

## APS SELECTED FINANCIAL DATA

December 31,	2001	2000	1999
<b>OPERATING STATISTICS</b>			
Electric revenues (thousands)	\$ 3,310,792	\$ 3,480,252	\$ 2,292,798
Electric sales (MWh)	33,230,065	44,055,293	36,768,404
Employees (year-end) (a)	5,517	5,406	6,234
Average annual use per residential customer (kWh)	13,312	13,053	12,191
<b>FINANCIAL STATISTICS (b)</b>			
Cash interest coverage	5.96x	5.68x	5.23x
Non-cash income as percent of earnings	14.4%	11.9%	15.2%
Net cash flow as percent of capital expenditures	108.5%	108.6%	137.3%
<b>CAPITALIZATION RATIOS (YEAR-END)</b>			
Long-term debt excluding current maturities	44.3%	42.4%	48.3%
Current maturities of long-term debt	2.9	5.9	2.8
Short-term debt	3.9	1.9	0.9
Total debt	51.1	50.2	52.0
Preferred stock	—	—	—
Common stock equity	48.9	49.8	48.0
Total capitalization	100.0%	100.0%	100.0%
Debt adjusted for Palo Verde Unit 2 sale and leaseback	55.4%	54.9%	56.8%

(a) For 1996, includes employees who accepted a late 1996 voluntary severance program.

(b) Non-cash income includes capitalized interest, AFUDC and other significant items resulting from regulatory orders.

## APS HISTORICAL GROWTH RATES

December 31,	2001	2000	1999
Electric revenues			
Total	(4.9)%	51.8%	14.3%
Retail	2.8%	5.8%	3.7%
Peak load			
Actual	3.8%	11.0%	(2.7)%
Weather-adjusted	(0.9)%	10.1%	4.3%
Electric sales			
Total	(24.6)%	19.8%	19.5%
Retail sales	3.8%	6.9%	3.0%
Customers (average)	3.7%	4.1%	4.2%
Employees (year-end) (a,b)	2.1%	(13.3)%	2.6%

(a) Decrease for 1996 determined after deducting all employees who accepted a late 1996 voluntary severance program.

(b) Employees performing shared, corporate services were transferred to the parent as of the beginning of 2000.

	1998	1997	1996
	\$ 2,006,398	\$ 1,878,553	\$ 1,718,272
	30,780,474	29,050,500	22,387,930
	6,075	5,981	6,365
	12,047	12,013	11,853
	4.96x	4.53x	4.15x
	15.3%	15.7%	15.9%
	128.6%	118.2%	126.8%
	43.7%	46.4%	48.9%
	3.8	2.5	3.7
	4.2	3.1	0.4
	51.7	52.0	53.0
	2.2	4.1	5.3
	46.1	43.9	41.7
	100.0%	100.0%	100.0%
	56.4%	56.8%	57.8%

ANNUAL COMPOUND GROWTH RATES

	1998	1997	1996	5 YEARS 1996-2001	10 YEARS 1991-2001
	6.8%	9.3%	6.4%	14.0%	9.1%
	2.2%	2.2%	5.5%	3.3%	3.8%
	10.1%	0.7%	3.5%	4.4%	4.9%
	4.1%	7.0%	4.0%	4.9%	3.6%
	6.0%	29.8%	9.4%	8.2%	5.2%
	3.3%	4.2%	7.2%	4.2%	4.1%
	4.0%	4.2%	4.1%	4.0%	3.7%
	1.6%	(6.0)%	(1.8)%	(2.8)%	(2.4)%

**APS STATEMENTS OF INCOME** (dollars in thousands)

year ended December 31,	2001	2000	1999
<b>ELECTRIC OPERATING REVENUES</b>	\$ 3,310,792	\$ 3,480,252	\$ 2,292,798
<b>PURCHASED POWER AND FUEL COSTS</b>			
Purchased power	1,348,872	1,547,464	551,645
Fuel for electric generation	391,771	331,274	241,671
Total	1,740,643	1,878,738	793,316
<b>OPERATING REVENUES LESS PURCHASED POWER AND FUEL COSTS</b>	1,570,149	1,601,514	1,499,482
<b>OTHER OPERATING EXPENSES</b>			
Operations and maintenance	465,561	430,092	437,125
Depreciation and amortization	420,893	425,479	416,331
Income taxes	183,640	199,977	165,629
Other taxes	101,077	99,730	96,579
Total	1,171,171	1,155,278	1,115,664
<b>OPERATING INCOME</b>	398,978	446,236	383,818
<b>OTHER INCOME (DEDUCTIONS)</b>			
Income taxes	504	4,312	32,614
Allowance for equity funds used during construction	-	-	-
Other – net	(583)	(10,857)	(11,757)
Total	(79)	(6,545)	20,857
<b>INCOME BEFORE INTEREST DEDUCTIONS</b>	398,899	439,691	404,675
<b>INTEREST DEDUCTIONS</b>			
Interest on long-term debt	126,118	134,431	132,676
Interest on short-term borrowings	4,407	7,455	8,272
Debt discount, premium and expense	2,650	2,105	2,084
Capitalized interest	(14,964)	(10,894)	(6,679)
Total	118,211	133,097	136,353
<b>INCOME BEFORE EXTRAORDINARY CHARGE AND CUMULATIVE EFFECT ADJUSTMENT</b>	280,688	306,594	268,322
Extraordinary charge – net of income taxes	-	-	(139,885)
Cumulative effect of change in accounting for derivatives – net of income taxes	(15,201)	-	-
<b>NET INCOME</b>	265,487	306,594	128,437
Preferred stock dividend requirements	-	-	1,016
<b>EARNINGS FOR COMMON STOCK</b>	\$ 265,487	\$ 306,594	\$ 127,421

