

**ARIZONA PUBLIC SERVICE COMPANY  
SELECTED FINANCIAL DATA**

	----- 2006	----- 2005	----- 2004
<b>OPERATING STATISTICS</b>			
Electric operating revenues (thousands)	\$ 2,658,513	\$ 2,270,793	\$ 2,197,121
Sales (MWh)	39,991,804	46,824,014	57,214,618
Employees (year-end) (a)	6,655	6,484	6,203
Average annual use per residential customer (kWh)	13,876	13,635	13,418
<b>FINANCIAL STATISTICS</b>			
Cash interest coverage (b)	4.81x	4.09x	3.65x
Non-cash income as percent of earnings (c)	25.7%	41.9%	19.4%
Net cash flow as percent of capital expenditures (b)	81.0%	36.9%	45.2%
<b>CAPITALIZATION RATIOS (year-end)</b>			
Long-term debt excluding current maturities	47.3%	44.7%	45.8%
Current maturities of long-term debt	-	1.5	9.1
Short-term debt	-	-	-
Total debt	<u>47.3</u>	<u>46.2</u>	<u>54.9</u>
Common stock equity	<u>52.7</u>	<u>53.8</u>	<u>45.1</u>
Total capitalization	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Debt adjusted for Palo Verde Unit 2 sale and leaseback	49.9%	49.3%	58.0%

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

(b) Includes recovery of fuel costs through various PSA adjustors and surcharges, as well as base rates.

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

**ARIZONA PUBLIC SERVICE COMPANY  
HISTORICAL GROWTH RATES**

	----- 2006	----- 2005	----- 2004
<b>Electric operating revenues</b>			
Total	17.1%	3.4%	4.4%
Retail	18.3%	8.0%	2.4%
<b>Peak load</b>			
Actual	9.3%	9.3%	1.1%
Weather-normalized	2.9%	7.2%	6.3%
<b>Electric sales</b>			
Total	(14.6)%	(18.2)%	27.7%
Retail	5.6%	4.4%	3.2%
Customers (average)	4.4%	4.3%	3.7%
Employees (year-end)	2.6%	4.5%	0.8%

----- 2003	----- 2002	----- 2001
\$ 2,104,931	\$ 1,936,166	\$ 2,352,098
44,799,324	29,057,497	33,230,065
6,155	6,110	6,322
13,457	13,025	13,312
4.71x	6.92x	5.96x
26.0%	20.4%	14.4%
91.7%	130.6%	105.6%
44.2%	50.6%	44.3%
10.1	0.1	2.9
-	-	3.9
54.3	50.7	51.1
45.7	49.3	48.9
100.0%	100.0%	100.0%
57.7%	54.9%	55.4%

----- Compound Annual Growth Rates -----				
----- 2003	----- 2002	----- 2001	5 Years ----- 2001-2006	10 Years ----- 1996-2006
8.7%	(17.7)%	(19.8)%	2.5%	4.5%
3.9%	(1.2)%	2.8%	6.1%	4.7%
9.1%	2.0%	3.8%	6.1%	5.3%
5.2%	6.3%	(2.7)%	5.5%	5.1%
54.2%	(12.6)%	(24.6)%	3.8%	6.0%
5.1%	(0.2)%	3.8%	3.6%	3.9%
3.3%	3.1%	3.7%	3.8%	3.9%
0.7%	(3.4)%	3.5%	1.0%	0.7%

**ARIZONA PUBLIC SERVICE COMPANY**  
**STATEMENTS OF INCOME**

(DOLLARS IN THOUSANDS)

YEAR ENDED DECEMBER 31,	2006	2005	2004
<b>ELECTRIC OPERATING REVENUES</b>			
Regulated electricity	\$ 2,640,989	\$ 2,244,951	\$ 2,051,602
Marketing and trading	17,524	25,842	145,519
Total	<u>2,658,513</u>	<u>2,270,793</u>	<u>2,197,121</u>
<b>FUEL AND PURCHASED POWER</b>			
Regulated electricity	965,712	656,654	612,300
Marketing and trading	4,055	32,328	150,954
Total	<u>969,767</u>	<u>688,982</u>	<u>763,254</u>
<b>OPERATING REVENUES LESS FUEL AND PURCHASED POWER</b>	<u>1,688,746</u>	<u>1,581,811</u>	<u>1,433,867</u>
<b>OTHER OPERATING EXPENSES</b>			
Operations and maintenance	665,631	591,941	540,277
Depreciation and amortization	353,057	325,174	336,648
Income taxes	144,127	157,273	113,696
Other taxes	127,989	125,810	114,265
Total	<u>1,290,804</u>	<u>1,200,198</u>	<u>1,104,886</u>
<b>OPERATING INCOME</b>	<u>397,942</u>	<u>381,613</u>	<u>328,981</u>
<b>OTHER INCOME (DEDUCTIONS)</b>			
Regulatory disallowance	-	(138,562)	-
Income taxes	5,200	59,263	(6,334)
Allowance for equity funds used during construction	14,312	11,191	4,885
Other income	31,902	22,141	30,593
Other expense	(23,830)	(23,204)	(13,816)
Total	<u>27,584</u>	<u>(69,171)</u>	<u>15,328</u>
<b>INCOME BEFORE INTEREST DEDUCTIONS</b>	<u>425,526</u>	<u>312,442</u>	<u>344,309</u>
<b>INTEREST DEDUCTIONS</b>			
Interest on long-term debt	149,240	138,476	140,556
Interest on short-term borrowings	9,529	7,026	6,427
Debt discount, premium and expense	4,363	4,085	4,854
Allowance for borrowed funds used during construction	(7,336)	(7,624)	(7,155)
Total	<u>155,796</u>	<u>141,963</u>	<u>144,682</u>
<b>INCOME BEFORE CUMULATIVE EFFECT ADJUSTMENT</b>	<u>269,730</u>	<u>170,479</u>	<u>199,627</u>
Cumulative effect of change in accounting for derivatives - net of income taxes of \$9,892	-	-	-
<b>NET INCOME</b>	<u>\$ 269,730</u>	<u>\$ 170,479</u>	<u>\$ 199,627</u>

