

Lehman Brothers Energy/Power Conference



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Pinnacle West Capital Corporation
September 3, 2003**

Forward-Looking Statements

This presentation contains forward-looking statements based on current expectations and we assume no 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 "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 us. These factors include, but are not limited to, 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 and legislative proceedings relating to the restructuring; state and federal regulatory and legislative decisions and actions, including the outcome of the rate case we filed with the ACC on June 27, 2003 and the wholesale electric price mitigation plan adopted by the FERC; regional economic and market conditions, including the results of litigation and other proceedings resulting from the California energy situation, volatile purchased power and fuel 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; weather variations affecting local and regional customer energy usage; conservation programs; power plant performance; the successful completion of our generation construction program; regulatory issues associated with generation construction, such as permitting and licensing; our ability to compete successfully outside traditional regulated markets (including the wholesale market); our ability to manage our marketing and trading activities and the use of derivative contracts in our business; technological developments in the electric industry; the performance of the stock market, which affects the amount of our required contributions to our pension plan and nuclear decommissioning trust funds; the strength of the real estate market in SunCor's market areas, which include Arizona, New Mexico and Utah; and other uncertainties, all of which are difficult to predict and many of which are beyond our control.

Pinnacle West Capital Corporation



- Largest electric utility in Arizona
- Headquartered in Phoenix, Arizona, 6th largest U.S. city
- Assets of \$9 billion

Core Objectives



Capitalizing on superior growth

Maintaining operational excellence

Pursuing constructive regulatory outcomes

Maintaining financial strength and liquidity

Managing for long-term shareholder value

Core Objectives



Capitalizing on superior growth

Maintaining operational excellence

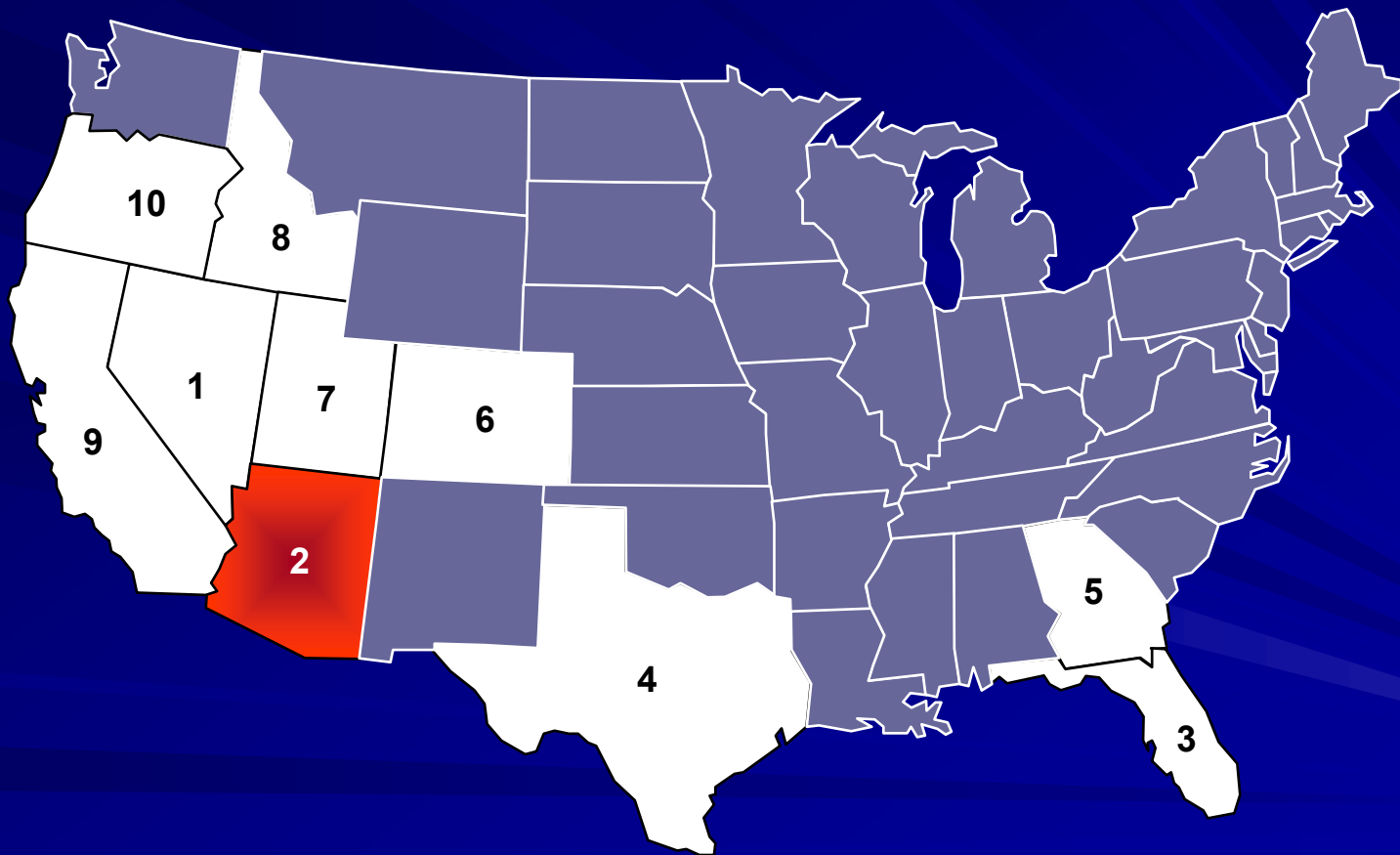
Pursuing constructive regulatory outcomes

Maintaining financial strength and liquidity

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Solid Customer Growth Foundation

