



Pinnacle West Capital Corporation

**Maintaining Focus in a
Changing Climate**

**Bank of America
Energy & Power Conference
November 17, 2003**

Forward-Looking Statements

This presentation contains forward-looking statements based on current expectations and we assume no obligation to update these statements or make any further statements on any of these issues, except as required by applicable law. These forward-looking statements are often identified by words such as "hope," "may," "believe," "anticipate," "plan," "expect," "require," "intend," "assume" and similar words. Because actual results may differ materially from expectations, we caution readers not to place undue reliance on these statements. A number of factors could cause future results to differ materially from historical results, or from results or outcomes currently expected or sought by us. These factors include, but are not limited to, the ongoing restructuring of the electric industry, including the introduction of retail electric competition in Arizona and decisions impacting wholesale competition; the outcome of regulatory and legislative proceedings relating to the restructuring; state and federal regulatory and legislative decisions and actions, including the outcome of the rate case we filed with the ACC on June 27, 2003 and the wholesale electric price mitigation plan adopted by the FERC; regional economic and market conditions, including the results of litigation and other proceedings resulting from the California energy situation, volatile purchased power and fuel costs and the completion of generation and transmission construction in the region, which could affect customer growth and the cost of power supplies; the cost of debt and equity capital and access to capital markets; energy usage; weather variations affecting local and regional customer energy usage; conservation programs; power plant performance; the successful completion of our generation construction program; regulatory issues associated with generation construction, such as permitting and licensing; changes in accounting principles; our ability to compete successfully outside traditional regulated markets (including the wholesale market); our ability to manage our marketing and trading activities and the use of derivative contracts in our business (including interpretation of the subjective and complex accounting rules related to these contracts); technological developments in the electric industry; the performance of the stock market, which affects the amount of our required contributions to our pension plan and nuclear decommissioning trust funds; the strength of the real estate market in SunCor's market areas, which include Arizona, New Mexico and Utah; and other uncertainties, all of which are difficult to predict and many of which are beyond our control.

Pinnacle West Capital Corporation



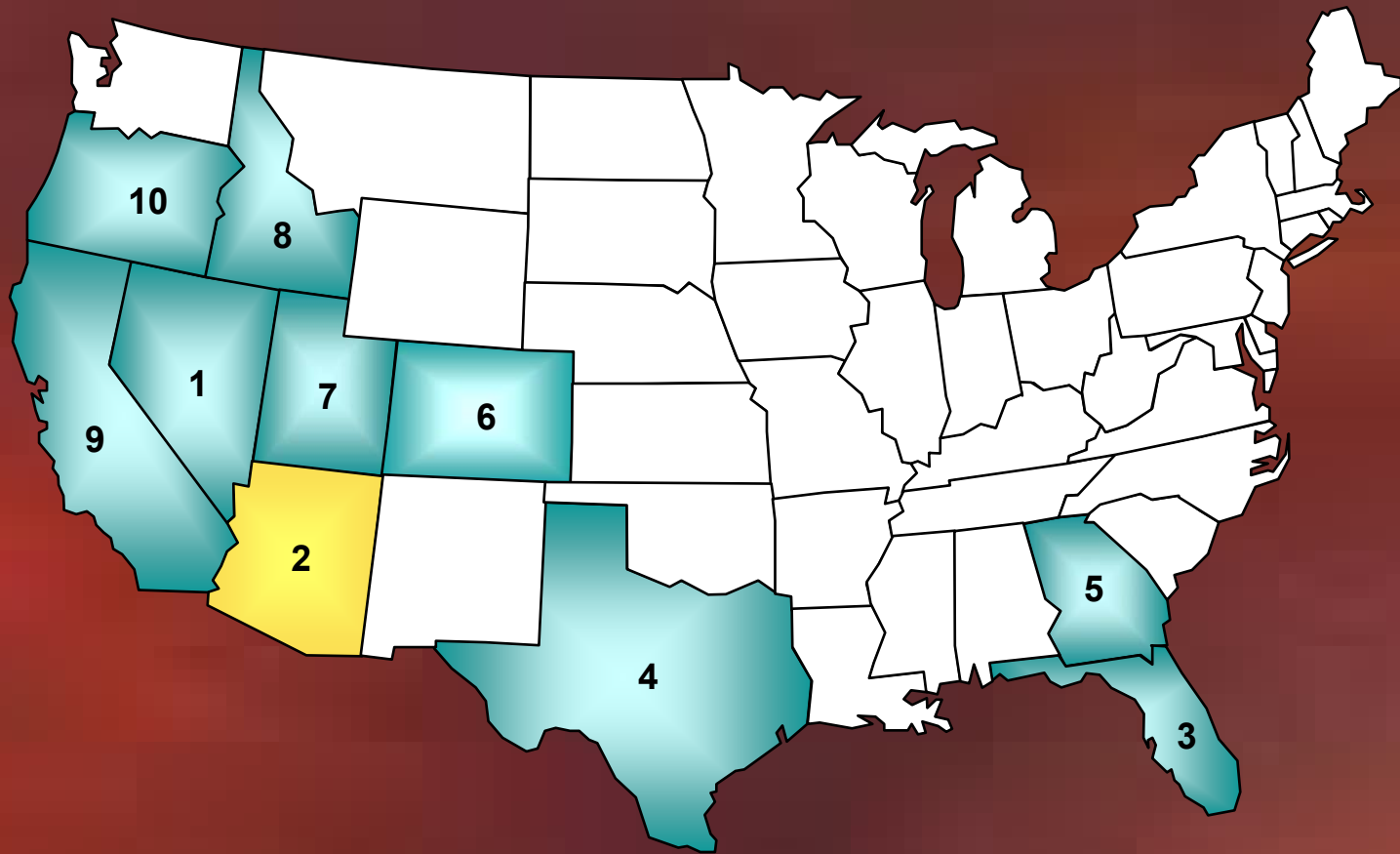
- Largest electric utility in Arizona
- Headquartered in Phoenix, Arizona, 6th largest U.S. city
- Consolidated assets of \$9 billion

Maintaining Focus in a Changing Climate

- **A vertically integrated utility in a high-growth market area**
- **Focusing on strong operational and financial performance**
- **Pursuing constructive regulatory outcomes**
- **Managing risks in changing energy markets**
- **Creating long-term value for shareholders**

