

RESULTS AND PERFORMANCE – A BETTER UNDERSTANDING

We have increased the type and extent of information we make available to investors to facilitate better understanding of our business performance and our financial results. The quality of our disclosure is a reflection of who we are and our attitude about the need to be open and clear about our business operations and their effects on our financial results. On our Web site – www.pinnaclewest.com – we provide considerable detail about our operating statistics and financial performance to complement our other reports.

All public companies will face tougher analysis and a demand for greater financial transparency to develop investor trust and confidence. Changes in accounting standards, clos-

er scrutiny by the SEC and rating agencies, and more rigor from investors and analysts seem inevitable. Such changes should result in more confidence in numbers reported by corporate America. We welcome this trend.

Since our power marketing and trading activities have contributed significantly to our bottom line in the last two years, we have expanded our disclosures to include more data on those operations. In addition to required disclosure in the financial statements and management's discussion of financial position and results of operations, some of the key data is explained below.

MARKETING AND TRADING GROSS MARGIN SUMMARY (a)

	2001	2000
(millions of dollars, before income taxes)		
REALIZED AND MARK-TO-MARKET COMPONENTS (b)		
Current period effects		
Realized margin on delivered commodities	\$ 79	\$ 54
Electricity	119	69
Generation sales other than native load		123
Other electricity marketing and trading	198	(9)
Total electricity	(14)	114
Other commodities	184	
Total realized margin		
Prior-period mark-to-market (gains) losses on contracts delivered during current period	(15)	(2)
Electricity	27	-
Other commodities		
Charge related to trading activities with Enron and its affiliates	(8)	-
	6	(2)
Subtotal	190	112
Total current period effects		
Change in mark-to-market gains (losses) for future period deliveries (c)	146	7
Electricity	(19)	7
Other commodities	127	14
Total future period effects	\$ 317	\$ 126
Total gross margin before income taxes		
BY COMMODITY SOLD OR TRADED	\$ 329	\$ 128
Electricity	(12)	(2)
Other commodities	\$ 317	\$ 126
Total gross margin before income taxes		
ACCUMULATED MARK-TO-MARKET GAINS (LOSSES) AT END OF YEAR (c)	\$ 138	\$ 11

Realized margins are cash gains or losses related to deliveries of commodity contracts in current period.

Due to high market prices in early 2001, sales of our generation to other utilities and power marketers contributed 43% of our realized marketing and trading margin.

Our mark-to-market value is substantially protected against future market price changes (c).

High and volatile market prices in 2001 enabled our marketing and trading activities to produce over 70% higher contribution than in 2000.

58% of our marketing and trading margin was related to commodity contracts delivered during 2001.

When commodity contracts are delivered, gains or losses previously recorded through mark-to-market are reversed.

Accumulated gains at the end of 2001 are expected to be realized as follows: 31% in 2002; 33% in 2003-2004; and the remainder thereafter.

- (a) Gross margin equals electric operating revenues minus purchased power and fuel expenses, before income taxes.
- (b) Generally accepted accounting principles (GAAP) require that the book value of certain contracts for sales or purchases of commodities be adjusted to reflect changes in their fair value caused by changes in prevailing market prices. This process is called mark-to-market. Mark-to-market represents non-cash gains or losses.
- (c) Essentially all of our marketing and trading activities are structured activities, meaning our portfolio of forward sales positions is hedged with a portfolio of forward purchases that protects the economic value of the sales transactions against market price changes.