PINNACLE WEST CAPITAL CORP

FORM 10-Q
(Quarterly Report)

Filed 11/16/98 for the Period Ending 09/30/98

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

PINNACLE WEST CAPITAL CORP

FORM 10-Q
(Quarterly Report)

Filed 11/16/1998 For Period Ending 9/30/1998

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

FORM 10-Q

Securities and Exchange Commission

Washington, D.C. 20549

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

For the quarterly period ended September 30, 1998

OR

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

For the transition period from ------------- to -------------

Commission file number 1-8962

PINNACLE WEST CAPITAL CORPORATION

(Exact name of registrant as specified in its charter)

ARIZONA	86-0512431
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
400 E. VAN BUREN ST., P.O. BOX 52132, PHOENIX, ARIZONA	85072-2132
(Address of principal executive offices)	(Zip Code)

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

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

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

Yes [X] No [ ]

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

Number of shares of common stock, no par value, outstanding as of November 12, 1998: 84,733,212

GLOSSARY

ACC - Arizona Corporation Commission

ACC Staff - Staff of the Arizona Corporation Commission

APS - Arizona Public Service Company

Company - Pinnacle West Capital Corporation

EITF - Emerging Issues Task Force

EITF 97-4 - Emerging Issues Task Force Issue No. 97-4, "Deregulation of the Pricing of Electricity --- Issues Related to the Applications of FASB Statements No. 71, Accounting for the Effects of Certain Types of Regulation, and No. 101, Regulated Enterprises --- Accounting for the Discontinuation of Application of FASB Statement No. 71"

El Dorado - El Dorado Investment Company

FERC - Federal Energy Regulatory Commission

ITC - Investment tax credit

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

Palo Verde - Palo Verde Nuclear Generating Station

Pinnacle West - Pinnacle West Capital Corporation

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

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

SFAS No. 128 - Statement of Financial Accounting Standards No. 128, "Earnings Per Share"

SFAS No. 131 - Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information"

SFAS No. 133 - Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities"

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

SunCor - SunCor Development Company

TEP - Tucson Electric Power Company

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

PINNACLE WEST CAPITAL CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands, except per share amounts)

	Three Months Ended September 30, 1998	1997
Operating Revenues		
Electric	$ 740,734	$ 632,821
Real estate	18,276	30,929
Total	759,010	663,750
Fuel Expenses		
Fuel for electric generation	74,112	48,379
Purchased power	178,587	110,151
Total	252,699	158,530
Operating Expenses		
Utility operations and maintenance	110,259	110,102
Real estate operations	18,821	29,487
Depreciation and amortization	94,981	91,594
Taxes other than income taxes	30,412	30,583
Total	254,473	261,766
Operating Income	251,838	243,454
Other Income (Deductions)		
Interest on long-term debt	(37,733)	(41,763)
Other interest	(4,313)	(4,403)
Capitalized interest	4,731	4,985
Preferred stock dividend requirements of APS	(2,347)	(2,984)
Other-net	(1,511)	1,937
Total	(41,173)	(42,228)
Income Before Income Tax	210,665	201,226
Income Tax Expense	83,384	76,886
Net Income	$ 127,281	$ 124,340
Average Common Shares Outstanding	84,769,615	84,747,949
Earnings Per Average Common Share Outstanding:		
Net income - basic	$ 1.50	$ 1.47
Net income - diluted	$ 1.49	$ 1.46
Dividends Declared Per Share	$ --	$ --

See Notes to Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands, except per share amounts)

	Nine Months Ended September 30, 1998	Nine Months Ended September 30, 1997
Operating Revenues		
Electric	$ 1,562,872	$ 1,470,593
Real estate	81,353	80,638
Total	1,644,225	1,551,231
Fuel Expenses		
Fuel for electric generation	174,874	155,127
Purchased power	247,327	188,182
Total	422,201	343,309
Operating Expenses		
Utility operations and maintenance	309,388	287,280
Real estate operations	75,270	77,550
Depreciation and amortization	281,396	276,005
Taxes other than income taxes	90,690	91,138
Total	756,744	731,973
Operating Income	465,280	475,949
Other Income (Deductions)		
Interest on long-term debt	(116,015)	(123,283)
Other interest	(11,394)	(14,877)
Capitalized interest	14,261	14,995
Preferred stock dividend requirements of APS	(7,660)	(9,805)
Other-net	3,040	10,983
Total	(117,768)	(121,987)
Income Before Income Tax	347,512	353,962
Income Tax Expense	140,148	137,058
Net Income	$ 207,364	$ 216,904
Average Common Shares Outstanding	84,788,514	85,764,317
Earnings Per Average Common Share Outstanding:		
Net income - basic	$ 2.45	$ 2.53
Net income - diluted	$ 2.43	$ 2.51
Dividends Declared Per Share	$ 0.900	$ 0.825

See Notes to Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands, except per share amounts)

	Twelve Months Ended September 30, 1998	Twelve Months Ended September 30, 1997
Operating Revenues		
Electric	$ 1,970,832	$ 1,850,047
Real estate	117,188	106,090
Total	2,088,020	1,956,137
Fuel Expenses		
Fuel for electric generation	221,088	217,654
Purchased power	294,431	207,115
Total	515,519	424,769
Operating Expenses		
Utility operations and maintenance	421,542	429,569
Real estate operations	109,348	101,881
Depreciation and amortization	373,676	366,091
Taxes other than income taxes	121,098	118,475
Total	1,025,664	1,016,016
Operating Income	546,837	515,352
Other Income (Deductions)		
Allowance for equity funds used during construction	--	(411)
Interest on long-term debt	(156,897)	(164,389)
Other interest	(15,190)	(20,770)
Capitalized interest	18,969	18,680
Preferred stock dividend requirements of APS	(10,658)	(13,941)
Other-net	(3,374)	3,820
Total	(167,150)	(177,011)
Income From Continuing Operations Before Income Tax	379,687	338,341
Income Tax Expense	153,371	128,097
Income From Continuing Operations	226,316	210,244
Loss on Discontinued Operations, Net of Income Tax of $6,461	--	(9,539)
Net Income	$ 226,316	$ 200,705
Average Common Shares Outstanding	84,773,062	86,190,582
Earnings Per Average Common Share Outstanding:		
Continuing operations - basic	$ 2.67	$ 2.44
Net income - basic	$ 2.67	$ 2.33
Continuing operations - diluted	$ 2.66	$ 2.43
Net income - diluted	$ 2.66	$ 2.32
Dividends Declared Per Share	$ 1.200	$ 0.825