	1998	1997	1996
	\$ 2,006,398	\$ 1,878,553	\$ 1,718,272
	313,330	242,230	99,096
	229,823	199,303	228,394
	543,153	441,533	327,490
	1,463,245	1,437,020	1,390,782
	418,829	405,421	441,026
	410,276	396,886	334,685
	166,290	161,486	149,368
	102,076	106,724	106,226
	1,097,471	1,070,517	1,031,305
	365,774	366,503	359,477
	32,838	31,500	45,639
	-	-	5,209
	(12,523)	(10,047)	(15,764)
	20,315	21,453	35,084
	386,089	387,956	394,561
	137,214	140,931	147,666
	7,481	9,404	10,621
	2,410	2,336	2,312
	(16,263)	(16,208)	(9,509)
	130,842	136,463	151,090
	255,247	251,493	243,471
	-	-	-
	-	-	-
	255,247	251,493	243,471
	9,703	12,803	17,092
	\$ 245,544	\$ 238,690	\$ 226,379

**APS BALANCE SHEETS** (dollars in thousands)

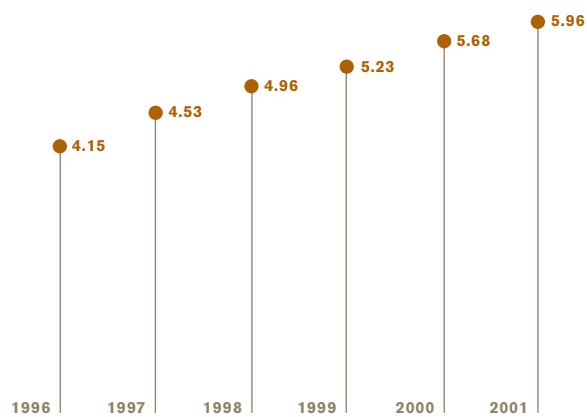
December 31,	2001	2000	1999
<b>ASSETS</b>			
<b>UTILITY PLANT</b>			
Electric plant in service	\$ 8,104,081	\$ 7,772,330	\$ 7,513,206
Plant held for future use	1,025	32,695	32,369
Subtotal	8,105,106	7,805,025	7,545,575
Less accumulated depreciation and amortization	3,374,098	3,187,328	3,026,041
Subtotal	4,731,008	4,617,697	4,519,534
Construction work in progress	321,305	245,749	184,764
Nuclear fuel, net of accumulated amortization	49,282	47,389	49,114
Net utility plant	5,101,595	4,910,835	4,753,412
<b>INVESTMENTS AND OTHER ASSETS</b>			
Decommissioning trust accounts	202,036	204,716	175,733
Assets from risk management and trading activities – long-term	2,082	32,955	–
Other assets	76,322	45,841	32,724
Total investments and other assets	280,440	283,512	208,457
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	16,821	2,609	7,477
Accounts receivable			
Service customers	182,749	422,012	201,704
Other	153,988	48,711	35,684
Allowance for doubtful accounts	(3,349)	(2,380)	(1,538)
Accrued utility revenues	76,131	74,566	72,919
Materials and supplies (at average cost)	81,215	71,966	69,977
Fossil fuel (at average cost)	27,023	19,405	21,869
Deferred income taxes	–	5,793	8,163
Assets from risk management and trading activities	10,097	17,506	–
Other	42,009	38,414	30,885
Total current assets	586,684	698,602	447,140
<b>DEFERRED DEBITS</b>			
Regulatory assets	342,383	469,867	613,729
Unamortized debt issue costs	13,163	12,805	15,172
Other	42,789	37,928	79,714
Total deferred debits	398,335	520,600	708,615
<b>TOTAL ASSETS</b>	<b>\$ 6,367,054</b>	<b>\$ 6,413,549</b>	<b>\$ 6,117,624</b>

	1998	1997	1996
	\$ 7,233,578	\$ 6,976,964	\$ 6,771,116
	32,026	32,095	32,095
	7,265,604	7,009,059	6,803,211
	2,814,762	2,620,607	2,426,143
	4,450,842	4,388,452	4,377,068
	228,643	237,492	226,935
	51,078	51,624	51,137
	4,730,563	4,677,568	4,655,140
	145,552	124,603	95,504
	-	-	-
	37,997	40,303	18,162
	183,549	164,906	113,666
	5,558	12,552	12,521
	205,999	141,022	111,715
	23,213	31,313	49,898
	(1,725)	(1,338)	(1,685)
	67,740	58,559	55,470
	69,074	70,634	74,120
	13,978	9,621	13,928
	3,999	3,496	8,424
	-	-	-
	26,695	24,529	22,767
	414,531	350,388	347,158
	980,084	1,080,799	1,221,878
	14,916	15,303	16,692
	69,656	42,178	68,688
	1,064,656	1,138,280	1,307,258
	\$ 6,393,299	\$ 6,331,142	\$ 6,423,222

**APS BALANCE SHEETS** (dollars in thousands)

December 31,	2001	2000	1999
<b>LIABILITIES</b>			
<b>CAPITALIZATION</b>			
Common stock	\$ 178,162	\$ 178,162	\$ 178,162
Additional paid-in capital	1,246,804	1,246,804	1,246,804
Retained earnings	790,289	694,802	558,208
Accumulated other comprehensive loss	(64,565)	-	-
Common stock equity	2,150,690	2,119,768	1,983,174
Non-redeemable preferred stock	-	-	-
Redeemable preferred stock	-	-	-
Long-term debt less current maturities	1,949,074	1,806,908	1,997,400
Total capitalization	4,099,764	3,926,676	3,980,574
<b>CURRENT LIABILITIES</b>			
Commercial paper	171,162	82,100	38,300
Current maturities of long-term debt	125,451	250,266	114,711
Accounts payable	98,959	267,999	170,662
Accrued taxes	107,595	106,515	62,858
Accrued interest	41,043	39,488	32,299
Customer deposits	28,664	24,498	24,682
Deferred income taxes	3,244	-	-
Liabilities from risk management and trading activities	21,840	37,179	-
Other	117,770	104,947	26,248
Total current liabilities	715,728	912,992	469,760
<b>DEFERRED CREDITS AND OTHER</b>			
Deferred income taxes	1,023,079	1,110,437	1,178,085
Deferred investment tax credit	4,306	4,570	4,839
Liabilities from risk management and trading activities – long-term	95,159	14,711	-
Unamortized gain – sale of utility plant	64,060	68,636	73,212
Customer advances for construction	69,293	40,694	38,150
Other	295,665	334,833	373,004
Total deferred credits and other	1,551,562	1,573,881	1,667,290
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 6,367,054</b>	<b>\$ 6,413,549</b>	<b>\$ 6,117,624</b>

