



**PINNACLE WEST**  
CAPITAL CORPORATION

## **Earnings Release Kit Third Quarter 2011**

**This kit contains the following documents:**

- Earnings release with comparative income statement
- Earnings variance explanations
- Quarterly statistics summary
- Comparative financial statements for PNW and APS

Copies of individual items are available on our website at [www.pinnaclewest.com](http://www.pinnaclewest.com). For further analysis, quarterly statistics and other information for 2009-2010 are also available on our website.

**FOR IMMEDIATE RELEASE**

**November 1, 2011**

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## **PINNACLE WEST REPORTS IMPROVED THIRD-QUARTER RESULTS**

- *Record-setting temperatures drive higher retail sales*
- *Operations and maintenance costs decrease*
- *Renewable resource expansion progresses*
- *Company expects 2011 earnings near top of guidance range*

PHOENIX – Pinnacle West Capital Corp. (NYSE: PNW) today reported consolidated net income attributable to common shareholders of \$255.4 million, or \$2.32 per diluted share of common stock, for the quarter ended September 30, 2011. This result compares with net income attributable to common shareholders of \$233.9 million, or \$2.14 per diluted share, in the same period a year ago.

“Driven largely by record-setting temperatures, our third-quarter results substantially offset the effects of extremely mild weather in the second quarter. Additionally, the Company effectively controlled costs, and our power plants operated well throughout the summer,” said Pinnacle West Chairman, President and Chief Executive Officer Don Brandt. “These factors set our expectations for full-year earnings near the top of our guidance range.”

Regarding new energy resources, Brandt said the Company has made solid progress in developing the first 100-megawatt phase of its AZ Sun Program – Arizona Public Service Co.’s (APS) plan to develop and own utility-scale solar power plants in Arizona. The first of these projects are now delivering 34 megawatts of power to the electric grid. These facilities are the Paloma and Cotton Center plants, which are 17 megawatts each and located in Gila Bend, Ariz. The balance of the first-phase projects are expected to come online between now and 2013. A second 100-megawatt phase of the AZ Sun Program is currently pending approval by the Arizona Corporation Commission.

“We intend to continue working with regulators and other stakeholders to realize our state’s immense solar potential, as well as its energy efficiency goals,” added Brandt. “These are important steps in creating a reliable, cleaner and more efficient energy future for Arizona.”

Excluding results of discontinued operations (primarily related to the Company's real estate activities and former energy services business), Pinnacle West's consolidated on-going earnings in the 2011 third quarter were \$245.8 million, or \$2.24 per diluted share of common stock, compared with on-going earnings of \$224.4 million, or \$2.06 per share, for the same quarter in 2010.

For the 2011 third quarter, income from discontinued operations was comprised of an after-tax gain of \$10 million resulting from Pinnacle West's sale of APS Energy Services in August 2011. Third-quarter 2010 income from discontinued operations was primarily related to the Company's discontinued real estate operations. A reconciliation of on-going earnings to net income attributable to common shareholders is provided at the end of this release.

The third-quarter on-going results comparison was positively impacted by the following factors:

- *Hotter-than-normal weather* – particularly in August, which tied the hottest month ever recorded in Arizona – improved the Company's earnings by \$0.10 per share. The average temperature for August was 98.3 degrees. This daily average tied the previous record set in July 2009. Further, the average high temperature in the 2011 third quarter was 106.4 degrees, leading to a total of 1,383 cooling degree-days (a proxy for the effects of weather) – 13 percent more than normal and 6 percent more than the year-ago quarter.
- *A decrease in operations and maintenance expenses* improved earnings by \$0.10 per share, due largely to lower employee benefit costs and the timing of planned power plant maintenance. The variance excludes costs associated with renewable energy and energy efficiency programs, which are offset by comparable amounts of operating revenues.
- *Higher transmission revenues* improved earnings by \$0.04 per share, primarily because of a retail transmission rate increase implemented in July 2011.

The net effect of other miscellaneous factors decreased earnings by \$0.06 per share.

APS, the Company's principal subsidiary, reported 2011 third-quarter net income attributable to common shareholder of \$246.3 million versus earnings of \$226.6 million for the comparable 2010 quarter.

### **2011 Earnings Outlook**

The Company expects its 2011 consolidated on-going earnings will be near the top of the range of \$2.75 to \$2.90 per diluted share.

Key factors and assumptions underlying the outlook remain unchanged, except for the following:

- Electricity gross margin (operating revenues, net of fuel and purchased power expenses, excluding Renewable Energy Surcharge and similar rate adjustors) of about \$2.03 billion to \$2.08 billion, which was previously expected to be \$2.01 billion to \$2.06 billion;
- Actual weather for the first nine months of the year and normal weather patterns for remainder of the year; and
- Operating expenses (operations and maintenance, excluding costs for Renewable Energy Standard and similar regulatory programs; depreciation and amortization; and taxes other than income taxes) of about \$1.32 billion to \$1.35 billion, which was previously expected to be \$1.33 billion to \$1.36 billion.

#### **Conference Call and Web Cast**

Pinnacle West invites interested parties to listen to the live web cast of management's conference call to discuss the Company's 2011 third-quarter results, as well as recent developments, at 12:00 noon (ET) today, November 1. The web cast can be accessed at [www.pinnaclewest.com/presentations](http://www.pinnaclewest.com/presentations) and will be available for replay on the web site for 30 days. To access the live conference call by telephone, dial (877) 407-8035 or (201) 689-8035 for international callers. A replay of the call also will be available until 11:59 p.m. (ET), Tuesday, November 8, 2011, by calling (877) 660-6853 in the U.S. and Canada or (201) 612-7415 internationally and entering Account number 286, followed by Conference ID number 380937.

#### **General Information**

Pinnacle West Capital, an energy holding company based in Phoenix, has consolidated assets of about \$13.2 billion, more than 6,300 megawatts of generating capacity and about 6,700 employees in Arizona and New Mexico. Through its principal subsidiary, Arizona Public Service, the Company provides retail electricity service to more than 1.1 million Arizona homes and businesses. For more information about Pinnacle West, visit the Company's website at [pinnaclewest.com](http://pinnaclewest.com).

Dollar amounts in this news release are after income taxes. Earnings per share amounts are based on average diluted common shares outstanding. For more information on Pinnacle West's operating statistics and earnings, please visit [www.pinnaclewest.com/investors](http://www.pinnaclewest.com/investors).

**PINNACLE WEST CAPITAL CORPORATION**  
**NON-GAAP FINANCIAL MEASURE RECONCILIATION**  
**NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS**  
**(GAAP MEASURE) TO ON-GOING EARNINGS (NON-GAAP FINANCIAL MEASURE)**

	Three Months Ended Sept. 30, 2011		Three Months Ended Sept. 30, 2010	
	Dollars in Millions	Diluted EPS	Dollars in Millions	Diluted EPS
Net Income Attributable to Common Shareholders	\$ 255.4	\$ 2.32	\$ 233.9	\$ 2.14
Less adjustments:				
Discontinued real estate operations	1.1	0.01	(8.3)	(0.07)
Discontinued energy services business	(10.7)	(0.09)	(1.2)	(0.01)
On-going Earnings	<u>\$ 245.8</u>	<u>\$ 2.24</u>	<u>\$ 224.4</u>	<u>\$ 2.06</u>

**NON-GAAP FINANCIAL INFORMATION**

In this press release, we refer to “on-going earnings.” On-going earnings is a “non-GAAP financial measure,” as defined in accordance with SEC rules. We believe on-going earnings provide investors with a useful indicator of our results that is comparable among periods because it excludes the effects of unusual items that may occur on an irregular basis. Investors should note that these non-GAAP financial measures involve judgments by management, including whether an item is classified as an unusual item. We use on-going earnings, or similar concepts, to measure our performance internally in reports for management.