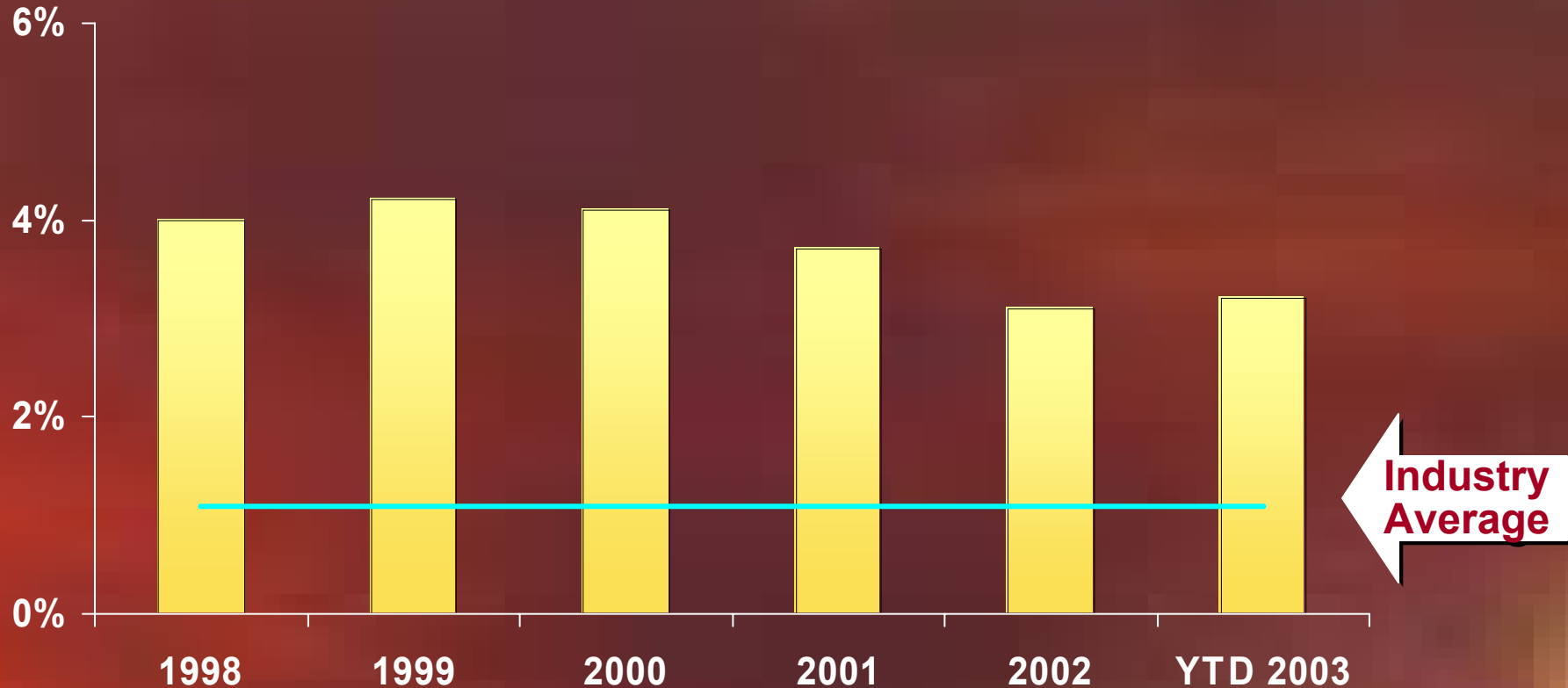
Exceptional Customer Growth

Leading 2002 Population Growth States



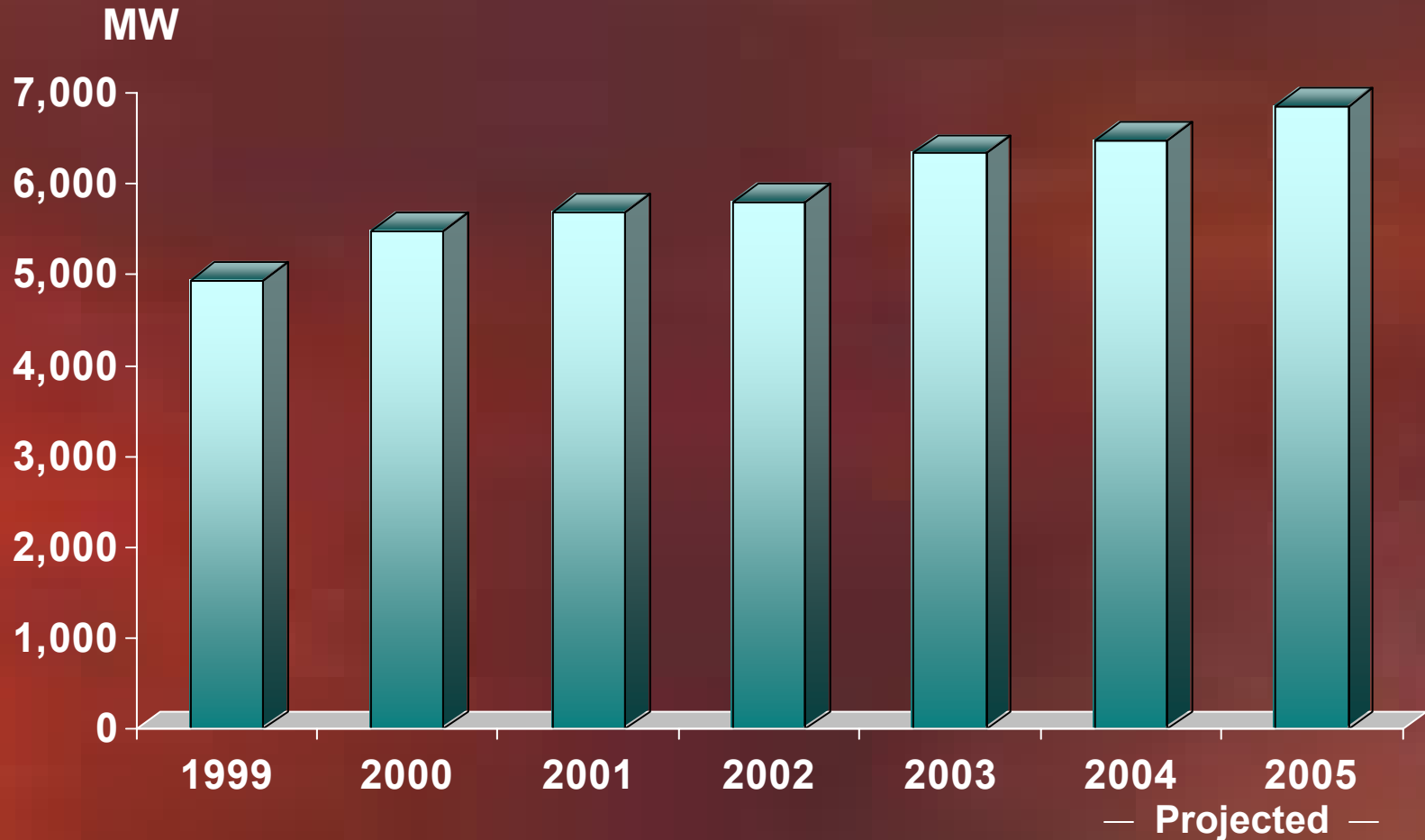
Superior Annual Customer Growth

APS - More Than Three Times National Average



APS' Growing Peak Load

1999 - 2003 Annual Growth of 4.6%



Focusing on Strong Operational Performance

Generation

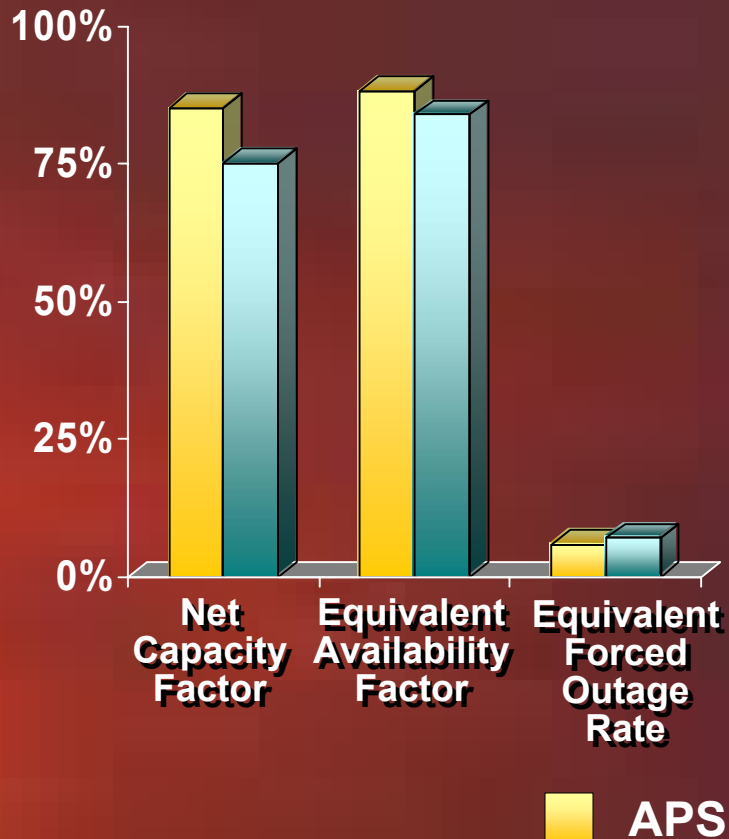
- **Palo Verde – top U.S. power producer**
- **Top-tier baseload performance**
- **Silverhawk construction on target**

Delivery

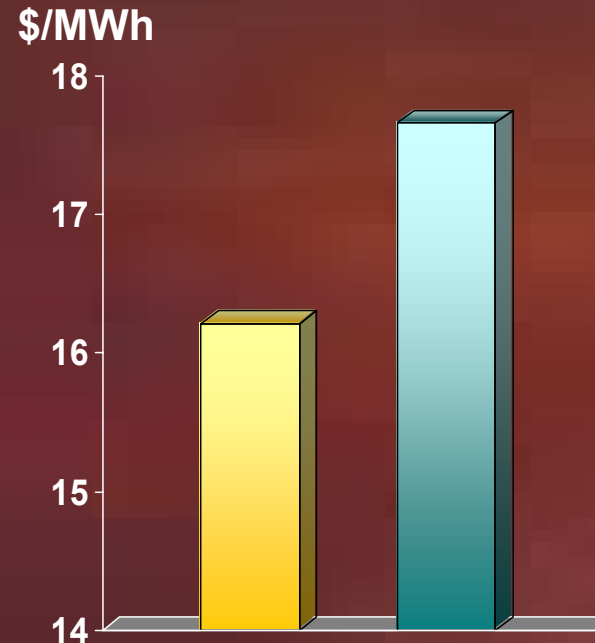
- **High customer growth and satisfaction**
- **Superior reliability**
- **Transmission and distribution expansion to meet growth and sustain reliability**

Top-Tier Generation Performance 1998 – 2002 Baseload Averages

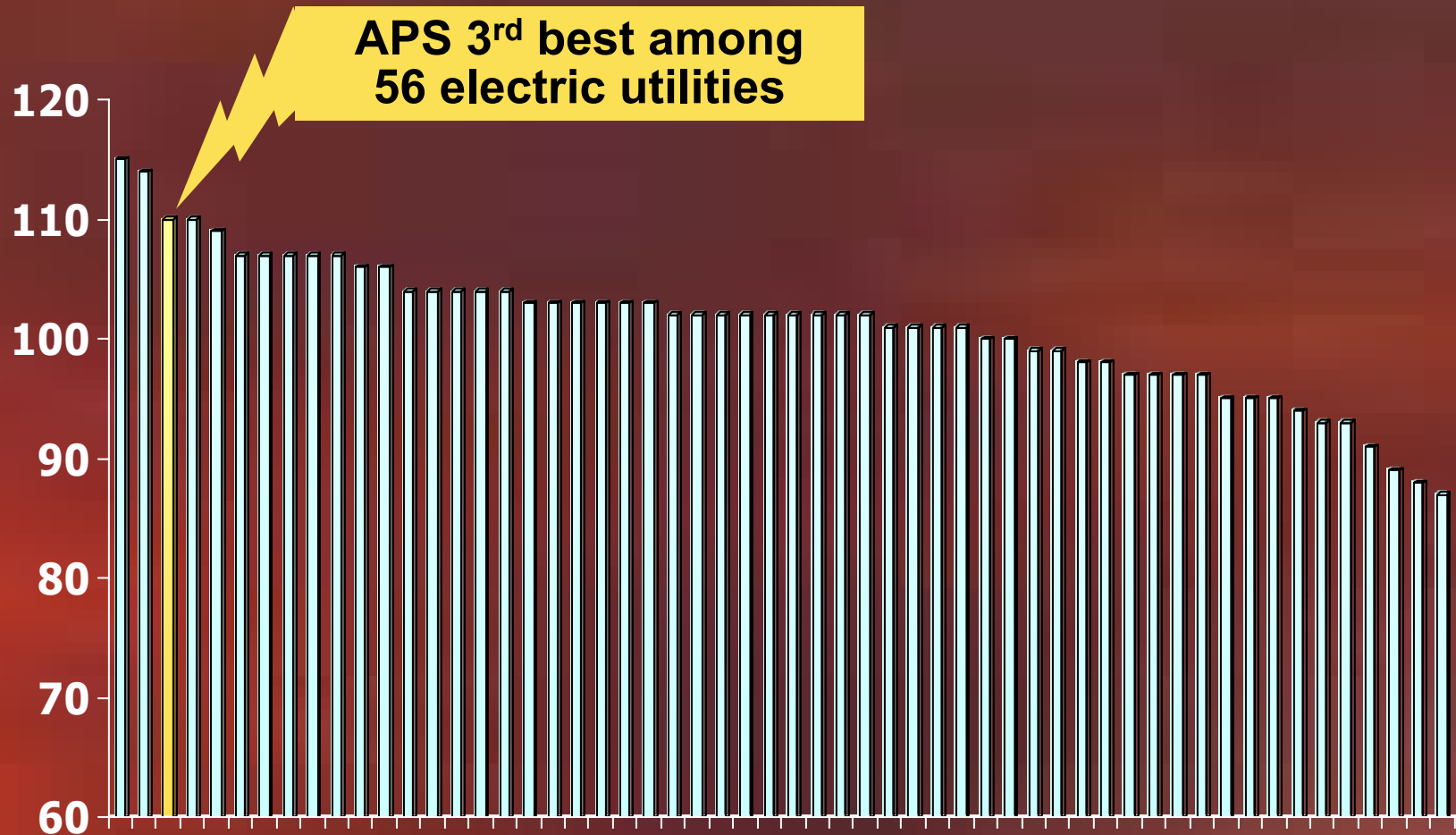
Strong Operating Performance



Favorable Production Costs



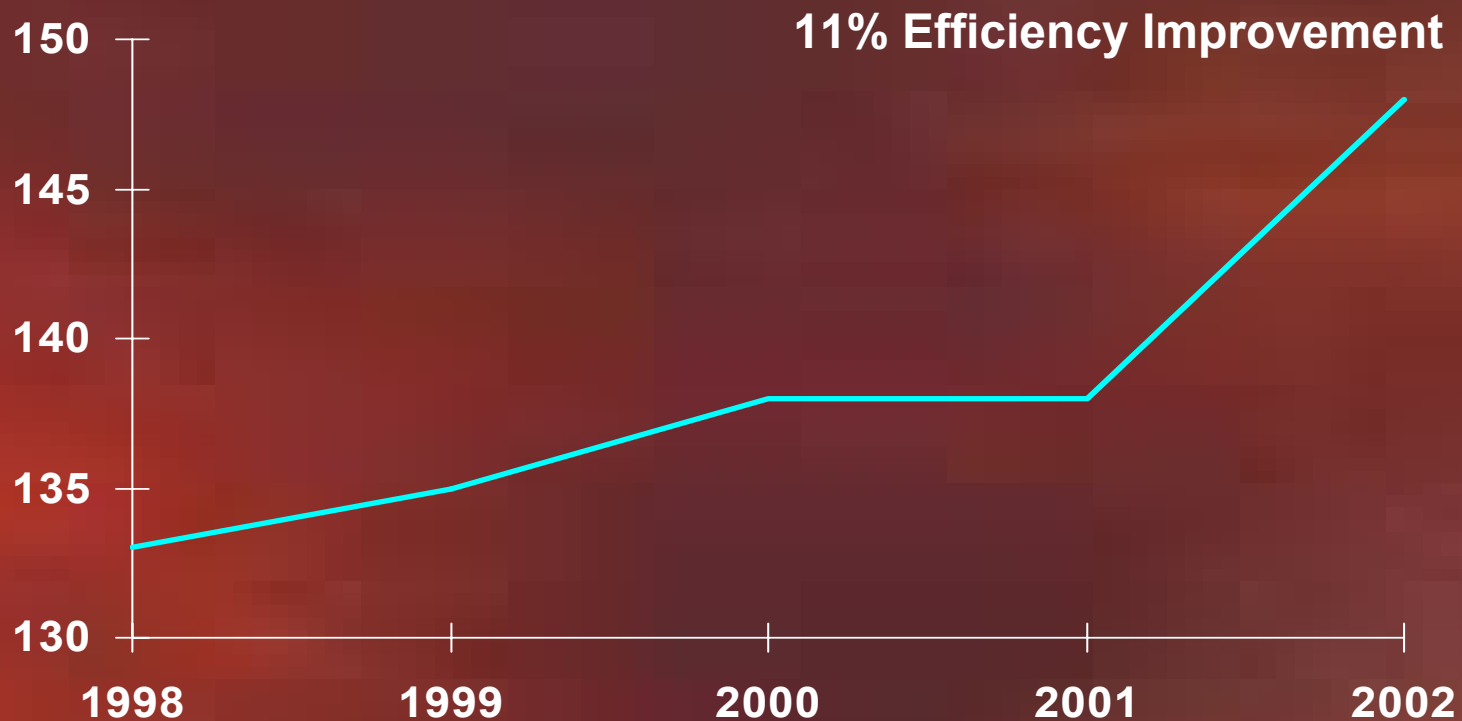
Sustaining Outstanding Customer Satisfaction



Source: J.D. Power & Associates
2003 Electric Utility Residential Customer Satisfaction Survey (56 Companies)