Leading 2002 Population Growth States



Capitalizing on Superior Customer Growth

Leading 2002 Population Growth States

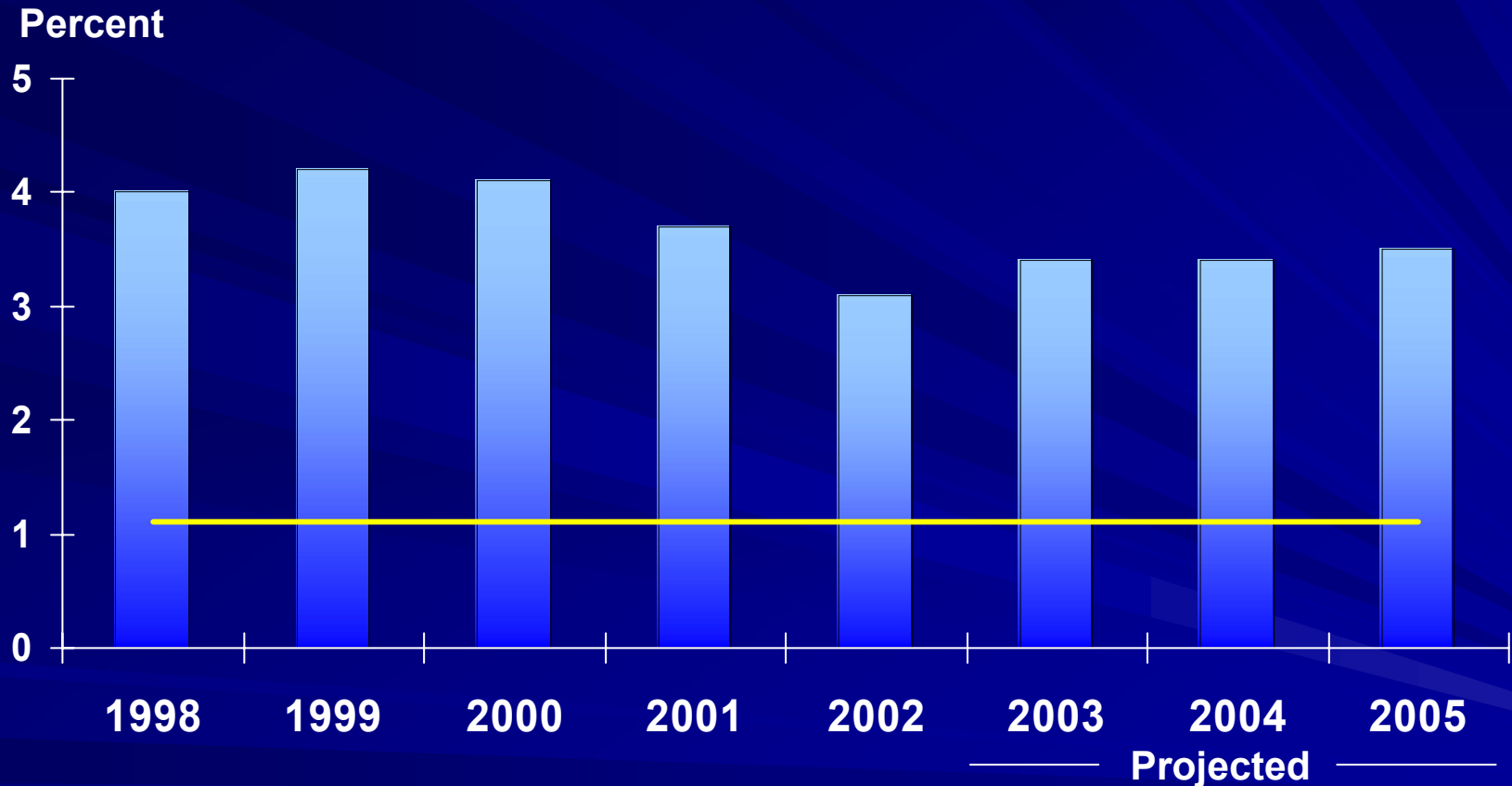


APS Service Territory Has Fastest Growing Cities in U.S.

“Of the top 10 largest cities in the country, Phoenix and San Antonio grew the fastest between 2000 and 2002, at nearly 4%.”

“In addition to being among the five fastest growing cities from 2000 to 2002, Gilbert, Chandler and Peoria, all cities in Maricopa County, Arizona, were among the 10 fastest growing over the last decade.”

Superior APS Retail Customer Growth



■ APS

— Industry Average

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Maintaining Operational Excellence

Generation

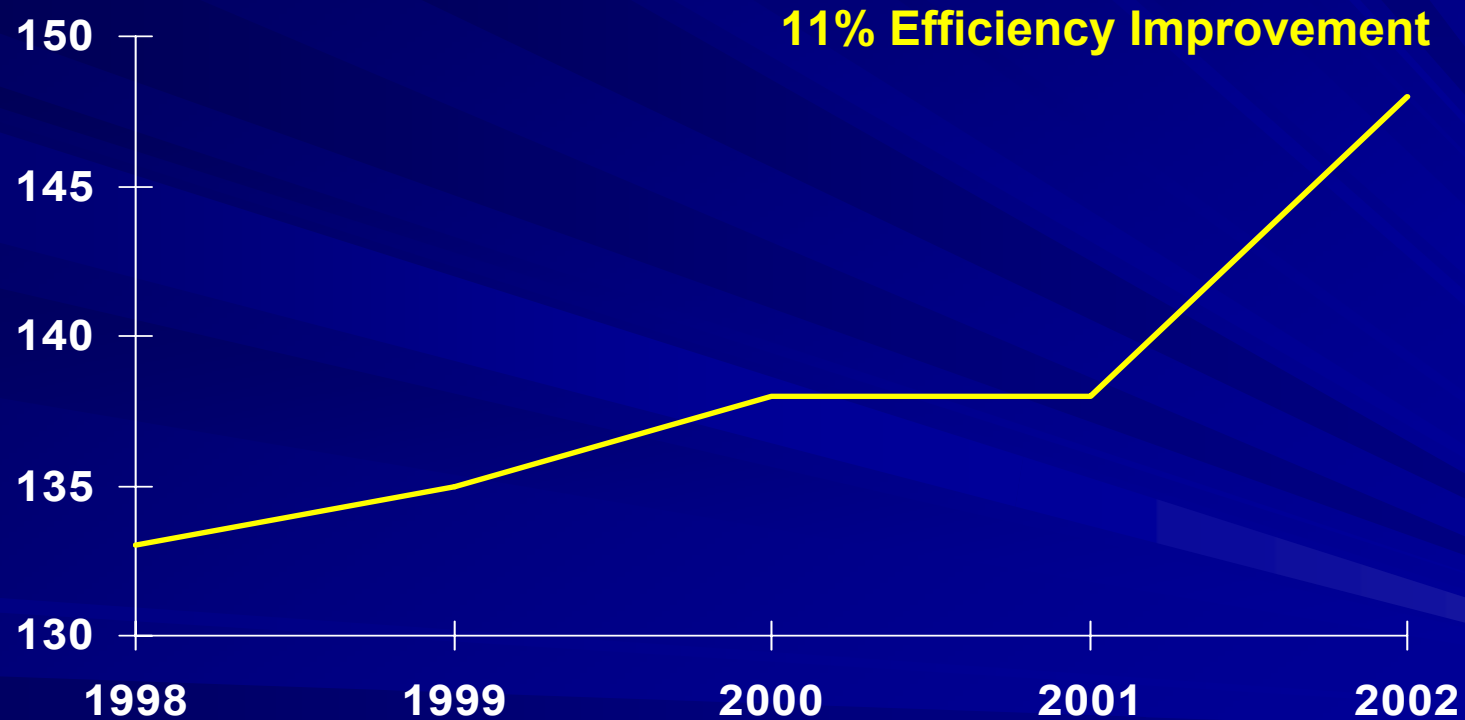
- Palo Verde – top U.S. power producer
- Strong fossil availability
- New plant construction on target