**FORWARD-LOOKING STATEMENTS**

This press release contains forward-looking statements based on our current expectations, including statements regarding our 2011 earnings outlook. These forward-looking statements are often identified by words such as “estimate,” “predict,” “may,” “believe,” “plan,” “expect,” “require,” “intend,” “assume” and similar words. Because actual results may differ materially from expectations, we caution readers not to place undue reliance on these statements. A number of factors could cause future results to differ materially from historical results, or from outcomes currently expected or sought by Pinnacle West or APS. These factors include, but are not limited to:

- our ability to achieve timely and adequate rate recovery of our costs, including returns on debt and equity capital;
- our ability to manage capital expenditures and other costs while maintaining reliability and customer service levels;
- variations in demand for electricity, including those due to weather, the general economy, customer and sales growth (or decline), and the effects of energy conservation measures and distributed generation;
- power plant and transmission system performance and outages;
- volatile fuel and purchased power costs;
- fuel and water supply availability;
- regulatory and judicial decisions, developments and proceedings;
- new legislation or regulation including those relating to environmental requirements and nuclear plant operations;
- our ability to meet renewable energy and energy efficiency mandates and recover related costs;
- risks inherent in the operation of nuclear facilities, including spent fuel disposal uncertainty;

- competition in retail and wholesale power markets;
- the duration and severity of the economic decline in Arizona and current real estate market conditions;
- the cost of debt and equity capital and the ability to access capital markets when required;
- changes to our credit ratings;
- the investment performance of the assets of our nuclear decommissioning trust, pension, and other postretirement benefit plans and the resulting impact on future funding requirements;
- the liquidity of wholesale power markets and the use of derivative contracts in our business;
- potential shortfalls in insurance coverage;
- new accounting requirements or new interpretations of existing requirements;
- generation, transmission and distribution facility and system conditions and operating costs;
- the ability to meet the anticipated future need for additional baseload generation and associated transmission facilities in our region;
- the willingness or ability of our counterparties, power plant participants and power plant land owners to meet contractual or other obligations or extend the rights for continued power plant operations;
- technological developments affecting the electric industry; and
- restrictions on dividends or other provisions in our credit agreements and Arizona Corporation Commission orders.

These and other factors are discussed in Risk Factors described in Item 1A of the Pinnacle West/APS Annual Report on Form 10-K for the fiscal year ended December 31, 2010, and in Part II, Item 1A of the Pinnacle West/APS Quarterly Reports on Form 10-Q for the quarters ended June 30, 2011, and September 30, 2011, which readers should review carefully before placing any reliance on our financial statements, disclosures or our earnings outlook. Neither Pinnacle West nor APS assumes any obligation to update these statements, even if our internal estimates change, except as required by law.

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**PINNACLE WEST CAPITAL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
(unaudited)  
(dollars and shares in thousands, except per share amounts)

	THREE MONTHS ENDED		Increase (Decrease)	
	SEPTEMBER 30,		Amount	Percent
	2011	2010		
<b>Operating Revenues</b>				
Regulated electricity	\$ 1,124,049	\$ 1,116,211	\$ 7,838	0.7% B
Other revenues	792	499	293	58.7% B
Total	<u>1,124,841</u>	<u>1,116,710</u>	<u>8,131</u>	0.7% B
<b>Operating Expenses</b>				
Regulated electricity fuel and purchased power	337,896	353,904	(16,008)	4.5% B
Operations and maintenance	210,035	219,658	(9,623)	4.4% B
Depreciation and amortization	106,350	104,177	2,173	2.1% W
Taxes other than income taxes	34,223	37,528	(3,305)	8.8% B
Other expenses	1,320	1,169	151	12.9% W
Total	<u>689,824</u>	<u>716,436</u>	<u>(26,612)</u>	3.7% B
<b>Operating Income</b>	<u>435,017</u>	<u>400,274</u>	<u>34,743</u>	8.7% B
<b>Other</b>				
Allowance for equity funds used during construction	7,378	5,524	1,854	33.6% B
Other income	441	4,261	(3,820)	89.7% W
Other expense	(3,052)	(3,894)	842	21.6% B
Total	<u>4,767</u>	<u>5,891</u>	<u>(1,124)</u>	19.1% W
<b>Interest Expense</b>				
Interest charges	62,034	60,419	1,615	2.7% W
Allowance for borrowed funds used during construction	(6,939)	(6,163)	(776)	12.6% B
Total	<u>55,095</u>	<u>54,256</u>	<u>839</u>	1.5% W
<b>Income From Continuing Operations Before Income Taxes</b>	384,689	351,909	32,780	9.3% B
<b>Income Taxes</b>	<u>131,416</u>	<u>122,347</u>	<u>9,069</u>	7.4% W
<b>Income From Continuing Operations</b>	253,273	229,562	23,711	10.3% B
<b>Income From Discontinued Operations</b>				
Net of Income Taxes	<u>9,512</u>	<u>9,477</u>	<u>35</u>	0.4% B
<b>Net Income</b>	262,785	239,039	23,746	9.9% B
Less: Net income attributable to noncontrolling interests	7,426	5,119	2,307	45.1% W
<b>Net Income Attributable To Common Shareholders</b>	<u>\$ 255,359</u>	<u>\$ 233,920</u>	<u>\$ 21,439</u>	9.2% B
<b>Weighted-Average Common Shares Outstanding - Basic</b>	109,128	108,632	496	0.5%
<b>Weighted-Average Common Shares Outstanding - Diluted</b>	109,861	109,094	767	0.7%
<b>Earnings Per Weighted-Average Common Share Outstanding</b>				
Income from continuing operations attributable to common shareholders - basic	\$ 2.25	\$ 2.07	\$ 0.18	8.7% B
Net income attributable to common shareholders - basic	\$ 2.34	\$ 2.15	\$ 0.19	8.8% B
Income from continuing operations attributable to common shareholders - diluted	\$ 2.24	\$ 2.06	\$ 0.18	8.7% B
Net income attributable to common shareholders - diluted	\$ 2.32	\$ 2.14	\$ 0.18	8.4% B
<b>Amounts Attributable To Common Shareholders</b>				
Income from continuing operations, net of tax	\$ 245,838	\$ 224,434	\$ 21,404	9.5% B
Discontinued operations, net of tax	9,521	9,486	35	0.4% B
Net income attributable to common shareholders	<u>\$ 255,359</u>	<u>\$ 233,920</u>	<u>\$ 21,439</u>	9.2% B

B -- Better  
W -- Worse

**PINNACLE WEST CAPITAL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(unaudited)

(dollars and shares in thousands, except per share amounts)

