

PINNACLE WEST CAPITAL CORP

FORM 10-K (Annual Report)

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number	Registrants; State of Incorporation; Addresses; and Telephone Number	IRS Employer Identification No.
1-8962	PINNACLE WEST CAPITAL CORPORATION (An Arizona corporation) 400 North Fifth Street, P.O. Box 53999 Phoenix, Arizona 85072-3999 (602) 250-1000	86-0512431

Commission File Number	ARIZONA PUBLIC SERVICE COMPANY (An Arizona corporation) 400 North Fifth Street, P.O. Box 53999 Phoenix, Arizona 85072-3999 (602) 250-1000	IRS Employer Identification No.
1-4473		86-0011170

Securities registered pursuant to Section 12(b) of the Act:

Title Of Each Class	Name Of Each Exchange On Which Registered
PINNACLE WEST CAPITAL CORPORATION Common Stock, No Par Value	New York Stock Exchange
ARIZONA PUBLIC SERVICE COMPANY None	None

Securities registered pursuant to Section 12(g) of the Act:

ARIZONA PUBLIC SERVICE COMPANY	Common Stock, Par Value \$2.50 per share
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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

PINNACLE WEST CAPITAL CORPORATION	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
ARIZONA PUBLIC SERVICE COMPANY	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

PINNACLE WEST CAPITAL CORPORATION	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
ARIZONA PUBLIC SERVICE COMPANY	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

PINNACLE WEST CAPITAL CORPORATION	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
ARIZONA PUBLIC SERVICE COMPANY	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to file such reports).

PINNACLE WEST CAPITAL CORPORATION	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
ARIZONA PUBLIC SERVICE COMPANY	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or in any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

PINNACLE WEST CAPITAL CORPORATION	Large accelerated filer <input checked="" type="checkbox"/>
	Accelerated filer <input type="checkbox"/>
	Smaller reporting company <input type="checkbox"/>
(Do not check if a smaller reporting company)	

ARIZONA PUBLIC SERVICE COMPANY	Large accelerated filer <input type="checkbox"/>
	Accelerated filer <input type="checkbox"/>
	Smaller reporting company <input type="checkbox"/>
(Do not check if a smaller reporting company)	

Indicate by check mark whether each registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates, computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of each registrant's most recently completed second fiscal quarter:

PINNACLE WEST CAPITAL CORPORATION	\$4,848,522,427 as of June 30, 2011
ARIZONA PUBLIC SERVICE COMPANY	\$0 as of June 30, 2011

The number of shares outstanding of each registrant's common stock as of February 15, 2012

PINNACLE WEST CAPITAL CORPORATION	109,254,312 shares
ARIZONA PUBLIC SERVICE COMPANY	Common Stock, \$2.50 par value, 71,264,947 shares. Pinnacle West Capital Corporation is the sole holder of Arizona Public Service Company's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Pinnacle West Capital Corporation's definitive Proxy Statement relating to its Annual Meeting of Shareholders to be held on May 16, 2012 are incorporated by reference into Part III hereof.

Arizona Public Service Company meets the conditions set forth in General Instruction I(1)(a) and (b) of Form 10-K and is therefore filing this form with the reduced disclosure format allowed under that General Instruction.

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This combined Form 10-K is separately filed by Pinnacle West and APS. Each registrant is filing on its own behalf all of the information contained in this Form 10-K that relates to such registrant and, where required, its subsidiaries. Except as stated in the preceding sentence, neither registrant is filing any information that does not relate to such registrant, and therefore makes no representation as to any such information. The information required with respect to each company is set forth within the applicable items. Item 8 of this report includes Consolidated Financial Statements of Pinnacle West and Consolidated Financial Statements of APS. Item 8 also includes Notes to Pinnacle West's Consolidated Financial Statements, the majority of which also relates to APS, and Supplemental Notes, which only relate to APS's Consolidated Financial Statements.

GLOSSARY OF NAMES AND TECHNICAL TERMS

AC	Alternating Current
ACC	Arizona Corporation Commission
ADEQ	Arizona Department of Environmental Quality
AFUDC	Allowance for Funds Used During Construction
ANPP	Arizona Nuclear Power Project, also known as Palo Verde
APS	Arizona Public Service Company, a subsidiary of the Company
APSES	APS Energy Services Company, Inc., a subsidiary of the Company sold on August 19, 2011
Base Fuel Rate	The portion of APS's retail base rates attributable to fuel and purchased power costs
Cholla	Cholla Power Plant
DC	Direct Current
DOE	United States Department of Energy
El Dorado	El Dorado Investment Company, a subsidiary of the Company
EPA	United States Environmental Protection Agency
FASB	Financial Accounting Standards Board
FERC	United States Federal Energy Regulatory Commission
Four Corners	Four Corners Power Plant
GWh	Gigawatt-hour, one billion watts per hour
IFRS	International Financial Reporting Standards
kV	Kilovolt, one thousand volts
kWh	Kilowatt-hour, one thousand watts per hour
MMBtu	One million British Thermal Units
MW	Megawatt, one million watts
Native Load	Retail and wholesale sales supplied under traditional cost-based rate regulation
Navajo Plant	Navajo Generating Station
NRC	United States Nuclear Regulatory Commission
OCI	Other comprehensive income
Palo Verde	Palo Verde Nuclear Generating Station
Pinnacle West	Pinnacle West Capital Corporation (any use of the words "Company," "we," and "our" refer to Pinnacle West)
PRP	Potentially responsible party under Superfund
PSA	Power supply adjustor approved by the ACC to provide for recovery or refund of variations in actual fuel and purchased power costs compared with the Base Fuel Rate
RES	Arizona Renewable Energy Standard and Tariff
Salt River Project or SRP	Salt River Project Agricultural Improvement and Power District
SCE	Southern California Edison Company
SunCor	SunCor Development Company, a subsidiary of the Company
TCA	Transmission cost adjustor
VIE	Variable interest entity
West Phoenix	West Phoenix Power Plant

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements based on current expectations. These forward-looking statements are often identified by words such as "estimate," "predict," "may," "believe," "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 outcomes currently expected or sought by Pinnacle West or APS. In addition to the Risk Factors described in Item 1A and in Item 7 — "Management's Discussion and Analysis of Financial Condition and Results of Operations," these factors include, but are not limited to:

- our ability to achieve timely and adequate rate recovery of our costs, including returns on debt and equity capital;
- our ability to manage capital expenditures and other costs while maintaining reliability and customer service levels;
- variations in demand for electricity, including those due to weather, the general economy, customer and sales growth (or decline), and the effects of energy conservation measures and distributed generation;
- power plant and transmission system performance and outages;
- volatile fuel and purchased power costs;
- fuel and water supply availability;
- regulatory and judicial decisions, developments and proceedings;
- new legislation or regulation, including those relating to environmental requirements and nuclear plant operations;
- our ability to meet renewable energy and energy efficiency mandates and recover related costs;
- risks inherent in the operation of nuclear facilities, including spent fuel disposal uncertainty;
- competition in retail and wholesale power markets;
- the duration and severity of the economic decline in Arizona and current real estate market conditions;
- the cost of debt and equity capital and the ability to access capital markets when required;
- changes to our credit ratings;
- the investment performance of the assets of our nuclear decommissioning trust, pension, and other postretirement benefit plans and the resulting impact on future funding requirements;
- the liquidity of wholesale power markets and the use of derivative contracts in our business;
- potential shortfalls in insurance coverage;
- new accounting requirements or new interpretations of existing requirements;
- generation, transmission and distribution facility and system conditions and operating costs;
- the ability to meet the anticipated future need for additional baseload generation and associated transmission facilities in our region;
- the willingness or ability of our counterparties, power plant participants and power plant land owners to meet contractual or other obligations or extend the rights for continued power plant operations;
- technological developments affecting the electric industry; and
- restrictions on dividends or other provisions in our credit agreements and ACC orders.

These and other factors are discussed in Risk Factors described in Item 1A of this report, which readers should review carefully before placing any reliance on our financial statements or disclosures. Neither Pinnacle West nor APS assumes any obligation to update these statements, even if our internal estimates change, except as required by law.

PART I**ITEM 1. BUSINESS****Pinnacle West**

Pinnacle West is a holding company that conducts business through its subsidiaries. We derive essentially all of our revenues and earnings from our wholly-owned subsidiary, APS. APS is a vertically-integrated electric utility that provides either retail or wholesale electric service to most of the State of Arizona, with the major exceptions of about one-half of the Phoenix metropolitan area, the Tucson metropolitan area and Mohave County in northwestern Arizona.

Operating Revenues (in thousands) :

	Year Ended December 31,		
	2011	2010	2009
APS	\$ 3,237,241	\$ 3,180,807	\$ 3,149,500

Pinnacle West's other remaining first-tier subsidiaries are SunCor and El Dorado. Additional information related to these businesses is provided later in this report.

Our reportable business segment is 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.

BUSINESS OF ARIZONA PUBLIC SERVICE COMPANY

APS currently provides electric service to approximately 1.1 million customers. We own or lease approximately 6,340 MW of regulated generation capacity and we hold a mix of both long-term and short-term purchased power agreements for additional capacity, including a variety of agreements for the purchase of renewable energy. During 2011, no single purchaser or user of energy accounted for more than 1.4% of our electric revenues.

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The following map shows APS's retail service territory, including the locations of its generating facilities and principal transmission lines.

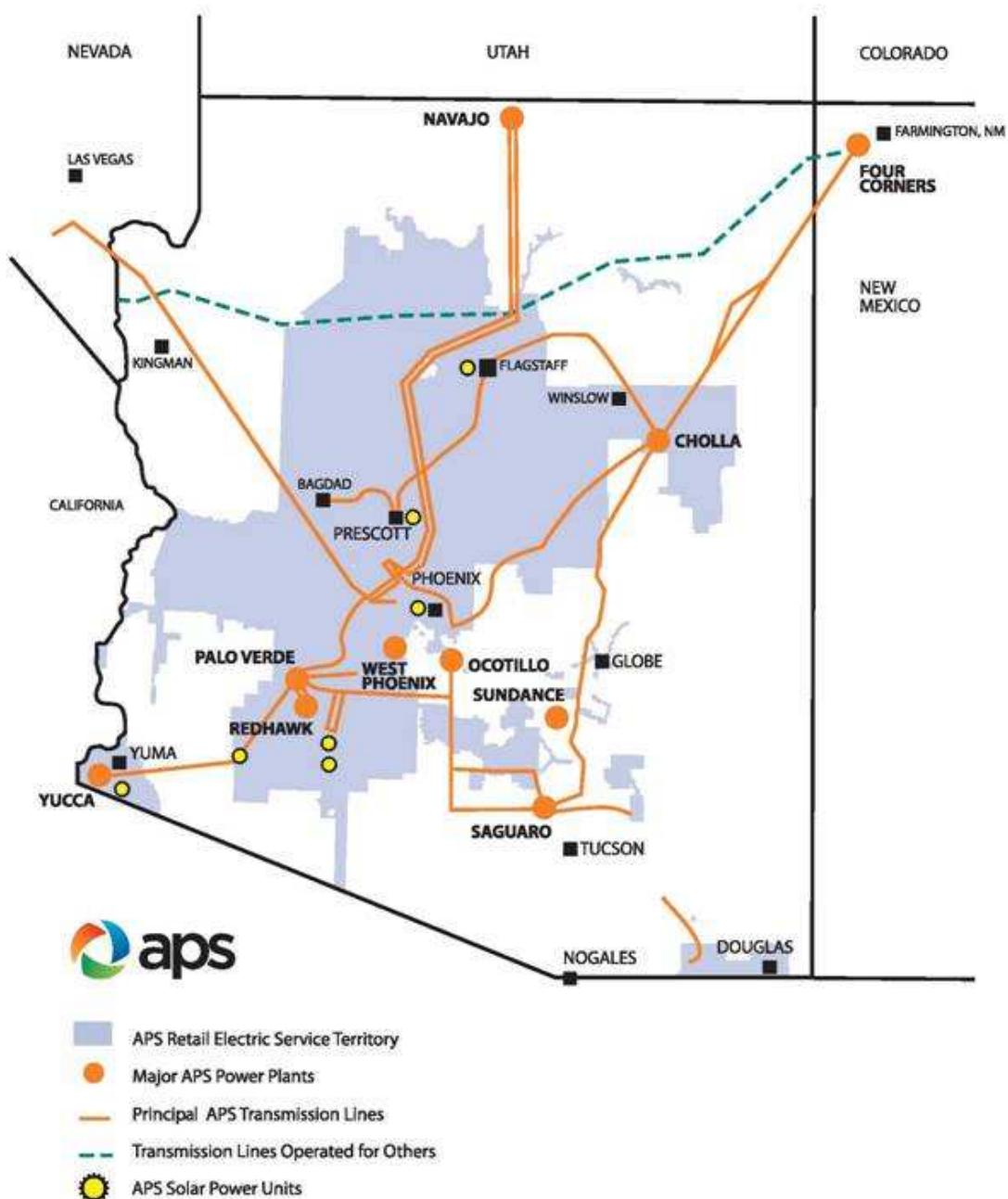
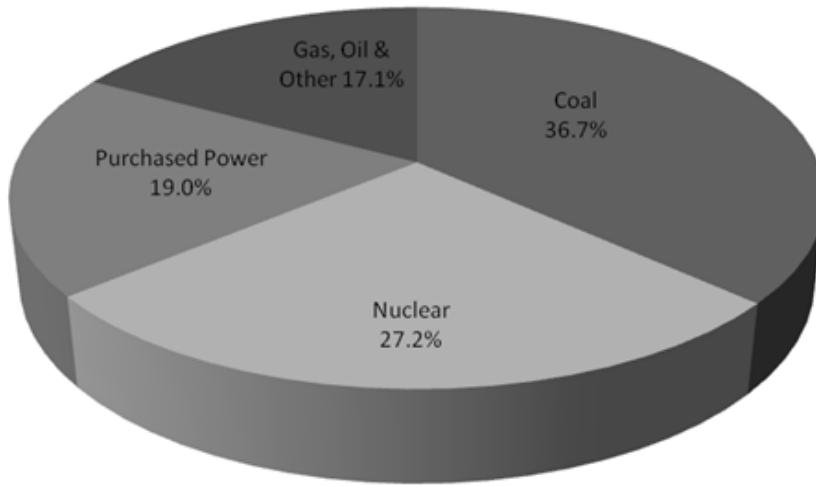


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Energy Sources and Resource Planning

To serve its customers, APS obtains power through its various generation stations and through purchased power agreements. Resource planning is an important function necessary to meet Arizona's future energy needs. APS's sources of energy by fuel type during 2011 were as follows:



Generation Facilities

APS has ownership interests in or leases the coal, nuclear, gas, oil and solar generating facilities described below. For additional information regarding these facilities, see Item 2.

Coal Fueled Generating Facilities

Four Corners — Four Corners is a 5-unit coal-fired power plant located in the northwestern corner of New Mexico. APS operates the plant and owns 100% of Four Corners Units 1, 2 and 3 and 15% of Units 4 and 5. APS has a total entitlement from Four Corners of 791 MW. The Four Corners plant site is leased from the Navajo Nation and is also subject to an easement from the federal government. APS purchases all of Four Corners' coal requirements from a supplier with a long-term lease of coal reserves with the Navajo Nation. The Four Corners coal contract runs through 2016.

On November 8, 2010, APS and SCE entered into an asset purchase agreement providing for the purchase by APS of SCE's 48% interest in each of Units 4 and 5 of Four Corners. If consummated, APS would acquire 739 MW from SCE. Completion of the purchase by APS, which is expected to occur in the second half of 2012, is conditioned upon the receipt of regulatory approvals from the ACC, the California Public Utilities Commission and the FERC, the execution of a new coal supply contract, expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act and other typical closing conditions.

APS, on behalf of the Four Corners participants, has negotiated amendments to an existing facility lease with the Navajo Nation which would extend the term of the Four Corners leasehold

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interest from 2016 to 2041. Execution by the Navajo Nation of the lease amendments is a condition to closing of the purchase by APS of SCE's interests in Four Corners. The execution of these amendments by the Navajo Nation requires the approval of the Navajo Nation Council, which became effective in March 2011. The effectiveness of the amendments also requires the approval of the U.S. Department of the Interior ("DOI"), as does a related Federal rights-of-way grant, which the Four Corners participants will pursue. A Federal environmental review is underway as part of the DOI review process.

APS has announced that, if APS's purchase of SCE's interests in Units 4 and 5 at Four Corners is consummated, it will close Units 1, 2 and 3 at the plant. These events would change the plant's overall generating capacity from 2,100 MW to 1,540 MW and APS's entitlement from the plant from 791 MW to 970 MW.

Cholla — Cholla is a 4-unit coal-fired power plant located in northeastern Arizona. APS operates the plant and owns 100% of Cholla Units 1, 2 and 3. PacifiCorp owns Cholla Unit 4, and APS operates that Unit for PacifiCorp. APS has a total entitlement from Cholla of 647 MW. APS purchases all of Cholla's coal requirements from a coal supplier that mines all of the coal under long-term leases of coal reserves with the federal government and private landholders. The Cholla coal contract runs through 2024. APS has the ability under the contract to reduce its annual coal commitment and purchase a portion of Cholla's coal requirements on the spot market to take advantage of competitive pricing options and to purchase coal required for increased operating capacity. APS believes that the current fuel contracts and competitive fuel supply options ensure the continued operation of Cholla for its useful life. In addition, APS has a long-term coal transportation contract.

Navajo Generating Station — The Navajo Plant is a 3-unit coal-fired power plant located in northern Arizona. Salt River Project operates the plant and APS owns a 14% interest in Navajo Units 1, 2 and 3. APS has a total entitlement from the Navajo Plant of 315 MW. The Navajo Plant's coal requirements are purchased from a supplier with long-term leases from the Navajo Nation and the Hopi Tribe. The Navajo Plant is under contract with its coal supplier through 2019. The Navajo Plant site is leased from the Navajo Nation and is also subject to an easement from the federal government.

These coal plants face uncertainties, including those related to existing and potential legislation and regulation, that could significantly impact their economics and operations. See "Environmental Matters" below and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview and Capital Expenditures" in Item 7 for developments impacting these coal facilities. See Note 11 for information regarding APS's coal mine reclamation obligations.

Nuclear

Palo Verde Nuclear Generating Station — Palo Verde is a nuclear power plant located about 50 miles west of Phoenix, Arizona. APS operates the plant and owns 29.1% of Palo Verde Units 1 and 3 and about 17% of Unit 2. In addition, APS leases about 12.1% of Unit 2, resulting in a 29.1% combined ownership and leasehold interest in that Unit. APS has a total entitlement from Palo Verde of 1,146 MW.

Palo Verde Leases — In 1986, APS entered into agreements with three separate lessor trust entities in order to sell and lease back about 42% of its share of Palo Verde Unit 2 and certain common facilities. In accordance with the VIE accounting guidance, APS consolidates the lessor trust entities for financial

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reporting purposes, and eliminates lease accounting for these transactions. The agreements have terms of 29.5 years (expiring at the end of 2015) and contain options to renew the leases or to purchase the property for fair market value at the end of the lease terms. APS must give notice to the respective lessor trusts between December 31, 2010 and December 31, 2012 if it wishes to exercise, or not exercise, either of these options. We are analyzing these options. See Note 20 for additional information regarding the Palo Verde Unit 2 sale leaseback transactions.

Palo Verde Operating Licenses — Operation of each of the three Palo Verde Units requires an operating license from the NRC. The NRC issued full power operating licenses for Unit 1 in June 1985, Unit 2 in April 1986 and Unit 3 in November 1987. The full power operating licenses, each valid for a period of 40 years, authorize APS, as operating agent for Palo Verde, to operate the three Palo Verde Units. On December 15, 2008, APS applied for renewed operating licenses for the Palo Verde Units for a period of 20 years beyond the expirations of the current licenses. On April 21, 2011, the NRC approved APS's application for renewed operating licenses for the Palo Verde Units, extending the licenses for Units 1, 2 and 3 to June 2045, April 2046, and November 2047, respectively.

Palo Verde Fuel Cycle — The Palo Verde participants are continually identifying their future nuclear fuel resource needs and negotiating arrangements to fill those needs. The fuel cycle for Palo Verde is comprised of the following stages:

- mining and milling of uranium ore to produce uranium concentrates;
- conversion of uranium concentrates to uranium hexafluoride;
- enrichment of uranium hexafluoride;
- fabrication of fuel assemblies;
- utilization of fuel assemblies in reactors; and
- storage and disposal of spent nuclear fuel.

The Palo Verde participants have contracted for 95% of Palo Verde's requirements for uranium concentrates through 2015, 90% of its requirements in 2016 — 2017 and 80% of its requirements in 2018. The participants have also contracted for all of Palo Verde's conversion services through 2015 and 95% of its requirements in 2016 — 2018, all of Palo Verde's enrichment services through 2020 and all of Palo Verde's fuel assembly fabrication services through 2016.

Spent Nuclear Fuel and Waste Disposal — The Nuclear Waste Policy Act of 1982 (“NWPA”) required the DOE to accept, transport, and dispose of spent nuclear fuel and high level waste generated by the nation’s nuclear power plants by 1998. The DOE’s obligations are reflected in a Contract for Disposal of Spent Nuclear Fuel and/or High-Level Radioactive Waste (“Standard Contract”) with each nuclear power plant. The DOE failed to begin accepting Palo Verde’s spent nuclear fuel by 1998, and APS (on behalf of itself and the other Palo Verde participants) filed a lawsuit for DOE’s breach of the Palo Verde Standard Contract in the U.S. Court of Federal Claims. The Court of Federal Claims ruled in favor of APS and in October 2010 awarded \$30.2 million in damages to the Palo Verde participants for costs incurred through December 2006.

The DOE had planned to meet its NWPA and Standard Contract disposal obligations by designing, licensing, constructing, and operating a permanent geologic repository at Yucca Mountain, Nevada. In June 2008, DOE submitted its application to the NRC to authorize construction of the Yucca Mountain repository. In March 2010, the DOE filed a motion to dismiss with prejudice its Yucca Mountain construction authorization application that was pending before the NRC. Several

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interested parties have intervened in the NRC proceeding, and the proceeding has not been conclusively decided by the NRC or the courts. Additionally, a number of interested parties have filed a variety of lawsuits in different jurisdictions around the country challenging the DOE's authority to withdraw the Yucca Mountain construction authorization application. None of these lawsuits have been conclusively decided by the courts.