Delivery

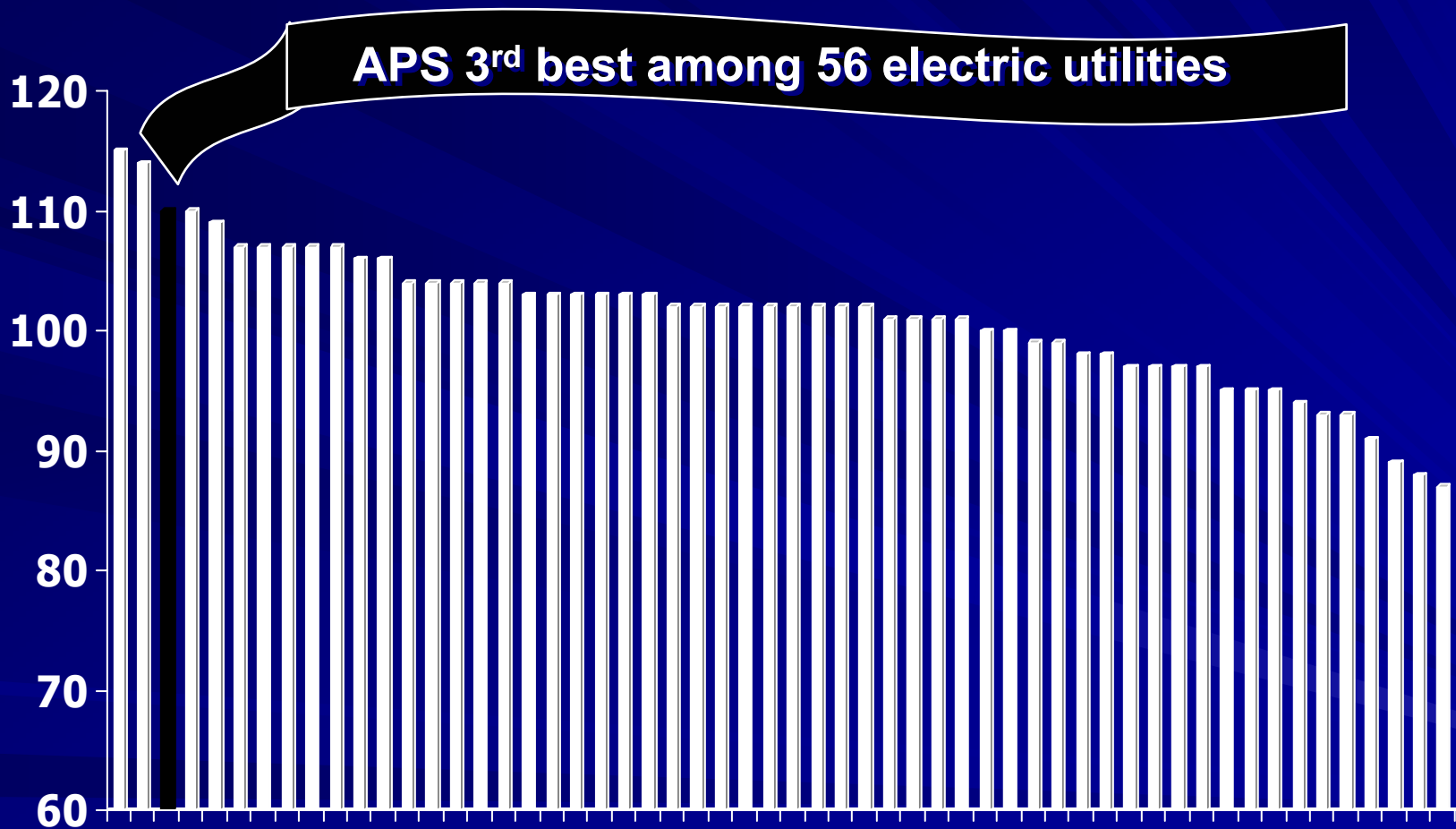
- High customer growth and satisfaction
- Superior reliability
- Transmission and distribution expansion to meet growth and sustain reliability

Focusing on Operational Efficiency

Average Customers per Employee



Excelling in Customer Satisfaction



Source: J.D. Power & Associates
2003 Electric Utility Residential Customer Satisfaction Survey (56 Companies)