	1998	1997	1996
	\$ 178,162	\$ 178,162	\$ 178,162
	1,195,625	1,142,364	1,091,122
	601,968	528,798	460,106
	—	—	—
	1,975,755	1,849,324	1,729,390
	85,840	142,051	165,673
	9,401	29,110	53,000
	1,876,540	1,953,162	2,029,482
	3,947,536	3,973,647	3,977,545
	178,830	130,750	16,900
	164,378	104,068	153,780
	145,139	107,423	174,394
	59,827	85,886	86,327
	31,218	31,660	39,115
	26,815	29,116	32,137
	—	—	—
	—	—	—
	16,755	19,588	21,150
	622,962	508,491	523,803
	1,312,007	1,345,177	1,414,242
	32,465	60,093	87,723
	—	—	—
	77,787	82,363	86,939
	31,451	29,294	24,044
	369,091	332,077	308,926
	1,822,801	1,849,004	1,921,874
	\$ 6,393,299	\$ 6,331,142	\$ 6,423,222

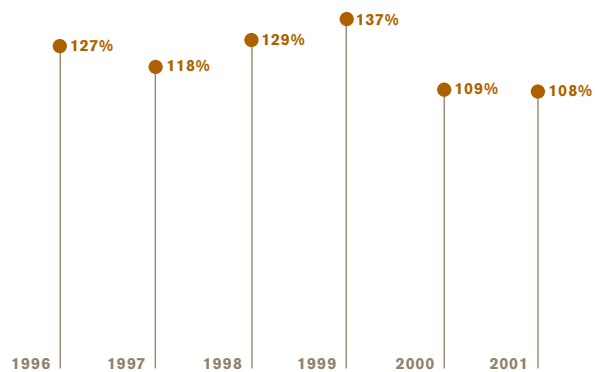


**APS CASH INTEREST COVERAGE RATIOS**

**APS STATEMENTS OF CASH FLOWS** (dollars in thousands)

year ended December 31,	2001	2000	1999
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 265,487	\$ 306,594	\$ 128,437
Items not requiring cash			
Depreciation and amortization	420,893	425,479	416,331
Nuclear fuel amortization	28,362	30,083	31,371
Allowance for equity funds used during construction	–	–	–
Deferred income taxes – net	(26,252)	(65,457)	(56,127)
Deferred investment tax credit – net	(264)	(269)	(27,626)
Mark-to-market gains – trading	(91,978)	(11,752)	(975)
Mark-to-market gains – system	(8,052)	–	–
Extraordinary charge – net of income taxes	–	–	139,885
Cumulative effect of change in accounting – net of income taxes	15,201	–	–
Changes in certain current assets and liabilities			
Accounts receivable – net	226,933	(232,493)	(8,363)
Accrued utility revenues	(1,565)	(1,647)	(5,179)
Materials, supplies and fossil fuel	(16,867)	475	(8,794)
Other current assets	(3,595)	(25,035)	(4,190)
Accounts payable	(190,141)	101,558	22,992
Accrued taxes	1,080	43,657	3,031
Accrued interest	1,555	7,189	1,081
Other current liabilities	16,989	124,473	6,833
Increase in regulatory assets	(17,516)	(14,138)	(12,262)
Other – net	(13,164)	34,954	1,514
Net Cash Flow Provided by Operating Activities	607,106	723,671	627,959
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Capital expenditures	(467,391)	(464,368)	(322,547)
Capitalized interest	(14,964)	(10,894)	(6,679)
Other	(41,926)	(72,189)	(8,173)
Net Cash Flow Used For Investing Activities	(524,281)	(547,451)	(337,399)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issuance of long-term debt	396,072	300,000	392,952
Short-term borrowings – net	89,062	43,800	(140,530)
Common equity infusion from Pinnacle West	–	–	50,000
Dividends paid on common stock	(170,000)	(170,000)	(170,000)
Dividends paid on preferred stock	–	–	(1,393)
Repayment of preferred stock	–	–	(96,499)
Repayment and reacquisition of long-term debt	(383,747)	(354,888)	(323,171)
Net Cash Flow Used For Financing Activities	(68,613)	(181,088)	(288,641)
<b>NET CASH FLOW</b>	14,212	(4,868)	1,919
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	2,609	7,477	5,558
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	\$ 16,821	\$ 2,609	\$ 7,477

	1998	1997	1996
\$	255,247	\$ 251,493	\$ 243,471
	410,276	396,886	334,685
	32,856	32,702	33,566
	-	-	(5,209)
	(52,378)	(78,616)	(41,949)
	(27,628)	(27,630)	(27,630)
	-	-	-
	-	-	-
	-	-	-
	-	-	-
	(56,490)	(11,069)	(33,044)
	(9,181)	(3,089)	(1,951)
	(2,797)	7,793	11,945
	(2,166)	(1,762)	(4,928)
	33,731	(56,710)	68,788
	(26,059)	(441)	3,500
	(442)	(7,455)	(2,565)
	(4,654)	(3,997)	(522)
	(10,582)	-	-
	(26,757)	38,748	(627)
	512,976	536,853	577,530
	(319,142)	(307,876)	(258,598)
	(16,263)	(16,208)	(9,509)
	(8,593)	(15,982)	(102)
	(343,998)	(340,066)	(268,209)
	126,245	109,906	205,830
	48,080	113,850	(160,900)
	50,000	50,000	50,000
	(170,000)	(170,000)	(170,000)
	(10,279)	(13,307)	(17,416)
	(75,517)	(47,201)	(50,360)
	(144,501)	(240,004)	(172,343)
	(175,972)	(196,756)	(315,189)
	(6,994)	31	(5,868)
	12,552	12,521	18,389
\$	5,558	\$ 12,552	\$ 12,521