On January 26, 2012, the Blue Ribbon Commission on America's Nuclear Future (the "Blue Ribbon Commission") made recommendations on managing the back end of the nuclear fuel cycle. The Commission was established in early 2010 at the direction of President Obama. The President's directive was based on his assessment that the nation's approach to managing used nuclear fuel, primarily through the repository at Yucca Mountain, has proven to be ineffective.

The Blue Ribbon Commission's report recommended a strategy with several key elements including: a new, consent-based approach to siting future nuclear waste management facilities; a new organization dedicated solely to implementing the waste management program; access to the funds nuclear utility ratepayers are providing for the purpose of nuclear waste management; prompt efforts to develop geologic disposal facilities, consolidated storage facilities and to prepare for the eventual large-scale transport of spent nuclear fuel and high-level waste to consolidated storage and disposal facilities. We are monitoring this matter, but cannot predict the proposed timing for implementation of the recommended strategy.

Palo Verde has sufficient capacity at its on-site independent spent fuel storage installation ("ISFSI") to store all of the nuclear fuel that will be irradiated during the initial operating license period, which ends in December 2027. Additionally, Palo Verde has sufficient capacity at its on-site ISFSI to store a portion of the fuel that will be irradiated during the period of extended operation, which ends in November 2047. If uncertainties regarding the United States government's obligation to accept and store spent fuel are not favorably resolved, APS will evaluate alternative storage solutions that may obviate the need to expand the ISFSI to accommodate all of the fuel that will be irradiated during the period of extended operation.

In addition to the spent fuel stored at Palo Verde's on-site ISFSI, Palo Verde also generates certain types of low level radioactive waste that are stored on-site. Currently, the Class B and Class C waste (the higher radioactivity of the low level wastes) is stored on-site since industry access to a disposal site was eliminated several years ago. The NRC is considering regulations that would allow the industry to eliminate much of this waste by blending it with lower level Class A waste so that it can be disposed of at a facility such as the one Palo Verde utilizes in Utah.

Nuclear Decommissioning Costs — APS currently relies on an external sinking fund mechanism to meet the NRC financial assurance requirements for decommissioning its interests in Palo Verde Units 1, 2 and 3. The decommissioning costs of Palo Verde Units 1, 2 and 3 are currently included in APS's ACC jurisdictional rates. Decommissioning costs are recoverable through a non-bypassable system benefits charge (paid by all retail customers taking service from the APS system). See Note 23 for additional information about APS's nuclear decommissioning costs.

Palo Verde Liability and Insurance Matters — See "Palo Verde Nuclear Generating Station — Nuclear Insurance" in Note 11 for a discussion of the insurance maintained by the Palo Verde participants, including APS, for Palo Verde.

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Impact of Earthquake and Tsunami in Japan on Nuclear Energy Industry — On March 11, 2011, a 9.0 magnitude earthquake occurred off the northeastern coast of Japan. The earthquake produced a tsunami that caused significant damage to the Fukushima Daiichi Nuclear Power Station in Japan. Following these events, the NRC Commissioners launched a two-pronged review of U.S. nuclear power plant safety. The NRC supported the establishment of an agency task force to conduct both a near- and long-term analysis of the lessons that can be learned from the situation in Japan. The near-term task force issued a report on July 12, 2011, and on October 3, 2011, the NRC staff issued a plan for implementing the near-term task force's recommendations.

On October 18, 2011, the NRC Commissioners directed the NRC staff to implement, without delay, the near-term task force recommendations, subject to certain conditions. One such condition is that the agency should strive to complete and implement lessons learned from the earthquake and tsunami in Japan within five years. A second condition is that the staff should designate the recommendation for a rulemaking to address extended loss of offsite power to be completed within 24 to 30 months.

Until further action is taken by the NRC as a result of this event, we cannot predict any financial or operational impacts on Palo Verde or APS.

Natural Gas and Oil Fueled Generating Facilities

APS has six natural gas power plants located throughout Arizona, consisting of Redhawk, located near the Palo Verde Nuclear Generating Station; Ocotillo, located in Tempe; Sundance, located in Coolidge; West Phoenix, located in southwest Phoenix; Saguaro, located north of Tucson; and Yucca, located near Yuma. Several of the units at Saguaro and Yucca run on either gas or oil. APS has one oil only power plant, Douglas, located in the town of Douglas, Arizona. APS owns and operates each of these plants with the exception of one oil only combustion turbine unit and one oil and gas steam unit at Yucca that are operated by APS and owned by the Imperial Irrigation District. APS has a total entitlement from these plants of 3,389 MW. Gas for these plants is acquired through APS's hedging program. APS has long-term gas transportation agreements with three different companies, some of which are effective through 2024. Fuel oil is acquired under short-term purchases delivered primarily to West Phoenix, where it is distributed to APS's other oil power plants by truck.

Solar Facilities

To date, APS has begun operation of 50 MW of utility scale solar through its AZ Sun Program, discussed below. These facilities are owned by APS and are located in multiple locations throughout Arizona.

Additionally, APS owns and operates more than forty small solar systems around the state. Together they have the capacity to produce about 5 MW of renewable energy. This fleet of solar systems includes a 3 MW facility located at the Prescott Airport, a 1 MW facility located at APS's Saguaro power plant and 1 MW of small solar in various locations across Arizona. APS is in the final stages of developing solar photovoltaic distributed energy systems installed as part of the Community Power Project in Flagstaff, Arizona. The Community Power Project, approved by the ACC on April 1, 2010, is a pilot program through which APS will own, operate and receive energy from approximately 1.5 MW of solar photovoltaic distributed energy systems located within a certain test area in Flagstaff, Arizona.

Purchased Power Contracts

In addition to its own available generating capacity, APS purchases electricity under various arrangements, including long-term contracts and purchases through short-term markets to supplement its owned or leased generation and hedge its energy requirements. A substantial portion of APS's purchased power expense is netted against wholesale sales on the Consolidated Statements of Income. (See Note 18.) APS continually assesses its need for additional capacity resources to assure system reliability.

Purchased Power Capacity — APS's purchased power capacity under long-term contracts, including its renewable energy portfolio, is summarized in the tables below. All capacity values are based on net capacity unless otherwise noted.

Type	Dates Available	Capacity (MW)
Purchase Agreement (a)	Year-round through December 2014	104
Purchase Agreement (b)	Year-round through June 14, 2020	60
Exchange Agreement (c)	May 15 to September 15 annually through 2020	480
Tolling Agreement	Year-round through May 2017	500
Tolling Agreement	Summer seasons through October 2019	560
Day-Ahead Call Option Agreement	Summer seasons through September 2015	500
Day-Ahead Call Option Agreement	Summer seasons through summer 2016	150
Demand Response Agreement (d)	Summer seasons through 2024	100
Renewable Energy (e)	Various	232

- (a) The capacity under this agreement varies by month, with a maximum capacity of 104 MW.
- (b) Up to 60 MW of capacity is available; however, the amount of electricity available to APS under this agreement is based in large part on customer demand and is adjusted annually.
- (c) This is a seasonal capacity exchange agreement under which APS receives electricity during the summer peak season (from May 15 to September 15) and APS returns a like amount of electricity during the winter season (from October 15 to February 15).
- (d) The capacity under this agreement increases in phases over the first three years to reach the 100 MW level by the summer of 2012.
- (e) Renewable energy purchased power agreements are described in detail below under "Current and Future Resources — Renewable Energy Standard — Renewable Energy Portfolio."

Current and Future Resources

Current Demand and Reserve Margin

Electric power demand is generally seasonal. In Arizona, demand for power peaks during the hot summer months. APS's 2011 peak one-hour demand on its electric system was recorded on August 24, 2011 at 7,087 MW, compared to the 2010 peak of 6,936 MW recorded on July 15, 2010. APS's operable generating capacity, together with purchased power capacity, resulted in an actual reserve margin at the time of the 2011 peak demand of 28.7%. The power actually available to APS from its resources fluctuates from time to time due in part to planned and unplanned plant and transmission outages.

Future Resources and Resource Plan

Under the ACC's resource planning rule, APS will file by April 1st of each even year its resource plans for the next fifteen-year period. The first resource plan filing will be due by April 1, 2012. The rule requires the ACC to issue an order with its acknowledgment of APS's resource plan within approximately ten months following its submittal. The ACC's acknowledgment of APS's resource plan will consider factors such as the total cost of electric energy services, demand management, analysis of supply-side options, system reliability and risk management.

Renewable Energy Standard

In 2006, the ACC adopted the RES. Under the RES, electric utilities that are regulated by the ACC must supply an increasing percentage of their retail electric energy sales from eligible renewable resources, including solar, wind, biomass, biogas and geothermal technologies. The renewable energy requirement is 3.5% of retail electric sales in 2012 and increases annually until it reaches 15% in 2025. In APS's 2009 retail rate case settlement agreement, APS committed to have 1,700 GWh of new renewable resources in service by year-end 2015 in addition to its 2008 renewable resource commitments. Taken together, APS's commitment is estimated to be 3,400 GWh, or approximately 10% of retail sales, by year-end 2015, which is double the existing RES target of 5% for that year. A component of the RES is focused on stimulating development of distributed energy systems (generally speaking, small-scale renewable technologies that are located on customers' properties). Accordingly, under the RES, an increasing percentage of that requirement must be supplied from distributed energy resources. This distributed energy requirement is 30% of the overall RES requirement of 3.5% in 2012. The following table summarizes these requirement standards and their timing:

	2012	2015	2020	2025
RES as a % of retail electric sales	3.5%	5%	10%	15%
Percent of RES to be supplied from distributed energy resources	30%	30%	30%	30%

Renewable Energy Portfolio. To date, APS has a diverse portfolio of existing and planned renewable resources totaling 946 MW, including wind, geothermal, solar, biomass and biogas. Of this portfolio, 423 MW are currently in operation and 523 MW are under contract for development or are under construction. Renewable resources in operation include 55 MW of facilities owned by APS, 232 MW of long-term purchased power agreements, and an estimated 136 MW of customer-sited, third-party owned distributed energy resources.

APS's strategy to achieve its RES requirements includes executing purchased power contracts for new facilities, ongoing development of distributed energy resources and procurement of new facilities to be owned by APS. APS continues to develop owned solar resources through the AZ Sun Program. The AZ Sun Program allows APS to own up to 200 MW of solar photovoltaic power plants across Arizona by investing up to \$975 million through 2015. Under this program to date, APS has executed contracts for the development of 83 MW of new solar generation, representing an investment commitment of approximately \$375 million. See Note 3 for additional details about the AZ Sun Program, including the related cost recovery.

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The following table summarizes APS's renewable energy sources currently in operation and under development. Agreements for the development and completion of future resources are subject to various conditions, including successful siting, permitting and interconnection of the projects to the electric grid.

	Location	Actual/ Target Commercial Operation Date	Term (Years)	Net Capacity In Operation (MW AC)	Net Capacity Planned/ Under Development (MW AC)
APS Owned					
<i>Solar:</i>					
AZ Sun Program:					
Paloma	Gila Bend, AZ	2011		17	
Cotton Center	Gila Bend, AZ	2011		17	
Hyder Phase 1	Hyder, AZ	2011		11	
Hyder Phase 2	Hyder, AZ	2012		5	
Chino Valley	Chino Valley, AZ	2012			19
Luke AFB	Glendale, AZ	2013 (a)			14
Subtotal AZ Sun Program (b)				50	33
Multiple Facilities	AZ	Various		5	
Total APS Owned				<u>55</u>	<u>33</u>
Purchased Power Agreements					
<i>Solar:</i>					
Solana (c)	Gila Bend, AZ	2013	30		250
RE Ajo	Ajo, AZ	2011	25	5	
Sun E AZ 1	Prescott, AZ	2011	30	10	
Solar 1 (d)	Tonopah, AZ	2012	30		15
Solar 2 (d)	Tonopah, AZ	2013	30		15
Solar 3 (d)	Maricopa County, AZ	2013	30		15
<i>Wind:</i>					
Aragonne Mesa	Santa Rosa, NM	2006	20	90	
High Lonesome	Mountainair, NM	2009	30	100	
Perrin Ranch Wind	Williams, AZ	2012	25		99
<i>Geothermal:</i>					
Salton Sea	Imperial County, CA	2006	23	10	
<i>Biomass:</i>					
Snowflake	Snowflake, AZ	2008	15	14	
<i>Biogas:</i>					
Glendale Landfill	Glendale, AZ	2010	20	3	
Landfill 1 (d)	Surprise, AZ	2012	20		3
Total Purchased Power Agreements				<u>232</u>	<u>397</u>
Distributed Energy					
<i>Solar (e):</i>					
APS Owned (f)	AZ	various			1
Third-party Owned (g)	AZ	various		121	58
Agreement 1	Bagdad, AZ	2011	25	15	
Agreement 2 (h)	AZ	2012-2014	20-25		34
Total Distributed Energy				<u>136</u>	<u>93</u>
Total Renewable Portfolio				<u>423</u>	<u>523</u>

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- (a) Subject to approval by the United States Department of Defense.
 - (b) Under the AZ Sun Program, 117 MW remains to be contracted.
 - (c) Represents contracted capacity.
 - (d) Details of these agreements have not yet been publicly announced.
 - (e) Distributed generation is produced in DC and is converted to AC for reporting purposes.
 - (f) Reflects Community Power Project.
 - (g) Achieved through incentive-based programs. Includes resources with production-based incentives that have terms of 10-20 years.
 - (h) Agreement ramps up to 40 MW over three years.

Demand Side Management

In recent years, Arizona regulators have placed an increased focus on energy efficiency and other demand side management programs to encourage customers to conserve energy, while incentivizing utilities to aid in these efforts that ultimately reduce the demand for energy. In December 2009, the ACC initiated its Energy Efficiency rulemaking, with a proposed Energy Efficiency Standard of 22% cumulative annual energy savings by 2020. This standard was adopted and became effective on January 1, 2011. This ambitious standard will likely impact Arizona's future energy resource needs. (See Note 3 for energy efficiency and other demand side management obligations resulting from the settlement agreement related to APS's 2008 retail rate case.)

Economic Stimulus Projects

Through the American Recovery and Reinvestment Act of 2009 ("ARRA"), the Federal government made a number of programs available for utilities to develop renewable resources, improve reliability and create jobs by using economic stimulus funding. Certain programs are also available through the State of Arizona.

APS has two active awards with the DOE. The first is a \$3 million high penetration photovoltaic generation study related to the Community Power Project in Flagstaff, Arizona. Second, APS is a sub-recipient under an approximately \$4 million ARRA award received through the State of Arizona for the implementation of various distributed energy and energy efficiency programs in Arizona. DOE funding for these awards will continue to be contingent upon APS meeting certain project milestones, including DOE-established budget parameters.

Competitive Environment and Regulatory Oversight

Retail

The ACC regulates APS's retail electric rates and its issuance of securities. The ACC must also approve any significant transfer or encumbrance of APS's property used to provide retail electric service and approve or receive prior notification of certain transactions between Pinnacle West, APS and their respective affiliates.

APS is subject to varying degrees of competition from other investor-owned electric and gas utilities in Arizona (such as Southwest Gas Corporation), as well as cooperatives, municipalities, electrical districts and similar types of governmental or non-profit organizations. In addition, some

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customers, particularly industrial and large commercial customers, may own and operate generation facilities to meet some or all of their own energy requirements. This practice is becoming more popular with customers installing or having installed products such as roof top solar panels to meet or supplement their energy needs.

In 1999, the ACC approved rules for the introduction of retail electric competition in Arizona. As a result, as of January 1, 2001, all of APS's retail customers were eligible to choose alternate energy suppliers. However, there are currently no active retail competitors offering unbundled energy or other utility services to APS's customers. In 2000, the Arizona Superior Court found that the rules were in part unconstitutional and in other respects unlawful, the latter finding being primarily on procedural grounds, and invalidated all ACC orders authorizing competitive electric services providers to operate in Arizona. In 2004, the Arizona Court of Appeals invalidated some, but not all of the rules and upheld the invalidation of the orders authorizing competitive electric service providers. In 2005, the Arizona Supreme Court declined to review the Court of Appeals decision.

To date, the ACC has taken no further or substantive action on either the rules or the prior orders authorizing competitive electric service providers in response to the final Court of Appeals decision. In 2008, the ACC directed the ACC staff to investigate whether such retail competition was in the public interest and what legal impediments remain to competition in light of the Court of Appeals decision referenced above. The ACC staff's report on the results of its investigation was issued on August 12, 2010. The report stated that additional analysis, discussion and study of all aspects of the issue are required in order to perform a proper evaluation. While the report did not make any specific recommendations other than to conduct more workshops, the report did state that the current retail electric competition rules are incomplete and in need of modification.

On April 14, 2010, the ACC issued a decision holding that solar vendors that install and operate solar facilities for non-profit schools and governments pursuant to a specific type of contract that calculates payments based on the energy produced are not "public service corporations" under the Arizona Constitution, and are therefore not regulated by the ACC. A second matter is pending with the ACC to determine whether that ruling should extend to solar providers who serve a broader customer base under the same business model. Use of such products by customers within our territory would result in some level of competition. APS cannot predict when, and the extent to which, additional electric service providers will enter or re-enter APS's service territory.

Wholesale

The FERC regulates rates for wholesale power sales and transmission services. (See Note 3 for information regarding APS's transmission rates.) During 2011, approximately 4.8% of APS's electric operating revenues resulted from such sales and services. APS's wholesale activity primarily consists of managing fuel and purchased power supplies to serve retail customer energy requirements. APS also sells, in the wholesale market, its generation output that is not needed for APS's Native Load and, in doing so, competes with other utilities, power marketers and independent power producers. Additionally, subject to specified parameters, APS hedges both electricity and fuels. The majority of these activities are undertaken to mitigate risk in APS's portfolio.

Environmental Matters

Climate Change

Legislative Initiatives. In the past several years, the United States Congress has considered bills that would regulate domestic greenhouse gas emissions. There have been no attempts by the 112th Congress to pass legislation that would regulate greenhouse gas emissions. With Congress's focus on the economy, it is unclear when it will again consider a climate change bill. In the event climate change legislation is ultimately passed, the actual economic and operational impact of such legislation on APS depends on a variety of factors, none of which can be fully known until a law is enacted and the specifics of the resulting program are established. These factors include the terms of the legislation with regard to allowed emissions; whether any permitted emissions allowances will be allocated to source operators free of cost or auctioned; the cost to reduce emissions or buy allowances in the marketplace; and the availability of offsets and mitigating factors to moderate the costs of compliance.

In addition to federal legislative initiatives, state-specific initiatives may also impact our business. While Arizona has no pending legislation and no proposed agency rule regulating greenhouse gases in Arizona, the California legislature enacted AB 32 and SB 1368 in 2006 to address greenhouse gas emissions. In October 2011, the California Air Resources Board approved final regulations that will establish a state-wide cap on greenhouse gas emissions beginning on January 1, 2013 and will establish a greenhouse gas allowance trading program under that cap. The first phase of the program, which will apply to, among other entities, electric utilities and importers of electricity, is scheduled to commence on January 1, 2013. In addition, in 2010 the New Mexico Environmental Improvement Board enacted a greenhouse gas cap-and-trade program, which was repealed on February 6, 2012, and an emissions cap, which is scheduled to become effective in 2013 but is undergoing further review.

We are monitoring Arizona regulatory activities and other state legislative developments to understand the extent to which they may affect our business, including our sales into the impacted states or the ability of our out-of-state power plant participants to continue their participation in certain coal-fired power plants. In particular, SCE, a participant in Four Corners, has indicated that SB 1368 may prohibit it from making emission control expenditures at the plant. (See "Energy Sources and Resource Planning — Generation Facilities — Coal Fueled Generating Facilities — Four Corners" above for details of the pending sale of SCE's interest in Four Corners to APS.)

Regulatory Initiatives. In December 2009, the EPA determined that greenhouse gas emissions endanger public health and welfare. This determination was made in response to a 2007 United States Supreme Court ruling that greenhouse gases fit within the Clean Air Act's broad definition of "air pollutant" and, as a result, the EPA has the authority to regulate greenhouse gas emissions of new motor vehicles under the Clean Air Act. As a result of this "endangerment finding," the EPA determined that the Clean Air Act required new regulatory requirements for new and modified major greenhouse gas emitting sources, including power plants. On June 3, 2010, the EPA issued a rule under the Clean Air Act, known as the "tailoring rule," establishing new greenhouse gas emissions thresholds that determine when sources, including power plants, must obtain air operating permits or New Source Review permits. "New Source Review" is a pre-construction permitting program under the Clean Air Act that requires analysis of pollution controls prior to building a new stationary source or making major modifications to an existing stationary source. The tailoring rule became effective on August 2, 2010 and it became applicable to power plants on January 2, 2011. Several groups have filed lawsuits challenging the EPA's endangerment finding and the tailoring rule, and that litigation

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continues. At the present time, we cannot predict whether the parties challenging the endangerment finding or the tailoring rule will be successful.

APS does not expect the tailoring rule to have a significant impact on its current operations. The rule will require APS to consider the impact of greenhouse gas emissions as part of its traditional New Source Review analysis for new sources and major modifications to existing plants.

On December 30, 2010, pursuant to its authority under the Clean Air Act, the EPA finalized a greenhouse gas Federal Implementation Plan (“FIP”) for Arizona relating to pre-construction permits for construction of new sources or major modifications of existing sources. As a result of this action, effective January 2, 2011, the EPA assumed responsibility for acting on permit applications for only the greenhouse gas portion of such pre-construction permits. State permitting authorities will continue to retain responsibility for the remaining parts of pre-construction permits that are unrelated to emissions of greenhouse gasses. To the extent Arizona seeks and receives from the EPA a delegation of permitting authority for greenhouse gas emissions, the state will assume responsibility for issuing both the greenhouse gas and non-greenhouse gas portions of pre-construction permits. The greenhouse gas FIP will remain in place until such time as the EPA approves a State Implementation Plan (“SIP”) that applies pre-construction permit requirements to greenhouse gas-emitting stationary sources in Arizona. APS does not expect the greenhouse gas FIP to have a significant impact on its current operations.

