



**PINNACLE WEST**  
CAPITAL CORPORATION

## **Earnings Release Kit 4th Quarter 2009**

**This kit contains the following documents:**

- Earnings release with comparative income statements
- 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 2008-2009 are also available on our website.

**PINNACLE WEST CAPITAL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
(unaudited)

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

	THREE MONTHS ENDED		Increase (Decrease)	
	DECEMBER 31,		Amount	Percent
	2009	2008		
<b>Operating Revenues</b>				
Regulated electricity segment	\$ 650,349	\$ 634,756	\$ 15,593	2.5% B
Real estate segment	28,030	19,460	8,570	44.0% B
Marketing and trading	-	9,274	(9,274)	100.0% W
Other revenues	14,678	14,905	(227)	1.5% W
Total	<u>693,057</u>	<u>678,395</u>	<u>14,662</u>	2.2% B
<b>Operating Expenses</b>				
Regulated electricity segment fuel and purchased power	257,990	267,198	(9,208)	3.4% B
Real estate segment operations	30,968	22,509	8,459	37.6% W
Real estate impairment charge	16,984	18,108	(1,124)	6.2% B
Marketing and trading fuel and purchased power	-	1,443	(1,443)	100.0% B
Operations and maintenance	232,812	209,797	23,015	11.0% W
Depreciation and amortization	102,165	98,374	3,791	3.9% W
Taxes other than income taxes	22,537	30,510	(7,973)	26.1% B
Other expenses	10,309	13,090	(2,781)	21.2% B
Total	<u>673,765</u>	<u>661,029</u>	<u>12,736</u>	1.9% W
<b>Operating Income</b>	<u>19,292</u>	<u>17,366</u>	<u>1,926</u>	11.1% B
<b>Other</b>				
Allowance for equity funds used during construction	3,080	2,425	655	27.0% B
Other income	849	2,325	(1,476)	63.5% W
Other expense	(5,382)	(9,523)	4,141	43.5% B
Total	<u>(1,453)</u>	<u>(4,773)</u>	<u>3,320</u>	69.6% B
<b>Interest Expense</b>				
Interest charges	59,139	58,570	569	1.0% W
Capitalized interest	(2,177)	(4,227)	2,050	48.5% W
Total	<u>56,962</u>	<u>54,343</u>	<u>2,619</u>	4.8% W
<b>Loss From Continuing Operations Before Income Taxes</b>	(39,123)	(41,750)	2,627	6.3% B
<b>Income Taxes</b>	<u>(10,255)</u>	<u>(14,489)</u>	<u>4,234</u>	29.2% W
<b>Loss From Continuing Operations</b>	(28,868)	(27,261)	(1,607)	5.9% W
<b>Loss From Discontinued Operations</b>				
Net of Income Taxes	<u>(1,122)</u>	<u>(11,589)</u>	<u>10,467</u>	90.3% B
<b>Net Loss</b>	(29,990)	(38,850)	8,860	22.8% B
Less: Net loss attributable to noncontrolling interests	169	-	169	100.0% B
<b>Net Loss Attributable To Common Shareholders</b>	<u>\$ (30,159)</u>	<u>\$ (38,850)</u>	<u>\$ 8,691</u>	22.4% B
<b>Weighted-Average Common Shares Outstanding - Basic</b>	101,320	100,836	484	0.5%
<b>Weighted-Average Common Shares Outstanding - Diluted</b>	101,320	100,836	484	0.5%
<b>Earnings Per Weighted-Average Common Share Outstanding</b>				
Loss from continuing operations attributable to common shareholders - basic	\$ (0.29)	\$ (0.27)	\$ (0.02)	7.4% W
Net loss attributable to common shareholders - basic	\$ (0.30)	\$ (0.39)	\$ 0.09	23.1% B
Loss from continuing operations attributable to common shareholders - diluted	\$ (0.29)	\$ (0.27)	\$ (0.02)	7.4% W
Net loss attributable to common shareholders - diluted	\$ (0.30)	\$ (0.39)	\$ 0.09	23.1% B
<b>Amounts Attributable To Common Shareholders</b>				
Loss from continuing operations, net of tax	\$ (29,037)	\$ (27,261)	\$ (1,776)	6.5% W
Discontinued operations, net of tax	(1,122)	(11,589)	10,467	90.3% B
Net loss attributable to common shareholders	<u>\$ (30,159)</u>	<u>\$ (38,850)</u>	<u>\$ 8,691</u>	22.4% B