**APS NET CASH FLOW AFTER DIVIDENDS  
AS A PERCENT OF CAPITAL EXPENDITURES**

**APS LONG-TERM DEBT SCHEDULE** (dollars in thousands)

year ended December 31,	2001	2000	1999	1998	1997	1996
<b>FIRST MORTGAGE BONDS</b>						
7.125% series due Jan. 15, 1997	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 150,000
7.625% series due March 15, 1998	-	-	-	-	100,000	100,000
7.625% series due June 15, 1999	-	-	-	100,000	100,000	100,000
5.75% series due Sept. 15, 2000	-	-	100,000	100,000	100,000	100,000
8.125% series due March 15, 2002	125,000	125,000	125,000	125,000	125,000	125,000
6.625% series due March 1, 2004	80,000	80,000	80,000	85,000	85,000	100,000
10.25% series due May 15, 2020	-	-	100,550	100,550	109,550	114,550
9.5% series due April 15, 2021	-	45,140	45,140	45,140	45,140	50,810
9% series due Dec. 15, 2021	-	72,370	72,370	72,370	72,370	72,500
7.25% series due Aug. 1, 2023	54,150	70,650	70,650	91,900	97,150	100,000
8.75% series due Jan. 15, 2024	121,668	121,668	121,668	121,668	121,918	148,500
8% series due Feb. 1, 2025	33,075	33,075	47,075	88,300	88,500	116,900
5.5% series due Aug. 15, 2028	25,000	25,000	25,000	25,000	25,000	25,000
5.875% series due Aug. 15, 2028	154,000	154,000	154,000	154,000	154,000	154,000
Unamortized discount and premium	(5,266)	(5,993)	(5,860)	(6,482)	(7,033)	(8,412)
Total first mortgage bonds	587,627	720,910	935,593	1,102,446	1,216,595	1,448,848
<b>POLLUTION CONTROL BONDS</b>						
Due May 1, 2024	49,400	49,400	49,400	49,400	49,400	49,400
Due Sept. 1, 2024	65,750	65,750	65,750	65,750	65,750	65,750
Due Sept. 1, 2024	31,500	31,500	31,500	31,500	31,500	31,500
Due May 1, 2029	106,980	106,980	106,980	106,980	106,980	106,980
Due May 1, 2029	90,000	90,000	90,000	90,000	90,000	90,000
Due May 1, 2029	57,000	57,000	57,000	57,000	57,000	57,000
Due Oct. 1, 2029	32,650	32,650	32,650	32,650	32,650	32,650
Due Dec. 1, 2031	6,710	6,710	6,710	6,710	6,710	6,710
Due Nov. 1, 2033	16,870	16,870	16,870	16,870	-	-
Due April 1, 2034	20,000	20,000	20,000	-	-	-
Less securities held by trustee related to certain pollution control indebtedness	-	-	(1,236)	-	-	-
Total pollution control bonds	476,860	476,860	475,624	456,860	439,990	439,990

See Note 6 of Notes to Consolidated Financial Statements on pages 47-48.

	2001	2000	1999	1998	1997	1996
<b>OTHER LONG-TERM DEBT</b>						
6.125% collateralized loan due 1999	\$ -	\$ -	\$ -	\$ -	\$ 10,000	\$ -
5.875% collateralized loan due 1999	-	-	-	10,000	-	-
6.72% senior notes due April 1, 1999	-	-	-	50,000	50,000	-
5.375% collateralized loan due 2000	-	-	10,000	10,000	-	-
Floating rate note due Nov. 15, 2001	-	250,000	250,000	-	-	-
Term loans due June 18, 2003	-	-	50,000	125,000	150,000	100,000
5.875% unsecured note due Feb. 15, 2004	125,000	125,000	125,000	-	-	-
6.25% unsecured note due Jan. 15, 2005	100,000	100,000	100,000	100,000	-	-
7.625% unsecured note due Aug. 1, 2005	300,000	300,000	-	-	-	-
6.75% senior notes due Nov. 15, 2006	83,695	83,695	83,695	100,000	100,000	100,000
6.375% senior notes due Oct. 15, 2011	400,000	-	-	-	-	-
10% debentures due Jan. 31, 2025	-	-	75,000	75,000	75,000	75,000
Capitalized lease obligation	1,343	709	7,199	11,612	15,645	19,424
Total other long-term debt	1,010,038	859,404	700,894	481,612	400,645	294,424
Total Long-Term Debt	2,074,525	2,057,174	2,112,111	2,040,918	2,057,230	2,183,262
<b>LESS CURRENT MATURITIES</b>						
First mortgage bonds	(125,000)	-	(100,000)	(100,000)	(100,000)	(150,000)
Senior notes	-	-	-	(50,000)	-	-
Collateralized loan	-	-	(10,000)	(10,000)	-	-
Floating rate note	-	(250,000)	-	-	-	-
Capitalized lease obligation	(451)	(266)	(4,711)	(4,378)	(4,068)	(3,780)
Total Current Maturities	(125,451)	(250,266)	(114,711)	(164,378)	(104,068)	(153,780)
<b>LONG-TERM DEBT LESS CURRENT MATURITIES</b>	\$1,949,074	\$1,806,908	\$1,997,400	\$1,876,540	\$1,953,162	\$2,029,482
<b>WEIGHTED-AVERAGE INTEREST RATE ON LONG-TERM DEBT AT YEAR-END</b>	6.54%	6.50%	6.37%	6.54%	6.63%	6.65%