Pursuant to its authority under the Clean Air Act, the EPA has also drafted proposed New Source Performance Standards (“NSPS”) for greenhouse gas emissions from certain new and modified electric generating units. The proposed standards are currently under review at the White House Office of Management and Budget, and a final rule is expected in 2012. In addition, it is possible that the EPA will propose standards setting federal emission guidelines for existing electric generating facilities in 2012. The NSPS for greenhouse gas emissions are expected to apply to Four Corners, Cholla, and the Navajo Plant. We cannot currently predict the impact of these anticipated rules on APS’s operations.

At the present time, we cannot predict what other rules or regulations may ultimately result from the EPA’s endangerment finding and what impact other potential rules or regulations will have on APS’s operations. If any emission reduction legislation or additional regulations are enacted, we will assess our compliance alternatives, which may include replacement of existing equipment, installation of additional pollution control equipment, purchase of allowances, retirement or suspension of operations at certain coal-fired facilities, or other actions. Although associated capital expenditures or operating costs resulting from greenhouse gas emission regulations or legislation could be material, we believe that we would be able to recover the costs of these environmental compliance initiatives through our rates.

Company Response to Climate Change Initiatives. We have undertaken a number of initiatives to address emission concerns, including renewable energy procurement and development, promotion of programs and rates that promote energy conservation, renewable energy use and energy efficiency. (See “Energy Sources and Resource Planning — Current and Future Resources” above for details of these plans and initiatives.) APS currently has a diverse portfolio of renewable resources, including wind, geothermal, solar, and biomass, and we are focused on increasing the percentage of our energy that is produced by renewable resources.

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Pinnacle West prepares an annual Corporate Responsibility Report, which is available on our website (www.pinnaclewest.com). The report provides information related to the Company and its approach to sustainability and its workplace and environmental performance. The information on Pinnacle West's website, including the Corporate Responsibility Report, is not incorporated by reference into this report.

Climate Change Lawsuit. In February 2008, the Native Village of Kivalina and the City of Kivalina, Alaska filed a lawsuit in federal court in the Northern District of California against nine oil companies, fourteen power companies (including Pinnacle West), and a coal company, alleging that the defendants' emissions of carbon dioxide contribute to global warming and constitute a public and private nuisance under both federal and state law. The plaintiffs also allege that the effects of global warming will require the relocation of the village, and they are seeking an unspecified amount of monetary damages. In June 2008, the defendants filed motions to dismiss the action, which were granted. The plaintiffs filed an appeal with the Ninth Circuit Court of Appeals in November 2009, and Pinnacle West filed its reply on June 30, 2010. On January 24, 2011, the defendants filed a motion, which was later granted, to defer calendaring of oral argument until after the United States Supreme Court ruled in a similar nuisance lawsuit, *American Electric Power Co., Inc. v. Connecticut*.

On June 20, 2011, the Supreme Court issued its opinion in *Connecticut* holding, among other things, that the Clean Air Act and the EPA actions authorized by the act, which are aimed at controlling greenhouse gas emissions, displace any federal common law right to seek abatement of greenhouse gas emissions from fossil fuel-fired power plants. However, the Court left open the issue of whether such claims may be available under state law. Oral argument in the *Kivalina* case was heard on November 28, 2011; the parties await the court's decision. We believe the action in *Kivalina* is without merit and will continue to defend against both the federal and state claims.

EPA Environmental Regulation

Regional Haze Rules. Over a decade ago, the EPA announced regional haze rules to reduce visibility impairment in national parks and wilderness areas. The rules require states (or, for sources located on tribal land, the EPA) to determine what pollution control technologies constitute the "best available retrofit technology" ("BART") for certain older major stationary sources. The EPA subsequently issued the Clean Air Visibility Rule, which provides guidelines on how to perform a BART analysis.

The Four Corners and Navajo Plant participants' obligations to comply with the EPA's final BART determinations (and Cholla's obligations to comply with ADEQ's determinations), coupled with the financial impact of potential future climate change legislation, other environmental regulations, and other business considerations, could jeopardize the economic viability of these plants or the ability of individual participants to continue their participation in these plants.

Cholla. In 2007, ADEQ required APS to perform a BART analysis for Cholla pursuant to the Clean Air Visibility Rule. APS completed the BART analysis for Cholla and submitted its BART recommendations to ADEQ on February 4, 2008. The recommendations include the installation of certain pollution control equipment that APS believes constitutes BART. ADEQ reviewed APS's recommendations and submitted its proposed BART SIP for Cholla and other sources within the state on March 2, 2011. The EPA may accept the proposed SIP or reject part or all of it if the EPA determines the SIP is inadequate. If the EPA rejects the proposed SIP provisions applicable to Cholla,

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it could issue a FIP for the plant that includes more stringent pollution control technology requirements and emission limits.

On December 2, 2011, the EPA provided notice of a proposed consent decree to address a lawsuit filed by a number of environmental organizations, which alleged that the EPA failed to promulgate FIPs for states that have not yet submitted all or part of the required BART SIPs. The proposed consent decree establishes proposed and final promulgation deadlines (May 15, 2012 and November 15, 2012, respectively) for the EPA to promulgate regional haze FIPs or approve regional haze SIPs for 34 states, including Arizona. On January 3, 2012, APS submitted comments to the EPA regarding the proposed consent decree.

Once APS receives a final determination as to what constitutes BART for Cholla, we will have up to five years to complete the installation of the equipment and to achieve the BART emission limits. However, in order to coordinate with the plant's other scheduled activities, APS is currently implementing portions of its recommended plan for Cholla on a voluntary basis. Costs related to the implementation of these portions of our recommended plan are included in our environmental expenditure estimates (see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital Expenditures" in Item 7).

Four Corners and the Navajo Plant. The EPA previously requested that APS, as the operating agent for Four Corners, and SRP, as the operating agent for the Navajo Plant, perform a BART analysis for Four Corners and the Navajo Plant, respectively. APS and SRP each submitted an analysis to the EPA concluding that certain combustion control equipment constitutes BART for these plants. Based on the analyses and comments received through EPA's rulemaking process, the EPA will determine what it believes constitutes BART for each plant.

On October 6, 2010, the EPA issued its proposed BART determination for Four Corners. The proposed rule would require the installation of post-combustion controls on each of Units 1-5 at Four Corners to reduce nitrogen oxides ("NOx") emissions. Current estimates indicate that APS's total costs for these controls could be up to approximately \$400 million for Four Corners. If APS's purchase of SCE's interest in Units 4 and 5 is consummated and Units 1-3 are closed, APS's total costs for these controls would be approximately \$300 million. (See "Energy Sources and Resource Planning — Generation Facilities — Coal Fueled Generating Facilities — Four Corners" for details of this proposed transaction.) The EPA also indicated in the proposal that it may require the installation of electrostatic precipitators or baghouses on Units 1, 2, and 3 to reduce particulate matter emissions. APS estimates that its total costs for such particulate removal equipment is approximately \$220 million, which may also be required under the mercury rules. (See "Environmental Matters — Mercury and Other Hazardous Air Pollutants" below for additional information on these rules.) The EPA proposed a 10% stack opacity limitation for all five units and a 20% opacity limitation on certain fugitive dust emissions, although the proposed fugitive dust provision is unrelated to BART.

On November 24, 2010, APS submitted a letter to the EPA proposing an alternative to the EPA's October BART proposal. Specifically, APS proposed to close Four Corners Units 1, 2, and 3 by 2014 and to install post-combustion pollution controls for NOx on Units 4 and 5 by the end of 2018, provided that the EPA agrees to a contemporaneous resolution of Four Corners' obligations or liability, if any, under the regional haze and reasonably attributable visibility impairment programs, the New Source Review program, and NSPS programs of the Clean Air Act.

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On February 10, 2011, the EPA signed a Supplemental Notice Requesting Comment, related to the BART rulemaking for Four Corners. In the Supplemental Notice, the EPA proposed to find that a different alternative emission control strategy, based upon APS's November 2010 proposal, would achieve more progress than the EPA's October 2010 BART proposal. The Supplemental Notice proposes that Units 1, 2, and 3 would close by 2014, post-combustion pollution controls for NOx would be installed on Units 4 and 5 by July 31, 2018, and the NOx emission limitation for Units 4 and 5 would be 0.098 lbs/MMBtu, rather than the 0.11 lbs/MMBtu proposed by the EPA in October 2010. APS provided comments to the EPA on both proposals and continues to evaluate them.

The EPA has not yet issued a proposed rule for the Navajo Plant. SRP's recommended plan for the Navajo Plant includes the installation of combustion control equipment, with an estimated cost to APS of approximately \$6 million based on APS's Navajo Plant ownership interest. If the EPA determines that post-combustion controls are required, APS's total costs could be up to approximately \$93 million for the Navajo Plant. The Four Corners and the Navajo Plant participants will have up to five years after the EPA issues its final determinations to achieve compliance with their respective BART requirements.

In order to coordinate with each plant's other scheduled activities, the plants are currently implementing portions of their recommended plans described above on a voluntary basis. APS's share of the costs related to the implementation of these portions of the recommended plans are included in our environmental expenditure estimates (see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital Expenditures" in Item 7).

Mercury and other Hazardous Air Pollutants. On December 16, 2011, the EPA issued the final Mercury and Air Toxics Standards ("MATS"), which established maximum achievable control technology ("MACT") standards to regulate emissions of mercury and other hazardous air pollutants from fossil-fired power plants. APS will have three (potentially four if the permitting authority grants a one-year extension) years after the effective date of the rule to achieve compliance.

The MATS will require APS to install additional pollution control equipment. APS has installed, and continues to install, certain of the equipment necessary to meet the anticipated standards. APS estimates that the cost for equipment necessary to meet these standards is approximately \$220 million for Four Corners Units 1-3 and \$89 million for Cholla Units 1-3. The estimated costs for Four Corners Units 1-3 are not included in our current environmental expenditure estimates since our estimates assume the consummation of APS's purchase of SCE's interest in Four Corners Units 4 and 5 and the subsequent shut down of Units 1-3. Cholla's estimated costs for the next three years are included in our environmental expenditure estimates. (See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital Expenditures" in Item 7 for details of our capital expenditure estimates). SRP, the operating agent for the Navajo Plant, is still evaluating compliance options under the MATS. If it is determined that the installation of polishing baghouses is required, APS's total costs could be up to approximately \$92 million for the Navajo Plant.

Cooling Water Intake Structures. The EPA issued its proposed cooling water intake structures rule on April 20, 2011, which provides national standards applicable to certain cooling water intake structures at existing power plants and other facilities pursuant to Section 316(b) of the Clean Water Act. The proposed standards are intended to protect fish and other aquatic organisms by minimizing impingement mortality (the capture of aquatic wildlife on intake structures or against screens) and entrainment mortality (the capture of fish or shellfish in water flow entering and passing through intake structures). To minimize impingement mortality, the proposed rule would require

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facilities, such as Four Corners and the Navajo Plant, to either demonstrate that impingement mortality at its cooling water intakes does not exceed a specified rate or reduce the flow at those structures to less than a specified velocity, and to take certain protective measures with respect to impinged fish. To minimize entrainment mortality, the proposed rule would also require these facilities to conduct a “structured site-specific analysis” to determine what site-specific controls, if any, should be required. Additional studies and a peer review process will also be required at these facilities.

As proposed, existing facilities subject to the rule would have to comply with the impingement mortality requirements as soon as possible, but in no event later than eight years after the effective date of the rule, and would have to comply with the entrainment requirements as soon as possible under a schedule of compliance established by the permitting authority. APS is performing analyses to determine the costs of compliance with the proposed rule. APS filed comments on the proposed rule on July 21, 2011.

Coal Combustion Waste. On June 21, 2010, the EPA released its proposed regulations governing the handling and disposal of coal combustion residuals (“CCRs”), such as fly ash and bottom ash. APS currently disposes of CCRs in ash ponds and dry storage areas at Cholla and Four Corners, and also sells a portion of its fly ash for beneficial reuse as a constituent in concrete production. The EPA proposes regulating CCRs as either non-hazardous waste or hazardous waste and requested comments on three different alternatives. The hazardous waste proposal would phase out the use of ash ponds for disposal of CCRs. The other two proposals would regulate CCRs as non-hazardous waste and impose performance standards for ash disposal. One of these proposals would require retrofitting or closure of currently unlined ash ponds, while the other proposal would not require the installation of liners or pond closures. The EPA has not yet indicated a preference for any of the alternatives.

APS filed comments on the proposed rule during the public comment period, which ended on November 19, 2010. Although we do not know when the EPA will issue a final rule or by when compliance will ultimately be required, it is expected that the agency may take final action on the rule in 2012. We cannot currently predict the outcome of the EPA’s actions or whether such actions will have a material adverse impact on our financial position, results of operations, or cash flows.

Ozone National Ambient Air Quality Standards. In March 2008, the EPA adopted new, more stringent eight-hour ozone standards, known as national ambient air quality standards (“NAAQS”). In January 2010, the EPA proposed to adopt even more stringent eight-hour ozone NAAQS. However, on September 2, 2011, President Obama decided to withdraw the EPA’s revised ozone standards until at least 2013 when the EPA would be required to review them as part of its five-year NAAQS review process. As ozone standards become more stringent, our fossil generation units may come under increasing pressure to reduce emissions of nitrogen oxides and volatile organic compounds and/or to generate emission offsets for new projects or facility expansions. At this time, APS is unable to predict what impact the adoption of these standards may have on its financial position, results of operations, or cash flows.

New Source Review . On April 6, 2009, APS received a request from the EPA under Section 114 of the Clean Air Act seeking detailed information regarding projects at and operations of Four Corners. This request is part of an enforcement initiative that the EPA has undertaken under the Clean Air Act. The EPA has taken the position that many utilities have made certain physical or operational changes at their plants that should have triggered additional regulatory requirements under the New Source Review provisions of the Clean Air Act. Other electric utilities have received and responded to similar Section 114 requests, and several of them have been the subject of notices of violation and

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lawsuits by the EPA. APS responded to the EPA's request in August 2009 and is currently unable to predict the timing or content of the EPA's response, if any, or any resulting actions.

On October 4, 2011, Earthjustice, on behalf of several environmental organizations, filed a lawsuit in the United States District Court for the District of New Mexico against APS and the other Four Corners participants alleging violations of the Prevention of Significant Deterioration ("PSD") provisions of the Clean Air Act. Subsequent to filing its original Complaint, on January 6, 2012, Earthjustice filed a First Amended Complaint adding claims for violations of the Clean Air Act's NSPS program. Among other things, the plaintiffs seek to have the court enjoin operations at Four Corners until APS applies for and obtains any required PSD permits and complies with the NSPS. The plaintiffs further request the court to order the payment of civil penalties, including a beneficial mitigation project. APS believes the claims in this matter are without merit and will vigorously defend against them.

Endangered Species Act. On January 30, 2011, the Center for Biological Diversity, Dine Citizens Against Ruining Our Environment, and San Juan Citizens Alliance filed a lawsuit against the Office of Surface Mining Reclamation and Enforcement ("OSM") and the DOI, alleging that OSM failed to engage in mandatory Endangered Species Act ("ESA") consultation with the Fish and Wildlife Service prior to authorizing the renewal of an operating permit for the mine that serves Four Corners. The lawsuit alleges that activities at the mine, including mining and the disposal of coal combustion residue, will adversely affect several endangered species and their critical habitats. The lawsuit requests the court to vacate and remand the mining permit and enjoin all activities carried out under the permit until OSM has complied with the ESA. Although we are not a party to the lawsuit, we continue to evaluate the lawsuit to determine its potential impact on plant operations.

Superfund. The Comprehensive Environmental Response, Compensation and Liability Act ("Superfund") establishes liability for the cleanup of hazardous substances found contaminating the soil, water or air. Those who generated, transported or disposed of hazardous substances at a contaminated site are among those who are PRPs. PRPs may be strictly, and often are jointly and severally, liable for clean-up. On September 3, 2003, the EPA advised APS that the EPA considers APS to be a PRP in the Motorola 52nd Street Superfund Site, Operable Unit 3 ("OU3") in Phoenix, Arizona. APS has facilities that are within this Superfund site. APS and Pinnacle West have agreed with the EPA to perform certain investigative activities of the APS facilities within OU3. In addition, on September 23, 2009, APS agreed with the EPA and one other PRP to voluntarily assist with the funding and management of the site-wide groundwater remedial investigation and feasibility study work plan. APS estimates that its costs related to this investigation and study will be approximately \$1 million. We anticipate incurring additional expenditures in the future, but because the overall investigation is not complete and ultimate remediation requirements are not yet finalized, at the present time we cannot accurately estimate our total expenditures.

Manufactured Gas Plant Sites. Certain properties which APS now owns or which were previously owned by it or its corporate predecessors were at one time sites of, or sites associated with, manufactured gas plants. APS is taking action to voluntarily remediate these sites. APS does not expect these matters to have a material adverse effect on its financial position, results of operations or cash flows.

Navajo Nation Environmental Issues

Four Corners and the Navajo Plant are located on the Navajo Reservation and are held under easements granted by the federal government as well as leases from the Navajo Nation. See “Energy Sources and Resource Planning — Generation Facilities — Coal Fueled Generating Facilities” above for additional information regarding these plants.

In July 1995, the Navajo Nation enacted the Navajo Nation Air Pollution Prevention and Control Act, the Navajo Nation Safe Drinking Water Act, and the Navajo Nation Pesticide Act (collectively, the “Navajo Acts”). The Navajo Acts purport to give the Navajo Nation Environmental Protection Agency authority to promulgate regulations covering air quality, drinking water, and pesticide activities, including those activities that occur at Four Corners and the Navajo Plant. On October 17, 1995, the Four Corners participants and the Navajo Plant participants each filed a lawsuit in the District Court of the Navajo Nation, Window Rock District, challenging the applicability of the Navajo Acts as to Four Corners and the Navajo Plant. The Court has stayed these proceedings pursuant to a request by the parties, and the parties are seeking to negotiate a settlement.

In April 2000, the Navajo Nation Council approved operating permit regulations under the Navajo Nation Air Pollution Prevention and Control Act. APS believes the Navajo Nation exceeded its authority when it adopted the operating permit regulations. On July 12, 2000, the Four Corners participants and the Navajo Plant participants each filed a petition with the Navajo Supreme Court for review of these regulations. Those proceedings have been stayed, pending the settlement negotiations mentioned above. APS cannot currently predict the outcome of this matter.

On May 18, 2005, APS, Salt River Project, as the operating agent for the Navajo Plant, and the Navajo Nation executed a Voluntary Compliance Agreement to resolve their disputes regarding the Navajo Nation Air Pollution Prevention and Control Act. As a result of this agreement, APS sought, and the courts granted, dismissal of the pending litigation in the Navajo Nation Supreme Court and the Navajo Nation District Court, to the extent the claims relate to the Clean Air Act. The agreement does not address or resolve any dispute relating to other Navajo Acts. APS cannot currently predict the outcome of this matter.

Water Supply

Assured supplies of water are important for APS’s generating plants. At the present time, APS has adequate water to meet its needs. However, the Four Corners region, in which Four Corners is located, has been experiencing drought conditions that may affect the water supply for the plants if adequate moisture is not received in the watershed that supplies the area. APS is continuing to work with area stakeholders to implement agreements to minimize the effect, if any, on future operations of the plant. The effect of the drought cannot be fully assessed at this time, and APS cannot predict the ultimate outcome, if any, of the drought or whether the drought will adversely affect the amount of power available, or the price thereof, from Four Corners.

Conflicting claims to limited amounts of water in the southwestern United States have resulted in numerous court actions, which, in addition to future supply conditions, have the potential to impact APS operations.

San Juan River Adjudication. Both groundwater and surface water in areas important to APS’s operations have been the subject of inquiries, claims, and legal proceedings, which will require

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a number of years to resolve. APS is one of a number of parties in a proceeding, filed March 13, 1975, before the Eleventh Judicial District Court in New Mexico to adjudicate rights to a stream system from which water for Four Corners is derived. An agreement reached with the Navajo Nation in 1985, however, provides that if Four Corners loses a portion of its rights in the adjudication, the Navajo Nation will provide, for an agreed upon cost, sufficient water from its allocation to offset the loss.

Gila River Adjudication. A summons served on APS in early 1986 required all water claimants in the Lower Gila River Watershed in Arizona to assert any claims to water on or before January 20, 1987, in an action pending in Maricopa County, Arizona, Superior Court. Palo Verde is located within the geographic area subject to the summons. APS's rights and the rights of the other Palo Verde participants to the use of groundwater and effluent at Palo Verde are potentially at issue in this action. As operating agent of Palo Verde, APS filed claims that dispute the court's jurisdiction over the Palo Verde participants' groundwater rights and their contractual rights to effluent relating to Palo Verde. Alternatively, APS seeks confirmation of such rights. Five of APS's other power plants are also located within the geographic area subject to the summons. APS's claims dispute the court's jurisdiction over its groundwater rights with respect to these plants. Alternatively, APS seeks confirmation of such rights. In November 1999, the Arizona Supreme Court issued a decision confirming that certain groundwater rights may be available to the federal government and Indian tribes. In addition, in September 2000, the Arizona Supreme Court issued a decision affirming the lower court's criteria for resolving groundwater claims. Litigation on both of these issues has continued in the trial court. In December 2005, APS and other parties filed a petition with the Arizona Supreme Court requesting interlocutory review of a September 2005 trial court order regarding procedures for determining whether groundwater pumping is affecting surface water rights. The Court denied the petition in May 2007, and the trial court is now proceeding with implementation of its 2005 order. No trial date concerning APS's water rights claims has been set in this matter.

Little Colorado River Adjudication. APS has also filed claims to water in the Little Colorado River Watershed in Arizona in an action pending in the Apache County, Arizona, Superior Court, which was originally filed on September 5, 1985. APS's groundwater resource utilized at Cholla is within the geographic area subject to the adjudication and, therefore, is potentially at issue in the case. APS's claims dispute the court's jurisdiction over its groundwater rights. Alternatively, APS seeks confirmation of such rights. Other claims have been identified as ready for litigation in motions filed with the court. No trial date concerning APS's water rights claims has been set in this matter.

A number of parties, including APS, the Navajo Nation, the Hopi Tribe, and other claimants in the Little Colorado River Adjudication have been engaged in settlement negotiations to resolve competing water claims. On June 3, 2011, counsel for all the parties to the settlement discussions, including APS, signed, on behalf of their respective clients, a document expressing their agreement to recommend that the settlement be approved by their respective clients. Negotiations among the parties continue. If ultimately approved by the parties, the United States Congress, and the Arizona legislature, APS believes this settlement would be beneficial in protecting APS's interest through its resolution of any and all claims that the Navajo Nation and the Hopi Tribe may have to the Little Colorado River system and source in Arizona.

