceedings. The ACC Order also allowed APS to reverse certain depreciation related to Palo Verde (associated with the 1991 Settlement), which resulted in approximately \$15 million of after-tax income during the three-month period ended June 30, 1994.

Pricing and Operating Procedures

The ACC Staff and APS will meet in a good faith attempt to develop new pricing and operating procedures that are responsive to market conditions, competitive pressures in the electric utility industry, and the ACC's relationship to regulated utilities and their customers. The parties will submit quarterly updates and a final report to the ACC within twelve months of the ACC Order and seek prompt ACC approval of recommendations that will assist APS in achieving its residential price stability goals and enhancing its competitiveness related to non-residential customers.

6. The Palo Verde participants have insurance for public liability payments resulting from nuclear energy hazards to the full limit of liability under federal law. This potential liability is covered by primary liability insurance provided by commercial insurance carriers in the amount of \$200 million and the balance by an industrywide retrospective assessment program. The maximum assessment per reactor under the retrospective rating program for each nuclear incident is approximately \$79 million, subject to an annual limit of \$10 million per incident. Based upon APS' 29.1% interest in the three Palo Verde units, APS' maximum potential assessment per incident is approximately \$69 million, with an annual payment limitation of \$8.73 million. The insureds under this liability insurance include the Palo Verde participants and "any other person or organization with respect to his legal responsibility for damage caused by the nuclear energy hazard."

The Palo Verde participants maintain "all risk" (including nuclear hazards) insurance for property damage to, and decontamination and decommissioning 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.

7. APS has encountered axial tube cracking in the upper regions of the two steam generators in Unit 2 and, to a lesser degree, in Unit 3. This form of tube degradation is uncommon in the industry and, in March 1993, led to a tube rupture in Unit 2 resulting in the extension of a scheduled refueling outage through September 1993. Although its analysis is not yet completed, APS believes that the axial cracking in the Unit 2 and Unit 3 steam generator tubes is due to the susceptibility of tube materials to a combination of deposits on the tubes and the relatively high temperatures at which all three units are currently designed to operate. APS also believes that it can retard further tube degradation to acceptable levels by remedial actions, which include chemically cleaning the generators and performing analyses and adjustments that will allow the units to be operated at lower temperatures without appreciably reducing their power output. Chemical cleaning has been completed in Units 2 and 3, and APS expects to chemically clean the Unit 1 steam generators during its refueling outage in 1995. APS began operating the units at approximately 86% capacity in October 1993 to reduce the operating temperature, pending the completion of the temperature analyses and appropriate modification of operating procedures. The temperature analyses have been concluded for Units 1 and 3, and these units are operating at or near 100% capacity. APS anticipates that Unit 2, which is currently operating at 88% capacity, will be returned to full power by late 1994.

In March 1994, a mid-cycle inspection outage was completed at Unit 2 to assess the status of the unit's steam generators' tubes and to continue implementing a program of improvements. Unit 2 is scheduled for another mid-cycle inspection outage beginning in September 1994 and a refueling and maintenance outage in early 1995.

Palo Verde Unit 3 completed a refueling outage in June 1994 and, in light of the axial cracking that APS has found to date, Unit 3 is scheduled for a mid-cycle inspection outage beginning in November 1994. Palo Verde Unit 1 is scheduled for a refueling outage beginning in April 1995. In late 1993 APS concluded that Unit 1 could be safely operated until the 1995 outage and submitted its supporting analysis to the NRC. However, the potential need for a mid-cycle steam generator tube inspection outage in Unit 1 late in 1994 is currently being evaluated.

During the six months ended June 30, 1994, APS incurred replacement power costs totalling approximately \$17 million (before income taxes) above normal levels as a result of the Unit 2 mid-cycle outage and operating the units at reduced power. Because a Unit 2 refueling and maintenance outage which was scheduled to begin in late 1994 is now scheduled for 1995, APS does not expect to incur any additional replacement power costs above normal levels during the remainder of the year. In the event that a mid-cycle inspection outage is necessary in late 1994 for Unit 1, and assuming that such an outage would last about a month, the incremental replacement power costs and operation and maintenance expenses related to the outage are estimated to be approximately \$5 million before income taxes. In comparison, replacement power costs exceeded normal levels in 1993 by approximately \$15.5 million before income taxes due to Palo Verde outages and reduced power operations.