B -- Better

W -- Worse

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

	TWELVE MONTHS ENDED		Increase (Decrease)	
	DECEMBER 31,		Amount	Percent
	2009	2008		
<b>Operating Revenues</b>				
Regulated electricity segment	\$ 3,149,187	\$ 3,127,383	\$ 21,804	0.7% B
Real estate segment	103,152	74,549	28,603	38.4% B
Marketing and trading	-	66,897	(66,897)	100.0% W
Other revenues	44,762	41,729	3,033	7.3% B
Total	<u>3,297,101</u>	<u>3,310,558</u>	<u>(13,457)</u>	0.4% W
<b>Operating Expenses</b>				
Regulated electricity segment fuel and purchased power	1,178,620	1,284,116	(105,496)	8.2% B
Real estate segment operations	102,381	100,102	2,279	2.3% W
Real estate impairment charge	258,453	18,108	240,345	1327.3% W
Marketing and trading fuel and purchased power	-	45,572	(45,572)	100.0% B
Operations and maintenance	875,357	807,852	67,505	8.4% W
Depreciation and amortization	404,331	390,093	14,238	3.6% W
Taxes other than income taxes	123,663	125,336	(1,673)	1.3% B
Other expenses	32,523	34,171	(1,648)	4.8% B
Total	<u>2,975,328</u>	<u>2,805,350</u>	<u>169,978</u>	6.1% W
<b>Operating Income</b>	<u>321,773</u>	<u>505,208</u>	<u>(183,435)</u>	36.3% W
<b>Other</b>				
Allowance for equity funds used during construction	14,999	18,636	(3,637)	19.5% W
Other income	5,669	12,797	(7,128)	55.7% W
Other expense	(14,269)	(31,576)	17,307	54.8% B
Total	<u>6,399</u>	<u>(143)</u>	<u>6,542</u>	4574.8% B
<b>Interest Expense</b>				
Interest charges	233,859	215,684	18,175	8.4% W
Capitalized interest	(10,745)	(18,820)	8,075	42.9% W
Total	<u>223,114</u>	<u>196,864</u>	<u>26,250</u>	13.3% W
<b>Income From Continuing Operations Before Income Taxes</b>	105,058	308,201	(203,143)	65.9% W
<b>Income Taxes</b>	<u>37,827</u>	<u>76,897</u>	<u>(39,070)</u>	50.8% B
<b>Income From Continuing Operations</b>	67,231	231,304	(164,073)	70.9% W
<b>Income (Loss) From Discontinued Operations</b>				
Net of Income Taxes	<u>(13,676)</u>	<u>10,821</u>	<u>(24,497)</u>	226.4% W
<b>Net Income</b>	53,555	242,125	(188,570)	77.9% W
Less: Net income (loss) attributable to noncontrolling interests	(14,775)	-	(14,775)	100.0% W
<b>Net Income Attributable To Common Shareholders</b>	<u>\$ 68,330</u>	<u>\$ 242,125</u>	<u>\$ (173,795)</u>	71.8% W
<b>Weighted-Average Common Shares Outstanding - Basic</b>	101,161	100,691	470	0.5%
<b>Weighted-Average Common Shares Outstanding - Diluted</b>	101,264	100,965	299	0.3%
<b>Earnings Per Weighted-Average Common Share Outstanding</b>				
Income from continuing operations attributable to common shareholders - basic	\$ 0.81	\$ 2.30	\$ (1.49)	64.8% W
Net income attributable to common shareholders - basic	\$ 0.68	\$ 2.40	\$ (1.72)	71.7% W
Income from continuing operations attributable to common shareholders - diluted	\$ 0.81	\$ 2.29	\$ (1.48)	64.6% W
Net income attributable to common shareholders - diluted	\$ 0.67	\$ 2.40	\$ (1.73)	72.1% W
<b>Amounts Attributable To Common Shareholders</b>				
Income from continuing operations, net of tax	\$ 82,006	\$ 231,304	\$ (149,298)	64.5% W
Discontinued operations, net of tax	<u>(13,676)</u>	<u>10,821</u>	<u>(24,497)</u>	226.4% W
Net Income attributable to common shareholders	<u>\$ 68,330</u>	<u>\$ 242,125</u>	<u>\$ (173,795)</u>	71.8% W

B -- Better  
W -- Worse

**Pinnacle West Capital Corporation**  
**Earnings Variance Explanations**  
**For the Three-Month and Twelve-Month Periods Ended December 31, 2009 and 2008**

The following discussion includes the earnings variance explanations for Pinnacle West Capital Corporation (“Pinnacle West”) for the three months and twelve months ended December 31, 2009 and 2008. 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, 2009. 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**

Our results of operations, provided below, are based upon our two reportable business segments:

- 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.

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

Our consolidated net loss attributable to common shareholders for the three months ended December 31, 2009 was \$30 million, compared with a net loss of \$39 million for the comparable prior-year period. The improved results were primarily due to lower real estate impairment charges recorded in 2009 compared with the prior-year period by SunCor, the Company’s real estate subsidiary.

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

	Three Months Ended December 31,		Increase (Decrease) in Net Income Attributable to Common Shareholders
	2009	2008	
(dollars in millions)			
<b>Regulated Electricity Segment:</b>			
Operating revenues less fuel and purchased power expenses	\$ 392	\$ 367	\$ 25
Operations and maintenance	(229)	(207)	(22)
Depreciation and amortization	(101)	(96)	(5)
Taxes other than income taxes	(22)	(30)	8
Other income (expenses), net	(3)	(9)	6
Interest charges, net of capitalized financing costs	(52)	(50)	(2)
Income taxes	1	8	(7)
Regulated electricity segment net loss	<u>(14)</u>	<u>(17)</u>	<u>3</u>
<b>Real Estate Segment:</b>			
Real estate impairment charges	(20)	(53)	33
Other real estate operations	(4)	(2)	(2)
Income taxes	10	21	(11)
Real estate segment net loss	<u>(14)</u>	<u>(34)</u>	<u>20</u>
<b>All other (a)</b>	<u>(2)</u>	<u>12</u>	<u>(14)</u>
<b>Net Loss Attributable to Common Shareholders</b>	<u>\$ (30)</u>	<u>\$ (39)</u>	<u>\$ 9</u>

- (a) Includes activities related to marketing and trading, APSES and El Dorado. Income for 2008 includes income from discontinued operations of \$8 million related to the resolution of certain tax issues associated with the sale of Silverhawk in 2005. None of these segments is a reportable segment.

### 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 \$25 million higher for the three months ended December 31, 2009 compared with the prior-year period. The following table describes the major components of this change:

	Increase (Decrease)		
	Operating revenues	Purchased power and fuel expenses	Net change
	(dollars in millions)		
Higher renewable energy and demand-side management surcharges (substantially offset in operations and maintenance expense)	\$ 14	\$	\$ 14
Interim retail rate increases effective January 1, 2009	11		11
Increased mark-to-market valuations of fuel and purchased power contracts related to favorable changes in market prices, net of related PSA deferrals		(9)	9
Transmission rate increases	5		5
Lower retail sales primarily due to lower usage per customer, including the effects of the Company's energy efficiency programs, but excluding the effects of weather	(17)	(8)	(9)
Higher retail revenues related to recovery of PSA deferrals, offset by amortization of the same amount recorded as fuel and purchased power expense	7	7	--
Miscellaneous items, net	(4)	1	(5)
<b>Total</b>	<b>\$ 16</b>	<b>\$ (9)</b>	<b>\$ 25</b>

**Operations and maintenance** Operations and maintenance expenses increased \$22 million for the three months ended December 31, 2009 compared with the prior-year period primarily because of:

- An increase of \$14 million related to renewable energy and demand-side management programs, which are offset in operating revenues;
- An increase of \$13 million in generation costs, including more planned maintenance; and
- A decrease of \$5 million associated with cost saving measures and other factors, including decreased severance costs in 2009.

