

**ARIZONA PUBLIC SERVICE COMPANY  
SELECTED FINANCIAL DATA**

	December 31,		
	2004	2003	2002
<b>OPERATING STATISTICS</b>			
Electric revenues (thousands)	\$ 2,197,121	\$ 2,104,931	\$ 1,936,166
Sales (MWh)	57,214,618	44,799,324	29,057,497
Employees (year-end) (a)	6,203	6,155	6,110
Average annual use per residential customer (kWh)	13,419	13,457	13,025
<b>FINANCIAL STATISTICS (b)</b>			
Cash interest coverage	3.65x	4.71x	6.92x
Non-cash income as percent of earnings	19.4%	26.0%	20.4%
Net cash flow as percent of capital expenditures	45.2%	91.7%	130.6%
<b>CAPITALIZATION RATIOS (year-end)</b>			
Long-term debt excluding current maturities	45.8%	44.2%	50.6%
Current maturities of long-term debt	9.1	10.1	0.1
Short-term debt	-	-	-
Total debt	54.9	54.3	50.7
Preferred stock	-	-	-
Common stock equity	45.1	45.7	49.3
Total capitalization	100.0%	100.0%	100.0%
Debt adjusted for Palo Verde Unit 2 sale and leaseback	58.0%	57.7%	54.9%

(a) Includes APS, Parent Company and marketing and trading employees who support the regulated retail electric business.

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

**APS HISTORICAL GROWTH RATES**

	December 31,		
	2004	2003	2002
Electric revenues			
Total	4.4%	8.7%	(17.7)%
Retail	2.4%	3.9%	(1.2)%
Peak load			
Actual	1.1%	9.1%	2.0%
Weather-adjusted	6.3%	5.2%	6.3%
Electric sales			
Total	27.7%	54.2%	(12.6)%
Retail sales	3.2%	5.1%	(0.2)%
Customers (average)	3.7%	3.3%	3.1%
Employees (year-end)	0.8%	(0.9)%	(3.4)%

## December 31,

2001	2000	1999
\$ 2,352,098	\$ 2,934,142	\$ 2,068,848
33,230,065	44,055,293	36,768,404
6,322	6,110	6,002
13,312	13,053	12,191
5.96x	5.68x	5.10x
14.4%	11.9%	15.2%
105.6%	108.5%	128.7%
44.3%	42.4%	48.3%
2.9	5.9	2.8
3.9	1.9	0.9
51.1	50.2	52.0
-	-	-
48.9	49.8	48.0
100.0%	100.0%	100.0%
55.4%	54.9%	56.8%

## December 31,

## Compound Annual Growth Rates

2001	2000	1999	5 Years 1999-2004	10 Years 1994-2004
(19.8)%	41.8%	7.7%	1.2%	3.1%
2.8%	5.8%	3.7%	2.7%	2.8%
3.8%	11.0%	(2.7)%	5.3%	4.3%
(2.7)%	11.0%	4.1%	5.1%	4.8%
(24.6)%	19.8%	19.5%	9.2%	11.0%
3.8%	6.9%	3.0%	3.8%	3.8%
3.7%	4.1%	4.2%	3.6%	3.8%
3.5%	1.8%	2.6%	0.3%	(0.7)%

**ARIZONA PUBLIC SERVICE COMPANY**  
**STATEMENTS OF INCOME** *(dollars in thousands)*

	Year Ended December 31,		
	2004	2003	2002
<b>ELECTRIC OPERATING REVENUES</b>			
Regulated electricity segment	\$ 2,051,602	\$ 1,999,390	\$ 1,902,112
Marketing and trading segment	145,519	105,541	34,054
Total	<u>2,197,121</u>	<u>2,104,931</u>	<u>1,936,166</u>
<b>PURCHASED POWER AND FUEL COSTS</b>			
Regulated electricity segment	612,300	606,251	438,141
Marketing and trading segment	150,954	97,180	32,662
Total	<u>763,254</u>	<u>703,431</u>	<u>470,803</u>
<b>OPERATING REVENUES LESS PURCHASED POWER AND FUEL COSTS</b>	<u>1,433,867</u>	<u>1,401,500</u>	<u>1,465,363</u>
<b>OTHER OPERATING EXPENSES</b>			
Operations and maintenance	540,277	513,604	495,845
Depreciation and amortization	336,648	389,240	399,640
Income taxes	113,696	91,646	132,953
Other taxes	114,265	108,852	107,925
Total	<u>1,104,886</u>	<u>1,103,342</u>	<u>1,136,363</u>
<b>OPERATING INCOME</b>	<u>328,981</u>	<u>298,158</u>	<u>329,000</u>
<b>OTHER INCOME (DEDUCTIONS)</b>			
Income taxes	(6,334)	4,792	6,148
Allowance for equity funds used during construction	4,885	14,240	-
Other income	30,593	20,277	5,149
Other expense	(13,816)	(12,962)	(19,338)
Total	<u>15,328</u>	<u>26,347</u>	<u>(8,041)</u>
<b>INCOME BEFORE INTEREST DEDUCTIONS</b>	<u>344,309</u>	<u>324,505</u>	<u>320,959</u>
<b>INTEREST DEDUCTIONS</b>			
Interest on long-term debt	140,556	142,706	128,462
Interest on short-term borrowings	6,427	4,904	5,416
Debt discount, premium and expense	4,854	3,337	2,888
Capitalized interest	(7,155)	(7,379)	(15,150)
Total	<u>144,682</u>	<u>143,568</u>	<u>121,616</u>
<b>INCOME BEFORE EXTRAORDINARY CHARGE AND CUMULATIVE EFFECT ADJUSTMENT</b>	<u>199,627</u>	<u>180,937</u>	<u>199,343</u>
Extraordinary charge - net of income taxes of \$94,115	-	-	-
Cumulative effect of change in accounting for derivatives - net of income taxes of \$9,892	-	-	-
<b>NET INCOME</b>	<u>199,627</u>	<u>180,937</u>	<u>199,343</u>
Preferred stock dividend requirements	-	-	-
<b>EARNINGS FOR COMMON STOCK</b>	<u>\$ 199,627</u>	<u>\$ 180,937</u>	<u>\$ 199,343</u>

