

Managing the Challenges of Growth

Presentation to
Merrill Lynch
Global Power & Gas Leaders Conference

September 28, 2004

Forward-Looking Statements

This document 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 “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 us. In addition to the Risk Factors described in Exhibit 99.1 to the June 2004 Form 10-Q, these factors include, but are not limited to: 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; 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, including transmission outages and constraints; weather variations affecting local and regional customer energy usage; energy usage; 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; 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 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; the performance of the stock market and the changing interest rate environment, which affect the amount of our required contributions to our pension plan and nuclear decommissioning trust funds, as well as our reported costs of providing pension and other postretirement benefits; technological developments in the electric industry; strength of the real estate market in SunCor’s market areas, which include Arizona, Idaho, New Mexico and Utah; conservation programs; and other uncertainties, all of which are difficult to predict and many of which are beyond our control.

Pinnacle West Recent Activities

Proposed Retail Rate Settlement

- **Increase rates 4.21% (\$75.5 million) to cover higher costs**
- **Unifies generation assets built to serve APS customers**
- **Purchased power and fuel adjustor mitigates price volatility risk**
- **Resolves significant issues associated with reversal of Arizona competitive structure**

Sundance Power Plant Acquisition

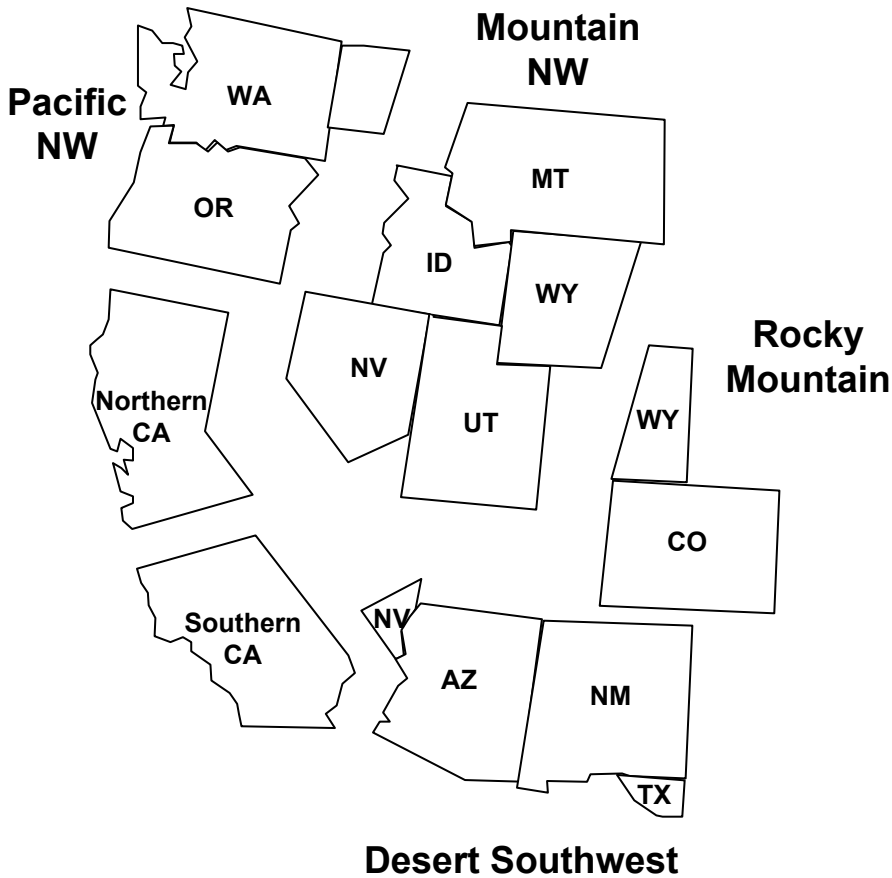
- **450 MW peaking capacity southeast of Phoenix**
- **\$190 million purchase price**
- **ACC hearing begins October 4, 2004**
- **Target closing end of 1st quarter 2005**

Resource Challenges in the West

Distinctive Western Market Characteristics

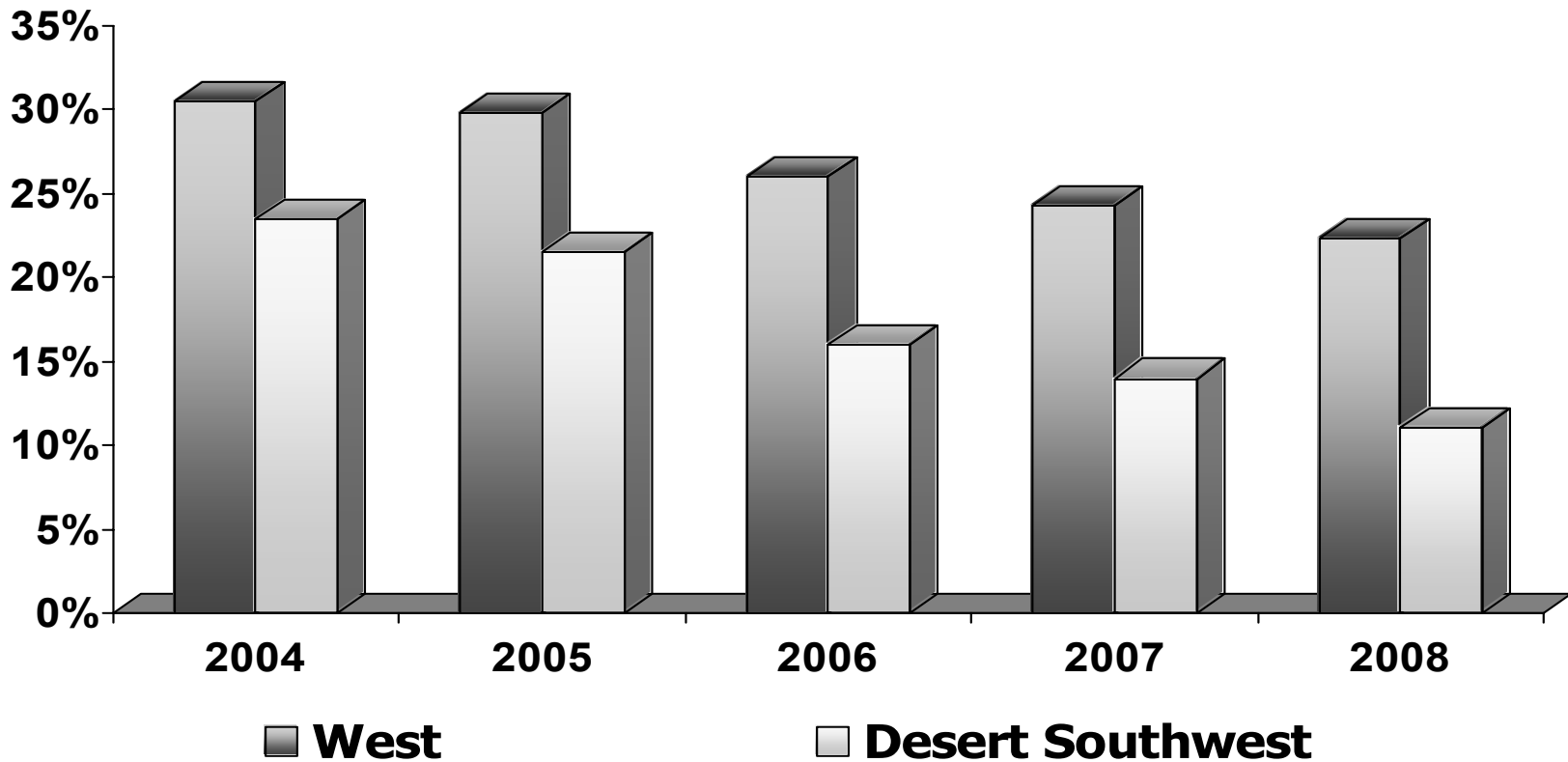
- **Growth**
- **Distinct sub-regions**
- **Declining reserve margins**
- **Increasing reliance on natural gas**

