

# PINNACLE WEST CAPITAL CORP

## FORM 10-Q (Quarterly Report)

Filed 08/14/95 for the Period Ending 06/30/95

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 8/14/1995 For Period Ending 6/30/1995

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, 1995

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

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(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 7, 1995: 87,414,449

## Glossary

**ACC - 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**

**EPEC - El Paso Electric Company**

**Four Corners - Four Corners Power Plant**

ITCs - Investment tax credits

**NNEPA - Navajo Nation Environmental Protection Agency**

**1935 Act - Public Utility Holding Company Act of 1935**

1994 10-K - Pinnacle West Capital Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 1994

**Palo Verde - Palo Verde Nuclear Generating Station**

**Pinnacle West - Pinnacle West Capital Corporation**

**SEC - Securities and Exchange Commission**

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

SFAS No. 121 - Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of"

**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,	
	1995	1994
Operating Revenues		
Electric	\$ 380,178	\$ 397,156
Real estate	13,018	15,436
Total	393,196	412,592
Fuel Expenses		
Fuel for electric generation	44,823	60,090
Purchased power	17,814	16,304
Total	62,637	76,394
Operating Expenses		
Utility operations and maintenance	94,251	108,444
Real estate operations	12,856	15,602
Depreciation and amortization	60,843	57,953
Taxes other than income taxes	35,435	36,870
Total	203,385	218,869
Operating Income	127,174	117,329
Other Income (Deductions)		
Allowance for equity funds used during construction	1,348	977
Palo Verde accretion income	-	13,616
Interest on long-term debt	(52,677)	(57,202)
Other interest	(4,517)	(3,977)
Allowance for borrowed funds used during construction	2,355	1,350
Preferred stock dividend requirements of APS	(4,776)	(6,972)
Other-net	1,321	20,095
Total	(56,946)	(32,113)
Income Before Income Taxes	70,228	85,216
Income Tax Expense	27,979	36,514
Net Income	\$ 42,249	\$ 48,702
Average Common Shares Outstanding	87,403,426	87,418,627
Earnings Per Average Common Share Outstanding	\$ 0.48	\$ 0.56
Dividends Declared Per Share	\$ 0.225	\$ 0.200

**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,	
	1995	1994
Operating Revenues		
Electric	\$ 717,146	\$ 743,205
Real estate	22,164	24,860
Total	739,310	768,065
Fuel Expenses		
Fuel for electric generation	91,533	118,058
Purchased power	26,024	26,367
Total	117,557	144,425
Operating Expenses		
Utility operations and maintenance	185,683	206,065
Real estate operations	20,351	24,263
Depreciation and amortization	121,690	116,148
Taxes other than income taxes	71,156	71,365
Total	398,880	417,841
Operating Income	222,873	205,799
Other Income (Deductions)		
Allowance for equity funds used during construction	2,534	1,823
Palo Verde accretion income	-	33,596
Interest on long-term debt	(107,597)	(113,566)
Other interest	(7,753)	(7,964)
Allowance for borrowed funds used during construction	4,351	2,517
Preferred stock dividend requirements of APS	(9,583)	(14,482)
Other-net	5,913	20,325
Total	(112,135)	(77,751)
Income Before Income Taxes	110,738	128,048
Income Tax Expense	43,866	57,727
Net Income	\$ 66,872	\$ 70,321
Average Common Shares Outstanding	87,398,822	87,418,395
Earnings Per Average Common Share Outstanding	\$ 0.77	\$ 0.80
Dividends Declared Per Share	\$ 0.450	\$ 0.400

