

PINNACLE WEST CAPITAL CORP

FORM 10-Q (Quarterly Report)

Filed 08/12/96 for the Period Ending 06/30/96

Address	400 NORTH FIFTH STREET MS8695 PHOENIX, AZ 85004
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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 8/12/1996 For Period Ending 6/30/1996

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

For the quarterly period ended June 30, 1996

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 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 August 1, 1996: 87,443,399

Glossary

ACC -- Arizona Corporation Commission

ACC Staff -- Staff of the Arizona Corporation Commission

AFUDC -- Allowance for funds used during construction

APS -- Arizona Public Service Company

Company -- Pinnacle West Capital Corporation

El Dorado -- El Dorado Investment Company

EPA -- Environmental Protection Agency

ITCs -- Investment tax credits

March 10-Q -- Pinnacle West Capital Corporation Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 1996

1995 10-K -- Pinnacle West Capital Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 1995

Palo Verde -- Palo Verde Nuclear Generating Station

Pinnacle West -- Pinnacle West Capital Corporation

SunCor -- SunCor Development Company

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 June 30,	
	1996	1995
Operating Revenues		
Electric	\$ 426,658	\$ 380,178
Real estate	26,150	13,053
Total	452,808	393,231
Fuel Expenses		
Fuel for electric generation	57,289	44,823
Purchased power	22,466	17,814
Total	79,755	62,637
Operating Expenses		
Utility operations and maintenance	100,296	94,251
Real estate operations	25,811	12,856
Depreciation and amortization	59,342	60,843
Taxes other than income taxes	35,510	35,435
Total	220,959	203,385
Operating Income	152,094	127,209
Other Income (Deductions)		
Allowance for equity funds used during construction	2,003	1,348
Interest on long-term debt	(44,675)	(52,677)
Other interest	(6,201)	(4,517)
Allowance for borrowed funds used during construction	2,164	2,355
Preferred stock dividend requirements of APS	(4,326)	(4,776)
Other-net	(980)	1,286
Total	(52,015)	(56,981)
Income Before Income Taxes and Extraordinary Charge	100,079	70,228
Income Tax Expense	38,625	27,979
Income Before Extraordinary Charge	61,454	42,249
Extraordinary Charge for Early Retirement of Debt, Net of Income Tax of \$1,674	(2,471)	-
Net Income	\$ 58,983	\$ 42,249
Average Common Shares Outstanding	87,420,263	87,403,426
Earnings Per Average Common Share Outstanding:		
Income Before Extraordinary Charge	\$ 0.70	\$ 0.48
Extraordinary Charge	(0.03)	-
Total	\$ 0.67	\$ 0.48
Dividends Declared Per Share	\$ 0.250	\$ 0.225

See Notes to Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands, except per share amounts)

	Six Months Ended June 30,	
	1996	1995
Operating Revenues		
Electric	\$ 771,919	\$ 717,146
Real estate	42,144	22,199
Total	814,063	739,345
Fuel Expenses		
Fuel for electric generation	99,623	91,533
Purchased power	36,404	26,024
Total	136,027	117,557
Operating Expenses		
Utility operations and maintenance	188,039	185,683
Real estate operations	43,353	20,351
Depreciation and amortization	118,277	121,690
Taxes other than income taxes	69,711	71,156
Total	419,380	398,880
Operating Income	258,656	222,908
Other Income (Deductions)		
Allowance for equity funds used during construction	3,678	2,534
Interest on long-term debt	(90,584)	(107,597)
Other interest	(11,047)	(7,753)
Allowance for borrowed funds used during construction	5,401	4,351
Preferred stock dividend requirements of APS	(8,803)	(9,583)
Other-net	687	5,878
Total	(100,668)	(112,170)
Income Before Income Taxes and Extraordinary Charge	157,988	110,738
Income Tax Expense	61,675	43,866
Income Before Extraordinary Charge	96,313	66,872
Extraordinary Charge for Early Retirement of Debt, Net of Income Tax of \$4,110	(6,068)	-
Net Income	\$ 90,245	\$ 66,872
Average Common Shares Outstanding	87,435,309	87,398,822
Earnings Per Average Common Share Outstanding:		
Income Before Extraordinary Charge	\$ 1.10	\$ 0.77
Extraordinary Charge	(0.07)	-
Total	\$ 1.03	\$ 0.77
Dividends Declared Per Share	\$ 0.500	\$ 0.450