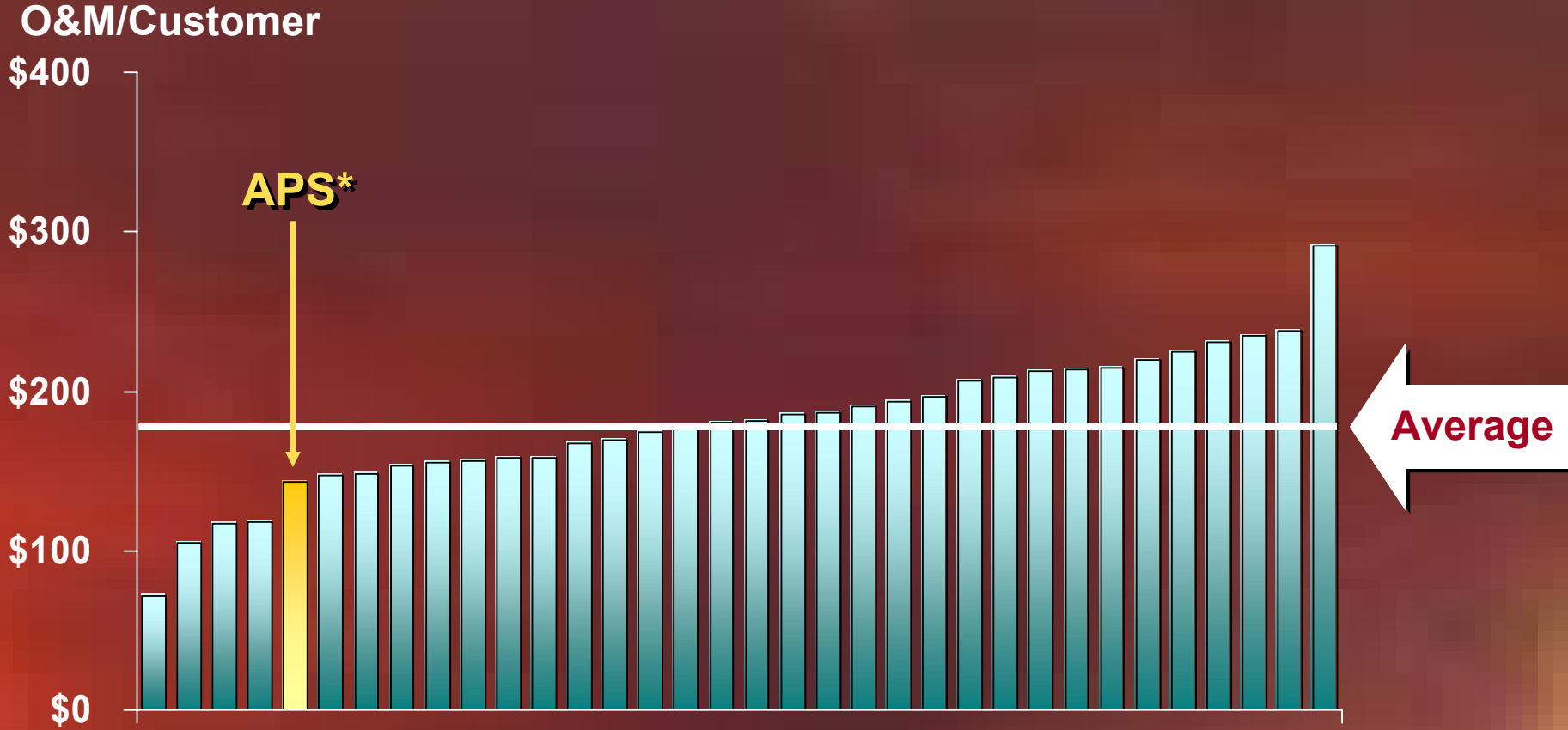
Focusing on Operational Efficiency

Average Customers per Employee



Strong Transmission and Distribution Efficiency

2002 Top Quartile



* Excluding 2002 severance charges

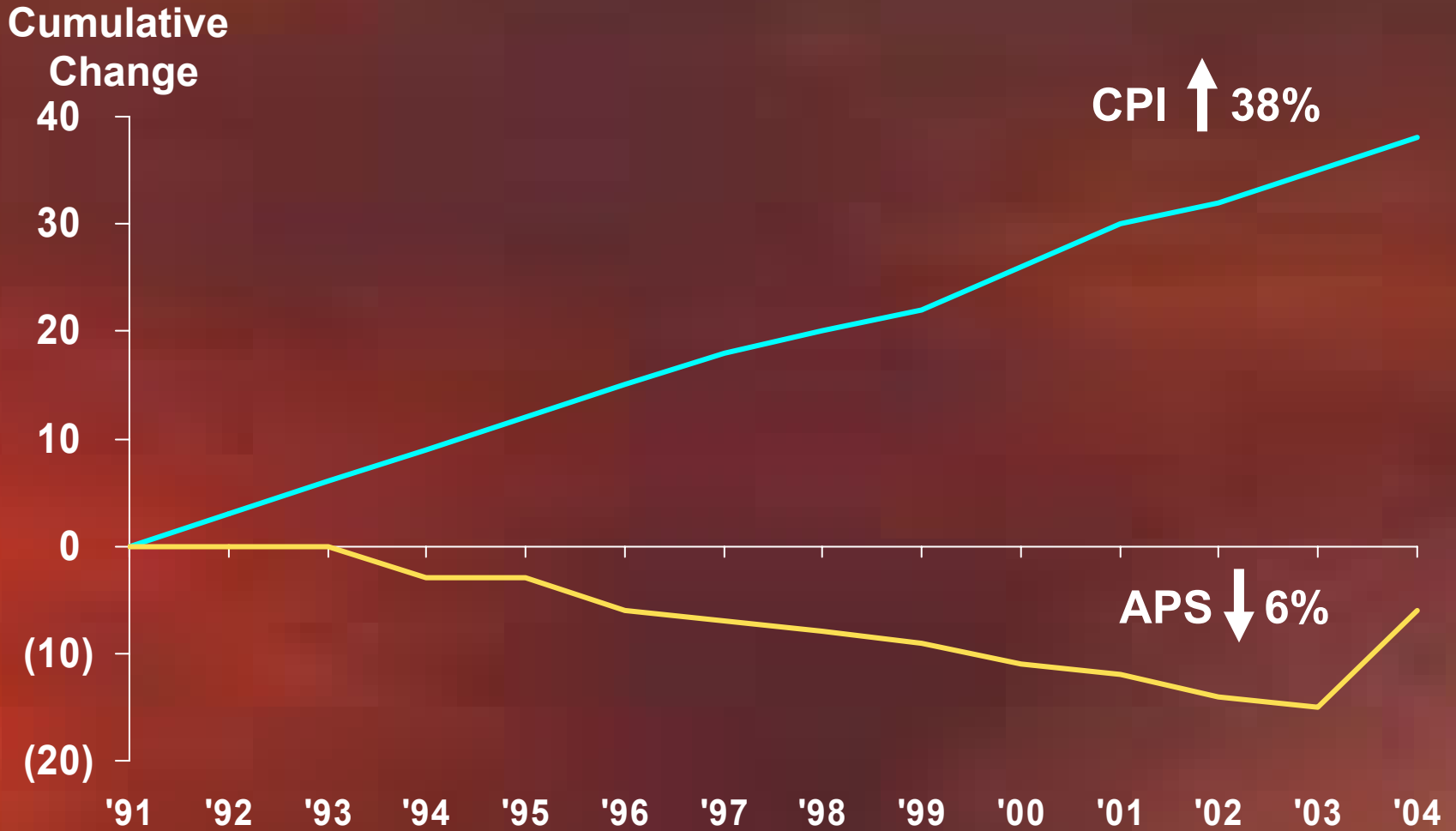
APS Regulatory Strategy

- **Relationships built on consistency, accountability, performance and trust**
- **Strong presentation of APS position**
- **Focus on reliability issue**
- **Settlement opportunities**

General Rate Case Key Provisions

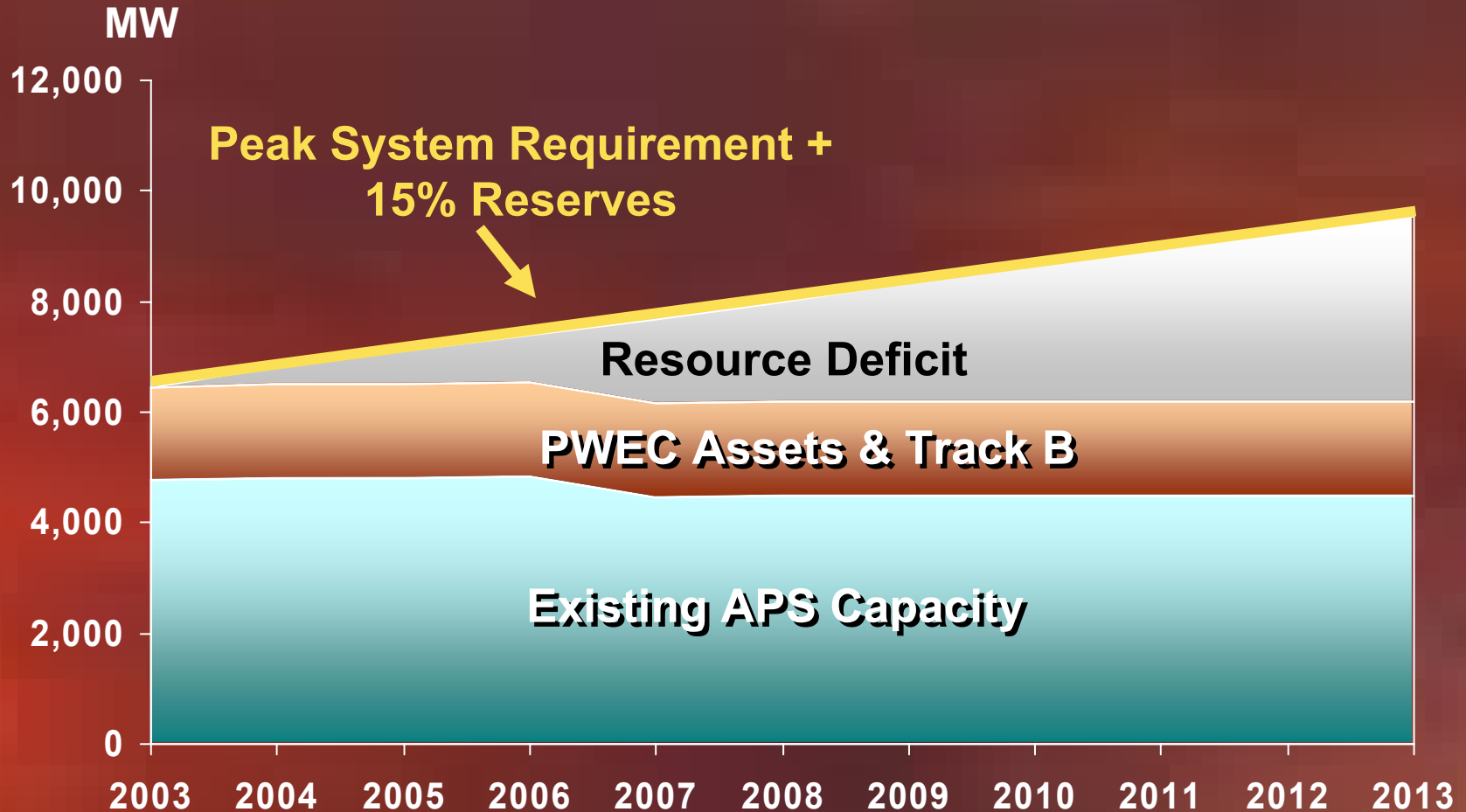
- **9.8% (\$175 million) annual rate increase**
- **Rate base treatment of 1,800 MW of PWEC Arizona assets**
- **Recovery of previous \$234 million write-off**
- **Recovery of fuel and purchased power costs**
- **11.5% return on equity**