**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,	
	1995	1994
Operating Revenues		
Electric	\$ 1,600,109	\$ 1,603,857
Real estate	56,557	47,032
Total	1,656,666	1,650,889
Fuel Expenses		
Fuel for electric generation	210,578	239,455
Purchased power	63,243	68,406
Total	273,821	307,861
Operating Expenses		
Utility operations and maintenance	391,539	421,979
Real estate operations	55,877	50,404
Depreciation and amortization	242,868	228,158
Taxes other than income taxes	141,717	140,525
Total	832,001	841,066
Operating Income	550,844	501,962
Other Income (Deductions)		
Allowance for equity funds used during construction	4,652	2,739
Palo Verde accretion income	-	72,017
Interest on long-term debt	(223,841)	(23,176)
Other interest	(14,974)	(16,526)
Allowance for borrowed funds used during construction	7,276	4,704
Preferred stock dividend requirements of APS	(20,375)	(29,785)
Other-net	2,697	17,591
Total	(244,565)	(183,436)
Income Before Income Tax	306,279	318,526
Income Tax Expense (Benefit)		
Income tax expense	135,879	144,600
Non-recurring income tax benefit	(26,770)	-
Total	109,109	144,600
Net Income	\$ 197,170	\$ 173,926
Average Common Shares Outstanding	87,401,261	87,361,921
Earnings Per Average Common Share Outstanding	\$ 2.26	\$ 1.99
Dividends Declared Per Share	\$ 0.875	\$ 0.600

**See Notes to Condensed Consolidated Financial Statements.**

**PINNACLE WEST CAPITAL CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Unaudited)

**ASSETS**  
(Thousands of Dollars)

	June 30, 1995	December 31, 1994
	-----	-----
Current Assets		
Cash and cash equivalents	\$ 31,034	\$ 34,719
Customer and other receivables--net	111,770	136,143
Accrued utility revenues	65,334	55,432
Material and supplies	88,763	89,864
Fossil fuel	29,464	35,735
Deferred income taxes	62,861	68,263
Other current assets	20,655	15,422
	-----	-----
Total current assets	409,881	435,578
	-----	-----
Investments and Other Assets		
Real estate investments--net	417,665	408,505
Other assets	162,309	153,384
	-----	-----
Total investments and other assets	579,974	561,889
	-----	-----
Utility Plant		
Electric plant in service, including nuclear fuel	6,662,911	6,602,799
Construction work in progress	243,479	224,312
	-----	-----
Total utility plant	6,906,390	6,827,111
Less accumulated depreciation and amortization	2,281,932	2,203,038
	-----	-----
Net utility plant	4,624,458	4,624,073
	-----	-----
Deferred Debits		
Regulatory asset for income taxes	551,630	557,049
Palo Verde Unit 3 cost deferral	288,006	292,586
Palo Verde Unit 2 cost deferral	168,905	171,936
Other deferred debits	282,592	266,641
	-----	-----
Total deferred debits	1,291,133	1,288,212
	-----	-----
Total Assets	\$6,905,446	\$6,909,752
	=====	=====

**See Notes to Condensed Consolidated Financial Statements.**



**PINNACLE WEST CAPITAL CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

**LIABILITIES AND EQUITY**  
(Thousands of Dollars)

	June 30, 1995	December 31, 1994
	-----	-----
Current Liabilities		
Accounts payable	\$ 80,184	\$ 126,842
Accrued taxes	110,740	89,144
Accrued interest	52,166	56,058
Short-term borrowings	179,255	131,500
Current maturities of long-term debt	78,927	78,512
Other current liabilities	61,435	50,060
	-----	-----
Total current liabilities	562,707	532,116
	-----	-----
Non-Current Liabilities		
Long-term debt less current maturities	2,541,422	2,588,525
Other liabilities	11,175	8,679
	-----	-----
Total non-current liabilities	2,552,597	2,597,204
	-----	-----
Deferred Credits and Other		
Deferred income taxes	1,299,297	1,297,298
Deferred investment tax credit	113,259	121,426
Unamortized gain - sale of utility plant	94,154	98,551
Other deferred credits	211,045	218,179
	-----	-----
Total deferred credits and other	1,717,755	1,735,454
	-----	-----
Commitments and Contingencies (Notes 6, 7 and 8)		
Minority Interests		
Non-redeemable preferred stock of APS	193,561	193,561
	-----	-----
Redeemable preferred stock of APS	75,000	75,000
	-----	-----
Common Stock Equity		
Common stock, no par value	1,641,062	1,641,196
Retained earnings	162,764	135,221
	-----	-----
Total common stock equity	1,803,826	1,776,417
	-----	-----
Total Liabilities and Equity	\$6,905,446	\$6,909,752
	=====	=====