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 June 30,	
	1996	1995
	-----	-----
Operating Revenues		
Electric	\$ 1,669,725	\$ 1,600,109
Real estate	74,791	56,592
	-----	-----
Total	1,744,516	1,656,701
	-----	-----
Fuel Expenses		
Fuel for electric generation	217,018	210,578
Purchased power	71,250	63,243
	-----	-----
Total	288,268	273,821
	-----	-----
Operating Expenses		
Utility operations and maintenance	403,170	391,539
Real estate operations	73,346	55,877
Depreciation and amortization	240,576	242,868
Taxes other than income taxes	140,984	141,717
	-----	-----
Total	858,076	832,001
	-----	-----
Operating Income	598,172	550,879
	-----	-----
Other Income (Deductions)		
Allowance for equity funds used during construction	6,126	4,652
Interest on long-term debt	(192,280)	(223,841)
Other interest	(20,269)	(14,974)
Allowance for borrowed funds used during construction	10,115	7,276
Preferred stock dividend requirements of APS	(18,354)	(20,375)
Other-net	(8,687)	2,662
	-----	-----
Total	(223,349)	(244,600)
	-----	-----
Income Before Income Taxes and Extraordinary Charge	374,823	306,279
	-----	-----
Income Taxes		
Income tax expense	145,774	135,879
Non-recurring income tax benefit	-	(26,770)
	-----	-----
Total	145,774	109,109
	-----	-----
Income Before Extraordinary Charge	229,049	197,170
Extraordinary Charge for Early Retirement of Debt, Net of Income Tax of \$11,944	(17,639)	-
	-----	-----
Net Income	\$ 211,410	\$ 197,170
	=====	=====
Average Common Shares Outstanding	87,437,388	87,401,261
Earnings Per Average Common Share Outstanding:		
Income Before Extraordinary Charge	\$ 2.62	\$ 2.26
Extraordinary Charge	(0.20)	-
	-----	-----
Total	\$ 2.42	\$ 2.26
	=====	=====
Dividends Declared Per Share	\$ 0.975	\$ 0.875
	=====	=====

See Notes to Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

ASSETS
(Thousands of Dollars)

	June 30, 1996	December 31, 1995
	-----	-----
Current Assets		
Cash and cash equivalents	\$ 18,865	\$ 79,539
Customer and other receivables--net	137,551	131,393
Accrued utility revenues	63,932	53,519
Material and supplies	77,242	78,271
Fossil fuel	17,422	21,722
Deferred income taxes	46,316	46,355
Other current assets	17,798	19,671
	-----	-----
Total current assets	379,126	430,470
	-----	-----
Investments and Other Assets		
Real estate investments--net	410,729	411,693
Other assets	167,933	151,127
	-----	-----
Total investments and other assets	578,662	562,820
	-----	-----
Utility Plant		
Electric plant in service and held for future use	6,643,725	6,544,860
Less accumulated depreciation and amortization	2,334,170	2,231,614
	-----	-----
Total	4,309,555	4,313,246
Construction work in progress	271,889	281,757
Nuclear fuel, net of amortization	52,404	52,084
	-----	-----
Net utility plant	4,633,848	4,647,087
	-----	-----
Deferred Debits		
Regulatory asset for income taxes	544,615	548,464
Palo Verde Unit 3 cost deferral	278,845	283,426
Palo Verde Unit 2 cost deferral	162,842	165,873
Other deferred debits	366,924	358,912
	-----	-----
Total deferred debits	1,353,226	1,356,675
	-----	-----
Total Assets	\$6,944,862	\$6,997,052
	=====	=====

See Notes to Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

LIABILITIES AND EQUITY

(Thousands of Dollars)

	June 30, 1996	December 31, 1995
	-----	-----
Current Liabilities		
Accounts payable	\$ 99,189	\$ 114,963
Accrued taxes	118,687	95,962
Accrued interest	44,651	48,958
Dividends payable	21,879	-
Short-term borrowings	194,265	177,800
Current maturities of long-term debt	317,685	8,780
Customer deposits	34,709	32,746
Other current liabilities	33,437	25,284
	-----	-----
Total current liabilities	864,502	504,493
	-----	-----
Long-Term Debt Less Current Maturities	2,116,131	2,510,709
	-----	-----
Deferred Credits and Other		
Deferred income taxes	1,327,677	1,327,881
Deferred investment tax credit	86,691	97,897
Unamortized gain - sale of utility plant	89,227	91,514
Other	314,562	314,910
	-----	-----
Total deferred credits and other	1,818,157	1,832,202
	-----	-----
Commitments and Contingencies (Notes 6 and 7)		
Minority Interests		
Non-redeemable preferred stock of APS	173,526	193,561
	-----	-----
Redeemable preferred stock of APS	66,000	75,000
	-----	-----
Common Stock Equity		
Common stock, no par value	1,639,492	1,638,684
Retained earnings	267,054	242,403
	-----	-----
Total common stock equity	1,906,546	1,881,087
	-----	-----
Total Liabilities and Equity	\$6,944,862	\$6,997,052
	=====	=====