## APS ELECTRIC REVENUE ANALYSIS

year ended December 31,	2001		2000	
<b>ELECTRIC REVENUE (THOUSANDS OF DOLLARS)</b>				
<b>RETAIL SALES</b>				
Residential	\$ 914,711	27.6%	\$ 880,468	25.3%
Commercial	805,326	24.3	771,909	22.2
Industrial	133,663	4.0	146,088	4.2
Irrigation	1,975	0.1	6,498	0.2
Other	11,663	0.4	10,719	0.3
Total retail	1,867,338	56.4	1,815,682	52.2
<b>WHOLESALE REVENUE ON DELIVERED ELECTRICITY</b>				
Traditional contracts	73,305	2.2	120,618	3.5
Retail load hedge management	577,784	17.5	560,493	16.1
Marketing and trading – delivered:				
Generation sales other than native load (a)	148,316	4.5	115,476	3.3
Other delivered electricity (a)	540,511	16.3	823,061	23.6
Total delivered marketing and trading	688,827	20.8	938,537	26.9
Total delivered wholesale electricity	1,339,916	40.5	1,619,648	46.5
<b>OTHER MARKETING AND TRADING</b>				
Realized margins on delivered commodities other than electricity	(31,645)	(1.0)	(8,789)	(0.2)
Prior period mark-to-market (gains) losses on contracts delivered during current period	6,941	0.2	(2,079)	(0.1)
Change in mark-to-market for future-period deliveries	84,580	2.6	13,831	0.4
Total other marketing and trading	59,876	1.8	2,963	0.1
Transmission for others	25,971	0.8	14,765	0.4
Other miscellaneous services	17,691	0.5	27,194	0.8
Total electric operating revenues	\$ 3,310,792	100.0%	\$ 3,480,252	100.0%
<b>INCREASE (DECREASE) VS. PRIOR YEAR</b>				
Retail revenues	2.8%		5.8%	
Delivered wholesale electricity	(17.3)%		198.1%	
Total operating revenues	(4.9)%		51.8%	
<b>AVERAGE REVENUE PER kWh</b>				
<b>RETAIL</b>				
Residential	8.85¢		9.00¢	
Commercial	7.67¢		7.67¢	
Industrial	5.49¢		5.82¢	
Irrigation	7.35¢		7.46¢	
<b>WHOLESALE REVENUE ON DELIVERED ELECTRICITY</b>				
Delivered marketing and trading	12.35¢		7.09¢	
Delivered wholesale electricity	13.63¢		7.53¢	
Total operating revenues	9.96¢		7.90¢	
<b>REVENUE PER AVERAGE CUSTOMER (DOLLARS)</b>				
Residential	\$ 1,178		\$ 1,175	
Commercial and industrial	\$ 9,698		\$ 9,894	

(a) The break-out of generation sales other than native load is not available for 1996-1998.

1999		1998		1997		1996					
\$	805,173	35.1%	\$	766,378	38.2%	\$	746,937	39.8%	\$	721,877	42.0%
	733,038	32.0		699,016	34.8		687,988	36.6		678,130	39.5
	159,329	7.0		172,296	8.6		164,696	8.8		162,324	9.5
	7,374	0.3		7,288	0.4		8,706	0.5		9,448	0.5
	11,322	0.5		10,644	0.5		11,842	0.6		13,078	0.8
	1,716,236	74.9		1,655,622	82.5		1,620,169	86.3		1,584,857	92.3
	60,486	2.6		58,184	2.9		63,027	3.4		64,110	3.7
	108,153	4.7		-	-		-	-		-	-
	29,551	1.3		-	-		-	-		-	-
	345,067	15.1		258,058	12.9		163,801	8.7		34,450	2.0
	374,618	16.4		258,058	12.9		163,801	8.7		34,450	2.0
	543,257	23.7		316,242	15.8		226,828	12.1		98,560	5.7
	2,483	0.1		7,192	0.4		3,618	0.2		-	-
	-	-		-	-		-	-		-	-
	975	-		-	-		-	-		-	-
	3,458	0.1		7,192	0.4		3,618	0.2		-	-
	11,348	0.5		11,058	0.5		10,295	0.5		10,240	0.6
	18,499	0.8		16,284	0.8		17,643	0.9		24,615	1.4
\$	2,292,798	100.0%	\$	2,006,398	100.0%	\$	1,878,553	100.0%	\$	1,718,272	100.0%
	3.7%			2.2%			2.2%			5.5%	
	71.8%			39.4%			130.1%			13.9%	
	14.3%			6.8%			9.3%			6.4%	
	9.18¢			9.22¢			9.37¢			9.57¢	
	7.68¢			8.04¢			8.07¢			8.24¢	
	6.22¢			5.25¢			5.27¢			5.34¢	
	7.40¢			8.61¢			7.75¢			7.76¢	
	2.75¢			2.90¢			2.11¢			1.84¢	
	3.46¢			3.07¢			2.46¢			2.93¢	
	6.24¢			6.52¢			6.47¢			7.67¢	
\$	1,119		\$	1,111		\$	1,126		\$	1,135	
\$	10,051		\$	10,109		\$	10,285		\$	10,545	