Although the above matters remain subject to further evaluation, APS does not expect that the described litigation or settlement will have a material adverse impact on its financial position, results of operations or cash flows.

BUSINESS OF OTHER SUBSIDIARIES

The operations of our other first-tier subsidiaries (described below) are not expected to contribute in any material way to our future financial performance nor will they require any material amounts of capital over the next three years. We continue to focus on our core utility business and streamlining the Company. In August 2011, we sold our competitive energy services subsidiary, APSES, for an after tax gain of \$10 million.

El Dorado

El Dorado owns minority interests in several energy-related investments and Arizona community-based ventures. El Dorado's short-term goal is to prudently realize the value of its existing investments. As of December 31, 2011, El Dorado had total assets of \$20 million.

SunCor

SunCor was a developer of residential, commercial and industrial real estate projects in Arizona, Idaho, New Mexico and Utah. Due to the continuing distressed conditions in the real estate markets, in 2009 SunCor undertook a program to dispose of its homebuilding operations, master-planned communities, land parcels, commercial assets and golf courses in order to eliminate its outstanding debt. As of December 31, 2011, SunCor had no existing bank debt and had total assets remaining on its books of \$9 million, consisting of \$7 million of intercompany receivables and \$2 million of other assets. On February 24, 2012, SunCor filed for protection under the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Arizona to complete an orderly liquidation of its business. We do not expect SunCor's bankruptcy to have a material impact on Pinnacle West's financial position, results of operations or cash flows.

Financial Summary

	2011	2010		2009
		(dollars in millions)		
Revenues (a)	\$ 2	\$ 102	\$ 158	
Net loss attributable to common shareholders (b)	\$(2)	\$(9)	\$(279)	
Total assets at December 31	\$ 9	\$ 16	\$ 166	

- (a) All reported as discontinued operations on Pinnacle West's Consolidated Statements of Income. (See Note 21.)
 (b) The 2009 amount includes a \$266 million (pre-tax) real estate impairment charge.

OTHER INFORMATION

Pinnacle West, APS and Pinnacle West's other first-tier subsidiaries are all incorporated in the State of Arizona. Additional information for each of these companies is provided below:

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	Principal Executive Office Address	Year of Incorporation	Approximate Number of Employees at December 31, 2011
Pinnacle West	400 North Fifth Street Phoenix, AZ 85004	1985	80
APS	400 North Fifth Street P.O. Box 53999 Phoenix, AZ 85072-3999	1920	6,580
SunCor	80 East Rio Salado Parkway Suite 410 Tempe, AZ 85281	1965	3
El Dorado	400 North Fifth Street Phoenix, AZ 85004	1983	—
Total			6,663

The APS number includes employees at jointly-owned generating facilities (approximately 3,050 employees) for which APS serves as the generating facility manager. Approximately 1,930 APS employees are union employees. APS entered into a new three-year collective bargaining agreement with union employees in the fossil generation, energy delivery and customer service business areas that expires in April 2014. The agreement with union employees serving as Palo Verde security officers expires in 2013.

WHERE TO FIND MORE INFORMATION

We use our website www.pinnaclewest.com as a channel of distribution for material Company information. The following filings are available free of charge on our website as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission (“SEC”): Annual Reports on Form 10-K, definitive proxy statements for our annual shareholder meetings, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports. Our board and committee charters, Code of Ethics for Financial Executives, Ethics Policy and Standards of Business Practices and other corporate governance information is also available on the Pinnacle West website. Pinnacle West will post any amendments to the Code of Ethics for Financial Executives and Ethics Policy and Standards of Business Practices, and any waivers that are required to be disclosed by the rules of either the SEC or the New York Stock Exchange, on its website. The information on Pinnacle West’s website is not incorporated by reference into this report.

You can request a copy of these documents, excluding exhibits, by contacting Pinnacle West at the following address: Pinnacle West Capital Corporation, Office of the Secretary, Station 9068, P.O. Box 53999, Phoenix, Arizona 85072-3999 (telephone 602-250-3252).

ITEM 1A. RISK FACTORS

In addition to the factors affecting specific business operations identified in the description of these operations contained elsewhere in this report, set forth below are risks and uncertainties that could affect our financial results. Unless otherwise indicated or the context otherwise requires, the following risks and uncertainties apply to Pinnacle West and its subsidiaries, including APS.

REGULATORY RISKS

Our financial condition depends upon APS's ability to recover costs in a timely manner from customers through regulated rates and otherwise execute its business strategy.

APS is subject to comprehensive regulation by several federal, state and local regulatory agencies that significantly influence its business, liquidity, results of operations and its ability to fully recover costs from utility customers in a timely manner. The ACC regulates APS's retail electric rates and the FERC regulates rates for wholesale power sales and transmission services. The profitability of APS is affected by the rates it may charge and the timeliness of recovering costs incurred through its rates. Consequently, our financial condition and results of operations are dependent upon the satisfactory resolution of any APS rate proceedings and ancillary matters which may come before the ACC and the FERC. Arizona, like certain other states, has a statute that allows the ACC to reopen prior decisions and modify final orders under certain circumstances. The ACC must also approve APS's issuance of securities and any transfer of APS property used to provide retail electric service, and must approve or receive prior notification of certain transactions between us, APS and our respective affiliates. Decisions made by the ACC or the FERC could have a material adverse impact on our financial condition, results of operations or cash flows.

APS's ability to conduct its business operations and avoid fines and penalties depends upon compliance with federal, state or local statutes, regulations and ACC requirements, and obtaining and maintaining certain regulatory permits, approvals and certificates.

APS must comply in good faith with all applicable statutes, regulations, rules, tariffs, and orders of agencies that regulate APS's business, including the FERC, the NRC, the EPA, the ACC and state and local governmental agencies. These agencies regulate many aspects of APS's utility operations, including safety and performance, emissions, siting and construction of facilities, customer service and the rates that APS can charge retail and wholesale customers. Failure to comply can subject APS to, among other things, fines and penalties. For example, under the Energy Policy Act of 2005, the FERC can impose penalties (up to one million dollars per day per violation) for failure to comply with mandatory electric reliability standards. In addition to penalties, APS may be unable to recover certain costs if, for example, it fails to implement any of its annual ACC-approved renewable implementation plans. APS is also required to have numerous permits, approvals and certificates from these agencies. APS believes the necessary permits, approvals and certificates have been obtained for its existing operations and that APS's business is conducted in accordance with applicable laws in all material respects. However, changes in regulations or the imposition of new or revised laws or regulations could have an adverse impact on our results of operations. We are also unable to predict the impact on our business and operating results from pending or future regulatory activities of any of these agencies .

The operation of APS's nuclear power plant exposes it to substantial regulatory oversight and potentially significant liabilities and capital expenditures.

The NRC has broad authority under federal law to impose licensing and safety-related requirements for the operation of nuclear generation facilities. Events at nuclear facilities of other operators or impacting the industry generally may lead the NRC to impose additional requirements and regulations on existing and new facilities. As a result of the March 2011 earthquake and tsunami that caused significant damage to the Fukushima Daiichi Nuclear Power Plant in Japan, various industry organizations are working to analyze information from the Japan incident and develop action plans for U.S. nuclear power plants. Additionally, the NRC is performing its own independent review of the events at Fukushima Daiichi, including a review of the agency's processes and regulations in order to determine whether the agency should promulgate additional regulations and possibly make more fundamental changes to the NRC's system of regulation. We cannot predict when or if the NRC will take formal action as a result of its review. The financial and/or operational impacts on Palo Verde and APS may be significant.

In the event of noncompliance with its requirements, the NRC has the authority to impose monetary civil penalties or a progressively increased inspection regime that could ultimately result in the shut-down of a unit, or both, depending upon the NRC's assessment of the severity of the situation, until compliance is achieved. The increased costs resulting from penalties, a heightened level of scrutiny and implementation of plans to achieve compliance with NRC requirements may adversely affect APS's financial condition, results of operations and cash flows.

APS is subject to numerous environmental laws and regulations, and changes in, or liabilities under, existing or new laws or regulations may increase APS's cost of operations or impact its business plans.

APS is subject to numerous environmental laws and regulations affecting many aspects of its present and future operations, including air emissions, water quality, wastewater discharges, solid waste, hazardous waste, and coal combustion products, which consist of bottom ash, fly ash, and air pollution control wastes. These laws and regulations can result in increased capital, operating, and other costs, particularly with regard to enforcement efforts focused on power plant emissions obligations. These laws and regulations generally require APS to obtain and comply with a wide variety of environmental licenses, permits, and other approvals. If there is a delay or failure to obtain any required environmental regulatory approval, or if APS fails to obtain, maintain, or comply with any such approval, operations at affected facilities could be suspended or subject to additional expenses. In addition, failure to comply with applicable environmental laws and regulations could result in civil liability or criminal penalties. Both public officials and private individuals may seek to enforce applicable environmental laws and regulations. APS cannot predict the outcome (financial or operational) of any related litigation that may arise.

Environmental Clean Up. APS has been named as a PRP for a Superfund site in Phoenix, Arizona and it could be named a PRP in the future for other environmental clean up at sites identified by a regulatory body. APS cannot predict with certainty the amount and timing of all future expenditures related to environmental matters because of the difficulty of estimating clean up costs. There is also uncertainty in quantifying liabilities under environmental laws that impose joint and several liability on all potentially responsible parties.

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Regional Haze. APS is currently awaiting a final rulemaking from the EPA that could impose new requirements on Four Corners and the Navajo Plant. APS is also awaiting the EPA's issuance of a FIP or partial FIP that could impose new requirements on Cholla. The EPA and ADEQ will require these plants to install pollution control equipment that constitutes the best available retrofit technology to lessen the impacts of emissions on visibility surrounding the plants. Depending upon the agencies' final determinations of what constitutes BART for these plants, the financial impact of installing and operating the required pollution control equipment could jeopardize the economic viability of the plants or the ability of individual participants to continue their participation in these plants, resulting in plant closures and asset impairments.

Coal Ash. The EPA released proposed regulations governing the disposal of CCRs, which are generated as a result of burning coal and consist of, among other things, fly ash and bottom ash. The EPA proposed regulating CCRs as either non-hazardous or hazardous waste. APS currently disposes of CCRs in ash ponds and dry storage areas at Four Corners and Cholla, and also sells a portion of its fly ash for beneficial reuse as a constituent in concrete products. If the EPA regulates CCRs as a hazardous solid waste or phases out APS's ability to dispose of CCRs through the use of ash ponds, APS could incur significant costs for CCR disposal and may be unable to continue its sale of fly ash for beneficial reuse.

New Source Review. The EPA has taken the position that many projects electric utilities have performed are major modifications that trigger New Source Review requirements under the Clean Air Act. The utilities generally have taken the position that these projects are routine maintenance and did not result in emissions increases, and thus are not subject to New Source Review. In 2009, APS received and responded to a request from the EPA regarding projects and operations of Four Corners. An environmental organization filed suit against the Four Corners participants for alleged violations of New Source Review and the NSPS programs of the Clean Air Act. If the EPA seeks to impose New Source Review requirements at Four Corners or any other APS plant, or if the citizens' group prevails in its lawsuit, significant capital investments could be required to install new pollution control technologies. The EPA could also seek civil penalties.

APS cannot assure that existing environmental regulations will not be revised or that new regulations seeking to protect the environment will not be adopted or become applicable to it. Revised or additional regulations that result in increased compliance costs or additional operating restrictions, particularly if those costs incurred by APS are not fully recoverable from APS's customers, could have a material adverse effect on its financial condition, results of operations or cash flows.

APS faces physical and operational risks related to climate change, and potential financial risks resulting from climate change litigation and legislative and regulatory efforts to limit greenhouse gas emissions.

Concern over climate change, deemed by many to be induced by rising levels of greenhouse gases in the atmosphere, has led to significant legislative and regulatory efforts to limit CO₂, which is a major byproduct of the combustion of fossil fuel, and other greenhouse gas emissions. In addition, lawsuits have been filed against companies that emit greenhouse gases, including a lawsuit filed by the Native Village of Kivalina and the City of Kivalina, Alaska against us and several other utilities seeking damages related to climate change.

Financial Risks — Potential Legislation and Regulation. It is possible that some form of legislation or EPA action to regulate domestic greenhouse gas emissions may occur in the future at the

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federal level. If the United States Congress, or individual states or groups of states in which APS operates, ultimately pass legislation, or if the EPA promulgates additional regulations regulating the emissions of greenhouse gases, any resulting limitations on CO₂ and other greenhouse gas emissions could result in the creation of substantial additional capital expenditures and operating costs in the form of taxes, emissions allowances, or required equipment upgrades and could have a material adverse impact on all fossil-fuel-fired generation facilities (particularly coal-fired facilities, which constitute approximately 28% of APS's generation capacity).

At the state level, the California legislature enacted legislation to address greenhouse gas emissions and the California Air Resources Board approved regulations that will establish a cap-and-trade program for greenhouse gas. This legislation, regulation and other state-specific initiatives may affect APS's business, including sales into the impacted states or the ability of its out-of-state power plant participants to continue their participation in certain coal-fired power plants, including Four Corners following 2016.

Physical and Operational Risks. Weather extremes such as drought and high temperature variations are common occurrences in the Southwest's desert area, and these are risks that APS considers in the normal course of business in the engineering and construction of its electric system. Large increases in ambient temperatures could require evaluation of certain materials used within its system and represent a greater challenge.

Deregulation or restructuring of the electric industry may result in increased competition, which could have a significant adverse impact on APS's business and its results of operations.

In 1999, the ACC approved rules for the introduction of retail electric competition in Arizona. Retail competition could have a significant adverse financial impact on APS due to an impairment of assets, a loss of retail customers, lower profit margins or increased costs of capital. Although some very limited retail competition existed in APS's service area in 1999 and 2000, there are currently no active retail competitors offering unbundled energy or other utility services to APS's customers. As a result, APS cannot predict if, when, and the extent to which, additional competitors may re-enter APS's service territory.

In 2010, the ACC issued a decision holding that solar vendors that install and operate solar facilities for non-profit schools and governments pursuant to a specific type of contract that calculates payments based on the energy produced are not "public service corporations" under the Arizona Constitution, and are therefore not regulated by the ACC. A second matter is pending with the ACC to determine whether that ruling should extend to solar providers who serve a broader customer base under the same business model. The use of such products by customers within our territory would result in some level of competition. APS cannot predict whether the ACC will deem these vendors "public service corporations" subject to ACC regulation and when, and the extent to which, additional service providers will enter APS's service territory, increasing the level of competition in the market.

OPERATIONAL RISKS

APS's results of operations can be adversely affected by various factors impacting demand for electricity.

Weather Conditions. Weather conditions directly influence the demand for electricity and affect the price of energy commodities. Electric power demand is generally a seasonal business. In

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Arizona, demand for power peaks during the hot summer months, with market prices also peaking at that time. As a result, APS's overall operating results fluctuate substantially on a seasonal basis. In addition, APS has historically sold less power, and consequently earned less income, when weather conditions are milder. As a result, unusually mild weather could diminish APS's financial condition, results of operations and cash flows.

Higher temperatures may decrease the snowpack, which might result in lowered soil moisture and an increased threat of forest fires. Forest fires could threaten APS's communities and electric transmission lines. Any damage caused as a result of forest fires could negatively impact APS's financial condition, results of operations or cash flows.

Effects of Energy Conservation Measures and Distributed Energy. The ACC has enacted rules regarding energy efficiency that mandate a 22% annual energy savings requirement by 2020. This will likely increase participation by APS customers in energy efficiency and conservation programs and other demand-side management efforts, which in turn will impact the demand for electricity. The rules also include a requirement for the ACC to review and address financial disincentives, recovery of fixed costs and the recovery of net lost income/revenue that would result from lower sales due to increased energy efficiency requirements. To that end, the proposed Settlement Agreement in APS's current retail rate case includes a mechanism to address these matters. The 2009 retail rate case settlement agreement also established energy efficiency goals for APS that began in 2010 that extend through 2012, subjecting APS to energy efficiency requirements slightly greater for the first two of those years than required under the rules described above.

APS must also meet certain distributed energy requirements. A portion of APS's total renewable energy requirement must be met with an increasing percentage of distributed energy resources (generally, small scale renewable technologies located on customers' properties). The distributed energy requirement was 25% of the overall RES requirement of 3% in 2011 and increased to 30% of the applicable RES requirement for 2012 and subsequent years. Customer participation in distributed energy programs would result in lower demand, since customers would be meeting some or all of their own energy needs.

Reduced demand due to these energy efficiency and distributed energy requirements, unless offset through ratemaking mechanisms, such as those proposed in the Settlement Agreement, could have a material adverse impact on APS's financial condition, results of operations and cash flows.

The operation of power generation facilities and transmission systems involves risks that could result in reduced output or unscheduled outages, which could materially affect APS's results of operations .

The operation of power generation, transmission and distribution facilities involves certain risks, including the risk of breakdown or failure of equipment, fuel interruption, and performance below expected levels of output or efficiency. Unscheduled outages, including extensions of scheduled outages due to mechanical failures or other complications, occur from time to time and are an inherent risk of APS's business. Because our transmission facilities are interconnected with those of third parties, the operation of our facilities could be adversely affected by unexpected or uncontrollable events occurring on the larger transmission power grid, and the operation or failure of our facilities could adversely affect the operations of others. If APS's facilities operate below expectations, especially during its peak seasons, it may lose revenue or incur additional expenses, including increased purchased power expenses.

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The inability to successfully develop or acquire generation resources to meet new or evolving standards and regulations could adversely impact our business.

Potential changes in regulatory standards, impacts of new and existing laws and regulations, including environmental laws and regulations, and the need to obtain certain regulatory approvals create uncertainty surrounding our generation portfolio. For example, APS's acquisition of SCE's interest in Four Corners is contingent upon regulatory approval. If not approved, we could face increased costs for replacement power or the need to acquire or develop alternate resources. In addition, APS is required by the ACC to meet certain energy resource portfolio requirements and the RES. The development of any renewable generation facilities resulting from the RES is subject to many other risks, including risks related to financing, siting, permitting, technology, the construction of sufficient transmission capacity to support these facilities and stresses to generation and transmission resources from intermittent generation characteristics of renewable resources. APS's inability to adequately develop or acquire the necessary generation resources to meet the required standards could have a material adverse impact on our business and results of operations.

The lack of access to sufficient supplies of water could have a material adverse impact on APS's business and results of operations.

Assured supplies of water are important for APS's generating plants. Water in the southwestern United States is limited and various parties have made conflicting claims regarding the right to access and use such limited supply of water. Both groundwater and surface water in areas important to APS's generating plants have been and are the subject of inquiries, claims and legal proceedings. In addition, the region in which APS's power plants are located is prone to drought conditions, which could potentially affect the plants' water supplies. APS's inability to access sufficient supplies of water could have a material adverse impact on our business and results of operations.

The ownership and operation of power generation and transmission facilities on Indian lands could result in uncertainty related to continued leases, easements and rights-of-way, which could have a significant impact on our business.

Certain APS power plants, including Four Corners, and portions of the transmission lines that carry power from these plants are located on Indian lands pursuant to leases, easements or other rights-of-way that are effective for specified periods. APS is currently unable to predict the final outcome of pending and future approvals by applicable governing bodies with respect to renewals of these leases, easements and rights-of-way.

There are inherent risks in the ownership and operation of nuclear facilities, such as environmental, health, fuel supply, spent fuel disposal, regulatory and financial risks and the risk of terrorist attack.

APS has an ownership interest in and operates, on behalf of a group of participants, Palo Verde, which is the largest nuclear electric generating facility in the United States. Palo Verde is subject to environmental, health and financial risks such as the ability to obtain adequate supplies of nuclear fuel; the ability to dispose of spent nuclear fuel; the ability to maintain adequate reserves for decommissioning; potential liabilities arising out of the operation of these facilities; the costs of securing the facilities against possible terrorist attacks; and unscheduled outages due to equipment and other problems. APS maintains nuclear decommissioning trust funds and external insurance coverage

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to minimize its financial exposure to some of these risks; however, it is possible that damages could exceed the amount of insurance coverage. In addition, APS may be required under federal law to pay up to \$118 million (but not more than \$18 million per year) of liabilities arising out of a nuclear incident occurring not only at Palo Verde, but at any other nuclear power plant in the United States. Although we have no reason to anticipate a serious nuclear incident at Palo Verde, if an incident did occur, it could materially and adversely affect our results of operations and financial condition. A major incident at a nuclear facility anywhere in the world could cause the NRC to limit or prohibit the operation or licensing of any domestic nuclear unit and to promulgate new regulations that could require significant capital expenditures and/or increase operating costs.

The use of derivative contracts in the normal course of our business could result in financial losses that negatively impact our results of operations.

APS's operations include managing market risks related to commodity prices. APS is exposed to the impact of market fluctuations in the price and transportation costs of electricity, natural gas and coal to the extent that unhedged positions exist. We have established procedures to manage risks associated with these market fluctuations by utilizing various commodity derivatives, including exchange-traded futures and options and over-the-counter forwards, options, and swaps. As part of our overall risk management program, we enter into derivative transactions to hedge purchases and sales of electricity and fuels. The changes in market value of such contracts have a high correlation to price changes in the hedged commodity. To the extent that commodity markets are illiquid, we may not be able to execute our risk management strategies, which could result in greater unhedged positions than we would prefer at a given time and financial losses that negatively impact our results of operations.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”), which was signed into law in July 2010, contains measures aimed at increasing the transparency and stability of the over-the counter, or OTC, derivative markets and preventing excessive speculation. The Dodd-Frank Act could restrict, among other things, trading positions in the energy futures markets, require different collateral or settlement positions, or increase regulatory reporting over derivative positions. Based on the provisions included in the Dodd-Frank Act and the implementation of regulations, these changes could, among other things, impact our ability to hedge commodity price and interest rate risk or increase the costs associated with our hedging programs.

We are exposed to losses in the event of nonperformance or nonpayment by counterparties. We use a risk management process to assess and monitor the financial exposure of all counterparties. Despite the fact that the majority of APS's trading counterparties are rated as investment grade by the rating agencies, there is still a possibility that one or more of these companies could default, which could result in a material adverse impact on our earnings for a given period.

