



PINNACLE WEST
CAPITAL CORPORATION

1st Quarter 2009 Results
May 5, 2009

Forward-Looking Statements



PINNACLE WEST
CAPITAL CORPORATION

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 Item 1A of the 2008 Form 10-K, these factors include, but are not limited to: state and federal regulatory and legislative decisions and actions, including the outcome or timing of the pending rate case of APS; increases in our capital expenditures and operating costs and our ability to achieve timely and adequate rate recovery of these increased costs; our ability to reduce capital expenditures and other costs while maintaining reliability and customer service levels, and unexpected developments that would limit us from achieving all or some of our planned capital expenditure reductions; volatile fuel and purchased power costs, including fluctuations in market prices for natural gas, coal, uranium and other fuels used in our generating facilities, availability of supplies of such commodities, and our ability to recover the costs of such commodities; the outcome and resulting costs of regulatory, legislative and judicial proceedings, both current and future, including those related to environmental matters and climate change; the availability of sufficient water supplies to operate our generation facilities, including as the result of drought conditions; the potential for additional restructuring of the electric industry, including decisions impacting wholesale competition and the introduction of retail electric competition in Arizona; regional, national and international economic and market conditions, including the strength of the real estate, credit and financial markets; the potential adverse impact of current economic conditions on our results of operations; the cost of debt and equity capital and access to capital markets; changes in the market price of our common stock; restrictions on dividends or other burdensome provisions in new or existing credit agreements; our ability, or the ability of our subsidiaries, to meet debt service obligations; current credit ratings remaining in effect for any given period of time; the performance of the stock market and the changing interest rate environment, which affect the value of our nuclear decommissioning trust, pension, and other postretirement benefit plan assets, the amount of required contributions to Pinnacle West’s pension plan and contributions to APS’ nuclear decommissioning trust funds, as well as the reported costs of providing pension and other postretirement benefits and our ability to recover such costs; volatile market liquidity, 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, the interpretation of those principles and the impact of the adoption of new accounting standards; customer growth and energy usage; weather variations affecting local and regional customer energy usage; power plant performance and outages; transmission outages and constraints; the completion of generation and transmission construction in the region, which could affect customer growth and the cost of power supplies; risks inherent in the operation of nuclear facilities, such as environmental, regulatory, health and financial risks, risk of terrorist attack, planned and unplanned outages, and unfunded decommissioning costs; the ability of our power plant participants to meet contractual or other obligations; technological developments in the electric industry; the results of litigation and other proceedings resulting from the California and Pacific Northwest energy situations; the performance of Pinnacle West’s subsidiaries and any resulting effects on its cash flow; the strength of the real estate and credit markets and economic and other conditions affecting the real estate and credit markets 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.

CEO Agenda



- **APS Retail Rate Settlement**
- **SunCor Restructuring Plan**
- **Palo Verde Return to NRC Column 1**
- **Summary Comments**

Proposed APS Retail Rate Settlement Rate and Financial Stability Plan



Primary Benefits

- **Strengthens APS' financial condition and supports common dividend**
- **Provides greater level of cost recovery and return on investment**
- **Provides rate stability for APS customers**
- **Allows opportunity to help shape Arizona's energy future outside continual rate cases**
- **Continues strong APS commitment to cost control and efficiency**
- **Provides for significant increase in energy efficiency programs**
- **Expands renewable energy requirements and programs**

Proposed APS Retail Rate Settlement Rate and Financial Stability Plan



Key Financial Provisions – Base Rates

	<u>Proposed Settlement</u>	<u>APS Request</u>
Annualized base rate revenue increase (\$ millions):		
Non-fuel rate increase	\$ 196	\$ 264
Net fuel-related rate increase	11	14
Net base rate increase	<u>\$ 207</u>	<u>\$ 278</u>
Allowed ROE (%)	11	11.5
Base fuel rate (¢ per kWh)	3.76	3.88
Effective date	1/1/2010	10/1/2009

Proposed APS Retail Rate Settlement Rate and Financial Stability Plan



Key Financial Provisions – Other Than Base Rates

- **Line Extension Fees – 2010-2012 payments received to be recorded as revenues instead of contributions in aid of construction (pretax estimates):**
 - **2010 \$23 million**
 - **2011 \$25 million**
 - **2012 \$49 million**

- **Pension and OPEB Deferrals – 2011-2012 defer for future rate recovery differences between actual pension and OPEB costs and 2007 test year (\$24 million) as follows (pretax):**
 - **2011 deferral not to exceed lower of \$13.5 million or 50% of cost above 2007 level**
 - **2012 deferral not to exceed \$29 million**

(continued)

Proposed APS Retail Rate Settlement Rate and Financial Stability Plan



Key Financial Provisions – Other Than Base Rates (continued)