Managing Market Risks

- **Optimize the economic use of APS' generation and transmission assets**
- **Effectively manage load, generation, fuel, and purchased power risks**
- **Maintain disciplined credit risk management approach**

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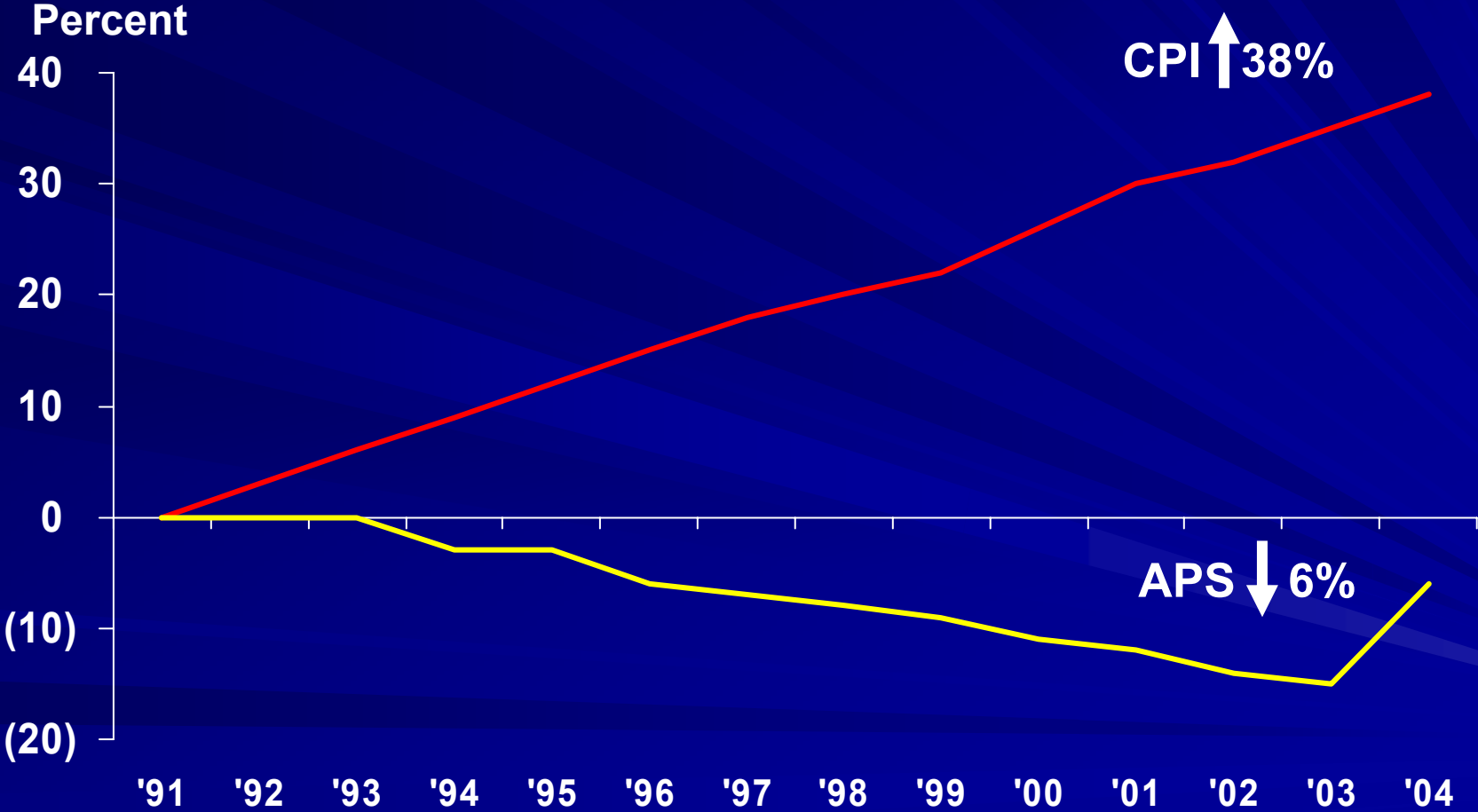
APS Regulatory Strategy

- **Relationships built on consistency, accountability, performance and trust**
- **Strong presentation of APS position**
- **Focus on reliability issue**
- **Settlement opportunities**