2003	2002	2001
\$ 1,999,390	\$ 1,902,112	\$ 1,984,305
105,541	34,054	367,793
<u>2,104,931</u>	<u>1,936,166</u>	<u>2,352,098</u>
606,251	438,141	649,405
97,180	32,662	132,544
<u>703,431</u>	<u>470,803</u>	<u>781,949</u>
<u>1,401,500</u>	<u>1,465,363</u>	<u>1,570,149</u>
513,604	495,845	465,561
389,240	399,640	420,893
91,646	132,953	183,640
108,852	107,925	101,077
<u>1,103,342</u>	<u>1,136,363</u>	<u>1,171,171</u>
<u>298,158</u>	<u>329,000</u>	<u>398,978</u>
-	-	-
4,792	6,148	504
14,240	-	-
20,277	5,149	20,207
<u>(12,962)</u>	<u>(19,338)</u>	<u>(20,790)</u>
<u>26,347</u>	<u>(8,041)</u>	<u>(79)</u>
<u>324,505</u>	<u>320,959</u>	<u>398,899</u>
142,706	128,462	126,118
4,904	5,416	4,407
3,337	2,888	2,650
<u>(7,379)</u>	<u>(15,150)</u>	<u>(14,964)</u>
<u>143,568</u>	<u>121,616</u>	<u>118,211</u>
<u>180,937</u>	<u>199,343</u>	<u>280,688</u>
-	-	(15,201)
<u>\$ 180,937</u>	<u>\$ 199,343</u>	<u>\$ 265,487</u>

**ARIZONA PUBLIC SERVICE COMPANY**  
**BALANCE SHEETS**

(DOLLARS IN THOUSANDS)

DECEMBER 31,	2006	2005	2004
<b>ASSETS</b>			
<b>UTILITY PLANT</b>			
Electric plant in service and held for future use	\$ 11,094,868	\$ 10,682,999	\$ 9,120,407
Less accumulated depreciation and amortization	3,789,534	3,616,886	3,266,181
Net	7,305,334	7,066,113	5,854,226
Construction work in progress	365,704	314,584	249,243
Intangible assets, net of accumulated amortization	95,601	90,327	103,701
Nuclear fuel, net of accumulated amortization	60,100	54,184	51,188
Total utility plant	7,826,739	7,525,208	6,258,358
<b>INVESTMENTS AND OTHER ASSETS</b>			
Notes receivable from Pinnacle West Energy	-	-	498,489
Decommissioning trust accounts	343,771	293,943	267,700
Assets from risk management and trading activities	96,892	234,372	20,123
Other assets	67,763	64,128	61,364
Total investments and other assets	508,426	592,443	847,676
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	81,870	49,933	49,575
Investment in debt securities	32,700	-	181,175
Customer and other receivables	410,436	421,621	353,772
Allowance for doubtful accounts	(4,223)	(3,568)	(3,444)
Materials and supplies (at average cost)	125,802	109,736	83,893
Fossil fuel (at average cost)	21,973	23,658	20,506
Assets from risk management and trading activities	539,308	532,923	70,430
Deferred income taxes	19,220	-	-
Other	13,367	14,639	10,187
Total current assets	1,240,453	1,148,942	766,094
<b>DEFERRED DEBITS</b>			
Deferred fuel and purchased power regulatory asset	160,268	172,756	-
Other regulatory assets	686,016	151,123	135,051
Unamortized debt issue costs	26,393	25,279	21,832
Other	65,397	91,690	69,541
Total deferred debits	938,074	440,848	226,424
<b>TOTAL ASSETS</b>	<b>\$ 10,513,692</b>	<b>\$ 9,707,441</b>	<b>\$ 8,098,552</b>

2003	2002	2001
\$ 8,826,033	\$ 8,299,131	\$ 7,935,206
<u>3,089,645</u>	<u>2,885,798</u>	<u>2,739,957</u>
5,736,388	5,413,333	5,195,249
187,478	329,089	321,305
94,181	93,259	83,135
<u>52,011</u>	<u>51,124</u>	<u>49,282</u>
<u>6,070,058</u>	<u>5,886,805</u>	<u>5,648,971</u>
497,865	-	-
240,645	194,440	202,036
18,001	31,622	2,082
<u>64,119</u>	<u>57,380</u>	<u>108,159</u>
<u>820,630</u>	<u>283,442</u>	<u>312,277</u>
42,152	42,549	16,821
69,850	-	-
329,925	412,457	313,896
(3,743)	(1,341)	(3,349)
80,682	79,985	81,215
28,360	28,185	27,023
52,448	39,616	10,097
-	4,094	-
<u>6,969</u>	<u>7,945</u>	<u>10,172</u>
<u>606,643</u>	<u>613,490</u>	<u>455,875</u>
-	-	-
132,349	241,045	342,383
19,797	16,696	13,163
<u>73,056</u>	<u>80,760</u>	<u>42,789</u>
<u>225,202</u>	<u>338,501</u>	<u>398,335</u>
<u>\$ 7,722,533</u>	<u>\$ 7,122,238</u>	<u>\$ 6,815,458</u>