## Year Ended December 31,

	2001	2000	1999
	\$ 1,984,305	\$ 2,538,750	\$ 1,914,722
	367,793	395,392	154,126
	<u>2,352,098</u>	<u>2,934,142</u>	<u>2,068,848</u>
	649,405	1,065,596	432,844
	132,544	267,032	136,522
	<u>781,949</u>	<u>1,332,628</u>	<u>569,366</u>
	<u>1,570,149</u>	<u>1,601,514</u>	<u>1,499,482</u>
	465,561	430,092	437,125
	420,893	425,479	416,331
	183,640	199,977	165,629
	101,077	99,730	96,579
	<u>1,171,171</u>	<u>1,155,278</u>	<u>1,115,664</u>
	<u>398,978</u>	<u>446,236</u>	<u>383,818</u>
	504	4,312	32,614
	-	-	-
	20,207	9,690	13,861
	<u>(20,790)</u>	<u>(20,547)</u>	<u>(25,618)</u>
	<u>(79)</u>	<u>(6,545)</u>	<u>20,857</u>
	<u>398,899</u>	<u>439,691</u>	<u>404,675</u>
	126,118	134,431	132,676
	4,407	7,455	8,272
	2,650	2,105	2,084
	<u>(14,964)</u>	<u>(10,894)</u>	<u>(6,679)</u>
	<u>118,211</u>	<u>133,097</u>	<u>136,353</u>
	280,688	306,594	268,322
	-	-	(139,885)
	<u>(15,201)</u>	<u>-</u>	<u>-</u>
	<u>265,487</u>	<u>306,594</u>	<u>128,437</u>
	-	-	1,016
	<u>\$ 265,487</u>	<u>\$ 306,594</u>	<u>\$ 127,421</u>

**ARIZONA PUBLIC SERVICE COMPANY**  
**BALANCE SHEETS** *(dollars in thousands)*

	December 31,		
	2004	2003	2002
<b>ASSETS</b>			
<b>UTILITY PLANT</b>			
Electric plant in service	\$ 9,106,429	\$ 8,811,893	\$ 8,293,638
Plant held for future use	13,978	14,140	5,493
Subtotal	9,120,407	8,826,033	8,299,131
Less accumulated depreciation and amortization	3,266,181	3,089,645	2,885,798
Subtotal	5,854,226	5,736,388	5,413,333
Construction work in progress	249,243	187,478	329,089
Intangible assets, net of accumulated amortization	103,701	94,181	93,259
Nuclear fuel, net of accumulated amortization	51,188	52,011	51,124
Net utility plant	6,258,358	6,070,058	5,886,805
<b>INVESTMENTS AND OTHER ASSETS</b>			
Notes receivable from Pinnacle West Energy	498,489	497,865	-
Decommissioning trust accounts	267,700	240,645	194,440
Assets from risk management and trading activities - long-term	20,123	18,001	31,622
Other assets	61,364	64,119	57,380
Total investments and other assets	847,676	820,630	283,442
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	49,575	42,152	42,549
Investment in debt securities	181,175	69,850	-
Accounts receivable			
Service customers	214,487	190,884	136,945
Other	63,131	67,540	202,597
Allowance for doubtful accounts	(3,444)	(3,743)	(1,341)
Accrued utility revenues	76,154	71,501	72,915
Materials and supplies (at average cost)	83,893	80,682	79,985
Fossil fuel (at average cost)	20,506	28,360	28,185
Deferred income taxes	-	-	4,094
Assets from risk management and trading activities	70,430	52,448	39,616
Other	10,187	6,969	7,945
Total current assets	766,094	606,643	613,490
<b>DEFERRED DEBITS</b>			
Regulatory assets	135,051	132,349	241,045
Unamortized debt issue costs	21,832	19,797	16,696
Other	69,541	73,056	80,760
Total deferred debits	226,424	225,202	338,501
<b>TOTAL ASSETS</b>	<b>\$ 8,098,552</b>	<b>\$ 7,722,533</b>	<b>\$ 7,122,238</b>

## December 31,

	2001	2000	1999
	\$ 7,934,181	\$ 7,605,992	\$ 7,378,814
	1,025	32,695	32,369
	7,935,206	7,638,687	7,411,183
	2,739,957	2,580,810	2,498,097
	5,195,249	5,057,877	4,913,086
	321,305	245,749	184,764
	83,135	94,393	93,384
	49,282	47,389	49,113
	5,648,971	5,445,408	5,240,347
	-	-	-
	202,036	204,716	175,733
	2,082	32,955	-
	108,159	77,903	45,336
	312,277	315,574	221,069
	16,821	2,609	7,477
	-	-	-
	182,749	422,012	201,704
	55,016	25,089	34,850
	(3,349)	(2,380)	(1,538)
	76,131	74,566	72,919
	81,215	71,966	69,977
	27,023	19,405	21,869
	-	5,793	8,163
	10,097	17,506	-
	10,172	6,352	18,273
	455,875	642,918	433,694
	342,383	469,867	613,729
	13,163	12,805	15,172
	42,789	37,928	79,714
	398,335	520,600	708,615
	\$ 6,815,458	\$ 6,924,500	\$ 6,603,725