See Notes to Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

ASSETS
(Thousands of Dollars)

	September 30, 1998	December 31, 1997
Current Assets		
Cash and cash equivalents	$ 30,126	$ 27,484
Customer and other receivables--net	295,701	183,507
Accrued utility revenues	86,153	58,559
Material and supplies	71,896	70,634
Fossil fuel	17,303	9,621
Deferred income taxes	23,380	57,887
Other current assets	47,056	41,408
Total current assets	571,615	449,100
Investments and Other Assets		
Real estate investments--net	348,255	365,921
Other assets	234,025	215,027
Total investments and other assets	582,280	580,948
Utility Plant		
Electric plant in service and held for future use	7,179,571	7,009,059
Less accumulated depreciation and amortization	2,759,425	2,620,607
Total	4,420,146	4,388,452
Construction work in progress	211,758	237,492
Nuclear fuel, net of amortization	55,771	51,624
Net utility plant	4,687,675	4,677,568
Deferred Debits		
Regulatory asset for income taxes	414,491	458,369
Rate synchronization cost deferrals	317,463	358,871
Other deferred debits	337,988	325,561
Total deferred debits	1,069,942	1,142,801
Total Assets	$ 6,911,512	$ 6,850,417

See Notes to Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

LIABILITIES AND EQUITY
(Thousands of Dollars)

	September 30, 1998	December 31, 1997
Current Liabilities		
Accounts payable	$ 178,659	$ 117,429
Accrued taxes	206,213	84,610
Accrued interest	28,072	32,974
Short-term borrowings	115,350	130,750
Current maturities of long-term debt	158,077	108,695
Customer deposits	30,820	30,672
Other current liabilities	34,492	18,534
Total current liabilities	751,683	523,664
Long-Term Debt Less Current Maturities	2,054,473	2,244,248
Deferred Credits and Other		
Deferred income taxes	1,310,917	1,363,461
Deferred investment tax credit	30,576	50,861
Unamortized gain - sale of utility plant	78,931	82,363
Other	394,890	387,223
Total deferred credits and other	1,815,314	1,883,908
Minority Interests		
Non-redeemable preferred stock of APS	123,795	142,051
Redeemable preferred stock of APS	9,401	29,110
Commitments and contingencies (Notes 5 and 8)		
Common Stock Equity		
Common stock, no par value	1,552,128	1,553,771
Retained earnings	604,718	473,665
Total common stock equity	2,156,846	2,027,436
Total Liabilities and Equity	$ 6,911,512	$ 6,850,417

See Notes to Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(THOUSANDS OF DOLLARS)

	Nine Months Ended September 30, 1998	Nine Months Ended September 30, 1997
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 207,364	$ 216,904
Items not requiring cash		
Depreciation and amortization	307,148	300,698
Deferred income taxes--net	(11,533)	(17,740)
Deferred investment tax credit	(20,285)	(21,007)
Other--net	284	(5,017)
Changes in current assets and liabilities		
Customer and other receivables--net	(112,194)	(86,483)
Accrued utility revenues	(27,594)	(26,597)
Materials, supplies and fossil fuel	(8,944)	2,077
Other current assets	(5,648)	(1,898)
Accounts payable	60,062	20,287
Accrued taxes	121,269	101,314
Accrued interest	(4,902)	(11,767)
Other current liabilities	16,731	(4,883)
Decrease (increase) in land held	16,388	19,281
Other--net	(23,451)	31,266
Net Cash Flow Provided By Operating Activities	514,695	516,435
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(221,904)	(229,608)
Capitalized interest	(14,261)	(14,995)
Other--net	(2,362)	(6,115)
Net Cash Flow Used For Investing Activities	(238,527)	(250,718)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of long-term debt	112,575	112,413
Short-term borrowings--net	(15,400)	100,894
Dividends paid on common stock	(76,311)	(70,745)
Repayment of long-term debt	(254,782)	(260,536)
Redemption of preferred stock	(37,585)	(46,511)
Repurchase and retirement of common stock	--	(81,251)
Other--net	(2,023)	679
Net Cash Flow Used For Financing Activities	(273,526)	(245,057)
Net Cash Flow	2,642	20,660
Cash and Cash Equivalents at Beginning of Period	27,484	26,686
Cash and Cash Equivalents at End of Period	$ 30,126	$ 47,346
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest, net of amounts capitalized	$ 112,348	$ 128,414
Income taxes	$ 81,305	$ 106,440

See Notes to Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. The condensed consolidated financial statements include the accounts of Pinnacle West and its subsidiaries: APS, SunCor and El Dorado. All significant intercompany balances have been eliminated. Certain prior year balances have been restated to conform to the current year presentation.

2. In the opinion of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position of Pinnacle West and its subsidiaries as of September 30, 1998, the results of operations for the three months, nine months and twelve months ended September 30, 1998 and 1997, and the cash flows for the nine months ended September 30, 1998 and 1997. It is suggested that these condensed consolidated financial statements and notes to condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes to consolidated financial statements included in the Company's 1997 10-K.