See Notes to Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(THOUSANDS OF DOLLARS)

	Six Months Ended June 30,	
	1996	1995
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before extraordinary charge	\$ 96,313	\$ 66,872
Items not requiring cash		
Depreciation and amortization	134,567	137,165
Deferred income taxes--net	3,684	12,820
Allowance for equity funds used during construction	(3,678)	(2,534)
Deferred investment tax credit	(11,206)	(8,167)
Other--net	(1,711)	4,069
Changes in current assets and liabilities		
Customer and other receivables -- net	(5,896)	24,284
Accrued utility revenues	(10,413)	(9,902)
Materials, supplies and fossil fuel	5,329	7,372
Other current assets	12,617	(5,233)
Accounts payable	(11,094)	(30,668)
Accrued taxes	22,725	21,596
Accrued interest	(4,307)	(3,892)
Other current liabilities	14,225	11,391
Decrease (increase) in land held	7,156	(10,592)
Other--net	557	(23,390)
	-----	-----
Net Cash Flow Provided By Operating Activities	248,868	191,191
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(120,810)	(144,227)
Allowance for borrowed funds used during construction	(5,401)	(4,351)
Other--net	(12,392)	(1,259)
	-----	-----
Net Cash Flow Used For Investing Activities	(138,603)	(149,837)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of long-term debt	108,993	96,673
Short-term borrowings--net	16,465	47,755
Dividends paid on common stock	(43,715)	(39,330)
Repayment of long-term debt	(218,387)	(150,003)
Redemption of preferred stock	(30,603)	(4)
Extraordinary charge for early retirement of debt	(6,068)	-
Other--net	2,376	(130)
	-----	-----
Net Cash Flow Used For Financing Activities	(170,939)	(45,039)
	-----	-----
Net Cash Flow	(60,674)	(3,685)
Cash and Cash Equivalents at Beginning of Period	79,539	34,719
	-----	-----
Cash and Cash Equivalents at End of Period	\$ 18,865	\$ 31,034
	=====	=====
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest, net of amounts capitalized	\$ 95,810	\$ 111,620
Income taxes	\$ 40,000	\$ 21,317

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 June 30, 1996, the results of operations for the three months, six months and twelve months ended June 30, 1996 and 1995, and the cash flows for the six months ended June 30, 1996 and 1995. 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 1995 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, 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 six months ended June 30, 1996.
5. Regulatory Matters

Regulatory Agreement

In April 1996, the ACC approved a regulatory agreement between APS and the ACC Staff. This agreement is substantially the same as the agreement proposed by APS and the ACC Staff in December 1995. The major provisions of the 1996 regulatory agreement are:

- * An annual rate reduction of approximately \$48.5 million (\$29 million after income taxes), or an average 3.4% for all customers except certain contract customers, effective July 1, 1996.
- * Recovery of substantially all of APS' present regulatory assets through accelerated amortization over an eight-year period beginning July 1, 1996, increasing annual amortization by approximately \$120 million (\$72 million after income taxes).

- * A formula for sharing future cost savings between customers and shareholders, referencing a return on equity (as defined) of 11.25%.
- * A moratorium on filing for permanent rate changes, except under the sharing formula and under certain other limited circumstances, prior to July 2, 1999.
- * Infusion of \$200 million of common equity into APS by the parent company, in annual increments of \$50 million starting in 1996.

Competition and Electric Industry Restructuring

In recognition of evolving competition in the electric utility industry and an ongoing investigation by the ACC Staff into industry restructuring in an open competition docket involving many parties, the 1996 regulatory agreement also includes an element setting out a number of issues which APS and the ACC Staff agree the ACC should be requested to consider in developing restructuring policies. See Note 3 of Notes to Consolidated Financial Statements in Part II, Item 8 of the 1995 10-K for further discussion of the industry restructuring element of the agreement. As part of the competition docket, and in response to the ACC Staff's request, on June 28, 1996 APS filed its recommended phased retail access plan under which APS proposed generation market access to larger customers beginning in the year 2000 and expanding such access to smaller commercial and industrial customers, and eventually all customers, in successive steps thereafter. APS expects that the implementation of its plan would support effective competition, including resolving issues of exclusive service territory rights, obligation to serve, reciprocity and the recovery of potentially stranded costs. Other parties have also submitted their plans as part of this docket. The ACC Staff has advised that they presently intend to prepare a draft rule on competition and will solicit comments from all parties on the draft rule. APS cannot currently predict the outcome of this matter.