When tube cracks are detected during any outage, the affected tubes are taken out of service by plugging. That has occurred in a number of

tubes in all three units, particularly in Unit 2, which is by far the most affected by cracking and plugging. APS expects that because of its program to control the tube degradation, the rate of plugging will slow to a manageable level.

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

of Operations for the Three Months, Six Months and Twelve Months Ended June 30, 1994 as Compared with Corresponding Periods Ended June 30, 1993.

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

LIQUIDITY AND CAPITAL RESOURCES

Pinnacle West

Pinnacle West's cash requirements and its ability to fund those requirements are discussed under "Liquidity and Capital Resources" in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of the 1993 10-K and under "Business -- The Company -- Capital Requirements" in Part I, Item 1 of the 1993 10-K.

The Board declared a quarterly dividend of 20 cents per share of common stock, payable on September 1, 1994 to shareholders of record on August 1, 1994, totalling approximately \$17.5 million.

APS

For the six months ended June 30, 1994, APS incurred approximately \$106 million in construction expenditures, accounting for approximately 39% of the most recently estimated 1994 construction expenditures. APS has estimated total construction expenditures for the years 1994, 1995 and 1996 to be approximately \$272 million, \$298 million and \$257 million, respectively.

Refunding obligations for preferred stock and long-term debt, a capitalized lease obligation, and certain actual and anticipated early redemptions, including premiums thereon, are expected to total approximately \$582 million (of which \$513 million are optional), \$111 million and \$4 million for the years 1994, 1995 and 1996, respectively. During the first six months of 1994, APS refunded approximately \$421 million (72%) of the estimated 1994 total. This amount includes the redemption, refunding or repurchase of approximately \$367 million of long-term debt and the redemption of approximately \$54 million of preferred stock, including premiums thereon. During August 1994 APS purchased on the open market approximately \$24 million in aggregate principal amount of its First Mortgage Bonds, 10-1/4% Series due 2000 (the "10-1/4% Bonds"). On September 1, 1994 APS will redeem at maturity all outstanding shares of its \$8.50 Cumulative Preferred Stock, Series T (\$100 Par Value) (the "Series T Stock") in the amount of \$50 million. Since December 31, 1993 APS has issued \$100 million of its First Mortgage Bonds and incurred approximately \$303 million of long-term debt consisting of borrowings from governmental authorities which had funded that amount through the issuance of pollution control bonds.

Provisions in APS' mortgage bond indenture and articles of incorporation require certain coverage ratios to be met before it can issue additional first mortgage bonds or preferred stock. In addition, the mortgage bond indenture limits the amount of additional bonds which may be issued to a percentage of net property additions, to property previously pledged as security for certain bonds that have been redeemed or retired and/or cash deposited with the mortgage bond trustee. As of June 30, 1994, and (i) adjusting for the purchase of approximately \$24 million of the 10-1/4% Bonds, and (ii) assuming the redemption on September 1, 1994 of \$50 million of the Series T Stock, APS estimates that the mortgage bond indenture and the articles of incorporation would have allowed it to issue up to approximately \$1.26 billion and \$1.04 billion of additional first mortgage bonds and preferred stock, respectively.

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

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

Non-Utility Subsidiaries

On July 6, 1994 SunCor amended the Collateralized Mortgage Bond Agreement to increase the principal amount from \$25 million to \$30 million.

RESULTS OF OPERATIONS

The following table shows the income and/or loss of Pinnacle West and its subsidiaries for the three-month, six-month and twelve-month periods ended June 30, 1994 and 1993:

INCOME (LOSS)
(Unaudited)
Dollars in Thousands)