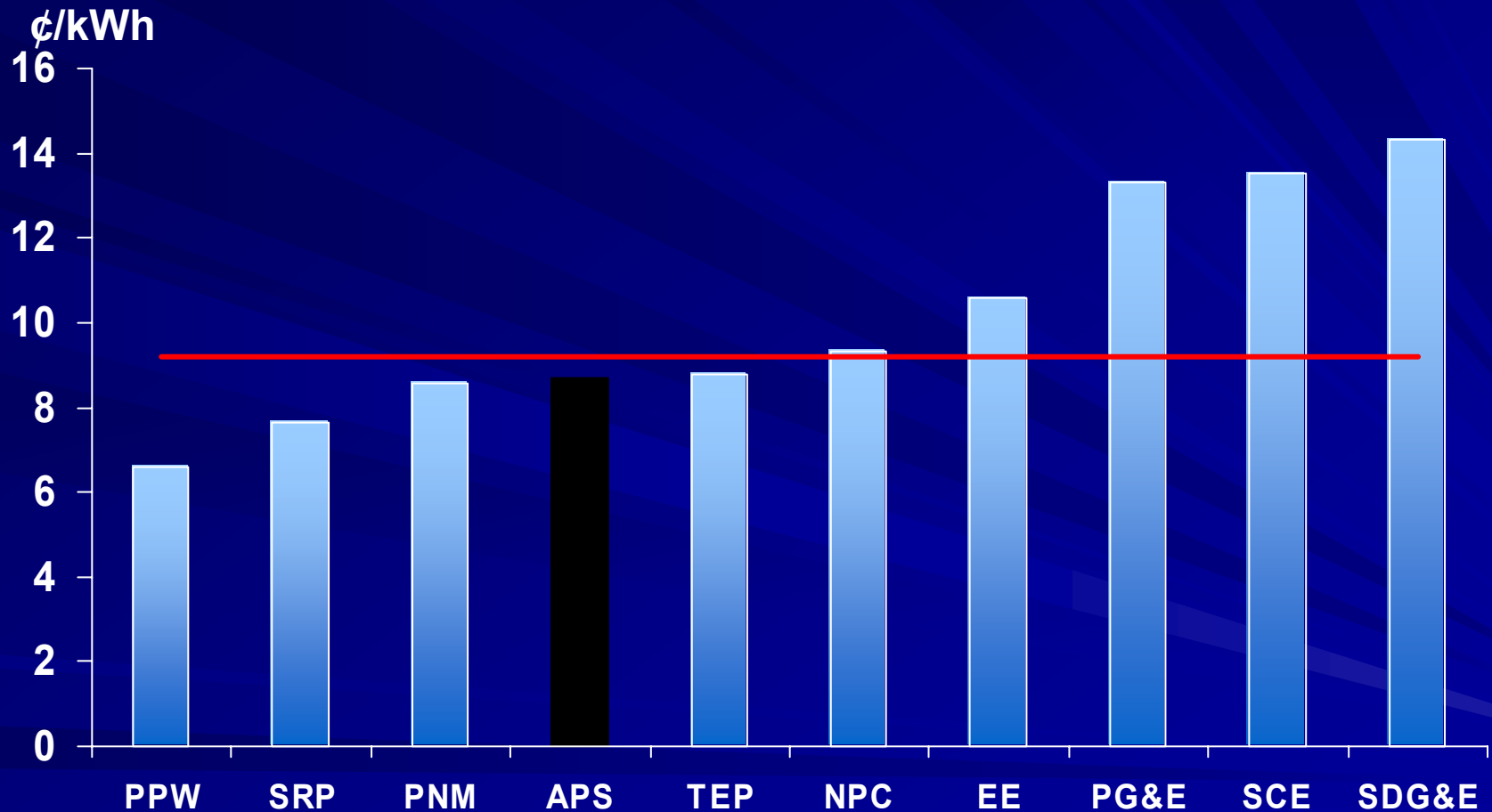
General Rate Case Key Provisions

- **9.8% (\$175 million) annual rate increase**
- **Rate base treatment of 1,800 MW of PWEC Arizona assets**
- **Recovery of previous \$234 million write-off**

Changes in Consumer Price Index and APS Prices Since 1991



Average Southwestern U.S. Residential Price Ranking*



* As of December 31, 2002

General Rate Case Key Provisions

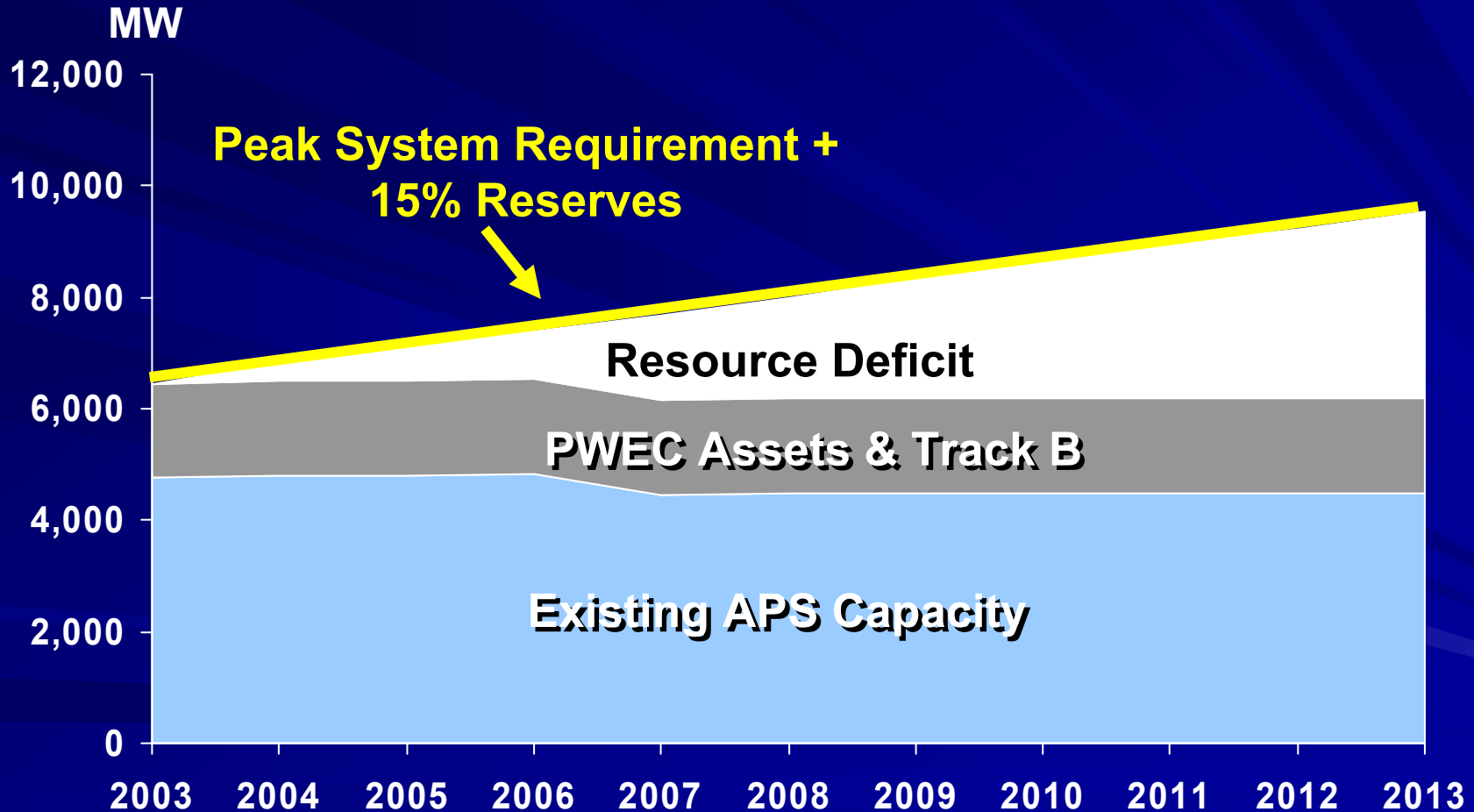
- 9.8% (\$175 million) annual rate increase

