
Pinnacle West Marketing & Trading

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PINNACLE WEST
CAPITAL CORPORATION

Overall Objectives

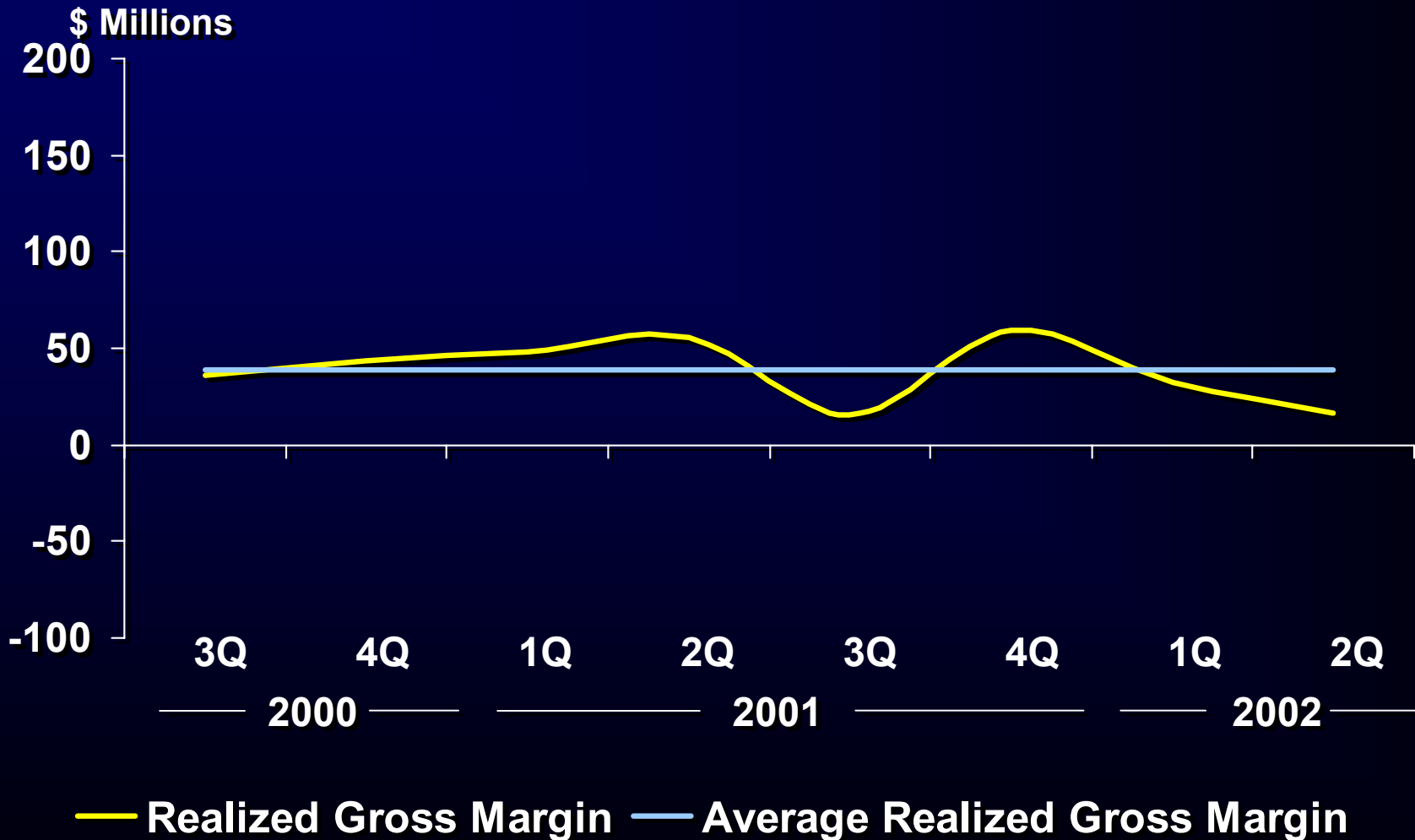
- **Manage fuel and purchase power cost volatility associated with native load obligation**
- **Create additional value for the enterprise in the wholesale market utilizing the current asset base and geographical location**

Department Profile

| | |
|---------------------------------|-------|
| ■ Total headcount | 114 |
| ■ Annual O&M expenses | \$20M |
| ■ Current collateral delivered* | \$12M |
| ■ Current collateral held* | \$27M |