Distinct Western Sub-Regions



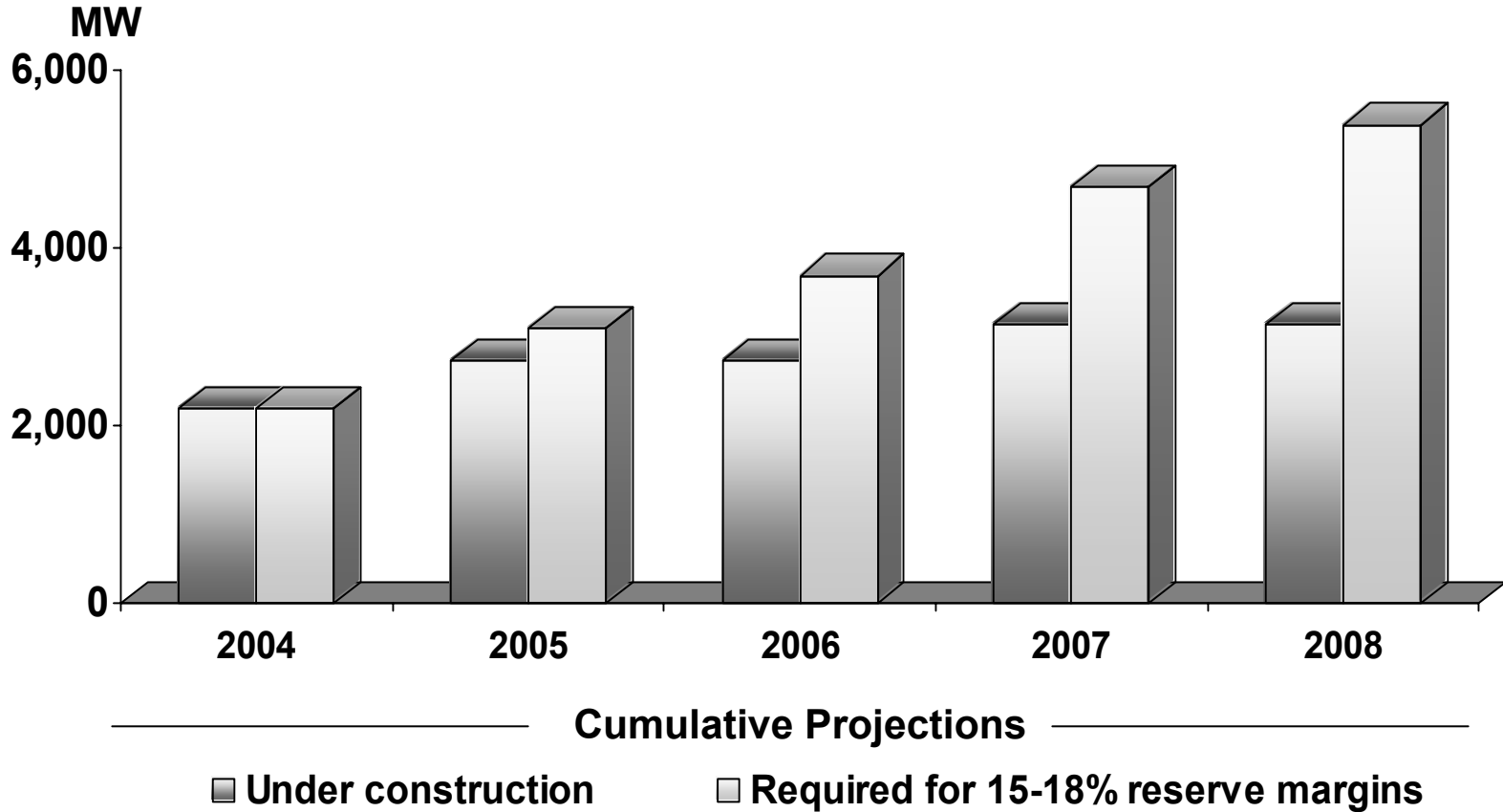
- **Transmission constraints**
- **Limited transmission and pipeline development**
- **Diverse load and resource profiles**
- **Varying regulatory structures**

Declining Reserve Margins



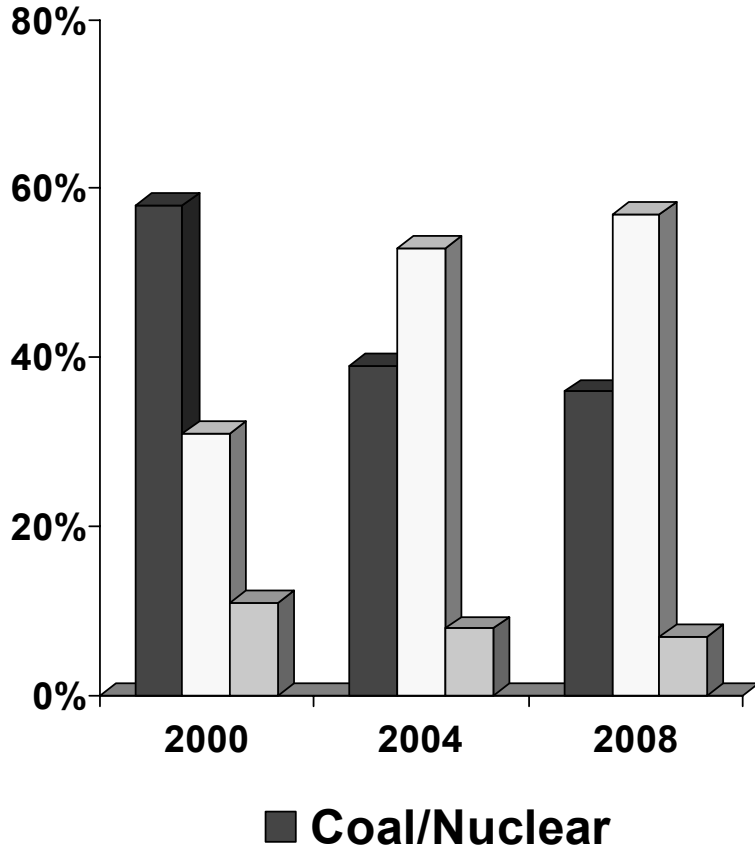
Based on plants in service and under construction