## APS ELECTRIC SALES ANALYSIS

year ended December 31,	2001		2000	
<b>ELECTRIC SALES (MWh)</b>				
<b>RETAIL SALES</b>				
Residential	10,334,860	31.1%	9,780,680	22.2%
Commercial	10,504,044	31.6	10,057,707	22.9
Industrial	2,433,438	7.3	2,511,292	5.7
Irrigation	26,860	0.1	87,073	0.2
Other	99,810	0.3	97,772	0.2
Total retail	23,399,012	70.4	22,534,524	51.2
<b>WHOLESALE ELECTRICITY DELIVERED</b>				
Traditional contracts	1,213,704	3.7	1,610,032	3.7
Retail load hedge management	3,039,905	9.1	6,673,658	15.1
Marketing and trading – delivered:				
Generation sales other than native load (a)	1,387,860	4.2	1,494,299	3.4
Other delivered electricity (a)	4,189,584	12.6	11,742,780	26.6
Total delivered marketing and trading	5,577,444	16.8	13,237,079	30.0
Total delivered wholesale electricity	9,831,053	29.6	21,520,769	48.8
Total electric sales	33,230,065	100.0%	44,055,293	100.0%
<b>INCREASE (DECREASE) VS. PRIOR YEAR</b>				
Retail sales	3.8%		6.9%	
Delivered wholesale electricity	(54.3)%		37.1%	
Total sales	(24.6)%		19.8%	
<b>ANNUAL USE PER AVERAGE CUSTOMER (kWh)</b>				
Residential	13,312		13,053	
Commercial and industrial	133,625		135,468	

(a) The break-out of generation sales other than native load is not available for 1996-1998.

1999		1998		1997		1996	
8,774,822	23.9%	8,310,689	27.0%	7,970,309	27.4%	7,541,440	33.7%
9,543,853	25.9	8,697,397	28.3	8,524,882	29.3	8,233,762	36.8
2,561,349	7.0	3,279,430	10.6	3,123,283	10.8	3,039,357	13.6
99,669	0.3	84,640	0.3	112,363	0.4	121,775	0.5
94,877	0.2	90,927	0.3	86,090	0.3	84,362	0.4
21,074,570	57.3	20,463,083	66.5	19,816,927	68.2	19,020,696	85.0
1,421,522	3.9	1,410,392	4.6	1,486,439	5.1	1,490,270	6.6
630,945	1.7	-	-	-	-	-	-
1,267,349	3.4	-	-	-	-	-	-
12,374,018	33.7	8,906,999	28.9	7,747,134	26.7	1,876,964	8.4
13,641,367	37.1	8,906,999	28.9	7,747,134	26.7	1,876,964	8.4
15,693,834	42.7	10,317,391	33.5	9,233,573	31.8	3,367,234	15.0
36,768,404	100.0%	30,780,474	100.0%	29,050,500	100.0%	22,387,930	100.0%
3.0%		3.3%		4.2%		7.2%	
52.1%		11.7%		174.2%		23.8%	
19.5%		6.0%		29.8%		9.4%	
12,191		12,047		12,013		11,853	
136,349		138,952		140,493		141,436	

## APS CUSTOMER DATA

	2001	2000	1999	1998	1997	1996
<b>CUSTOMERS - AVERAGE</b>						
Residential	776,339	749,285	719,774	689,871	663,493	636,239
Commercial	93,499	89,539	85,616	83,028	79,754	76,708
Industrial	3,320	3,243	3,165	3,166	3,155	2,997
Irrigation	366	412	798	747	810	836
Other	1,013	934	917	890	857	830
Total retail	874,537	843,413	810,270	777,702	748,069	717,610
Sales for resale	66	67	69	60	59	41
Total customers	874,603	843,480	810,339	777,762	748,128	717,651
Increase Over Prior Year	3.7%	4.1%	4.2%	4.0%	4.2%	4.1%

## RATE REGULATION

### ARIZONA REGULATION

The Arizona Corporation Commission (ACC) has jurisdiction to establish retail rates and to regulate securities issues of Arizona electric, gas, water and telephone utilities and transport companies. The functions of the ACC combine legislative, executive and judicial powers.

### ACC ORGANIZATION

The ACC currently consists of three elected commissioners with staggered terms. As approved in the 2000 general election, two additional commission members will be elected in the 2002 general election, each for an initial two-year term that begins in January 2003. Thereafter, all terms will be for four-year terms with a limit of two consecutive terms in office. Mid-term vacancies (due to resignation, etc.) are filled by appointment of the Governor for a term expiring at the next general election.

Commissioner	Commissioner Since	Current Term Expires
William Mundell (Rep.) (Chairman)	June 1999	January 2005
James Irvin (Rep.)	January 1997	January 2003
Marc Spitzer (Rep.)	January 2001	January 2007

### TEST PERIOD

A historical test period has been used in past rate cases; however, the ACC has discretion to consider matters subsequent to the historic year.

### FUEL ADJUSTMENT CLAUSE

APS does not have a fuel adjustment clause. Changes in fuel and purchased power costs are reflected in current earnings and are addressed in general rate proceedings.

### DETAILED DISCUSSIONS OF REGULATORY DEVELOPMENTS

The electric utility industry is continuing a transition to a market-based, competitive structure. In September 1999, the ACC approved rules that provide a framework for introduction of retail electric competition in Arizona. The rules provided a phase-in of retail competition, with all customers eligible for retail choice as of January 1, 2001.

In January 2002, at the request of the ACC chairman, the ACC established a generic docket to "determine if changed circumstances require the [ACC] to take another look at electric restructuring in Arizona." In February 2002, the ACC's chief administrative law judge issued a procedural order which, among other things, consolidated the generic docket with several other pending ACC dockets, including the docket relating to APS' October 2001 filing requesting a partial variance from the ACC electric competition rules and approval of a purchase power agreement (see below).

Developments to date are discussed in a number of sections in the Annual Report. See "Competition and Industry Restructuring" in Management's Discussion and Analysis of Financial Condition and Results of Operations on pages 27-28 for further information on introduction of retail electric competition in Arizona. See Note 3 of Notes to Consolidated Financial Statements on pages 42-45 for details of the retail competition rules, the 1999 Settlement Agreement, the 1996 regulatory agreement, and APS' proposed rule variance and purchase power agreement.