**Depreciation and amortization** Depreciation and amortization expenses increased \$5 million for the three months ended December 31, 2009 compared with the prior-year period primarily because of increases in utility plant in service. The increases in utility plant in service are the result of various improvements to APS' existing fossil and nuclear generating plants and distribution and transmission infrastructure additions and upgrades.

**Taxes other than income taxes** Taxes other than income taxes decreased \$8 million for the three months ended December 31, 2009 compared with the prior-year period primarily because of the timing of property tax rate adjustments.

**Other income (expenses), net** Other income (expenses), net improved \$6 million for the three months ended December 31, 2009 compared with the prior-year period primarily because of improved investment gains. Other income (expenses), net is comprised of the regulated electricity segment portions of the line items other income and other expense from the Consolidated Statements of Income.

**Income taxes** Income tax benefits were \$7 million lower for the three months ended December 31, 2009 compared with the prior-year period primarily because of lower pretax losses.

### **Real estate segment**

The real estate segment net loss attributable to common shareholders was \$20 million lower for the three months ended December 31, 2009 compared with the prior-year period primarily because of:

- A decrease in real estate impairment charges of \$33 million; and
- A decrease in income tax benefits of \$11 million primarily because of a lower net loss for the 2009 period.

### **All Other**

All other earnings were \$14 million lower for the three months ended December 31, 2009 compared to the prior-year period primarily because of planned reductions of marketing and trading activities and the absence of the 2008 resolution of certain tax issues associated with the sale of Silverhawk in 2005.

### **Operating Results - 2009 Compared with 2008**

Our consolidated net income attributable to common shareholders for 2009 was \$68 million, compared with net income of \$242 million for the prior year. The decrease in net income was primarily due to 2009 real estate impairment charges recorded by SunCor, the Company's real estate subsidiary.

In addition, regulated electricity segment net income decreased approximately \$13 million from the prior year primarily due to lower retail sales resulting from lower usage per customer; higher interest charges, net of capitalized financing costs; higher depreciation and amortization expenses; and the absence of income tax benefits related to prior years recorded in 2008. These negative factors were partially offset by increased revenues due to the interim rate increase effective January 1, 2009 and transmission rate increases.

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

	Year Ended December 31,		Increase (Decrease) in Net Income Attributable to Common Shareholders
	2009	2008	
(dollars in millions)			
<b>Regulated Electricity Segment:</b>			
Operating revenues less fuel and purchased power expenses	\$ 1,970	\$ 1,843	\$ 127
Operations and maintenance	(862)	(796)	(66)
Depreciation and amortization	(400)	(383)	(17)
Taxes other than income taxes	(123)	(125)	2
Other income (expenses), net	(1)	(20)	19
Interest charges, net of capitalized financing costs	(199)	(171)	(28)
Income taxes	(142)	(92)	(50)
Regulated electricity segment net income	243	256	(13)
<b>Real Estate Segment:</b>			
Real estate impairment charges	(266)	(53)	(213)
Other real estate operations	(10)	10	(20)
Income taxes	109	17	92
Real estate segment net loss	(167)	(26)	(141)
<b>All Other (a)</b>	(8)	12	(20)
<b>Net Income Attributable to Common Shareholders</b>	\$ 68	\$ 242	\$ (174)

- (a) Includes activities related to marketing and trading, APSES and El Dorado. Income for 2008 includes income from discontinued operations of \$8 million related to the resolution of certain tax issues associated with the sale of Silverhawk in 2005. None of these segments is a reportable segment.

### 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 \$127 million higher for the year ended 2009 compared with the prior year. The following table describes the major components of this change:

	Increase (Decrease)		
	Operating revenues	Purchased power and fuel expenses	Net change
	(dollars in millions)		
Higher renewable energy and demand-side management surcharges (substantially offset in operations and maintenance expense)	\$ 63	\$	\$ 63
Interim retail rate increases effective January 1, 2009	61		61
Transmission rate increases	21		21
Increased mark-to-market valuations of fuel and purchased power contracts related to favorable changes in market prices, net of related PSA deferrals		(18)	18
Effects of weather on retail sales, primarily due to hotter weather in the third quarter of 2009	12	3	9
Lower retail sales primarily due to lower usage per customer, including the effects of the Company's energy efficiency programs, but excluding the effects of weather	(58)	(26)	(32)
Higher fuel and purchased power costs including the effects of lower off-system sales, net of related PSA deferrals	(30)	(19)	(11)
Lower retail revenues related to recovery of PSA deferrals, offset by lower amortization of the same amount recorded as fuel and purchased power expense	(36)	(36)	--
Miscellaneous items, net	(11)	(9)	(2)
<b>Total</b>	<b>\$ 22</b>	<b>\$ (105)</b>	<b>\$ 127</b>

**Operations and maintenance** Operations and maintenance expenses increased \$66 million for the year ended 2009 compared with the prior year primarily because of:

- An increase of \$62 million related to renewable energy and demand-side management programs, which are offset in operating revenues;
- An increase of \$29 million in generation costs, including more planned maintenance, partially offset by lower costs at Palo Verde due to cost efficiency measures; and
- A decrease of \$25 million associated with cost saving measures and other factors, including the absence of employee severance costs in 2009.

**Depreciation and amortization** Depreciation and amortization expenses increased \$16 million for the year ended 2009 compared with the prior year primarily because of increases in utility plant in service. The increases in utility plant in service are the result of

various improvements to APS' existing fossil and nuclear generating plants and distribution and transmission infrastructure additions and upgrades.

**Interest charges, net of capitalized financing costs** Interest charges, net of capitalized financing costs increased \$28 million for the year ended 2009 compared with the prior year primarily because of higher debt balances, partially offset by the effects of lower interest rates. Interest charges, net of capitalized financing costs are comprised of the regulated electricity segment portions of the line items interest expense, capitalized interest and allowance for equity funds used during construction from the Consolidated Statements of Income.

**Other income (expenses), net** Other income (expenses), net improved \$19 million for the year ended 2009 compared with the prior year primarily because of improved investment gains. Other income (expenses), net is comprised of the regulated electricity segment portions of the line items other income and other expense from the Consolidated Statements of Income.