Generation Additions Needed Desert Southwest

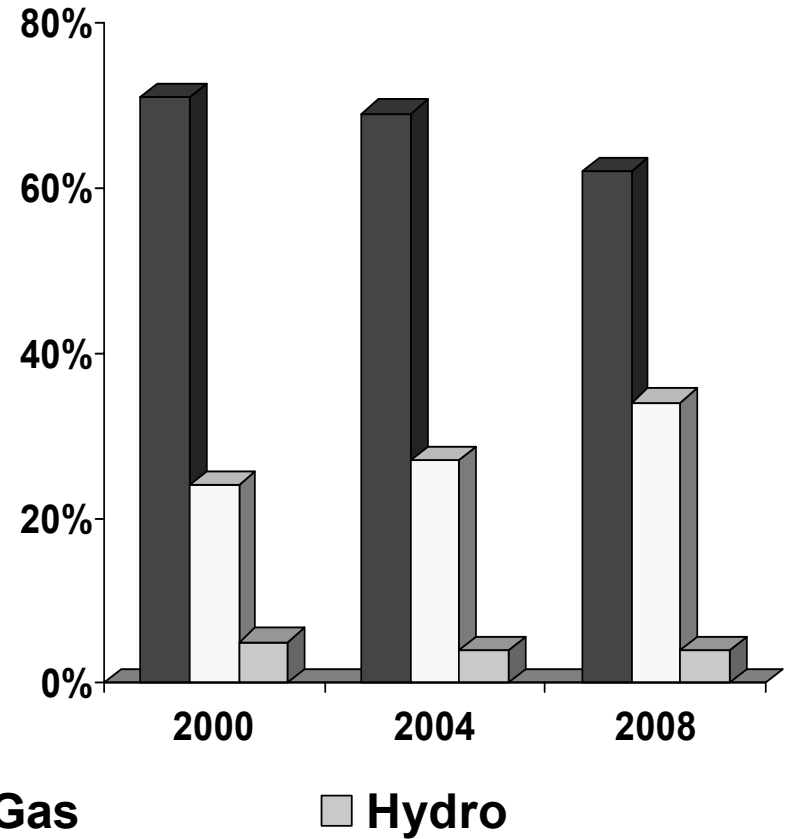


Increasing Reliance on Gas Desert Southwest

Generation Capacity Mix



Energy Fuel Mix



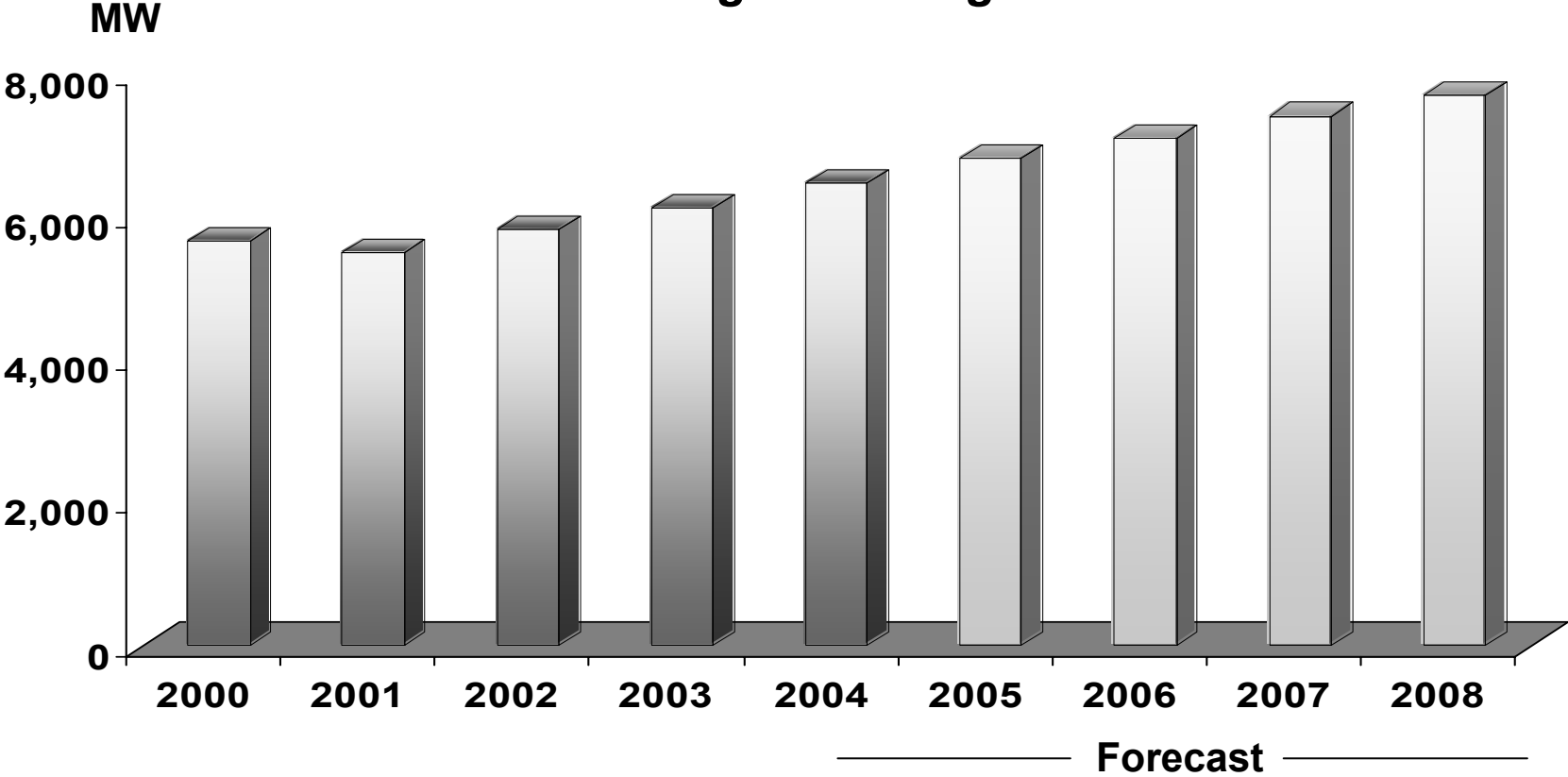
Western Electricity Infrastructure Observations

- **Additional infrastructure needed to serve growth**
- **Future prices**
- **Gas on the margin**
- **Spark spreads**
- **Regulatory influences**
- **Firm power**
- **Capacity factors**
- **Renewables**
- **Construction commitments**
- **Fuel diversity**