* as of 9/30/02

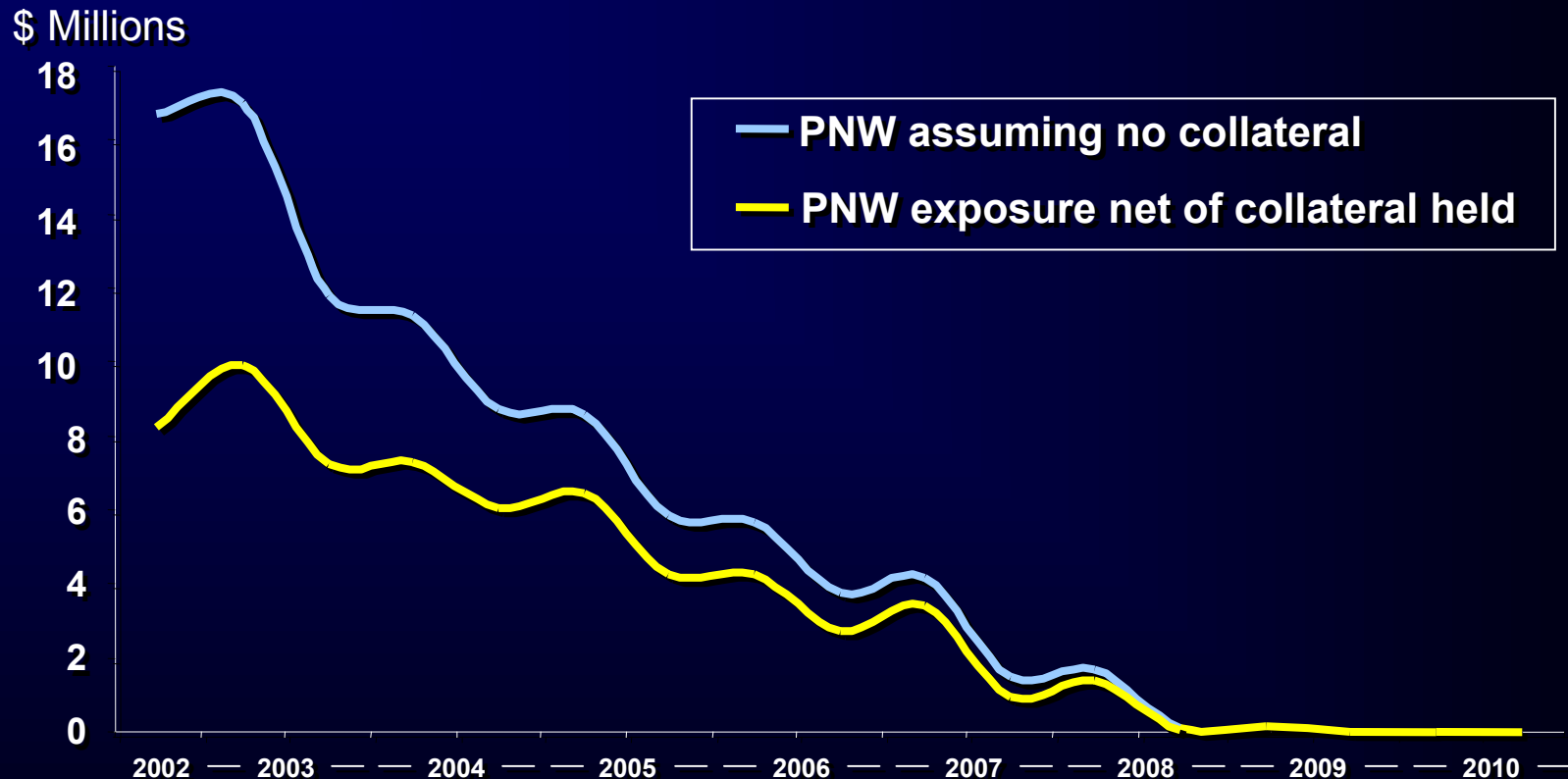
Power Marketing & Trading Realized Pretax Gross Margin



