

# PINNACLE WEST

CAPITAL CORPORATION

Edison Electric Institute Presentation

Retail Rate Case Filing and Financial Outlook  
November 7, 2005

# Forward-Looking Statements

This presentation contains forward-looking statements based on current expectations, and neither Pinnacle West nor APS assumes any obligation to update these statements or make any further statements on any of these issues, except as required by applicable law. These forward-looking statements are often identified by words such as “estimate,” “predict,” “hope,” “may,” “believe,” “anticipate,” “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 results or outcomes currently expected or sought by Pinnacle West or APS. In addition to the “Risk Factors” described in Exhibits 99.1 and 99.2 to the Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2005, these factors include, but are not limited to: state and federal regulatory and legislative decisions and actions, including the outcome of the rate case filed with the ACC on November 4, 2005; the timely recovery of PSA deferrals and our assumption that the ACC will address the \$776.2 million annual limit on the amount of Fuel and Power Costs that can be reflected in existing rates and the PSA, and our assumption that currently effective ACC orders remain effective until changed or superseded by the ACC, as described herein; the ongoing restructuring of the electric industry, including the introduction of retail electric competition in Arizona and decisions impacting wholesale competition; the outcome of regulatory, legislative and judicial proceedings relating to the restructuring; market prices for electricity and natural gas; power plant performance and outages; transmission outages and constraints; weather variations affecting local and regional customer energy usage; customer growth and energy usage; regional economic and market conditions, including the results of litigation and other proceedings resulting from the California energy situation, volatile fuel and purchased power costs and the completion of generation and transmission construction in the region, which could affect customer growth and the cost of power supplies; the cost of debt and equity capital and access to capital markets; the uncertainty that current credit ratings will remain in effect for any given period of time; our ability to compete successfully outside traditional regulated markets (including the wholesale market); the performance of our marketing and trading activities due to volatile market liquidity and any deteriorating counterparty credit and the use of derivative contracts in our business (including the interpretation of the subjective and complex accounting rules related to these contracts); changes in accounting principles generally accepted in the United States of America and the interpretation of those principles; the performance of the stock market and the changing interest rate environment, which affect the amount of required contributions to Pinnacle West’s pension plan and APS’ nuclear decommissioning trust funds, as well as the reported costs of providing pension and other postretirement benefits; technological developments in the electric industry; the strength of the real estate market in SunCor’s market areas, which include Arizona, Idaho, New Mexico and Utah; and other uncertainties, all of which are difficult to predict and many of which are beyond the control of Pinnacle West and APS.

# Retail Rate Case Filing Rationale

- **Maintain financial strength to support growth and reliability**
- **Improve quality of earnings**
- **Address power supply adjustor (PSA) structural weaknesses**
- **Recognize rate base additions since 2002**
- **Reflect current capital structure and cost of capital**
- **Update other costs of service**

# Retail Rate Case Filing Summary

## Key Provisions

- **19.9% rate increase (\$409.1 million annual revenues)**
- **Modifications to PSA**
- **Test year ended December 31, 2004**
- **\$4.4 billion rate base**
- **Base rate increase for fuel and purchased power**
- **Sundance power plant in rates**
- **Accelerate pension funding**
- **Environmental improvement charge**

# Retail Rate Case Filing

## Rate Increase Components

\$ Millions

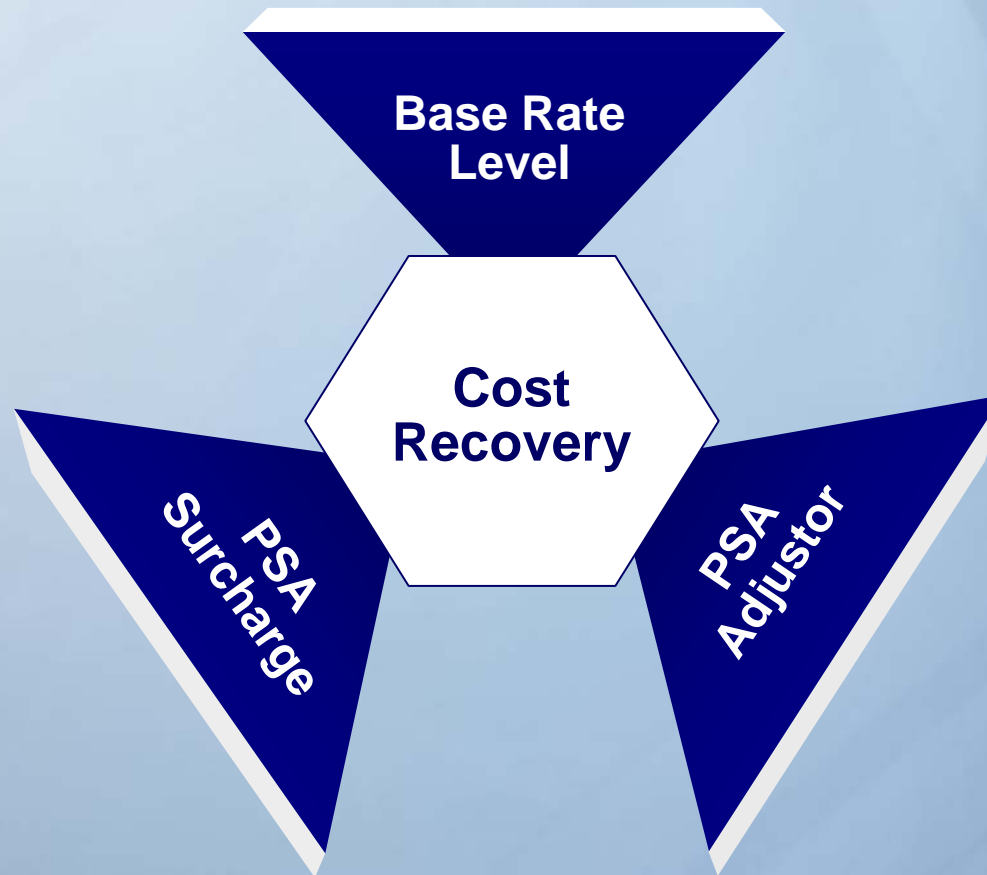
	<u>Annual Revenue</u>	<u>Percent Increase</u>
Increased fuel and purchased power costs	\$ 246.8	12.0%
Capital structure update	96.8	4.7
Rate base update (including Sundance Plant)	42.5	2.1
Pension funding	41.2	2.0
Other items	(18.2)	(0.9)
Total increase	<u>\$ 409.1</u>	<u>19.9%</u>