**ARIZONA PUBLIC SERVICE COMPANY****BALANCE SHEETS**

(DOLLARS IN THOUSANDS)

DECEMBER 31,	2006	2005	2004
<b>LIABILITIES AND EQUITY</b>			
<b>CAPITALIZATION</b>			
Common stock	\$ 178,162	\$ 178,162	\$ 178,162
Additional paid-in capital	2,065,918	1,853,098	1,246,804
Retained earnings	960,405	860,675	860,196
Accumulated other comprehensive income (loss):			
Minimum pension liability adjustment	-	(86,132)	(71,087)
Derivative instruments	2,988	179,422	18,327
Common stock equity	<u>3,207,473</u>	<u>2,985,225</u>	<u>2,232,402</u>
Long-term debt less current maturities	<u>2,877,502</u>	<u>2,479,703</u>	<u>2,267,094</u>
Total capitalization	<u>6,084,975</u>	<u>5,464,928</u>	<u>4,499,496</u>
<b>CURRENT LIABILITIES</b>			
Commercial paper	-	-	-
Current maturities of long-term debt	968	85,620	451,247
Accounts payable	223,417	215,384	215,076
Accrued taxes	381,444	360,737	292,521
Accrued interest	45,254	25,003	33,332
Customer deposits	61,900	55,474	51,804
Deferred income taxes	-	64,210	9,057
Liabilities from risk management and trading activities	490,855	480,138	34,292
Other	74,728	227,398	91,441
Total current liabilities	<u>1,278,566</u>	<u>1,513,964</u>	<u>1,178,770</u>
<b>DEFERRED CREDITS AND OTHER</b>			
Deferred income taxes	1,215,862	1,215,403	1,108,571
Regulatory liabilities	635,431	592,494	506,646
Liability for asset retirements	268,389	269,011	251,612
Pension and other postretirement liabilities	551,531	233,342	203,668
Customer advances for construction	71,211	60,287	59,185
Unamortized gain - sale of utility plant	41,182	45,757	50,333
Liabilities from risk management and trading activities	135,056	83,774	13,124
Other	231,489	228,481	227,147
Total deferred credits and other	<u>3,150,151</u>	<u>2,728,549</u>	<u>2,420,286</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<u>\$ 10,513,692</u>	<u>\$ 9,707,441</u>	<u>\$ 8,098,552</u>

2003	2002	2001
\$ 178,162	\$ 178,162	\$ 178,162
1,246,804	1,246,804	1,246,804
830,569	819,632	790,289
(57,158)	(61,487)	(966)
5,253	(23,799)	(63,599)
<u>2,203,630</u>	<u>2,159,312</u>	<u>2,150,690</u>
<u>2,135,606</u>	<u>2,217,340</u>	<u>1,949,074</u>
<u>4,339,236</u>	<u>4,376,652</u>	<u>4,099,764</u>
-	-	171,162
487,067	3,503	125,451
131,383	118,133	98,959
90,474	82,557	107,595
42,702	42,608	41,043
45,481	39,865	28,664
631	-	3,244
58,138	59,773	21,840
60,008	51,820	18,798
<u>915,884</u>	<u>398,259</u>	<u>616,756</u>
1,257,671	1,225,552	1,023,079
468,694	26,264	27,355
234,440	600,431	589,725
160,639	156,442	30,247
52,783	45,513	69,293
54,909	59,484	64,060
4,502	36,678	95,159
233,775	196,963	200,020
<u>2,467,413</u>	<u>2,347,327</u>	<u>2,098,938</u>
<u>\$ 7,722,533</u>	<u>\$ 7,122,238</u>	<u>\$ 6,815,458</u>

**ARIZONA PUBLIC SERVICE COMPANY**  
**STATEMENTS OF CASH FLOWS**

(DOLLARS IN THOUSANDS)

YEAR ENDED DECEMBER 31,	2006	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 269,730	\$ 170,479	\$ 199,627
Adjustments to reconcile net income to net cash provided by operating activities:			
Regulatory disallowance	-	138,562	-
Depreciation and amortization including nuclear fuel	381,173	353,082	367,094
Deferred fuel and purchased power	(252,849)	(172,756)	-
Deferred fuel and purchased power amortization	265,337	-	-
Allowance for equity funds used during construction	(14,312)	(11,191)	(4,885)
Deferred income taxes	(305)	9,659	(140,855)
Change in derivative mark-to-market valuations	6,893	3,492	(15,807)
Cumulative effect of change in accounting, net of tax	-	-	-
Changes in current assets and liabilities:			
Customer and other receivables	20,970	(56,152)	(24,146)
Materials, supplies and fossil fuel	(14,381)	(12,268)	4,643
Other current assets	3,666	(2,592)	(2,529)
Accounts payable	5,825	(12,372)	88,937
Accrued taxes	23,678	67,454	202,047
Collateral	(175,799)	169,080	5,671
Other current liabilities	45,125	(37,781)	22,715
Change in risk management and trading - liabilities	(121,833)	115,495	8,879
Change in risk management and trading - assets	(74,208)	15,449	(6,845)
Change in pension and other postretirement liabilities	7,406	(10,730)	22,361
Change in other long-term assets	2,828	(24,752)	(37,541)
Change in other long-term liabilities	14,769	19,732	28,772
Net cash flow provided by operating activities	<u>393,713</u>	<u>721,890</u>	<u>718,138</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital expenditures	(648,743)	(609,857)	(513,677)
Transfer of PWEC Dedicated Assets to APS	-	(500,000)	-
Purchase of Sundance plant	-	(185,046)	-
Allowance for borrowed funds used during construction	(7,336)	(7,624)	(7,155)
Purchases of investment securities	(1,291,903)	(1,476,623)	(871,610)
Proceeds from sale of investment securities	1,259,203	1,657,798	760,285
Proceeds from nuclear decommissioning trust sales	254,651	186,215	123,795
Investment in nuclear decommissioning trust	(275,393)	(204,633)	(135,239)
Loan to Pinnacle West Energy	-	-	-
Repayment of loan by Pinnacle West Energy	-	500,000	-
Other	(4,470)	(5,372)	10,639
Net cash flow used for investing activities	<u>(713,991)</u>	<u>(645,142)</u>	<u>(632,962)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issuance of long-term debt	395,481	411,787	478,140
Short-term borrowings	-	-	-
Equity infusion	212,820	250,000	-
Dividends paid on common stock	(170,000)	(170,000)	(170,000)
Repayment and reacquisition of long-term debt	(86,086)	(568,177)	(385,893)
Net cash flow provided by (used for) financing activities	<u>352,215</u>	<u>(76,390)</u>	<u>(77,753)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>31,937</b>	<b>358</b>	<b>7,423</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>49,933</b>	<b>49,575</b>	<b>42,152</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 81,870</b>	<b>\$ 49,933</b>	<b>\$ 49,575</b>