**Income taxes** Income taxes were \$50 million higher for the year ended 2009 compared with the prior year primarily because of \$30 million of income tax benefits related to prior years recorded in 2008 and higher pretax income.

### **Real estate segment**

During the first quarter of 2009, we decided to restructure SunCor through the sale of substantially all of its assets. The real estate segment net loss attributable to common shareholders was \$141 million higher for the year ended 2009 compared with the prior year primarily because of:

- An increase in real estate impairment charges of \$213 million;
- A decrease of \$20 million in income from other real estate operations primarily due to 2008 income from a commercial property sale; and
- An increase in income tax benefits of \$92 million primarily because of a higher net loss.

### **All Other**

All other earnings were \$20 million lower for the year ended 2009 compared with the prior year primarily because of planned reductions of marketing and trading activities and the absence of the 2008 resolution of certain tax issues associated with the sale of Silverhawk in 2005.

**Pinnacle West Capital Corporation**  
**Quarterly Consolidated Statistical Summary**  
**Periods Ended December 31, 2009 and 2008**

**List of Contents**

This file contains financial and operating statistics for the three-month and twelve-month periods ended December 31, 2009 and 2008

The same statistics by quarter for 2008 and 2009 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 December 31, 2009 and 2008**

Line	3 Months Ended December			12 Months Ended December			
	2009	2008	Incr (Decr)	2009	2008	Incr (Decr)	
<b>EARNINGS CONTRIBUTION BY SUBSIDIARY (\$ Millions)</b>							
1	Arizona Public Service	\$ (9)	\$ (16)	\$ 7	\$ 251	\$ 262	\$ (11)
2	APS Energy Services	(1)	1	(2)	(2)	2	(4)
3	SunCor	(24)	(15)	(9)	(272)	(31)	(241)
4	El Dorado	(1)	(2)	1	(7)	(10)	3
5	Parent Company	6	5	1	97	8	89
6	Income From Continuing Operations	(29)	(27)	(2)	67	231	(164)
	Income (Loss) From Discontinued Operations - Net of Tax						
7	SunCor	(2)	(19)	17	(23)	5	(28)
8	Other	1	7	(6)	9	6	3
9	Total	(1)	(12)	11	(14)	11	(25)
10	Net Income	(30)	(39)	9	53	242	(189)
11	Less: Net Income (Loss) Attributable to Noncontrolling Interests	-	-	-	(15)	-	(15)
12	Net Income Attributable to Common Shareholders	\$ (30)	\$ (39)	\$ 9	\$ 68	\$ 242	\$ (174)
<b>EARNINGS PER SHARE BY SUBSIDIARY - DILUTED</b>							
13	Arizona Public Service	\$ (0.09)	\$ (0.16)	\$ 0.07	\$ 2.48	\$ 2.61	\$ (0.13)
14	APS Energy Services	(0.01)	0.02	(0.03)	(0.02)	0.02	(0.04)
15	SunCor	(0.24)	(0.15)	(0.09)	(2.68)	(0.31)	(2.37)
16	El Dorado	(0.01)	(0.02)	0.01	(0.07)	(0.10)	0.03
17	Parent Company	0.06	0.04	0.02	0.95	0.07	0.88
18	Income From Continuing Operations	(0.29)	(0.27)	(0.02)	0.66	2.29	(1.63)
	Income (Loss) From Discontinued Operations - Net of Tax						
19	SunCor	(0.02)	(0.19)	0.17	(0.23)	0.05	(0.28)
20	Other	0.01	0.07	(0.06)	0.09	0.06	0.03
21	Total	(0.01)	(0.12)	0.11	(0.14)	0.11	(0.25)
22	Net Income	(0.30)	(0.39)	0.09	0.52	2.40	(1.88)
23	Less: Net Income (Loss) Attributable to Noncontrolling Interests	-	-	-	(0.15)	-	(0.15)
24	Net Income Attributable to Common Shareholders	\$ (0.30)	\$ (0.39)	\$ 0.09	\$ 0.67	\$ 2.40	\$ (1.73)
25	<b>BOOK VALUE PER SHARE</b>	\$ 32.69	\$ 34.16	\$ (1.47)	\$ 32.69	\$ 34.16	\$ (1.47)
<b>COMMON SHARES OUTSTANDING (Thousands)</b>							
26	Average - Diluted	101,320	100,836	484	101,264	100,965	299
27	End of Period	101,435	100,889	546	101,435	100,889	546

## Pinnacle West Capital Corporation

**Quarterly Consolidated Statistical Summary**  
**Periods Ended December 31, 2009 and 2008**

Line	3 Months Ended December			12 Months Ended December			
	2009	2008	Incr (Decr)	2009	2008	Incr (Decr)	
<b>ELECTRIC OPERATING REVENUES (Dollars in Millions)</b>							
<b>REGULATED ELECTRICITY SEGMENT</b>							
<b>Retail</b>							
28	Residential	\$ 275	\$ 263	\$ 12	\$ 1,496	\$ 1,454	\$ 42
29	Business	334	321	13	1,467	1,444	23
30	Total retail	609	584	25	2,963	2,898	65
<b>Wholesale revenue on delivered electricity</b>							
31	Traditional contracts	10	13	(3)	59	70	(11)
32	Off-system sales	16	20	(4)	58	88	(30)
33	Transmission for others	8	9	(1)	33	34	(1)
34	Other miscellaneous services	7	9	(2)	36	37	(1)
35	Total regulated operating electricity revenues	650	635	15	3,149	3,127	22
<b>MARKETING AND TRADING</b>							
36	Electricity and other commodity sales	-	9	(9)	-	67	(67)
37	Total operating electric revenues	\$ 650	\$ 644	\$ 6	\$ 3,149	\$ 3,194	\$ (45)
<b>ELECTRIC SALES (GWH)</b>							
<b>REGULATED ELECTRICITY SEGMENT</b>							
<b>Retail sales</b>							
38	Residential	2,587	2,606	(19)	13,214	13,368	(154)
39	Business	3,484	3,650	(166)	14,959	15,425	(466)
40	Total retail	6,071	6,256	(185)	28,173	28,793	(620)
<b>Wholesale electricity delivered</b>							
41	Traditional contracts	137	198	(61)	829	1,074	(245)
42	Off-system sales	437	457	(20)	2,228	2,008	220
43	Retail load hedge management	137	267	(130)	1,055	1,074	(19)
44	Total regulated electricity	6,782	7,178	(396)	32,285	32,949	(664)
<b>MARKETING AND TRADING</b>							
45	Wholesale sales of electricity	-	245	(245)	-	2,434	(2,434)
46	Total electric sales	6,782	7,423	(641)	32,285	35,383	(3,098)
<b>POWER SUPPLY ADJUSTOR ("PSA") - REGULATED ELECTRICITY SEGMENT (Dollars in Millions)</b>							
47	Deferred fuel and purchased power regulatory asset - beginning balance	\$ (60)	\$ 58	\$ (118)	\$ 8	\$ 111	\$ (103)
48	Deferred fuel and purchased power costs - current period	5	(25)	30	52	78	(26)
49	Interest on deferred fuel	-	-	-	-	2	(2)
50	Amounts recovered through revenues	(32)	(25)	(7)	(147)	(183)	36
51	Deferred fuel and purchased power regulatory asset - ending balance	\$ (87)	\$ 8	\$ (95)	\$ (87)	\$ 8	\$ (95)