APS Prices Low Relative to Consumer Price Index

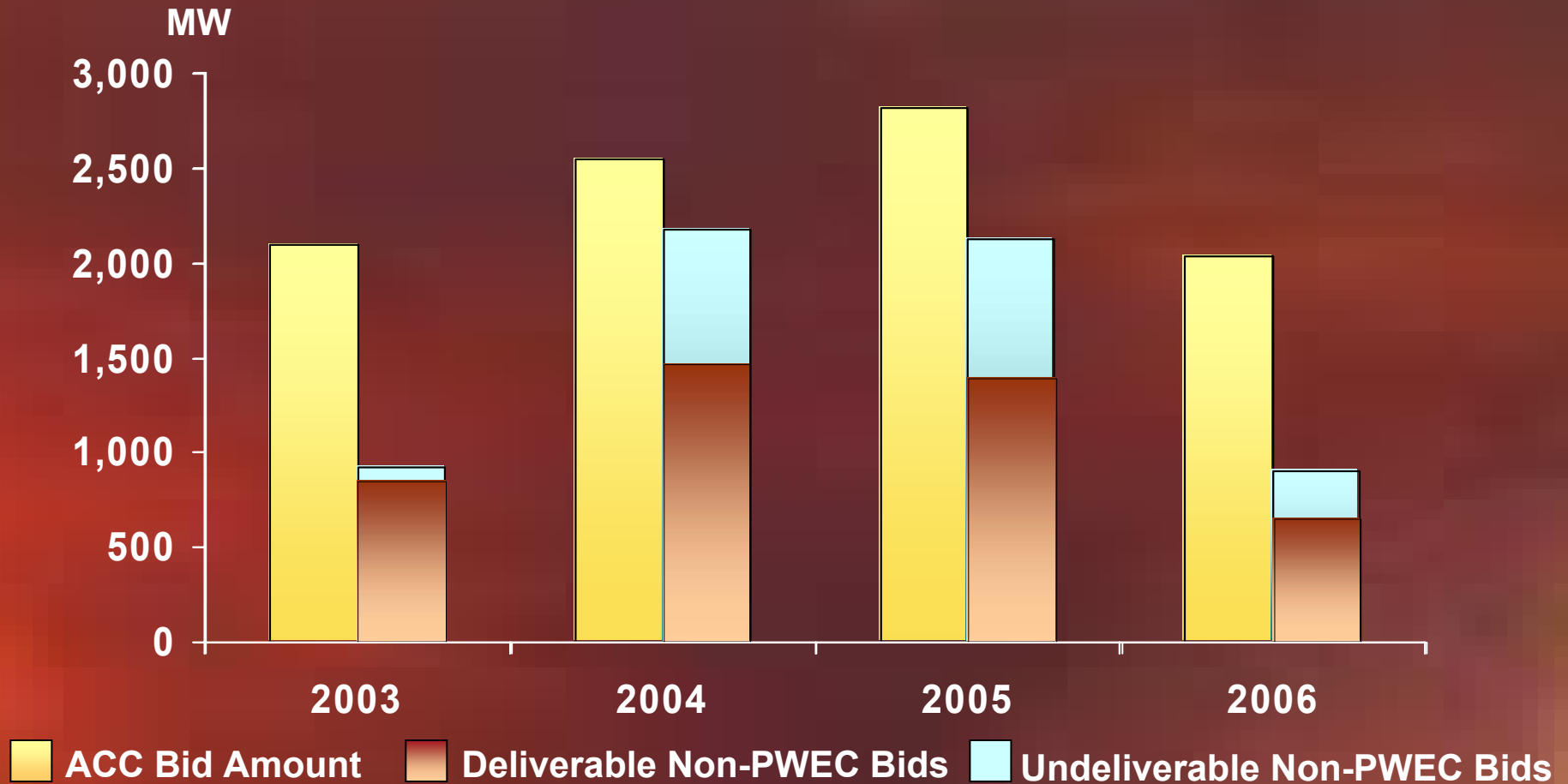


Planning for Growth and Reliability

APS System Load and Resources



ACC Procurement Process Demonstrates Need for PWEC Assets



General Rate Case Milestones

Filing

June 2003

Discovery

August 2003 – April 2004

Testimony

January - March 2004

Hearing

Begins April 7, 2004

Briefing

Proposed Order

Final Order

Financial Objectives

- **Achieve strong long-term financial performance**
- **Maintain financial strength and flexibility**
- **Preserve investment-grade credit ratings**
- **Manage strong cash flow to support growth**
- **Continue focus on cost management and operational efficiencies**

2003 Earnings Outlook

**Outlook: Lower half of \$2.55 - \$2.85
per share range**

Major factors:

- **Unplanned outages** **\$(0.19)**
- **Lower trading contributions** **\$(0.14)**
- **Tax credits** **\$0.15**
- **AFUDC accounting** **\$0.12**
- **Hot weather** **\$0.02 to \$0.05**

2004 Earnings Outlook

Base level earnings = \$2.50 per share

Key assumptions:

- Rate increase not reflected
- No trading contributions
- Combined SunCor and APS Energy Services earnings of \$0.44 per share

Sensitivities:

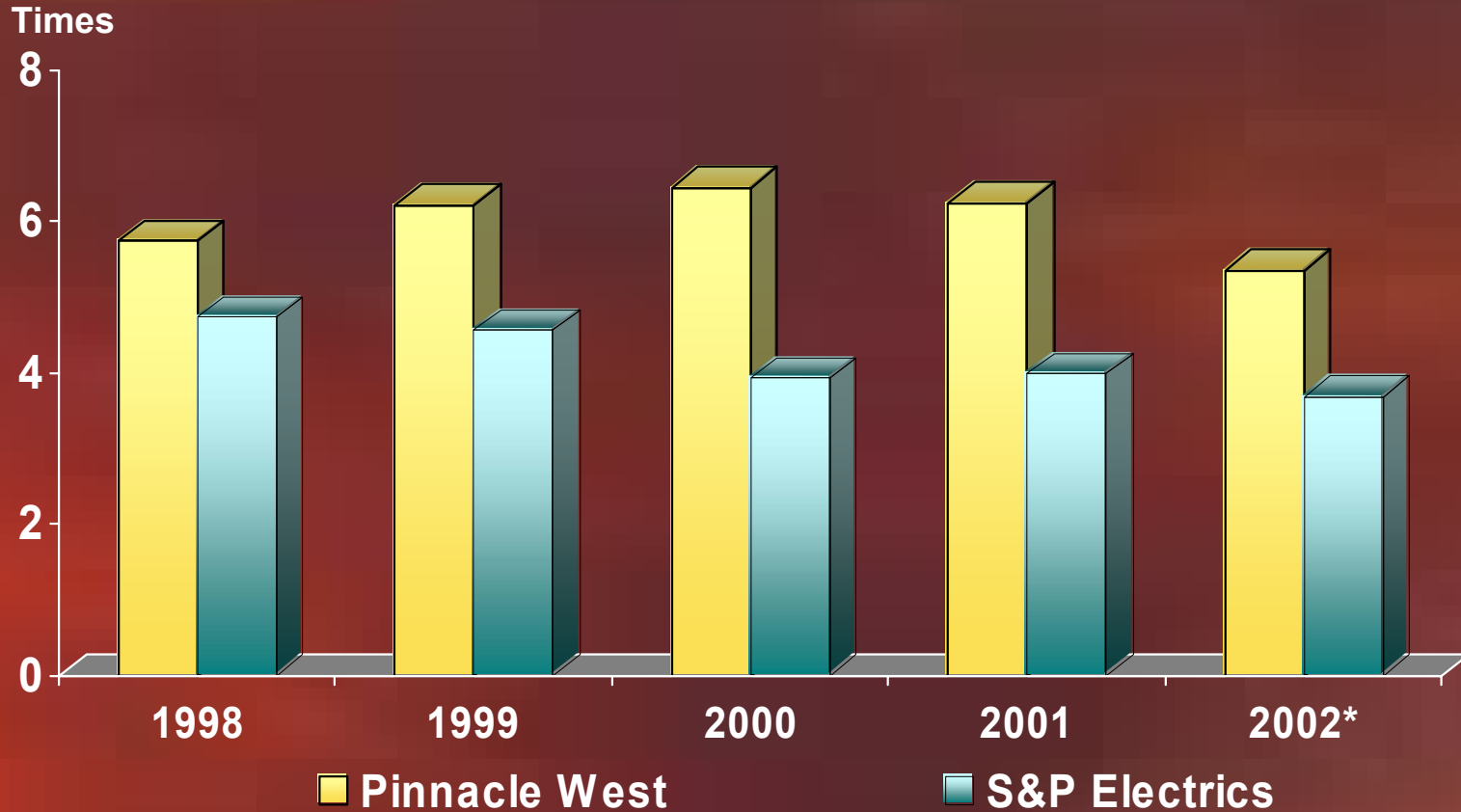
- | | | |
|-----------------------|-----|-------------------|
| • Rate increase | + | \$0.00 - \$0.76 |
| • Weather variations | +/- | \$0.11 |
| • KWH sales variation | +/- | \$0.11 |
| • Gas price risk | +/- | \$0.11 - \$(0.07) |
| • Efficiency gains | + | \$0.00 - \$0.08 |

Earnings Outlook Beyond 2004 and Rate Case Resolution

At least \$3.40 per share, assuming:

- **ACC grants APS' rate request**
- **Trading contributions of \$0.07 per share**
- **Combined SunCor and APS Energy Services earnings of \$0.33 per share in 2005 and \$0.11 per share after 2005**