**ARIZONA PUBLIC SERVICE COMPANY**  
**BALANCE SHEETS** *(dollars in thousands)*

	December 31,		
	2004	2003	2002
<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	860,196	830,569	819,632
Accumulated other comprehensive income (loss)			
Minimum pension liability adjustment	(71,087)	(57,158)	(61,487)
Derivative instruments	18,327	5,253	(23,799)
Common stock equity	2,232,402	2,203,630	2,159,312
Long-term debt less current maturities	2,267,094	2,135,606	2,217,340
Total capitalization	4,499,496	4,339,236	4,376,652
<b>CURRENT LIABILITIES</b>			
Commercial paper	-	-	-
Current maturities of long-term debt	451,247	487,067	3,503
Accounts payable	215,076	131,383	118,133
Accrued taxes	292,521	90,474	82,557
Accrued interest	33,332	42,702	42,608
Customer deposits	51,804	45,481	39,865
Deferred income taxes	9,057	631	-
Liabilities from risk management and trading activities	34,292	58,138	59,773
Other	91,441	60,008	51,820
Total current liabilities	1,178,770	915,884	398,259
<b>DEFERRED CREDITS AND OTHER</b>			
Deferred income taxes	1,108,571	1,257,671	1,225,552
Regulatory liabilities	506,646	468,694	26,264
Liability for asset retirements and removals	251,612	234,440	600,431
Pension liability	203,668	160,639	156,442
Unamortized gain - sale of utility plant	50,333	54,909	59,484
Customer advances for construction	59,185	52,783	45,513
Liabilities from risk management and trading activities - long-term	13,124	4,502	36,678
Other	227,147	233,775	196,963
Total deferred credits and other	2,420,286	2,467,413	2,347,327
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 8,098,552</b>	<b>\$ 7,722,533</b>	<b>\$ 7,122,238</b>

## December 31,

	2001	2000	1999
\$	178,162	\$ 178,162	\$ 178,162
	1,246,804	1,246,804	1,246,804
	790,289	694,802	558,208
	(966)	-	-
	(63,599)	-	-
	2,150,690	2,119,768	1,983,174
	1,949,074	1,806,908	1,997,400
	4,099,764	3,926,676	3,980,574
	171,162	82,100	38,300
	125,451	250,266	114,711
	98,959	267,999	170,662
	107,595	106,515	62,858
	41,043	39,488	32,299
	28,664	24,498	24,682
	3,244	-	-
	21,840	37,179	-
	18,798	81,325	25,414
	616,756	889,370	468,926
	1,023,079	1,110,437	1,178,085
	27,355	28,022	45,263
	589,725	574,891	524,418
	30,247	62,193	80,566
	64,060	68,636	73,212
	69,293	40,694	38,150
	95,159	14,711	-
	200,020	208,870	214,531
	2,098,938	2,108,454	2,154,225
\$	6,815,458	\$ 6,924,500	\$ 6,603,725

**ARIZONA PUBLIC SERVICE COMPANY**  
**STATEMENTS OF CASH FLOWS** *(dollars in thousands)*

	Year Ended December 31,		
	2004	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 199,627	\$ 180,937	\$ 199,343
Items not requiring cash			
Depreciation and amortization	336,648	389,240	399,640
Nuclear fuel amortization	30,446	28,757	31,185
Allowance for equity funds used during construction	(4,885)	(14,240)	-
Deferred income taxes	(140,855)	(1,087)	206,767
Change in derivative mark-to-market valuations	(15,807)	2,339	2,957
Extraordinary charge, net of tax	-	-	-
Cumulative effect of change in accounting, net of tax	-	-	-
Changes in certain current assets and liabilities:			
Accounts receivable	(19,493)	83,692	(102,450)
Accrued utility revenues	(4,653)	1,414	3,216
Materials, supplies and fossil fuel	4,643	(872)	68
Other current assets	(2,529)	976	2,227
Accounts payable	88,937	17,961	15,372
Accrued taxes	202,047	7,917	(25,038)
Accrued interest	(9,370)	94	1,565
Other current liabilities	37,756	13,804	44,224
Increase in regulatory assets	(2,702)	(20,971)	(11,029)
Change in risk management and trading - assets	(6,845)	12,551	(22,570)
Change in risk management and trading - liabilities	8,879	-	-
Change in customer advances	6,402	7,270	(23,780)
Change in pension liability	22,361	17,395	7,016
Change in other long-term assets	(27,994)	(5,349)	(24,502)
Change in other long-term liabilities	15,525	55,296	301
Net cash flow provided by operating activities	<b>718,138</b>	<b>777,124</b>	<b>704,512</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Capital expenditures	(513,677)	(426,260)	(490,156)
Capitalized interest	(7,155)	(7,379)	(15,150)
Purchases of investment securities	(871,810)	(855,660)	-
Proceeds from sale of investment securities	760,485	785,810	-
Loan to Pinnacle West Energy	-	(497,865)	-
Other	(805)	(8,296)	44,918
Net cash flow used for investing activities	<b>(632,962)</b>	<b>(1,009,650)</b>	<b>(460,388)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issuance of long-term debt	478,140	491,654	459,926
Short-term borrowings	-	-	(171,162)
Common equity infusion from Pinnacle West	-	-	-
Dividends paid on common stock	(170,000)	(170,000)	(170,000)
Dividends paid on preferred stock	-	-	-
Repayment of preferred stock	-	-	-
Repayment and reacquisition of long-term debt	(385,893)	(89,525)	(337,160)
Net cash flow provided by (used for) financing activities	<b>(77,753)</b>	<b>232,129</b>	<b>(218,396)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>7,423</b>	<b>(397)</b>	<b>25,728</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>42,152</b>	<b>42,549</b>	<b>16,821</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 49,575</b>	<b>\$ 42,152</b>	<b>\$ 42,549</b>

