Pinnacle West Capital Corporation
Earnings Variance Explanations
For Three-Month Periods Ended March 31, 2009 and 2008

The following earnings variance explanations were excerpted from the Pinnacle West Capital Corporation ("Pinnacle West")/Arizona Public Service Company ("APS") Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2009 (the "March 2009 Form 10-Q"). We suggest that this discussion be read in connection with the Pinnacle West/APS Annual Report on Form 10-K for the fiscal year ended December 31, 2008 and the March 2009 Form 10-Q. Additional operating and financial statistics and a glossary of terms are available on our website (www.pinnaclewest.com).

EARNINGS CONTRIBUTION BY BUSINESS SEGMENT

Pinnacle West's two reportable business segments are:

- our regulated electricity segment, which consists of traditional regulated retail and wholesale electricity businesses (primarily electric service to Native Load customers) and related activities and includes electricity generation, transmission and distribution; and

- our real estate segment, which consists of SunCor's real estate development and investment activities.

The following table presents loss from continuing operations for our regulated electricity and real estate segments and reconciles those amounts to our consolidated net income (loss) (dollars in millions):

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Regulated electricity segment	$ (20)	$ (6)
Real estate segment (a)	(143)	(4)
All other (b)	(5)	4
Loss from continuing operations	(168)	(6)
Income (loss) from discontinued operations – net of tax:		
Real estate segment (a)	(3)	3
All other (b)	-	(1)
Net Loss	(171)	(4)
Less: Net loss attributable to noncontrolling interests – real estate segment (a) (c)	(14)	-
Net loss attributable to common shareholders	$ (157)	$ (4)

(a) We recorded an after-tax real estate impairment charge in the first quarter of 2009 of $123 million on a Pinnacle West consolidated basis.

(b) Includes activities related to marketing and trading, APSES and El Dorado. None of these segments is a reportable segment.

(c) See Note 19 regarding the adoption of SFAS No. 160.

PINNACLE WEST CONSOLIDATED – RESULTS OF OPERATIONS

Operating Results – Three-month period ended March 31, 2009 compared with three-month period ended March 31, 2008

Our consolidated net loss attributable to common shareholders for the three months ended March 31, 2009 was $157 million, compared with a net loss of $4 million for the comparable prior-year period. The major factors that increased or decreased the net loss attributable to common shareholders for the three-month comparison are summarized in the following table (dollars in millions):

	Increase (Decrease)	
	Pretax	After Tax
Regulated electricity segment:		
Interim retail rate increase effective January 1, 2009	$ 13	$ 8
Transmission rate increases effective July 1, 2008 (including related retail rates)	6	4
Lower mark-to-market valuations of fuel and purchased power contracts related to changes in market prices, net of related PSA deferrals	(19)	(12)
Effects of milder weather on retail sales	(13)	(8)
Higher depreciation and amortization primarily due to increased utility plant in service	(4)	(2)
Higher interest expense, net of capitalized financing costs, primarily due to higher debt balances	(4)	(3)
Miscellaneous items, net	(1)	(1)
Increase in regulated electricity segment net loss	(22)	(14)
Real estate segment:		
Real estate impairment charge (Note 21)	(211)	(134)
Higher real estate segment costs primarily related to employee severance and other disposition costs	(9)	(5)
All other:		
Lower marketing and trading contributions primarily due to lower sales volumes	(7)	(4)
Increase in other expense, net of other income, primarily due to higher investment losses	(6)	(4)
Other miscellaneous items, net	(1)	(1)
Increase in loss from continuing operations	$ (256)	(162)
Decrease in discontinued operations primarily related to the impairment of certain real estate properties (Note 21)		(5)
Increase in net loss		(167)
Less: Net loss attributable to real estate noncontrolling interests primarily due to real estate impairment		(14)
Increase in net loss attributable to common shareholders		$ (153)

Regulated Electricity Segment Revenues

Regulated electricity segment revenues were $20 million lower for the three months ended March 31, 2009 compared with the prior-year period primarily because of:

- a $22 million decrease in retail revenues due to the effects of weather;
- a $22 million decrease in retail revenues related to recovery of PSA deferrals, which had no earnings effect because of amortization of the same amount recorded as fuel and purchased power expense (see Note 5);
- a $7 million decrease in retail revenues primarily related to lower average usage per customer, excluding weather effects;

- a $19 million increase in retail revenues due to an interim rate increase effective January 2009 and transmission rate increases in 2008 (including related retail rates);
- a $16 million increase in renewable energy surcharges, which had no earnings effect because of amortization of the same amount recorded as operations and maintenance expense; and
- a $4 million net decrease due to miscellaneous factors.

Real Estate Segment Revenues

Real estate segment revenues were $8 million lower for the three months ended March 31, 2009 compared with the prior-year period primarily because of lower residential property sales as a result of the distressed real estate markets.

All Other Revenues

Other revenues were $31 million lower for the three months ended March 31, 2009 compared with the prior-year period because of planned reductions of marketing and trading activities.