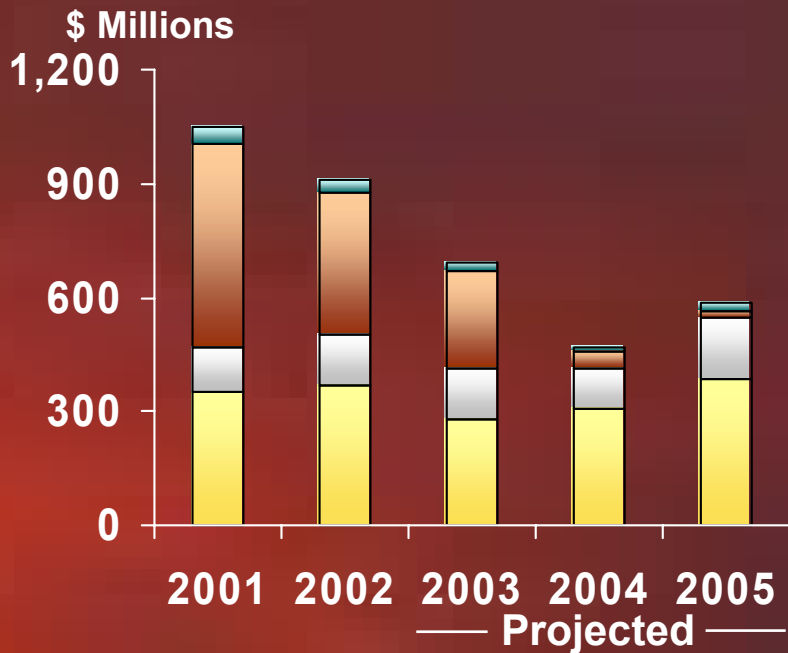
Strong EBITDA Interest Coverage



* Pinnacle West excluding non-recurring items

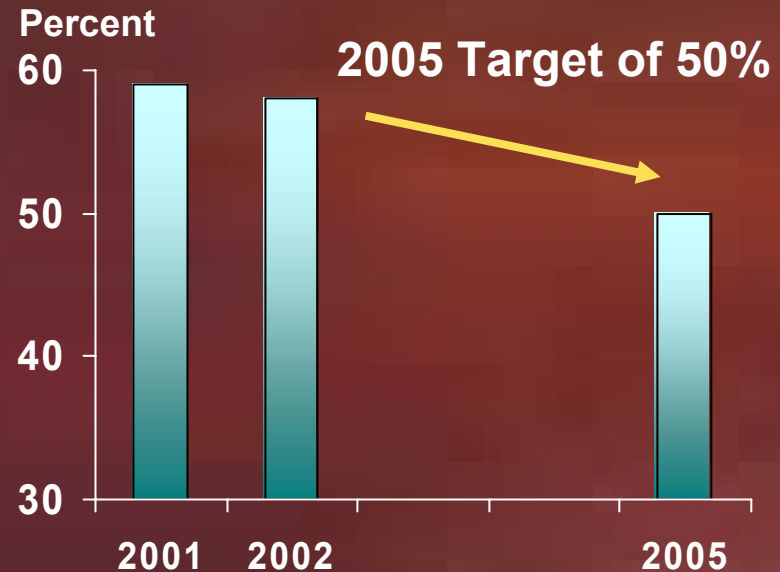
Balancing Growth & Financial Strength

Capital Expenditures Excluding SunCor



- Other
- PWEC Generation
- APS Generation
- Delivery

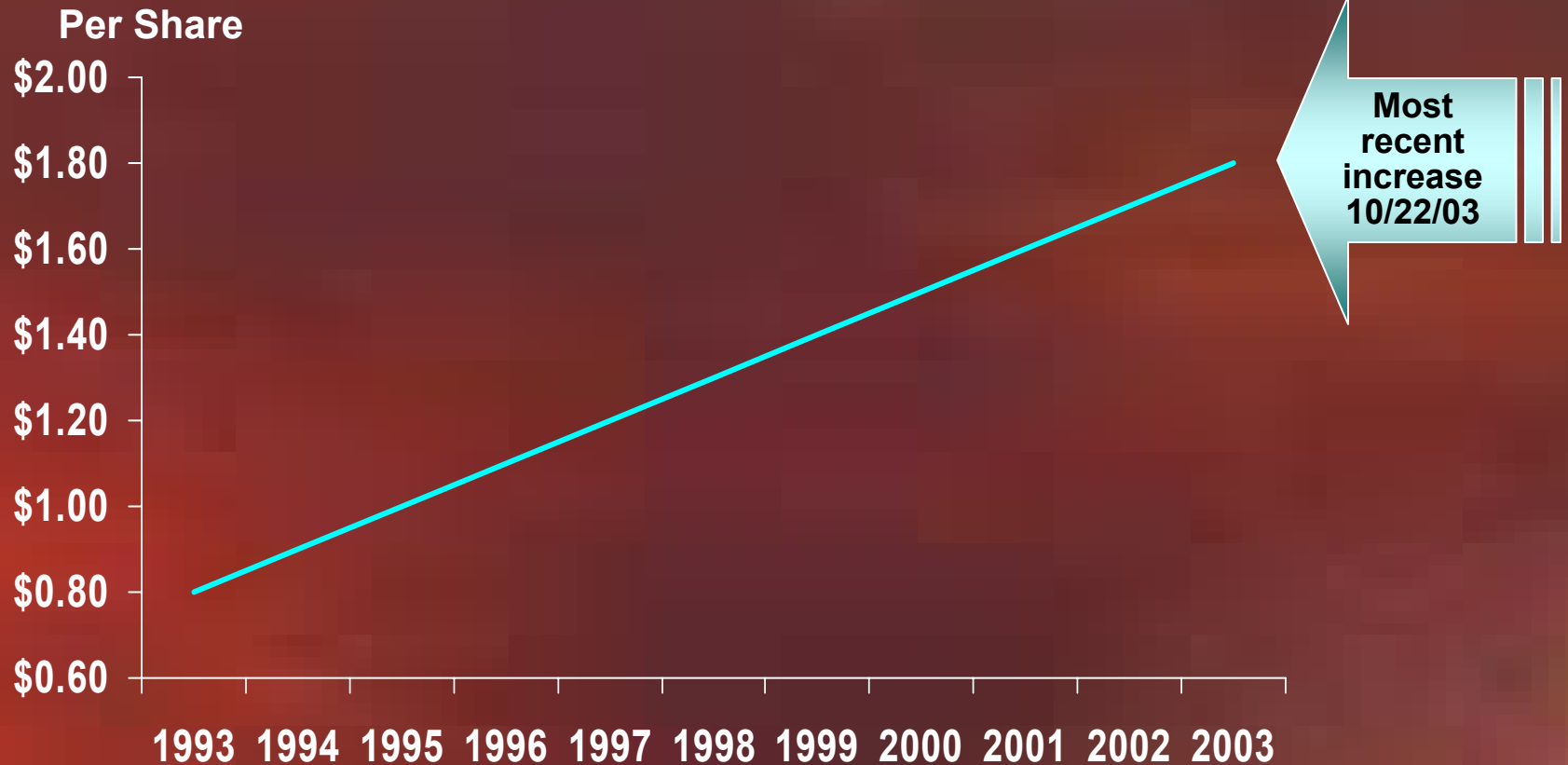
Consolidated Debt Ratio*



* Includes Palo Verde sale/leaseback

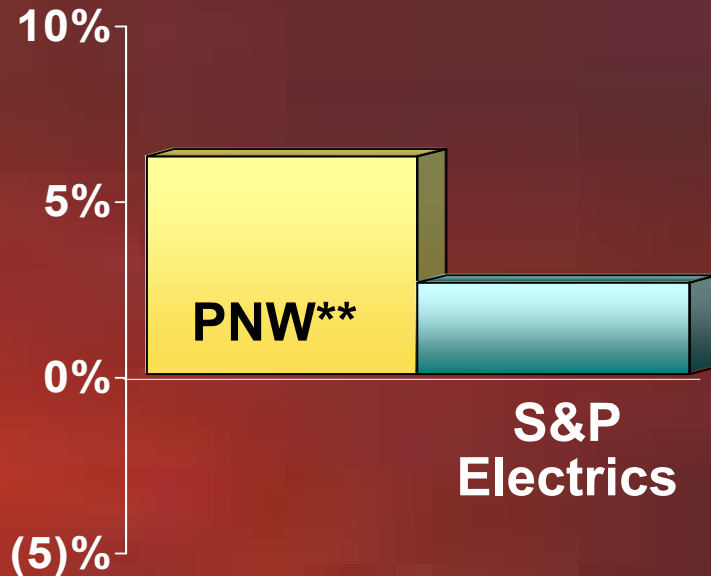
Consistent Historical Dividend Growth

\$0.10 Per Share Annually

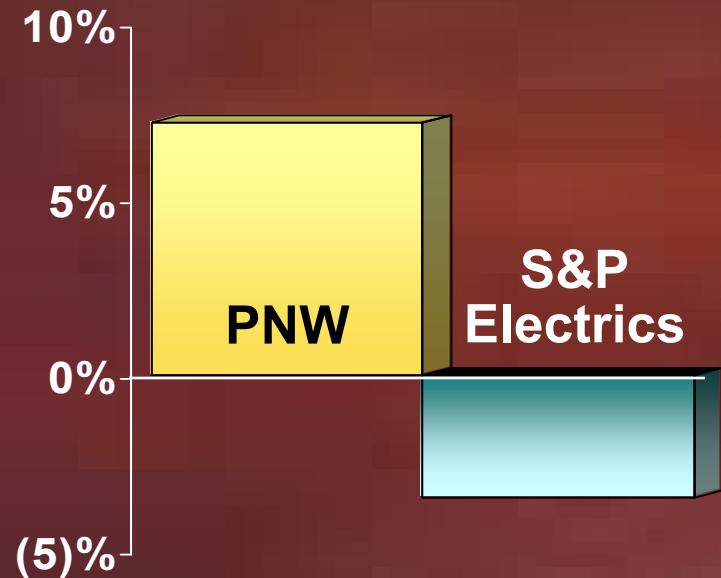


Superior EPS and Dividend Growth* 1998-2002

Earnings Per Share



Dividends Per Share

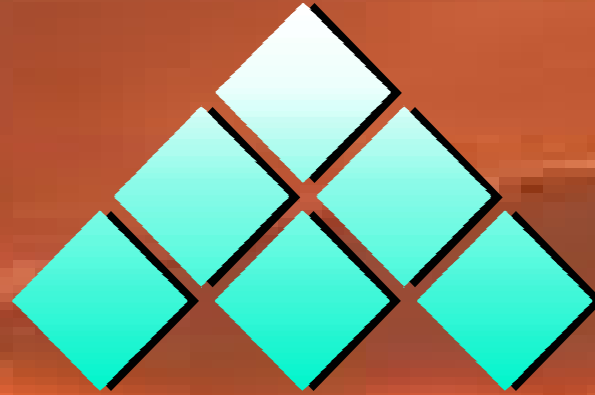


* 5-year compound annual growth rates

** Excluding non-recurring items

Maintaining Focus in a Changing Climate

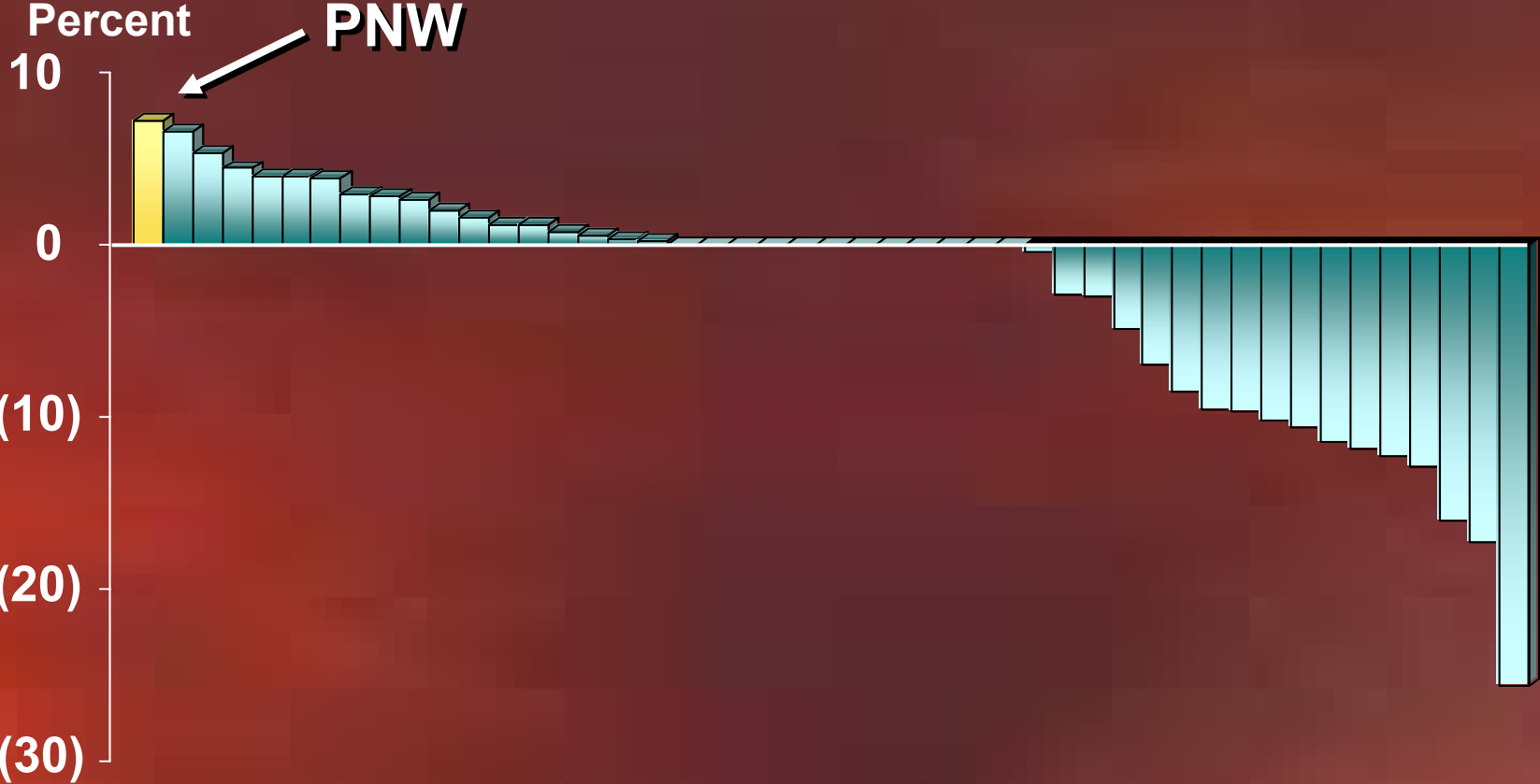
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PINNACLE WEST
CAPITAL CORPORATION