	NINE MONTHS ENDED		Increase (Decrease)	
	SEPTEMBER 30,		Amount	Percent
	2011	2010		
<b>Operating Revenues</b>				
Regulated electricity	\$ 2,570,692	\$ 2,527,052	\$ 43,640	1.7% B
Other revenues	2,795	4,715	(1,920)	40.7% W
Total	<u>2,573,487</u>	<u>2,531,767</u>	<u>41,720</u>	1.6% B
<b>Operating Expenses</b>				
Regulated electricity fuel and purchased power	793,952	821,244	(27,292)	3.3% B
Operations and maintenance	675,654	639,580	36,074	5.6% W
Depreciation and amortization	319,550	307,806	11,744	3.8% W
Taxes other than income taxes	112,002	100,933	11,069	11.0% W
Other expenses	4,536	3,572	964	27.0% W
Total	<u>1,905,694</u>	<u>1,873,135</u>	<u>32,559</u>	1.7% W
<b>Operating Income</b>	<u>667,793</u>	<u>658,632</u>	<u>9,161</u>	1.4% B
<b>Other</b>				
Allowance for equity funds used during construction	18,697	16,417	2,280	13.9% B
Other income	2,630	3,851	(1,221)	31.7% W
Other expense	(7,921)	(8,768)	847	9.7% B
Total	<u>13,406</u>	<u>11,500</u>	<u>1,906</u>	16.6% B
<b>Interest Expense</b>				
Interest charges	183,251	181,937	1,314	0.7% W
Allowance for borrowed funds used during construction	(14,371)	(12,254)	(2,117)	17.3% B
Total	<u>168,880</u>	<u>169,683</u>	<u>(803)</u>	0.5% B
<b>Income From Continuing Operations Before Income Taxes</b>	512,319	500,449	11,870	2.4% B
<b>Income Taxes</b>	<u>176,229</u>	<u>165,882</u>	<u>10,347</u>	6.2% W
<b>Income From Continuing Operations</b>	336,090	334,567	1,523	0.5% B
<b>Income From Discontinued Operations</b>				
<b>Net of Income Taxes</b>	<u>10,860</u>	<u>23,141</u>	<u>(12,281)</u>	53.1% W
<b>Net Income</b>	346,950	357,708	(10,758)	3.0% W
Less: Net income attributable to noncontrolling interests	20,041	15,005	5,036	33.6% W
<b>Net Income Attributable To Common Shareholders</b>	<u>\$ 326,909</u>	<u>\$ 342,703</u>	<u>\$ (15,794)</u>	4.6% W
<b>Weighted-Average Common Shares Outstanding - Basic</b>	109,003	105,846	3,157	3.0%
<b>Weighted-Average Common Shares Outstanding - Diluted</b>	109,683	106,318	3,365	3.2%
<b>Earnings Per Weighted-Average Common Share Outstanding</b>				
Income from continuing operations attributable to common shareholders - basic	\$ 2.90	\$ 3.02	\$ (0.12)	4.0% W
Net income attributable to common shareholders - basic	\$ 3.00	\$ 3.24	\$ (0.24)	7.4% W
Income from continuing operations attributable to common shareholders - diluted	\$ 2.88	\$ 3.01	\$ (0.13)	4.3% W
Net income attributable to common shareholders - diluted	\$ 2.98	\$ 3.22	\$ (0.24)	7.5% W
<b>Amounts Attributable To Common Shareholders</b>				
Income from continuing operations, net of tax	\$ 316,001	\$ 319,533	\$ (3,532)	1.1% W
Discontinued operations, net of tax	10,908	23,170	(12,262)	52.9% W
Net income attributable to common shareholders	<u>\$ 326,909</u>	<u>\$ 342,703</u>	<u>\$ (15,794)</u>	4.6% W

B -- Better

W -- Worse

**Pinnacle West Capital Corporation**  
**Earnings Variance Explanations**  
**For Three-Month and Nine-Month Periods Ended September 30, 2011 and 2010**

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 September 30, 2011 (the “September 2011 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, 2010 and the September 2011 Form 10-Q. Additional operating and financial statistics and a glossary of terms are available on our website ([www.pinnaclewest.com](http://www.pinnaclewest.com)).

**RESULTS OF OPERATIONS**

Pinnacle West’s reportable business segment is our regulated electricity segment, which consists of traditional regulated retail and wholesale electricity businesses (primarily electricity service to Native Load customers) and related activities and includes electricity generation, transmission and distribution.

APSES’s and SunCor’s operations have been classified as discontinued operations. Pinnacle West sold its investment in APSES in August 2011.

**Operating Results – Three-month period ended September 30, 2011 compared with three-month period ended September 30, 2010**

Our consolidated net income attributable to common shareholders for the three months ended September 30, 2011 was \$255 million, compared with net income of \$234 million for the comparable prior-year period. The increase in results from continuing operations reflects an increase of approximately \$21 million for the regulated electricity segment primarily due to increased revenues related to warmer weather and decreased operations and maintenance expenses.

The following table presents net income attributable to common shareholders by business segment compared with the prior-year period:

	Three Months Ended September 30,		Net Change
	2011	2010	
	(dollars in millions)		
<b>Regulated Electricity Segment:</b>			
Operating revenues less fuel and purchased power expenses	\$ 786	\$ 762	\$ 24
Operations and maintenance	(210)	(220)	10
Depreciation and amortization	(106)	(104)	(2)
Taxes other than income taxes	(34)	(38)	4
Other income (expenses), net	(3)	-	(3)
Interest charges, net of allowances for funds used during construction	(48)	(48)	--
Income taxes	(132)	(122)	(10)
Less income related to noncontrolling interests (Note 7)	(7)	(5)	(2)
Regulated electricity segment income from continuing operations	246	225	21
<b>Income from Discontinued Operations</b>			
Attributable to Common Shareholders (a)	9	9	-
Net Income Attributable to Common Shareholders	\$ 255	\$ 234	\$ 21

(a) Includes activities related to APSES and SunCor.

### Regulated electricity segment

This section includes a discussion of major variances in income and expense amounts for the regulated electricity segment.

**Operating revenues less fuel and purchased power expenses** Regulated electricity segment operating revenues less fuel and purchased power expenses were \$24 million higher for the three months ended September 30, 2011 compared with the prior-year period. The following table describes the major components of this change:

	Increase (Decrease)		
	Operating revenues	Fuel and purchased power expenses	Net change
	(dollars in millions)		
Effects of weather on retail sales	\$ 27	\$ 9	\$ 18
Higher retail transmission charges	7		7
Higher demand-side management, renewable energy and similar regulatory surcharges (substantially offset in operations and maintenance expense)	6	-	6
Lower retail revenues related to refund of PSA deferrals, substantially offset by lower amortization of fuel and purchased power expense	(12)	(14)	2
Higher fuel and purchased power costs and lower off-system sales, net of related PSA deferrals	(17)	(13)	(4)
Miscellaneous items, net	(3)	2	(5)
<b>Total</b>	<b>\$ 8</b>	<b>\$ (16)</b>	<b>\$ 24</b>

**Operations and maintenance** Operations and maintenance expenses decreased \$10 million for the three months ended September 30, 2011 compared with the prior-year period primarily because of:

- A decrease of \$11 million related to employee benefit costs;
- A decrease of \$9 million in generation costs, primarily due to timing of planned fossil plant maintenance and other costs;
- An increase of \$8 million related to costs for demand-side management, renewable energy, and similar regulatory programs, which are offset in operating revenues; and
- An increase of \$2 million due to other miscellaneous factors.

**Income taxes** Income taxes were \$10 million higher for the three months ended September 30, 2011 compared with the prior-year period primarily due to higher pretax income in the current-year period.

