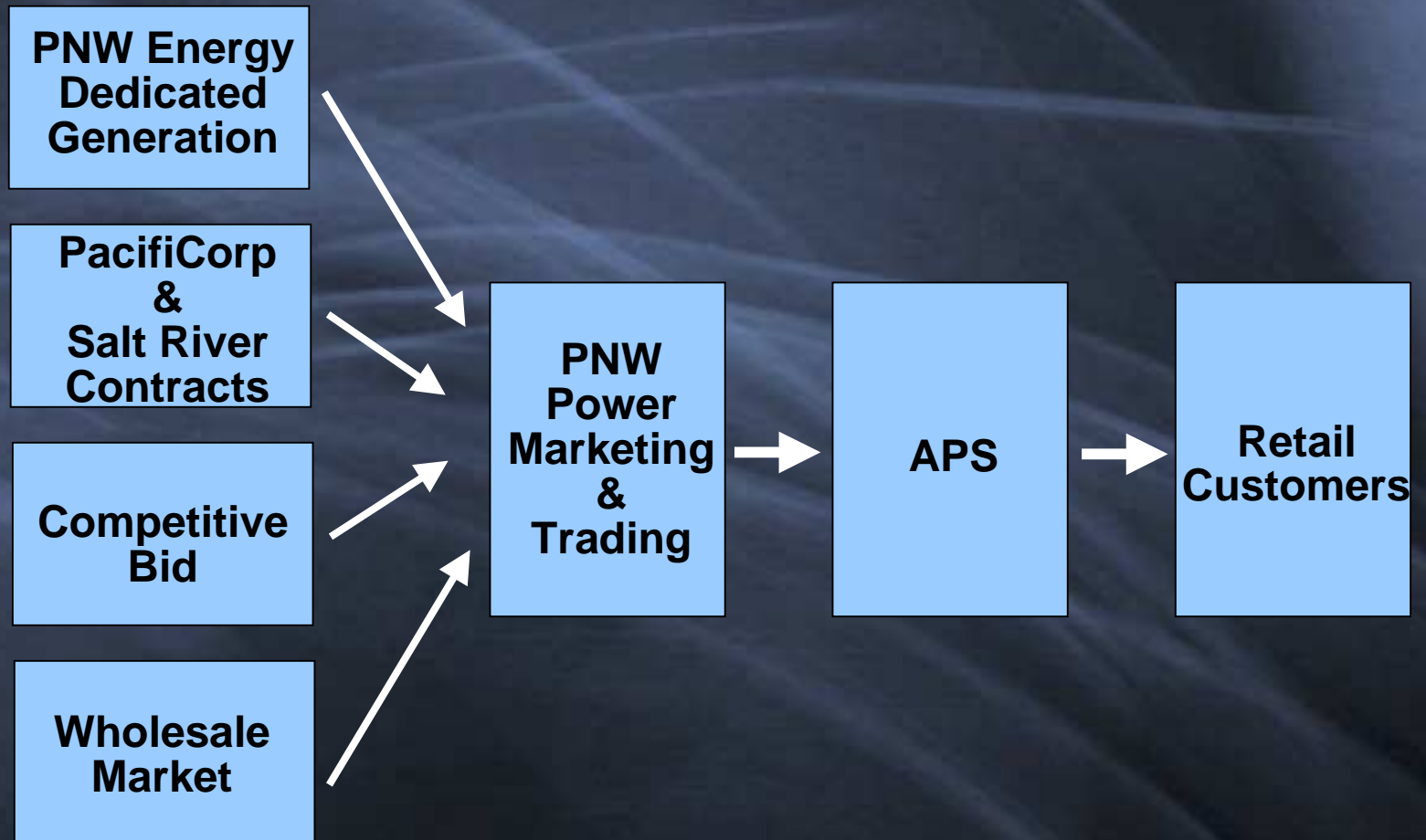


2001 Regulatory Plan Overview

2001 Regulatory Plan Components

- **No change to 1999 regulatory settlement**
- **Provides energy reliability for delivery business customers**
- **Strengthens regional competitive generation market**
- **Provides mix of long-term and short-term revenue for generation business**
- **Transitions generation assets into competitive markets**
- **Improves cash flow predictability**
- **Decreases retail price and earnings volatility**

2001 Regulatory Plan Contract Paths



2001 Regulatory Plan

Major Provisions

- **Purchase power agreement between APS and Pinnacle West Capital**
 - APS full requirements
 - 2004 through 2015
 - Pricing (after 2004)
 - Cost-based facilities charge, adjusted every three years, to recover fixed generation costs including 11.25% ROE on regulated cost-of-service principles
 - Fuel component adjusted annually
 - Fuel component reduced by 25% of off-system sales margin

(continued)

2001 Regulatory Plan

Major Provisions

(continued)

- **Generation transfer by end of 2002**
 - Fossil plants
 - Nuclear assets
- **Competitive bidding requirements for APS**
 - Variance from 50% bidding requirement in ACC electric competition rules
 - 270 MW of load to be bid in 2003
 - Annually in 2004-2008, additional 270 MW of load to be bid
 - Approximately 23% of 2008 load to be bid

(continued)

2001 Regulatory Plan

Major Provisions

(continued)

- **Resources available to Pinnacle West Capital to meet APS requirements**
 - **Dedicated generating assets of Pinnacle West Energy**
 - **Competitively-bid power and, if assignable, existing long-term power purchase agreements**

2001 Regulatory Plan

Key Steps & Target Dates

- **Filing with ACC** **Oct. 2001**
- **ACC approval of variance request and purchase power agreement** **Jan. 2002**
- **FERC acceptance of:** **Mar. 2002**
 - **APS/Pinnacle West Capital purchase power agreement**
 - **Pinnacle West Energy/
Pinnacle West Capital contract**
- **Generation transfer** **Beginning
Jan. 2002**