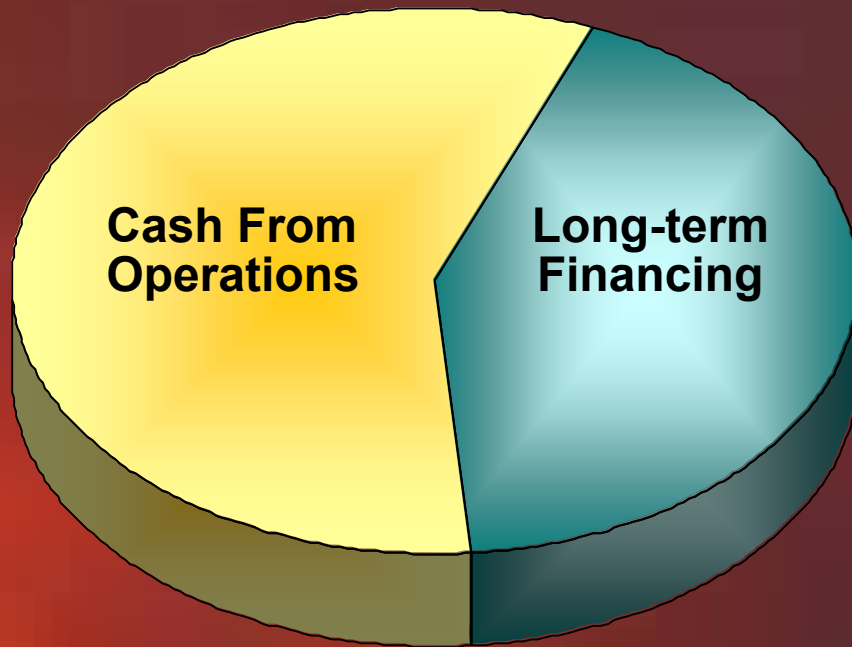
Appendix

Top Dividend Growth 1998 - 2002

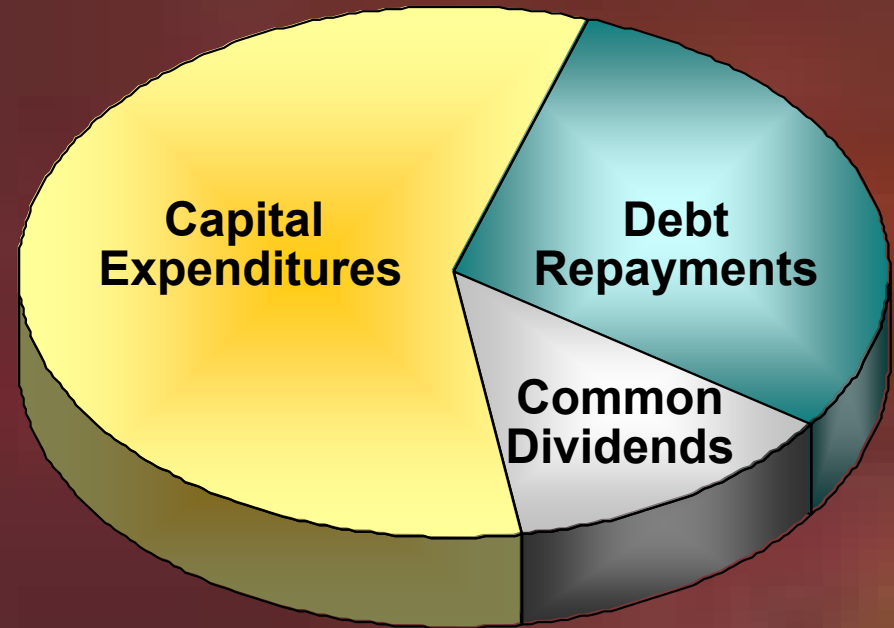


Strong Consolidated Cash Flow Outlook* 2003

Sources



Requirements

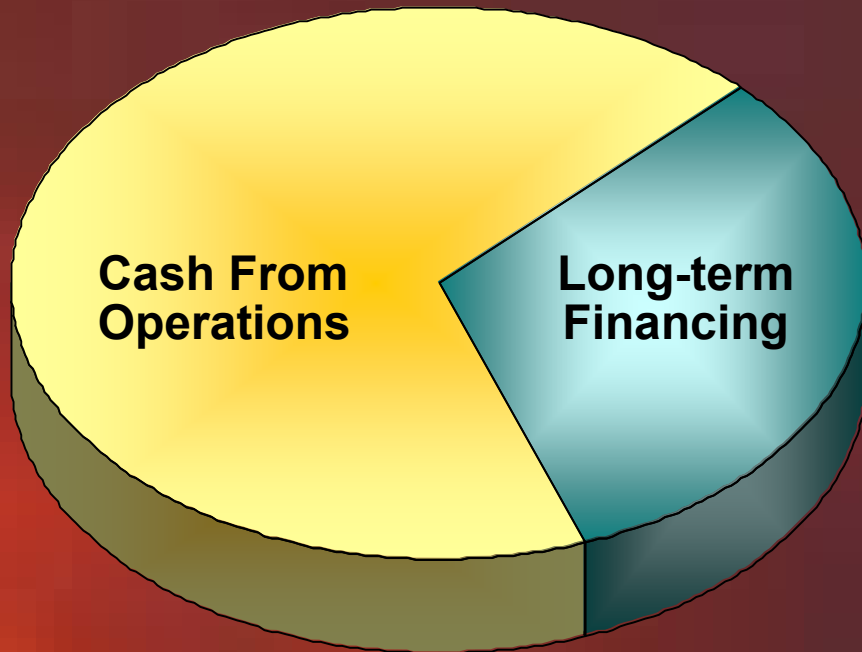


Approximately \$1.2 Billion

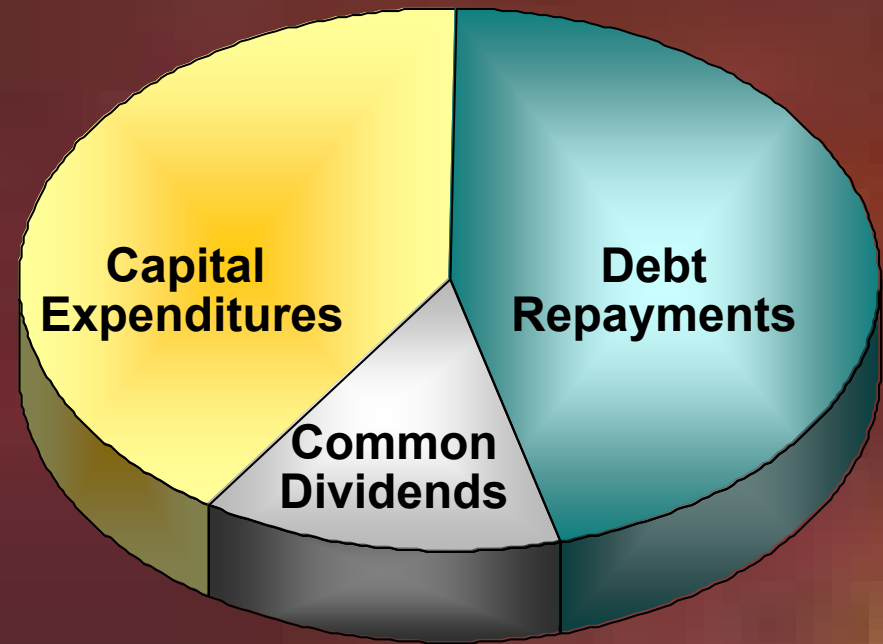
* Projected

Strong Consolidated Cash Flow Outlook* 2004

Sources



Requirements



Approximately \$1.1 Billion

* Projected – assuming rate increase granted as requested

Pinnacle West EBITDA Interest Coverage* Reconciliation

(\$ millions)	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Income from continuing operations	\$ 243	\$ 270	\$ 302	\$ 327	\$ 215
Income taxes	139	142	194	214	138
Interest expense, net of capitalized interest	145	145	145	128	144
Depreciation and amortization	413	420	431	428	425
Total EBITDA	940	977	1,072	1,097	922
2002 non-recurring items	-	-	-	-	87
Total EBITDA – adjusted	<u>\$ 940</u>	<u>\$ 977</u>	<u>\$1,072</u>	<u>\$1,097</u>	<u>\$1,009</u>
Interest expense before capitalized interest	\$ 164	\$ 157	\$ 166	\$ 176	\$ 188
EBITDA interest coverage	5.7x	6.2x	6.4x	6.2x	4.9x
EBITDA interest coverage – adjusted	5.7x	6.2x	6.4x	6.2x	5.4x

* Management believes EBITDA interest coverage provides useful information on the Company's cash flow and ability to meet its interest obligations

Liquidity Resources

APS:

- \$250 million commercial paper facility
- Unused long-term debt shelf capability of \$500 million

Pinnacle West (parent):

- \$250 million commercial paper facility
- Unused long-term debt shelf capability of \$230 million

Current Credit Ratings

	<u>S&P</u>	<u>Moody's</u>
Arizona Public Service Co.		
First Mortgage Bonds/ Senior Secured Debt	A-	A3
Senior Unsecured Debt	BBB	Baa1
Secured Lease Obligation Bonds	BBB	Baa2
Commercial Paper	A2	P2
Pinnacle West Capital Corp.		
Senior Unsecured Debt	BBB-	Baa2
Commercial Paper	A2	P2