----- 2003 -----	----- 2002 -----	----- 2001 -----
\$ 180,937	\$ 199,343	\$ 265,487
-	-	-
417,997	430,825	449,255
-	-	-
-	-	-
(14,240)	-	-
(1,087)	206,767	(26,516)
2,339	2,957	(100,030)
-	-	15,201
85,106	(99,234)	302,283
(872)	68	(16,867)
976	2,227	(5,385)
17,961	15,372	(190,141)
7,917	(25,038)	1,080
11,431	3,873	-
9,737	41,916	(56,806)
-	-	-
12,551	(22,570)	10,730
17,395	(7,016)	(35,244)
(14,623)	(35,531)	(31,483)
43,599	(9,447)	23,511
<u>777,124</u>	<u>704,512</u>	<u>605,075</u>
(426,260)	(490,156)	(465,360)
-	-	-
-	-	-
(7,379)	(15,150)	(14,964)
(855,660)	-	-
785,810	-	-
168,874	103,516	68,730
(180,319)	(114,961)	(80,383)
(497,865)	-	-
-	-	-
3,149	56,363	(30,273)
<u>(1,009,650)</u>	<u>(460,388)</u>	<u>(522,250)</u>
491,654	459,926	396,072
-	(171,162)	89,062
-	-	-
(170,000)	(170,000)	(170,000)
(89,525)	(337,160)	(383,747)
<u>232,129</u>	<u>(218,396)</u>	<u>(68,613)</u>
(397)	25,728	14,212
42,549	16,821	2,609
<u>\$ 42,152</u>	<u>\$ 42,549</u>	<u>\$ 16,821</u>

**ARIZONA PUBLIC SERVICE COMPANY**  
**LONG-TERM DEBT SCHEDULE**

(DOLLARS IN THOUSANDS)

DECEMBER 31,	2006	2005	2004	2003	2002	2001
<b>FIRST MORTGAGE BONDS</b>						
8.125% series due						
March 15, 2002	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 125,000
6.625% series due						
March 1, 2004	-	-	-	80,000	80,000	80,000
7.25% series due Aug. 1, 2023	-	-	-	-	54,150	54,150
8.75% series due Jan. 15, 2024	-	-	-	-	-	121,668
8% series due Feb. 1, 2025	-	-	-	-	33,075	33,075
5.5% series due Aug. 15, 2028	-	-	-	25,000	25,000	25,000
5.875% series due						
Aug. 15, 2028	-	-	-	154,000	154,000	154,000
Total first mortgage bonds	<u>-</u>	<u>-</u>	<u>-</u>	<u>259,000</u>	<u>346,225</u>	<u>592,893</u>
<b>POLLUTION CONTROL BONDS</b>						
Due May 1, 2029 with						
senior notes	90,000	90,000	90,000	90,000	90,000	90,000
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	163,975	163,975	106,980	106,980	106,980	106,980
Due May 1, 2029	-	-	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	179,000	179,000	-	-	-
Total pollution control bonds	<u>\$ 655,855</u>	<u>\$ 655,855</u>	<u>\$ 655,860</u>	<u>\$ 476,860</u>	<u>\$ 476,860</u>	<u>\$ 476,860</u>