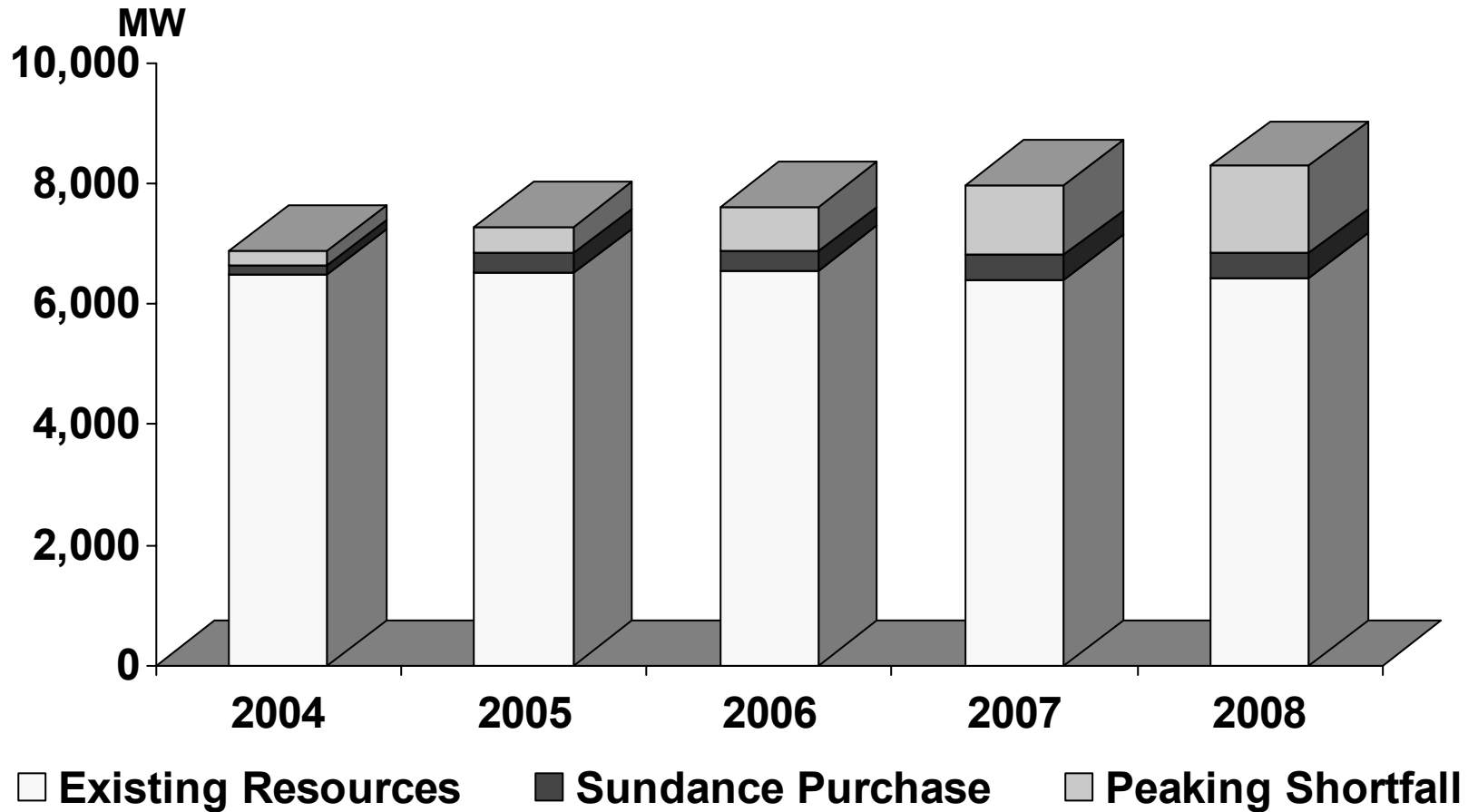
APS Strategies For Managing Growth

APS Peak Load Growth

2000 - 2008 average annual growth 4.7%



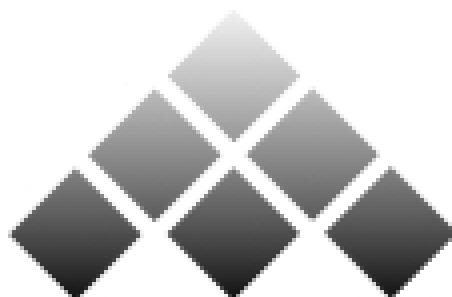
APS Growing Capacity Needs*



* Assuming proposed settlement

APS Strategies

- Growth
- Risk management
- Competition
- Reliability
- Regulatory
- Financial



PINNACLE WEST
CAPITAL CORPORATION

Appendix

Current Credit Ratings

	<u>S&P</u>	<u>Moody's</u>
Arizona Public Service Co.		
Senior Unsecured Debt	BBB	Baa1
Secured Lease Obligation Bonds	BBB	Baa2
Commercial Paper	A2	P2
Outlook	Negative	Negative
Pinnacle West Capital Corp.		
Senior Unsecured Debt	BBB-	Baa2
Commercial Paper	A2	P2
Outlook	Negative	Negative

Ample Liquidity Resources

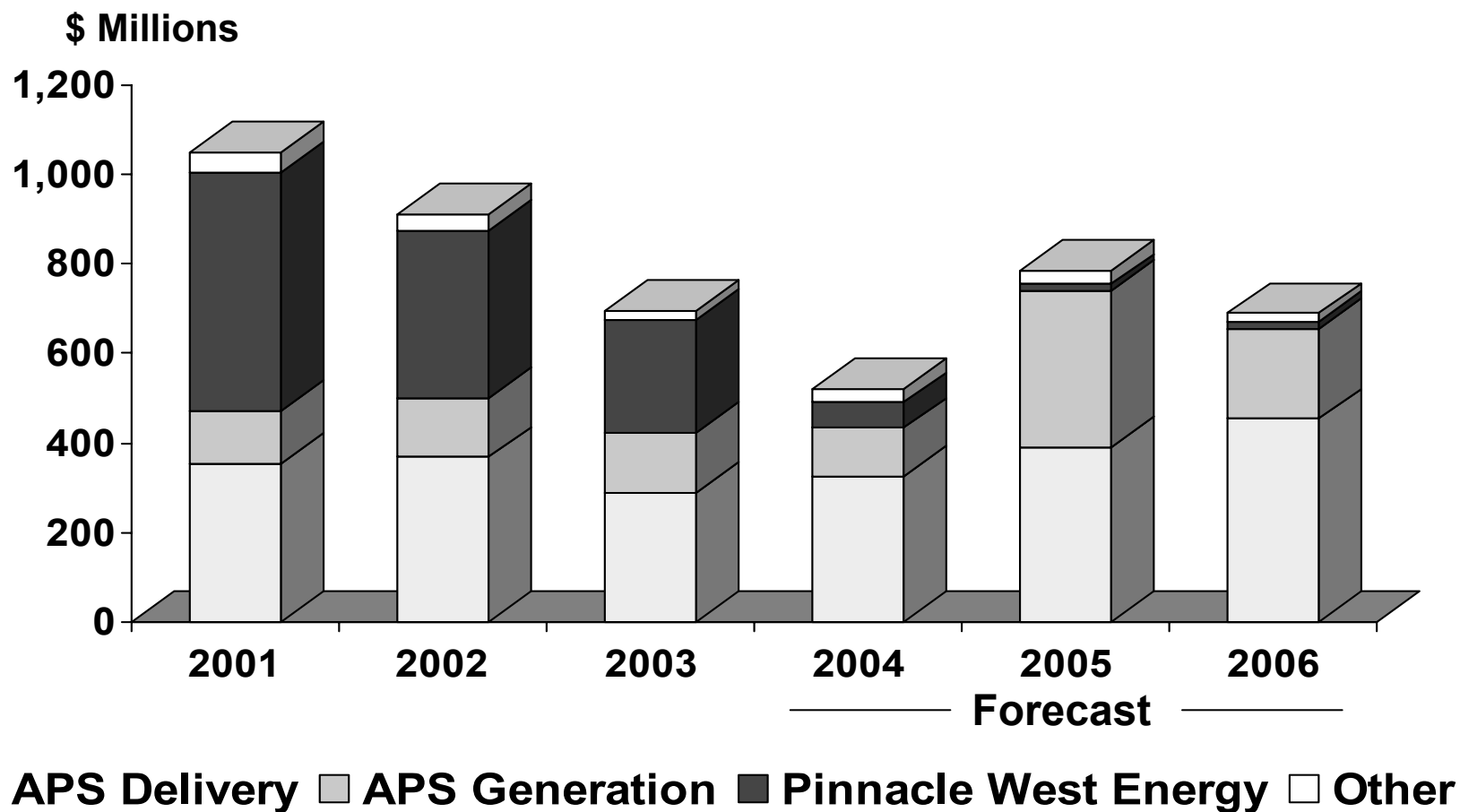
APS

- \$325 million revolver through May 2007
 - Support for \$250 million commercial paper facility
- Unused long-term debt shelf capability of \$200 million