Improving APS Customer Efficiency

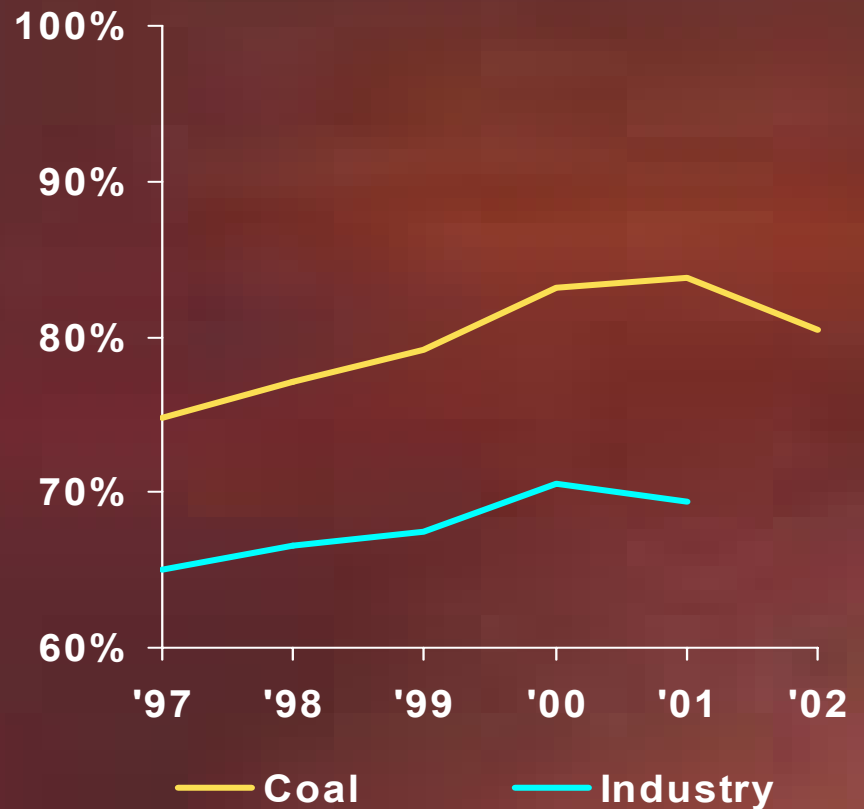


APS Capacity Factors

Palo Verde Site Average



Coal Average



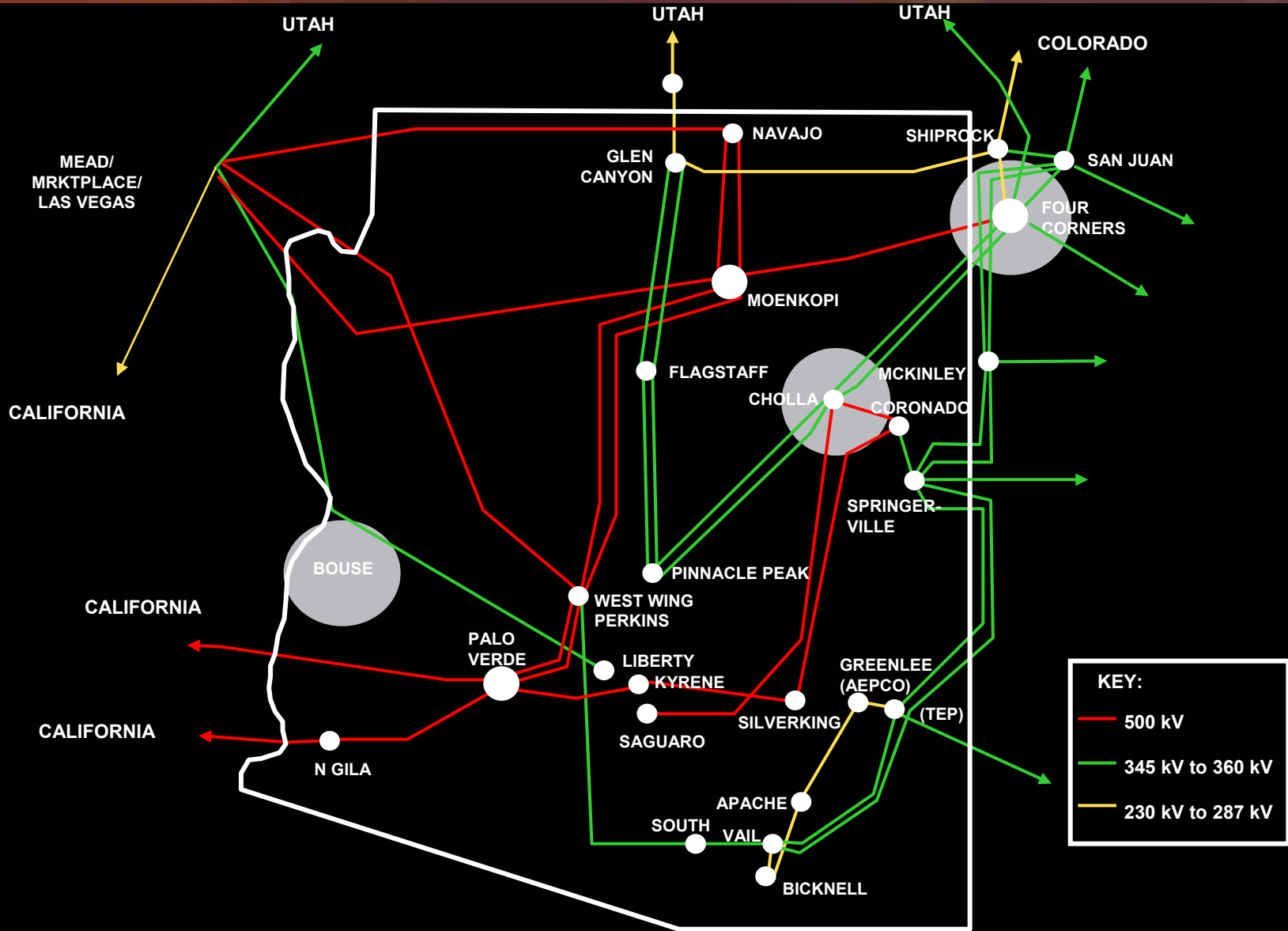
Pinnacle West Energy Plants

<u>Commercial Operation</u>	<u>New Facilities</u>	<u>MWs</u>	<u>Location</u>
June 2001	West Phoenix 4	120	Phoenix, AZ
July 2002	Saguaro CT 3	80	Red Rock, AZ
July 2002	Redhawk 1 and 2	1,060	Arlington, AZ
July 2003	West Phoenix 5	530	Phoenix, AZ
	Arizona Total	1,790	
June 2004*	Silverhawk	570**	Las Vegas, NV
	Totals	<u>2,360</u>	