DECEMBER 31,	2006	2005	2004	2003	2002	2001
<b>OTHER LONG-TERM DEBT</b>						
5.875% unsecured notes due Feb. 15, 2004	\$ -	\$ -	\$ -	\$ 125,000	\$ 125,000	\$ 125,000
6.25% unsecured notes due Jan. 15, 2005	-	-	100,000	100,000	100,000	100,000
7.625% unsecured notes due Aug. 1, 2005	-	-	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
6.375% unsecured notes due Oct. 15, 2011	400,000	400,000	400,000	400,000	400,000	400,000
6.50% unsecured notes due Mar. 1, 2012	375,000	375,000	375,000	375,000	375,000	-
5.80% unsecured notes due June 30, 2014	300,000	300,000	300,000	-	-	-
6.00% secured notes due Dec. 31, 2014	1,592	1,745	1,900	-	-	-
4.65% unsecured notes due May 15, 2015	300,000	300,000	300,000	300,000	-	-
5.625% unsecured notes due May 15, 2033	200,000	200,000	200,000	200,000	-	-
5.50% senior notes due Sept. 1, 2035	250,000	250,000	-	-	-	-
6.25% senior notes due Aug. 1, 2016	250,000	-	-	-	-	-
6.875% senior notes due Aug. 1, 2036	150,000	-	-	-	-	-
Capitalized lease obligation	5,880	8,179	9,854	11,749	20,400	1,343
Total other long-term debt	<u>2,232,472</u>	<u>1,918,619</u>	<u>2,070,449</u>	<u>1,895,444</u>	<u>1,404,095</u>	<u>1,010,038</u>
Unamortized discount and premium	(9,857)	(9,151)	(7,968)	(8,631)	(6,337)	(5,266)
Total long-term debt	<u>2,878,470</u>	<u>2,565,323</u>	<u>2,718,341</u>	<u>2,622,673</u>	<u>2,220,843</u>	<u>2,074,525</u>
<b>LESS CURRENT MATURITIES</b>						
First mortgage bonds	-	-	-	(80,000)	-	(125,000)
Senior notes	-	(83,695)	(400,000)	(125,000)	-	-
Secured notes	(162)	(152)	-	-	-	-
Pollution control bonds	-	-	(49,520)	-	-	-
Capitalized lease obligation	(806)	(1,773)	(1,727)	(1,727)	(3,503)	(451)
Total current maturities	<u>(968)</u>	<u>(85,620)</u>	<u>(451,247)</u>	<u>(206,727)</u>	<u>(3,503)</u>	<u>(125,451)</u>
<b>LONG-TERM DEBT LESS CURRENT MATURITIES</b>						
	<u>\$ 2,877,502</u>	<u>\$ 2,479,703</u>	<u>\$ 2,267,094</u>	<u>\$ 2,415,946</u>	<u>\$ 2,217,340</u>	<u>\$ 1,949,074</u>
<b>WEIGHTED-AVERAGE INTEREST RATE ON LONG-TERM DEBT AT YEAR-END</b>						
	5.49%	4.83%	5.13%	5.48%	5.72%	6.54%

**ARIZONA PUBLIC SERVICE COMPANY**  
**ELECTRIC OPERATING REVENUE ANALYSIS**

YEAR ENDED DECEMBER 31,

	2006		2005	
<b>ELECTRIC OPERATING REVENUES (dollars in thousands)</b>				
<b>REGULATED ELECTRICITY SEGMENT</b>				
Retail sales				
Residential	\$ 1,270,521	47.8%	\$ 1,079,223	47.5%
Commercial	1,051,660	39.5	881,432	38.8
Industrial	170,021	6.4	145,490	6.4
Irrigation	2,172	0.1	1,745	0.1
Other	15,806	0.6	13,203	0.6
Total retail	2,510,180	94.4	2,121,093	93.4
Wholesale revenue on delivered electricity				
Traditional contracts	21,782	0.8	22,708	1.0
Off-system sales (a)	46,140	1.7	39,643	1.8
Transmission for others	30,754	1.2	31,879	1.4
Other miscellaneous services	32,133	1.2	29,628	1.3
Total regulated electricity	2,640,989	99.3	2,244,951	98.9
<b>MARKETING AND TRADING (b)</b>				
Electricity and other commodity sales	17,524	0.7	25,842	1.1
<b>Total electric operating revenues</b>	<b>\$ 2,658,513</b>	<b>100.0%</b>	<b>\$ 2,270,793</b>	<b>100.0%</b>
<b>INCREASE (DECREASE) VS. PRIOR YEAR</b>				
Retail revenues		18.3%		8.0%
Regulated electricity revenues		17.6%		9.4%
Marketing and trading revenues		(32.2)%		(82.2)%
Total electric operating revenues		17.1%		3.4%
<b>AVERAGE RETAIL REVENUE PER kWh</b>				
Residential		9.78¢		8.83¢
Commercial		8.52¢		7.52¢
Industrial		6.87¢		6.09¢
Irrigation		8.70¢		7.53¢
Total retail		8.97¢		8.01¢
<b>REVENUE PER AVERAGE CUSTOMER (dollars)</b>				
Residential	\$ 1,357		\$ 1,204	
Commercial and industrial	\$ 10,710		\$ 9,350	

(a) Consistent with a 2005 ACC regulatory decision, off-system sales began being recorded in the regulated electricity segment in April 2005.

Previously, they were recorded in marketing and trading.

(b) Due to regulatory policy changes, marketing and trading was moved to the Parent Company from APS during 2001, and it was moved back to APS in early 2003.

2004		2003		2002		2001	
\$ 983,525	44.8%	\$ 960,303	45.6%	\$ 912,245	47.1%	\$ 914,711	38.9%
830,419	37.8	811,642	38.5	795,999	41.1	805,326	34.2
135,982	6.2	132,146	6.3	123,508	6.4	133,663	5.7
1,900	0.1	1,898	0.1	2,257	0.1	1,975	0.1
12,438	0.6	11,818	0.6	11,554	0.6	11,663	0.5
<u>1,964,264</u>	<u>89.5</u>	<u>1,917,807</u>	<u>91.1</u>	<u>1,845,563</u>	<u>95.3</u>	<u>1,867,338</u>	<u>79.4</u>
16,545	0.8	15,301	0.7	8,616	0.5	73,305	3.1
-	-	-	-	-	-	-	-
45,146	2.0	41,379	2.0	29,803	1.5	25,971	1.1
25,647	1.2	24,903	1.2	18,130	0.9	17,691	0.8
<u>2,051,602</u>	<u>93.5</u>	<u>1,999,390</u>	<u>95.0</u>	<u>1,902,112</u>	<u>98.2</u>	<u>1,984,305</u>	<u>84.4</u>
145,519	6.5	105,541	5.0	34,054	1.8	367,793	15.6
<u>\$ 2,197,121</u>	<u>100.0%</u>	<u>\$ 2,104,931</u>	<u>100.0%</u>	<u>\$ 1,936,166</u>	<u>100.0%</u>	<u>\$ 2,352,098</u>	<u>100.0%</u>