### Discontinued Operations

Income from discontinued operations for the three months ended September 30, 2011 included a gain of approximately \$10 million after income taxes related to the sale of our investment in APSES. Income from discontinued operations for the period ended September 30, 2010 of \$9 million related primarily to real estate activities.

**Operating Results – Nine-month period ended September 30, 2011 compared with nine-month period ended September 30, 2010**

Our consolidated net income attributable to common shareholders for the nine months ended September 30, 2011 was \$327 million, compared with net income of \$343 million for the comparable prior-year period. The \$16 million variance consists of a \$4 million decrease in income from continuing operations and a \$12 million decrease in income from discontinued operations. The reduction in income from continuing operations reflects a decrease of approximately \$3 million for the regulated electricity segment. Increased revenues related to warmer weather and higher retail customer usage were offset by higher depreciation and amortization due to increased plant in service, higher property taxes due to increased property tax rates and higher income taxes resulting from income tax benefits recognized in the prior-year period.

In addition, income from discontinued operations for the nine months ended September 30, 2011 included a gain of approximately \$10 million after income taxes related to the sale of our investment in APSES. Income from discontinued operations in the prior-year period is primarily due to a gain of \$25 million related to the sale of APSES's district cooling business.

The following table presents net income attributable to common shareholders by business segment compared with the prior-year period:

	Nine Months Ended September 30,		Net Change
	2011	2010	
	(dollars in millions)		
<b>Regulated Electricity Segment:</b>			
Operating revenues less fuel and purchased power expenses (a)	\$ 1,777	\$ 1,706	\$ 71
Operations and maintenance (a)	(676)	(639)	(37)
Depreciation and amortization	(320)	(308)	(12)
Taxes other than income taxes	(112)	(101)	(11)
Other income (expenses), net	(5)	(5)	--
Interest charges, net of allowances for funds used during construction	(150)	(152)	2
Income taxes	(177)	(166)	(11)
Less income related to noncontrolling interests (Note 7)	(20)	(15)	(5)
Regulated electricity segment income from continuing operations	317	320	(3)
All other	(1)	--	(1)
Income from Continuing Operations Attributable to Common Shareholders	316	320	(4)
Income from Discontinued Operations Attributable to Common Shareholders (b)	11	23	(12)
Net Income Attributable to Common Shareholders	\$ 327	\$ 343	\$ (16)

(a) Includes effects of settlement of certain prior-period transmission rights-of-way related to Four Corners, which did not affect net income, but increased both electric operating revenues and operations and maintenance expenses by \$28 million. Costs related to the settlement were offset by related revenues from SCE, which leases the related transmission line from APS.

(b) Includes activities related to APSES and SunCor.

### Regulated electricity segment

This section includes a discussion of major variances in income and expense amounts for the regulated electricity segment.

**Operating revenues less fuel and purchased power expenses** Regulated electricity segment operating revenues less fuel and purchased power expenses were \$71 million higher for the nine months

ended September 30, 2011 compared with the prior-year period. The following table describes the major components of this change:

	Increase (Decrease)		
	Operating revenues	Fuel and purchased power expenses	Net change
	(dollars in millions)		
Settlement of certain prior-period transmission rights-of-way (offset in operations and maintenance expense)	\$ 28	\$ -	\$ 28
Effects of weather on retail sales	33	12	21
Higher demand-side management, renewable energy and similar regulatory surcharges (substantially offset in operations and maintenance expense)	16	2	14
Higher retail revenues primarily due to higher usage per customer, excluding the effects of weather, but including the effects of APS's energy efficiency programs	7	4	3
Lower retail revenues related to refund of PSA deferrals, substantially offset by lower amortization of fuel and purchased power expense	(25)	(30)	5
Higher fuel and purchased power costs and lower off-system sales, net of related PSA deferrals	(19)	(19)	--
Miscellaneous items, net	4	4	--
<b>Total</b>	<u>\$ 44</u>	<u>\$ (27)</u>	<u>\$ 71</u>

**Operations and maintenance** Operations and maintenance expenses increased \$37 million for the nine months ended September 30, 2011 compared with the prior-year period primarily because of:

- An increase of \$28 million for settlement of certain transmission rights-of-way, which is offset in operating revenues;
- An increase of \$15 million related to costs for demand-side management, renewable energy, and similar regulatory programs, which are offset in operating revenues;
- A decrease of \$11 million related to employee benefit costs; and
- An increase of \$5 million due to other miscellaneous factors.

**Depreciation and amortization** Depreciation and amortization expenses were \$12 million higher for the nine months ended September 30, 2011 compared with the prior-year period primarily because of increased plant in service.

**Taxes other than income taxes** Taxes other than income taxes increased \$11 million for the nine months ended September 30, 2011 compared with the prior-year period primarily because of higher property tax rates in the current period.

**Income taxes** Income taxes were \$11 million higher for the nine months ended September 30, 2011 compared with the prior-year period. This is primarily due to \$8 million of income tax benefits recognized in the prior-year period related to a reduction in the Company's 2010 effective income tax rate and the effects of higher pretax income in the current period.

### **Discontinued Operations**

Income from discontinued operations for the nine months ended September 30, 2011 included a gain of \$10 million related to the sale of our investment in APSES. Income from discontinued operations for the nine months ended September 30, 2010 included a gain of \$25 million related to the sale of APSES's district cooling business.

**Pinnacle West Capital Corporation**  
**Quarterly Consolidated Statistical Summary**  
**Periods Ended September 30, 2011 and 2010**

**List of Contents**

**This file contains financial and operating statistics for the  
three-month and nine-month periods ended September 30, 2011 and 2010**

**The same statistics by quarter for 2009 and 2010 are available in the complete -  
format PDF and excel files, which are posted to this website**

**Please see the Glossary of Terms on this website for definitions of terms used in this summary**

## Pinnacle West Capital Corporation

**Quarterly Consolidated Statistical Summary**  
**Periods Ended September 30, 2011 and 2010**

Line	3 Months Ended September			9 Months Ended September		
	2011	2010	Incr (Decr)	2011	2010	Incr (Decr)
<b>EARNINGS CONTRIBUTION BY SUBSIDIARY (\$ Millions)</b>						
1	\$ 254	\$ 232	\$ 22	\$ 342	\$ 343	\$ (1)
2	-	-	-	-	-	-
3	-	-	-	-	-	-
4	-	1	(1)	-	1	(1)
5	(1)	(3)	2	(6)	(9)	3
6	253	230	23	336	335	1
Income (Loss) From Discontinued Operations - Net of Tax						
7	(2)	13	(15)	(2)	(9)	7
8	11	(4)	15	13	32	(19)
9	9	9	-	11	23	(12)
10	262	239	23	347	358	(11)
11	7	5	2	20	15	5
12	\$ 255	\$ 234	\$ 21	\$ 327	\$ 343	\$ (16)
<b>EARNINGS PER SHARE BY SUBSIDIARY - DILUTED</b>						
13	\$ 2.31	\$ 2.13	\$ 0.18	\$ 3.12	\$ 3.22	\$ (0.10)
14	-	-	-	-	-	-
15	-	-	-	-	-	-
16	-	0.01	(0.01)	-	0.01	(0.01)
17	-	(0.03)	0.03	(0.06)	(0.08)	0.02
18	2.31	2.11	0.20	3.06	3.15	(0.09)
Income (Loss) From Discontinued Operations - Net of Tax						
19	(0.02)	0.12	(0.14)	(0.02)	(0.09)	0.07
20	0.10	(0.04)	0.14	0.12	0.30	(0.18)
21	0.08	0.08	-	0.10	0.21	(0.11)
22	2.39	2.19	0.20	3.16	3.36	(0.20)
23	0.07	0.05	0.02	0.18	0.14	0.04
24	\$ 2.32	\$ 2.14	\$ 0.18	\$ 2.98	\$ 3.22	\$ (0.24)
25	\$ 35.67	\$ 34.19	\$ 1.48	\$ 35.67	\$ 34.19	\$ 1.48
<b>COMMON SHARES OUTSTANDING (Thousands)</b>						
26	109,861	109,094	767	109,683	106,318	3,365
27	109,171	108,710	461	109,171	108,710	461