**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,	
	1995	1994
	-----	-----
Cash Flows From Operating Activities		
Net income	\$ 66,872	\$ 70,321
Items not requiring cash		
Depreciation and amortization	137,165	129,799
Deferred income taxes--net	12,820	43,665
Revenue refund reversal	-	(9,308)
Palo Verde accretion income	-	(33,596)
Other--net	(6,632)	(2,255)
Changes in current assets and liabilities		
Accounts receivable--net	24,284	9,971
Accrued utility revenues	(9,902)	(10,116)
Materials, supplies and fossil fuel	7,372	10,786
Other current assets	(5,233)	(2,590)
Accounts payable	(30,668)	11,116
Accrued taxes	21,596	2,740
Accrued interest	(3,892)	(857)
Other current liabilities	11,391	11,316
Decrease (increase) in land held	(10,592)	3,235
Other--net	(23,390)	(20,786)
	-----	-----
Net Cash Flow Provided By Operating Activities	191,191	213,441
	-----	-----
Cash Flows From Investing Activities		
Capital expenditures	(151,112)	(121,691)
Allowance for equity funds used during construction	2,534	1,823
Other--net	(1,259)	(1,699)
	-----	-----
Net Cash Flow Used For Investing Activities	(149,837)	(121,567)
	-----	-----
Cash Flows From Financing Activities		
Issuance of long-term debt	96,673	426,418
Short-term borrowings--net	47,755	(28,500)
Dividends paid on common stock	(39,330)	(34,967)
Repayment of long-term debt	(150,003)	(404,193)
Redemption of preferred stock	(4)	(54,096)
Other--net	(130)	2,133
	-----	-----
Net Cash Flow Used For Financing Activities	(45,039)	(93,205)
	-----	-----
Net Cash Flow	(3,685)	(1,331)
Cash and Cash Equivalents at Beginning of Period	34,719	52,127
	-----	-----
Cash and Cash Equivalents at End of Period	\$ 31,034	\$ 50,796
	=====	=====
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest, net of amounts capitalized	\$ 111,620	\$ 113,924
Income taxes	\$ 21,317	\$ 14,350

**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. Consistent with the 1995 presentation, prior years' electric operating revenues and other taxes have been restated to exclude sales tax on electric revenues.
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, 1995, the results of operations for the three months, six months and twelve months ended June 30, 1995 and 1994, and the cash flows for the six months ended June 30, 1995 and 1994. 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 1994 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 for 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 since December 31, 1994.
5. In May 1994 the ACC approved a retail rate settlement agreement between APS and the ACC staff which provided for a net annual retail rate reduction of approximately \$32.3 million (\$19 million after tax), or 2.2% on average, effective June 1, 1994. As part of the settlement, APS reversed approximately \$20 million of depreciation (\$15 million after tax) related to a 1991 Palo Verde write-off. The 1994 rate settlement also provided for the accelerated amortization of substantially all deferred ITCs over a five-year period beginning in 1995. In addition, the 1994 rate settlement included a moratorium on filing for permanent rate changes, except under certain circumstances, prior to the end of 1996 for both APS and the ACC staff, and an incentive rewarding reduction in fuel and operating and maintenance cost per kilowatt-hour below established targets.
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. 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 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 \$2.78 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 1995 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 their designed life of 40 years (until 2025 and 2027, respectively), although APS will continue its periodic assessment of these steam generators.
8. El Paso Electric Company, one of the joint owners of Palo Verde and Four Corners, has been operating under Chapter 11 of the Bankruptcy Code since 1992. On June 9, 1995, Central and South West Corporation filed with the bankruptcy court a revocation of the previously confirmed plan whereby, among other things, certain issues, including EPEC allegations against APS regarding the 1989-90 Palo Verde outages, would have been resolved, and EPEC would have assumed the joint facilities operating agreements. APS does not expect that the revocation of the plan will have a material adverse effect on its operations or financial position.