- **Expense Reduction Commitment**
 - **Beginning in 2010, identify additional \$10 million pretax expense reductions above \$20 million identified March 2009**
 - **\$30 million average annual expense reductions to continue through 2014**

- **Equity Infusions**
 - **APS to obtain at least \$700 million of equity infusions in 2010 through 2014**

(continued)

Proposed APS Retail Rate Settlement Rate and Financial Stability Plan



Future General Base Rate Cases

- **APS may file general base rate cases on or after June 1, 2011 and June 1, 2013**
- **A base rate increase resulting from APS' next rate case may not become effective before July 1, 2012**
- **Settling parties intend to process future cases within 12 months of sufficiency findings**

Proposed APS Retail Rate Settlement Rate and Financial Stability Plan



Proposed Procedural Schedule

Definitive settlement agreement filing	June 12, 2009
Supporting parties' testimony due	July 1, 2009
Opposing parties' testimony due	July 22, 2009
Supporting parties' reply testimony due	August 6, 2009
Hearing begins	August 17, 2009
Rate increase effective	January 1, 2010

CEO Agenda



- **APS Retail Rate Settlement**
- **SunCor Restructuring Plan**
- **Palo Verde Return to NRC Column 1**

CFO Agenda



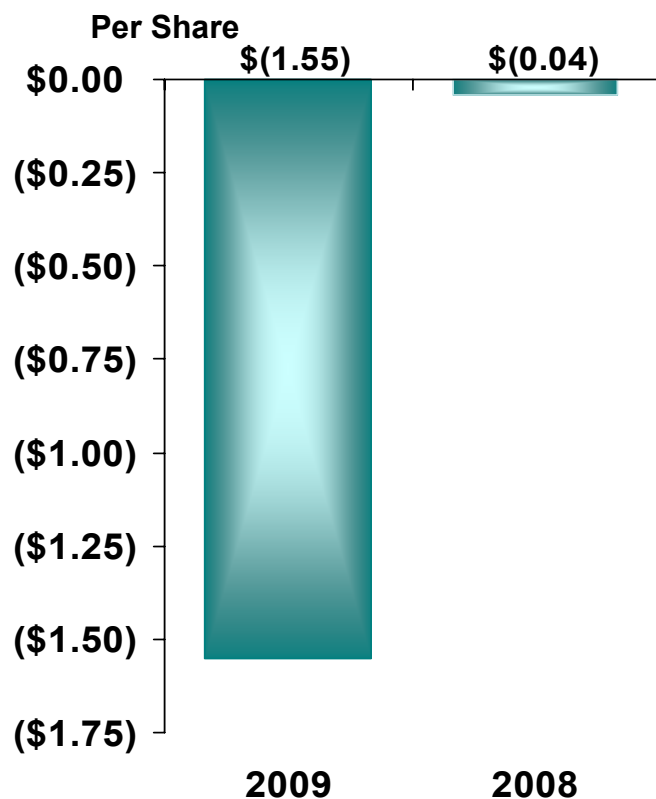
- **1st Quarter Results**
- **Impacts of SunCor Restructuring Plan**
- **Earnings Guidance**
- **Liquidity**
- **Dividends**

Consolidated EPS Summary

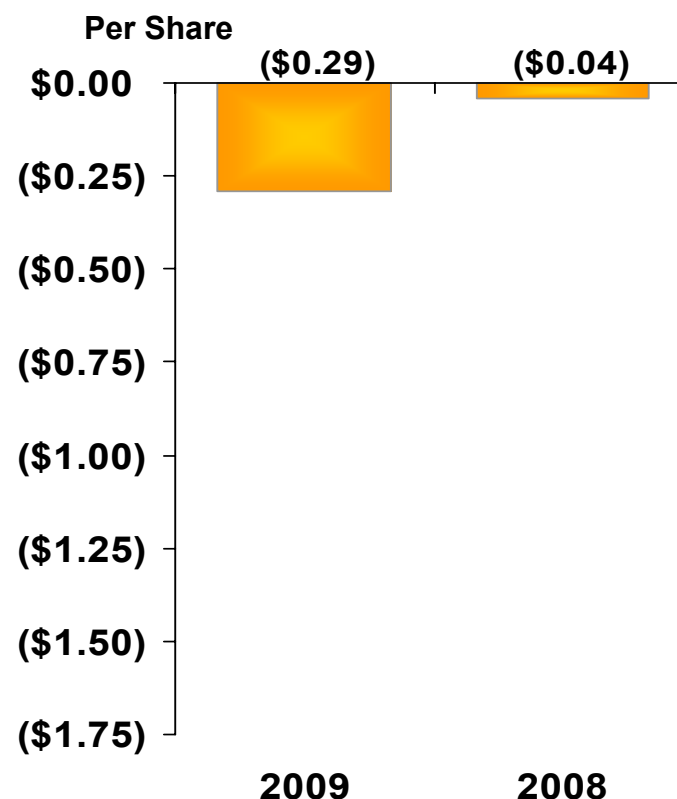
1st Quarter 2009 vs. 1st Quarter 2008



Reported



On-Going



On-going loss of \$(0.29) per share in 1st quarter 2009 compared with \$(0.04) per share in 1st quarter 2008.