# Retail Rate Case Filing

## Cost of Capital

	<u>Capital Structure</u>	<u>Cost of Capital</u>
Long-term debt	45.7%	5.19%
Common stock equity	54.3%	11.50%
Weighted-average cost of capital		8.61%

# Three Means of Recovering Fuel & Purchased Power Costs



# Retail Rate Case Filing Proposed PSA Changes

	<b>Proposed Provision</b>	<b>Current Provision</b>
<b>4 mill limit on PSA adjustor rate changes</b>	<b>Change to annual limit</b>	<b>“Lifetime” limit</b>
<b>Annual limit on fuel and purchased power costs under PSA</b>	<b>Eliminate or increase \$776.2 million limit</b>	<b>\$776.2 million annual limit</b>
<b>Surcharge applications</b>	<b>File at APS’ option</b>	<b>Must file when accumulated deferrals exceed \$50 million and are less than \$100 million</b>
<b>Costs of renewable energy and portion of costs of competitively procured purchased power</b>	<b>Exclude from 90/10 sharing calculation</b>	<b>Include in 90/10 sharing calculation</b>
<b>Realized gains/losses from APS hedges</b>	<b>Retain/absorb 10% of gains/losses before 90/10 sharing</b>	<b>90/10 sharing of gains/losses</b>

# Retail Rate Case Filing Timeline

- **Filed with ACC November 4, 2005**
- **Procedural schedule to be issued by ALJ**
- **Requested decision effective no later than December 31, 2006**

# 2005 PSA Surcharge Update

## Components

- Recovery of \$80 million of fuel and purchased power deferred since April 1, 2005
- 1.7% temporary rate increase for 24 months
- Recovery of Palo Verde outage-related costs deferred to later proceeding

## Timeline

- Application filed July 2005
- Hearings completed October 28, 2005
- Post-hearing briefs due November 16, 2005
- ALJ recommendation and Commission decision thereafter

# 2005-2007 Earnings Outlook

## Overall Assumptions

- **SunCor's business strategy reshaped to focus on real estate development services**
  - Annual earnings \$40 million to \$50 million in 2006 and 2007
- **Fuel and purchased power costs will be:**
  - Recovered through base rates, PSA surcharges or PSA adjustor rates; or
  - Deferred for future recovery under PSA (subject to 90/10 sharing)
- **Pretax gross margin from marketing and trading segment (excluding structured transactions from prior years) and APS Energy Services to be negligible**

# 2005 Earnings Outlook

- Reasonable range around \$3.00 per share
- Including earnings attributable to PSA cost deferrals of approximately \$0.95 per share
- Does not reflect:
  - \$87 million after-tax regulatory disallowance
  - \$55 million after-tax loss on sale of Silverhawk

# 2006 Earnings Outlook

- Reasonable range around \$3.00 per share
- Key assumptions:
  - SunCor earnings of \$0.40 - \$0.50 per share
  - Earnings attributable to PSA cost deferrals approximately \$1.30 per share
  - APS fuel and purchased power costs under PSA estimated to be approximately \$834 million\*
  - \$776.2 million annual limit under PSA on fuel and purchased power costs eliminated or increased

\* Based on October 31, 2005 forward gas prices and APS hedge position for 2006 of 85%

# 2007 Earnings Outlook

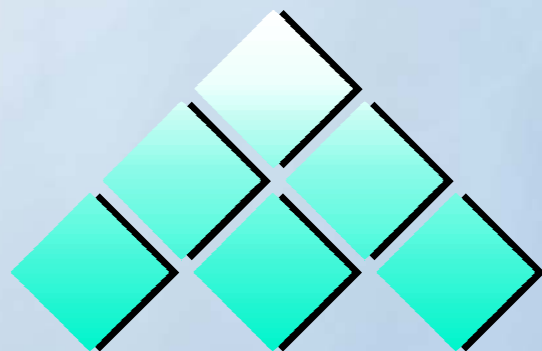
**Base level of earnings within reasonable range around \$2.70 per share**

- **Before effects of APS retail rate case decision**
- **Earnings attributable to PSA cost deferrals approximately \$1.75 per share**
- **SunCor earnings of \$0.40 - \$0.50 per share**

**Reasonable range around \$3.75 per share assuming APS retail rate case, as requested, effective December 31, 2006**

- **APS earnings approximately \$3.30 per share (10.4% ROE)**
- **Earnings attributable to PSA deferrals approximately \$0.25 per share**

# Chairman's Comments



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