## Pinnacle West Capital Corporation

**Quarterly Consolidated Statistical Summary**  
**Periods Ended September 30, 2011 and 2010**

Line	3 Months Ended September			9 Months Ended September			
	2011	2010	Incr (Decr)	2011	2010	Incr (Decr)	
<b>ELECTRIC OPERATING REVENUES (Dollars in Millions)</b>							
<b>REGULATED ELECTRICITY SEGMENT</b>							
<b>Retail</b>							
28	Residential	\$ 622	\$ 596	\$ 26	\$ 1,255	\$ 1,224	\$ 31
29	Business	440	445	(5)	1,119	1,116	3
30	Total retail	1,062	1,041	21	2,374	2,340	34
<b>Wholesale revenue on delivered electricity</b>							
31	Traditional contracts	24	20	4	54	54	0
32	Off-system sales	14	31	(17)	47	66	(19)
33	Transmission for others	8	10	(2)	24	27	(3)
34	Other miscellaneous services	16	15	1	71	41	30
35	Total regulated operating electricity revenues	1,124	1,117	7	2,571	2,528	43
<b>MARKETING AND TRADING</b>							
36	Electricity and other commodity sales	-	-	-	-	1	(1)
37	Total operating electric revenues	\$ 1,124	\$ 1,117	\$ 7	\$ 2,571	\$ 2,529	\$ 42
<b>ELECTRIC SALES (GWH)</b>							
<b>REGULATED ELECTRICITY SEGMENT</b>							
<b>Retail sales</b>							
38	Residential	5,072	4,890	182	10,692	10,422	270
39	Business	4,360	4,325	35	11,380	11,211	169
40	Total retail	9,432	9,215	217	22,072	21,633	439
<b>Wholesale electricity delivered</b>							
41	Traditional contracts	361	262	99	774	623	151
42	Off-system sales	550	785	(235)	1,886	2,068	(182)
43	Retail load hedge management	53	264	(211)	122	563	(441)
44	Total regulated electricity	10,396	10,526	(130)	24,853	24,887	(34)
<b>MARKETING AND TRADING</b>							
45	Wholesale sales of electricity	-	-	-	-	-	-
46	Total electric sales	10,396	10,526	(130)	24,853	24,887	(34)
<b>POWER SUPPLY ADJUSTOR ("PSA") - REGULATED ELECTRICITY SEGMENT (Dollars in Millions)</b>							
47	Deferred fuel and purchased power regulatory asset - beginning balance	\$ (54)	\$ (97)	\$ 43	\$ (58)	\$ (87)	\$ 29
48	Deferred fuel and purchased power costs - current period	34	15	19	(31)	(49)	18
49	Interest on deferred fuel	-	-	-	-	-	-
50	Amounts recovered through revenues	52	41	12	121	96	25
51	Deferred fuel and purchased power regulatory asset - ending balance	\$ 32	\$ (41)	\$ 73	\$ 32	\$ (41)	\$ 73

## Pinnacle West Capital Corporation

**Quarterly Consolidated Statistical Summary**  
**Periods Ended September 30, 2011 and 2010**

Line	3 Months Ended September			9 Months Ended September			
	2011	2010	Incr (Decr)	2011	2010	Incr (Decr)	
<b>AVERAGE ELECTRIC CUSTOMERS</b>							
<b>Retail customers</b>							
52	Residential	989,036	985,460	3,576	993,777	989,879	3,898
53	Business	126,118	125,118	1,000	125,823	125,349	474
54	Total	1,115,154	1,110,578	4,576	1,119,600	1,115,228	4,372
55	Wholesale customers	45	49	(4)	46	50	(4)
56	Total customers	1,115,199	1,110,627	4,572	1,119,647	1,115,278	4,369
57	Customer growth (% over prior year)	0.4%	0.6%	(0.2)%	0.4%	0.6%	(0.2)%
<b>RETAIL SALES (GWH) - WEATHER NORMALIZED</b>							
58	Residential	4,850	4,823	27	10,711	10,636	75
59	Business	4,289	4,337	(48)	11,400	11,372	28
60	Total	9,140	9,160	(21)	22,112	22,009	103
<b>RETAIL USAGE (KWh/Average Customer)</b>							
61	Residential	5,128	4,963	165	10,759	10,529	230
62	Business	34,570	34,565	5	90,442	89,437	1,005
<b>RETAIL USAGE - WEATHER NORMALIZED (KWh/Average Customer)</b>							
63	Residential	4,904	4,894	10	10,778	10,745	33
64	Business	34,009	34,665	(656)	90,607	90,726	(119)
<b>ELECTRICITY DEMAND (MW)</b>							
65	Native load peak demand	7,087	6,936	151	7,087	6,936	151
<b>WEATHER INDICATORS - RESIDENTIAL</b>							
<b>Actual</b>							
66	Cooling degree-days	1,383	1,299	84	1,758	1,680	78
67	Heating degree-days	-	-	-	614	520	94
68	Average humidity	27%	29%	(2)%	21%	24%	(2)%
<b>10-Year Averages</b>							
69	Cooling degree-days	1,225	1,225	-	1,737	1,737	-
70	Heating degree-days	-	-	-	513	513	-
71	Average humidity	29%	29%	-	24%	24%	0%

## Pinnacle West Capital Corporation

**Quarterly Consolidated Statistical Summary**  
**Periods Ended September 30, 2011 and 2010**

Line	3 Months Ended September			9 Months Ended September			
	2011	2010	Incr (Decr)	2011	2010	Incr (Decr)	
<b>ENERGY SOURCES (GWH)</b>							
<b>Generation production</b>							
72	Nuclear	2,435	2,534	(99)	7,061	6,910	151
73	Coal	3,382	3,101	281	9,319	9,224	95
74	Gas, oil and other	1,991	2,040	(49)	4,030	4,052	(22)
75	Total generation production	7,808	7,674	134	20,410	20,185	225
<b>Purchased power</b>							
76	Firm load	2,827	2,984	(157)	4,497	4,812	(315)
77	Marketing and trading	447	481	(34)	1,697	1,325	372
78	Total purchased power	3,274	3,465	(191)	6,194	6,137	57
79	Total energy sources	11,082	11,139	(57)	26,604	26,322	282
<b>POWER PLANT PERFORMANCE</b>							
<b>Capacity Factors</b>							
80	Nuclear	96%	100%	(4)%	94%	92%	2%
81	Coal	88%	80%	8%	81%	80%	1%
82	Gas, oil and other	26%	27%	(1)%	18%	18%	0%
83	System average	54%	55%	(1)%	50%	49%	1%
<b>ECONOMIC INDICATORS</b>							
<b>Building Permits - Metro Phoenix (a)(c)</b>							
84	Single-family	1,866	1,322	544	4,925	4,709	216
85	Multi-family	1,198	134	1,064	1,643	591	1,052
86	Total	3,064	1,456	1,608	6,568	5,300	1,268
<b>Arizona Job Growth (b)(c)</b>							
87	Payroll job growth (% over prior year)	1.6%	(1.5)%	3.2%	0.6%	(2.6)%	3.3%
88	Unemployment rate (%, seasonally adjusted)	9.3%	9.9%	(0.6)%	9.4%	10.0%	(0.7)%