Non-GAAP EPS Reconciliation

1st Quarter 2009 vs. 1st Quarter 2008



PINNACLE WEST
CAPITAL CORPORATION

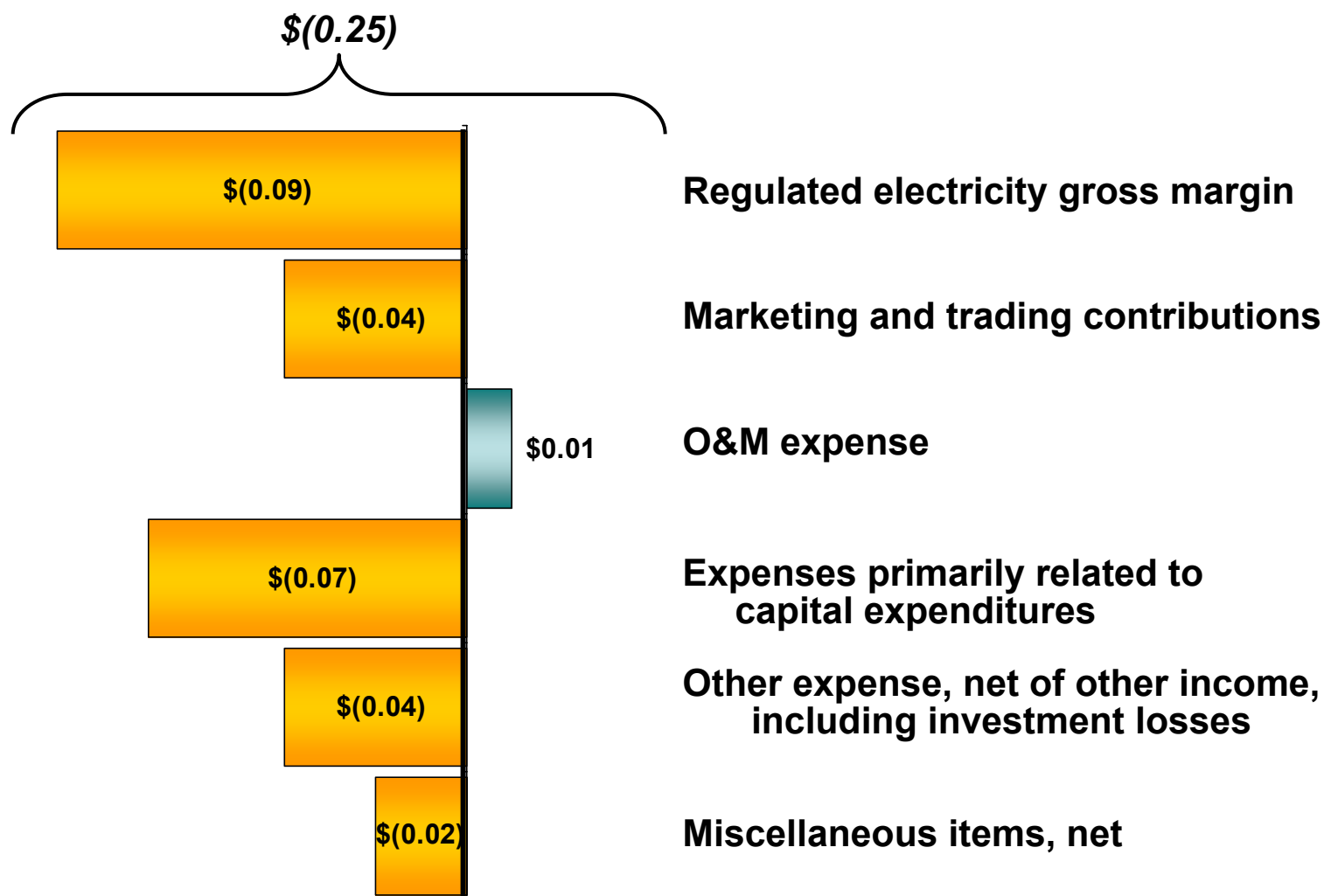
	<u>1st Qtr 2009</u>	<u>1st Qtr 2008</u>	<u>Change</u>
EPS per diluted share as reported:	\$ (1.55)	\$ (0.04)	\$ (1.51)
Adjustments:			
Real estate impairment charge	1.22	-	1.22
Real estate severance and other costs	<u>0.04</u>	<u>-</u>	<u>0.04</u>
On-going earnings per share	<u>\$ (0.29)</u>	<u>\$ (0.04)</u>	<u>\$ (0.25)</u>