Pinnacle West (parent)

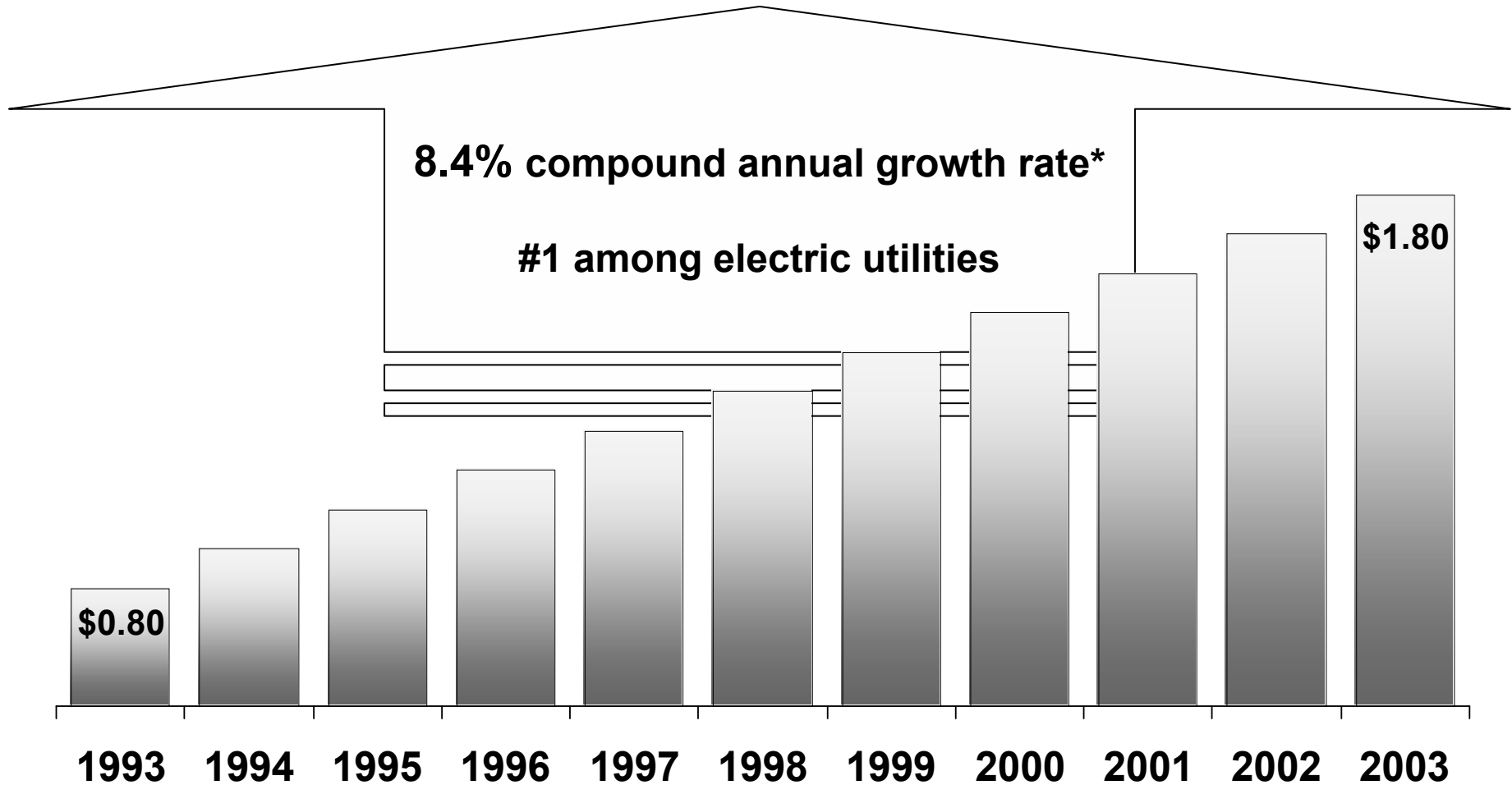
- \$275 million revolver through 2004
 - Support for \$250 million commercial paper facility
 - Renewal in process
- Unused long-term debt shelf capability of \$230 million

Pinnacle West Capital Expenditures



Excludes SunCor

Pinnacle West Dividend Growth Track Record



* Ten-year 1994 - 2003

Proposed Retail Rate Settlement

Major Changes in Revenue Requirements

(\$ Millions)

Original APS request	\$175
ROE to 10.25% versus 11.50%	(36)
No recovery of \$234 million write-off	(32)
Lengthen asset depreciable lives	(26)
\$148 million rate base disallowance	(22)
Miscellaneous - net	<u>17</u>
Proposed settlement	<u><u>\$ 76</u></u>

Proposed Retail Rate Settlement Target Procedural Schedule

- Direct testimony due September 27
- Responsive testimony due October 25
- Hearing begins November 8
- ACC approval around year-end 2004
- Rate increase effective following ACC approval
- FERC application for PWEC asset transfer to be filed after ACC approval