**Pinnacle West Capital Corporation****Quarterly Consolidated Statistical Summary  
Periods Ended December 31, 2009 and 2008**

Line	3 Months Ended December			12 Months Ended December			
	2009	2008	Incr (Decr)	2009	2008	Incr (Decr)	
<b>AVERAGE ELECTRIC CUSTOMERS</b>							
<b>Retail customers</b>							
52	Residential	985,077	980,268	4,809	983,539	977,944	5,595
53	Business	125,320	124,878	442	125,242	123,961	1,281
54	Total	1,110,397	1,105,146	5,251	1,108,781	1,101,905	6,876
55	Wholesale customers	51	49	2	48	51	(3)
56	Total customers	1,110,448	1,105,195	5,253	1,108,829	1,101,956	6,873
57	Customer growth (% over prior year)	0.5%	1.0%	(0.5)%	0.6%	1.4%	(0.8)%
<b>RETAIL SALES (GWH) - WEATHER NORMALIZED</b>							
58	Residential	2,504	2,666	(162)	13,254	13,500	(246)
59	Business	3,509	3,652	(143)	14,982	15,434	(452)
60	Total	6,103	6,318	(305)	28,236	28,934	(698)
<b>RETAIL USAGE (KWh/Average Customer)</b>							
61	Residential	2,627	3,658	(1,031)	13,435	13,669	(234)
62	Business	27,798	29,222	(1,424)	119,441	124,435	(4,994)
<b>RETAIL USAGE - WEATHER NORMALIZED (KWh/Average Customer)</b>							
63	Residential	2,633	2,720	(87)	13,476	13,804	(328)
64	Business	27,999	29,246	(1,247)	119,623	124,506	(4,883)
<b>ELECTRICITY DEMAND (MW)</b>							
65	Native load peak demand	4,873	5,443	(570)	7,218	7,026	192
<b>WEATHER INDICATORS</b>							
<b>Actual</b>							
66	Cooling degree-days	438	504	(66)	4,846	4,682	164
67	Heating degree-days	399	321	78	806	904	(98)
68	Average humidity	31%	36%	(5)%	28%	32%	(4)%
<b>10-Year Averages</b>							
69	Cooling degree-days	469	441	28	4,676	4,635	41
70	Heating degree-days	367	394	(27)	963	939	24
71	Average humidity	41%	38%	3%	34%	33%	1%

**Pinnacle West Capital Corporation****Quarterly Consolidated Statistical Summary  
Periods Ended December 31, 2009 and 2008**

Line	3 Months Ended December			12 Months Ended December			
	2009	2008	Incr (Decr)	2009	2008	Incr (Decr)	
<b>ENERGY SOURCES (GWH)</b>							
<b>Generation production</b>							
72	Nuclear	1,872	1,886	(14)	8,923	8,512	411
73	Coal	3,311	3,422	(111)	12,507	13,166	(659)
74	Gas, oil and other	1,347	1,334	13	5,941	6,356	(415)
75	Total generation production	6,530	6,642	(112)	27,371	28,034	(663)
<b>Purchased power</b>							
76	Firm load	472	638	(166)	5,100	5,028	72
77	Marketing and trading	251	639	(388)	1,990	4,558	(2,568)
78	Total purchased power	723	1,277	(554)	7,090	9,586	(2,496)
79	Total energy sources	7,253	7,919	(666)	34,461	37,620	(3,159)
<b>POWER PLANT PERFORMANCE</b>							
<b>Capacity Factors</b>							
80	Nuclear	74%	74%	0%	89%	84%	5%
81	Coal	86%	89%	(3)%	82%	86%	(4)%
82	Gas, oil and other	18%	18%	0%	20%	22%	(2)%
83	System average	47%	48%	(1)%	50%	51%	(1)%
<b>ECONOMIC INDICATORS</b>							
<b>Building Permits - Metro Phoenix (a)</b>							
84	Single-family	1,624	1,124	500	6,340	10,350	(4,010)
85	Multi-family	181	1,173	(992)	1,198	7,453	(6,255)
86	Total	1,805	2,297	(492)	7,538	17,803	(10,265)
<b>Arizona Job Growth (b)</b>							
87	Payroll job growth (% over prior year)	(5.7)%	(3.6)%	(2.1)%	(6.7)%	(1.6)%	(5.1)%
88	Unemployment rate						
	(%, seasonally adjusted)	9.1%	6.4%	2.7%	8.5%	5.1%	3.4%

**Sources:**

- (a) Arizona Real Estate Center, Arizona State University W.P. Carey College of Business  
(b) Arizona Department of Economic Security