## RATE REGULATION (CONTINUED)

### **APS REQUEST FOR PARTIAL VARIANCE AND APPROVAL OF A PURCHASE POWER AGREEMENT**

APS is currently required to transfer all of its generation assets to an unregulated affiliate by the end of 2002. APS has been addressing the legal and regulatory requirements necessary to complete the transfer of its generation assets to Pinnacle West Energy. In response to certain market conditions and as part of a long-term plan to provide reliable power to our customers, in a filing with the ACC on October 18, 2001, APS requested the ACC to:

- 1) grant a partial variance from an ACC Rule that would obligate APS to purchase 50% of its generation requirements through a competitive bidding process for its standard offer customers beginning in January 2003.
- 2) approve a long-term purchase power agreement between APS and Pinnacle West.

### **1999 SETTLEMENT AGREEMENT**

In September 1999, the ACC approved a settlement agreement related to implementation of retail electric competition by APS. The 1999 Settlement Agreement provisions include, but are not limited to, the phase-in of retail competition in APS' service territory, substantial recovery of stranded costs and regulatory assets; a series of electricity price decreases in 1999 through 2003, unbundled tariffs, and parameters for transferring APS' existing generation assets to an unregulated affiliate no later than the end of 2002. APS' service territory was opened for the first phase of customer choice as of October 1, 1999 and was opened for 100 percent choice on January 1, 2001.

### **1996 REGULATORY AGREEMENT**

In April 1996, the ACC approved a retail regulatory agreement which provided for an annual price reduction of about \$49 million (\$29 million after income taxes), or 3.4%, for all customers except for certain contract customers, effective July 1, 1996; recovery of substantially all of APS' present regulatory assets through accelerated amortization beginning July 1, 1996; a price reduction formula for sharing future cost savings between customers and shareholders referencing an APS return on equity (as defined) of 11.25%; a moratorium on filing for permanent price changes prior to July 2, 1999, with specified exceptions; and equity infusions into APS by the parent company.

In accordance with the terms of the 1996 regulatory agreement, the ACC approved annual retail price reductions of approximately \$17 million (\$10 million after income taxes), or 1.1%, and \$17.6 million (\$10.5 million after income taxes), or 1.2%, which became effective July 1, 1998, and July 1, 1997, respectively. The rate reduction initially intended to be effective July 1, 1999, under this agreement, was incorporated within the 1.5% rate reduction under the 1999 Settlement Agreement.

### **1994 RATE SETTLEMENT**

In May 1994, the ACC issued an order approving a retail rate settlement agreement which provided for a net annual rate reduction of approximately 2.2% effective June 1, 1994. As part of the settlement, APS accelerated amortization of substantially all deferred investment tax credits (ITCs) over a five-year period that ended on December 31, 1999. The amortization of ITCs decreased annual consolidated income tax expense by approximately \$24 million. Beginning in 2000, no further benefits will be reflected in income tax expense related to acceleration of the ITCs. See Note 4 of Notes to Consolidated Financial Statements on pages 45-46.

### **FEDERAL REGULATION**

APS is also subject to regulation by the Federal Energy Regulatory Commission (FERC) in certain matters which include wholesale electric rates and transmission charges. In 2001, approximately 57% of Pinnacle West's Consolidated electric operating revenue and approximately 45% of APS' electric operating revenue were derived from sales and charges regulated by FERC. There have been no wholesale power FERC rate case decisions since December 1990.

## APS LOADS AND RESOURCES AT PEAK

year ended December 31,	2001	2000	1999	1998	1997	1996
<b>PEAK LOAD (KW)</b>						
Actual	5,687,200	5,478,500	4,934,700	5,072,000	4,608,600	4,574,700
Weather-adjusted (a)	5,547,800	5,597,900	5,082,400	4,874,800	4,685,000	4,377,800
Increase (decrease) vs. Prior Year						
Actual	3.8%	11.0%	(2.7)%	10.1%	0.7%	3.5%
Weather-adjusted	(0.9)%	10.1%	4.3%	4.1%	7.0%	4.0%
<b>FIRM POWER SALES (KW)</b>						
	–	50,000	–	–	50,000	50,000
<b>RESOURCES AVAILABLE</b>						
<b>AT PEAK (KW)</b>						
Generating capacity	3,234,500	3,501,600	3,587,100	3,972,600	3,972,600	4,025,300
Purchased power contracts (b)	2,490,000	1,933,000	1,643,000	1,167,000	572,000	652,000
Total resources	5,724,500	5,434,600	5,230,100	5,139,600	4,544,600	4,677,300
<b>RESERVE MARGIN</b>						
	1.1%	6.4%	9.1%	3.1%	(1.5)%	2.7%
Annual load factor – net	53.2%	53.4%	54.1%	52.5%	56.0%	54.4%

(a) Prior years have been restated to reflect average weather statistics for the ten-year period ended December 31, 2000.

(b) Including firm seasonal purchases and unit contingent purchases.

## APS POWER PLANT OPERATING PERFORMANCE

year ended December 31,	2001	2000	1999	1998	1997	1996
<b>NUCLEAR (NET CAPACITY FACTORS)</b>						
Palo Verde Unit 1	88.7%	100.4%	88.7%	87.9%	98.9%	80.8%
Palo Verde Unit 2	93.2%	87.3%	90.0%	101.8%	85.9%	86.7%
Palo Verde Unit 3	83.9%	90.3%	100.3%	87.9%	86.8%	99.9%
Palo Verde site average	88.6%	92.7%	93.0%	92.5%	90.6%	89.1%
<b>COAL (NET CAPACITY FACTORS)</b>						
Four Corners	85.6%	83.0%	82.1%	81.7%	80.8%	73.5%
Cholla	81.2%	82.8%	77.2%	74.4%	71.4%	67.6%
Navajo	84.7%	84.4%	76.0%	71.0%	66.5%	62.0%
Total coal average	83.8%	83.2%	79.2%	77.1%	74.8%	69.3%