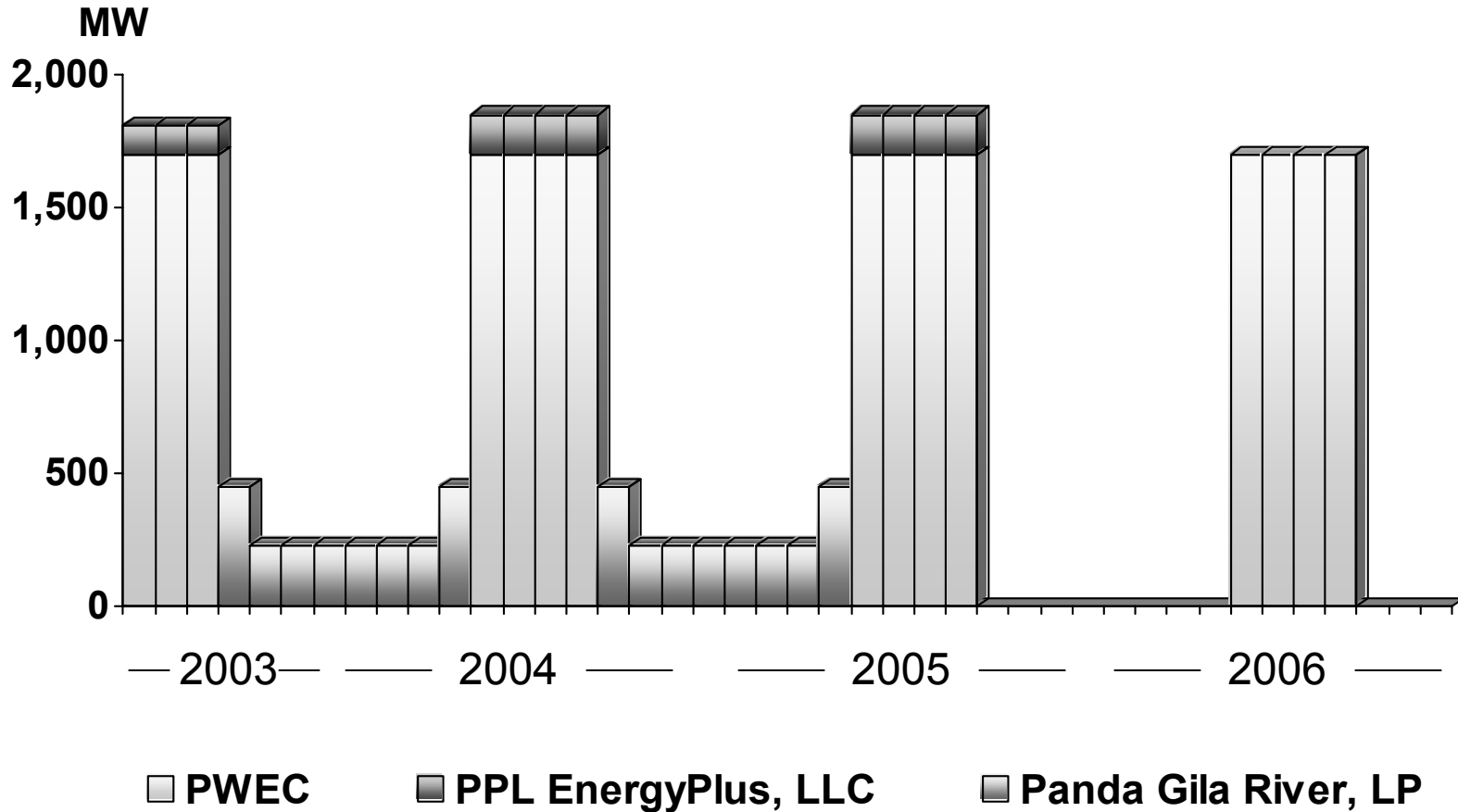
Proposed Sundance Plant Acquisition Target Procedural Schedule

- Announced and ACC application filed June 1
- ACC Staff and intervenor testimony due September 21
- Rebuttal testimony due September 29
- ACC hearing begins October 4
- ACC decision target – end of 2004
- FERC decision target – first quarter 2005
- Transaction closing – end of first quarter 2005

Arizona Corporation Commissioners

<u>Commissioner</u>	<u>Party Affiliation</u>	<u>Commissioner Since</u>	<u>Current Term Expires</u>
Marc Spitzer, Chairman	Republican	Jan. 2001	Jan. 2007
Michael Gleason	Republican	Jan. 2003	Jan. 2005
Jeff Hatch-Miller	Republican	Jan. 2003	Jan. 2005
Kristin Mayes	Republican	Oct. 2003	Jan. 2005
William Mundell	Republican	June 1999	Jan. 2005

APS Track B Procurement Contracts Awarded May 2003



Solid Operational Performance

Integrated resource strategy

Customer service & delivery

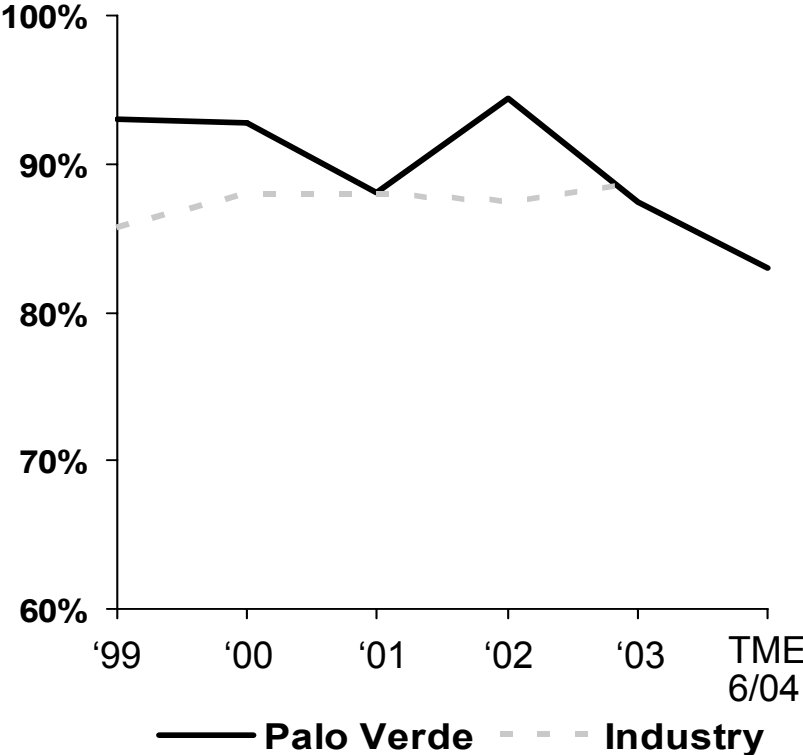
- J.D. Power & Associates ranks APS customer satisfaction in top 10% nationally among IOU's
- Capital investment and technology to preserve reliability and improve performance

Generation

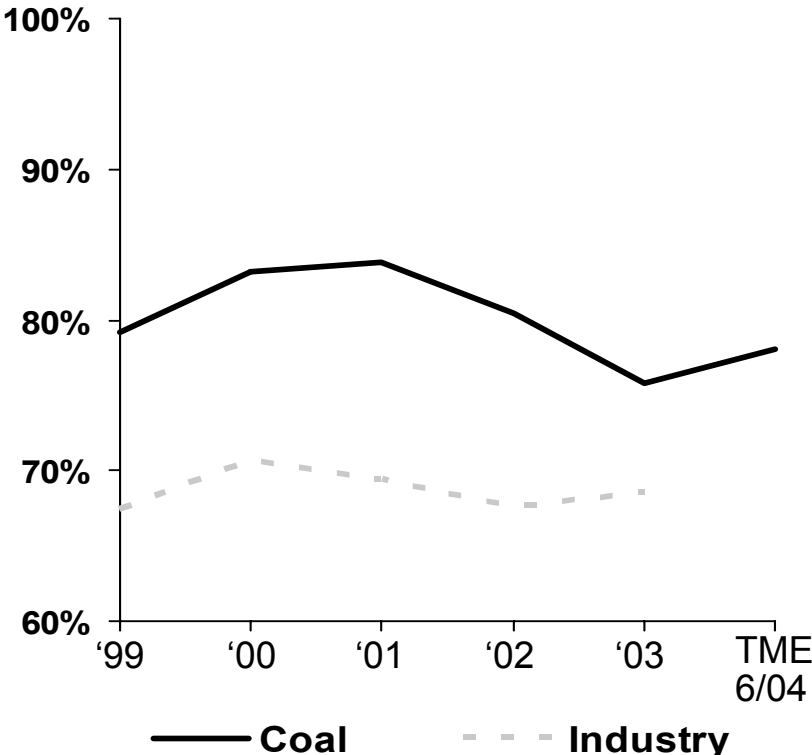
- Palo Verde – top U.S. power producer past 12 years
- Top-tier baseload performance
- 2,218 MW of new gas generation since 2001