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

	Year Ended December 31,		
	2009	2008	2007
<b>OPERATING REVENUES</b>			
Regulated electricity segment	\$ 3,149,187	\$ 3,127,383	\$ 2,918,163
Real estate segment	103,152	74,549	189,726
Marketing and trading	--	66,897	138,247
Other revenues	44,762	41,729	48,018
Total	<u>3,297,101</u>	<u>3,310,558</u>	<u>3,294,154</u>
<b>OPERATING EXPENSES</b>			
Regulated electricity segment fuel and purchased power	1,178,620	1,284,116	1,140,923
Real estate segment operations	102,381	100,102	168,911
Real estate impairment charge	258,453	18,108	--
Marketing and trading fuel and purchased power	--	45,572	100,462
Operations and maintenance	875,357	807,852	728,340
Depreciation and amortization	404,331	390,093	371,877
Taxes other than income taxes	123,663	125,336	128,210
Other expenses	32,523	34,171	38,925
Total	<u>2,975,328</u>	<u>2,805,350</u>	<u>2,677,648</u>
<b>OPERATING INCOME</b>	<u>321,773</u>	<u>505,208</u>	<u>616,506</u>
<b>OTHER</b>			
Allowance for equity funds used during construction	14,999	18,636	21,195
Other income	5,669	12,797	25,362
Other expense	(14,269)	(31,576)	(25,857)
Total	<u>6,399</u>	<u>(143)</u>	<u>20,700</u>
<b>INTEREST EXPENSE</b>			
Interest charges	233,859	215,684	207,827
Capitalized interest	(10,745)	(18,820)	(23,063)
Total	<u>223,114</u>	<u>196,864</u>	<u>184,764</u>
<b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>	105,058	308,201	452,442
<b>INCOME TAXES</b>	37,827	76,897	152,006
<b>INCOME FROM CONTINUING OPERATIONS INCOME (LOSS) FROM DISCONTINUED OPERATIONS</b>	67,231	231,304	300,436
Net of income tax expense (benefit) of \$(8,917), \$6,999 and \$4,486	(13,676)	10,821	6,707
<b>NET INCOME</b>	<u>53,555</u>	<u>242,125</u>	<u>307,143</u>
Less: Net loss attributable to noncontrolling interests	(14,775)	--	--
<b>NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS</b>	<u>\$ 68,330</u>	<u>\$ 242,125</u>	<u>\$ 307,143</u>
<b>WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING – BASIC</b>	101,161	100,691	100,256
<b>WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING – DILUTED</b>	101,264	100,965	100,835
<b>EARNINGS PER WEIGHTED – AVERAGE COMMON SHARE OUTSTANDING</b>			
Income from continuing operations attributable to common shareholders – basic	\$ 0.81	\$ 2.30	\$ 3.00
Net income attributable to common shareholders – basic	0.68	2.40	3.06
Income from continuing operations attributable to common shareholders – diluted	0.81	2.29	2.98
Net income attributable to common shareholders – diluted	0.67	2.40	3.05
<b>DIVIDENDS DECLARED PER SHARE</b>	\$ 2.10	\$ 2.10	\$ 2.10
<b>AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS:</b>			
Income from continuing operations, net of tax	\$ 82,006	\$ 231,304	\$ 300,436
Discontinued operations, net of tax	(13,676)	10,821	6,707
Net income attributable to common shareholders	<u>\$ 68,330</u>	<u>\$ 242,125</u>	<u>\$ 307,143</u>

See Notes to Pinnacle West's Consolidated Financial Statements.

**PINNACLE WEST CAPITAL CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(dollars in thousands)

	December 31,	
	2009	2008
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 145,378	\$ 105,245
Customer and other receivables	301,915	292,682
Accrued utility revenues	110,971	100,089
Allowance for doubtful accounts	(6,153)	(3,383)
Materials and supplies (at average cost)	176,020	173,252
Fossil fuel (at average cost)	39,245	29,752
Deferred income taxes	53,990	79,729
Income tax receivable	26,005	--
Home inventory	3,282	50,688
Assets from risk management activities	50,619	32,581
Other current assets	27,465	21,847
Total current assets	928,737	882,482
<b>INVESTMENTS AND OTHER ASSETS</b>		
Real estate investments – net	119,989	415,296
Assets from risk management activities	28,855	33,675
Nuclear decommissioning trust	414,576	343,052
Other assets	110,091	117,935
Total investments and other assets	673,511	909,958
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Plant in service and held for future use	12,848,138	12,264,805
Less accumulated depreciation and amortization	(4,340,645)	(4,141,546)
Net	8,507,493	8,123,259
Construction work in progress	467,700	572,354
Intangible assets, net of accumulated amortization of \$294,724 and \$282,196	164,380	131,722
Nuclear fuel, net of accumulated amortization of \$64,544 and \$55,343	118,243	89,323
Total property, plant and equipment	9,257,816	8,916,658
<b>DEFERRED DEBITS</b>		
Deferred fuel and purchased power regulatory asset	--	7,984
Other regulatory assets	781,714	787,506
Income tax receivable	65,103	--
Other deferred debits	101,274	115,505
Total deferred debits	948,091	910,995
<b>TOTAL ASSETS</b>	<b>\$ 11,808,155</b>	<b>\$ 11,620,093</b>

See Notes to Pinnacle West's Consolidated Financial Statements.

**PINNACLE WEST CAPITAL CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(dollars in thousands)

	December 31,	
	2009	2008
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 240,637	\$ 261,029
Accrued taxes	104,011	109,798
Accrued interest	54,596	40,741
Short-term borrowings	153,715	670,469
Current maturities of long-term debt	277,693	177,646
Customer deposits	71,026	78,745
Liabilities from risk management activities	55,908	69,585
Other current liabilities	125,574	97,915
Total current liabilities	1,083,160	1,505,928
<b>LONG-TERM DEBT LESS CURRENT MATURITIES</b>	3,370,524	3,031,603
<b>DEFERRED CREDITS AND OTHER</b>		
Deferred income taxes	1,496,095	1,403,318
Deferred fuel and purchased power regulatory liability	87,291	--
Other regulatory liabilities	679,072	587,586
Liability for asset retirements	301,783	275,970
Liabilities for pension and other postretirement benefits	811,338	675,788
Liabilities from risk management activities	62,443	126,532
Customer advances	136,595	132,023
Coal mine reclamation	92,060	91,201
Unrecognized tax benefits	142,099	68,904
Other	200,015	227,872
Total deferred credits and other	4,008,791	3,589,194
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>EQUITY</b>		
Common stock, no par value; authorized 150,000,000 shares; issued 101,527,937 at end of 2009 and 100,948,436 at end of 2008	2,153,295	2,151,323
Treasury stock at cost; 93,239 shares at end of 2009 and 59,827 at end of 2008	(3,812)	(2,854)
Total common stock	2,149,483	2,148,469
Retained earnings	1,298,213	1,444,208
Accumulated other comprehensive loss:		
Pension and other postretirement benefits	(50,892)	(47,547)
Derivative instruments	(80,695)	(99,151)
Total accumulated other comprehensive loss	(131,587)	(146,698)
Total Pinnacle West shareholders' equity	3,316,109	3,445,979
Noncontrolling real estate interests	29,571	47,389
Total equity	3,345,680	3,493,368
<b>TOTAL LIABILITIES AND EQUITY</b>	\$ 11,808,155	\$ 11,620,093

See Notes to Pinnacle West's Consolidated Financial Statements.