Summary of On-Going EPS Variances

1st Quarter 2009 vs. 1st Quarter 2008



PINNACLE WEST
CAPITAL CORPORATION

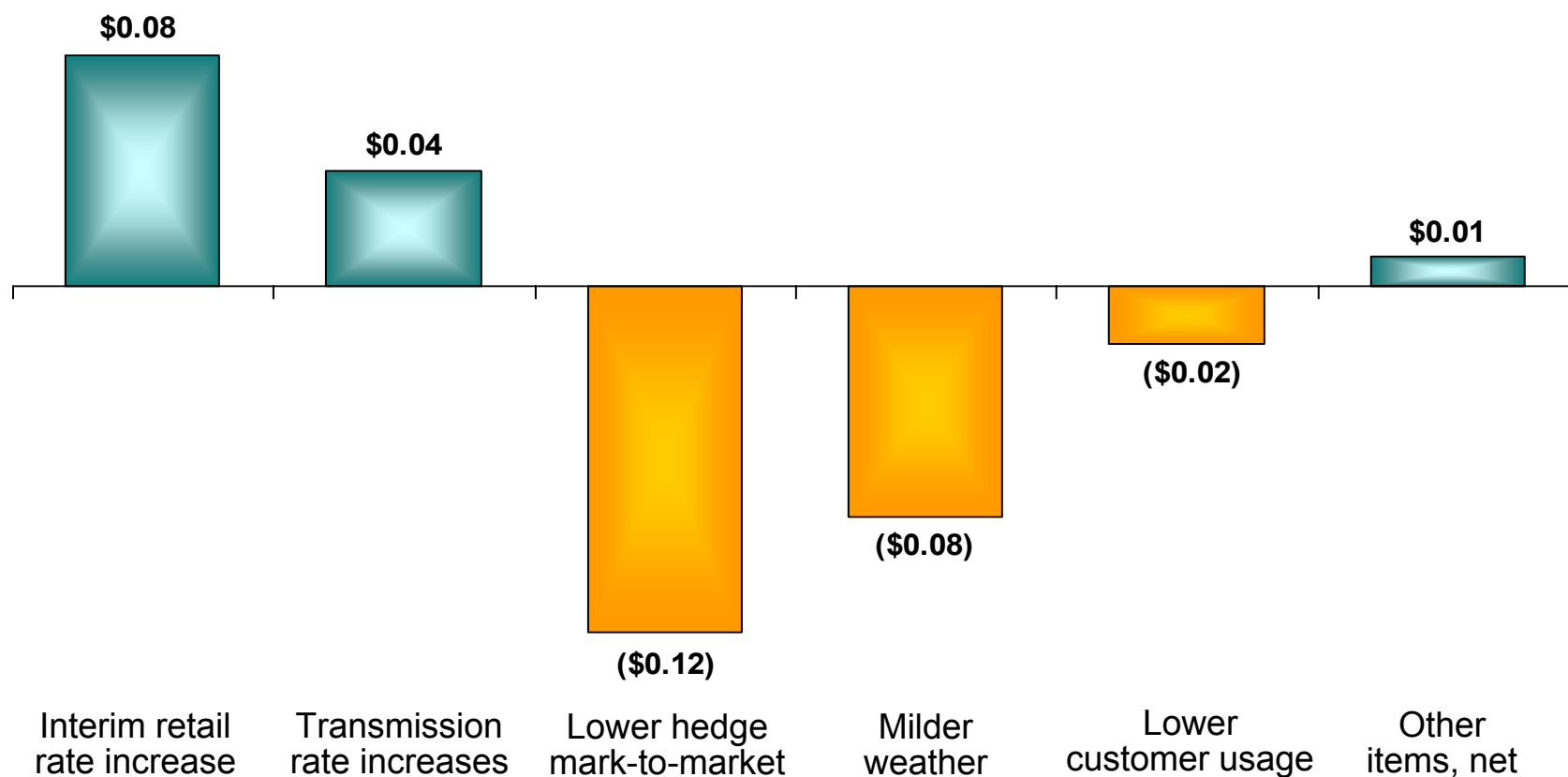


Regulated Electricity Gross Margin Drivers*

1st Quarter 2009 vs. 1st Quarter 2008



PINNACLE WEST