	Three Months Ended		Six Months Ended		Twelve Months Ended	
	June 30,		June 30,		June 30,	
	1994	1993	1994	1993	1994	1993
	----	----	----	----	----	----
APS	\$ 58,879	\$ 53,716	\$ 89,837	\$ 92,993	\$ 216,390	\$ 230,079
SunCor	(400)	(1,494)	564	(1,156)	(2,270)	(5,305)
El Dorado	(457)	(142)	(883)	(327)	(4,459)	(811)
Pinnacle West<F1>	(9,320)	(13,181)	(19,197)	(25,137)	(35,735)	(53,639)
	-----	-----	-----	-----	-----	-----
INCOME FROM OPERATIONS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	48,702	38,899	70,321	66,373	173,926	170,324
INCOME FROM DISCONTINUED OPERATIONS	--	--	--	--	--	6,000
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR INCOME TAX	--	--	--	19,252	--	19,252
	-----	-----	-----	-----	-----	-----
NET INCOME	\$ 48,702	\$ 38,899	\$ 70,321	\$ 85,625	\$ 173,926	\$ 195,576
	=====	=====	=====	=====	=====	=====

<F1> Includes the parent company's interest expense and operating expenses net of income tax benefits. Income tax benefits are as follows (in thousands): \$6,638 and \$9,569 for the three months ended June 30, 1994 and 1993, respectively; \$13,364 and \$17,326 for the six months ended June 30, 1994 and 1993, respectively; and \$36,516 and \$37,331 for the twelve months ended June 30, 1994 and 1993, respectively.

OPERATING RESULTS - THREE-MONTH PERIOD ENDED JUNE 30, 1994 COMPARED TO THREE-MONTH PERIOD ENDED JUNE 30, 1993

APS' earnings increased in the three-month period ended June 30, 1994 primarily due to the reversal of certain previously recorded depreciation related to Palo Verde and increased revenues. Pursuant to the ACC Order, APS reversed accumulated depreciation related to the portion of Palo Verde written off as a result of the 1991 Settlement. See Note 5 of Notes to Consolidated Financial Statements in Part I, Item 1 of this report for a detailed discussion of the ACC Order. Operating revenues increased primarily due to customer growth. These positive factors were partially offset by increases in both operation and maintenance expenses and fuel costs. Operation and maintenance expenses were higher primarily due to employee severance costs resulting from various APS cost reduction efforts and fossil plant maintenance costs. Fuel costs were higher primarily due to replacement power related to reduced nuclear generation.

OPERATING RESULTS - SIX-MONTH PERIOD ENDED JUNE 30, 1994 COMPARED TO SIX-MONTH PERIOD ENDED JUNE 30, 1993

APS' earnings decreased in the six-month period ended June 30, 1994 primarily due to increases in operation and maintenance expenses and fuel costs. Operation and maintenance expenses increased due to higher power plant maintenance costs and employee severance costs. Fuel costs were higher primarily due to replacement power related to reduced nuclear generation, offset partially by the effect of lower interchange sales. These negative factors were partially offset by the depreciation reversal related to Palo Verde and increased revenues. Revenues increased due to retail customer growth and higher usage per customer, partially offset by lower interchange sales due to reduced nuclear generation.

OPERATING RESULTS - TWELVE-MONTH PERIOD ENDED JUNE 30, 1994 COMPARED TO TWELVE-MONTH PERIOD ENDED JUNE 30, 1993

APS' earnings decreased in the twelve-month period ended June 30, 1994 primarily due to increased operation and maintenance expenses, higher fuel costs and lower operating revenues. Operation and maintenance expenses increased due to higher power plant maintenance costs, the implementation of SFAS No. 106 and SFAS No. 112 in 1993 (see Note 9 of Notes to Consolidated Financial Statements in Part II, Item 8 of the 1993 10-K), and employee severance costs. Fuel costs were higher primarily because of replacement power costs due to reduced nuclear generation, partially offset by the effect of lower interchange sales. Operating revenues were down due to lower interchange sales and milder weather partially offset by customer growth. These negative factors were partially offset by the depreciation reversal related to Palo Verde and lower interest costs.

Non-utility Operations

The parent company's interest expense decreased in the three-month, six-month and twelve-month periods as a result of continuing debt prepayment.

SunCor's earnings in the three-month, six-month and twelve-month periods were positively impacted by increased land sales.

El Dorado's earnings decreased in the three-month, six-month and twelve-month periods due to lower earnings on venture capital investments.