## 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

### Pinnacle West

Pinnacle West'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 1994 10-K.

During June 1995 Pinnacle West prepaid \$16.5 million of its debt, reducing the aggregate principal amount to approximately \$398 million.

The Board declared a quarterly dividend of 22.5 cents per share of common stock, payable June 1, 1995 to shareholders of record on May 1, 1995, totaling approximately \$19.7 million.

### APS

For the six months ended June 30, 1995 APS incurred approximately \$129 million in construction expenditures, accounting for approximately 45% of the most recently estimated 1995 construction expenditures. APS has estimated total construction expenditures for the years 1995, 1996 and 1997 to be approximately \$288 million, \$257 million and \$236 million, respectively. These amounts include about \$27 million each year for nuclear fuel expenditures.

Since December 31, 1994 APS has (i) issued \$75 million of its Junior Subordinated Deferrable Interest Debentures ("MIDS"), (ii) incurred approximately \$10 million of long-term debt in connection with a tax-exempt financing, (iii) redeemed on March 2, 1995, \$49.15 million of its First Mortgage Bonds, 10.25% Series due 2000, (iv) repurchased approximately \$9 million of its First Mortgage Bonds, 9 1/2% Series due 2021 (the "9 1/2% Bonds") and (v) redeemed on May 1, 1995, \$50 million of its First Mortgage Bonds, 13 1/4% Series due 2007.

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 \$116 million, \$4 million and \$164 million for the years 1995, 1996 and 1997, respectively. During the first six months of 1995 APS refunded approximately \$108 million (93%) of the estimated 1995 total.

Provisions in APS' mortgage bond indenture and articles of incorporation require certain coverage ratios to be met before APS can issue additional first mortgage bonds or preferred stock. In addition, the bond indenture limits the amount of additional first mortgage bonds which may be issued to a percentage of net property additions, to the amount of certain first mortgage bonds that have been redeemed or retired, and/or to cash deposited with the mortgage bond trustee. As of June 30, 1995 and adjusting for the (i) incurrence of approximately \$3.5 million of long-term debt in connection with a tax-exempt financing and (ii) repurchase of approximately \$5.5 million of the 9 1/2% Bonds, APS estimates that the mortgage bond indenture and the articles of incorporation would have allowed APS to issue up to approximately \$1.454 billion and \$862 million 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 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, 1995 and 1994:

	Income (Loss) (Unaudited) (Thousands of Dollars)					
	Three Months Ended June 30,		Six Months Ended June 30,		Twelve Months Ended June 30,	
	1995	1994	1995	1994	1995	1994
APS	\$ 48,676	\$ 58,879	\$ 81,701	\$ 89,837	\$ 210,076	\$ 216,390
SunCor	187	(400)	1,354	564	1,329	(2,270)
El Dorado	1,260	(457)	403	(883)	(2,721)	(4,459)
Pinnacle West (1)	(7,874)	(9,320)	(16,586)	(19,197)	(11,514)	(35,735)

NET INCOME	\$ 42,249	\$ 48,702	\$ 66,872	\$ 70,321	\$ 197,170	\$ 173,926
	=====	=====	=====	=====	=====	=====

(1) Includes Pinnacle West's interest expense and operating expenses net of income tax benefits. Income tax benefits are as follows (in thousands): \$4,134 and \$6,638 for the three months ended June 30, 1995 and 1994, respectively; \$8,128 and \$13,364 for the six months ended June 30, 1995 and 1994, respectively; and \$49,061 and \$36,516 for the twelve months ended June 30, 1995 and 1994, respectively.