- Rate base treatment of 1,800 MW of PWEC Arizona assets

- Recovery of previous \$234 million write-off

Planning for Growth and Reliability

APS System Load and Resources



General Rate Case Milestones

Filing

June 2003

Discovery

August 2003 – April 2004

Testimony

January - March 2004

Hearing

Begins April 7, 2004

Briefing

Proposed Order

Final Order

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Maintaining Financial Strength & Liquidity

Parent Company Debt Repayment Plans

2003

Sources*

- ✓ \$500M intercompany loan to APS
- \$80-\$100M SunCor asset sales

Uses

- ✓ \$225M bridge debt
- ✓ \$250M floating rate notes
- \$25M private placement

2004

Sources*

- \$80 - \$100M SunCor asset sales
- \$100M Southern Nevada Water Authority

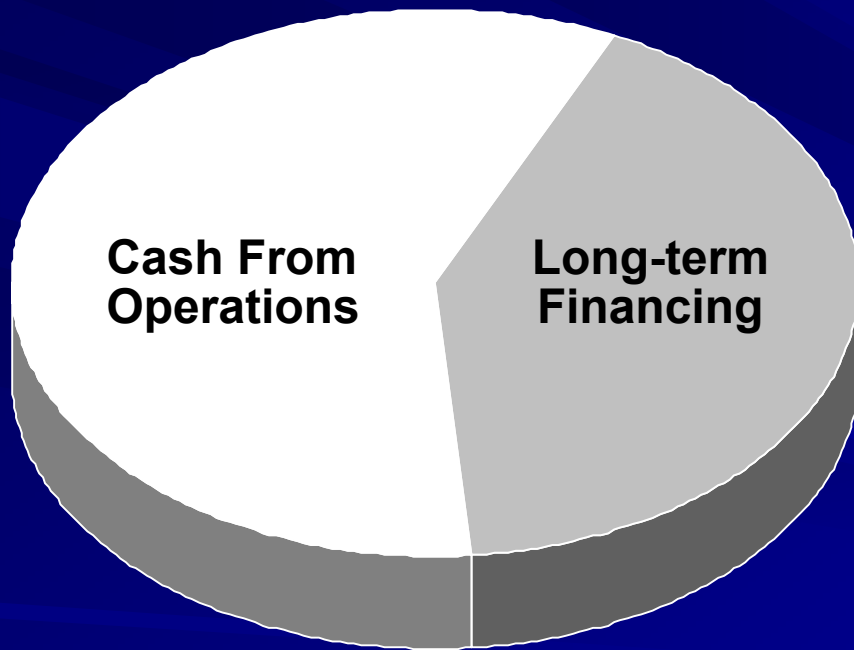
Uses

- \$215M senior notes

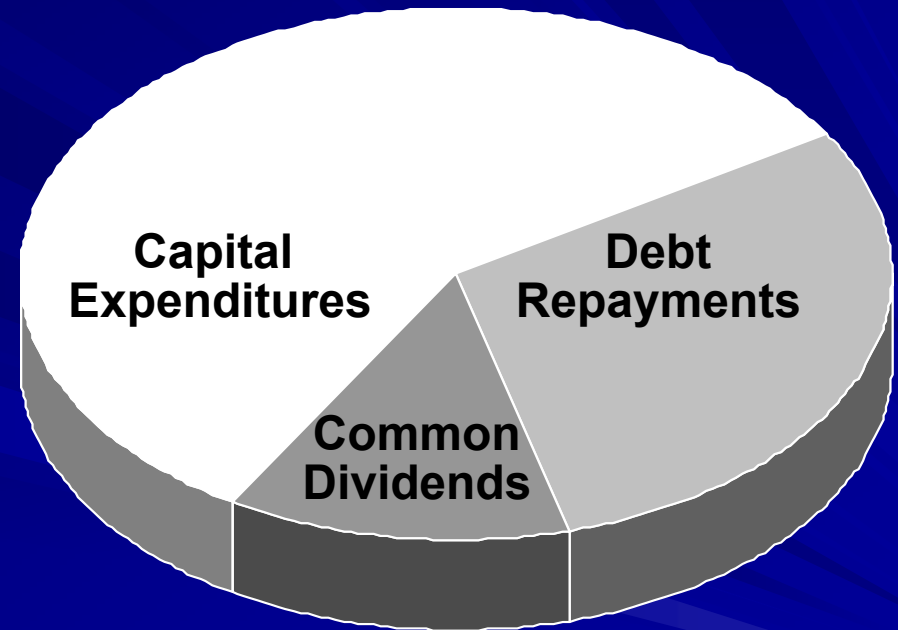
* Short term borrowings and \$390M shelf are available as needed