CAPITAL CORPORATION



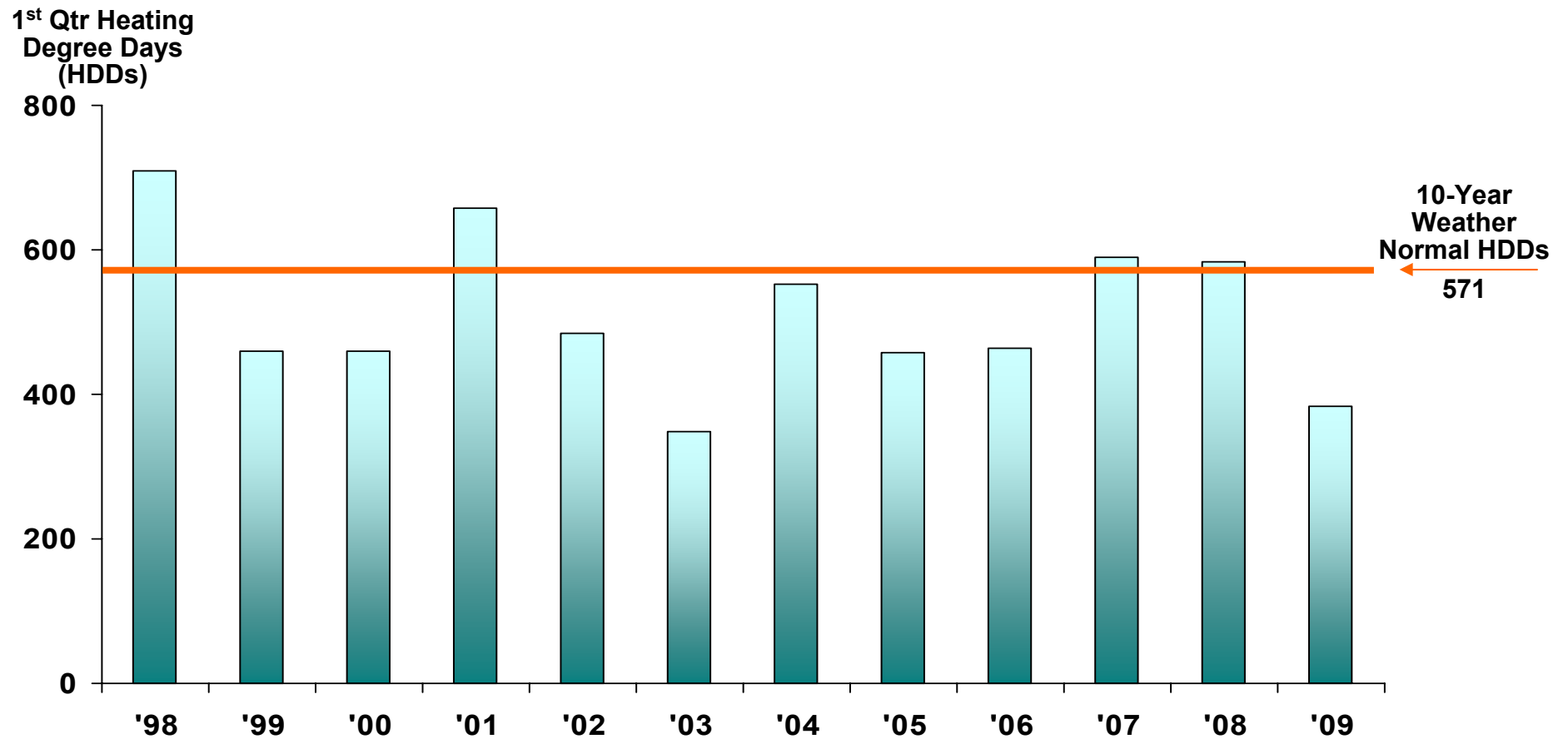
*Excluding effects of Renewable Energy Standard (RES) of \$0.10 per share, which is offset by a comparable amount in O&M.

Regulated electricity gross margin variances decreased earnings \$0.09 per share.