2.4%	3.9%	(1.2)%	2.8%
2.6%	5.1%	(4.1)%	(21.8)%
37.9%	209.9%	(90.7)%	(7.0)%
4.4%	8.7%	(17.7)%	(19.8)%

8.53¢	8.61¢	8.73¢	8.85¢
7.36¢	7.40¢	7.52¢	7.67¢
5.67¢	5.69¢	5.63¢	5.49¢
7.35¢	7.13¢	7.06¢	7.35¢
7.75¢	7.81¢	7.90¢	7.98¢

\$ 1,145	\$ 1,159	\$ 1,138	\$ 1,178
\$ 9,136	\$ 9,274	\$ 9,297	\$ 9,698

**ARIZONA PUBLIC SERVICE COMPANY  
ELECTRIC SALES ANALYSIS**

YEAR ENDED DECEMBER 31,

	2006		2005	
<b>ELECTRIC SALES (MWh)</b>				
<b>REGULATED ELECTRICITY SEGMENT</b>				
Retail sales				
Residential	12,993,961	32.5%	12,223,576	26.1%
Commercial	12,348,200	30.9	11,726,801	25.0
Industrial	2,475,311	6.2	2,388,095	5.1
Irrigation	24,960	0.1	23,179	0.1
Other	127,965	0.3	115,900	0.2
Total retail	27,970,397	70.0	26,477,551	56.5
Wholesale electricity delivered				
Traditional contracts	882,796	2.2	850,069	1.8
Off-system sales (a)	1,919,342	4.8	1,413,643	3.0
Retail load hedge management	1,590,141	4.0	2,979,879	6.4
Total regulated electricity	32,362,676	81.0	31,721,142	67.7
<b>MARKETING AND TRADING (b)</b>				
Wholesale sales of electricity	7,629,128	19.0	15,102,872	32.3
Total electric sales	39,991,804	100.0%	46,824,014	100.0%
<b>INCREASE (DECREASE) VS. PRIOR YEAR</b>				
Retail sales	5.6%		4.4%	
Regulated electricity sales	2.0%		10.2%	
Marketing and trading sales	(49.5)%		(46.9)%	
Total electric sales	(14.6)%		(18.2)%	
<b>ANNUAL USE PER AVERAGE CUSTOMER (kWh)</b>				
Residential	13,876		13,635	
Commercial and industrial	129,948		128,514	

(a) Consistent with a 2005 ACC regulatory decision, off-system sales began being recorded in the regulated electricity segment in April 2005. Previously, they were recorded in marketing and trading.

(b) Due to regulatory policy changes, marketing and trading was moved to the Parent Company from APS during 2001, and it was moved back to APS in early 2003.

2004		2003		2002		2001	
11,527,402	20.1%	11,147,195	24.9%	10,443,820	35.9%	10,334,860	31.1%
11,289,523	19.7	10,961,417	24.5	10,589,065	36.4	10,504,044	31.6
2,397,916	4.2	2,322,074	5.2	2,192,958	7.6	2,433,438	7.3
25,865	0.1	26,626	0.1	31,964	0.1	26,860	0.1
112,617	0.2	104,993	0.2	103,948	0.4	99,810	0.3
<u>25,353,323</u>	<u>44.3</u>	<u>24,562,305</u>	<u>54.9</u>	<u>23,361,755</u>	<u>80.4</u>	<u>23,399,012</u>	<u>70.4</u>
709,128	1.2	499,949	1.1	473,699	1.6	1,213,704	3.7
-	-	-	-	-	-	-	-
2,732,296	4.8	1,093,846	2.4	3,523,478	12.1	3,039,905	9.1
<u>28,794,747</u>	<u>50.3</u>	<u>26,156,100</u>	<u>58.4</u>	<u>27,358,932</u>	<u>94.1</u>	<u>27,652,621</u>	<u>83.2</u>
28,419,871	49.7	18,643,224	41.6	1,698,565	5.9	5,577,444	16.8
<u>57,214,618</u>	<u>100.0%</u>	<u>44,799,324</u>	<u>100.0%</u>	<u>29,057,497</u>	<u>100.0%</u>	<u>33,230,065</u>	<u>100.0%</u>

3.2%	5.1%	(0.2)%	3.8%
10.1%	(4.4)%	(1.1)%	(10.3)%
52.4%	997.6%	(69.5)%	(57.9)%
27.7%	54.2%	(12.6)%	(24.6)%

13,418	13,457	13,025	13,312
129,392	130,529	129,241	133,625

**ARIZONA PUBLIC SERVICE COMPANY  
CUSTOMER DATA**

YEAR ENDED DECEMBER 31,	2006	2005	2004	2003	2002	2001
<b>CUSTOMERS - AVERAGE</b>						
Residential	936,464	896,472	859,069	828,366	801,801	776,339
Commercial	110,547	106,374	102,393	98,427	95,575	93,499
Industrial	3,526	3,458	3,390	3,340	3,325	3,320
Irrigation	345	336	339	341	346	366
Other	1,013	1,000	993	988	982	1,013
Total retail	1,051,895	1,007,640	966,184	931,462	902,029	874,537
Sales for resale	77	78	81	66	67	66
Total average customers	1,051,972	1,007,718	966,265	931,528	902,096	874,603
INCREASE OVER PRIOR YEAR	4.4%	4.3%	3.7%	3.3%	3.1%	3.7%
<b>CUSTOMERS - END OF YEAR</b>						
Residential	957,337	920,420	880,232	848,334	819,821	793,931
Commercial	112,918	108,216	104,503	100,285	96,805	94,250
Industrial	3,562	3,477	3,428	3,361	3,337	3,251
Irrigation	344	337	343	334	339	364
Other	1,030	973	996	937	949	1,009
Total retail	1,075,191	1,033,423	989,502	953,251	921,251	892,805
Sales for resale	78	77	78	66	67	66
Total end of year customers	1,075,269	1,033,500	989,580	953,317	921,318	892,871
INCREASE OVER PRIOR YEAR	4.0%	4.4%	3.8%	3.5%	3.2%	3.2%