Sources:

- (a) Arizona Real Estate Center, Arizona State University W.P. Carey College of Business  
(b) Arizona Department of Economic Security  
(c) Latest available data through September

**PINNACLE WEST CAPITAL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(unaudited)

(dollars and shares in thousands, except per share amounts)

	Three Months Ended September 30,	
	2011	2010
OPERATING REVENUES		
Regulated electricity	\$ 1,124,049	\$ 1,116,211
Other revenues	792	499
Total	<u>1,124,841</u>	<u>1,116,710</u>
OPERATING EXPENSES		
Regulated electricity fuel and purchased power	337,896	353,904
Operations and maintenance	210,035	219,658
Depreciation and amortization	106,350	104,177
Taxes other than income taxes	34,223	37,528
Other expenses	1,320	1,169
Total	<u>689,824</u>	<u>716,436</u>
OPERATING INCOME	<u>435,017</u>	<u>400,274</u>
OTHER INCOME (DEDUCTIONS)		
Allowance for equity funds used during construction	7,378	5,524
Other income (Note 11)	441	4,261
Other expense (Note 11)	(3,052)	(3,894)
Total	<u>4,767</u>	<u>5,891</u>
INTEREST EXPENSE		
Interest charges	62,034	60,419
Allowance for borrowed funds used during construction	(6,939)	(6,163)
Total	<u>55,095</u>	<u>54,256</u>
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	<u>384,689</u>	<u>351,909</u>
INCOME TAXES	131,416	122,347
INCOME FROM CONTINUING OPERATIONS	<u>253,273</u>	<u>229,562</u>
INCOME FROM DISCONTINUED OPERATIONS		
Net of income tax expense of \$6,216 and \$5,859 (Note 13)	9,512	9,477
NET INCOME	<u>262,785</u>	<u>239,039</u>
Less: Net income attributable to noncontrolling interests (Note 7)	7,426	5,119
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	<u>\$ 255,359</u>	<u>\$ 233,920</u>
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING – BASIC	109,128	108,632
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING – DILUTED	109,861	109,094
EARNINGS PER WEIGHTED-AVERAGE COMMON SHARE OUTSTANDING		
Income from continuing operations attributable to common shareholders – basic	\$ 2.25	\$ 2.07
Net income attributable to common shareholders – basic	2.34	2.15
Income from continuing operations attributable to common shareholders – diluted	2.24	2.06
Net income attributable to common shareholders – diluted	2.32	2.14
DIVIDENDS DECLARED PER SHARE	\$ --	\$ --
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS:		
Income from continuing operations, net of tax	\$ 245,838	\$ 224,434
Discontinued operations, net of tax	9,521	9,486
Net income attributable to common shareholders	<u>\$ 255,359</u>	<u>\$ 233,920</u>

See Notes to Pinnacle West's Condensed Consolidated Financial Statements.

**PINNACLE WEST CAPITAL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(unaudited)

(dollars and shares in thousands, except per share amounts)

	Nine Months Ended September 30,	
	2011	2010
OPERATING REVENUES		
Regulated electricity	\$ 2,570,692	\$ 2,527,052
Other revenues	2,795	4,715
Total	2,573,487	2,531,767
OPERATING EXPENSES		
Regulated electricity fuel and purchased power	793,952	821,244
Operations and maintenance	675,654	639,580
Depreciation and amortization	319,550	307,806
Taxes other than income taxes	112,002	100,933
Other expenses	4,536	3,572
Total	1,905,694	1,873,135
OPERATING INCOME	667,793	658,632
OTHER INCOME (DEDUCTIONS)		
Allowance for equity funds used during construction	18,697	16,417
Other income (Note 11)	2,630	3,851
Other expense (Note 11)	(7,921)	(8,768)
Total	13,406	11,500
INTEREST EXPENSE		
Interest charges	183,251	181,937
Allowance for borrowed funds used during construction	(14,371)	(12,254)
Total	168,880	169,683
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	512,319	500,449
INCOME TAXES	176,229	165,882
INCOME FROM CONTINUING OPERATIONS	336,090	334,567
INCOME FROM DISCONTINUED OPERATIONS		
Net of income tax expense of \$7,121 and \$14,873 (Note 13)	10,860	23,141
NET INCOME	346,950	357,708
Less: Net income attributable to noncontrolling interests (Note 7)	20,041	15,005
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ 326,909	\$ 342,703
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING – BASIC	109,003	105,846
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING – DILUTED	109,683	106,318
EARNINGS PER WEIGHTED-AVERAGE COMMON SHARE OUTSTANDING		
Income from continuing operations attributable to common shareholders – basic	\$ 2.90	\$ 3.02
Net income attributable to common shareholders – basic	3.00	3.24
Income from continuing operations attributable to common shareholders – diluted	2.88	3.01
Net income attributable to common shareholders – diluted	2.98	3.22
DIVIDENDS DECLARED PER SHARE	\$ 1.575	\$ 1.575
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS:		
Income from continuing operations, net of tax	\$ 316,001	\$ 319,533
Discontinued operations, net of tax	10,908	23,170
Net income attributable to common shareholders	\$ 326,909	\$ 342,703

See Notes to Pinnacle West's Condensed Consolidated Financial Statements.

**PINNACLE WEST CAPITAL CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(unaudited)  
(dollars in thousands)

	September 30, 2011	December 31, 2010
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 564,712	\$ 110,188
Customer and other receivables	365,868	324,207
Accrued unbilled revenues	184,169	103,292
Allowance for doubtful accounts	(4,126)	(7,981)
Materials and supplies (at average cost)	203,118	181,414
Fossil fuel (at average cost)	25,403	21,575
Deferred income taxes	107,732	124,897
Income tax receivable (Note 6)	--	2,483
Assets from risk management activities (Note 8)	27,713	73,788
Deferred fuel and purchased power regulatory asset (Note 3)	31,611	--
Other regulatory assets (Note 3)	55,852	62,286
Other current assets	29,183	28,362
Total current assets	1,591,235	1,024,511
<b>INVESTMENTS AND OTHER ASSETS</b>		
Assets from risk management activities (Note 8)	32,316	39,032
Nuclear decommissioning trust (Note 17)	488,551	469,886
Other assets	63,731	116,216
Total investments and other assets	584,598	625,134
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Plant in service and held for future use	13,423,406	13,201,960
Accumulated depreciation and amortization	(4,684,760)	(4,514,204)
Net	8,738,646	8,687,756
Construction work in progress	618,728	459,361
Palo Verde sale leaseback, net of accumulated depreciation (Note 7)	133,832	137,956
Intangible assets, net of accumulated amortization	176,401	184,952
Nuclear fuel, net of accumulated amortization	134,232	108,794
Total property, plant and equipment	9,801,839	9,578,819
<b>DEFERRED DEBITS</b>		
Regulatory assets (Note 3)	977,975	986,370
Income tax receivable (Note 6)	68,201	65,103
Other	126,515	113,061
Total deferred debits	1,172,691	1,164,534
<b>TOTAL ASSETS</b>	<b>\$ 13,150,363</b>	<b>\$ 12,392,998</b>

See Notes to Pinnacle West's Condensed Consolidated Financial Statements.

