

In the
last two
years,
our peak
load
demand
has grown
15.3
percent.

In the next five years, load growth is projected to increase nearly 30 percent. Considering these factors, it is clear that carefully planned generation expansion which is consistent with our native load is a strategic investment. When completed, our new plants will provide us with a balanced fuel mix of nuclear, coal and natural gas. This balance allows us flexibility in times of spiking wholesale prices or power shortages.

Initial electric competition rules for Arizona were adopted under the assumption that the market would provide enough energy to keep prices low and supply plentiful. This hasn't been the case. We've seen deregulation fail – most notably in California.

In October 2001, we filed a plan with the Arizona Corporation Commission (ACC) requesting a variance from part of the ACC's electric competition rules. Under existing ACC rules, beginning in early 2003, all of the generation load required to meet the demand of APS customers must come from the wholesale market, with 50 percent coming from a competitive bidding process. These rules were approved more than two years ago and wholesale market liquidity has not developed as was envisioned.

Our filing supports a responsible transition to competition, while providing reliable power supplies to our customers at stable prices. It asks

for a phase-in of competitive bidding of nearly 25 percent over a seven-year period, and approval of a long-term power purchase agreement between Pinnacle West and APS. This doesn't change our 1999 Settlement Agreement. We will continue to meet our commitments under that agreement, including lowering customer prices each year through 2003.

In October 2001, we filed a request with the Federal Energy Regulatory Commission (FERC) to form WestConnect, a for-profit regional transmission organization (RTO) made up of APS and other Southwestern transmission owners. If approved, WestConnect will be based on policies and procedures developed over the last four years by its predecessor – DesertSTAR, a previously proposed non-profit RTO.

The for-profit governance structure is designed to motivate innovation, efficiency and creativity in the operation of the Western transmission grid. We believe its formation will preserve states' rights but encourage regional cooperation, while allowing us to retain our transmission assets.

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P L A N N I N G

PROJECTED GENERATION MIX, 2004



DIFFERENTIATING FACTOR:

We have planned for multiple circumstances by building a balanced fuel mix of nuclear, coal and natural gas. This mix allows us to remain flexible in the face of volatile wholesale markets and fuel prices.



- Coal 43%
- Nuclear 28%
- Natural Gas 29%