3. The operations of APS are subject to seasonal fluctuations, with variations in energy usage by customers occurring from season to season and from month to month within a season, primarily as a result of changing weather conditions. For this and other reasons, the results of operations for interim periods are not necessarily indicative of the results to be expected for the full year.

4. See "Liquidity and Capital Resources" in Part I, Item 2 of this report for changes in capitalization for the nine months ended September 30, 1998.

5. Regulatory Matters --- Electric Industry Restructuring

STATE

The following is a description of regulatory and legislative developments related to implementation of retail electric competition beginning with the ACC rules adopted in December 1996 through the proposed settlement agreement in November 1998.

ACC RULES. In December 1996, the ACC adopted rules that provide a framework for the introduction of retail electric competition in Arizona. On August 5, 1998, the ACC adopted amendments to the rules. The ACC rules, as amended, include the following major provisions:

o The rules apply to virtually all of the Arizona electric utilities regulated by the ACC, including APS.

o The rules require each affected utility, including APS, to make available at least 20% of its 1995 system retail peak demand for competitive generation supply to all customer classes beginning January 1, 1999, and 100% beginning January 1, 2001.

o All affected utility customers with single premise loads of one megawatt or greater will be eligible for competitive electric services beginning January 1, 1999, until the 20% level described in the preceding paragraph is met. Until the 20% level is met, affected utility customers with single premise loads of forty kilowatts or greater will be able to aggregate into a combined load of one megawatt or greater to be eligible for competitive electric services beginning January 1, 1999.

o Prior to January 1, 2001, residential customers will have access to competitive services through a quarterly phase-in of one-half percent of residential customers per quarter beginning January 1, 1999.

o Electric service providers that obtain Certificates of Convenience and Necessity (CC&Ns) from the ACC will be allowed to supply, market, and/or broker specified electric services at retail. These services include electric generation, but exclude electric transmission and distribution.

o As required by the rules, in February 1998 APS filed with the ACC proposed tariffs for unbundled service (electric service elements provided and priced separately). The ACC has not issued a decision in this matter.

o The rules establish that the ACC shall allow a reasonable opportunity for the recovery of unmitigated stranded costs. See "Stranded Costs" below. Affected utilities are expected to take reasonable, cost-effective steps to mitigate stranded costs.

o Absent a waiver from the ACC, each affected utility must separate itself from all competitive generation assets and services prior to January 1, 2001. The separation must be either to an unaffiliated party or to a separate corporate affiliate or affiliates.

o Beginning January 1, 1999, each affected utility will be prohibited from providing certain competitive electric services, except through a separate affiliate.

o The rules contain affiliate transaction rules generally prohibiting an affected utility and its competitive electric affiliates from sharing personnel, office space, equipment, services, and systems, except to the extent appropriate to perform certain permissible shared corporate support functions. No later than December 31, 1998, each affected utility must file a compliance plan with the ACC demonstrating its compliance with the affiliate transaction rules.

In accordance with the rules, on September 15, 1998, APS filed a report detailing possible mechanisms to provide certain non-rate benefits and a possible extension of the 1996 regulatory agreement to all standard offer customers and a proposed plan for phase-in implementation of 3,500 residential customers per quarter on a first come, first served basis.

The amended rules became effective on an emergency basis upon their filing with the Secretary of State on August 10, 1998. The ACC held hearings on the amended rules in October 1998 and must complete the process of adopting the amended rules on a permanent basis within 180 days of the Secretary of State filing. APS anticipates the completion of this process by year-end 1998 or early 1999.

The Company believes that certain provisions of the 1996 ACC rules and the amended rules are deficient. In February 1997, a lawsuit was filed by APS to protect its legal rights regarding the 1996 rules. That lawsuit is pending but two related cases filed by other utilities have been partially decided in a manner adverse to those utilities' positions. In October 1998, APS also filed a lawsuit to protect its legal rights regarding the amended rules.

STRANDED COSTS. In February 1998, the ACC completed a formal, generic hearing on stranded cost determination and recovery. On June 22, 1998, the ACC issued an order in this matter. The order allows an affected utility, such as APS, to choose between two options for the recovery of its stranded costs. Under the first option, an affected utility that chooses to divest its generating assets must file a divestiture plan for ACC approval no later than October 1, 1998, and such divestiture must be completed by January 1, 2001, after which the affected utility would be permitted to collect 100 percent of its stranded costs, including a return on the unamortized balance, over a ten-year period. Under the second option (referred to by the ACC as the "Transition Revenues Methodology"), an affected utility would be provided sufficient revenues necessary to maintain financial integrity for a period of ten years or the ACC would "otherwise provide an allocation of stranded cost responsibilities and risks between ratepayers and shareholders as is determined to be in the public interest." The order also states an intent that the various recovery options "will provide the affected utilities sufficient revenues to enable them to recover appropriate regulatory assets." In accordance with the order, on August 21, 1998 APS filed with the ACC the Transition Revenues Methodology as its choice of options for stranded cost recovery and a related implementation plan relating to its chosen option. APS does not intend to divest its generating assets except to an affiliated party. APS believes that certain provisions of the stranded cost order are deficient and in August 1998 APS filed two lawsuits to protect its legal rights relating to the order. Based on various assumptions, estimates and methodologies, APS estimates its recoverable stranded costs (excluding regulatory assets which have already been addressed in the 1996 regulatory agreement with the ACC) to be $533 million, assuming a measurement period 1999 through 2004. The Company cannot accurately predict the outcome of this matter.