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

YEAR ENDED DECEMBER 31,	2006	2005	2004	2003	2002	2001
<b>PEAK LOAD (kW)</b>						
Actual	7,652,000	6,999,600	6,402,100	6,332,400	5,802,900	5,687,200
Weather-normalized (a)	7,293,000	7,090,700	6,615,000	6,221,300	5,916,500	5,567,800
Increase (decrease) vs. prior year						
Actual	9.3%	9.3%	1.1%	9.1%	2.0%	3.8%
Weather-normalized	2.9%	7.2%	6.3%	5.2%	6.3%	(2.7)%
<b>FIRM POWER SALES (kW)</b>	<b>1,205,000</b>	<b>855,000</b>	<b>1,125,000</b>	<b>1,200,000</b>	<b>429,000</b>	<b>1,000</b>
<b>RESOURCES AVAILABLE AT PEAK (kW)</b>						
Generating capacity	5,706,000	3,820,000	3,570,600	3,736,500	3,877,600	3,234,500
Purchase power contracts (b)	3,522,000	4,653,000	4,187,000	4,198,000	2,612,000	2,490,000
Total resources	9,228,000	8,473,000	7,757,600	7,934,500	6,489,600	5,724,500
<b>RESERVE MARGIN</b>	<b>7.0%</b>	<b>19.3%</b>	<b>6.9%</b>	<b>12.1%</b>	<b>7.1%</b>	<b>1.1%</b>
<b>ANNUAL LOAD FACTOR - NET</b>	<b>48.0%</b>	<b>50.0%</b>	<b>52.2%</b>	<b>50.9%</b>	<b>52.6%</b>	<b>53.2%</b>

(a) Prior years have been revised to reflect average weather statistics for the ten-year period ended December 31, 2005.

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

## ARIZONA PUBLIC SERVICE COMPANY RATE REGULATION

### DETAILED INFORMATION ON REGULATORY MATTERS

Regulatory developments are discussed in detail in a number of sections of the 2006 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.

### 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
Michael Gleason (Rep.) (Chairman)	January 2003	January 2009
Jeff Hatch-Miller (Rep.)	January 2003	January 2009
Kristin Mayes (Rep.)	October 2003	January 2011
William Mundell (Rep.)	June 1999	January 2009
Gary Pierce (Rep.)	January 2007	January 2011

#### 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.

#### Power Supply Adjustor

APS’ power supply adjustor (PSA) was approved by the ACC in April 2005. The PSA provides for adjustment of retail rates to reflect variations in fuel and purchased power costs. APS defers for recovery or refund 90% of the difference between actual retail fuel and purchased power costs (as defined) and the base fuel amount (currently \$0.020743 per kWh). Net under/over recoveries are recognized as a deferred asset/liability with an offsetting amount recognized in fuel and purchased power expense.

#### Retail Rate Changes

The table below includes APS’ retail rate changes since 2000:

Type	Effective Date	Annual Change	
		Millions	Percent
PSA Interim Adjustor	May 1, 2006	\$ 138	8.3%
PSA Surcharge	May 2, 2006	15	0.7
PSA Annual Adjustor	February 1, 2007	109	5.0
PSA Annual Adjustor	February 1, 2006	110	5.0
Base Rate Increase	April 1, 2005	76	4.2
Base Rate Decrease	July 1, 2003	(29)	(1.5)
Base Rate Decrease	July 1, 2002	(28)	(1.5)
Base Rate Decrease	July 1, 2001	(27)	(1.5)
Base Rate Decrease	July 1, 2000	(28)	(1.5)

### Pending General Rate Case

On December 15, 2006, hearings concluded in APS’ general rate case (originally filed in November 2005 and updated in January 2006). The major provisions of the filing include a 20.4% retail rate increase (approximately \$435 million pretax annually); updated base fuel and purchased power costs; updated rate base including the acquisition of the Sundance power plant; and updated capital structure with a proposed return on common equity of 11.5%.

#### Interim Rate Increase

In early 2006, APS filed with the ACC an application requesting an emergency interim rate increase of \$232 million, or approximately 11%, to be effective April 1, 2006. The purpose of the emergency interim rate increase was solely to address APS’ under-collection of higher annual fuel and purchased power costs. On May 2, 2006, the ACC approved an interim rate increase (interim PSA adjustor) of 8.3%, designed to recover approximately \$138 million of 2006 PSA deferrals. On December 8, 2006, the ACC approved APS’ request to continue the interim PSA adjustor until rates become effective as a result of the pending general rate case.

As a result of the May 2006 interim PSA adjustor decision, the ACC ordered the ACC Staff to conduct a “prudence audit” of 2006 unplanned Palo Verde outages. PSA deferrals related to these 2006 outages are estimated to be about \$79 million through December 31, 2006. Rates collected through the interim PSA adjustor are subject to refund depending on the outcome of the prudence audit.