Infrastructure and Control

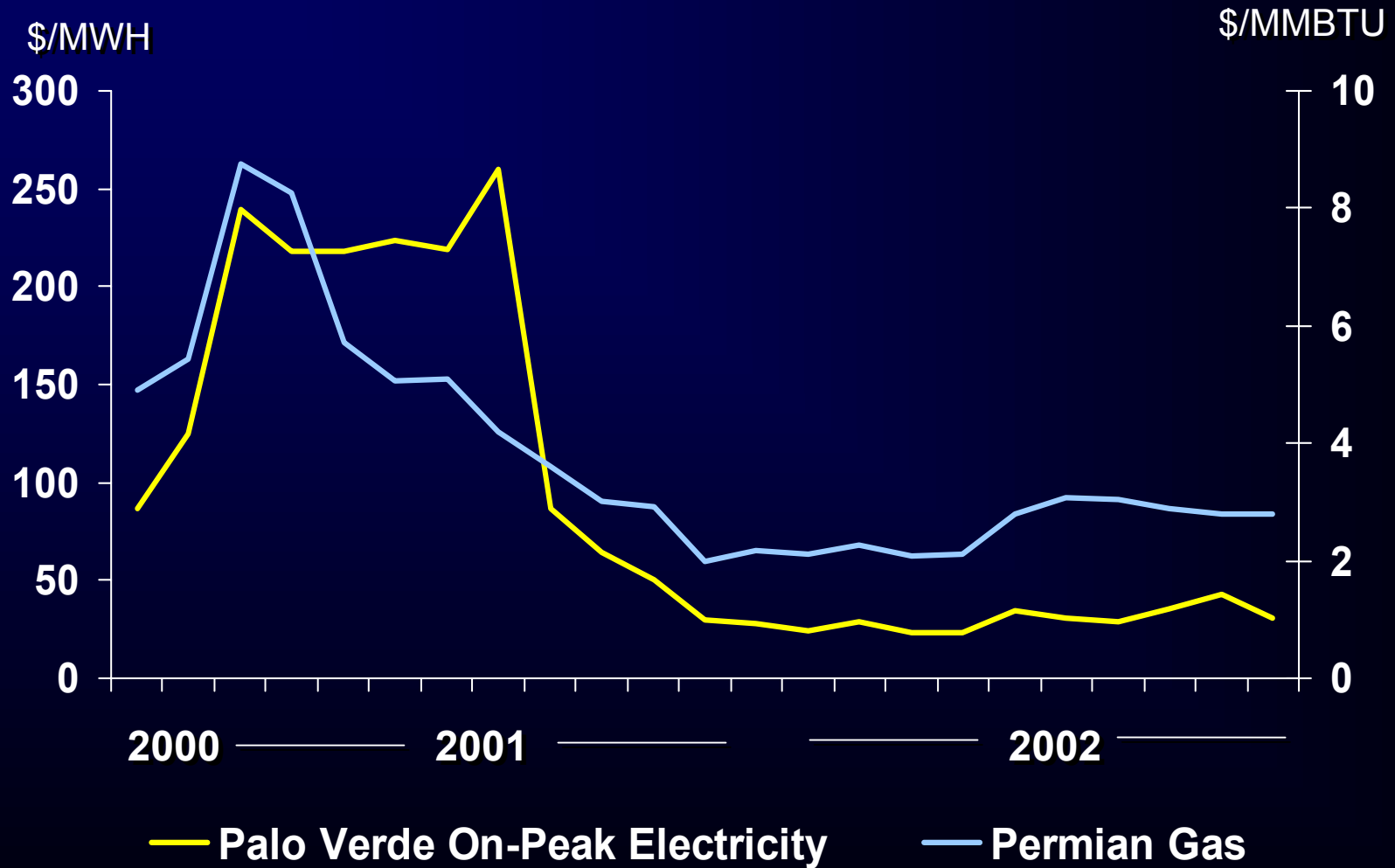
- **Corporate governance and oversight**
- **Valuation and risk measurement**
- **Operational controls**
- **Credit risk management**