PROPOSED SETTLEMENT AGREEMENT. On November 4, 1998, APS and the ACC Staff entered into a proposed settlement agreement related to the implementation of retail electric competition. In connection with the settlement agreement, APS and TEP entered into a memorandum of understanding for the exchange of certain assets. The following are the major provisions of each agreement, both of which are incorporated herein by reference:

PROPOSED SETTLEMENT AGREEMENT WITH ACC STAFF

o APS will reduce its prices by a total of at least 4% in the years 1999 through 2002. Price reductions in 2001 and 2002 will apply only to APS' residential customers who purchase all their electric services from the Company.

o There will be a moratorium on filing for retail rate changes before January 1, 2003, except for the price reductions described above and certain other limited circumstances.

o In addition to the cost-saving incentive mechanism, the rate filing moratorium and full recovery of regulatory assets, certain other aspects of the 1996 regulatory settlement are extended through 2002. See Note 6 below for additional information on the 1996 regulatory settlement.

o APS will be permitted to defer for later recovery prudent and reasonable costs of complying with the amended ACC rules, systems benefits costs and solar power costs in excess of the levels included in current rates.

o APS will have the ability to recover stranded costs in exchange for the divestiture of its 345 kV and 500 kV transmission assets to TEP.

o APS and TEP entered into a memorandum of understanding for the exchange of certain assets.

o Upon final adoption and approval of the settlement agreement by the ACC, APS will move to dismiss all of its litigation currently pending against the ACC.

o APS will establish a separate corporate affiliate for marketing generation and other competitive electric services before year-end 1998.

o APS will form a separate corporate affiliate and transfer to it generating assets by year-end 2002.

MEMORANDUM OF UNDERSTANDING WITH TEP

o APS and TEP have entered into a memorandum of understanding to negotiate in good faith to reach a definitive agreement on the exchange of certain transmission and generation assets.

o APS would acquire from TEP up to 273 MW of generating capacity in exchange for APS' 500 kV and 345 kV transmission lines. The assets will be exchanged at the transmission current book value, which is approximately $162 million as of

July, 1998. If TEP is unable to transfer 273 MW of generating capacity, the deficiency is to be made up by a cash payment from TEP to APS.

o The transaction is expected to close by December 31, 2000.

o The generating assets are TEP's interest in the Navajo Generating Station and Four Corners Generating Plant.

A hearing date for the ACC's consideration or approval of the settlement agreement has not yet been set. The memorandum of understanding provides that a definitive agreement must be entered into within sixty days of a final order on the settlement agreement by the ACC.

LEGISLATIVE INITIATIVES. An Arizona joint legislative committee studied electric utility industry restructuring issues in 1996 and 1997. In conjunction with that study, Arizona legislative counsel prepared memoranda in late 1997 related to the legal authority of the ACC to deregulate the Arizona electric utility industry. The memoranda raise a question as to the degree to which the ACC may, under the Arizona Constitution, deregulate any portion of the electric utility industry and allow rates to be determined by market forces. This latter issue (the ability of the ACC to set rates based on the competitive market) has been subsequently decided by lower courts in favor of the ACC in two unrelated and two related lawsuits.

In May 1998, a bill was enacted to facilitate implementation of retail electric competition in the state. The bill includes the following major provisions: (a) requirements that Arizona's largest government-operated electric utility (Salt River Project) and, at their option, smaller city electric systems (i) open their service territories to electric service providers to implement retail electric generation competition for 20% of each utility's 1995 retail peak demand by December 31, 1998 and for all retail customers by December 31, 2000;
(ii) decrease rates by at least 10% over a ten-year period beginning as early as January 1, 1991; (iii) implement procedures and public processes, including judicial review at the request of either an interested party or the Arizona Attorney General, for establishing the terms, conditions and pricing of electric services as well as certain other decisions affecting retail electric competition, which procedures and processes are comparable to those already applicable to public service corporations; (b) a description of the factors which form the basis of consideration by Salt River Project in determining stranded costs; and (c) a requirement that metering and meter reading services be provided on a competitive basis during the first two years of competition only for customers having demands in excess of one megawatt (and that are eligible for competitive generation services), and thereafter for all customers receiving competitive electric generation. In addition, the Arizona legislature will review and make recommendations for the 1999 legislature on certain competitive issues.

FEDERAL

The Energy Policy Act of 1992 and recent rulemakings by FERC have promoted increased competition in the wholesale electric power markets. The Company does not expect these rules to have a material impact on its consolidated financial statements.

Several electric utility reform bills have been introduced during recent congressional sessions, which as currently written, would allow consumers to choose their electricity suppliers by 2000 or 2003. These bills, other bills that are expected to be introduced, and ongoing discussions at the federal level suggest a wide range of opinion that will need to be narrowed before any substantial restructuring of the electric utility industry can occur.

REGULATORY ACCOUNTING

APS prepares its financial statements in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." SFAS No. 71 requires a cost-based, rate-regulated enterprise to reflect the impact of regulatory decisions in its financial statements. APS' existing regulatory orders and current regulatory environment support its accounting practices related to regulatory assets, which amounted to approximately $0.9 billion at September 30, 1998. In accordance with the 1996 regulatory agreement, the ACC accelerated the amortization of substantially all of APS' regulatory assets to an eight-year period that began July 1, 1996.

During 1997, the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board (FASB) issued EITF 97-4, which requires that SFAS No. 71 be discontinued no later than when legislation is passed or a rate order is issued that contains sufficient detail to determine its effect on the portion of the business being deregulated, which could result in write-downs or write-offs of physical and/or regulatory assets. Additionally, the EITF determined that regulatory assets should not be written off if they are to be recovered from a portion of the entity which continues to apply SFAS No. 71.

Although the ACC has issued rules for transitioning generation services to competition, there are many unresolved issues. APS continues to apply SFAS No. 71 to all of its operations. If rate recovery of regulatory assets is no longer probable, whether due to competition or regulatory action, APS would be required to write off the remaining balance as an extraordinary charge to expense.