Milder Weather Impacts Quarterly Comparison



PINNACLE WEST
CAPITAL CORPORATION



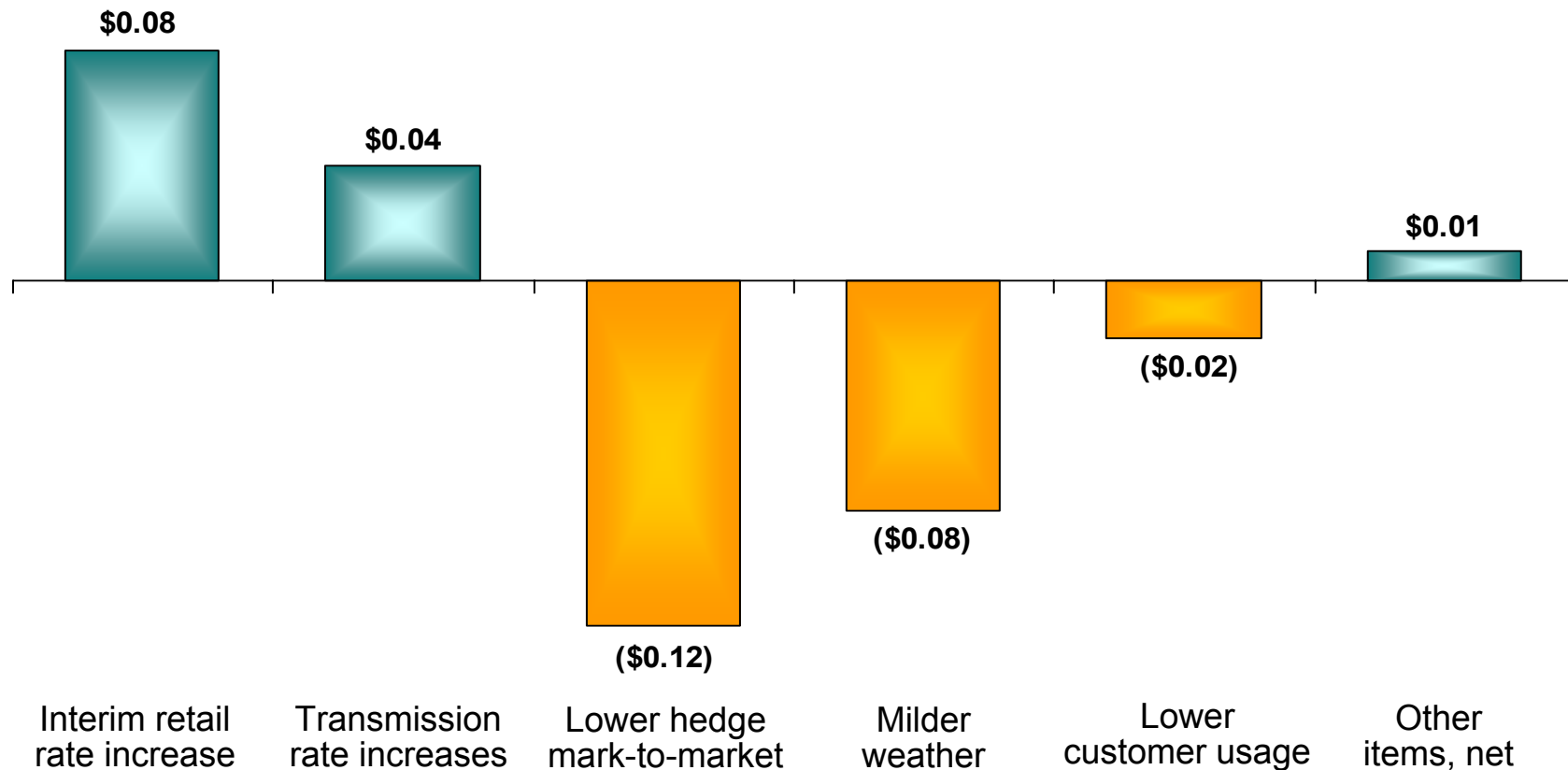
1st quarter 2009 was second mildest on record with 383 HDDs compared with a normal level of 571 HDDs.

Regulated Electricity Gross Margin Drivers*

1st Quarter 2009 vs. 1st Quarter 2008



PINNACLE WEST
CAPITAL CORPORATION



*Excluding effects of Renewable Energy Standard (RES) of \$0.10 per share, which is offset by a comparable amount in O&M.

Regulated electricity gross margin variances decreased earnings \$0.09 per share.

Financial Impacts of SunCor Restructuring



PINNACLE WEST
CAPITAL CORPORATION

- **1st quarter 2009 real estate impairment, severance and related costs \$1.26 per share**
- **Eliminate SunCor's debt**
- **Produce \$80 million of cash tax benefits (estimated to be received late 2010)**
- **Reduce pretax G&A burn from \$44 million in 2008 to negligible amount after restructuring**
- **Eliminate future real estate earnings volatility**

2009 - 2010 Earnings Guidance Affirmed

As of May 5, 2009



PINNACLE WEST
CAPITAL CORPORATION

Guidance Estimates*

	<u>2009</u>	<u>2010</u>
APS	\$ 2.35	\$ 3.00
Parent and all other, net	(0.05)	-
Estimated EPS	<u>\$ 2.30</u>	<u>\$ 3.00</u>

- Excluding any SunCor impact
- Majority of SunCor's operations will be reclassified to discontinued operations during 2009

* Within a reasonable range around specified amount

Key Assumptions

2009

- Full-year interim base rates
- No additional base rate increases
- Includes identified cost savings and mild weather impacts