#### PSA Surcharges

On April 12, 2006, the ACC approved APS’ request to recover \$15 million of 2005 PSA deferrals over a twelve-month period beginning May 2, 2006, representing a temporary rate increase of 0.7%.

On February 2, 2006, APS filed with the ACC an application to recover approximately \$45 million of PSA deferrals related to 2005 unplanned Palo Verde outages through a 1.9% surcharge over a twelve-month period. The ACC Staff has recommended disallowance of approximately \$17 million of the requested amount. APS disagrees with and has contested the ACC Staff recommendation. At the request of the ACC Staff, this matter is being addressed as part of APS’ pending general rate case.

### FEDERAL REGULATION

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. The FERC is composed of five commissioners who are appointed by the President, approved by Congress and serve five-year terms.

The FERC continues to address issues related to standard market design for wholesale markets, regional transmission organizations to support non-discriminatory markets, and other issues related to restructuring wholesale power markets. APS is an active participant in these proceedings.

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

YEAR ENDED DECEMBER 31,	2006	2005	2004	2003	2002	2001
<b>APS SOURCE OF ENERGY (MWh)</b>						
Steam generation						
Nuclear	6,987,559	7,508,820	8,183,262	8,314,712	8,980,814	8,384,724
Coal	13,175,265	13,060,080	12,665,720	11,366,560	12,055,956	12,573,954
Gas	183,003	182,670	299,181	265,180	456,582	1,359,747
Oil	-	-	3,415	12,475	-	127,670
Combustion turbines						
Gas	152,804	114,598	90,706	72,533	169,925	734,743
Oil	59	719	3,052	2,115	2,847	100,585
Combined cycle						
Gas	6,967,368	3,051,405	620,437	687,677	862,940	1,131,172
Oil	-	-	-	-	144	60
Hydro and solar	10,137	20,601	36,549	34,920	31,536	33,660
Total generation	<u>27,476,195</u>	<u>23,938,893</u>	<u>21,902,322</u>	<u>20,756,172</u>	<u>22,560,744</u>	<u>24,446,315</u>
Purchased power (a)						
Firm load	4,290,839	6,181,170	6,513,677	6,717,242	3,944,335	3,466,189
Marketing and trading	10,519,636	19,525,517	30,520,660	19,000,993	3,949,748	7,229,489
Total purchased power	<u>14,810,475</u>	<u>25,706,687</u>	<u>37,034,337</u>	<u>25,718,235</u>	<u>7,894,083</u>	<u>10,695,678</u>
Total source of energy	<u>42,286,670</u>	<u>49,645,580</u>	<u>58,936,659</u>	<u>46,474,407</u>	<u>30,454,827</u>	<u>35,141,993</u>
<b>APS DISPOSITION OF ENERGY (MWh)</b>						
Sales to ultimate customers	27,970,397	26,477,551	25,353,323	24,562,305	23,361,755	23,399,012
Sales for resale (a)	12,021,407	20,954,820	31,861,295	20,237,019	5,695,742	9,831,053
Losses and company use	2,294,866	2,213,209	1,722,041	1,675,083	1,397,330	1,911,928
Total disposition of energy	<u>42,286,670</u>	<u>49,645,580</u>	<u>58,936,659</u>	<u>46,474,407</u>	<u>30,454,827</u>	<u>35,141,993</u>
<b>APS ENERGY FUEL MIX (%)</b>						
Nuclear	16.5%	15.1%	13.9%	17.9%	29.5%	23.9%
Coal	31.2	26.3	21.4	24.5	39.6	35.8
Gas	17.3	6.8	1.7	2.2	4.9	9.2
Other (b)	-	-	0.1	0.1	0.1	0.7
Purchased power and interchange - net	<u>35.0</u>	<u>51.8</u>	<u>62.9</u>	<u>55.3</u>	<u>25.9</u>	<u>30.4</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

(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  
GENERATION RESOURCES**

NET ACCREDITED CAPACITY

IN SERVICE AS OF DECEMBER 31, 2006	Location	Ownership or Interest (a)	Number of Units	APS Share (kW)
<b>NUCLEAR-FUELED STEAM PLANT</b>				
Palo Verde	Wintersburg, Arizona	29.1%	3	1,126,752
<b>COAL-FUELED STEAM PLANTS</b>				
Four Corners	Farmington, New Mexico	100%	3	560,000
Four Corners	Farmington, New Mexico	15%	2	225,000
Cholla	Joseph City, Arizona	100%	3	641,000
Navajo	Page, Arizona	14%	3	315,000
			<u>11</u>	<u>1,741,000</u>
<b>GAS- OR OIL-FUELED STEAM PLANTS</b>				
Ocotillo	Tempe, Arizona	100%	2	220,000
Saguaro	Red Rock, Arizona	100%	2	210,000
			<u>4</u>	<u>430,000</u>
<b>GAS- OR OIL-FUELED COMBUSTION TURBINES</b>				
Sundance	Casa Grande, Arizona	100%	10	420,000
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%	3	189,000
Douglas	Douglas, Arizona	100%	1	16,000
			<u>22</u>	<u>992,000</u>
<b>GAS- OR OIL-FUELED COMBINED CYCLE PLANT</b>				
West Phoenix	Phoenix, Arizona	100%	5	878,000
Redhawk	Arlington, Arizona	100%	2	984,000
			<u>7</u>	<u>1,862,000</u>
<b>SOLAR GENERATION</b>				
		100%	13	5,816
<b>TOTAL</b>				
			<u>60</u>	<u>6,157,568</u>

(a) Includes leased generating plants.