GENERAL

Changes in ACC decisions, Arizona and federal legislation, and possible amendments to the Arizona Constitution may impact the implementation of retail electric competition in Arizona. Until the details of implementation of competition, including addressing stranded costs, are determined, the Company cannot accurately predict the impact of full retail competition on its financial position, cash flows or results of operation. As competition in the electric industry continues to evolve, the Company will continue to evaluate strategies and alternatives that will position APS to compete in the new regulatory environment.

6. Regulatory Matters -- 1996 Regulatory Agreement

In April 1996, the ACC approved a regulatory agreement between APS and the ACC Staff. The major provisions of this agreement are:

o An annual rate reduction of approximately $48.5 million ($29 million after income taxes), or 3.4% on average for all customers except certain contract customers, effective July 1, 1996.

o Recovery of substantially all of APS' present regulatory assets through accelerated amortization over an eight-year period that began July 1, 1996, increasing annual amortization by approximately $120 million ($72 million after income taxes).

o A formula for sharing future cost savings between customers and shareholders (price reduction formula) referencing a return on equity (as defined) of 11.25%.

o A moratorium on filing for permanent rate changes prior to July 2, 1999, except under the price reduction formula and under certain other limited circumstances.

o Infusion of $200 million of common equity into APS by the parent company, in annual payments of $50 million starting in 1996.

Pursuant to the price reduction formula, in 1997 and in 1998, the ACC approved retail price decreases of approximately $17.6 million ($10.5 million after income taxes), or 1.2%, effective July 1, 1997, and approximately $17 million ($10 million after income taxes), or 1.1%, effective July 1, 1998, respectively.

7. Agreement with Salt River Project

On April 25, 1998, APS and Salt River Project entered into a Memorandum of Agreement in anticipation of, and to facilitate, the opening of the Arizona electric industry. The Agreement contains the following major components:

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

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

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

An ACC docket had previously been established and the ACC held a hearing on August 6, 1998 so that the ACC could review certain provisions of the Memorandum of Agreement, as amended, including, whether: (a) the Territorial Agreement remains in the public interest, (b) the Agreement is a contract in restraint of trade, and (c) the Agreement will materially lessen the potential for retail electric competition in Arizona.

The Antitrust Unit of the Arizona Attorney General's Office, which has been involved in the ongoing regulatory and legislative proceedings regarding the restructuring of the Arizona electric industry, requested clarification of the operation of certain of the Agreement's provisions. Pursuant to an Addendum to Memorandum of Agreement, dated as of May 19, 1998 (the "Addendum"), APS and Salt River Project amended and clarified certain provisions of the Memorandum of Agreement in response to certain issues raised by the Antitrust Unit. By letter dated May 19, 1998, the Antitrust Unit advised APS and Salt River Project that, upon their execution of the Addendum, it would take no action regarding the language of the Memorandum of Agreement, although it reserved the right to take action in the future if new information justified doing so.

8. The Palo Verde participants have insurance for public liability payments resulting from nuclear energy hazards to the full limit of liability under federal law. This potential liability is covered by primary liability insurance provided by commercial insurance carriers in the amount of $200 million and the balance by an industry-wide retrospective assessment program. If losses at any nuclear power plant covered by the programs exceed the accumulated funds, APS could be assessed retrospective premium adjustments. The maximum assessment per reactor under the program for each nuclear incident is approximately $88 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 $77 million, with an annual payment limitation of approximately $9 million.

The Palo Verde participants maintain "all risk" (including nuclear hazards) insurance for property damage to, and decontamination of, property at Palo Verde in the aggregate amount of $2.75 billion, a substantial portion of which must first be applied to stabilization and decontamination. APS has also secured insurance against portions of any increased cost of generation or purchased power and business interruption resulting from a sudden and unforeseen outage of any of the three units. The insurance coverage discussed in this and the previous paragraph is subject to certain policy conditions and exclusions.

9. The Financial Accounting Standards Board issued SFAS No. 131 on "Disclosures about Segments of an Enterprise and Related Information" which is effective for fiscal years beginning after December 15, 1997. SFAS No. 131 requires that public companies report

certain information about operating segments in their financial statements. It also establishes related disclosures about products and services, geographic areas, and major customers. The Company is currently evaluating what impact this standard will have on its disclosures.

In June 1998 the Financial Accounting Standards Board issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities," which is effective for the Company in 2000. SFAS No. 133 requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. The standard also provides specific guidance for accounting for derivatives designated as hedging instruments. The Company is currently evaluating what impact this standard will have on its consolidated financial statements.

10. In 1997 the Company adopted SFAS No. 128 "Earnings Per Share." This statement requires the presentation of both basic and diluted earnings per share on the consolidated financial statements. The following table presents earnings per average common share outstanding (EPS):

	Twelve Months Ended September 30,	
Basic EPS:	1998	1997
Continuing operations	$2.67	$2.44
Discontinued operations	-	(0.11)
Net income	$2.67	$2.33
Diluted EPS:		
Continuing operations	$2.66	$2.43
Discontinued operations	-	(0.11)
Net income	$2.66	$2.32

Dilutive stock options increased average common shares outstanding by 557,193 and 496,198 for the three-month period ended September 30, 1998 and 1997 respectively; 567,006 and 482,082 for the nine-month period ended September 30, 1998 and 1997 respectively; and 450,228 and 482,179 for the twelve-month period ended September 30, 1998 and 1997 respectively, but had no effect on net income. Total average common shares outstanding for the purposes of calculating diluted earnings per share were 85,326,808 and 85,244,147 for the three-month period ended September 30, 1998 and 1997 respectively; 85,355,520 and 86,246,399 for the nine-month period ended September 30, 1998 and 1997 respectively; and 85,223,290 and 86,672,761 for the twelve-month period ended September 30, 1998 and 1997 respectively.