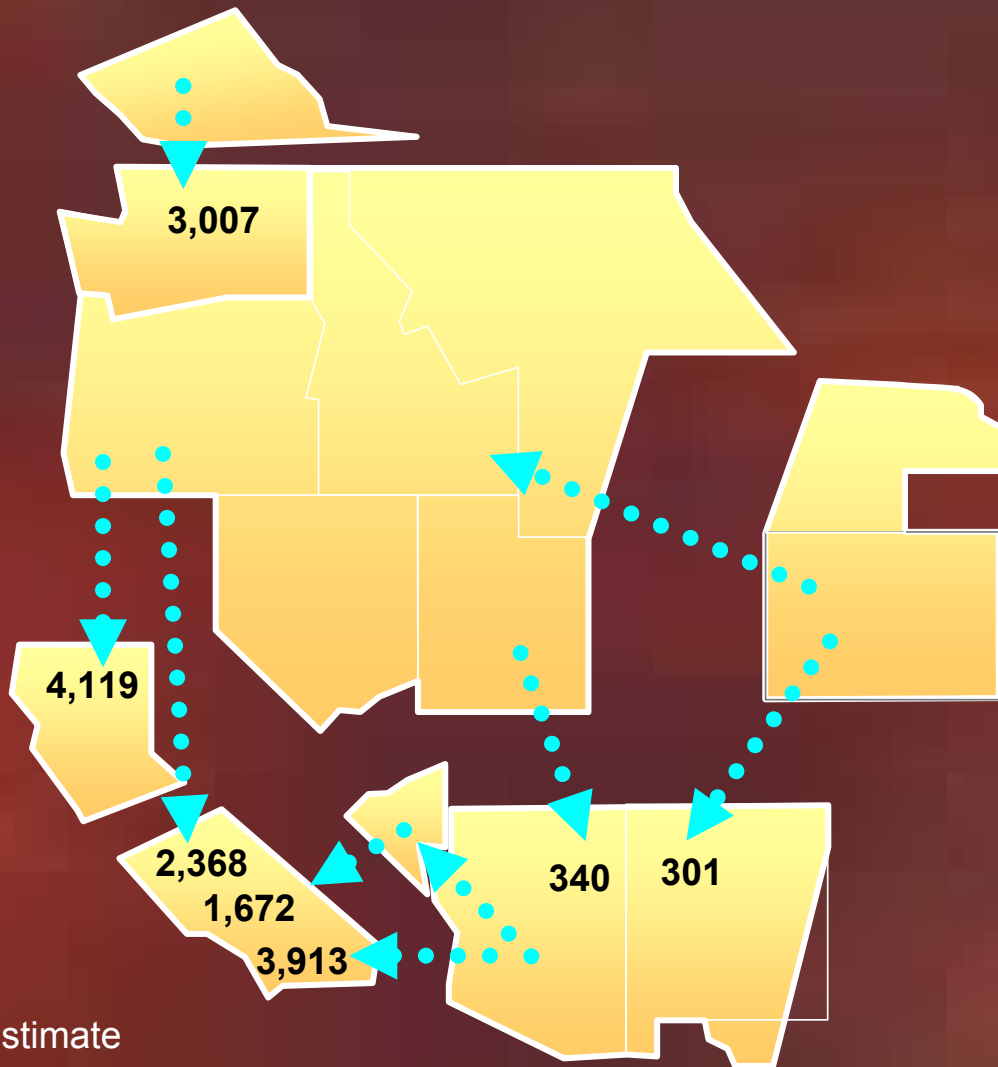
* Target

** Including 25% Southern Nevada Water Authority purchase option

Arizona Transmission System



Reliability Remains Essential WECC Available Transmission Capability*

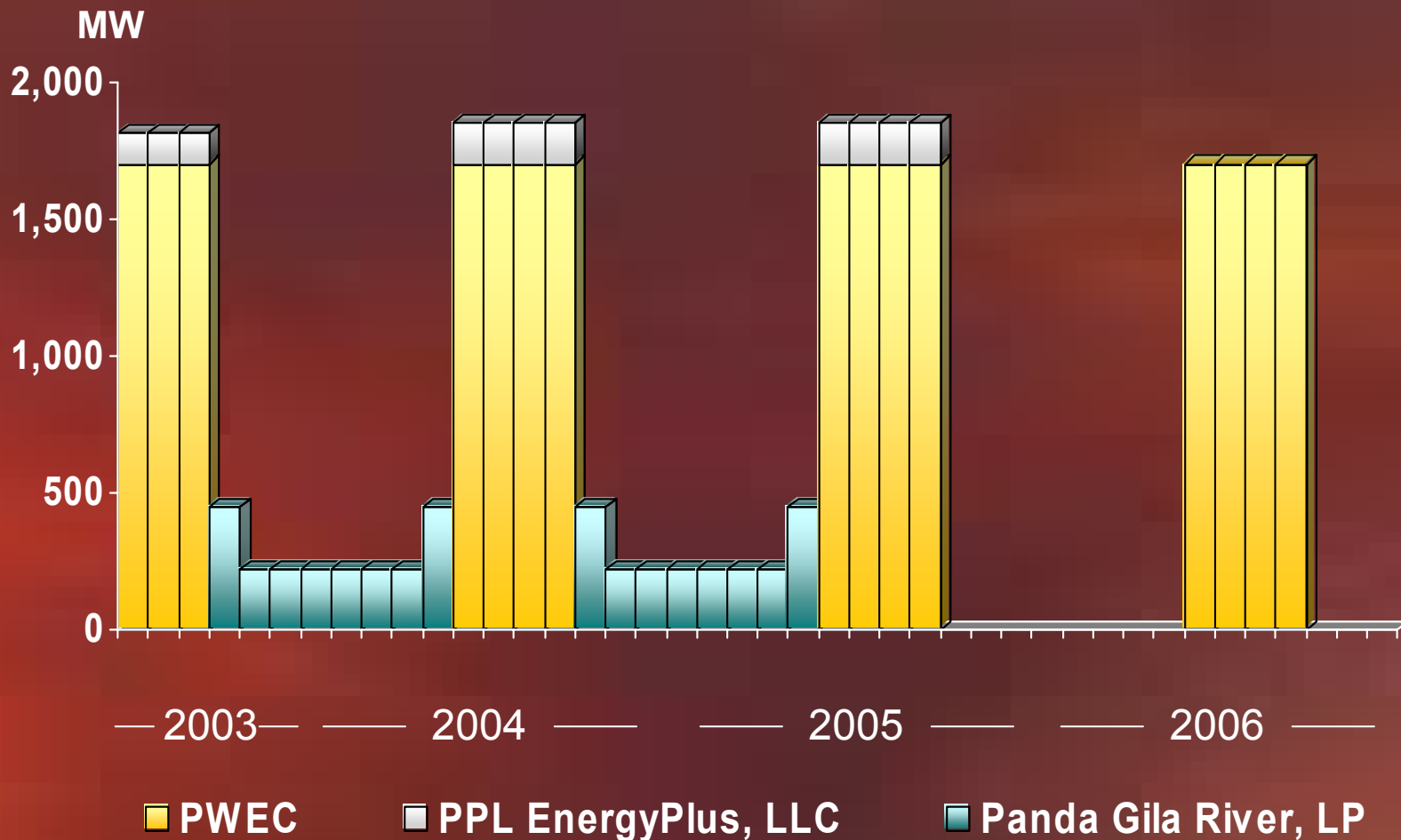


* Summer 2006 estimate

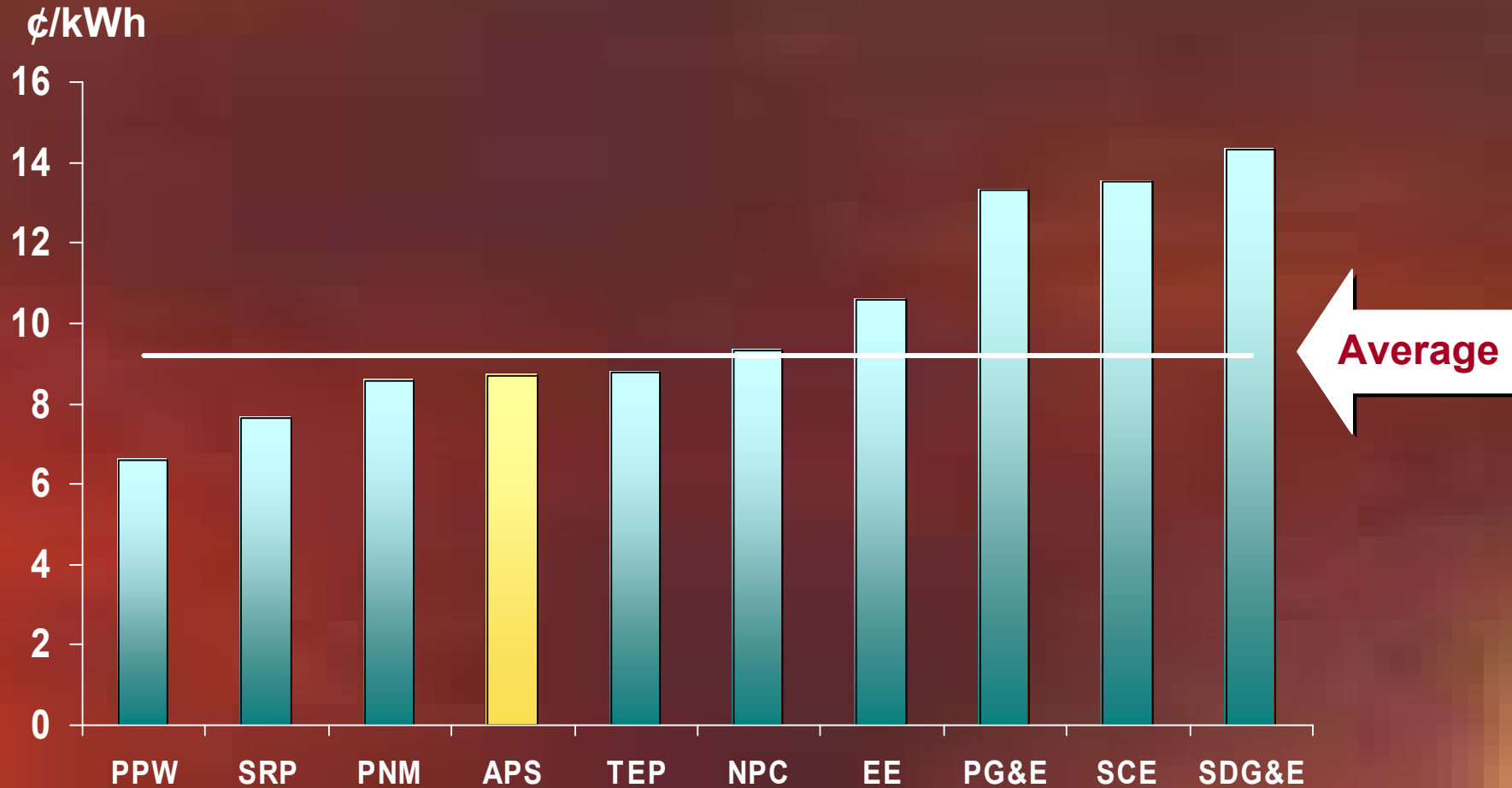
Arizona Corporation Commissioners

<u>Commissioner</u>	<u>Party Affiliation</u>	<u>Commissioner Since</u>	<u>Current Term Expires</u>
Marc Spitzer, Chairman	Republican	Jan. 2001	Jan. 2007
Michael Gleason	Republican	Jan. 2003	Jan. 2005
Jeff Hatch-Miller	Republican	Jan. 2003	Jan. 2005
Kristin Mayes	Republican	Oct. 2003	Jan. 2005
William Mundell	Republican	June 1999	Jan. 2005

APS Track B Procurement Contracts Awarded May 2003

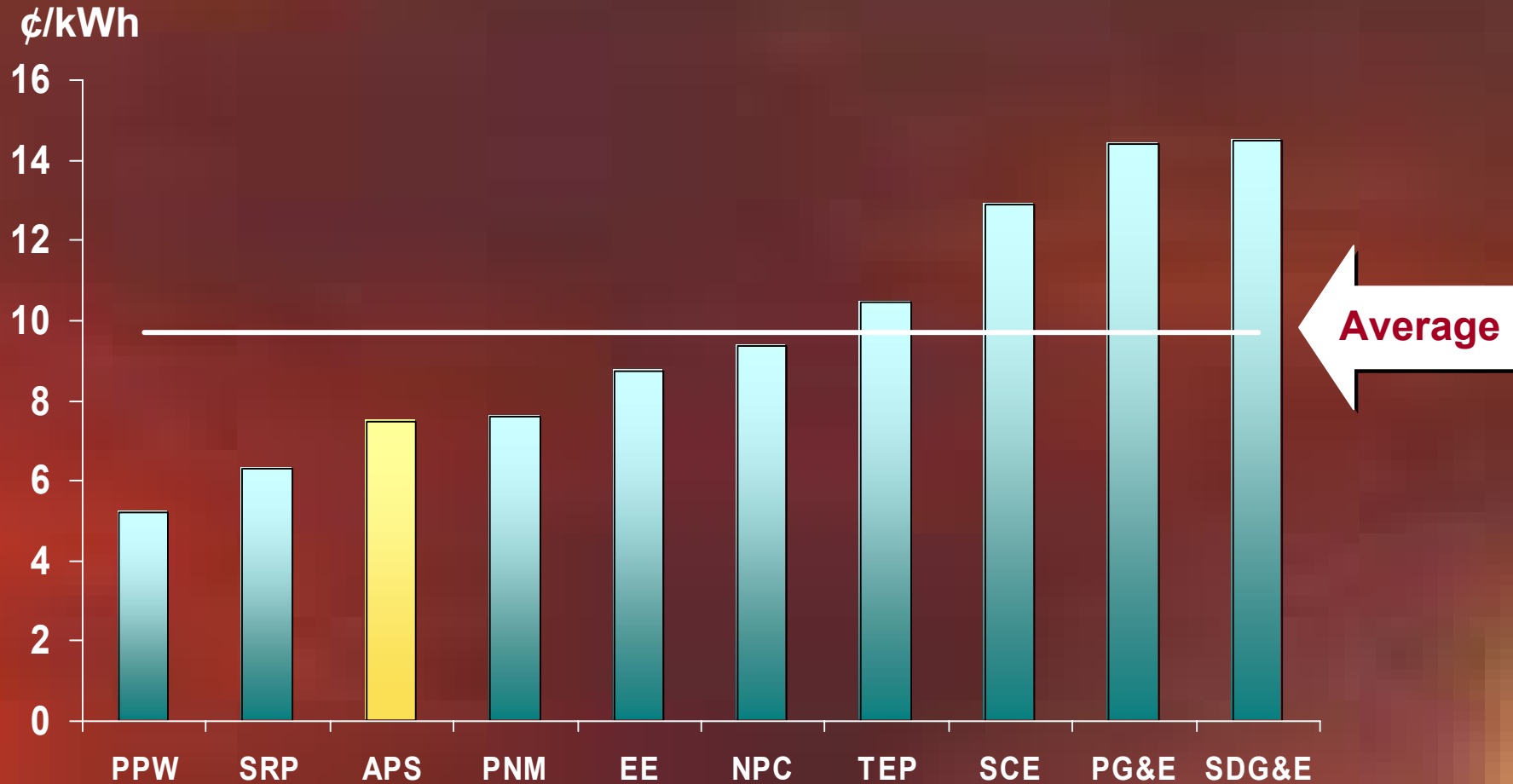


Average Residential Retail Price Ranking* Southwestern U.S.



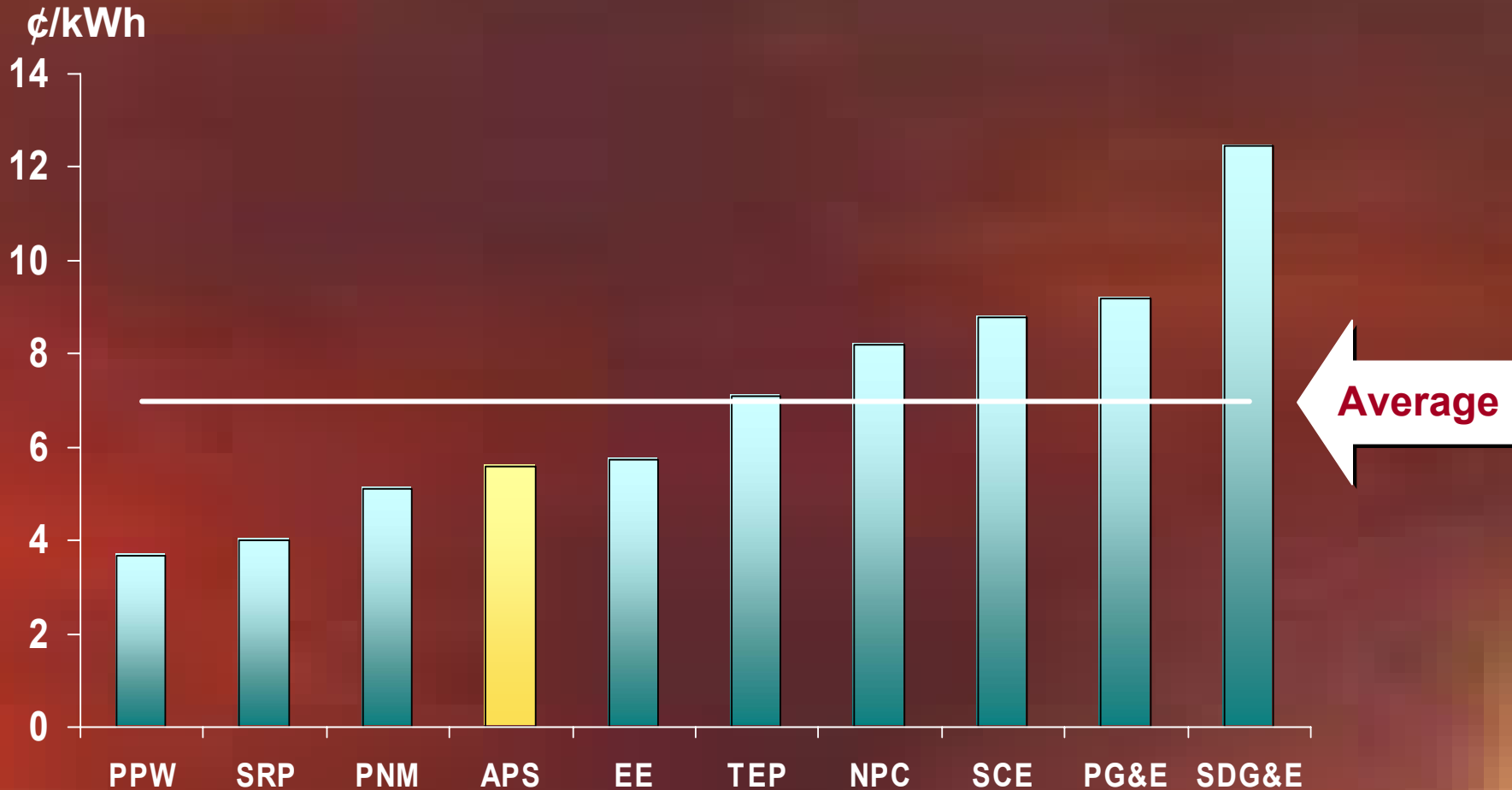
* As of December 31, 2002

Average Commercial Retail Price Ranking* Southwestern U.S.



* As of December 31, 2002

Average Industrial Retail Price Ranking* Southwestern U.S.



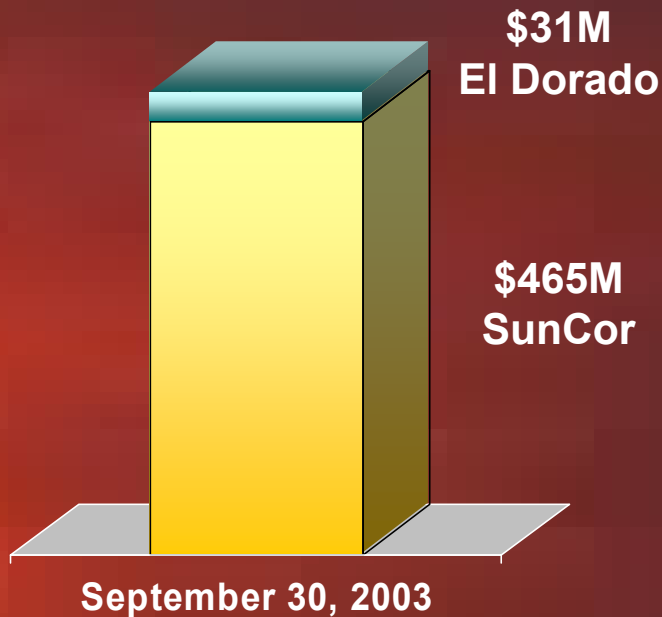
* As of December 31, 2002

APS Energy Services Overview

	<u>YTD Sept 2003</u>	<u>2002</u>	<u>2001</u>
■ Pretax Earnings	\$20 M	\$28 M	\$(10) M
■ Future Drivers			
– Seize opportunities to grow existing business at reasonable margin levels			
– Renew existing contracts in California (estimated at declining margins)			
– Realize steady growth of ESCO and district cooling business			
– Favorably influence competitive rules and California expand market			
– Explore Texas opportunities			

Non-Energy Subsidiaries Overview

Assets
\$496 Million



- **Objectives**

- Cash flow and profit potential to parent

- **Current activities**

- SunCor accelerated asset sales program
- Harvesting venture capital portfolio as it matures

- **Growth opportunities**

- Select real estate opportunities
- Future investments complementing energy business

SunCor Financial Outlook 2003 - 2005

- **Expect annual earnings to be about double 2002 level of \$19 million**
- **Expect cash distributions to the parent of \$80 - \$100 million annually**