## **APS**

### **Operating Results - Three-month period ended June 30, 1995 compared to three-month period ended June 30, 1994**

Earnings decreased in the three-month period ended June 30, 1995 primarily due to the reversal in 1994 of certain previously-recorded depreciation related to Palo Verde (see Note 5 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report), lower revenues and the absence of non-cash accretion income and revenue refund reversals related to a 1991 rate settlement (see Notes 1J and 1C of Notes to Consolidated Financial Statements in Part II, Item 8 of the 1994 10-K). Operating revenues were lower primarily due to milder weather and a retail rate reduction which became effective June 1, 1994. Partially offsetting these negative factors were lower operations and maintenance expenses, lower fuel costs, customer growth, accelerated investment tax credit amortization and lower preferred stock dividends. Operations and maintenance expenses decreased due to severance costs incurred in 1994, lower fossil plant overhaul costs and improved nuclear operations. Fuel expense was down due largely to lower fuel prices and lower average fuel costs resulting from increased nuclear generation. The accelerated investment tax credit amortization was a result of the 1994 rate settlement and is reflected as a decrease to income tax expense. Preferred stock dividends decreased due to less preferred stock outstanding.

### **Operating Results - Six-month period ended June 30, 1995 compared to six-month period ended June 30, 1994**

Earnings decreased in the six-month period ended June 30, 1995 primarily due to the absence of non-cash accretion income and revenue refund reversals related to a 1991 rate settlement (see Notes 1J and 1C of Notes to Consolidated Financial Statements in Part II, Item 8 of the 1994 10-K), lower revenues and the reversal in 1994 of certain previously-recorded depreciation related to Palo Verde (see Note 5 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report). Revenues were lower primarily due to milder weather and a retail rate reduction which became effective June 1, 1994. Partially offsetting these negative factors were customer growth, lower fuel costs, lower operations and maintenance expenses, accelerated investment tax credit amortization, a gain recognized on the sale of a small subsidiary and lower preferred stock dividends. Fuel expense was down due largely to lower fuel prices and lower average fuel costs resulting from increased nuclear generation. Operations and maintenance expenses decreased due to improved nuclear operations, severance costs incurred in 1994 and lower fossil plant overhaul costs. The accelerated investment tax credit amortization was a result of the 1994 rate settlement and is reflected as a decrease to income tax expense. Preferred stock dividends decreased due to less preferred stock outstanding.

### **Operating Results - Twelve-month period ended June 30, 1995 compared to twelve-month period ended June 30, 1994**

Earnings decreased in the twelve-month period ended June 30, 1995 primarily due to the absence of non-cash accretion income and revenue refund reversals related to a 1991 rate settlement (see Notes 1J and 1C of Notes to Consolidated Financial Statements in Part II, Item 8 of the 1994 10-K), the effects on revenue of a retail rate reduction which became effective June 1, 1994 (see Note 5 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report), the reversal in 1994 of certain previously-recorded depreciation related to Palo Verde and increased depreciation expense. Depreciation expense was up primarily due to higher plant balances and higher depreciation rates. Partially offsetting these negative factors were customer growth, lower fuel costs, lower operations and maintenance expenses, warmer weather in the second half of 1994, lower preferred stock dividends and accelerated investment tax credit amortization. Fuel expense was down due largely to lower average fuel costs resulting from increased nuclear generation and lower fuel prices. Operations and maintenance expenses decreased due to improved nuclear operations and lower fossil plant overhaul costs. Preferred stock dividends decreased due to less preferred stock outstanding. The accelerated investment tax credit amortization was a result of the 1994 rate settlement and is reflected as a decrease to income tax expense.

## **Non-utility Operations**

Pinnacle West interest expense decreased in the three-month, six-month and twelve-month periods as the Company continued to repay its outstanding debt. Earnings increased in the twelve-month period due to a non-recurring income tax benefit of approximately \$26.8 million related to a change in tax law.

SunCor earnings increased in the three-month and six-month periods due to increased earnings in joint ventures. The twelve-month period earnings increased as a result of increased land sales.

El Dorado earnings increased in the three-month, six-month and twelve-month periods due to the sale of stock of a venture capital investment.