Changes in technology could create challenges for APS's existing business.

Research and development activities are ongoing to assess alternative technologies that produce power or reduce power consumption, including clean coal and coal gasification, renewable technologies including photovoltaic (solar) cells, customer-sited generation (solar) and efficiency technologies, and improvements in traditional technologies and equipment, such as more efficient gas turbines. Advances in these, or other technologies could reduce the cost of power production, making APS's existing generating facilities less economical. In addition, advances in technology and equipment/appliance efficiency could reduce the demand for power supply, which could adversely affect APS's business.

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APS is pursuing and implementing smart grid technologies, including advanced transmission and distribution system technologies, digital meters enabling two-way communications between the utility and its customers, and electric usage monitoring devices for customers' homes and businesses. Many of the products and processes resulting from these and other alternative technologies have not yet been widely used or tested, and their use on large-scale systems is not as advanced and established as APS's existing technologies and equipment. Uncertainties and unknowns related to these and other advancements in technology and equipment could adversely affect APS's business if national standards develop that do not embrace the current technologies or if the technologies and equipment fail to perform as expected. In addition, widespread installation and acceptance of these devices could enable the entry of new market participants, such as technology companies, into the interface between APS and its customers.

We are subject to employee workforce factors that could adversely affect our business and financial condition.

Like most companies in the electric utility industry, our workforce is aging and a number of our employees will become eligible to retire within the next few years. Although we have undertaken efforts to recruit and train new employees, we may not be successful. We are subject to other employee workforce factors, such as the availability of qualified personnel, the need to negotiate collective bargaining agreements with union employees and potential work stoppages. Exposure to these or other employee workforce factors could negatively impact our business, financial condition or results of operations.

We are subject to information security risks and risks of unauthorized access to our systems .

In the regular course of our business we handle a range of sensitive security, customer and business systems information. We are subject to laws and rules issued by different agencies concerning safeguarding and maintaining the confidentiality of this information. A security breach of our information systems such as theft or the inappropriate release of certain types of information, including confidential customer, employee, financial or system operating information, could have a material adverse impact on our financial condition, results of operations or cash flows.

We operate in a highly regulated industry that requires the continued operation of sophisticated information technology systems and network infrastructure. Despite implementation of security measures, our technology systems are vulnerable to disability, failures or unauthorized access. Our generation, transmission and distribution facilities, information technology systems and other infrastructure facilities and systems and physical assets could be targets of such unauthorized access. Failures or breaches of our systems could impact the reliability of our generation, transmission and distribution systems and also subject us to financial harm. If our technology systems were to fail or be breached and if we are unable to recover in a timely way, we may not be able to fulfill critical business functions and sensitive confidential data could be compromised, which could have a material adverse impact on our financial condition, results of operations or cash flows.

The implementation of security measures and cost of insurance addressing such activities could increase costs and have a material adverse impact on our financial results. These types of events could also require significant management attention and resources, and could adversely affect Pinnacle West's and APS's reputation with customers and the public.

FINANCIAL RISKS

Financial market disruptions or new financial rules or regulations may increase our financing costs or limit our access to the credit markets, which may adversely affect our liquidity and our ability to implement our financial strategy.

We rely on access to credit markets as a significant source of liquidity and the capital markets for capital requirements not satisfied by cash flow from our operations. We believe that we will maintain sufficient access to these financial markets. However, certain market disruptions or rules or regulations may increase our cost of borrowing generally, and/or otherwise adversely affect our ability to access the credit markets.

In addition, the credit commitments of our lenders under our bank facilities may not be satisfied for a variety of reasons, including periods of financial distress or liquidity issues affecting our lenders, which could materially adversely affect the adequacy of our liquidity sources.

Changes in economic conditions, monetary policy or other factors could result in higher interest rates, which would increase our interest expense on our debt and reduce funds available to us for our current plans. Additionally, an increase in our leverage could adversely affect us by:

- causing a downgrade of our credit ratings;
- increasing the cost of future debt financing and refinancing;
- increasing our vulnerability to adverse economic and industry conditions; and
- requiring us to dedicate an increased portion of our cash flow from operations to payments on our debt, which would reduce funds available to us for operations, future business opportunities or other purposes.

A downgrade of our credit ratings could materially and adversely affect our business, financial condition and results of operations.

Our current ratings are set forth in “Liquidity and Capital Resources — Credit Ratings” in Item 7. We cannot be sure that any of our current ratings will remain in effect for any given period of time or that a rating will not be lowered or withdrawn entirely by a rating agency if, in its judgment, circumstances in the future so warrant. Any downgrade or withdrawal could adversely affect the market price of Pinnacle West’s and APS’s securities, limit our access to capital and increase our borrowing costs, which would diminish our financial results. We would be required to pay a higher interest rate for future financings, and our potential pool of investors and funding sources could decrease. In addition, borrowing costs under our existing credit facilities depend on our credit ratings. A downgrade would also require us to provide substantial additional support in the form of letters of credit or cash or other collateral to various counterparties. If our short-term ratings were to be lowered, it could severely limit access to the commercial paper market. We note that the ratings from rating agencies are not recommendations to buy, sell or hold our securities and that each rating should be evaluated independently of any other rating.

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Investment performance, changing interest rates and other economic factors could decrease the value of our benefit plan assets and nuclear decommissioning trust funds and increase the valuation of our related obligations, resulting in significant additional funding requirements. Any inability to fully recover these costs in our utility rates would negatively impact our financial condition.

We have significant pension plan and other postretirement benefits plan obligations to our employees and retirees and legal obligations to fund nuclear decommissioning trusts for Palo Verde. We hold and invest substantial assets in these trusts that are designed to provide funds to pay for certain of these obligations as they arise. Declines in market values or poor investment results may adversely affect the values of the fixed income and equity securities held in these trusts and increase our funding requirements. Additionally, the valuation of liabilities related to our pension plan and other postretirement benefit plans are impacted by a discount rate, which is the interest rate used to discount future pension and other postretirement benefit obligations. Declining interest rates decrease the discount rate, increase the valuation of the plan liabilities and may result in increases in pension and other postretirement benefit costs, cash contributions, regulatory assets, and charges to other comprehensive income. Changes in demographics, including increased numbers of retirements or changes in life expectancy and changes in other actuarial assumptions, may also increase the funding requirements of the obligations related to the pension and other postretirement benefit plans. The minimum contributions required under these plans have increased, and could continue to do so, resulting in significant cash funding obligations that could have a material impact on our financial position, results of operations or cash flows.

We recover most of the pension costs and other postretirement benefit costs and all of the nuclear decommissioning costs in our regulated rates. Any inability to fully recover these costs in a timely manner would have a material negative impact on our financial condition, results of operations or cash flows.

We may be required to adopt IFRS. The ultimate adoption of such standards could negatively impact our business, financial condition or results of operations.

IFRS is a comprehensive series of accounting standards published by the International Accounting Standards Board (“IASB”) that is being considered by the SEC to replace accounting principles generally accepted in the United States of America (“GAAP”) for use in preparation of financial statements. If the SEC requires mandatory adoption of IFRS, we may lose our ability to use regulatory accounting treatment, and would follow IFRS rather than GAAP for the preparation of our financial statements beginning no earlier than 2015. In the meantime, the FASB and the IASB are working on several accounting standards jointly to converge certain accounting differences. The implementation and adoption of these new standards and the inability to use regulatory accounting could negatively impact our business, financial condition or results of operations.

Our cash flow largely depends on the performance of APS.

We conduct our operations primarily through our subsidiary, APS. Essentially all of our consolidated assets are held by APS. Accordingly, our cash flow and our ability to pay dividends on our common stock is dependent upon the earnings and cash flows of APS and its distributions to us. APS is a separate and distinct legal entity and has no obligation to make distributions to us.

APS's debt agreements may restrict its ability to pay dividends, make distributions or otherwise transfer funds to us. In addition, an ACC financing order requires APS to maintain a common equity ratio of at least 40% and does not allow APS to pay common dividends if the payment would reduce its common equity below that threshold. The common equity ratio, as defined in the ACC order, is total shareholder equity divided by the sum of total shareholder equity and long-term debt, including current maturities of long-term debt.

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Pinnacle West's ability to meet its debt service obligations could be adversely affected because its debt securities are structurally subordinated to the debt securities and other obligations of its subsidiaries.

Because Pinnacle West is structured as a holding company, all existing and future debt and other liabilities of our subsidiaries will be effectively senior in right of payment to our debt securities. The assets and cash flows of our subsidiaries will be available, in the first instance, to service their own debt and other obligations. Our ability to have the benefit of their cash flows, particularly in the case of any insolvency or financial distress affecting our subsidiaries, would arise only through our equity ownership interests in our subsidiaries and only after their creditors have been satisfied.

The market price of our common stock may be volatile.

The market price of our common stock could be subject to significant fluctuations in response to factors such as the following, some of which are beyond our control:

- variations in our quarterly operating results;
- operating results that vary from the expectations of management, securities analysts and investors;
- changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;
- developments generally affecting industries in which we operate, particularly the energy distribution and energy generation industries;
- announcements by us or our competitors of significant contracts, acquisitions, joint marketing relationships, joint ventures or capital commitments;
- announcements by third parties of significant claims or proceedings against us;
- favorable or adverse regulatory or legislative developments;
- our dividend policy;
- future sales by the Company of equity or equity-linked securities; and
- general domestic and international economic conditions.

In addition, the stock market in general has experienced volatility that has often been unrelated to the operating performance of a particular company. These broad market fluctuations may adversely affect the market price of our common stock.

Certain provisions of our articles of incorporation and bylaws and of Arizona law make it difficult for shareholders to change the composition of our board and may discourage takeover attempts.

These provisions, which could preclude our shareholders from receiving a change of control premium, include the following:

- restrictions on our ability to engage in a wide range of “business combination” transactions with an “interested shareholder” (generally, any person who owns 10% or more of our outstanding voting power or any of our affiliates or associates) or any affiliate or associate of an interested shareholder, unless specific conditions are met;
- anti-greenmail provisions of Arizona law and our bylaws that prohibit us from purchasing shares of our voting stock from beneficial owners of more than 5% of our outstanding shares unless specified conditions are satisfied;

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- the ability of the Board of Directors to increase the size of the Board and fill vacancies on the Board, whether resulting from such increase, or from death, resignation, disqualification or otherwise; and
- the ability of our Board of Directors to issue additional shares of common stock and shares of preferred stock and to determine the price and, with respect to preferred stock, the other terms, including preferences and voting rights, of those shares without shareholder approval.

While these provisions have the effect of encouraging persons seeking to acquire control of us to negotiate with our Board of Directors, they could enable the Board to hinder or frustrate a transaction that some, or a majority, of our shareholders might believe to be in their best interests and, in that case, may prevent or discourage attempts to remove and replace incumbent directors.

SunCor's continuing wind-down of its real estate business may give rise to various claims.

Since 2009, SunCor has been engaged in a program to dispose of its homebuilding operations, master-planned communities, land parcels, commercial assets and golf courses in order to eliminate its outstanding debt. SunCor is focusing on concluding an orderly wind-down of its business. This effort includes addressing contingent liabilities, such as warranty and construction claims that may be brought by property owners and potential funding obligations to local taxing districts that financed infrastructure at certain of its real estate developments.

Pinnacle West has not guaranteed any of SunCor's obligations. SunCor's remaining business operations, and its ability to generate cash from operations, are minimal. In February 2012, SunCor filed for protection under the United States Bankruptcy Code to complete an orderly liquidation of its business. Pinnacle West could be exposed to the uncertainties and complexities inherent for parent companies in such proceedings.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Neither Pinnacle West nor APS has received written comments regarding its periodic or current reports from the SEC staff that were issued 180 days or more preceding the end of its 2011 fiscal year and that remain unresolved.

ITEM 2. PROPERTIES**Generation Facilities**

APS's portfolio of owned and leased generating facilities is provided in the table below:

Name	No. of Units	% Owned (a)	Principal Fuels Used	Primary Dispatch Type	Owned Capacity (MW)
Nuclear:					
Palo Verde (b)	3	29.1%	Uranium	Base Load	1,146
Total Nuclear					1,146
Steam:					
Four Corners 1, 2, 3	3		Coal	Base Load	560
Four Corners 4, 5 (c)	2	15%	Coal	Base Load	231
Cholla	3		Coal	Base Load	647
Navajo (d)	3	14%	Coal	Base Load	315
Ocotillo	2		Gas	Peaking	220
Saguaro	2		Gas/Oil	Peaking	210
Total Steam					2,183
Combined Cycle:					
Redhawk	2		Gas	Load Following	984
West Phoenix	5		Gas	Load Following	887
Total Combined Cycle					1,871
Combustion Turbine:					
Ocotillo	2		Gas	Peaking	110
Saguaro 1, 2	2		Gas/Oil	Peaking	110
Saguaro 3	1		Gas	Peaking	79
Douglas	1		Oil	Peaking	16
Sundance	10		Gas	Peaking	420
West Phoenix	2		Gas	Peaking	110
Yucca 1, 2, 3	3		Gas/Oil	Peaking	93
Yucca 4	1		Oil	Peaking	54
Yucca 5, 6	2		Gas	Peaking	96
Total Combustion Turbine					1,088
Solar:					
Cotton Center	1		Solar	As Available	17
Hyder	1		Solar	As Available	16
Paloma	1		Solar	As Available	17
Multiple facilities			Solar	As Available	5
Total Solar					55
Total Capacity					6,343

(a) 100% unless otherwise noted.

(b) See "Business of Arizona Public Service Company — Energy Sources and Resource Planning — Generation Facilities — Nuclear" in Item 1 for details regarding leased interests in Palo Verde. The other participants are Salt River Project (17.49%), SCE (15.8%), El Paso Electric Company (15.8%), Public Service Company of New Mexico (10.2%).

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- (c) Southern California Public Power Authority (5.91%), and Los Angeles Department of Water & Power (5.7%). The plant is operated by APS. The other participants are Salt River Project (10%), Public Service Company of New Mexico (13%), SCE (48%), Tucson Electric Power Company (7%) and El Paso Electric Company (7%). The plant is operated by APS. As discussed under “Business of Arizona Public Service Company — Energy Sources and Resource Planning — Generation Facilities — Coal Fueled Generating Facilities — Four Corners” in Item 1, APS and SCE have entered into an agreement by which APS would acquire SCE’s interest in Units 4 and 5, after which APS would close Units 1, 2 and 3.
- (d) The other participants are Salt River Project (21.7%), Nevada Power Company (11.3%), the United States Government (24.3%), Tucson Electric Power Company (7.5%) and Los Angeles Department of Water & Power (21.2%). The plant is operated by Salt River Project.

See “Business of Arizona Public Service Company — Environmental Matters” in Item 1 with respect to matters having a possible impact on the operation of certain of APS’s generating facilities.

See “Business of Arizona Public Service Company” in Item 1 for a map detailing the location of APS’s major power plants and principal transmission lines.

Transmission and Distribution Facilities

Current Facilities. APS’s transmission facilities consist of approximately 5,866 pole miles of overhead lines and approximately 49 miles of underground lines, 5,643 miles of which are located in Arizona. APS’s distribution facilities consist of approximately 11,376 miles of overhead lines and approximately 17,561 miles of underground primary cable, all of which are located in Arizona. APS shares ownership of some of its transmission facilities with other companies. The following table shows APS’s jointly-owned interests in those transmission facilities recorded on the Consolidated Balance Sheets at December 31, 2011:

	Percent Owned (Weighted Average)
North Valley System	69.3%
Palo Verde — Estrella 500kV System	50.0%
Round Valley System	50.0%
ANPP 500kV System	33.0%
Navajo Southern System	25.9%
Four Corners Switchyards	39.6%
Palo Verde — Yuma 500kV System	44.1%
Phoenix — Mead System	17.5%

Expansion. Each year APS prepares and files with the ACC a ten-year transmission plan. In APS’s 2012 plan, APS projects it will invest approximately \$550 million in new transmission projects (115 kV and above) over the next ten years, which includes 269 miles of new lines. This investment will increase the import capability into metropolitan Phoenix and the Yuma area. One significant project currently under development is a new 500kV path that will span from the Palo Verde Hub around the western and northern edges of the Phoenix metropolitan area and terminate at a bulk substation in the northeast part of Phoenix. The project consists of four phases. The first phase, Morgan to Pinnacle Peak 500kV, is currently in-service. The second phase, Delaney to Palo Verde

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500kV, is under construction. The third and fourth phases, Delaney to Sun Valley 500kV and Morgan to Sun Valley 500kV, have been permitted and are in various stages of final design and development. In total, the projects consist of over 100 miles of new 500kV lines, with many of those miles constructed as capable of stringing a 230kV line as a second circuit.

APS continues to work with regulators to identify transmission projects necessary to support renewable energy facilities. Two such projects, which are included in APS's 2012 transmission plan, are the Delaney to Palo Verde line and the North Gila to Palo Verde line, both of which are intended to support the transmission of renewable energy to Phoenix and California.

Plant and Transmission Line Leases and Easements on Indian Lands

The Navajo Plant and Four Corners are located on land held under leases from the Navajo Nation and also under easements from the federal government. The easement and lease for the Navajo Plant expire in 2019 and the easement and lease for Four Corners expire in 2016. On March 7, 2011, the Navajo Nation Council signed a resolution approving a 25-year extension to the existing Four Corners lease term and providing Navajo Nation consent to renewal of the related easements. APS is now preparing to file applications for renewal of these easements with the DOI. Before it may approve the Four Corners lease extension and issue the renewed easements, the United States must complete an analysis under the federal National Environmental Policy Act, the ESA and related statutes.

Certain portions of the transmission lines that carry power from several of our power plants are located on Indian lands pursuant to easements or other rights-of-way that are effective for specified periods. Some of these rights-of-way have expired and our renewal applications have not yet been acted upon by the appropriate Indian tribes. Other rights expire at various times in the future and renewal action by the applicable tribe will be required at that time. The majority of our transmission lines residing on Indian lands are on the Navajo Nation. In March 2011, the Navajo Nation provided its consent to renew the easements for the transmission lines specified in the lease extension. However, some of our easements are not covered by the leases, or are granted by other Indian tribes. In recent negotiations with other utilities or companies for renewal of similar rights-of-way, certain of the affected Indian tribes have required payments substantially in excess of amounts that we have paid in the past for such rights-of-way or that are typical for similar permits across non-Indian lands; however, we are unaware of the underlying agreements and/or specific circumstances surrounding these renewals. The ultimate cost of renewal of the rights-of-way for our transmission lines not addressed in the lease extension is uncertain. We are monitoring these easement issues and have had extensive discussions with the Navajo Nation regarding the easements. We are currently unable to predict the outcome of this matter.

ITEM 3. LEGAL PROCEEDINGS

See “Business of Arizona Public Service Company — Environmental Matters” in Item 1 with regard to pending or threatened litigation and other disputes.

See Note 3 for ACC and FERC-related matters.

See Note 11 for information relating to the FERC proceedings on Pacific Northwest energy market issues and matters related to a September 2011 power outage.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

EXECUTIVE OFFICERS OF PINNACLE WEST

Pinnacle West's executive officers are elected no less often than annually and may be removed by the Board of Directors at any time. The executive officers, their ages at February 24, 2012, current positions and principal occupations for the past five years are as follows:

Name	Age	Position	Period
Donald E. Brandt	57	Chairman of the Board and Chief Executive Officer of Pinnacle West; Chairman of the Board of APS	2009-Present
		President of Pinnacle West	2008-Present
		Chief Executive Officer of APS	2008-Present
		Chief Operating Officer of Pinnacle West	2008-2009
		President of APS	2006-2009
		Executive Vice President of Pinnacle West; Chief Financial Officer of APS	2003-2008
		Chief Financial Officer of Pinnacle West	2002-2008
		Executive Vice President of APS	2003-2006
Donald G. Robinson	58	President and Chief Operating Officer of APS	2009-Present
		Senior Vice President, Planning and Administration of APS	2007-2009
		Vice President, Planning of APS	2003-2007
Denise R. Danner	56	Vice President, Controller and Chief Accounting Officer of Pinnacle West; Chief Accounting Officer of APS	2010-Present
		Vice President and Controller of APS	2009-Present
		Senior Vice President, Controller and Chief Accounting Officer of Allied Waste Industries, Inc.	2007-2008
		Vice President, Controller and Chief Accounting Officer of Phelps Dodge Corporation	2004-2007
Patrick Dinkel	48	Vice President, Power Marketing, Resource Planning and Acquisition	2011-Present
		Vice President, Power Marketing and Resource Planning	2010-2011
		General Manager, Strategic Planning and Resource Acquisition	2009-2010
		Director of Resource Acquisitions and Renewables	2007-2009
		Director of Planning and Resource Acquisitions	2004-2007

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Randall K. Edington	58	Executive Vice President and Chief Nuclear Officer of APS Senior Vice President and Chief Nuclear Officer of APS Site Vice President and Chief Nuclear Officer of Cooper Generating Station with Entergy Corporation	2007-Present 2007 2003-2007
David P. Falck	58	Executive Vice President, General Counsel and Secretary of Pinnacle West and APS Senior Vice President — Law of Public Service Enterprise Group Inc. Partner — Pillsbury Winthrop Shaw Pittman LLP	2009-Present 2007-2009 1987-2007
Daniel T. Froetscher	50	Vice President, Energy Delivery General Manager of Rural Arizona Delivery General Manager North Arizona Operations	2008-Present 2007-2008 2004-2007
Jeffrey B. Guldner	46	Vice President, Rates & Regulation Director of Federal Regulation and Compliance	2007-Present 2006-2007
James R. Hatfield	54	Senior Vice President and Chief Financial Officer of Pinnacle West and APS Treasurer of Pinnacle West and APS Senior Vice President and Chief Financial Officer of OGE Energy Corp.	2008-Present 2009-2010 1999-2008
John S. Hatfield	46	Vice President, Communications of APS Director, Corporate Communications of Southern California Edison	2010-Present 2004-2010
Tammy D. McLeod	50	Vice President and Chief Customer Officer General Manager Customer Service/Southern Arizona Operations	2007-Present 2004-2007
Lee R. Nickloy	45	Vice President and Treasurer of Pinnacle West and APS Assistant Treasurer and Director Corporate Finance of Ameren Corporation	2010-Present 2000-2010
Mark A. Schiavoni	56	Senior Vice President, Fossil Operations of APS Senior Vice President of Exelon Generation and President of Exelon Power	2009-Present 2004-2009

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Lori S. Sundberg	48	Senior Vice President, Human Resources and Ethics of APS Vice President, Human Resources and Ethics of APS Vice President, Human Resources of APS Vice President, Employee Relations, Safety, Compliance & Embrace of American Express Company Vice President, HR Relationship Leader, Global Corporate Travel Division of American Express Company	2011-Present 2010-2011 2007-2010 2007 2003-2007
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PART II**ITEM 5. MARKET FOR REGISTRANTS' COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Pinnacle West's common stock is publicly held and is traded on the New York Stock Exchange. At the close of business on February 15, 2012, Pinnacle West's common stock was held of record by approximately 25,595 shareholders.