**PINNACLE WEST CAPITAL CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(unaudited)  
(dollars in thousands)

	September 30, 2011	December 31, 2010
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 281,647	\$ 236,354
Accrued taxes (Note 6)	191,507	104,711
Accrued interest	56,174	54,831
Short-term borrowings	--	16,600
Current maturities of long-term debt	876,363	631,879
Customer deposits	71,772	68,322
Liabilities from risk management activities (Note 8)	60,667	58,976
Deferred fuel and purchased power regulatory liability (Note 3)	--	58,442
Other regulatory liabilities (Note 3)	94,374	80,526
Other current liabilities	150,764	139,063
Total current liabilities	1,783,268	1,449,704
<b>LONG-TERM DEBT LESS CURRENT MATURITIES</b>		
Long-term debt less current maturities	2,963,457	2,948,991
Palo Verde sale leaseback lessor notes less current maturities (Note 7)	83,130	96,803
Total long-term debt less current maturities	3,046,587	3,045,794
<b>DEFERRED CREDITS AND OTHER</b>		
Deferred income taxes	1,955,458	1,863,861
Regulatory liabilities (Note 3)	689,120	614,063
Liability for asset retirements (Note 15)	258,332	328,571
Liabilities for pension and other postretirement benefits (Note 4)	877,485	813,121
Liabilities from risk management activities (Note 8)	58,745	65,390
Customer advances	112,730	121,645
Coal mine reclamation	117,779	117,243
Unrecognized tax benefits (Note 6)	76,936	66,349
Other	170,928	132,031
Total deferred credits and other	4,317,513	4,122,274
<b>COMMITMENTS AND CONTINGENCIES (SEE NOTES)</b>		
<b>EQUITY (Note 9)</b>		
Common stock, no par value	2,441,621	2,421,372
Treasury stock	(5,232)	(2,239)
Total common stock	2,436,389	2,419,133
Retained earnings	1,579,240	1,423,961
Accumulated other comprehensive loss:		
Pension and other postretirement benefits	(56,582)	(59,420)
Derivative instruments	(64,962)	(100,347)
Total accumulated other comprehensive loss	(121,544)	(159,767)
Total shareholders' equity	3,894,085	3,683,327
Noncontrolling interests (Note 7)	108,910	91,899
Total equity	4,002,995	3,775,226
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 13,150,363</b>	<b>\$ 12,392,998</b>

See Notes to Pinnacle West's Condensed Consolidated Financial Statements.

**PINNACLE WEST CAPITAL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(unaudited)  
(dollars in thousands)

	Nine Months Ended September 30,	
	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 346,950	\$ 357,708
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of district cooling business	--	(41,973)
Gain on sale of energy-related products and services business	(10,404)	--
Depreciation and amortization including nuclear fuel	370,107	350,762
Deferred fuel and purchased power	30,965	50,020
Deferred fuel and purchased power amortization	(121,018)	(95,926)
Allowance for equity funds used during construction	(18,697)	(16,417)
Real estate impairment charges	--	16,731
Gain on real estate debt restructuring	--	(14,403)
Deferred income taxes	131,582	281,486
Change in mark-to-market valuations	1,861	3,716
Changes in current assets and liabilities:		
Customer and other receivables	(47,410)	(103,973)
Accrued unbilled revenues	(80,877)	(69,035)
Materials, supplies and fossil fuel	(25,532)	19,011
Other current assets	(1,581)	(6,027)
Accounts payable	29,340	36,687
Accrued taxes and income tax receivable-net	89,534	56,851
Other current liabilities	30,300	6,738
Change in margin and collateral accounts – assets	33,591	(4,336)
Change in margin and collateral accounts – liabilities	85,785	(143,725)
Change in unrecognized tax benefits	12,123	(72,649)
Change in other long-term assets	(10,678)	(59,382)
Change in other long-term liabilities	74,565	17,636
Net cash flow provided by operating activities	<u>920,506</u>	<u>569,500</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(643,261)	(552,707)
Contributions in aid of construction	36,351	25,258
Allowance for borrowed funds used during construction	(14,371)	(12,553)
Proceeds from sale of district cooling business	--	100,300
Proceeds from sale of energy-related products and services business	45,111	--
Proceeds from nuclear decommissioning trust sales	405,637	424,255
Investment in nuclear decommissioning trust	(417,957)	(442,567)
Proceeds from sale of commercial real estate investments	1,100	71,174
Proceeds from sale of life insurance policies	55,444	--
Other	(2,346)	9,621
Net cash flow used for investing activities	<u>(534,292)</u>	<u>(377,219)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of long-term debt	470,353	--
Repayment of long-term debt	(228,457)	(84,529)
Short-term borrowings and payments – net	(16,600)	(153,715)
Dividends paid on common stock	(166,197)	(161,722)
Common stock equity issuance	14,953	255,156
Distributions to noncontrolling interests	(2,610)	(3,286)
Other	(3,132)	6,352
Net cash flow provided by (used for) financing activities	<u>68,310</u>	<u>(141,744)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	454,524	50,537
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<u>110,188</u>	<u>145,378</u>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<u>\$ 564,712</u>	<u>\$ 195,915</u>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid during the period for:		
Income taxes, net of (refunds)	\$ 5,676	\$ (22,165)
Interest, net of amounts capitalized	\$ 163,250	\$ 167,576

See Notes to Pinnacle West's Condensed Consolidated Financial Statements.

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

	Three Months Ended September 30,	
	2011	2010
ELECTRIC OPERATING REVENUES	\$ 1,124,057	\$ 1,116,220
OPERATING EXPENSES		
Fuel and purchased power	337,897	353,904
Operations and maintenance	207,967	217,044
Depreciation and amortization	106,326	104,152
Income taxes	145,230	126,841
Taxes other than income taxes	33,854	37,270
Total	831,274	839,211
OPERATING INCOME	292,783	277,009
OTHER INCOME (DEDUCTIONS)		
Income taxes	9,422	1,272
Allowance for equity funds used during construction	7,377	5,524
Other income (Note S-2)	617	2,962
Other expense (Note S-2)	(3,045)	(4,074)
Total	14,371	5,684
INTEREST EXPENSE		
Interest on long-term debt	56,314	53,946
Interest on short-term borrowings	2,846	2,013
Debt discount, premium and expense	1,164	1,121
Allowance for borrowed funds used during construction	(6,938)	(6,163)
Total	53,386	50,917
NET INCOME	253,768	231,776
Less: Net income attributable to noncontrolling interests (Note 7)	7,435	5,128
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDER	\$ 246,333	\$ 226,648

See Notes to Pinnacle West's Condensed Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2011	2010
ELECTRIC OPERATING REVENUES	\$ 2,570,737	\$ 2,527,163
OPERATING EXPENSES		
Fuel and purchased power	793,952	821,244
Operations and maintenance	669,170	632,235
Depreciation and amortization	319,477	307,731
Income taxes	193,485	177,089
Taxes other than income taxes	110,892	100,171
Total	2,086,976	2,038,470
OPERATING INCOME	483,761	488,693
OTHER INCOME (DEDUCTIONS)		
Income taxes	9,647	3,769
Allowance for equity funds used during construction	18,697	16,417
Other income (Note S-2)	3,828	3,872
Other expense (Note S-2)	(11,288)	(11,091)
Total	20,884	12,967
INTEREST EXPENSE		
Interest on long-term debt	165,805	161,918
Interest on short-term borrowings	7,675	5,734
Debt discount, premium and expense	3,485	3,376
Allowance for borrowed funds used during construction	(14,371)	(12,254)
Total	162,594	158,774
NET INCOME	342,051	342,886
Less: Net income attributable to noncontrolling interests (Note 7)	20,089	15,034
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDER	\$ 321,962	\$ 327,852

See Notes to Pinnacle West's Condensed Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Condensed Consolidated Financial Statements.