**GENERATION RESOURCES** (in service as of December 31, 2001)

PLANT TYPE AND NAME	LOCATION	OWNERSHIP OR INTEREST (a)	NUMBER OF UNITS	APS SHARE (kW)
<b>ARIZONA PUBLIC SERVICE</b>				
<b>NUCLEAR-FUELED STEAM PLANT</b>				
Palo Verde	Wintersburg, Arizona	29.1%	3	1,086,300
<b>COAL-FUELED STEAM PLANTS</b>				
Four Corners	Farmington, New Mexico	100	3	560,000
Four Corners	Farmington, New Mexico	15	2	222,000
Cholla	Joseph City, Arizona	100	3	615,000
Navajo	Page, Arizona	14	3	315,000
			11	1,712,000
<b>GAS- OR OIL-FUELED STEAM PLANTS (b)</b>				
Ocotillo	Tempe, Arizona	100	2	220,000
Saguaro	Red Rock, Arizona	100	2	210,000
			4	430,000
<b>GAS- OR OIL-FUELED COMBUSTION TURBINES</b>				
Yucca	Yuma, Arizona	100	4	147,000
West Phoenix	Phoenix, Arizona	100	2	110,000
Ocotillo	Tempe, Arizona	100	2	110,000
Saguaro	Red Rock, Arizona	100	2	110,000
Douglas	Douglas, Arizona	100	1	16,000
			11	493,000
<b>GAS- OR OIL-FUELED COMBINED CYCLE PLANT</b>				
West Phoenix 1-3	Phoenix, Arizona	100	3	255,000
<b>HYDRO AND SOLAR GENERATION</b>				
		100	13	6,585
Total APS facilities				3,982,885
<b>PINNACLE WEST ENERGY CORPORATION</b>				
West Phoenix 4			1	112,000
<b>TOTAL GENERATION RESOURCES (c)</b>				
			46	4,094,885

(a) Includes leased generating plants.

(b) Excludes West Phoenix steam units (108,300 kW), which were removed from mothballs and placed in service for 2001 summer reliability.

(c) Consolidated accredited capacity.

**PINNACLE WEST ENERGY GENERATION EXPANSION PROGRAM** (as of December 31, 2001)

PLANT TYPE AND NAME	LOCATION	MW	EXPECTED IN-SERVICE DATES (a)
<b>NATURAL GAS-FUELED COMBINED CYCLE</b>			
Redhawk Unit 1	Arlington, Arizona	530	2002
Redhawk Unit 2	Arlington, Arizona	530	2002
Saguaro Unit 3	Red Rock, Arizona	80	2002
West Phoenix 5	Phoenix, Arizona	530	2003
Silverhawk (b)	Las Vegas, Nevada	570	2004
Redhawk Unit 3	Arlington, Arizona	530	2007
Redhawk Unit 4	Arlington, Arizona	530	2007
<b>TOTAL</b>		3,300	

(a) Our expansion plan will be sized to meet native load growth, cash flow and market conditions.

(b) Southern Nevada Water Authority has signed a participation agreement for 25% of the total project's 570 MW.

## APS SOURCE AND DISPOSITION OF ELECTRIC ENERGY AND FUEL MIX

year ended December 31,	2001	2000	1999	1998	1997	1996
<b>APS SOURCE OF ENERGY (MWh)</b>						
Steam generation						
Nuclear	8,384,724	8,840,745	8,848,660	8,805,876	8,588,632	8,392,319
Coal	12,538,085	12,470,732	11,837,782	11,466,081	11,128,183	10,415,420
Gas	1,390,286	1,195,084	857,282	589,037	412,355	269,390
Oil	133,000	28,372	5,913	6,829	6,600	2,657
Combustion turbines						
Gas	734,743	445,796	141,193	129,052	72,848	39,647
Oil	100,585	51,907	2,347	7,802	2,175	1,080
Combined cycle						
Gas	1,131,172	1,048,237	756,967	599,925	418,861	505,497
Oil	60	19,404	482	2,665	1,150	1,170
Hydro and solar	33,660	33,746	33,908	32,035	33,154	30,866
Total generation	24,446,315	24,134,023	22,484,534	21,639,302	20,663,958	19,658,046
Purchased power (a)						
Firm load	2,961,204	2,514,500	2,479,342	2,468,001	–	–
Marketing and trading	7,687,803	18,013,073	14,594,983	7,930,505	9,793,805	4,063,355
Total	10,649,007	20,527,573	17,074,325	10,398,506	9,793,805	4,063,355
Total source of energy	35,095,322	44,661,596	39,558,859	32,037,808	30,457,763	23,721,401
<b>APS DISPOSITION OF ENERGY (MWh)</b>						
Sales to ultimate customers	23,399,012	22,534,524	21,074,570	20,463,083	19,816,927	19,020,696
Sales for resale (a)	9,831,053	21,520,769	15,693,834	10,317,391	9,233,573	3,367,234
Losses and company use	1,865,257	606,303	2,790,455	1,257,334	1,407,263	1,333,471
Total disposition of energy	35,095,322	44,661,596	39,558,859	32,037,808	30,457,763	23,721,401
<b>APS ENERGY FUEL MIX (%)</b>						
Nuclear	23.9%	19.8%	22.4%	27.5%	28.2%	35.4%
Coal	35.7%	27.9%	29.9%	36.2%	36.5%	43.9%
Gas	9.3%	6.0%	4.4%	3.9%	3.0%	3.4%
Other (b)	0.8%	0.3%	0.1%	0.1%	0.1%	0.2%
Purchased power and interchange – net	30.3%	46.0%	43.2%	32.3%	32.2%	17.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

(a) Purchased power and sales for resale include interchange purchases and sales, respectively.

(b) "Other" includes oil, hydro and solar generation.