QUARTERLY STOCK PRICES AND DIVIDENDS PAID PER SHARE

STOCK SYMBOL: PNW

2011	High	Low	Close	Dividends Per Share
1st Quarter	\$ 44.07	\$ 40.70	\$ 42.79	\$ 0.525
2nd Quarter	45.64	41.93	44.58	0.525
3rd Quarter	45.15	37.28	42.94	0.525
4th Quarter	48.87	40.87	48.18	0.525

2010	High	Low	Close	Dividends Per Share
1st Quarter	\$ 38.37	\$ 34.62	\$ 37.73	\$ 0.525
2nd Quarter	39.10	32.31	36.36	0.525
3rd Quarter	41.75	35.71	41.27	0.525
4th Quarter	42.68	39.97	41.45	0.525

APS's common stock is wholly-owned by Pinnacle West and is not listed for trading on any stock exchange. As a result, there is no established public trading market for APS's common stock.

The chart below sets forth the dividends paid on APS's common stock for each of the four quarters for 2011 and 2010.

Common Stock Dividends
(Dollars in Thousands)

Quarter	2011	2010
1 st Quarter	\$ 57,100	\$ 42,500
2 nd Quarter	57,200	56,900
3 rd Quarter	57,300	56,900
4 th Quarter	57,300	26,100

The sole holder of APS's common stock, Pinnacle West, is entitled to dividends when and as declared out of legally available funds. As of December 31, 2011, APS did not have any outstanding preferred stock.

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Issuer Purchases of Equity Securities

The following table contains information about our purchases of our common stock during the fourth quarter of 2011.

<u>Period</u>	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 — October 31, 2011	—	—	—	—
November 1 — November 30, 2011	—	—	—	—
December 1 — December 31, 2011	2,433	\$ 47.80	—	—
Total	2,433	\$ 47.80	—	—

(1) Represents shares of common stock withheld by Pinnacle West to satisfy tax withholding obligations upon the vesting of restricted stock and performance shares.

ITEM 6. SELECTED FINANCIAL DATA
PINNACLE WEST CAPITAL CORPORATION - CONSOLIDATED

	2011	2010	2009	2008	2007					
	(dollars in thousands, except per share amounts)									
OPERATING RESULTS										
Operating revenues:										
Regulated electricity	\$ 3,237,194	\$ 3,180,678	\$ 3,149,187	\$ 3,127,383	\$ 2,918,163					
Marketing and trading	—	—	—	66,897	138,247					
Other revenues	4,185	8,521	4,469	2,253	999					
Total operating revenues	<u>\$ 3,241,379</u>	<u>\$ 3,189,199</u>	<u>\$ 3,153,656</u>	<u>\$ 3,196,533</u>	<u>\$ 3,057,409</u>					
Income from continuing operations	\$ 355,634	\$ 344,851	\$ 256,048	\$ 277,366	\$ 302,360					
Income (loss) from discontinued operations — net of income taxes (a)	11,306	25,358	(183,284)	(17,746)	20,631					
Net income	366,940	370,209	72,764	259,620	322,991					
Less: Net income attributable to noncontrolling interests	27,467	20,156	4,434	17,495	15,848					
Net income attributable to common shareholders	<u>\$ 339,473</u>	<u>\$ 350,053</u>	<u>\$ 68,330</u>	<u>\$ 242,125</u>	<u>\$ 307,143</u>					
COMMON STOCK DATA										
Book value per share — year-end	\$ 34.98	\$ 33.86	\$ 32.69	\$ 34.16	\$ 35.15					
Earnings per weighted-average common share outstanding:										
Continuing operations attributable to common shareholders — basic	\$ 3.01	\$ 3.05	\$ 2.34	\$ 2.58	\$ 2.86					
Net income attributable to common shareholders — basic	\$ 3.11	\$ 3.28	\$ 0.68	\$ 2.40	\$ 3.06					
Continuing operations attributable to common shareholders — diluted	\$ 2.99	\$ 3.03	\$ 2.34	\$ 2.57	\$ 2.84					
Net income attributable to common shareholders — diluted	\$ 3.09	\$ 3.27	\$ 0.67	\$ 2.40	\$ 3.05					
Dividends declared per share	\$ 2.10	\$ 2.10	\$ 2.10	\$ 2.10	\$ 2.10					
Weighted-average common shares outstanding — basic	109,052,840	106,573,348	101,160,659	100,690,838	100,255,807					
Weighted-average common shares outstanding — diluted	109,864,243	107,137,785	101,263,795	100,964,920	100,834,871					
BALANCE SHEET DATA										
Total assets	<u>\$ 13,111,018</u>	<u>\$ 12,392,998</u>	<u>\$ 12,035,253</u>	<u>\$ 11,780,876</u>	<u>\$ 11,324,278</u>					
Liabilities and equity:										
Current liabilities	\$ 1,342,705	\$ 1,449,704	\$ 1,279,288	\$ 1,582,661	\$ 1,408,429					
Long-term debt less current maturities	3,019,054	3,045,794	3,496,524	3,183,386	3,300,663					
Deferred credits and other	4,818,673	4,122,274	3,831,437	3,443,860	2,955,119					
Total liabilities	9,180,432	8,617,772	8,607,249	8,209,907	7,664,211					
Total equity	3,930,586	3,775,226	3,428,004	3,570,969	3,660,067					
Total liabilities and equity	<u>\$ 13,111,018</u>	<u>\$ 12,392,998</u>	<u>\$ 12,035,253</u>	<u>\$ 11,780,876</u>	<u>\$ 11,324,278</u>					

(a) Amounts primarily related to SunCor's real estate impairment charges (see Note 22) and APSES discontinued operations (see Note 21).

SELECTED FINANCIAL DATA
ARIZONA PUBLIC SERVICE COMPANY - CONSOLIDATED

	2011	2010	2009	2008	2007
	(dollars in thousands)				
OPERATING RESULTS					
Electric operating revenues	\$ 3,237,241	\$ 3,180,807	\$ 3,149,500	\$ 3,133,496	\$ 2,936,277
Fuel and purchased power costs	1,009,464	1,046,815	1,178,620	1,289,883	1,151,392
Other operating expenses	<u>1,673,394</u>	<u>1,584,955</u>	<u>1,501,081</u>	<u>1,376,257</u>	<u>1,326,934</u>
Operating income	554,383	549,037	469,799	467,356	457,951
Other income	24,974	20,138	13,893	836	20,870
Interest expense — net of allowance for borrowed funds	215,584	213,349	213,258	188,353	179,033
Net income	363,773	355,826	270,434	279,839	299,788
Less: Net income attributable to noncontrolling interests	27,524	20,163	19,209	17,495	15,848
Net income attributable to common shareholder	<u>\$ 336,249</u>	<u>\$ 335,663</u>	<u>\$ 251,225</u>	<u>\$ 262,344</u>	<u>\$ 283,940</u>
BALANCE SHEET DATA					
Total assets	<u>\$ 13,032,237</u>	<u>\$ 12,271,877</u>	<u>\$ 11,730,500</u>	<u>\$ 11,124,360</u>	<u>\$ 10,476,274</u>
Liabilities and equity:					
Total equity	\$ 4,051,406	\$ 3,916,037	\$ 3,527,679	\$ 3,416,751	\$ 3,425,328
Long-term debt less current maturities	2,828,507	2,948,991	3,180,406	2,850,242	2,876,881
Palo Verde sale leaseback lessor notes less current maturities	65,547	96,803	126,000	151,783	173,538
Total capitalization	6,945,460	6,961,831	6,834,085	6,418,776	6,475,747
Current liabilities	1,322,714	1,234,865	1,070,970	1,344,501	1,112,489
Deferred credits and other	4,764,063	4,075,181	3,825,445	3,361,083	2,888,038
Total liabilities and equity	<u>\$ 13,032,237</u>	<u>\$ 12,271,877</u>	<u>\$ 11,730,500</u>	<u>\$ 11,124,360</u>	<u>\$ 10,476,274</u>

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

The following discussion should be read in conjunction with Pinnacle West's Consolidated Financial Statements and APS's Consolidated Financial Statements and the related Notes that appear in Item 8 of this report. For information on the broad factors that may cause our actual future results to differ from those we currently seek or anticipate, see "Forward-Looking Statements" at the front of this report and "Risk Factors" in Item 1A.

OVERVIEW

Pinnacle West owns all of the outstanding common stock of APS. APS is a vertically-integrated electric utility that provides either retail or wholesale electric service to most of the state of Arizona, with the major exceptions of about one-half of the Phoenix metropolitan area, the Tucson metropolitan area and Mohave County in northwestern Arizona. APS accounts for essentially all of our revenues and earnings, and is expected to continue to do so.

Areas of Business Focus

Operational Performance, Reliability and Recent Developments.

Nuclear. In 2011, Palo Verde achieved its best generation year ever, producing over 31 million megawatt-hours, with an overall station capacity factor of 90.7%. In 2011, Palo Verde successfully refueled both Unit 1 and Unit 2. In April 2011, the NRC approved APS's application for renewed operating licenses for the Palo Verde units, extending the licenses for Units 1, 2 and 3 to June 2045, April 2046 and November 2047, respectively. APS management is working closely with regulators and others in the nuclear industry to analyze the lessons learned and address any rulemaking or improvements resulting from the March 2011 events impacting the Fukushima Daiichi Nuclear Power Station in Japan.

Coal and Related Environmental Matters. APS-operated coal plants, Four Corners and Cholla, achieved net capacity factors of 78% and 82%, respectively, in 2011. APS is focused on the impacts on its coal fleet that may result from increased regulation and potential legislation concerning greenhouse gas emissions. Concern over climate change and other emission-related issues could have a significant impact on our capital expenditures and operating costs in the form of taxes, emissions allowances or required equipment upgrades for these plants. APS is closely monitoring its long-range capital management plans, understanding that any resulting regulation and legislation could impact the economic viability of certain plants, as well as the willingness or ability of power plant participants to fund any such equipment upgrades.

In addition, SCE, a participant in Four Corners, has indicated that certain California legislation may prohibit it from making emission control expenditures at the plant. On November 8, 2010, APS and SCE entered into an asset purchase agreement, providing for the purchase by APS of SCE's 48% interest in each of Units 4 and 5 of Four Corners. The purchase price is \$294 million, subject to certain adjustments. Completion of the purchase by APS, which is expected to occur in the second half of 2012, is subject to the receipt of approvals by the ACC, the California Public Utilities Commission (the "CPUC") and the FERC. APS and SCE filed applications with their respective commissions seeking requisite authority or approvals to complete the transaction. On February 17, 2012, the CPUC issued a proposed decision approving the sale, with a final decision expected in March. Closing is also conditioned on the execution of a new coal supply

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contract, expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act and other typical closing conditions. Hearings at the ACC concluded on September 1, 2011. We expect the administrative law judge to issue a recommended decision in early 2012.

APS, on behalf of the Four Corners participants, has negotiated amendments to an existing facility lease with the Navajo Nation which would extend the Four Corners leasehold interest from 2016 to 2041. Execution by the Navajo Nation of the lease amendments is a condition to closing of the purchase by APS of SCE's interests in Four Corners. The execution of these amendments by the Navajo Nation requires the approval of the Navajo Nation Council, which became effective in March 2011. The effectiveness of the amendments also requires the approval of the DOI, as does a related Federal rights-of-way grant which the Four Corners participants will pursue. A Federal environmental review is underway as part of the DOI review process.

APS has announced that, if APS's purchase of SCE's interests in Units 4 and 5 at Four Corners is consummated, it will close Units 1, 2 and 3 at the plant. APS owns 100% of Units 1-3. These events will change the plant's overall generating capacity from 2,100 MW to 1,540 MW and APS's entitlement from the plant from 791 MW to 970 MW. When applying for approval to purchase Units 4 and 5, APS also requested from the ACC recovery of any unrecovered costs associated with the closure of Units 1, 2 and 3. The proposed Settlement Agreement in APS's current retail rate case allows for the case to remain open to allow APS to seek a rate adjustment to reflect the Four Corners transaction should the ACC allow APS to pursue the acquisition and should the transaction thereafter close.

APS cannot predict whether all of the conditions necessary to consummate the purchase of SCE's interest will be met such that closing can occur, including whether the parties will receive satisfactory regulatory approvals.

Transmission and Delivery. In the area of transmission and delivery to its customers, APS had its best reliability year to date and ranked favorably during 2011, with top quartile performance for average annual customer outage time and average annual customer interruptions. APS's 2012 Ten-Year Transmission Plan filed with the ACC in January 2012 projects that it will invest approximately \$550 million in new transmission projects (115 kV and above) over the next ten years, adding 269 miles of new lines. The first three years of these additions are included in the capital expenditures table presented in the "Liquidity and Capital Resources" section below along with other transmission costs for upgrades and replacements. APS is working closely with regulators to identify and plan for transmission needs resulting from the current focus on renewable energy. APS is also working to establish and expand smart grid technology throughout its service territory designed to provide long-term benefits both to APS and its customers. APS is piloting and deploying a variety of technologies that are intended to allow customers to better monitor their energy use and needs, minimize system outage durations and the number of customers that experience outages, and facilitate cost savings to APS through improved reliability and the automation of certain distribution functions, including remote meter reading and remote connects and disconnects.

Renewable Energy . The ACC approved the RES in 2006. The renewable energy requirement is 3.5% of retail electric sales in 2012 and increases annually until it reaches 15% in 2025. In the settlement agreement related to the 2008 retail rate case, APS agreed to exceed the RES standards, committing to 1,700 GWh of new renewable resources to be in service by year-end 2015 in addition to its 2008 renewable resource commitments. Taken together, APS's commitment is estimated to be 3,400 GWh, or approximately 10% of APS's retail energy sales by year-end 2015, which is double the existing RES target of 5% for that year. A component of the RES is focused on stimulating development of

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distributed energy systems (generally speaking, small-scale renewable technologies that are located on customers' properties).

APS has a diverse portfolio of existing and planned renewable resources totaling 946 MW, including solar, wind, geothermal, biomass and biogas. Of this portfolio, 423 MW are currently in operation and 523 MW are under contract for development or are under construction. Renewable resources in operation include 55 MW of utility-scale facilities owned by APS, 232 MW of long-term purchased power agreements, and an estimated 136 MW of customer-sited, third-party owned distributed energy resources.

To achieve our RES requirements, as mentioned above, to date APS has entered into contracts for 523 MW of renewable resources that are planned, in development or under construction. APS's strategy to procure these resources includes new facilities to be owned by APS, purchased power contracts for new facilities and ongoing development of distributed energy resources. Through the AZ Sun Program, APS plans to own up to 200 MW of solar photovoltaic power plants across Arizona by investing up to \$975 million through 2015. Under this program, APS has executed contracts for the development of 83 MW of new solar generation, representing an investment commitment of approximately \$375 million. See Note 3 for additional details of the AZ Sun Program, including the related cost recovery. APS has also entered into long-term purchased power agreements for 397 MW from solar, wind and biogas facilities currently planned, in development or under construction, and 93 MW from distributed energy resources. Agreements for the development and completion of future resources are subject to various conditions, including successful siting, permitting and interconnection of the project to the electric grid.

On July 1, 2011, APS filed its annual RES implementation plan with the ACC, covering the 2012-2016 timeframe and requesting 2012 RES funding of \$129 million to \$152 million. On December 14, 2011, the ACC voted to approve APS's 2012 RES Plan and authorized a total 2012 RES budget of \$110 million. Within that budget, the ACC authorized APS to, among other items, (i) own an additional 100 MW under the AZ Sun Program, for a total of 200 MW; (ii) recover revenue requirements for the second 100 MW as APS did for the first 100 MW of the AZ Sun Program; (iii) expand APS's School and Government Program by another 6.25 MW of utility-owned distributed generation; and (iv) own another 25 MW of renewable generation to be described later and installed in 2014 and 2015. In addition, the ACC ordered an initial up front incentive of \$0.75 per watt for residential distributed energy and incentive level step downs throughout 2012 based upon the volume and timing of residential incentive applications. Under the ACC'S order, residential incentives could fall to \$0.20 or \$0.10 per watt by the end of 2012 depending on demand.

Demand Side Management. In recent years, Arizona regulators have placed an increased focus on energy efficiency and other demand side management programs to encourage customers to conserve energy, while incentivizing utilities to aid in these efforts that ultimately reduce the demand for energy. In December 2009, the ACC initiated Energy Efficiency rulemaking, with a proposed Energy Efficiency Standard of 22% cumulative annual energy savings by 2020. The 22% figure represents the cumulative reduction in future energy usage through 2020 attributable to energy efficiency initiatives. On July 27, 2010, the proposed Energy Efficiency Standard was adopted by the ACC, approved by the Arizona Attorney General and became effective on January 1, 2011. This ambitious standard will likely impact Arizona's future energy resource needs. On June 1, 2011 APS filed its 2012 Energy Efficiency Implementation Plan with a proposed budget for 2012 of \$90 million. APS expects a decision from the ACC prior to March 31, 2012. However, APS cannot predict whether the ACC will approve the plan as filed.

Rate Matters. APS needs timely recovery through rates of its capital and operating expenditures to maintain adequate financial health. APS's retail rates are regulated by the ACC and its wholesale electric rates (primarily for transmission) are regulated by the FERC. On June 1, 2011, APS filed a rate case with the ACC requesting, among other things, an increase in retail rates to allow APS to continue to maintain and upgrade its electric systems for enhanced reliability, approval of recovery mechanisms, including a decoupling mechanism, and approval of other programs and mechanisms aimed at energy efficiency and renewable energy. On January 6, 2012, APS and other parties to the retail rate case entered into a Settlement Agreement detailing the terms upon which the parties have agreed to settle the rate case. The Settlement Agreement requires the approval of the ACC. As is the case with all such agreements, APS cannot predict whether the Settlement Agreement will be approved in the form filed or what changes may be ordered by the ACC and accepted by the parties. The proposed Settlement Agreement demonstrates cooperation among APS, the ACC staff, the Residential Utility Consumer Office and other intervenors to the rate case, and establishes a future rate case filing plan that allows APS the opportunity to help shape Arizona's energy future outside of continual rate cases. See Note 3 for details regarding the current rate case, the Settlement Agreement terms and for information on APS's FERC rates.

APS has several recovery mechanisms in place that provide more timely recovery to APS of its fuel and transmission costs, and costs associated with the promotion and implementation of its demand-side management and renewable energy efforts and customer programs. These mechanisms are described more fully in Note 3.

Financial Strength and Flexibility. Pinnacle West and APS currently have ample borrowing capacity under their respective credit facilities and have been able to access these facilities, ensuring adequate liquidity for each company. In February 2011, APS entered into a \$500 million revolving credit facility, replacing its \$489 million revolving credit facility that would have otherwise terminated in September 2011. In November 2011, Pinnacle West and APS refinanced their \$200 million and \$500 million revolving credit facilities, respectively, that would have otherwise matured in February 2013.

In August 2011, APS issued \$300 million of 5.05% unsecured senior notes that mature on September 1, 2041. The net proceeds from the sale of the notes were used along with cash on hand to repay at maturity APS's \$400 million aggregate principal amount of 6.375% senior notes due October 15, 2011. In January 2012, APS issued \$325 million of 4.50% unsecured senior notes that mature on April 1, 2042. APS will use the net proceeds from the sale of the notes along with other funds to pay at maturity its \$375 million aggregate principal amount of 6.50% unsecured senior notes that mature on March 1, 2012.

APSES. On August 19, 2011, Pinnacle West sold its investment in APSES. The sale resulted in an after-tax gain of approximately \$10 million.

Other Subsidiaries. The operations of El Dorado are not expected to have any material impact on our financial results, or to require any material amounts of capital, over the next three years. As a result of the continuing distressed conditions in the real estate markets, during 2009 our other first-tier subsidiary, SunCor, undertook a program to dispose of its homebuilding operations, master-planned communities, land parcels, commercial assets and golf courses in order to eliminate its outstanding debt. At December 31, 2011, SunCor had total remaining assets of about \$9 million, including \$7 million of intercompany receivables, and no debt. In February 2012, SunCor filed for protection under the United States Bankruptcy Code to complete an orderly liquidation of its business. We do not expect SunCor's bankruptcy to have a material impact on Pinnacle West's financial position, results of operations or cash flows.

Key Financial Drivers

In addition to the continuing impact of the matters described above, many factors influence our financial results and our future financial outlook, including those listed below. We closely monitor these factors to plan for the Company's current needs, and to adjust our expectations, financial budgets and forecasts appropriately.

Electric Operating Revenues. For the years 2009 through 2011, retail electric revenues comprised approximately 93% of our total electric operating revenues. Our electric operating revenues are affected by customer growth or decline, variations in weather from period to period, customer mix, average usage per customer and the impacts of energy efficiency programs, electricity rates and tariffs, the recovery of PSA deferrals and the operation of other recovery mechanisms. Off-system sales of excess generation output, purchased power and natural gas are included in regulated electricity segment revenues and related fuel and purchased power because they are credited to APS's retail customers through the PSA. These revenue transactions are affected by the availability of excess generation or other energy resources and wholesale market conditions, including competition, demand and prices.

Customer and Sales Growth. Retail customer growth in APS's service territory for the year ended December 31, 2011 was 0.4% compared with the prior year. For the three years 2009 through 2011, APS's customer growth averaged 0.6% per year. We currently expect annual customer growth to average about 1.6% for 2012 through 2014 based on our assessment of modestly improving economic conditions, both nationally and in Arizona. Retail electricity sales in kilowatt-hours, adjusted to exclude the effects of weather variations, for the year ended 2011 increased 0.6% compared with the prior year, reflecting mildly improving economic conditions, partially offset by the effects of our energy efficiency programs. For the three years 2009 through 2011, APS experienced annual declines in retail electricity sales averaging 0.9%, adjusted to exclude the effects of weather variations. We currently estimate that annual retail electricity sales in kilowatt-hours will remain flat on average during 2012 through 2014, including the effects of APS's energy efficiency programs, but excluding the effects of weather variations. The failure of the Arizona economy to rebound in the near future could further impact these estimates.