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 industry-wide retrospective assessment program. If losses at any nuclear power plant covered by this program exceed the accumulated funds for this program, APS could be assessed retrospective premium adjustments. The maximum assessment per reactor under the 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 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.

7. APS has encountered tube cracking in the Palo Verde steam generators and has taken, and will continue to take, remedial actions that it believes have slowed the rate of tube degradation. The projected service life of the steam generators is reassessed periodically in conjunction with inspections made during scheduled outages of the Palo Verde units. APS' ongoing analyses indicate that it will be economically desirable for APS to replace the Unit 2 steam generators, which have been most affected by tube cracking, in five to ten years. APS expects that the steam generator replacement can be accomplished within financial parameters established before replacement was a consideration, and APS estimates that its share of the replacement costs (in 1996 dollars and including installation and replacement power costs) will be between \$30 million and \$50 million, most of which will be incurred after the year 2000. APS expects that the replacement would be performed in conjunction with a normal refueling outage in order to limit incremental outage time to approximately 50 days. Based on the latest available data, APS estimates that the Unit 1 and Unit 3 steam generators should operate for the license periods (until 2025 and 2027, respectively), although APS will continue its normal periodic assessment of these steam generators.

PINNACLE WEST CAPITAL CORPORATION

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

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

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 Operations in Part II, Item 7 of the 1995 10-K.

During June 1996, the parent company prepaid \$30 million of its debt, incurring a prepayment penalty of \$2.5 million after income taxes, reducing the aggregate principal amount to approximately \$250 million.

On August 12, Pinnacle West will prepay the remaining \$150 million of 11.61% bond debentures due March 2000, incurring an extraordinary charge of \$14.3 million after income taxes. Proceeds for the debt prepayment will be from a short-term borrowing that will be refinanced with long-term debt at a later date.

As a result of the 1996 regulatory agreement (see Note 5 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report), the parent company will infuse \$200 million into APS, in annual increments of \$50 million starting in 1996.

The Board declared a quarterly dividend of 25 cents per share of common stock totaling approximately \$21.9 million, payable September 1, 1996 to shareholders of record on August 1, 1996.

APS

For the six months ended June 30, 1996, APS incurred approximately \$114 million in capital expenditures, accounting for approximately 44% of the most recently estimated 1996 capital expenditures. APS has estimated total capital expenditures for the years 1996, 1997 and 1998 to be approximately \$260 million, \$284 million and \$284 million, respectively. These amounts include about \$30 million each year for nuclear fuel expenditures.

Required and optional redemptions of preferred stock and long-term debt, including premiums thereon, and a capitalized lease obligation are expected to total

approximately \$214 million, \$164 million, and \$114 million for the years 1996, 1997, and 1998, respectively. During the six months ended June 30, 1996, APS redeemed approximately \$140 million of its long-term debt and approximately \$30 million of its preferred stock, and incurred \$100 million of long-term debt under a revolving credit agreement. It is APS' intention over the next several years to use excess cash flow to retire debt and preferred stock.

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

OPERATING RESULTS

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, 1996 and 1995:

Income (Loss)
(Unaudited)

(Thousands of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,		Twelve Months Ended June 30,	
	1996	1995	1996	1995	1996	1995
APS	\$ 66,114	\$ 48,676	\$ 107,243	\$ 81,701	\$ 245,978	\$ 210,076
SunCor	118	187	(1,092)	1,354	1,632	1,329
El Dorado	97	1,260	(39)	403	8,065	(2,721)
Pinnacle West (1)	(7,346)	(7,874)	(15,867)	(16,586)	(44,265)	(11,514)
NET INCOME	\$ 58,983	\$ 42,249	\$ 90,245	\$ 66,872	\$ 211,410	\$ 197,170

(1)Includes Pinnacle West's interest expense, extraordinary charge for early retirement of debt and operating expenses net of income tax benefits. Income tax benefits are as follows (in thousands): \$3,177 and \$4,134 for the three months ended June 30, 1996 and 1995, respectively; \$8,274 and \$8,128 for the six months ended June 30, 1996 and 1995, respectively; and \$21,253 and \$49,061 for the twelve months ended June 30, 1996 and 1995, respectively.