PINNACLE WEST CAPITAL CORPORATION

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

OPERATING RESULTS

The following table shows the income and/or loss of Pinnacle West and its subsidiaries for the three-month, nine-month and twelve-month periods ended September 30, 1998 and 1997:

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

	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30,	
	1998	1997	1998	1997	1998	1997
APS	$130,846	$126,715	$209,652	$218,032	$230,310	$212,837
SunCor	(1,419)	451	3,866	2,706	6,494	5,674
El Dorado	188	63	4,395	7,019	5,566	7,660
Pinnacle West (1)	(2,334)	(2,889)	(10,549)	(10,853)	(16,054)	(25,466)
Net Income	$127,281	$124,340	$207,364	$216,904	$226,316	$200,705

(1) Includes Pinnacle West's interest expense, discontinued operations and operating expenses net of income tax benefits/(expenses). Income tax benefits (expenses) are as follows (in thousands): $907 and $1,264 for the three months ended September 30, 1998 and 1997, respectively; $(553) and $2,472 for the nine months ended September 30, 1998 and 1997, respectively; and $(275) and $8,945 for the twelve months ended September 30, 1998 and 1997, respectively.

APS

OPERATING RESULTS - THREE-MONTH PERIOD ENDED SEPTEMBER 30, 1998 COMPARED WITH THREE-MONTH PERIOD ENDED SEPTEMBER 30, 1997

Earnings increased $4 million in the three-month comparison primarily because of customer growth, weather effects, and higher profitability from power marketing activities, partially offset by higher fuel expenses and a retail price reduction. See Note 6 of Notes to Condensed Consolidated Financial Statements for information on the price reduction.

Operating revenues increased $108 million because of increased power marketing revenues ($71 million), customer growth ($28 million), and weather effects ($18 million), partially offset by the price reduction ($6 million) and other ($3 million). The increase in power marketing revenues was a result of higher market prices and increased activity. The increase in power marketing revenues was accompanied by related increases in purchased power.

Fuel expenses increased $94 million primarily because of higher purchased power prices, increased wholesale and retail sales volumes, and the effects of two fuel-related settlements in the third quarter of 1997. The settlements contributed approximately $21 million to 1997 pretax earnings and are reflected on the income statement as reductions in fuel expense and as other income.

OPERATING RESULTS - NINE-MONTH PERIOD ENDED SEPTEMBER 30, 1998 COMPARED WITH NINE-MONTH PERIOD ENDED SEPTEMBER 30, 1997

Earnings decreased $8 million in the nine-month comparison primarily because of two fuel-related settlements recorded in 1997, increased operations and maintenance expenses, the effects of weather, and two retail price reductions, partially offset by customer growth and higher profitability from power marketing activities. See Note 6 of Notes to Condensed Consolidated Financial Statements for additional information about the price reduction.

The two fuel-related settlements increased 1997 pretax earnings by approximately $21 million. These settlements are reflected on the income statement as reductions in fuel expense and as other income.

Operations and maintenance expenses increased $22 million related to impending competition and growth, outages at power plants and other miscellaneous factors.

Operating revenues increased $92 million because of increased power marketing revenues ($69 million) and customer growth ($58 million). These factors were partially offset by the effects of weather ($20 million) and the price reductions ($15 million). The increase in power marketing revenues was a result of higher prices and increased activity. The increase in power marketing revenues was accompanied by related increases in purchased power.

OPERATING RESULTS - TWELVE-MONTH PERIOD ENDED SEPTEMBER 30, 1998 COMPARED WITH TWELVE-MONTH PERIOD ENDED SEPTEMBER 30, 1997

Earnings increased $17 million in the twelve-month comparison primarily because of customer growth and higher profitability from power marketing activities. These positive factors more than offset two retail price reductions and the effects of weather. See Note 6 of Notes to Condensed Consolidated Financial Statements for additional information about the price reductions. The period ended September 30, 1997 also benefited from two fuel-related settlements and the recognition of $8 million of income tax benefits associated with capital loss carryforwards.

Operating revenues increased $121 million because of increased power marketing revenues ($85 million) and customer growth ($69 million), partially offset by the price reductions ($18 million), the effects of weather ($10 million), and other ($5 million). The increase in power marketing revenues was a result of higher prices and increased activity. The increase in power marketing revenues was accompanied by related increases in purchased power.

The two fuel-related settlements increased 1997 pretax earnings by approximately $21 million. These settlements are reflected on the income statement as reductions in fuel expense and as other income.

Operations and maintenance expenses decreased $8 million because of a $32 million pretax charge for a voluntary severance program recorded in 1996 and related savings in 1997, partially offset by higher expenses related to impending competition and growth, outages at power plants and other miscellaneous factors.

NON-UTILITY OPERATIONS

The parent company's losses decreased in the third quarter and nine-month period because of lower interest expense resulting from debt reduction. The twelve-month period ended September 30, 1997 includes a loss from discontinued operations on a legal matter related to MeraBank, A Federal Savings Bank (a former subsidiary).

SunCor's earnings were lower in the three-month period which is attributed to a decrease in net land and home sales. SunCor's earnings increased in the nine-month and twelve-month periods ended September 30, 1998 because of an increase in net land sales.

El Dorado's decreased earnings in the nine-month and twelve-month periods were the result of investment sales in 1997.

INVESTMENT TAX CREDIT AMORTIZATION

As part of a 1994 rate settlement with the ACC, APS accelerated amortization of substantially all deferred ITCs over a five-year period that ends on December 31, 1999. The amortization of ITCs decreases annual consolidated income tax expense by approximately $24 million.