2010

- Rate settlement effective entire year
- Includes identified cost savings

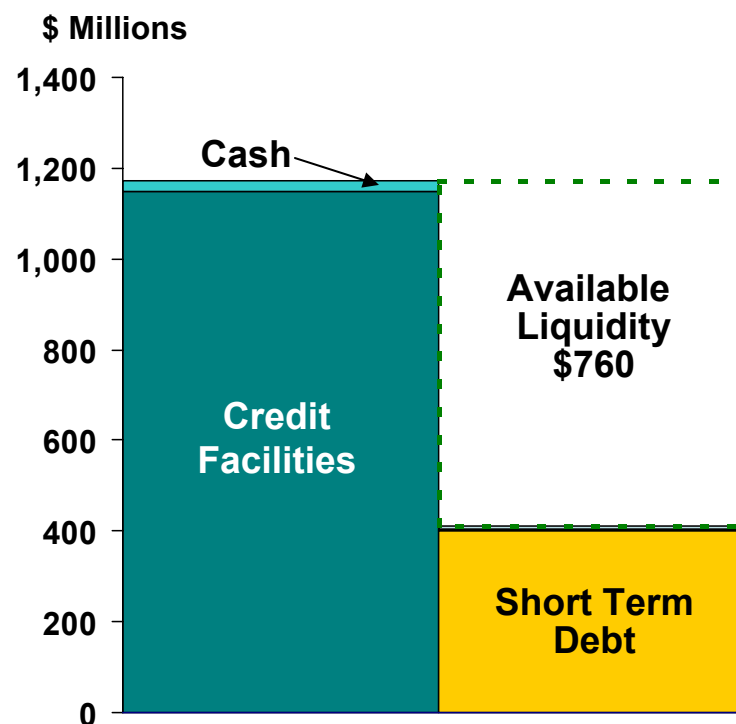
Adequate Liquidity Resources



Credit Facilities

<u>Borrower</u>	<u>Capacity (\$ Millions)</u>	<u>Matures</u>
PNW	\$ 283	Dec. '10
APS	377	Dec. '10
APS	489	Sep. '11
	<u><u>\$1,149</u></u>	

Available Liquidity March 31, 2009

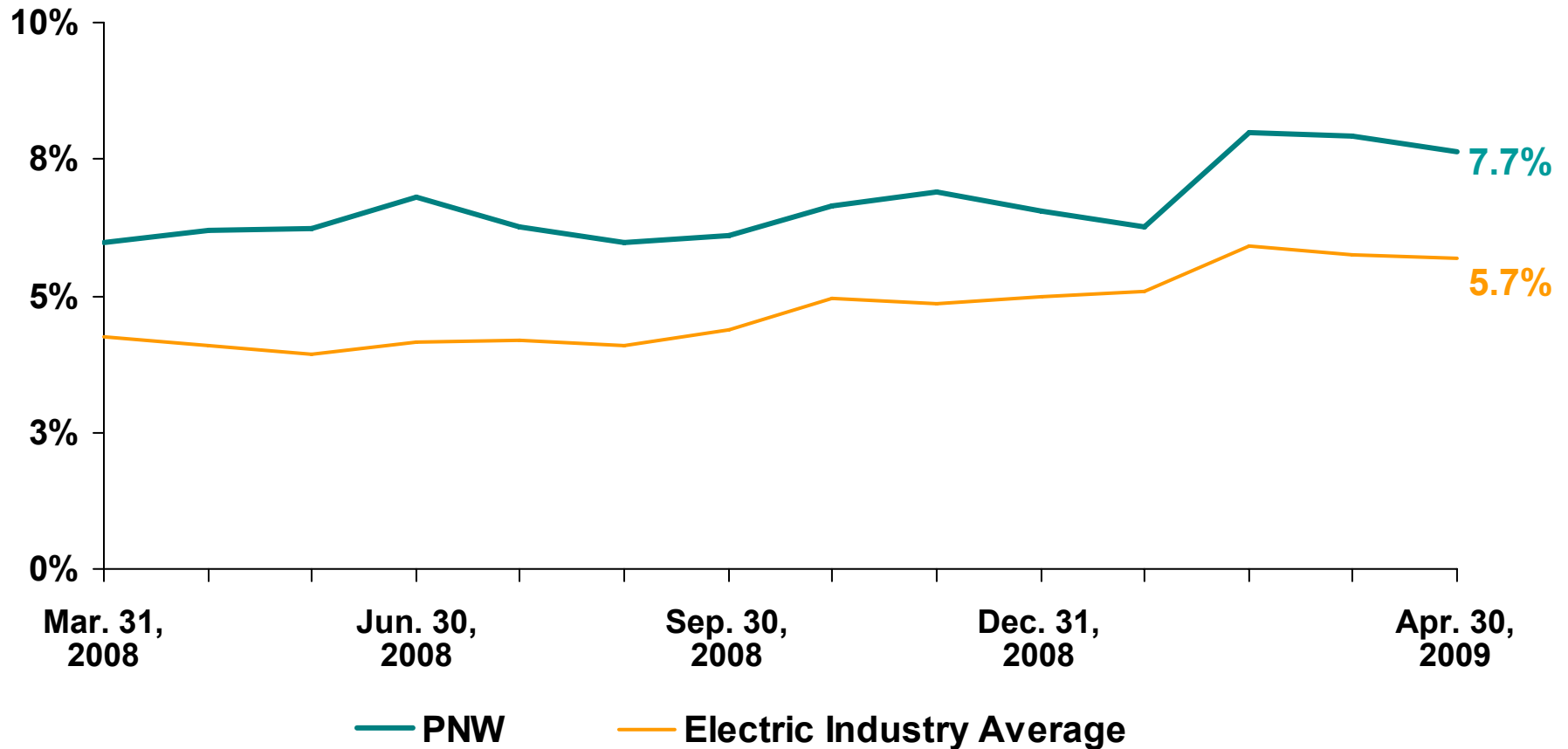


We have sufficient liquidity and access to credit.