Operating Results - Three-month period ended June 30, 1996 compared to three-month period ended June 30, 1995

Earnings increased in the three-month period ended June 30, 1996 primarily due to increased operating revenues resulting from warmer weather and customer growth. Partially offsetting the increased operating revenues were increases in fuel expenses and operations and maintenance expenses. Fuel expenses were higher due to increased retail sales, higher coal prices, and higher natural gas costs. Operations and maintenance expenses increased primarily due to the timing of charges for employee incentive plans.

Operating Results - Six-month period ended June 30, 1996 compared to six-month period ended June 30, 1995

Earnings increased in the six-month period ended June 30, 1996 primarily due to increased operating revenues and lower interest expense. Operating revenues were higher due to customer growth and warmer weather. Interest expense decreased due to lower interest rates and lower debt balances. Partially offsetting these positive factors were an increase in fuel expenses and a gain on the sale of a small subsidiary in the first quarter of 1995. Fuel expenses were higher due to increased retail sales, higher coal prices, and higher natural gas costs.

Operating Results - Twelve-month period ended June 30, 1996 compared to twelve-month period ended June 30, 1995

Earnings increased in the twelve-month period ended June 30, 1996 primarily due to increased operating revenues and accelerated investment tax credit amortization. Operating revenues increased due to customer growth, higher residential usage, and warmer weather. The accelerated investment tax credit amortization was a result of the 1994 rate settlement (see "Other Income" below) and is reflected as a decrease in income tax expense.

Partially offsetting these positive factors were increased fuel expenses, write-downs of an office building and certain inventory, and a gain on the sale of a small subsidiary in the first quarter of 1995. Fuel expenses were higher primarily due to increased retail sales.

Non-utility Operations

The parent company incurred extraordinary charges for the prepayment of debt in the three-month, six-month and twelve-month periods. Interest expense decreased in all periods due primarily to debt reduction. Additionally, the parent company's

income tax benefit decreased in the twelve-month period due to a 1994 non-recurring income tax benefit of approximately \$26.8 million related to a change in tax law.

SunCor's earnings decreased in the six-month period due to the expiration in 1995 of a lease agreement related to the Wigwam Resort. Earnings increased in the twelve-month period as a result of increased earnings in joint ventures and management fees.

El Dorado's earnings for the three-month and six-month periods decreased relative to the prior year periods because of the prior recognition of a gain from the sale of an investment in 1995. Earnings for the twelve-month period increased due to sales of investments, and also due to the absence of an investment writedown taken in the prior period.

Other Income

Other income reflects accounting practices required for regulated public utilities and represents a composite of cash and non-cash items, including AFUDC. See Note 1 of Notes to Consolidated Financial Statements in

Part II, Item 8 of the 1995 10-K.

As part of a 1994 rate settlement agreement with the ACC, the Company accelerated amortization of substantially all deferred ITCs over a five-year period beginning in 1995, resulting in a decrease in annual consolidated income tax expense of approximately \$18 million.

REGULATORY MATTERS

See Note 5 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report and Note 3 of Notes to Consolidated Financial Statements in Part II, Item 8 of the 1995 10-K for a discussion of APS' regulatory agreement and industry restructuring.

PART II. OTHER INFORMATION

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

Item 1. Legal Proceedings

Property Taxes

As previously reported, on April 23, 1996 the parties reached an agreement to settle the litigation in which the Arizona Court of Appeals held that an Arizona state property tax law, effective December 31, 1989, is unconstitutional and a lawsuit filed by the Palo Verde participants, including APS, was returned to the Arizona Tax Court for determination of the appropriate remedy consistent with that decision. See "Property Taxes" in Part II, Item 1 of the March 10-Q. On July 18, 1996, the Governor signed a new Arizona property tax law which amends the statute declared unconstitutional and is expected to reduce the aggregate property tax of APS by approximately \$18 million (before income taxes) per year. Under the formula for potential future rate reduction pursuant to the 1996 regulatory agreement (see "Regulatory Matters - Regulatory Agreement" in Note 5 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report), the property tax reduction may reduce future retail rates. The parties to the litigation anticipate that a settlement will be reached pursuant to which APS will relinquish its claims for retrospective relief provided that the prospective relief provided by the new law is not changed (other than by changes in law affecting taxpayers generally) for a period of three years.