LIQUIDITY AND CAPITAL RESOURCES

PARENT COMPANY

The parent company's cash requirements and its ability to fund those requirements are discussed under "Capital Needs and Resources" in Management's Discussion and Analysis of Financial Condition and Results of Operation in Part II, Item 7 of the 1997 10-K.

During the nine-months ended September 30, 1998, the parent company redeemed approximately $86 million of its long-term debt with cash from operations and short-term borrowings.

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

The Board declared a quarterly dividend of 32.5 cents per share of common stock, payable December 1, 1998 to shareholders of record on November 2, 1998, totaling approximately $27.5 million.

APS

For the nine months ended September 30, 1998, APS incurred approximately $221 million in capital expenditures, which is approximately 68% of the most recently estimated 1998 capital expenditures. APS projected capital expenditures for the next three years are: 1998, $323 million; 1999, $322 million; and 2000, $317 million, respectively. These amounts include about $30 - $35 million each year for nuclear fuel expenditures. In addition, APS is considering expanding certain of its businesses over the next several years, which may result in increased expenditures.

APS' long-term debt and preferred stock redemption requirements and payment obligations on a capitalized lease for the next three years are: 1998, $221 million; 1999, $174 million; and 2000, $104 million. During the nine months ended September 30, 1998, APS redeemed approximately $142 million of its long-term debt and approximately $38 million of its preferred stock with cash from operations and long-term and short-term debt. On December 1, 1998 APS will redeem all $37.5 million of its $1.8125 Cumulative Preferred Stock, Series W. As a result of the 1996 regulatory agreement (see Note 6 of Notes to Condensed Consolidated Financial Statements), the Company invested $50 million in APS in 1996 and 1997 and will invest similar amounts annually in 1998 and 1999.

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

YEAR 2000 READINESS DISCLOSURE

As the year 2000 approaches many companies face problems because many software application and operational programs will not properly recognize calendar dates beginning with the year 2000. The Company and its subsidiaries are addressing the Year 2000 issue as described below. APS initiated a comprehensive company-wide Year 2000 program over a year ago to review and resolve all Year 2000 issues in critical systems and equipment in a timely manner in an effort to ensure the reliability of electric service to its customers. This included a company-wide awareness program of the Year 2000 issue.

APS has been actively implementing and replacing new systems and technology since 1995 for reasons unrelated to the year 2000, and these actions have resulted in substantially all of its major information technology (IT) systems becoming Year 2000 compliant. The Company, APS, SunCor and El Dorado have made, and will continue to make, certain modifications to its computer hardware and software systems and applications, including IT and non-IT systems, in an effort to ensure they are capable of handling changing business needs, including dates in the year 2000 and thereafter. In addition, other APS IT systems and non-IT systems, including embedded technology and real-time process control systems, are being analyzed for potential modifications.

To date, the Company, APS and El Dorado have inventoried and assessed essentially all critical IT and non-IT systems and any renovation, validation and implementation of these systems will be completed by mid-1999 for all critical systems that effect operations, except for those items that can only be completed during maintenance outages at Palo Verde, which will be completed for the last unit during the last half of 1999. APS has also designated an internal audit/quality review team that is periodically reviewing the individual Year 2000 projects and their Year 2000 readiness. SunCor is in the process of inventorying and assessing its IT and non-IT systems, and it expects this analysis to be completed by year-end 1998 and remediation and testing to be completed by mid-1999. The cost to the Company of Year 2000 remediation has not had, and is not expected to have, a material adverse effect on the Company's financial position, cash flows, or results of operations.

The Company, APS, SunCor and El Dorado are communicating with their significant suppliers, business partners, other utilities and large customers to determine the extent to which they may be affected by these third parties' plans to remediate their own Year 2000 issues in a timely manner. The Company, APS, SunCor and El Dorado have been interfacing with suppliers of systems, services and materials in order to assess whether their schedules for analysis and remediation of Year 2000 issues are timely and to assess their ability to continue to supply required services and materials. APS is also working with the North American Electric Reliability Council (NERC) through the Western Systems Coordinating Council (WSCC) to develop operational plans for stable grid operation that will be utilized by the Company and other utilities in the western United States. However, the Company cannot currently predict the effect on the Company if the systems of these other companies are not Year 2000 compliant.

APS currently estimates that it will spend approximately $5 million relating to Year 2000 issues, about half of which has been spent to date. This does not include expenditures incurred since 1995 to implement and replace systems for reasons unrelated to the Year 2000, as discussed above. Costs incurred to address the Year 2000 issue are charged to operating expenses as incurred and are expected to be funded by available cash balances and cash provided by operations.

The Company currently expects that its most reasonably likely worst case Year 2000 scenario would be intermittent loss of power to APS customers, similar to an outage during a severe weather disturbance. In this situation APS would restore power as soon as possible by, among other things, re-routing power flows. The Company does not currently expect that this scenario would have a material effect on its financial position, cash flows or results of operations.

The Company is working to develop its own contingency plans to handle Year 2000 issues, and expects these plans to be completed by mid-1999. As discussed above, APS is also working with NERC and WSCC to develop contingency plans related to grid operation.

COMPETITION AND ELECTRIC INDUSTRY RESTRUCTURING

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

RATE MATTERS

See Note 6 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report for a discussion of a price reduction, which became effective on July 1, 1998.

FORWARD-LOOKING STATEMENTS

The above discussion contains forward-looking statements that involve risks and uncertainties. Words such as "estimates," "expects," "anticipates," "plans," "believes," "projects," and similar expressions identify forward-looking statements. These risks and uncertainties include, but are not limited to, the ongoing restructuring of the electric industry; the outcome of the regulatory proceedings relating to the restructuring; regulatory, tax and environmental legislation; the ability of APS to successfully compete outside its traditional regulated markets; regional economic conditions, which could affect customer growth; the cost of debt and equity capital; weather variations affecting customer usage; technological developments in the electric industry; the strength of the real estate market; and Year 2000 issues.