## Year Ended December 31,

	2001	2000	1999
\$	265,487	\$ 306,594	\$ 128,437
	420,893	425,479	416,331
	28,362	30,083	31,371
	-	-	-
	(26,516)	(65,726)	(83,753)
	(100,030)	(11,752)	(975)
	-	-	139,885
	15,201	-	-
	302,283	(209,705)	(9,723)
	(1,565)	(1,647)	(5,179)
	(16,867)	475	(8,794)
	(3,820)	11,921	(3,288)
	(190,141)	101,558	22,992
	1,080	43,657	3,031
	1,555	7,189	1,081
	(58,361)	101,685	8,193
	(17,516)	(14,138)	(12,262)
	10,730	13,181	-
	-	-	-
	28,599	2,544	6,699
	(35,244)	(18,373)	(13,849)
	(13,967)	45,548	(1,891)
	(5,088)	(44,902)	9,653
	605,075	723,671	627,959
	(465,360)	(464,368)	(322,547)
	(14,964)	(10,894)	(6,679)
	-	-	-
	-	-	-
	-	-	-
	(41,926)	(72,189)	(8,173)
	(522,250)	(547,451)	(337,399)
	396,072	300,000	392,952
	89,062	43,800	(140,530)
	-	-	50,000
	(170,000)	(170,000)	(170,000)
	-	-	(1,393)
	-	-	(96,499)
	(383,747)	(354,888)	(323,171)
	(68,613)	(181,088)	(288,641)
	14,212	(4,868)	1,919
	2,609	7,477	5,558
\$	16,821	\$ 2,609	\$ 7,477

**ARIZONA PUBLIC SERVICE COMPANY**  
**LONG-TERM DEBT SCHEDULE** *(dollars in thousands)*

	December 31,					
	2004	2003	2002	2001	2000	1999
<b>FIRST MORTGAGE BONDS</b>						
5.75% series due Sept. 15, 2000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 100,000
8.125% series due March 15, 2002	-	-	-	125,000	125,000	125,000
6.625% series due March 1, 2004	-	80,000	80,000	80,000	80,000	80,000
10.25% series due May 15, 2020	-	-	-	-	-	100,550
9.5% series due April 15, 2021	-	-	-	-	45,140	45,140
9% series due Dec. 15, 2021	-	-	-	-	72,370	72,370
7.25% series due Aug. 1, 2023	-	-	54,150	54,150	70,650	70,650
8.75% series due Jan. 15, 2024	-	-	-	121,668	121,668	121,668
8% series due Feb. 1, 2025	-	-	33,075	33,075	33,075	47,075
5.5% series due Aug. 15, 2028	-	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
Total first mortgage bonds	-	259,000	346,225	592,893	726,903	941,453
<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
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	16,870	16,870
Due April 1, 2034	20,000	20,000	20,000	20,000	20,000	20,000
Due June 1, 2034	179,000	-	-	-	-	-
Less securities held by trustee related to certain pollution control indebtedness	-	-	-	-	-	(1,236)
Total pollution control bonds	\$ 565,860	\$ 386,860	\$ 386,860	\$ 476,860	\$ 476,860	\$ 475,624