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

At the Company's Annual Meeting of Shareholders held on May 22, 1996, the following persons were elected Class III Directors with a term to expire at the 1999 annual meeting:

	Votes For ---	Votes Against -----	Abstentions and Broker Non Votes -----
Mark DeMichele	77,886,740	721,440	N/A
John Norton	77,913,791	694,389	N/A
Douglas Wall	77,884,722	723,457	N/A

Item 5. Other Information

Environmental Matters

As previously reported, pursuant to the Clean Air Act Amendments of 1990, the EPA established a "Grand Canyon Visibility Transport Commission" to complete a study on visibility impairment in the "Golden Circle of National Parks." See "Environmental Matters - EPA Environmental Regulation" in Part I, Item 1 of the 1995 10-K. The Commission completed its study and on June 10, 1996 submitted its final recommendations to EPA. Pursuant to the recommendations, beginning in 2000 and every 5 years thereafter, sulfur dioxide emissions would be measured and if the emissions exceed the projected emissions, which under the current regulatory scheme are expected to decline, EPA would implement a program to limit total sulfur dioxide emissions in the western United States. If such a program was implemented, industry, including APS' coal plants, could be subject to further emissions limits. The EPA will consider these recommendations before promulgating final requirements. APS cannot currently predict the outcome of this matter.

Palo Verde Nuclear Generating Station

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

Competition and Electric Industry Restructuring

See Note 5 of the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report for a discussion of competition and restructuring issues.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

<u>Exhibit No.</u> -----	<u>Description</u> -----
27	Financial Data Schedule

In addition to the Exhibit shown above, the Company hereby incorporates the following Exhibits pursuant to Exchange Act Rule 12b-32 by reference to the filings set forth below:

Exhibit No.	Description	Previously Filed As Exhibit	File No.	Date Effective
10.1	Amendment No. 3 to Amended and Restated Decommissioning Trust Agreement (PVNGS Unit 2) dated as of Nov. 1, 1994.	10.1 to APS' June 1996 Form 10-Q Report	1-4473	8/9/96

(b) Reports on Form 8-K

During the quarter ended June 30, 1996, and the period ended August 9, 1996, the Company filed no reports on Form 8-K.

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: August 9, 1996

By: /s/ Nancy Newquist

*Nancy Newquist
Vice President and Treasurer
(Principal Financial Officer and
Officer Duly Authorized to sign
this Report)*

ARTICLE UT

MULTIPLIER: 1,000

CURRENCY: U.S. DOLLARS

PERIOD TYPE	6 MOS
FISCAL YEAR END	DEC 31 1996
PERIOD START	JAN 01 1996
PERIOD END	JUN 30 1996
EXCHANGE RATE	1
BOOK VALUE	PER BOOK
TOTAL NET UTILITY PLANT	4,633,848
OTHER PROPERTY AND INVEST	578,662
TOTAL CURRENT ASSETS	379,126
TOTAL DEFERRED CHARGES	1,353,226
OTHER ASSETS	0
TOTAL ASSETS	6,944,862
COMMON	1,639,492
CAPITAL SURPLUS PAID IN	0
RETAINED EARNINGS	267,054
TOTAL COMMON STOCKHOLDERS EQ	1,906,546
PREFERRED MANDATORY	66,000
PREFERRED	173,526
LONG TERM DEBT NET	2,116,131
SHORT TERM NOTES	0
LONG TERM NOTES PAYABLE	0
COMMERCIAL PAPER OBLIGATIONS	194,265
LONG TERM DEBT CURRENT PORT	317,685
PREFERRED STOCK CURRENT	0
CAPITAL LEASE OBLIGATIONS	0
LEASES CURRENT	0
OTHER ITEMS CAPITAL AND LIAB	2,170,709
TOT CAPITALIZATION AND LIAB	6,944,862
GROSS OPERATING REVENUE	814,063
INCOME TAX EXPENSE	61,675
OTHER OPERATING EXPENSES	419,380
TOTAL OPERATING EXPENSES	555,407
OPERATING INCOME LOSS	258,656
OTHER INCOME NET	(100,668)
INCOME BEFORE INTEREST EXPEN	0
TOTAL INTEREST EXPENSE	96,230
NET INCOME	90,245
PREFERRED STOCK DIVIDENDS	0
EARNINGS AVAILABLE FOR COMM	90,245
COMMON STOCK DIVIDENDS	43,715
TOTAL INTEREST ON BONDS	83,956
CASH FLOW OPERATIONS	248,868
EPS PRIMARY	1.03
EPS DILUTED	0

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