## **Other Income**

Other income reflects accounting practices required for regulated public utilities and represents a composite of cash and non-cash items, including AFUDC and accretion income on Palo Verde Unit 3, which APS completed recording in May 1994. See Note 1J of Notes to Consolidated Financial Statements in Part II, Item 8 of the 1994 10-K. For the six months ended June 30, 1995, other income included a gain of about \$5 million on the sale of a small APS subsidiary. Included in other income for the three months ended June 30, 1994, was a one-time depreciation reversal related to Palo Verde of approximately \$15.0 million, after tax. See Note 5 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report.

## ACCOUNTING ISSUE

In March 1995 the Financial Accounting Standards Board issued SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," which is effective in 1996. This statement requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss would be recognized if the sum of the estimated future undiscounted cash flows to be generated by an asset is less than its carrying value. The amount of the loss would be based on a comparison of book value to fair value. The standard also amends SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," to require write-off of a regulatory asset if it is no longer probable that future revenues will recover the cost of the asset. This new standard does not impact the Company at this time; however, it will be reviewed on an ongoing basis.

## COMPETITION

A significant challenge for APS will be how well it is able to respond to increasingly competitive conditions in the electric utility industry, while continuing to earn an acceptable return for its shareholders. Strategies emphasize managing costs, stabilizing electric rates, negotiating long-term contracts with large customers and capitalizing on the growth characteristics of its service territory.

One of the issues that must be addressed responsibly is the recovery in a more competitive environment of the carrying value of assets acquired or recorded under the existing regulatory environment.

The 1994 rate settlement provided for a study by APS and the ACC staff to develop new procedures to address market conditions and increasing competition in the electric utility industry. APS presently anticipates making its recommendations in late 1995. A separate ACC proceeding on competition was opened by the ACC in mid-1994 and is ongoing.

As the forces of competition continue to impact the industry, it will become clearer as to what customer sectors and what regions will be most affected and what strategies are best to deal with those forces.

## PART II. OTHER INFORMATION

The following information relates primarily to Pinnacle West (the "Company") and its principal subsidiary, Arizona Public Service Company ("APS").

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

At the Company's Annual Meeting of Shareholders held on May 17, 1995 the following shareholder proposal was submitted to shareholders:

	Votes For -----	Votes Against -----	Abstentions and Broker Non Votes -----
Proposal that Board members' total compensation consist of Company common stock	7,894,342	60,077,313	10,375,925

In addition, at the same annual meeting, the following persons were elected Class III Directors with a term to expire at the 1998 annual meeting of shareholders:

	Votes For -----	Votes Against -----	Abstentions and Broker Non Votes -----
Roy A. Herberger, Jr.	77,364,810	1,104,951	N/A
Henry B. Sargent	77,703,032	1,376,834	N/A
Humberto S. Lopez	76,307,324	2,258,500	N/A

### Item 5. Other Information

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.

As previously reported, in August and September 1994, Administrative Law Judges recommended to the Secretary of Labor that the settlement agreement between APS and a former contract employee be approved. See "Business of Arizona Public Service Company -- Palo Verde Nuclear Generating Station-Department of Labor Matter" in Part I, Item 1 of the 1994 10-K. The settlement agreement was approved by the Secretary of Labor in June 1995.

#### **Arizona Corporation Commission Petition**

As previously reported, in May 1990 the ACC filed a petition with the SEC requesting the SEC to revoke or modify Pinnacle West's exemption under the 1935 Act. See "Regulation - Public Utility Holding Company" in Part I, Item 1 of the 1994 10-K. On June 20, 1995, the SEC issued a Report on the Regulation of Public Utility Holding Companies in which, as its preferred option, the SEC recommended to the Congress conditional repeal of the 1935 Act, with an adequate transition period. The SEC further recommended that legislation repealing the 1935 Act should include provision for state access to books and records of all companies in the holding company system, and for federal audit authority and oversight of affiliate transactions. The Company cannot predict what action, if any, the Congress may take with respect to the SEC's recommendation.