Generation Capacity Factors

*Palo Verde Site Average**

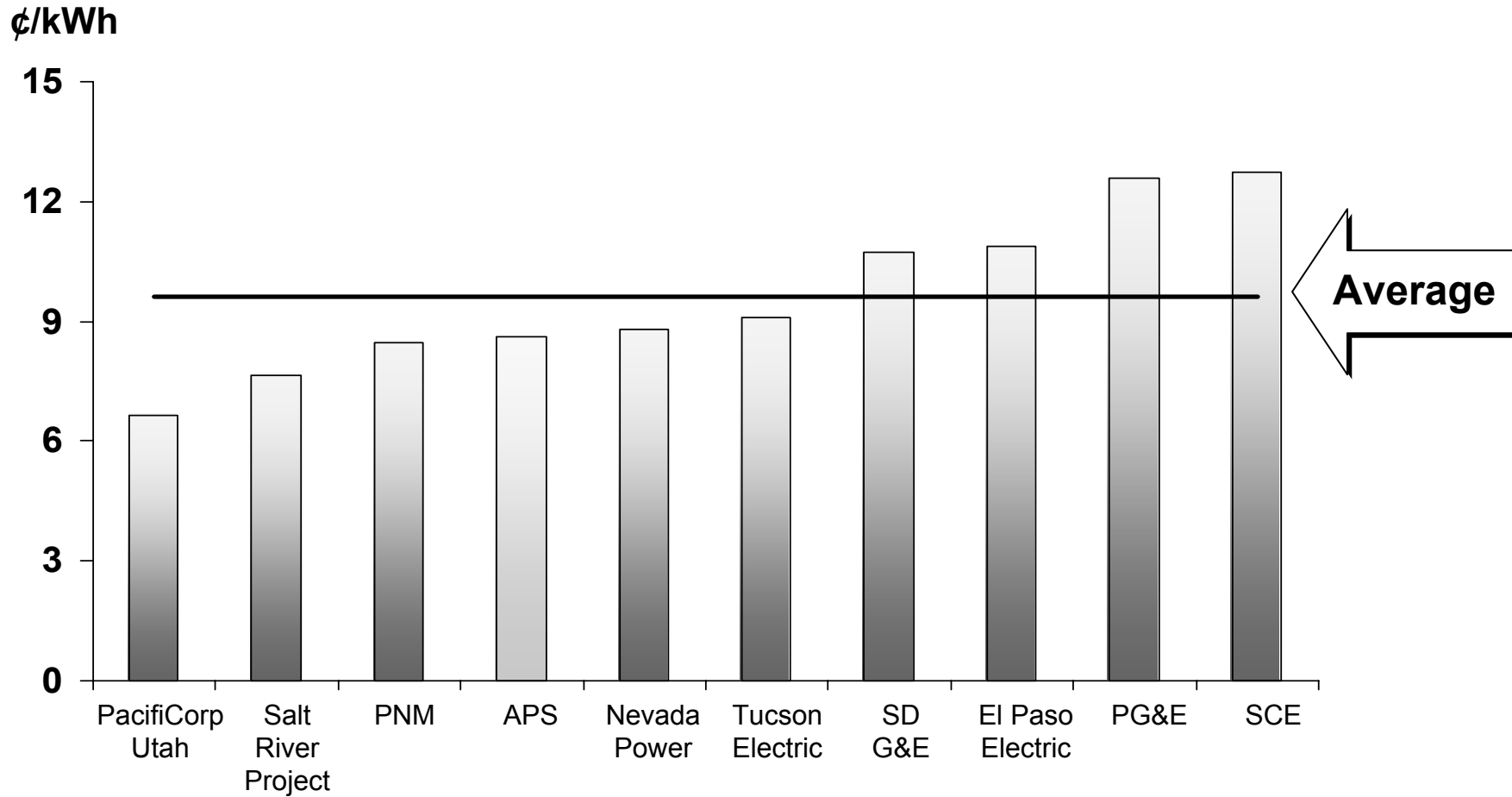


Coal Average



* Reflects Unit 2 steam generator replacement outage in 2003

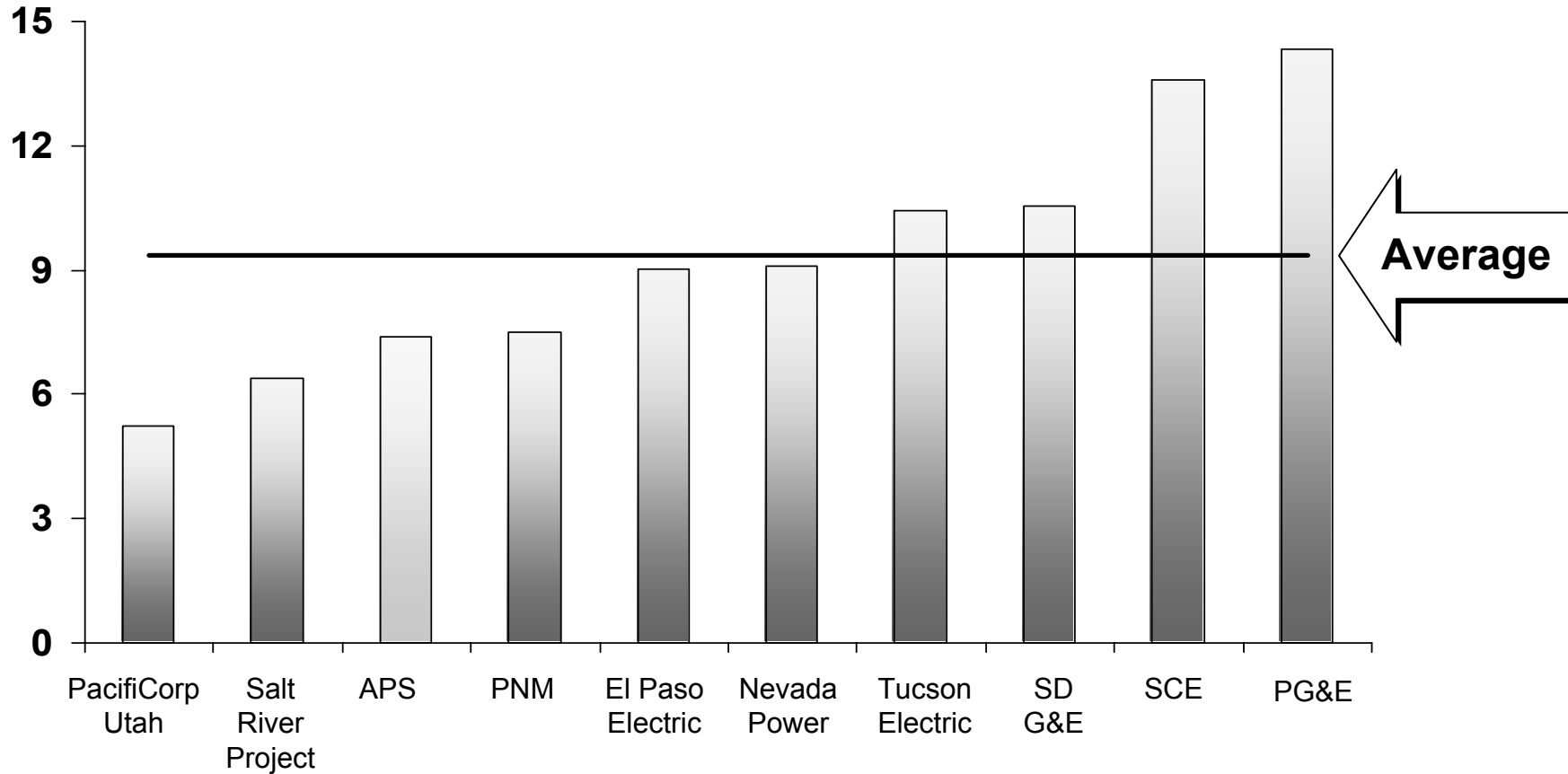
Average Residential Retail Price Ranking* Southwestern U.S.