Positive MTM Exposure to Thirteen Troubled Energy Counterparties *

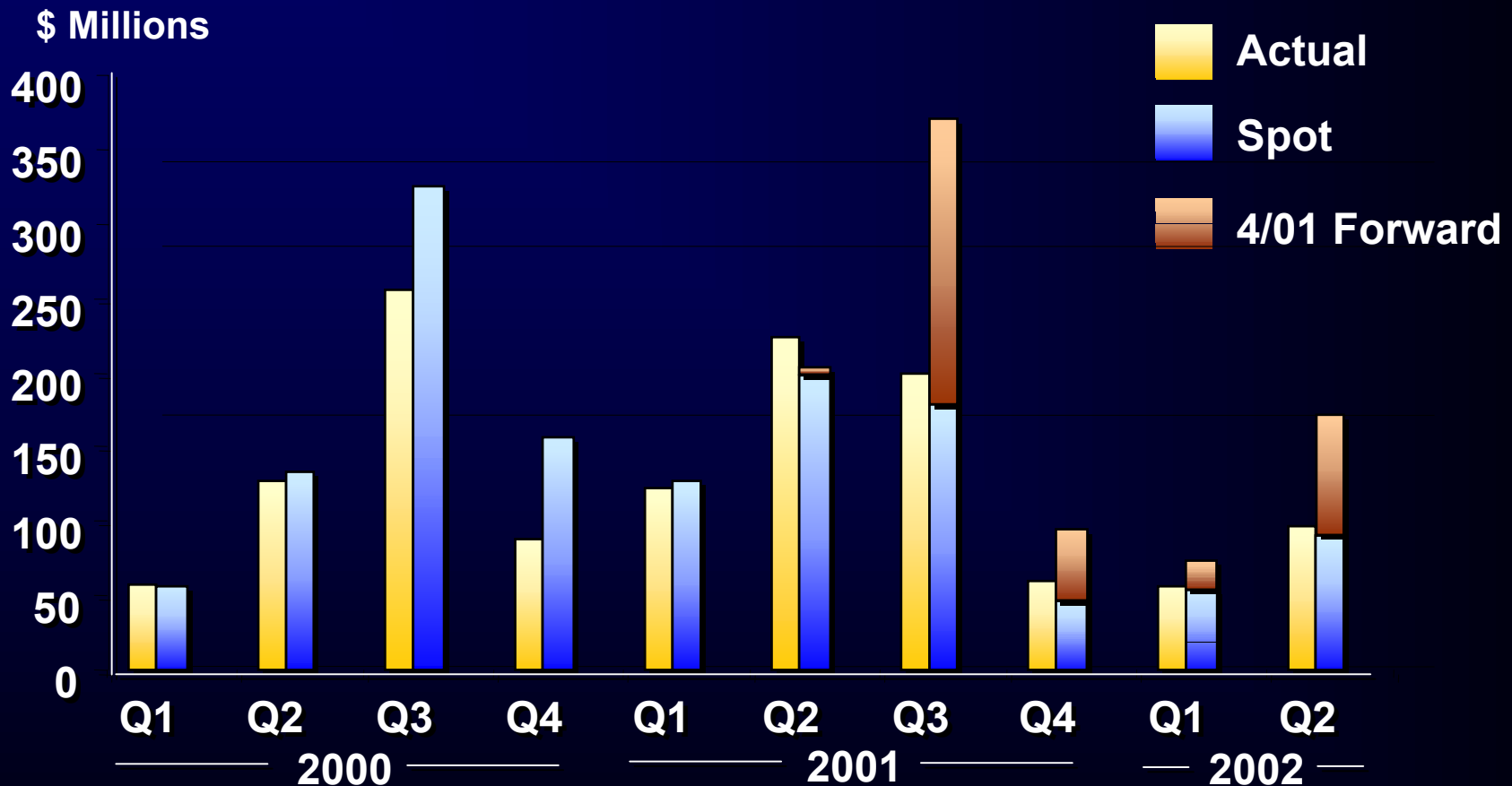


* Mark-to-market assumption is based on market data on close of business October 8th. Aggregate exposure is calculated on the basis of cross commodity netting inside counterparties, but not cross-affiliate netting. Collateral used to mitigate exposure is used only to mitigate exposure to which it applies.