Other Income

Net income reflects accounting practices required for regulated public utilities and represents a composite of cash and noncash items, including AFUDC. In accordance with the 1991 Settlement, during the six months ended June 30, 1994, APS recorded \$20.3 million of after-tax accretion income on Palo Verde Unit 3 and \$5.6 million of after-tax income resulting from Palo Verde refund obligation reversals. APS has now recorded all of the Unit 3 accretion income and Palo Verde refund obligation reversals related to the 1991 Settlement. See Note 3 of Notes to Consolidated Financial Statements in Part II, Item 8 of the 1993 10-K. In accordance with the ACC Order, during the three months ended June 30, 1994, APS also recorded a one-time depreciation reversal related to Palo Verde in the amount of approximately \$15.0 million after tax. See Note 5 of Notes to Consolidated Financial Statements in Part I, Item 1 of this report.

Tax Legislation

On April 4, 1994, a comprehensive tax package was signed into Arizona law that, among other things, reduces the assessment ratio for utility property from the current assessment ratio of 30% to 25%. This reduction will be phased in over a five-year period at one percent per year beginning in 1995. This legislation is expected to reduce or offset the historical rate of growth of property tax expense.

1994 Settlement Agreement

See Note 5 of Notes to Consolidated Financial Statements in Part I, Item 1 of this report for a discussion of the ACC Order. Because of the non-cash earnings (1) that APS expects to result from the accelerated amortization of ITCs during the 1995-1999 period (subject to Internal

Revenue Service approval); and (2) that resulted from the reversal of depreciation related to Palo Verde (associated with the 1991 Settlement), APS does not expect its earnings to be significantly affected as a result of the ACC Order.

PART II. OTHER INFORMATION

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

ITEM 4. Submission of Matters to a Vote of Security-Holders

At the Company's Annual Meeting of Shareholders held on May 19, 1994 shareholder proposals were submitted as to the following matters:

	Votes For -----	Votes Against -----	Abstentions and Broker Non Votes -----
Proposal to approve the Company's 1994 Long-Term Incentive Plan	60,634,762 77%	17,501,461 22%	1,128,747 1%
Proposal to approve the Company's Director Equity Participation Plan	62,001,609 78%	16,054,155 21%	1,209,206 1%

In addition, at the same annual meeting the following persons were elected Class III Directors with a term to expire at the 1997 annual meeting of shareholders:

	Votes For -----	Votes Against or Withheld -----	Abstentions and Broker Non Votes -----
Pamela Grant	77,544,042	1,680,147	N/A
Martha O. Hesse	77,684,986	1,592,549	N/A
William S. Jamieson, Jr.	77,625,646	1,639,062	N/A
Richard Snell	77,656,379	1,637,069	N/A

ITEM 5. Other Information

Palo Verde Nuclear Generating Station

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

Construction and Financing Programs

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

Water Supply

As previously reported, in an action pending in Maricopa County Superior Court relating to claims to water in the Lower Gila Watershed, issues important to APS' claims were remanded to the trial court for further action. See "Business of Arizona Public Service Company -- Water Supply" in Part I, Item 1 of the 1993 10-K. On June 30, 1994 the trial court rendered its decision with respect to these issues. The trial court has certified its decision for interlocutory appeal to the Arizona Supreme Court, and the Supreme Court has not yet rendered its decision.

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

The Company hereby incorporates the following Exhibits pursuant to Exchange Act Rule 12b-32 and Regulation ss. 201.24 by reference to the filings set forth below:

Exhibit No. -----	Description -----	Originally Filed as Exhibit -----	File No. -----	Date Effective -----
10.1	ACC Order dated June 1, 1994	10.1 to APS' June 1994	1-4473	8/15/94

(b) Reports on Form 8-K

During the quarter ended June 30, 1994 and for the period ended August 12, 1994, the Company filed the following Reports on Form 8-K:

Report filed May 10, 1994 regarding the inspection of the Palo Verde Unit 3 steam generators and related issues.

Report filed May 26, 1994 regarding the rescission by the Secretary of Labor of a final order approving a settlement agreement between APS and a former contract employee.

SIGNATURE

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

PINNACLE WEST CAPITAL CORPORATION
(Registrant)

By: /s/ Henry Sargent

Henry Sargent
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer and
Officer Duly Authorized to sign
this Report)

Dated: August 15, 1994

End of Filing

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