* As of December 31, 2003

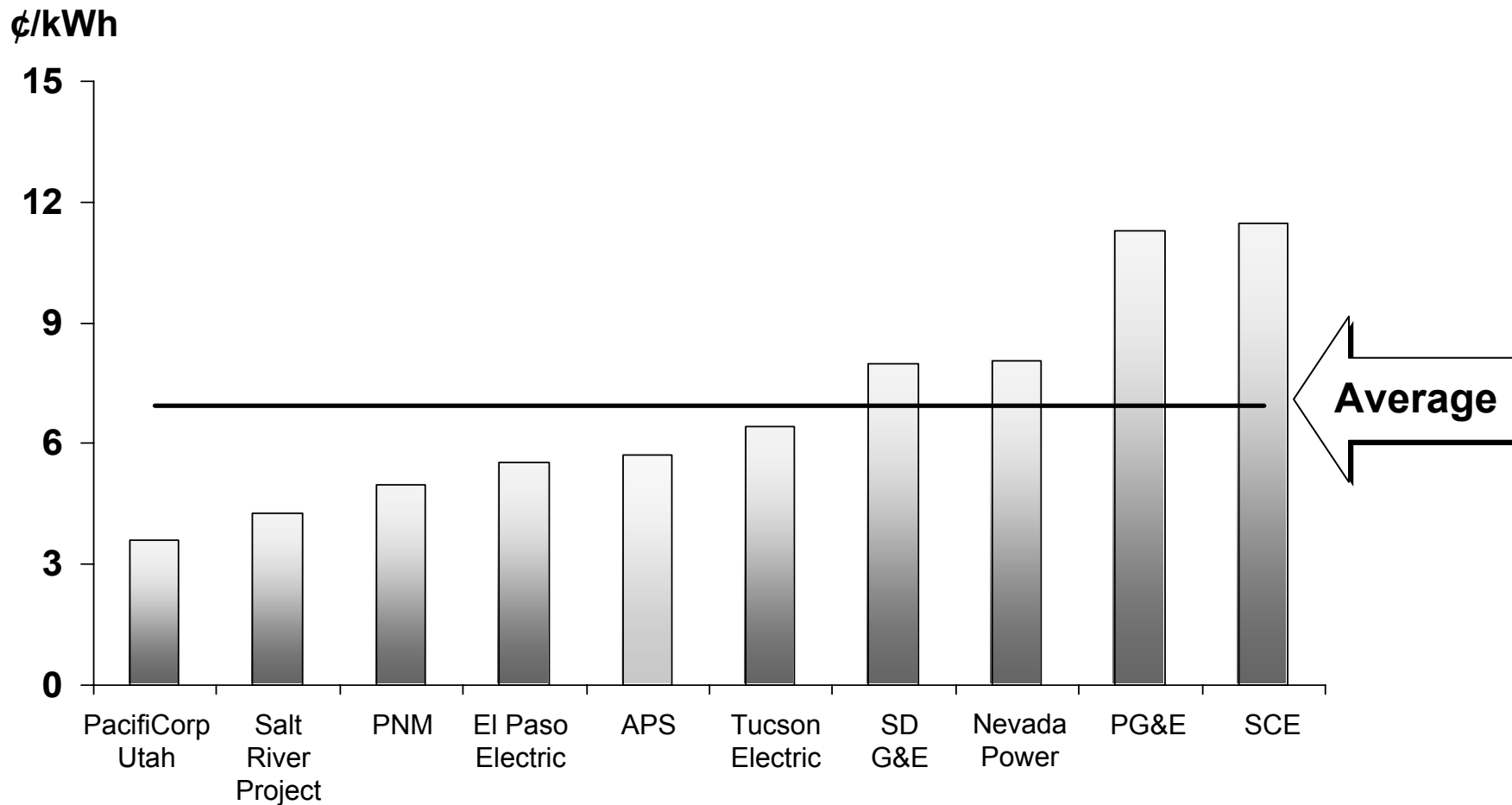
Average Commercial Retail Price Ranking* Southwestern U.S.

¢/kWh



* As of December 31, 2003

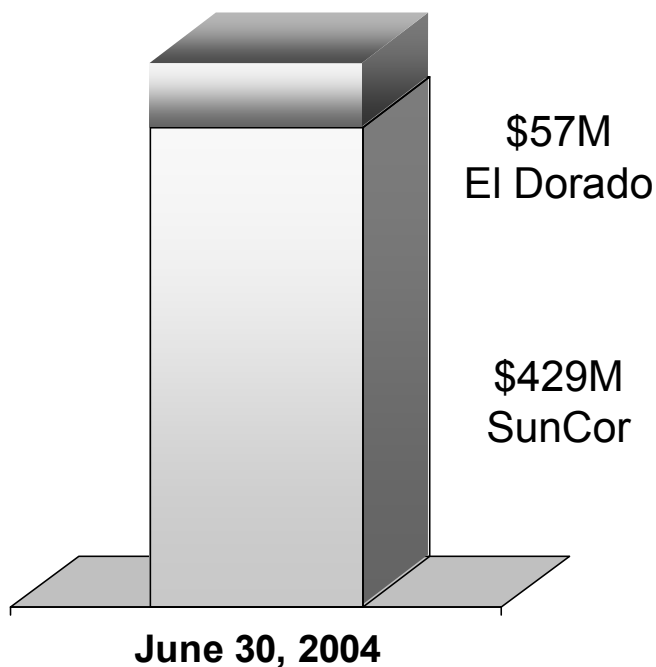
Average Industrial Retail Price Ranking* Southwestern U.S.



* As of December 31, 2003

Non-Energy Subsidiaries Overview

Assets
\$486 Million



➤ *Objectives*

- Cash flow and profit potential to parent

➤ *Current activities*

- SunCor accelerated asset sales program
- Sale of Phoenix Suns Partnership by El Dorado
- Harvesting venture capital portfolio as it matures

➤ *Growth opportunities*

- Select real estate opportunities
- Future investments complementing energy business