#### **Navajo Nation**

In July 1995, the Tribal Council of the Navajo Nation approved The Navajo Nation Air Pollution Prevention and Control Act. Pursuant to this Act, The Navajo Nation Environmental Protection Agency is authorized to promulgate regulations which will regulate air emissions, including those from the Four Corners Power Plant; however, until NNEPA does so, APS cannot predict what impact, if any, the regulations will have on its operations or financial position.

#### **Item 6. Exhibits and Reports on Form 8-K**

##### (a) Exhibits

<u>Exhibit No.</u>	<u>Description</u>
23.1	Consent of Deloitte & Touche LLP
27.1	Financial Data Schedule

##### (b) Reports on Form 8-K

During the quarter ended June 30, 1995 and the period ended August 11, 1995 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 14, 1995*

*By: /s/ Nancy Newquist*

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

## **INDEPENDENT AUDITORS' CONSENT**

We consent to the incorporation by reference in Registration Statement Nos. 33-39208, 33-54287 and 33-54307 on Form S-8 of our report dated March 3, 1995 (which expresses an unqualified opinion and includes an explanatory paragraph relating to the Company's change in method of accounting for income taxes discussed in Note 3 to those financial statements), appearing in the Annual Report on Form 10-K of Pinnacle West Capital Corporation for the year ended December 31, 1994.

**DELOITTE & TOUCHE LLP**

**DELOITTE & TOUCHE LLP**

Phoenix, Arizona

August 11, 1995



**ARTICLE UT**

FINANCIAL DATA SCHEDULE UT PUBLIC UTILITY COMPANIES AND PUBLIC UTILITY HOLDING COMPANIES  
(THOUSANDS OF DOLLARS) FISCAL YEAR ENDED DECEMBER 31, 1995 FOR PERIOD JANUARY 1, 1995 THROUGH JUNE 30,  
1995 SIX MONTHS ENDED

MULTIPLIER: 1,000

CURRENCY: U.S. DOLLARS

PERIOD TYPE	6 MOS
FISCAL YEAR END	DEC 31 1995
PERIOD START	JAN 01 1995
PERIOD END	JUN 30 1995
EXCHANGE RATE	1
BOOK VALUE	PER BOOK
TOTAL NET UTILITY PLANT	\$4,624,458
OTHER PROPERTY AND INVEST	579,974
TOTAL CURRENT ASSETS	409,881
TOTAL DEFERRED CHARGES	1,291,133
OTHER ASSETS	0
TOTAL ASSETS	6,905,446
COMMON	1,641,062
CAPITAL SURPLUS PAID IN	0
RETAINED EARNINGS	162,764
TOTAL COMMON STOCKHOLDERS EQ	1,803,826
PREFERRED MANDATORY	75,000
PREFERRED	193,561
LONG TERM DEBT NET	2,541,422
SHORT TERM NOTES	0
LONG TERM NOTES PAYABLE	0
COMMERCIAL PAPER OBLIGATIONS	179,255
LONG TERM DEBT CURRENT PORT	78,927
PREFERRED STOCK CURRENT	0
CAPITAL LEASE OBLIGATIONS	0
LEASES CURRENT	0
OTHER ITEMS CAPITAL AND LIAB	2,033,455
TOT CAPITALIZATION AND LIAB	6,905,446
GROSS OPERATING REVENUE	739,310
INCOME TAX EXPENSE	43,866
OTHER OPERATING EXPENSES	398,880
TOTAL OPERATING EXPENSES	516,437
OPERATING INCOME LOSS	222,873
OTHER INCOME NET	(112,135)
INCOME BEFORE INTEREST EXPEN	0
TOTAL INTEREST EXPENSE	110,999
NET INCOME	66,872
PREFERRED STOCK DIVIDENDS	0
EARNINGS AVAILABLE FOR COMM	66,872
COMMON STOCK DIVIDENDS	39,330
TOTAL INTEREST ON BONDS	104,861
CASH FLOW OPERATIONS	191,191
EPS PRIMARY	0.77
EPS DILUTED	0

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