Pinnacle West vs. Industry Dividend Yield



PINNACLE WEST
CAPITAL CORPORATION



Pinnacle West's annual dividend is \$2.10 per share.

Going Forward



- **Intense focus on operational excellence and improving earnings and financial metrics**
- **Positive movement in Arizona regulatory environment demonstrated by proposed settlement**
- **SunCor restructuring plan optimizes assets and financial results**
- **Current common dividend supported**

Appendix

Comparison of Retail Rate Case Positions



PINNACLE WEST
CAPITAL CORPORATION

	<u>APS Request</u>	<u>ACC Staff</u>	<u>RUCO</u>	<u>AECC</u>
Annual revenue increases (\$ millions):				
Non-fuel rate increase	\$ 264	\$ 155	\$ (14)	\$ 206
Net fuel-related rate increase	<u>14</u>	<u>11</u>	<u>14</u>	<u>10</u>
Net rate increase	<u>\$ 278</u>	<u>\$ 166</u>	<u>\$ -</u>	<u>\$ 216</u>
Rate base (\$ billions)	\$ 5.4	\$ 5.3	\$ 4.9	\$ 5.4
Common equity	←————— 54% —————→			
Return on common equity	11.5%	11.0%	9.6%	11.5%

Costs Related to SunCor Restructuring

1st Quarter 2009



	<u>\$ Millions Pretax</u>	<u>EPS After Tax</u>
Real estate impairment charges:		
Homebuilding and master-planned communities	\$ 141	
Land parcels and commercial assets	53	
Golf courses	<u>17</u>	
Subtotal in continuing operations	211	
Discontinued operations	5	
Less non-controlling interests	<u>(14)</u>	
Total impairment charges	<u>202</u>	\$ 1.22
Severance and other costs	<u>8</u>	<u>0.04</u>
Total costs related to restructuring	<u><u>\$ 210</u></u>	<u><u>\$ 1.26</u></u>

Non-GAAP Measure Reconciliation – Operating Income (Loss) (GAAP Measure) To Regulated Electricity Segment Gross Margin (Non-GAAP Measure)



PINNACLE WEST
CAPITAL CORPORATION

\$ Millions, except per share amounts

Three Months Ended
March 31,

2009 2008

Reconciliation of Regulated Electricity Segment Gross Margin

Operating income (loss) – closest GAAP measure

\$ (208) \$ 36

Plus:

Operations and maintenance expense
Real estate segment operations expense
Real estate impairment charge
Depreciation and amortization
Taxes other than income taxes
Other expenses
Marketing and trading fuel and purchased power

208 193
30 31
211 -
100 96
34 33
6 6
- 24

Less:

Real estate segment revenues
Other revenues
Marketing and trading revenues

18 26
8 9
- 30

Regulated electricity segment gross margin - pretax

\$ 355 \$ 354

Less:

Renewable energy surcharge (RES) - pretax

18 2

Regulated electricity segment gross margin excluding RES - pretax

\$ 337 \$ 352

Earnings per share – diluted (after-tax)

**Increase
(Decrease)**

Regulated electricity segment gross margin

\$ 2.14 \$ 2.13

\$ 0.01

Less: RES

0.11 0.01

0.10

Regulated electricity segment gross margin excluding RES

\$ 2.03 \$ 2.12

\$ (0.09)

Non-GAAP Measure Reconciliation – Operating Income (Loss) (GAAP Measure) To Regulated Electricity Segment Gross Margin (Non-GAAP Measure)



PINNACLE WEST
CAPITAL CORPORATION

In this presentation, we present “regulated electricity gross margin” per diluted share of common stock. Regulated electricity gross margin refers to regulated electricity segment revenues less regulated electricity segment fuel and purchased power expenses. Regulated electricity segment gross margin is a “non-GAAP financial measure,” as defined in accordance with SEC rules. Slide 26 reconciles this non-GAAP financial measure to operating income (loss), which is the most directly comparable financial measure calculated and presented in accordance with GAAP. We view regulated electricity segment gross margin as an important performance measure of the core profitability of our operations. This measure is a key component of our internal financial reporting and is used by our management in analyzing the operations of our business. We believe that investors benefit from having access to the same financial measures that management uses.