2003 Consolidated Cash Flow*

Sources



Requirements

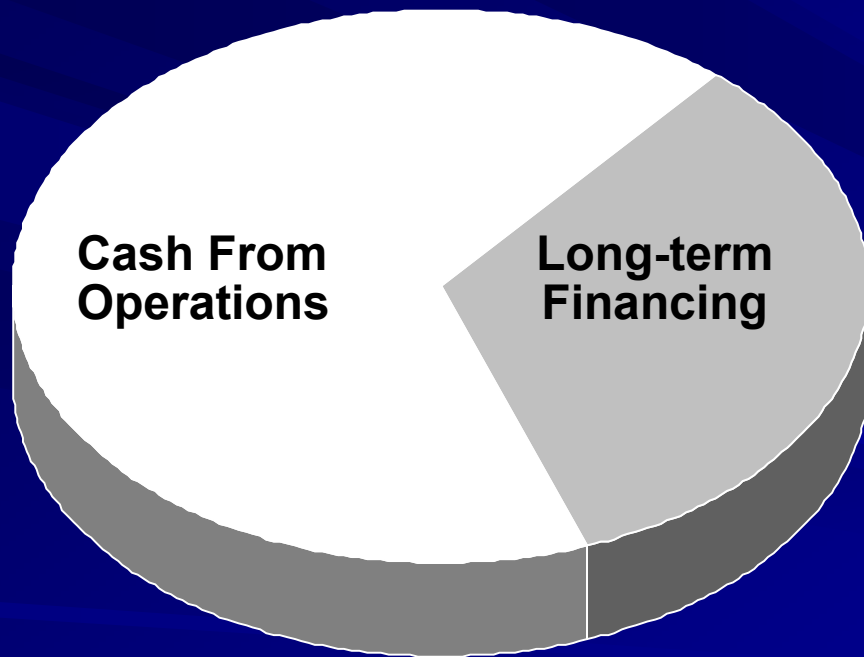


Approximately \$ 1.2 Billion

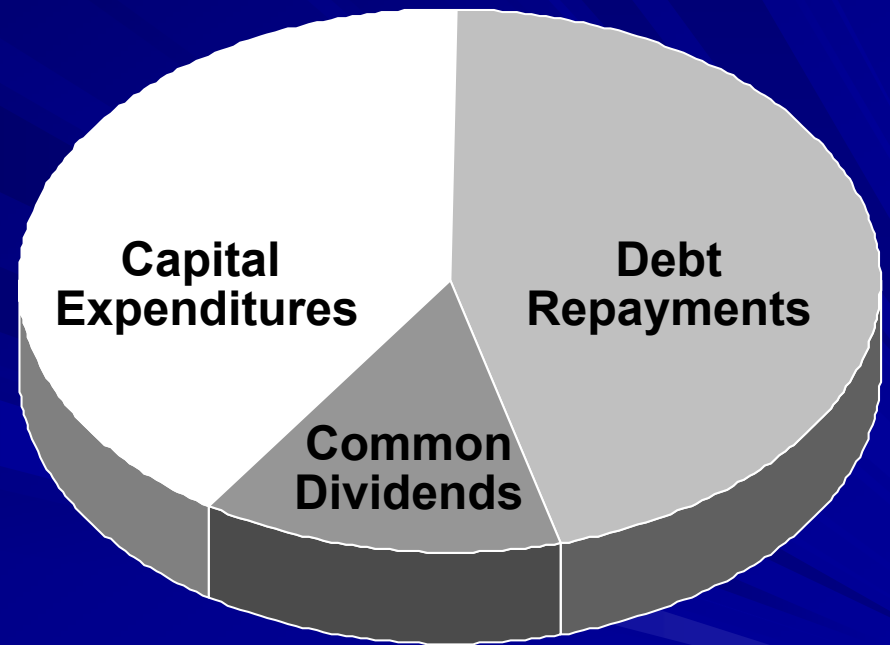
* Projected

2004 Consolidated Cash Flow*

Sources



Requirements

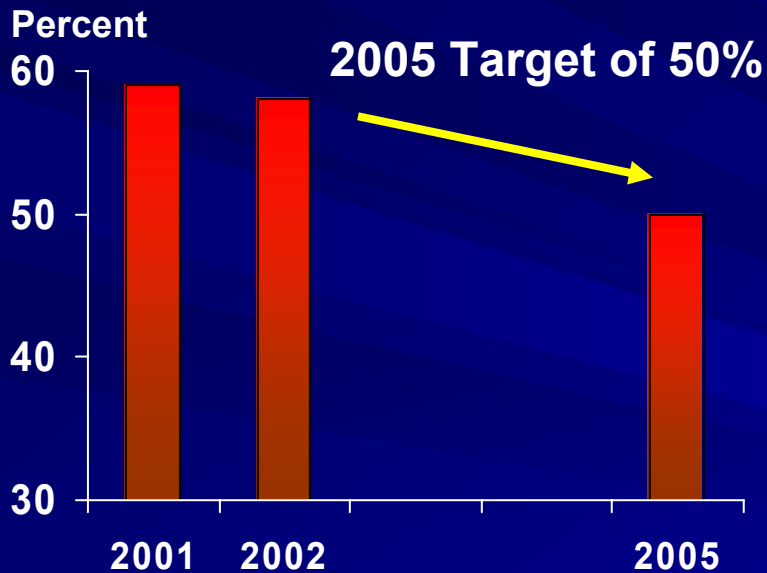


Approximately \$ 1.1 Billion

* Projected

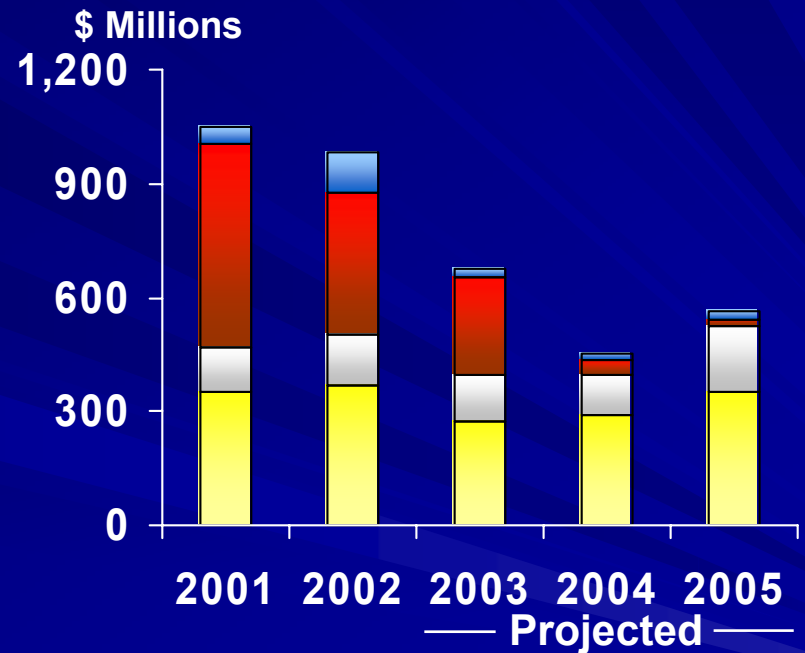
Balancing Financial Strength & Growth

Consolidated Debt Ratio*



* Includes Palo Verde sale/leaseback

Capital Expenditures



- Other
- PWEC Generation
- APS Generation
- Delivery

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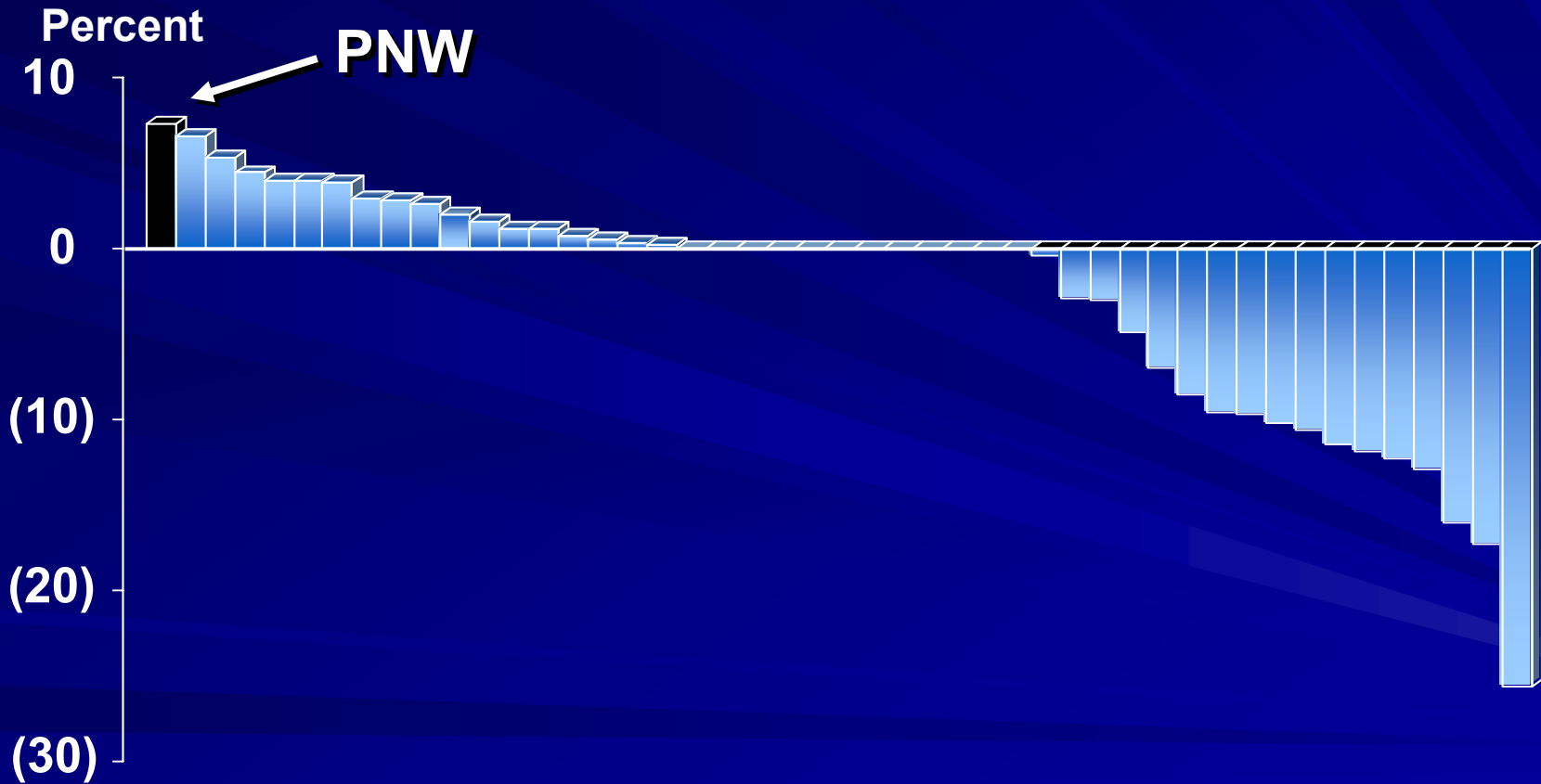
Managing for long-term shareholder value

Consolidated Earnings Drivers 2003 and 2004

	<u>2003 vs. 2002</u>	<u>2004 vs. 2003</u>