**ARIZONA PUBLIC SERVICE COMPANY**  
**LONG-TERM DEBT SCHEDULE** *(dollars in thousands)*

	December 31,					
	2004	2003	2002	2001	2000	1999
<b>OTHER LONG-TERM DEBT</b>						
5.375% collateralized loan due 2000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,000
Floating rate note due Nov. 15, 2001	-	-	-	-	250,000	250,000
Term loans due June 18, 2003	-	-	-	-	-	50,000
5.875% unsecured note due Feb. 15, 2004	-	125,000	125,000	125,000	125,000	125,000
6.25% unsecured note due Jan. 15, 2005	100,000	100,000	100,000	100,000	100,000	100,000
7.625% unsecured note due Aug. 1, 2005	300,000	300,000	300,000	300,000	300,000	-
6.75% senior notes due Nov. 15, 2006	83,695	83,695	83,695	83,695	83,695	83,695
6.375% senior notes due Oct. 15, 2011	400,000	400,000	400,000	400,000	-	-
6.50% senior notes due Mar. 1, 2012	375,000	375,000	375,000	-	-	-
5.80% unsecured note due June 30, 2014	300,000	-	-	-	-	-
6.00% unsecured note due Dec. 31, 2014	1,900	-	-	-	-	-
4.65% senior notes due May 15, 2015	300,000	300,000	-	-	-	-
10% debentures due Jan. 31, 2025	-	-	-	-	-	75,000
5.05% pollution control bond with senior notes due May 1, 2029	90,000	90,000	90,000	-	-	-
5.625% senior notes due May 15, 2033	200,000	200,000	-	-	-	-
Capitalized lease obligation	9,854	11,749	20,400	1,343	709	7,199
Total other long-term debt	<u>2,160,449</u>	<u>1,985,444</u>	<u>1,494,095</u>	<u>1,010,038</u>	<u>859,404</u>	<u>700,894</u>
<b>UNAMORTIZED DISCOUNT AND PREMIUM</b>	<b>(7,968)</b>	<b>(8,631)</b>	<b>(6,337)</b>	<b>(5,266)</b>	<b>(5,993)</b>	<b>(5,860)</b>
Total long-term debt	<u>2,718,341</u>	<u>2,622,673</u>	<u>2,220,843</u>	<u>2,074,525</u>	<u>2,057,174</u>	<u>2,112,111</u>
<b>LESS CURRENT MATURITIES</b>						
First mortgage bonds	-	(80,000)	-	(125,000)	-	(100,000)
Senior notes	(400,000)	(125,000)	-	-	-	-
Collateralized loan	-	-	-	-	-	(10,000)
Floating rate note	-	-	-	-	(250,000)	-
Pollution control bonds	(49,520)	-	-	-	-	-
Capitalized lease obligation	(1,727)	(1,727)	(3,503)	(451)	(266)	(4,711)
Total current maturities	<u>(451,247)</u>	<u>(206,727)</u>	<u>(3,503)</u>	<u>(125,451)</u>	<u>(250,266)</u>	<u>(114,711)</u>
<b>LONG-TERM DEBT LESS</b>						
<b>CURRENT MATURITIES</b>	<u>\$ 2,267,094</u>	<u>\$ 2,415,946</u>	<u>\$ 2,217,340</u>	<u>\$ 1,949,074</u>	<u>\$ 1,806,908</u>	<u>\$ 1,997,400</u>
<b>WEIGHTED-AVERAGE INTEREST</b>						
<b>RATE ON LONG-TERM DEBT</b>						
<b>AT YEAR-END</b>	5.13%	5.48%	5.72%	6.54%	6.50%	6.37%

**ARIZONA PUBLIC SERVICE COMPANY  
ELECTRIC REVENUE ANALYSIS**

	Year Ended December 31,			
	2004		2003	
<b>ELECTRIC REVENUES (dollars in thousands)</b>				
<b>REGULATED ELECTRICITY SEGMENT</b>				
Retail sales				
Residential	\$ 983,525	44.8%	\$ 960,303	45.6%
Commercial	830,419	37.8	811,642	38.5
Industrial	135,982	6.2	132,146	6.3
Irrigation	1,900	0.1	1,898	0.1
Other	12,438	0.6	11,818	0.6
Total retail	1,964,264	89.5	1,917,807	91.1
Wholesale revenue on delivered electricity				
Traditional contracts	16,545	0.8	15,301	0.7
Retail load hedge management	-	-	-	-
Transmission for others	45,146	2.0	41,379	2.0
Other miscellaneous services	25,647	1.2	24,903	1.2
Total regulated electricity	2,051,602	93.5	1,999,390	95.0
<b>MARKETING AND TRADING SEGMENT</b>				
Delivered marketing and trading				
Generation other than Native Load	73,596	3.3	87,832	4.2
Realized margin on electricity trading	62,683	2.8	7,469	0.3
Other delivered electricity	4,084	0.2	15,082	0.7
Total delivered marketing and trading	140,363	6.3	110,383	5.2
Other marketing and trading (a)				
Realized margins on delivered commodities other than electricity	1,342	0.1	(696)	-
Prior-period mark-to-market (gains) losses on contracts delivered during current period	2,852	0.1	172	-
Change in mark-to-market for future-period deliveries	962	-	(4,318)	(0.2)
Total other marketing and trading	5,156	0.2	(4,842)	(0.2)
Total marketing and trading	145,519	6.5	105,541	5.0
Total electric revenues	\$ 2,197,121	100.0%	\$ 2,104,931	100.0%
<b>INCREASE (DECREASE) VS. PRIOR YEAR</b>				
Retail revenues		2.4%		3.9%
Regulated electricity revenues		2.6%		5.1%
Marketing and trading revenues		37.9%		209.9%
Total electric revenues		4.4%		8.7%
<b>AVERAGE RETAIL REVENUE PER kWh</b>				
Residential	8.53¢		8.61¢	
Commercial	7.36¢		7.40¢	
Industrial	5.67¢		5.69¢	
Irrigation	7.35¢		7.13¢	
Total retail	7.75¢		7.81¢	
<b>REVENUE PER AVERAGE CUSTOMER (dollars)</b>				
Residential	\$ 1,145		\$ 1,159	
Commercial and industrial	\$ 9,136		\$ 9,274	

(a) Marketing and trading was moved to APS from the Parent Company in February 2003 consistent with regulatory policy changes.