These factors and the other matters discussed above may cause future results to differ materially from historical results, or from results or outcomes currently expected or sought by the Company.

PART II - OTHER INFORMATION

CONSTRUCTION AND FINANCING PROGRAMS

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

COMPETITION AND ELECTRIC INDUSTRY RESTRUCTURING

See Note 5 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report for a discussion of competition and the rules regarding the introduction of retail electric competition in Arizona. On February 28, 1997 and October 16, 1998, lawsuits were filed by APS to protect its legal rights regarding the rules and the amended rules, respectively, and in each complaint APS asked the Court for (i) a judgment vacating the retail electric competition rules, (ii) a declaratory judgment that the rules are unlawful because, among other things, they were entered into without proper legal authorization, and (iii) a permanent injunction barring the ACC from enforcing or implementing the rules and from promulgating any other regulations without lawful authority. ARIZONA PUBLIC SERVICE COMPANY v. ARIZONA CORPORATION COMMISSION, CV 97-03753 (consolidated under CV 97-03748.) ARIZONA PUBLIC SERVICE COMPANY v. ARIZONA CORPORATION COMMISSION, CV 98-18896. On August 28, 1998, the Company filed two lawsuits to protect its legal rights under the stranded cost order and in its complaints the Company asked the Court to vacate and set aside the order. ARIZONA PUBLIC SERVICE COMPANY v. ARIZONA CORPORATION COMMISSION, CV 98-15728. ARIZONA PUBLIC SERVICE COMPANY v. ARIZONA CORPORATION COMMISSION,
1-CA-CC-98-0008. See "State-Proposed Settlement Agreement" in Note 5 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report regarding the possible dismissal of the lawsuits described in this paragraph.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

EXHIBIT NO.	DESCRIPTION
27.1	Financial Data Schedule

In addition to those Exhibits shown above, the Company hereby incorporates the following Exhibits pursuant to Exchange Act Rule 12b-32 and Regulation ss.229.10(d) by reference to the filings set forth below:

EXHIBIT NO.	DESCRIPTION	ORIGINALLY FILED AS EXHIBIT:	FILE NO.(a)	DATE EFFECTIVE
10.1	Articles of Incorporation restated as of July 29, 1988	19.1 to the Company's September 30, 1988 Form 10-Q Report	1-8962	11-14-88
10.2	Bylaws, amended as of February 21, 1996	3.1 to the Company's 1995 Form 10-K Report	1-8962	4-1-96
10.3	Settlement Agreement between APS and the ACC dated November 4, 1998, which includes a Memorandum of Understanding with TEP	99.1 to APS' September 30, 1998 Form 10-Q Report	1-4473	11-16-98

(b) Reports on Form 8-K

During the quarter ended September 30, 1998, and the period from October 1 through November 13, 1998, the Company filed the following reports on Form 8-K:

Report dated August 5, 1998 regarding the ACC rules related to retail competition.

(a) Reports filed under File No. 1-4473 were filed in the office of the Securities and Exchange Commission located in Washington, D.C.

SIGNATURES

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

PINNACLE WEST CAPITAL CORPORATION
(Registrant)

Dated: November 13, 1998

By: George A. Schreiber, Jr.

George A. Schreiber, Jr.
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer
and Officer Duly Authorized
to sign this Report)

ARTICLE UT

MULTIPLIER: 1,000

CURRENCY: U.S. DOLLARS

PERIOD TYPE	9 MOS
FISCAL YEAR END	DEC 31 1998
PERIOD START	JAN 01 1998
PERIOD END	SEP 30 1998
EXCHANGE RATE	1
BOOK VALUE	PER BOOK
TOTAL NET UTILITY PLANT	4,687,675
OTHER PROPERTY AND INVEST	582,280
TOTAL CURRENT ASSETS	571,615
TOTAL DEFERRED CHARGES	1,069,942
OTHER ASSETS	0
TOTAL ASSETS	6,911,512
COMMON	1,552,128
CAPITAL SURPLUS PAID IN	0
RETAINED EARNINGS	604,718
TOTAL COMMON STOCKHOLDERS EQ	2,156,846
PREFERRED MANDATORY	9,401
PREFERRED	123,795
LONG TERM DEBT NET	2,054,473
SHORT TERM NOTES	0
LONG TERM NOTES PAYABLE	0
COMMERCIAL PAPER OBLIGATIONS	115,350
LONG TERM DEBT CURRENT PORT	158,077
PREFERRED STOCK CURRENT	0
CAPITAL LEASE OBLIGATIONS	0
LEASES CURRENT	0
OTHER ITEMS CAPITAL AND LIAB	2,293,570
TOT CAPITALIZATION AND LIAB	6,911,512
GROSS OPERATING REVENUE	1,644,225
INCOME TAX EXPENSE	140,148
OTHER OPERATING EXPENSES	756,744
TOTAL OPERATING EXPENSES	1,178,945
OPERATING INCOME LOSS	465,280
OTHER INCOME NET	(117,768)
INCOME BEFORE INTEREST EXPEN	0
TOTAL INTEREST EXPENSE	113,148
NET INCOME	207,364
PREFERRED STOCK DIVIDENDS	0
EARNINGS AVAILABLE FOR COMM	207,364
COMMON STOCK DIVIDENDS	76,311
TOTAL INTEREST ON BONDS	87,558
CASH FLOW OPERATIONS	514,695
EPS PRIMARY	2.45
EPS DILUTED	2.43