Actual sales growth, excluding weather-related variations, may differ from our projections as a result of numerous factors, such as economic conditions, customer growth, usage patterns, impacts of energy efficiency programs and responses to retail price changes. Our experience indicates that a reasonable range of variation in our kilowatt-hour sales projection attributable to such economic factors under normal business conditions can result in increases or decreases in annual net income of up to \$10 million.

Weather. In forecasting the retail sales growth numbers provided above, we assume normal weather patterns based on historical data. Historical extreme weather variations have resulted in annual variations in net income in excess of \$20 million. However, our experience indicates that the more typical variations from normal weather can result in increases or decreases in annual net income of up to \$10 million.

Fuel and Purchased Power Costs. Fuel and purchased power costs included on our Consolidated Statements of Income are impacted by our electricity sales volumes, existing contracts for purchased power and generation fuel, our power plant performance, transmission availability or constraints, prevailing market prices, new generating plants being placed in service in our market areas, our hedging program for managing such costs and PSA deferrals and the related amortization.

Operations and Maintenance Expenses. Operations and maintenance expenses are impacted by growth, power plant operations, maintenance of utility plant (including generation, transmission, and distribution facilities), inflation, outages, higher-trending pension and other postretirement benefit costs, renewable energy and demand side management related expenses (which are offset by the same amount of regulated electricity segment operating revenues) and other factors. In the settlement agreement related to the 2008 retail rate case, APS committed to operational expense reductions from 2010 through 2014 and received approval to defer certain pension and other postretirement benefit cost increases to be incurred in 2011 and 2012.

Depreciation and Amortization Expenses. Depreciation and amortization expenses are impacted by net additions to utility plant and other property (such as new generation, transmission, and distribution facilities), and changes in depreciation and amortization rates. See "Capital Expenditures" below for information regarding the planned additions to our facilities. With the twenty-year extensions of the operating licenses for each of the Palo Verde units recently granted by the NRC, we estimate that our pretax depreciation expense will decrease by approximately \$34 million per year starting on January 1, 2012.

Property Taxes. Taxes other than income taxes consist primarily of property taxes, which are affected by the value of property in-service and under construction, assessment ratios, and tax rates. The average property tax rate in Arizona for APS, which owns essentially all of our property, was 9.0% of the assessed value for 2011, 8.0% for 2010 and 7.5% for 2009. We expect property taxes to increase as we add new generating units and continue with improvements and expansions to our existing generating units, transmission and distribution facilities. (See Note 3 for property tax deferrals proposed in the Settlement Agreement.)

Income Taxes. Income taxes are affected by the amount of pre-tax book income, income tax rates, and certain non-taxable items, such as the AFUDC. In addition, income taxes may also be affected by the settlement of issues with taxing authorities.

Interest Expense. Interest expense is affected by the amount of debt outstanding and the interest rates on that debt (see Note 6.) The primary factors affecting borrowing levels are expected to be our capital expenditures, long-term debt maturities, equity issuances and internally generated cash flow. An allowance for borrowed funds offsets a portion of interest expense while capital projects are under construction. We stop accruing AFUDC on a project when it is placed in commercial operation.

RESULTS OF OPERATIONS

Pinnacle West's reportable business segment is our regulated electricity segment, which consists of traditional regulated retail and wholesale electricity businesses (primarily electricity service to Native Load customers) and related activities and includes electricity generation, transmission and distribution.

APSES's and SunCor's operations have been classified as discontinued operations. Pinnacle West sold its investment in APSES in August 2011.

Operating Results — 2011 compared with 2010

Our consolidated net income attributable to common shareholders for the year ended December 31, 2011 was \$339 million, compared with net income of \$350 million for the prior year. The \$11 million net decrease consisted of a \$14 million decrease in income from discontinued operations and a \$3 million increase in income from continuing operations primarily related to the regulated electricity

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segment. Regulated electricity segment results reflect increased revenues related to weather and higher retail transmission charges and decreased operations and maintenance expenses. These positive factors were offset by higher depreciation and amortization due to increased plant in service, higher property taxes due to increased property tax rates and higher income taxes, including income tax benefits recognized in the prior year.

In addition, income from discontinued operations for the year ended December 31, 2011 included a gain of approximately \$10 million after income taxes related to the sale of our investment in APSES. Income from discontinued operations in the prior year was due to a \$25 million gain after income taxes related to the sale of APSES's district cooling business.

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

	Year Ended December 31,		Net Change
	2011	2010 (dollars in millions)	
Regulated Electricity Segment:			
Operating revenues less fuel and purchased power expenses (a) (b)	\$ 2,228	\$ 2,134	\$ 94
Operations and maintenance (a) (b)	(904)	(870)	(34)
Depreciation and amortization	(427)	(415)	(12)
Taxes other than income taxes	(148)	(135)	(13)
Other expenses, net	(8)	(4)	(4)
Interest charges, net of allowances for funds used during construction	(200)	(204)	4
Income taxes	(184)	(161)	(23)
Less income related to noncontrolling interests (Note 20)	(28)	(20)	(8)
Regulated electricity segment net income	329	325	4
All other	(1)	—	(1)
Income from Continuing Operations Attributable to Common Shareholders	328	325	3
Income from Discontinued Operations Attributable to Common Shareholders (c)	11	25	(14)
Net Income Attributable to Common Shareholders	\$ 339	\$ 350	\$ (11)

- (a) Includes effects of 2011 settlement of certain prior-period transmission rights-of-way related to Four Corners, which did not affect net income, but increased both electric operating revenues and operations and maintenance expenses by \$28 million. Costs related to the settlement were offset by related revenues from SCE, which leases the related transmission line from APS.

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- (b) Operating revenues less fuel and purchased power expenses includes amounts related to demand-side management, renewable energy and similar regulatory surcharges, which were substantially offset in operations and maintenance.
- (c) Includes activities related to APSES and SunCor.

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 \$94 million higher for the year ended December 31, 2011 compared with the prior year. The following table describes the major components of this change:

	Operating revenues	Increase (Decrease) Fuel and purchased power expenses (dollars in millions)	Net change
Higher demand-side management, renewable energy and similar regulatory surcharges	\$ 29	\$ 1	\$ 28
Settlement of certain prior-period transmission rights-of-way	28	—	28
Effects of weather on usage per customer	33	13	20
Higher retail transmission charges	10	—	10
Higher line extension revenues (Note 3)	7	—	7
Higher usage per customer	8	6	2
Refund of PSA deferrals	(33)	(40)	7
Higher fuel and purchased power costs, net of off-system sales	(27)	(24)	(3)
Miscellaneous items, net	2	7	(5)
Total	<u>\$ 57</u>	<u>\$ (37)</u>	<u>\$ 94</u>

Operations and maintenance Operations and maintenance expenses increased \$34 million for the year ended December 31, 2011 compared with the prior year primarily because of:

- An increase of \$28 million for settlement of certain transmission rights-of-way, which was offset in operating revenues;
- An increase of \$27 million related to costs for demand-side management, renewable energy, and similar regulatory programs, which were offset in operating revenues;
- A decrease of \$16 million related to employee benefit costs; and
- A decrease of \$5 million due to other miscellaneous factors.

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Depreciation and amortization Depreciation and amortization expenses were \$12 million higher for the year ended December 31, 2011 compared with the prior year primarily because of increased plant in service.

Taxes other than income taxes Taxes other than income taxes increased \$13 million for the year ended December 31, 2011 compared with the prior year primarily because of higher property tax rates in the current period.

Income taxes Income taxes were \$23 million higher for the year ended December 31, 2011 compared with the prior year. This increase was primarily due to the effects of higher pretax income in the current year and income tax benefits recognized in the prior year related to a reduction in the Company's 2010 effective income tax rate.

Discontinued Operations

Income from discontinued operations for year ended December 31, 2011 included a gain of \$10 million related to the sale of our investment in APSES. Income from discontinued operations for the year ended December 31, 2010 included an after tax gain of \$25 million related to the sale of APSES's district cooling business.

Operating Results — 2010 compared with 2009

Our consolidated net income attributable to common shareholders for 2010 was \$350 million, compared with \$68 million for the comparable prior-year period. The improved results were primarily due to lower real estate impairment charges recorded in 2010 compared with the prior-year period by SunCor.

In addition, regulated electricity segment net income increased approximately \$82 million from the prior-year period due to increased revenues related to APS's retail rate increases and other factors. Our consolidated results for 2010 also include a gain of \$25 million after income taxes related to the sale of APSES's district cooling business.

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

	Year Ended December 31,		<u>Net Change</u>
	<u>2010</u>	<u>2009</u> (dollars in millions)	
Regulated Electricity Segment:			
Operating revenues less fuel and purchased power expenses (a)	\$ 2,134	\$ 1,970	\$ 164
Operations and maintenance (a)	(870)	(822)	(48)
Depreciation and amortization	(415)	(407)	(8)
Taxes other than income taxes	(135)	(123)	(12)
Other expenses, net	(4)	(2)	(2)
Interest charges, net of allowance for funds used during construction	(204)	(212)	8
Income taxes	(161)	(142)	(19)
Noncontrolling interests (Note 20)	(20)	(19)	(1)
Regulated electricity segment net income	<u>325</u>	<u>243</u>	<u>82</u>
All other (b)	<u>—</u>	<u>(6)</u>	<u>6</u>
Income from Continuing Operations Attributable to Common Shareholders	<u>325</u>	<u>237</u>	<u>88</u>
Discontinued real estate activities, primarily impairment charges at SunCor (Note 22)			
All other discontinued operations (c)	<u>(6)</u>	<u>(167)</u>	<u>161</u>
Income (Loss) from Discontinued Operations Attributable to Common Shareholders	<u>31</u>	<u>(2)</u>	<u>33</u>
Net Income Attributable to Common Shareholders	<u>\$ 350</u>	<u>\$ 68</u>	<u>\$ 282</u>

- (a) Operating revenues less fuel and purchased power expenses includes amounts related to demand-side management, renewable energy and similar regulatory surcharges, which were substantially offset in operations and maintenance.
- (b) Includes activities related to El Dorado.
- (c) Income from discontinued operations for 2010 includes a gain of \$25 million after income taxes related to the sale of APSES's district cooling business.

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 \$164 million higher for the year ended 2010 compared with the prior year. The following table describes the major components of this change:

				Increase (Decrease)	
				Fuel and purchased power expenses	
				(dollars in millions)	
Retail regulatory settlement effective January 1, 2010:					
Retail base rate increases, net of deferrals	\$	269	\$	128	\$ 141
Line extension revenues (Note 3)		19			19
Transmission rate increases		6			6
Higher demand-side management and renewable energy surcharges		33		2	31
Higher fuel and purchased power costs, net of off-system sales		28		26	2
Recovery of PSA deferrals		(270)		(276)	6
Lower usage per customer		(28)		(9)	(19)
Effects of weather on usage per customer		(20)		(6)	(14)
Miscellaneous items, net		(5)		3	(8)
Total	\$	32	\$	(132)	\$ 164

Operations and maintenance Operations and maintenance expenses increased \$48 million for the year ended 2010 compared with the prior year primarily because of:

- An increase of \$25 million related to demand-side management and renewable energy programs, which are primarily offset in operating revenues;
- An increase of \$18 million related to employee benefits costs; and
- An increase of \$5 million related to other miscellaneous factors.

Depreciation and Amortization Depreciation and amortization expenses were \$8 million higher for the year ended 2010 compared with the prior year primarily because of increased plant in service partially offset by lower depreciation rates.

Taxes other than income taxes Taxes other than income taxes increased \$12 million for the year ended 2010 compared with the prior year primarily because of higher property tax rates in the current year.

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Interest charges, net of allowance for funds used during construction Interest charges, net of allowance for funds used during construction, decreased \$8 million for the year ended 2010 compared with the prior year primarily because of higher rates in the current year for the allowance for equity and borrowed funds used during construction, partially offset by higher interest charges due to higher debt balances. Interest charges, net of allowance for funds used during construction are comprised of the regulated electricity segment portions of the line items interest expense and allowance for equity and borrowed funds used during construction from the Consolidated Statements of Income.

Income taxes Income taxes were \$19 million higher for the year ended 2010 compared with the prior year primarily because of higher pretax income in the current-year period, partially offset by \$17 million of income tax benefits related to prior years that were resolved in the current year. See Note 4.

All other All other increased \$6 million primarily as a result of higher other income due to investment losses at El Dorado in 2009.

Discontinued Operations

Real estate activities During the first quarter of 2009, SunCor's Board of Directors authorized a series of strategic transactions to dispose of SunCor's assets. This decision resulted in impairment charges of approximately \$161 million after income taxes in 2009. As of December 31, 2010, all of SunCor's operations have been reclassified to discontinued operations (see Note 21). The after-tax impacts of the \$6 million loss from real estate activities for the year ended 2010 includes real estate impairment charges of approximately \$10 million (see Note 22) and other costs of \$6 million, partially offset by a gain from debt restructuring of approximately \$10 million.

All other All other earnings from discontinued operations were \$33 million higher for the year ended 2010 compared to the prior-year period primarily because of a gain of \$25 million after income taxes related to the sale of APSES's district cooling business in 2010.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Pinnacle West's primary cash needs are for dividends to our shareholders and principal and interest payments on our indebtedness . The level of our common stock dividends and future dividend growth will be dependent on declaration of our Board of Directors based on a number of factors including, but not limited to, payout ratio trends, free cash flow and financial market conditions.

Our primary sources of cash are dividends from APS, external debt and equity issuances . An existing ACC order requires APS to maintain a common equity ratio of at least 40%. As defined in the ACC order, the common equity ratio is total shareholder equity divided by the sum of total shareholder equity and long-term debt, including current maturities of long-term debt. At December 31, 2011, APS's common equity ratio, as defined, was 55%. Its total shareholder equity was approximately \$3.9 billion, and total capitalization was approximately \$7.2 billion. Under this order, APS would be prohibited from paying dividends if the payment would reduce its total shareholder equity below approximately \$2.9 billion, assuming APS's total capitalization remains the same. This restriction does not materially affect Pinnacle West's ability to meet its ongoing capital requirements.

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APS's capital requirements consist primarily of capital expenditures and maturities of long-term debt. APS funds its capital requirements with cash from operations and, to the extent necessary, external debt financing and equity infusions from Pinnacle West.

Many of APS's current capital expenditure projects qualify for bonus depreciation. The Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 includes provisions making qualified property placed into service after September 8, 2010 and before January 1, 2012 eligible for 100% bonus depreciation for federal income tax purposes. In addition, qualified property placed into service in 2012 is eligible for 50% bonus depreciation for federal income tax purposes. These provisions of the recent tax legislation are expected to generate approximately \$425-475 million of cash tax benefits for APS through accelerated depreciation. It is anticipated that these cash benefits will be fully realized by APS by the end of 2013, with a majority of the benefit realized in 2012. The cash generated is an acceleration of tax benefits that APS would have otherwise received over 20 years.

Summary of Cash Flows

The following tables present net cash provided by (used for) operating, investing and financing activities for the years ended December 31, 2011, 2010 and 2009 (dollars in millions):

Pinnacle West Consolidated

	2011	2010	2009
Net cash flow provided by operating activities	\$ 1,125	\$ 750	\$ 1,067
Net cash flow used for investing activities	(782)	(576)	(705)
Net cash flow used for financing activities	(420)	(209)	(322)
Net increase (decrease) in cash and cash equivalents	<u>\$ (77)</u>	<u>\$ (35)</u>	<u>\$ 40</u>

Arizona Public Service Company

	2011	2010	2009
Net cash flow provided by operating activities	\$ 1,128	\$ 695	\$ 995
Net cash flow used for investing activities	(834)	(747)	(738)
Net cash flow provided by (used for) financing activities	(374)	31	(208)
Net increase (decrease) in cash and cash equivalents	<u>\$ (80)</u>	<u>\$ (21)</u>	<u>\$ 49</u>

Operating Cash Flows

2011 Compared with 2010 Pinnacle West's consolidated net cash provided by operating activities was \$1,125 million in 2011, compared to \$750 million in 2010, an increase of \$375 million in net cash provided. The increase is primarily due to the \$161 million change in collateral and margin posted, as a result of changes in commodity prices and expiration of prior hedge contracts, and a \$200 million voluntary pension contribution in 2010 (approximately \$40 million of which is reflected in capital expenditures). In addition, APS's operating cash flows included income tax payments to the parent company of approximately \$81 million in 2010.

2010 Compared with 2009 Pinnacle West's consolidated net cash provided by operating activities was \$750 million in 2010, compared to \$1,067 million in 2009, a decrease of \$317 million in net cash provided. The decrease is primarily due to voluntary pension contributions in 2010 of \$200

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million (approximately \$40 million of which is reflected in capital expenditures), the \$121 million change in collateral and margin cash provided as a result of changes in commodity prices, and other changes in working capital. In addition, APS's operating cash flows included income tax payments to the parent company of approximately \$81 million in 2010.

Other Pinnacle West sponsors a qualified defined benefit pension plan and a non-qualified supplemental excess benefit retirement plan for the employees of Pinnacle West and our subsidiaries. The requirements of the Employee Retirement Security Act of 1974 ("ERISA") require us to contribute a minimum amount to the qualified plan. We contribute at least the minimum amount required under ERISA regulations, but no more than the maximum tax-deductible amount. The minimum required funding takes into consideration the value of plan assets and our pension obligation. Under ERISA, the qualified pension plan was 89% funded as of January 1, 2011 and is estimated to be 85% funded as of January 1, 2012. The assets in the plan are comprised of fixed-income, equity, real estate, and short-term investments. Future year contribution amounts are dependent on plan asset performance and plan actuarial assumptions. The required minimum contribution to our pension plan is \$65 million in 2012, approximately \$160 million in 2013 and approximately \$160 million in 2014. The contributions to our other postretirement benefit plans for 2012, 2013 and 2014 are expected to be approximately \$20 million each year. In addition, see further discussion in "Critical Accounting Policies — Pension and Other Postretirement Benefit Accounting" below.

The \$69 million long-term income tax receivable on the Consolidated Balance Sheets represents the anticipated refunds related to an APS tax accounting method change approved by the Internal Revenue Service ("IRS") in the third quarter of 2009. This amount is classified as long-term, as cash refunds are not expected to be received in the next twelve months.

Investing Cash Flows

2011 Compared with 2010 Pinnacle West's consolidated net cash used for investing activities was \$782 million in 2011, compared to \$576 million in 2010, an increase of \$206 million in net cash used. The increase in net cash used for investing activities is primarily due to an increase of \$131 million in capital expenditures and a decrease of \$126 million in net proceeds from the sales of our non-utility businesses (see Note 21), partially offset by \$55 million of proceeds from the sale of life insurance policies in 2011.

2010 Compared with 2009 Pinnacle West's consolidated net cash used for investing activities was \$576 million in 2010, compared to \$705 million in 2009, a decrease of \$129 million in net cash used. The decrease in net cash used for investing activities is primarily due to \$100 million of proceeds from the sale of the district cooling business in June 2010 and the increase in proceeds from the sale of commercial real estate investments of \$29 million.

Capital Expenditures The following table summarizes the actual capital expenditures for 2009, 2010 and 2011 and estimated capital expenditures for the next three years:

Capital Expenditures
(dollars in millions)

	Actual			Estimated		
	2009	2010	2011	2012	2013	2014
APS						
Generation:						
Nuclear Fuel	\$ 64	\$ 63	\$ 85	\$ 72	\$ 80	\$ 85
Renewables	—	6	225	149	218	198
Environmental	33	11	15	23	74	156
Four Corners Units 4 and 5	—	—	—	294	—	—
Other Generation	144	172	127	155	158	182
Distribution	246	232	238	269	268	267
Transmission	193	120	111	163	184	229
Other (a)	52	62	84	52	43	52
Total APS	732	666	885	1,177	1,025	1,169
Other	13	4	—	—	—	—
Total	\$ 745	\$ 670	\$ 885	\$ 1,177	\$ 1,025	\$ 1,169

(a) Primarily information systems and facilities projects.

Generation capital expenditures are comprised of various improvements to APS's existing fossil and nuclear plants. Examples of the types of projects included in this category are additions, upgrades and capital replacements of various power plant equipment, such as turbines, boilers and environmental equipment. Included under Renewables is the AZ Sun Program, which is a significant component of the increase in capital expenditures from 2010 to 2011. In addition, Renewables reflects capital funding from the 2012 RES implementation plan which was approved by the ACC on December 14, 2011. For purposes of this table, we have assumed the consummation of APS's purchase of SCE's interest in Four Corners Units 4 and 5, subject to ACC approval, and the subsequent shut down of Units 1-3, as discussed in the "Overview" section above. As a result, we included the \$294 million purchase price plus adjustments under Generation and have not included environmental expenditures for Units 1-3. We are also monitoring the status of certain environmental matters, which, depending on their final outcome, could require modification to our environmental expenditures.

Distribution and transmission capital expenditures are comprised of infrastructure additions and upgrades, capital replacements, and new customer construction. Examples of the types of projects included in the forecast include power lines, substations, and line extensions to new residential and commercial developments.

Capital expenditures will be funded with internally generated cash and external financings, which may include issuances of long-term debt and Pinnacle West common stock.

Financing Cash Flows and Liquidity

2011 Compared with 2010 Pinnacle West's consolidated net cash used for financing activities was \$420 million in 2011, compared to \$209 million in 2010, an increase of \$211 million in

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net cash used. The increase in net cash used for financing activities is primarily due to \$78 million of long-term debt repayments, net of issuances of long-term debt (see below), and proceeds of \$253 million from the issuance of equity in April 2010 (which was infused into APS), partially offset by \$121 million lower repayments of short-term borrowings at Pinnacle West.

APS's net cash used for financing activities was \$374 million in 2011, compared to net cash provided of \$31 million in 2010, an increase of \$405 million in net cash used. APS's increase in net cash used for financing activities is primarily due to \$107 million of long-term debt repayments, net of issuances of long-term debt (see below), and proceeds of \$253 million from the infusion of equity from Pinnacle West in April 2010. In addition, APS increased its dividend payment to Pinnacle West by \$47 million in 2011.