## Year Ended December 31,

2002		2001		2000		1999					
\$	912,245	47.1%	\$	914,711	38.9%	\$	880,468	30.0%	\$	805,173	38.9%
	795,999	41.1		805,326	34.2		771,909	26.3		733,038	35.4
	123,508	6.4		133,663	5.7		146,088	5.0		159,329	7.7
	2,257	0.1		1,975	0.1		6,498	0.2		7,374	0.4
	11,554	0.6		11,663	0.5		10,719	0.4		11,322	0.6
	1,845,563	95.3		1,867,338	79.4		1,815,682	61.9		1,716,236	83.0
	8,616	0.5		73,305	3.1		120,618	4.1		60,486	2.9
	-	-		-	-		560,493	19.1		108,153	5.2
	29,803	1.5		25,971	1.1		14,765	0.5		11,348	0.6
	18,130	0.9		17,691	0.8		27,192	0.9		18,499	0.9
	1,902,112	98.2		1,984,305	84.4		2,538,750	86.5		1,914,722	92.6
	20,527	1.1		148,316	6.3		115,476	3.9		29,551	1.4
	-	-		60,224	2.5		55,631	1.9		8,565	0.4
	13,527	0.7		91,499	3.9		221,322	7.6		112,552	5.5
	34,054	1.8		300,039	12.7		392,429	13.4		150,668	7.3
	-	-		(31,645)	(1.3)		(8,789)	(0.3)		2,483	0.1
	-	-		14,303	0.6		(2,079)	(0.1)		-	-
	-	-		85,096	3.6		13,831	0.5		975	-
	-	-		67,754	2.9		2,963	0.1		3,458	0.1
	34,054	1.8		367,793	15.6		395,392	13.5		154,126	7.4
\$	1,936,166	100.0%	\$	2,352,098	100.0%	\$	2,934,142	100.0%	\$	2,068,848	100.0%
	(1.2)%		2.8%		5.8%		3.7%				
	(4.1)%		(21.8)%		32.6%		10.0%				
	(90.7)%		(7.0)%		156.5%		(14.4)%				
	(17.7)%		(19.8)%		41.8%		7.7%				
	8.73¢		8.85¢		9.00¢		9.18¢				
	7.52¢		7.67¢		7.67¢		7.68¢				
	5.63¢		5.49¢		5.82¢		6.22¢				
	7.06¢		7.35¢		7.46¢		7.40¢				
	7.90¢		7.98¢		8.06¢		8.14¢				
\$	1,138		\$	1,178		\$	1,175		\$	1,119	
\$	9,297		\$	9,698		\$	9,894		\$	10,051	

**ARIZONA PUBLIC SERVICE COMPANY  
ELECTRIC SALES ANALYSIS**

	Year Ended December 31,			
	2004		2003	
<b>ELECTRIC SALES (MWh)</b>				
<b>REGULATED ELECTRICITY SEGMENT</b>				
Retail sales				
Residential	11,527,402	20.1%	11,147,195	24.9%
Commercial	11,289,523	19.7	10,961,417	24.5
Industrial	2,397,916	4.2	2,322,074	5.2
Irrigation	25,865	0.1	26,626	0.1
Other	112,617	0.2	104,993	0.2
Total retail	<b>25,353,323</b>	<b>44.3</b>	24,562,305	54.9
Wholesale electricity delivered				
Traditional contracts	709,128	1.2	499,949	1.1
Retail load hedge management	2,732,296	4.8	1,093,846	2.4
Total regulated electricity	<b>28,794,747</b>	<b>50.3</b>	26,156,100	58.4
<b>MARKETING AND TRADING SEGMENT (a)</b>				
Delivered marketing and trading:				
Generation sales other than Native Load	1,732,942	3.0	2,146,271	4.8
Electricity trading	26,569,199	46.5	16,172,102	36.1
Other delivered electricity	117,730	0.2	324,851	0.7
Total delivered marketing and trading	<b>28,419,871</b>	<b>49.7</b>	18,643,224	41.6
Total electric sales	<b>57,214,618</b>	<b>100.0%</b>	44,799,324	100.0%
<b>INCREASE (DECREASE) VS. PRIOR YEAR</b>				
Retail sales	3.2%		5.1%	
Regulated electricity sales	10.1%		(4.4)%	
Delivered marketing and trading sales	52.4%		997.6%	
Total electric sales	27.7%		54.2%	
<b>ANNUAL USE PER AVERAGE CUSTOMER (kWh)</b>				
Residential	13,418		13,457	
Commercial and industrial	129,392		130,529	

(a) Marketing and trading was moved to APS from the Parent Company in February 2003 consistent with regulatory policy changes.

## Year Ended December 31,

2002		2001		2000		1999	
10,443,820	35.9%	10,334,860	31.1%	9,780,680	22.2%	8,774,822	23.9%
10,589,065	36.4	10,504,044	31.6	10,057,707	22.8	9,543,853	26.0
2,192,958	7.6	2,433,438	7.3	2,511,292	5.7	2,561,349	7.0
31,964	0.1	26,860	0.1	87,073	0.2	99,669	0.3
103,948	0.4	99,810	0.3	97,772	0.2	94,877	0.2
23,361,755	80.4	23,399,012	70.4	22,534,524	51.1	21,074,570	57.4
473,699	1.6	1,213,704	3.7	1,610,032	3.7	1,421,522	3.9
3,523,478	12.1	3,039,905	9.1	6,673,658	15.2	630,945	1.7
27,358,932	94.1	27,652,621	83.2	30,818,214	70.0	23,127,037	63.0
1,272,295	4.4	1,387,860	4.2	1,494,299	3.4	1,267,349	3.4
-	-	3,763,314	11.3	9,259,054	21.0	5,679,023	15.4
426,270	1.5	426,270	1.3	2,483,726	5.6	6,694,995	18.2
1,698,565	5.9	5,577,444	16.8	13,237,079	30.0	13,641,367	37.0
29,057,497	100.0%	33,230,065	100.0%	44,055,293	100.0%	36,768,404	100.0%
(0.2)%		3.8%		6.9%		3.0%	
(1.1)%		(10.3)%		33.3%		5.7%	
(69.5)%		(57.9)%		(3.0)%		53.2%	
(12.6)%		(24.6)%		19.8%		19.5%	
13,025		13,312		13,053		12,191	
129,241		133,625		135,468		136,349	