**PINNACLE WEST CAPITAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(dollars in thousands)

	Year Ended December 31,		
	2009	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net Income	\$ 53,555	\$ 242,125	\$ 307,143
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization including nuclear fuel	443,160	423,969	403,896
Deferred fuel and purchased power	(51,742)	(80,183)	(196,136)
Deferred fuel and purchased power amortization	147,018	183,126	231,106
Deferred fuel and purchased power regulatory disallowance	--	--	14,370
Allowance for equity funds used during construction	(14,999)	(18,636)	(21,195)
Real estate impairment charge	280,188	53,250	--
Deferred income taxes	105,492	158,024	(58,027)
Change in mark-to-market valuations	(6,939)	9,074	17,579
Changes in current assets and liabilities:			
Customer and other receivables	12,292	73,446	58,793
Accrued utility revenues	(10,882)	7,388	4,057
Materials, supplies and fossil fuel	(12,261)	(25,453)	(29,776)
Other current assets	(9,186)	8,734	(10,040)
Accounts payable	(27,328)	(69,439)	(42,004)
Accrued taxes and income tax receivable – net	(31,792)	(13,149)	20,764
Home inventory	33,833	48,041	(56,883)
Other current liabilities	29,274	(5,130)	22,657
Expenditures for real estate investments	(2,957)	(21,168)	(121,316)
Other changes in real estate assets	(4,216)	18,211	82,521
Change in margin and collateral accounts – assets	(12,806)	17,450	(37,371)
Change in margin and collateral accounts – liabilities	35,654	(132,416)	19,284
Change in long term income tax receivable	(131,984)	--	--
Change in unrecognized tax benefits	137,898	(94,551)	25,178
Change in other regulatory liabilities	110,642	(12,129)	7,133
Change in other long-term assets	(47,899)	6,104	(23,826)
Change in other long-term liabilities	7,050	36,880	40,029
Net cash flow provided by operating activities	<u>1,031,065</u>	<u>813,568</u>	<u>657,936</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital expenditures	(764,609)	(935,577)	(960,390)
Contributions in aid of construction	53,525	60,292	41,809
Capitalized interest	(10,745)	(18,820)	(23,063)
Proceeds from sale of investment securities	--	--	69,225
Purchases of investment securities	--	--	(36,525)
Proceeds from nuclear decommissioning trust sales	441,242	317,619	259,026
Investment in nuclear decommissioning trust	(463,033)	(338,361)	(279,768)
Proceeds from sale of commercial real estate investments	43,370	94,171	58,139
Other	(4,667)	5,517	(1,807)
Net cash flow used for investing activities	<u>(704,917)</u>	<u>(815,159)</u>	<u>(873,354)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issuance of long-term debt	867,469	96,934	230,571
Repayment and reacquisition of long-term debt	(435,127)	(181,491)	(162,060)
Short-term borrowings – net	(516,754)	331,741	304,911
Dividends paid on common stock	(205,076)	(204,247)	(210,473)
Common stock equity issuance	3,302	3,687	24,089
Other	171	3,891	(2,509)
Net cash flow provided by (used for) financing activities	<u>(286,015)</u>	<u>50,515</u>	<u>184,529</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>40,133</b>	<b>48,924</b>	<b>(30,889)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>105,245</b>	<b>56,321</b>	<b>87,210</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 145,378</b>	<b>\$ 105,245</b>	<b>\$ 56,321</b>
<b>Supplemental disclosure of cash flow information</b>			
<b>Cash paid during the period for:</b>			
Income taxes, net of (refunds)	\$ (52,776)	\$ 24,233	\$ 204,643
Interest, net of amounts capitalized	\$ 203,860	\$ 191,085	\$ 193,533

See Notes to Pinnacle West's Consolidated Financial Statement

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

	Year Ended December 31,		
	2009	2008	2007
ELECTRIC OPERATING REVENUES	\$ 3,149,500	\$ 3,133,496	\$ 2,936,277
OPERATING EXPENSES			
Fuel and purchased power	1,178,620	1,289,883	1,151,392
Operations and maintenance	852,563	787,270	710,077
Depreciation and amortization	399,455	383,098	365,430
Income taxes	158,661	113,799	155,735
Other taxes	122,358	124,046	127,648
Total	2,711,657	2,698,096	2,510,282
OPERATING INCOME	437,843	435,400	425,995
OTHER INCOME (DEDUCTIONS)			
Income taxes	6,087	6,538	4,578
Allowance for equity funds used during construction	14,999	18,636	21,195
Other income	10,808	6,231	16,727
Other expense	(18,001)	(30,569)	(21,630)
Total	13,893	836	20,870
INTEREST DEDUCTIONS			
Interest on long-term debt	199,907	170,071	161,030
Interest on short-term borrowings	6,315	13,432	9,564
Debt discount, premium and expense	4,675	4,702	4,639
Allowance for borrowed funds used during construction	(10,386)	(14,313)	(12,308)
Total	200,511	173,892	162,925
NET INCOME	\$ 251,225	\$ 262,344	\$ 283,940