Market Landscape



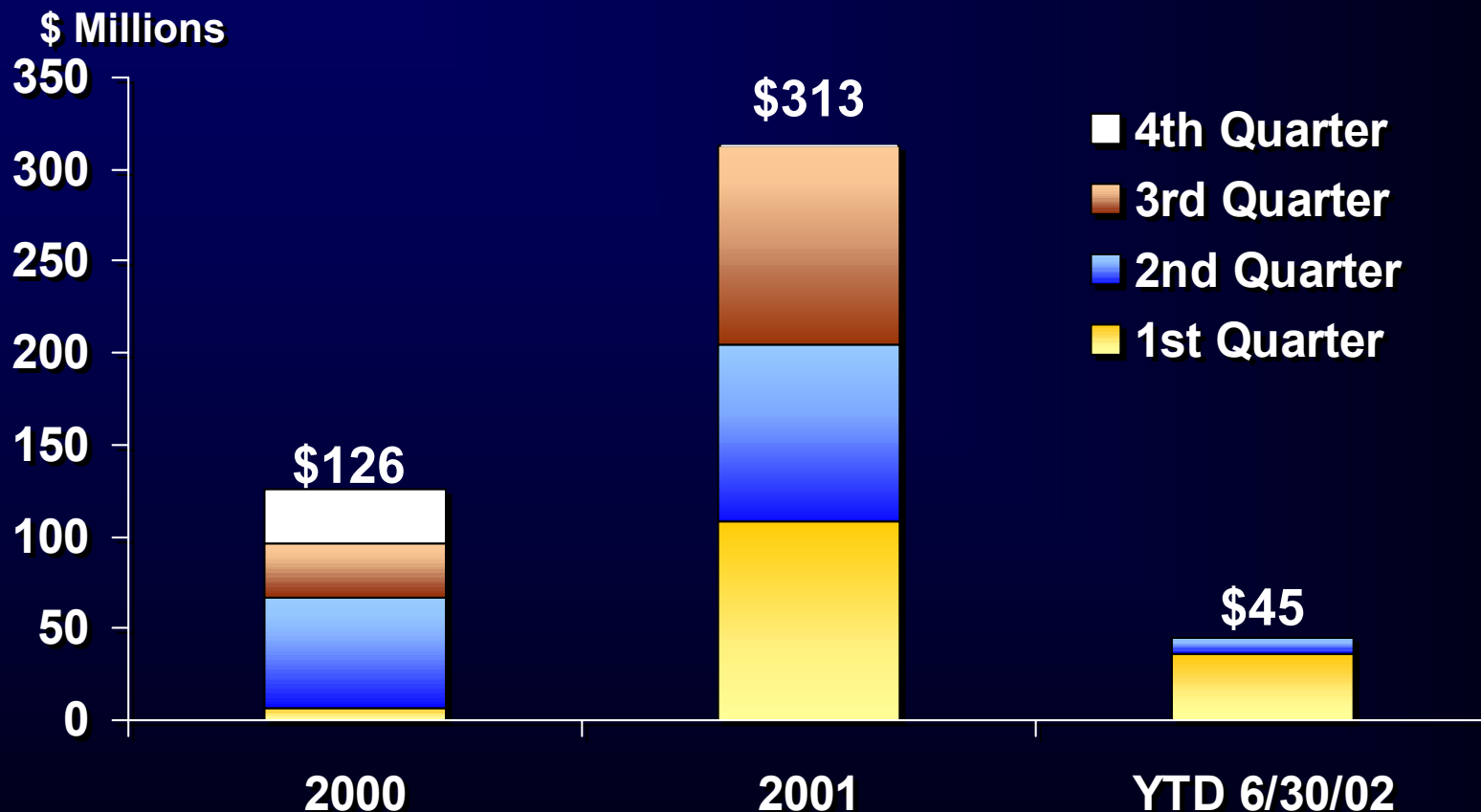
Performance Assessment - Managing Fuel & Purchase Power Cost for APS Retail Load



Actual savings = approximately \$80 million
Exposure avoided = approximately \$440 million

Performance Assessment

Marketing & Trading Pretax Gross Margin*



Total = \$484M (Before Income Taxes)