**APS CUSTOMER DATA**

	Year Ended December 31,					
	2004	2003	2002	2001	2000	1999
<b>CUSTOMERS – AVERAGE</b>						
Residential	859,069	828,366	801,801	776,339	749,285	719,774
Commercial	102,393	98,427	95,575	93,499	89,539	85,616
Industrial	3,390	3,340	3,325	3,320	3,243	3,165
Irrigation	339	341	346	366	412	798
Other	993	988	982	1,013	934	917
Total retail	966,184	931,462	902,029	874,537	843,413	810,270
Sales for resale	81	66	67	66	67	69
Total customers	966,265	931,528	902,096	874,603	843,480	810,339
<b>INCREASE OVER PRIOR YEAR</b>	3.7%	3.3%	3.1%	3.7%	4.1%	4.2%

**RATE REGULATION****STATE REGULATION**

The Arizona Corporation Commission (ACC) regulates APS' retail electric rates and its issuance of securities. The ACC also must approve any transfer of APS' property used to provide retail electric service and must approve or receive prior notification of certain transactions between APS, Pinnacle West and their respective affiliates.

**ACC Organization**

The ACC consists of five elected commissioners with staggered terms. The terms are four years each, with a limit of two consecutive terms in office. Mid-term vacancies (due to resignation, etc.) are filled by appointment of the Governor to serve until the next general election.

Commissioner	Commissioner Since	Current Term Expires
Jeff Hatch-Miller (Rep.) (Chairman)	January 2003	January 2009
Michael Gleason (Rep.)	January 2003	January 2009
Kristin Mayes (Rep.)	October 2003	January 2007
William Mundell (Rep.)	June 1999	January 2009
Marc Spitzer (Rep.)	January 2001	January 2007

**Electric Restructuring**

The electric utility industry has undergone significant regulatory change in the last few years regarding competition in the sale of electricity and related services. However, many states, including Arizona, have reexamined retail electric competition.

As of January 1, 2001, all of APS' retail customers were eligible to choose alternate energy suppliers. However, there are currently no active retail competitors offering unbundled energy or other utility

services to APS' customers. As a result, APS cannot predict when, and the extent to which, additional competitors will re-enter APS' service territory. Also, regulatory developments and legal challenges to the rules have raised considerable uncertainty about the status and pace of retail electric competition and of electric restructuring in Arizona.

**Test Period**

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

**Adjustment Mechanisms**

Beginning April 1, 2005, APS will implement a power supply adjuster (PSA) for recovery of variations in purchased power and fuel costs. APS' actual costs for purchased power and fuel will be compared with the amount included in retail base rates; subject to certain limits and restrictions, differences will be deferred for future recovery or refund. Temporary net under-recoveries (or over-recoveries) resulting from application of the PSA will be recognized as a deferred asset (or deferred liability) with an offsetting amount recognized in purchased power and fuel expense.

Between April 1989 and April 2005, APS did not have an adjustment mechanism for fuel and purchased power costs. Changes in fuel and purchased power costs were reflected in earnings for the period in which they were incurred and were addressed in general rate cases.

APS has certain other adjustment mechanisms for changes in costs related to transmission, complying with the ACC's 1999 electric competition rules, demand-side management and energy efficiency programs.

## RATE REGULATION (CONTINUED)

### Competitive Power Procurement

In March 2003, the ACC issued its "Track B" Order, which required investor-owned utilities subject to its jurisdiction to solicit competitive bids for certain estimated capacity and energy requirements beginning July 2003. The Track B Order also contains the requirement that each utility initiate a secondary procurement protocol that establishes the processes it may use to obtain any power it needs to purchase in addition to that acquired as a result of the bidding process.

### RETAIL RATE CASES AND DECISIONS

#### 2004 Settlement Agreement

In March 2005, the ACC voted to approve the 2004 Settlement Agreement among APS and a substantial majority of the parties to APS' general rate case that was filed in June 2003. Major provisions of the Agreement include:

- A rate increase of 4.21% effective April 1, 2005
- Transfer of Pinnacle West Energy's Arizona power plants to APS
- A regulatory disallowance of \$148 million pretax
- A power supply adjuster to recover variations in future fuel and purchased power costs
- A significant increase in the company's commitment to renewable resources and energy efficiency programs

#### 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 annual

electricity price decreases in 1999 through 2003 totaling 7.5% for most retail customers; unbundled tariffs; and parameters for transferring APS' existing generation assets to an unregulated affiliate no later than the end of 2002. (The Track A Order in 2002 subsequently prohibited the generation transfer.) APS' service territory was opened for the first phase of customer choice as of October 1999 and for 100% choice as of January 2001.

### FEDERAL REGULATIONS

APS is subject to regulation by the U.S. Federal Energy Regulatory Commission (FERC) in certain matters which include wholesale power sales and transmission services. FERC has four seated Commissioners, all of which are appointed by the President and approved by Congress. There is currently a single vacancy for another Commissioner to be appointed.

FERC has begun addressing issues relating to standard market design for wholesale markets, regional transmission organizations to support nondiscriminatory markets, and other issues related to restructuring wholesale power markets. APS is actively participating in these proceedings.

### FURTHER INFORMATION ON REGULATORY MATTERS

Regulatory developments are discussed in detail in a number of sections of the 2004 Annual Report on Form 10-K for Pinnacle West and APS. See "Regulation and Competition" in Item 1; "Factors Affecting Our Financial Outlook" in Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7; and Note 3 of Notes to Consolidated Financial Statements, "Regulatory Matters" in Item 8.