Retail growth	+	+
Regulatory asset amortization	+	+
SunCor	+	+/-
EITF 02-03	+	flat
Cost reduction initiatives	+	+
Higher gas and purchased power costs	-	-
Pension and other O&M costs	-	-
Marketing and trading	-	flat
Unregulated generation	-	-
General rate case outcome	n/a	?
Weather, inflation and other	+/-	+/-
2002 non-recurring items	+	n/a

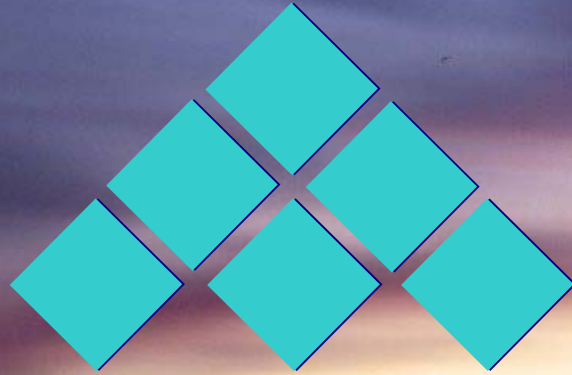
Creating Long-Term Shareholder Value

Top Dividend Growth 1998 - 2002



Pinnacle West Managing for the Future

- **A vertically integrated utility in a high-growth market area**
- **Sustaining exceptional operational performance**
- **Managing risk in changing energy markets**
- **While remaining adept and agile in a dynamic regulatory environment**



Pinnacle West Capital Corporation