* Excluding APS Energy Services

Looking Forward External Drivers

- California
- FERC
- Rating Agencies
- FASB/EITF

Looking Forward

Native Load Hedging Activities

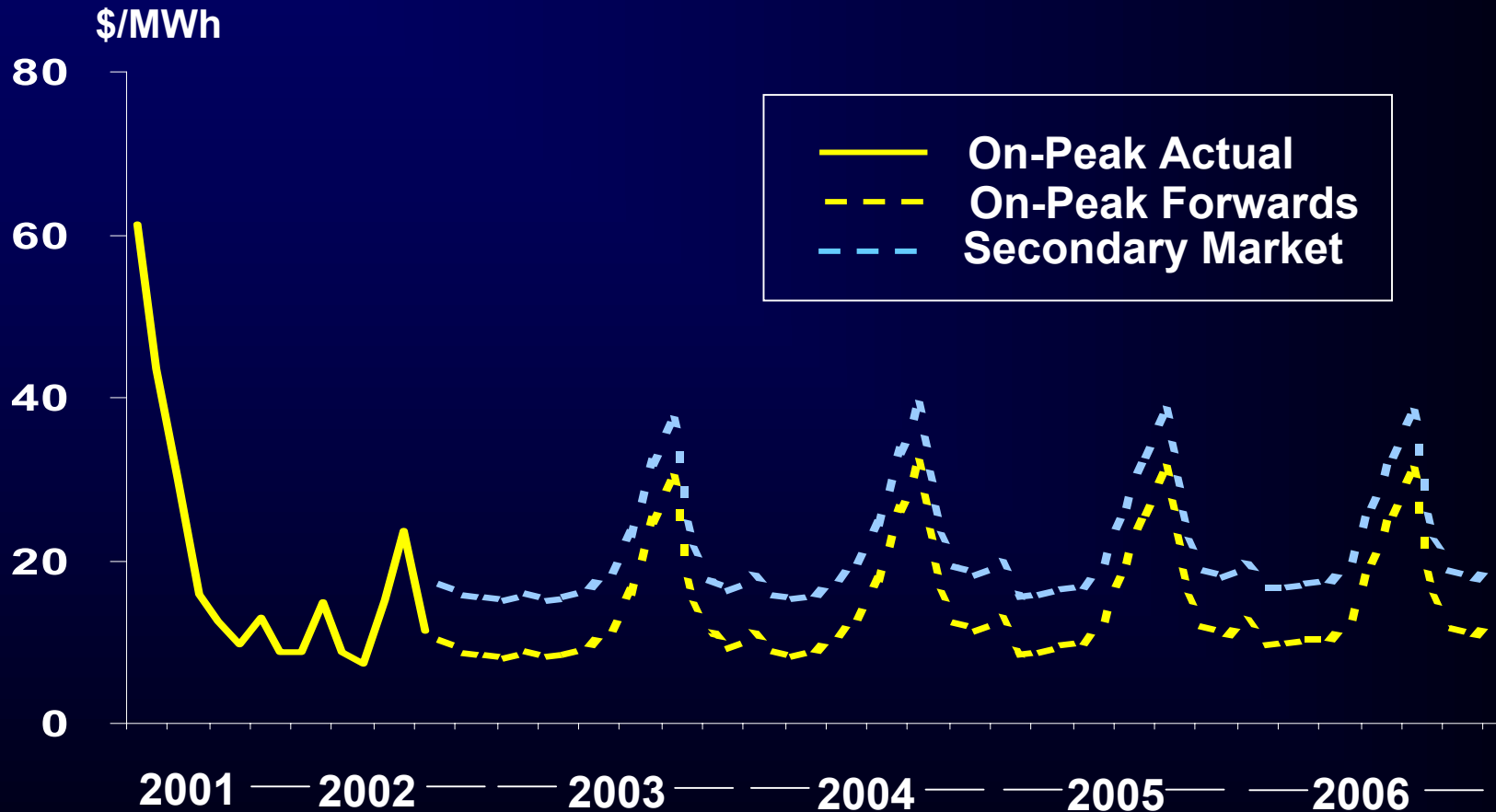
- **Less market liquidity** -
- **Depressed electricity prices** +
- **Lower price volatility** +
- **Improved counterparty credit** +

Looking Forward

Wholesale Marketing & Trading

- **Less market liquidity** +
- **Depressed electricity prices** -
- **Market reputation** +
- **Asset-backed** +
- **Silverhawk Generating Station** +
- **Contract assignment opportunities** +

Western Power Markets Spark Spreads



Assumes 7MMBTU/MWh heat rate

Pinnacle West Marketing & Trading Conclusion

- **The impacts of volatile commodity markets are unwelcome by both customers and shareholders and must be managed at the wholesale level.**
- **Power marketing and trading is, and will continue to be, a vital component of utility and merchant generation operations for the foreseeable future.**