**ARIZONA PUBLIC SERVICE COMPANY**  
**SOURCE AND DISPOSITION OF ELECTRIC ENERGY AND FUEL MIX**

	Year Ended December 31,					
	2004	2003	2002	2001	2000	1999
<b>APS SOURCE OF ENERGY (MWh)</b>						
Steam generation						
Nuclear	8,183,262	8,314,712	8,980,814	8,384,724	8,840,745	8,848,661
Coal	12,665,720	11,366,560	12,055,956	12,573,954	12,509,372	11,878,404
Gas	299,181	265,180	456,582	1,359,747	1,161,775	822,572
Oil	3,415	12,475	-	127,670	23,041	-
Combustion turbines						
Gas	90,706	72,533	169,925	734,743	445,796	141,193
Oil	3,052	2,115	2,847	100,585	51,907	2,347
Combined cycle						
Gas	620,437	687,677	862,940	1,131,172	1,048,237	756,967
Oil	-	-	144	60	19,404	482
Hydro and solar	36,549	34,920	31,536	33,660	33,746	33,908
Total generation	21,902,322	20,756,172	22,560,744	24,446,315	24,134,023	22,484,534
Purchased power (a)						
Firm load	6,513,677	6,717,242	3,944,335	3,466,189	2,514,500	2,479,342
Marketing and trading	30,520,660	19,000,993	3,949,748	7,229,489	18,416,438	14,594,983
Total purchased power	37,034,337	25,718,235	7,894,083	10,695,678	20,930,938	17,074,325
Total source of energy	58,936,659	46,474,407	30,454,827	35,141,993	45,064,961	39,558,859
<b>APS DISPOSITION OF ENERGY (MWh)</b>						
Sales to ultimate customers	25,353,323	24,562,305	23,361,755	23,399,012	22,534,524	21,074,570
Sales for resale (a)	31,861,295	20,237,019	5,695,742	9,831,053	21,520,769	15,693,834
Losses and company use	1,722,041	1,675,083	1,397,330	1,911,928	1,009,668	2,790,455
Total disposition of energy	58,936,659	46,474,407	30,454,827	35,141,993	45,064,961	39,558,859
<b>APS ENERGY FUEL MIX (%)</b>						
Nuclear	13.9%	17.9%	29.5%	23.9%	19.6%	22.4%
Coal	21.4%	24.5%	39.6%	35.8%	27.8%	30.0%
Gas	1.7%	2.2%	4.9%	9.2%	5.9%	4.3%
Other (b)	0.1%	0.1%	0.1%	0.7%	0.3%	0.1%
Purchased power and interchange - net	62.9%	55.3%	25.9%	30.4%	46.4%	43.2%
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.

**ARIZONA PUBLIC SERVICE COMPANY  
LOADS AND RESOURCES AT PEAK**

	Year Ended December 31,					
	2004	2003	2002	2001	2000	1999
<b>PEAK LOAD (kW)</b>						
Actual	<b>6,402,100</b>	6,332,400	5,802,900	5,687,200	5,478,500	4,935,700
Weather-adjusted (a)	<b>6,615,000</b>	6,221,300	5,916,500	5,567,800	5,723,300	5,155,500
Increase (decrease) vs. prior year						
Actual	<b>1.1%</b>	9.1%	2.0%	3.8%	11.0%	(2.7)%
Weather-adjusted	<b>6.3%</b>	5.2%	6.3%	(2.7)%	11.0%	4.1%
<b>FIRM POWER SALES (kW)</b>	<b>1,125,000</b>	1,200,000	429,000	1,000	50,000	-
<b>RESOURCES AVAILABLE</b>						
<b>AT PEAK (kW)</b>						
Generating capacity	<b>3,570,600</b>	3,736,500	3,877,600	3,234,500	3,501,600	3,587,100
Purchase power contracts (b)	<b>4,187,000</b>	4,198,000	2,612,000	2,490,000	2,238,000	1,643,000
Total resources	<b>7,757,600</b>	7,934,500	6,489,600	5,724,500	5,739,600	5,230,100
<b>RESERVE MARGIN</b>	<b>6.9%</b>	12.1%	7.1%	1.1%	6.4%	9.1%
<b>ANNUAL LOAD FACTOR - NET</b>	<b>52.2%</b>	50.9%	52.6%	53.2%	52.3%	54.9%

(a) Prior years have been restated to reflect average weather statistics for the ten-year period ended December 31, 2003.

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

**APS POWER PLANT OPERATING PERFORMANCE**

	Year Ended December 31,					
	2004	2003	2002	2001	2000	1999
<b>NUCLEAR (NET CAPACITY FACTORS)</b>						
Palo Verde Unit 1	<b>84.6%</b>	97.2%	89.1%	87.8%	100.4%	88.7%
Palo Verde Unit 2	<b>90.9%</b>	77.5%	92.0%	92.6%	87.3%	90.0%
Palo Verde Unit 3	<b>75.1%</b>	87.4%	102.0%	83.9%	90.3%	100.3%
Palo Verde site average	<b>83.5%</b>	87.4%	94.4%	88.1%	92.7%	93.0%
<b>COAL (NET CAPACITY FACTORS)</b>						
Four Corners	<b>81.9%</b>	84.5%	82.7%	85.6%	83.0%	82.1%
Cholla	<b>82.2%</b>	65.1%	77.5%	81.2%	82.8%	77.2%
Navajo	<b>82.7%</b>	74.8%	80.4%	84.7%	84.4%	76.0%
Total coal average	<b>82.3%</b>	75.8%	80.4%	83.8%	83.2%	79.2%