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

	September 30, 2011	December 31, 2010
<b>ASSETS</b>		
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Plant in service and held for future use	\$ 13,419,495	\$ 13,197,254
Accumulated depreciation and amortization	(4,681,247)	(4,510,591)
Net	8,738,248	8,686,663
Construction work in progress	618,728	459,316
Palo Verde sale leaseback, net of accumulated depreciation (Note 7)	133,832	137,956
Intangible assets, net of accumulated amortization	176,246	184,768
Nuclear fuel, net of accumulated amortization	134,232	108,794
Total property, plant and equipment	9,801,286	9,577,497
<b>INVESTMENTS AND OTHER ASSETS</b>		
Nuclear decommissioning trust (Note 17)	488,551	469,886
Assets from risk management activities (Note 8)	32,316	39,032
Other assets	29,591	71,428
Total investments and other assets	550,458	580,346
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	555,035	99,937
Customer and other receivables	358,809	288,323
Accrued unbilled revenues	184,169	103,292
Allowance for doubtful accounts	(4,126)	(7,646)
Materials and supplies (at average cost)	203,118	181,414
Fossil fuel (at average cost)	25,403	21,575
Assets from risk management activities (Note 8)	27,713	73,788
Regulatory assets (Note 3)	55,852	62,286
Deferred fuel and purchased power regulatory asset (Note 3)	31,611	--
Deferred income taxes	87,877	105,042
Other current assets	28,626	25,135
Total current assets	1,554,087	953,146
<b>DEFERRED DEBITS</b>		
Regulatory assets (Note 3)	977,975	986,370
Income tax receivable (Note 6)	68,596	65,498
Unamortized debt issue costs	21,681	20,530
Other	100,622	88,490
Total deferred debits	1,168,874	1,160,888
<b>TOTAL ASSETS</b>	<b>\$ 13,074,705</b>	<b>\$ 12,271,877</b>

See Notes to Pinnacle West's Condensed Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Condensed Consolidated Financial Statements.

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

	September 30, 2011	December 31, 2010
<b>LIABILITIES AND EQUITY</b>		
<b>CAPITALIZATION</b>		
Common stock	\$ 178,162	\$ 178,162
Additional paid-in capital	2,379,696	2,379,696
Retained earnings	1,553,752	1,403,390
Accumulated other comprehensive loss:		
Pension and other postretirement benefits	(33,215)	(35,961)
Derivative instruments	(64,954)	(100,334)
Total shareholder equity	4,013,441	3,824,953
Noncontrolling interests (Note 7)	108,564	91,084
Total equity	4,122,005	3,916,037
Long-term debt less current maturities	2,828,457	2,948,991
Palo Verde sale leaseback lessor notes less current maturities (Note 7)	83,130	96,803
Total capitalization	7,033,592	6,961,831
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	876,363	456,879
Accounts payable	274,601	218,491
Accrued taxes (Note 6)	192,208	106,431
Accrued interest	55,736	54,638
Customer deposits	71,772	68,312
Liabilities from risk management activities (Note 8)	60,667	58,976
Deferred fuel and purchased power regulatory liability (Note 3)	--	58,442
Other regulatory liabilities (Note 3)	94,374	80,526
Other current liabilities	132,737	132,170
Total current liabilities	1,758,458	1,234,865
<b>DEFERRED CREDITS AND OTHER</b>		
Deferred income taxes	1,991,403	1,895,654
Regulatory liabilities (Note 3)	689,120	614,063
Liability for asset retirements (Note 15)	258,332	328,571
Liabilities for pension and other postretirement benefits (Note 4)	836,230	770,611
Liabilities from risk management activities (Note 8)	58,745	65,390
Customer advances	112,730	121,645
Coal mine reclamation	117,779	117,243
Unrecognized tax benefits (Note 6)	76,740	65,363
Other	141,576	96,641
Total deferred credits and other	4,282,655	4,075,181
<b>COMMITMENTS AND CONTINGENCIES (SEE NOTES)</b>		
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 13,074,705</b>	<b>\$ 12,271,877</b>

See Notes to Pinnacle West's Condensed Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 342,051	\$ 342,886
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization including nuclear fuel	369,999	349,267
Deferred fuel and purchased power	30,965	50,020
Deferred fuel and purchased power amortization	(121,018)	(95,926)
Allowance for equity funds used during construction	(18,697)	(16,417)
Deferred income taxes	135,789	218,575
Change in mark-to-market valuations	1,861	3,716
Changes in current assets and liabilities:		
Customer and other receivables	(50,147)	(93,394)
Accrued unbilled revenues	(80,877)	(69,035)
Materials, supplies and fossil fuel	(25,532)	19,011
Other current assets	(3,836)	(9,968)
Accounts payable	42,257	37,150
Accrued taxes	86,032	16,141
Other current liabilities	18,931	2,124
Change in margin and collateral accounts – assets	33,591	(4,336)
Change in margin and collateral accounts – liabilities	85,785	(143,725)
Change in unrecognized tax benefits	12,839	(72,217)
Change in other long-term assets	(10,198)	(60,775)
Change in other long-term liabilities	83,301	32,686
Net cash flow provided by operating activities	<u>933,096</u>	<u>505,783</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(637,181)	(552,331)
Contributions in aid of construction	36,351	25,258
Allowance for borrowed funds used during construction	(14,371)	(12,254)
Proceeds from sale of life insurance policies	44,183	--
Proceeds from nuclear decommissioning trust sales	405,637	424,255
Investment in nuclear decommissioning trust	(417,957)	(442,567)
Other	(2,346)	9,621
Net cash flow used for investing activities	<u>(585,684)</u>	<u>(548,018)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of long-term debt	295,353	--
Repayment of long-term debt	(13,457)	(9,538)
Equity infusion	--	252,833
Dividends paid on common stock	(171,600)	(156,300)
Noncontrolling interests	(2,610)	(3,286)
Net cash flow provided by financing activities	<u>107,686</u>	<u>83,709</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>455,098</u>	<u>41,474</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<u>99,937</u>	<u>120,798</u>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<u>\$ 555,035</u>	<u>\$ 162,272</u>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid during the period for:		
Income taxes, net of (refunds)	\$ 7,493	\$ 76,364
Interest, net of amounts capitalized	\$ 158,011	\$ 157,385

See Notes to Pinnacle West's Condensed Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Condensed Consolidated Financial Statements.