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

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

	<b>December 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>ASSETS</b>		
<b>UTILITY PLANT</b>		
Electric plant in service and held for future use	\$ 12,781,256	\$ 12,198,010
Less accumulated depreciation and amortization	4,326,908	4,129,958
Net	<u>8,454,348</u>	<u>8,068,052</u>
Construction work in progress	460,748	571,977
Intangible assets, net of accumulated amortization of \$293,450 and \$280,633	164,183	131,243
Nuclear fuel, net of accumulated amortization of \$64,544 and \$55,343	118,243	89,323
Total utility plant	<u>9,197,522</u>	<u>8,860,595</u>
<b>INVESTMENTS AND OTHER ASSETS</b>		
Nuclear decommissioning trust	414,576	343,052
Assets from risk management activities	28,855	33,675
Other assets	68,839	60,604
Total investments and other assets	<u>512,270</u>	<u>437,331</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	120,798	71,544
Customer and other receivables	280,226	262,177
Accrued utility revenues	110,971	100,089
Allowance for doubtful accounts	(6,063)	(3,155)
Materials and supplies (at average cost)	176,020	173,252
Fossil fuel (at average cost)	39,245	29,752
Assets from risk management activities	50,619	32,181
Deferred income taxes	53,990	79,694
Other	25,724	19,866
Total current assets	<u>851,530</u>	<u>765,400</u>
<b>DEFERRED DEBITS</b>		
Deferred fuel and purchased power regulatory asset	--	7,984
Other regulatory assets	781,714	787,506
Income tax receivable	65,498	--
Unamortized debt issue costs	20,959	22,026
Other	73,909	82,735
Total deferred debits	<u>942,080</u>	<u>900,251</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 11,503,402</u></u>	<u><u>\$ 10,963,577</u></u>

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

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

	<b>December 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>LIABILITIES AND EQUITY</b>		
<b>CAPITALIZATION</b>		
Common stock	\$ 178,162	\$ 178,162
Additional paid-in capital	2,126,863	2,117,789
Retained earnings	1,250,126	1,168,901
Accumulated other comprehensive income (loss):		
Pension and other postretirement benefits	(29,114)	(26,960)
Derivative instruments	(80,682)	(98,742)
Common stock equity	3,445,355	3,339,150
Long-term debt less current maturities	3,180,406	2,850,242
Total capitalization	6,625,761	6,189,392
<b>CURRENT LIABILITIES</b>		
Short-term borrowings	--	521,684
Current maturities of long-term debt	197,176	874
Accounts payable	213,833	233,529
Accrued taxes	158,051	219,129
Accrued interest	54,099	39,860
Customer deposits	70,780	77,452
Liabilities from risk management activities	55,908	69,585
Other	124,995	105,655
Total current liabilities	874,842	1,267,768
<b>DEFERRED CREDITS AND OTHER</b>		
Deferred income taxes	1,582,945	1,401,412
Deferred fuel and purchased power regulatory liability	87,291	--
Other regulatory liabilities	679,072	587,586
Liability for asset retirements	301,783	275,970
Liabilities for pension and other postretirement benefits	766,378	635,327
Customer advances for construction	136,595	132,023
Liabilities from risk management activities	62,443	126,532
Coal mine reclamation	92,060	91,201
Unrecognized tax benefits	140,638	67,846
Other	153,594	188,520
Total deferred credits and other	4,002,799	3,506,417
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 11,503,402</b>	<b>\$ 10,963,577</b>

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

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

	Year Ended December 31,		
	2009	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 251,225	\$ 262,344	\$ 283,940
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization including nuclear fuel	438,284	416,709	395,890
Deferred fuel and purchased power	(51,742)	(80,183)	(196,136)
Deferred fuel and purchased power amortization	147,018	183,126	231,106
Deferred fuel and purchased power regulatory disallowance	--	--	14,370
Allowance for equity funds used during construction	(14,999)	(18,636)	(21,195)
Deferred income taxes	192,914	145,157	(44,478)
Change in mark-to-market valuations	(6,939)	7,792	(6,758)
Changes in current assets and liabilities:			
Customer and other receivables	2,603	40,782	19,825
Accrued utility revenues	(10,882)	6,784	4,057
Materials, supplies and fossil fuel	(12,261)	(25,453)	(29,776)
Other current assets	(9,427)	128	(8,056)
Accounts payable	(22,129)	(5,915)	(2,797)
Accrued taxes	(61,078)	(12,377)	13,802
Other current liabilities	26,907	20,527	20,231
Change in margin and collateral accounts – assets	(13,206)	17,850	11,252
Change in margin and collateral accounts – liabilities	35,654	(132,416)	27,624
Change in regulatory liabilities	110,642	(12,129)	7,541
Change in long-term income tax receivable	(132,379)	--	--
Change in unrecognized tax benefits	137,478	(92,064)	27,773
Change in other long-term assets	(53,734)	14,340	(23,577)
Change in other long-term liabilities	4,770	48,894	41,177
Net cash flow provided by operating activities	<u>958,719</u>	<u>785,260</u>	<u>765,815</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital expenditures	(754,301)	(910,189)	(924,166)
Contributions in aid of construction	53,525	60,292	41,809
Capitalized interest	(10,386)	(14,313)	(12,308)
Proceeds from sale of investment securities	--	--	69,225
Purchases of investment securities	--	--	(36,525)
Proceeds from nuclear decommissioning trust sales	441,242	317,619	259,026
Investment in nuclear decommissioning trust	(463,033)	(338,361)	(279,768)
Other	(4,667)	5,517	1,211
Net cash flow used for investing activities	<u>(737,620)</u>	<u>(879,435)</u>	<u>(881,496)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issuance of long-term debt	863,780	--	--
Short-term borrowings – net	(521,684)	303,684	218,000
Equity infusion	--	7,601	39,548
Dividends paid on common stock	(170,000)	(170,000)	(170,000)
Repayment and reacquisition of long-term debt	(343,941)	(27,717)	(1,586)
Net cash flow provided by (used for) financing activities	<u>(171,845)</u>	<u>113,568</u>	<u>85,962</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	49,254	19,393	(29,719)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	71,544	52,151	81,870
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 120,798</u>	<u>\$ 71,544</u>	<u>\$ 52,151</u>
<b>Supplemental disclosure of cash flow information:</b>			
Cash paid during the year for:			
Income taxes, net of refunds	\$ 13,555	\$ 56,728	\$ 186,183
Interest, net of amounts capitalized	\$ 181,597	\$ 167,592	\$ 165,279

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