2010 Compared with 2009 Pinnacle West's consolidated net cash used for financing activities was \$209 million in 2010, compared to \$322 million in 2009, a decrease of \$113 million in net cash used. The decrease in net cash used for financing activities is primarily due to lower repayments of short-term borrowings in 2010 due to lower short-term debt balances partially offset by lower net sources of equity and long-term debt financing, including the absence of proceeds of \$253 million from the issuance of equity in April 2010 (which was infused into APS), and APS's issuance of \$500 million of unsecured senior notes in 2009.

APS's net cash provided by financing activities was \$31 million in 2010, compared to net cash used of \$208 million in 2009, a decrease of \$239 million in net cash used. The decrease in net cash used for financing activities is primarily due to \$522 million of repayments of short-term borrowings in 2009, partially offset by lower net sources of equity and long-term debt financing, including the proceeds of \$253 million from the infusion of equity from Pinnacle West in April 2010 and APS's issuance of \$500 million of unsecured senior notes in 2009.

Significant Financing Activities During the year ended December 31, 2011, Pinnacle West's total dividend per share of common stock was \$2.10 per share, which resulted in dividend payments of \$222 million. On January 18, 2012, the Pinnacle West Board of Directors declared a quarterly dividend of \$0.525 per share of common stock, payable on March 1, 2012, to shareholders of record on February 1, 2012.

On February 23, 2011, Pinnacle West entered into a \$175 million term loan facility that matures February 20, 2015. Pinnacle West used the proceeds of the loan to repay its 5.91% \$175 million Senior Notes. Interest rates are based on Pinnacle West's senior unsecured debt credit ratings, or, if unavailable, its long-term issuer ratings. As of December 31, 2011, \$50 million of the \$175 million term loan facility had been repaid.

On August 25, 2011, APS issued \$300 million of 5.05% unsecured senior notes that mature on September 1, 2041. The net proceeds from the sale of the notes were used along with cash on hand to repay at maturity APS's \$400 million aggregate principal amount of 6.375% senior notes due October 15, 2011.

On September 7, 2011, APS entered into a new letter of credit agreement supporting its approximately \$27 million aggregate principal amount of Coconino County, Arizona Pollution Control Corporation Pollution Control Revenue Refunding Bonds (Arizona Public Service Company Navajo Project), 2009 Series B. The agreement expires September 22, 2016.

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On December 8, 2011, APS extended a letter of credit agreement supporting its approximately \$17 million aggregate principal amount of Coconino County, Arizona Pollution Control Corporation Pollution Control Revenue Bonds (Arizona Public Service Company Project), 1998. The agreement expires December 8, 2016.

On January 10, 2012, APS issued \$325 million of 4.50% unsecured senior notes that mature on April 1, 2042. The net proceeds from the sale along with other funds will be used to repay at maturity APS's \$375 million aggregate principal amount of 6.50% senior notes due March 1, 2012.

Available Credit Facilities Pinnacle West and APS maintain committed revolving credit facilities in order to enhance liquidity and provide credit support for their commercial paper programs.

On November 4, 2011, Pinnacle West refinanced its \$200 million revolving credit facility that would have matured in February 2013, with a new \$200 million facility. The new revolving credit facility terminates in November 2016. Interest rates are based on Pinnacle West's senior unsecured debt credit ratings.

At December 31, 2011, the Pinnacle West credit facility was available to refinance indebtedness of the Company and for other general corporate purposes, including credit support for its \$200 million commercial paper program. Pinnacle West has the option to increase the amount of the facility up to a maximum of \$300 million upon the satisfaction of certain conditions and with the consent of the lenders. At December 31, 2011, Pinnacle West had no outstanding borrowings under its credit facility, no letters of credit and no commercial paper borrowings.

On February 14, 2011, APS refinanced its \$489 million credit facility that would have matured in September 2011, and increased the size of the facility to \$500 million. The new revolving credit facility terminates in February 2015. APS may increase the amount of the facility up to a maximum of \$700 million upon the satisfaction of certain conditions and with the consent of the lenders. APS will use the facility to refinance indebtedness and for other general corporate purposes. Interest rates are based on APS's senior unsecured debt credit ratings.

On November 4, 2011, APS refinanced its \$500 million revolving credit facility that would have matured in February 2013, with a new \$500 million facility. The new revolving credit facility terminates in November 2016. APS may increase the amount of the facility up to a maximum of \$700 million upon the satisfaction of certain conditions and with the consent of the lenders. APS will use the facility to refinance indebtedness and for other general corporate purposes. Interest rates are based on APS's senior unsecured debt credit ratings.

At December 31, 2011, APS had two credit facilities totaling \$1 billion as described above. The facilities described above are available to support its \$250 million commercial paper program, for bank borrowings, or for issuances of letters of credit. At December 31, 2011, APS had no borrowings outstanding under any of its credit facilities and no outstanding commercial paper.

See "Financial Assurances" in Note 11 for a discussion of APS's letters of credit.

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Other Financing Matters See Note 3 for information regarding the PSA approved by the ACC. Although APS defers actual retail fuel and purchased power costs to the extent those costs vary from the Base Fuel Rate on a current basis, APS's recovery or refund of the deferrals from or to its ratepayers, as appropriate, is subject to annual and, if necessary, periodic PSA adjustments.

See Note 3 for information regarding the settlement related to the 2008 retail rate case, which includes ACC authorization and requirements of equity infusions into APS of at least \$700 million by December 31, 2014 (\$253 million of which was infused into APS from proceeds of a Pinnacle West equity issuance in 2010).

See Note 18 for information related to the change in our margin accounts.

Debt Provisions

Pinnacle West's and APS's debt covenants related to their respective bank financing arrangements include maximum debt to capitalization ratios. Pinnacle West and APS comply with this covenant. For both Pinnacle West and APS, this covenant requires that the ratio of consolidated debt to total consolidated capitalization not exceed 65%. At December 31, 2011, the ratio was approximately 47% for Pinnacle West and 46% for APS. Failure to comply with such covenant levels would result in an event of default which, generally speaking, would require the immediate repayment of the debt subject to the covenants and could cross-default other debt. See further discussion of "cross-default" provisions below.

Neither Pinnacle West's nor APS's financing agreements contain "rating triggers" that would result in an acceleration of the required interest and principal payments in the event of a rating downgrade. However, our bank credit agreements contain a pricing grid in which the interest rates we pay for borrowings thereunder are determined by our current credit ratings.

All of Pinnacle West's loan agreements contain "cross-default" provisions that would result in defaults and the potential acceleration of payment under these loan agreements if Pinnacle West or APS were to default under certain other material agreements. All of APS's bank agreements contain cross-default provisions that would result in defaults and the potential acceleration of payment under these bank agreements if APS were to default under certain other material agreements. Pinnacle West and APS do not have a material adverse change restriction for credit facility borrowings.

See Note 6 for further discussions of liquidity matters.

Credit Ratings

The ratings of securities of Pinnacle West and APS as of February 15, 2012 are shown below. We are disclosing these credit ratings to enhance understanding of our cost of short-term and long-term capital and our ability to access the markets for liquidity and long-term debt. The ratings reflect the respective views of the rating agencies, from which an explanation of the significance of their ratings may be obtained. There is no assurance that these ratings will continue for any given period of time. The ratings may be revised or withdrawn entirely by the rating agencies if, in their respective judgments, circumstances so warrant. Any downward revision or withdrawal may adversely affect the market price of Pinnacle West's or APS's securities and/or result in an increase in the cost of, or limit access to, capital. Such revisions may also result in substantial additional cash or other collateral requirements related to certain derivative instruments, insurance policies, natural gas transportation,

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fuel supply, and other energy-related contracts. At this time, we believe we have sufficient liquidity to cover a downward revision to our credit ratings.

	Moody's	Standard & Poor's	Fitch
Pinnacle West			
Corporate credit rating	Baa3	BBB	BBB-
Commercial paper	P-3	A-2	F3
Outlook	Stable	Positive	Stable
APS			
Senior unsecured	Baa2	BBB	BBB
Secured lease obligation bonds	Baa2	BBB	BBB
Corporate credit rating	Baa2	BBB	BBB-
Commercial paper	P-2	A-2	F3
Outlook	Stable	Positive	Stable

Off-Balance Sheet Arrangements

See Note 20 for a discussion of the impacts on our financial statements of consolidating certain VIEs.

Guarantees and Surety Bonds

Pinnacle West sold its investment in APSES on August 19, 2011. Upon the closing of the sale, Pinnacle West was released from its parental guarantee and surety bond obligations related to the APSES business. Pinnacle West has also issued parental guarantees and surety bonds for APS which were not material at December 31, 2011.

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Contractual Obligations

The following table summarizes Pinnacle West's consolidated contractual requirements as of December 31, 2011 (dollars in millions):

	2012	2013- 2014	2015- 2016	Thereafter	Total
Long-term debt payments, including interest: (a)					
APS	\$ 666	\$ 952	\$ 924	\$ 2,846	\$ 5,388
Pinnacle West	3	6	126	—	135
Total long-term debt payments, including interest and capital lease obligations	669	958	1,050	2,846	5,523
Fuel and purchased power commitments (b)	449	1,009	1,026	6,558	9,042
Renewable energy credits (c)	58	65	64	388	575
Purchase obligations (d)	131	75	12	265	483
Nuclear decommissioning funding requirements	17	34	20	71	142
Noncontrolling interests	11	37	35	—	83
Operating lease payments	21	33	15	23	92
Total contractual commitments	\$ 1,356	\$ 2,211	\$ 2,222	\$ 10,151	\$ 15,940

- (a) The long-term debt matures at various dates through 2041 and bears interest principally at fixed rates. Interest on variable-rate long-term debt is determined by using average rates at December 31, 2011 (see Note 6).
- (b) Our fuel and purchased power commitments include purchases of coal, electricity, natural gas, renewable energy and nuclear fuel (see Notes 3 and 11).
- (c) Contracts to purchase renewable energy credits in compliance with the RES.
- (d) These contractual obligations include commitments for capital expenditures and other obligations. These amounts do not include the purchase of SCE's interest in Four Corners Units 4 and 5 due to additional approvals required. See discussion in "Overview."

This table excludes \$136 million in unrecognized tax benefits because the timing of the future cash outflows is uncertain. This table also excludes approximately \$65 million, \$160 million and \$160 million in estimated minimum pension contributions for 2012, 2013 and 2014, respectively (see Note 8).

CRITICAL ACCOUNTING POLICIES

In preparing the financial statements in accordance with GAAP, management must often make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures at the date of the financial statements and during the reporting period. Some of those judgments can be subjective and complex, and actual results could differ from those estimates. We consider the following accounting policies to be our most critical because of the uncertainties, judgments and complexities of the underlying accounting standards and operations involved.

Regulatory Accounting

Regulatory accounting allows for the actions of regulators, such as the ACC and the FERC, to be reflected in our financial statements. Their actions may cause us to capitalize costs that would otherwise be included as an expense in the current period by unregulated companies. Regulatory assets represent incurred costs that have been deferred because they are probable of future recovery in customer rates. Regulatory liabilities generally represent expected future costs that have already been collected from customers. Management continually assesses whether our regulatory assets are probable of future recovery by considering factors such as applicable regulatory environment changes and recent rate orders to other regulated entities in the same jurisdiction. This determination reflects the current political and regulatory climate in the state and is subject to change in the future. If future recovery of costs ceases to be probable, the assets would be written off as a charge in current period earnings. We had \$1.4 billion of regulatory assets and \$826 million of regulatory liabilities on the Consolidated Balance Sheets at December 31, 2011.

Included in the balance of regulatory assets at December 31, 2011 is a regulatory asset of \$1.0 billion for pension and other postretirement benefits. This regulatory asset represents the future recovery of these costs through retail rates as these amounts are charged to earnings. If these costs are disallowed by the ACC, this regulatory asset would be charged to OCI and result in lower future earnings.

See Notes 1 and 3 for more information.

Pensions and Other Postretirement Benefit Accounting

Changes in our actuarial assumptions used in calculating our pension and other postretirement benefit liability and expense can have a significant impact on our earnings and financial position. The most relevant actuarial assumptions are the discount rate used to measure our liability and net periodic cost, the expected long-term rate of return on plan assets used to estimate earnings on invested funds over the long-term, and the assumed healthcare cost trend rates. We review these assumptions on an annual basis and adjust them as necessary.

The following chart reflects the sensitivities that a change in certain actuarial assumptions would have had on the December 31, 2011 reported pension liability on the Consolidated Balance Sheets and our 2011 reported pension expense, after consideration of amounts capitalized or billed to electric plant participants, on Pinnacle West's Consolidated Statements of Income (dollars in millions):

Actuarial Assumption (a)	Increase (Decrease)	
	Impact on Pension Liability	Impact on Pension Expense
Discount rate:		
Increase 1%	\$ (296)	\$ (10)
Decrease 1%	333	10
Expected long-term rate of return on plan assets:		
Increase 1%	—	(8)
Decrease 1%	—	8

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- (a) Each fluctuation assumes that the other assumptions of the calculation are held constant while the rates are changed by one percentage point.

The following chart reflects the sensitivities that a change in certain actuarial assumptions would have had on the December 31, 2011 reported other postretirement benefit obligation on the Consolidated Balance Sheets and our 2011 reported other postretirement benefit expense, after consideration of amounts capitalized or billed to electric plant participants, on Pinnacle West's Consolidated Statements of Income (dollars in millions):

Actuarial Assumption (a)	Increase (Decrease)		Impact on Other Postretirement Benefit Expense
	Impact on Other Postretirement Benefit Obligation		
Discount rate:			
Increase 1%	\$	(160)	\$ (7)
Decrease 1%		189	8
Health care cost trend rate (b):			
Increase 1%		187	11
Decrease 1%		(148)	(9)
Expected long-term rate of return on plan assets			
— pretax:			
Increase 1%		—	(2)
Decrease 1%		—	2

- (a) Each fluctuation assumes that the other assumptions of the calculation are held constant while the rates are changed by one percentage point.
 (b) This assumes a 1% change in the initial and ultimate health care cost trend rate.

See Note 8 for further details about our pension and other postretirement benefit plans.

Derivative Accounting

Derivative accounting requires evaluation of rules that are complex and subject to varying interpretations. Our evaluation of these rules, as they apply to our contracts, determines whether we use accrual accounting (for derivative instruments designated as normal) or fair value (mark-to-market) accounting. Mark-to-market accounting requires that changes in the fair value of derivative instruments are recognized periodically in income unless certain hedge criteria are met. When a derivative instrument qualifies as a cash flow hedge, the effective portion of changes in the fair value is recognized as a component of other comprehensive income (loss) and the ineffective portion is recognized in current earnings.

See "Market Risks — Commodity Price Risk" below for quantitative analysis. See "Fair Value Measurements" below for additional information on valuation. See Note 1 for discussion on accounting policies and Note 18 for a further discussion on derivative accounting.

Fair Value Measurements

We account for derivative instruments, investments held in our nuclear decommissioning trust, certain cash equivalents and plan assets held in our retirement and other benefit plans at fair value on a recurring basis. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We use inputs, or assumptions that market participants would use, to determine fair market value. The significance of a particular input determines how the instrument is classified in a fair value hierarchy. We utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The determination of fair value sometimes requires subjective and complex judgment. Our assessment of the inputs and the significance of a particular input to fair value measurement may affect the valuation of the instruments and their placement within a fair value hierarchy. Actual results could differ from our estimates of fair value. See Note 1 for discussion on accounting policies and Note 14 for further fair value measurement discussion.

OTHER ACCOUNTING MATTERS

See Note 2 for discussion regarding the adoption of amended accounting guidance in the first quarter of 2012 relating to fair value measurements and disclosures, and the presentation of comprehensive income.

MARKET AND CREDIT RISKS

Market Risks

Our operations include managing market risks related to changes in interest rates, commodity prices and investments held by our nuclear decommissioning trust fund.

Interest Rate and Equity Risk

We have exposure to changing interest rates. Changing interest rates will affect interest paid on variable-rate debt and the market value of fixed income securities held by our nuclear decommissioning trust fund (see Note 14). The nuclear decommissioning trust fund also has risks associated with the changing market value of its investments. Nuclear decommissioning costs are recovered in regulated electricity prices.

The tables below present contractual balances of our consolidated long-term and short-term debt at the expected maturity dates as well as the fair value of those instruments on December 31, 2011 and 2010. The interest rates presented in the tables below represent the weighted-average interest rates as of December 31, 2011 and 2010 (dollars in thousands):

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Pinnacle West — Consolidated

2011	Variable-Rate Long-Term Debt		Fixed-Rate Long-Term Debt	
	Interest Rates	Amount	Interest Rates	Amount
2012	—	\$ —	6.41%	\$ 477,435
2013	—	—	4.94%	122,828
2014	—	—	5.91%	502,274
2015	1.79%	125,000	4.79%	313,420
2016	0.09%	43,580	4.98%	314,000
Years thereafter	—	—	6.49%	1,605,150
Total		<u>\$ 168,580</u>		<u>\$ 3,335,107</u>
Fair value		<u>\$ 167,018</u>		<u>\$ 3,758,811</u>

2010	Short-Term Debt		Variable-Rate Long-Term Debt		Fixed-Rate Long-Term Debt	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2011	0.84%	\$ 16,600	0.32%	\$ 26,710	6.32%	\$ 605,169
2012	—	—	—	—	6.41%	477,435
2013	—	—	0.32%	16,870	4.94%	122,828
2014	—	—	—	—	5.91%	502,274
2015	—	—	—	—	4.79%	313,420
Years thereafter	—	—	—	—	6.69%	1,619,150
Total		<u>\$ 16,600</u>		<u>\$ 43,580</u>		<u>\$ 3,640,276</u>
Fair value		<u>\$ 16,600</u>		<u>\$ 43,580</u>		<u>\$ 3,869,681</u>

The tables below present contractual balances of APS's long-term debt at the expected maturity dates as well as the fair value of those instruments on December 31, 2011 and 2010. The interest rates presented in the tables below represent the weighted-average interest rates as of December 31, 2011 and 2010 (dollars in thousands):

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APS — Consolidated

2011	Variable-Rate Long-Term Debt		Fixed-Rate Long-Term Debt	
	Interest Rates	Amount	Interest Rates	Amount
2012	—	\$ —	6.41%	\$ 477,435
2013	—	—	4.94%	122,828
2014	—	—	5.91%	502,274
2015	—	—	4.79%	313,420
2016	0.09%	43,580	4.98%	314,000
Years thereafter	—	—	6.49%	1,605,150
Total		\$ 43,580		\$ 3,335,107
Fair value		\$ 43,580		\$ 3,758,811

2010	Variable-Rate Long-Term Debt		Fixed-Rate Long-Term Debt	
	Interest Rates	Amount	Interest Rates	Amount
2011	0.32%	\$ 26,710	6.48%	\$ 430,169
2012	—	—	6.41%	477,435
2013	0.32%	16,870	4.94%	122,828
2014	—	—	5.91%	502,274
2015	—	—	4.79%	313,420
Years thereafter	—	—	6.69%	1,619,150
Total		\$ 43,580		\$ 3,465,276
Fair value		\$ 43,580		\$ 3,693,276

Commodity Price Risk

We are exposed to the impact of market fluctuations in the commodity price and transportation costs of electricity and natural gas. Our risk management committee, consisting of officers and key management personnel, oversees company-wide energy risk management activities to ensure compliance with our stated energy risk management policies. We manage risks associated with these market fluctuations by utilizing various commodity instruments that may qualify as derivatives, including futures, forwards, options and swaps. As part of our risk management program, we use such instruments to hedge purchases and sales of electricity and fuels. The changes in market value of such contracts have a high correlation to price changes in the hedged commodities.

The following table shows the net pretax changes in mark-to-market of our derivative positions in 2011 and 2010 (dollars in millions):

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	2011	2010
Mark-to-market of net positions at beginning of year	\$ (239)	\$ (169)
Recognized in earnings:		
Change in mark-to-market losses for future period deliveries	(4)	(7)
Mark-to-market losses realized including ineffectiveness during the period	—	5
Increase in regulatory asset	(1)	(36)
Recognized in OCI:		
Change in mark-to-market losses for future period deliveries (a)	(95)	(155)
Mark-to-market losses realized during the period	117	123
Change in valuation techniques	—	—
Mark-to-market of net positions at end of year	<u>\$ (222)</u>	<u>\$ (239)</u>

(a) The changes in mark-to-market recorded in OCI are due primarily to changes in forward natural gas prices.

The table below shows the fair value of maturities of our derivative contracts (dollars in millions) at December 31, 2011 by maturities and by the type of valuation that is performed to calculate the fair values. See Note 1, “Derivative Accounting” and “Fair Value Measurements,” for more discussion of our valuation methods.

Source of Fair Value	2012	2013	2014	2015	2016	Years thereafter	Total fair value
Prices provided by other external sources	\$ (110)	\$ (44)	\$ (16)	\$ (1)	\$ —	\$ —	\$ (171)
Prices based on models and other valuation methods	(13)	(8)	(8)	(9)	(6)	(7)	(51)
Total by maturity	<u>\$ (123)</u>	<u>\$ (52)</u>	<u>\$ (24)</u>	<u>\$ (10)</u>	<u>\$ (6)</u>	<u>\$ (7)</u>	<u>\$ (222)</u>

The table below shows the impact that hypothetical price movements of 10% would have on the market value of our risk management assets and liabilities included on Pinnacle West’s Consolidated Balance Sheets at December 31, 2011 and 2010 (dollars in millions):

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	December 31, 2011 Gain (Loss)		December 31, 2010 Gain (Loss)	
	Price Up 10%	Price Down 10%	Price Up 10%	Price Down 10%
Mark-to-market changes reported in:				
Earnings				
Natural gas	\$ 1	\$ (1)	\$ 1	\$ (1)
Regulatory asset (liability) or OCI (a)				
Electricity	5	(5)	13	(13)
Natural gas	27	(27)	42	(42)
Total	\$ 33	\$ (33)	\$ 56	\$ (56)

(a) These contracts are hedges of our forecasted purchases of natural gas and electricity. The impact of these hypothetical price movements would substantially offset the impact that these same price movements would have on the physical exposures being hedged. To the extent the amounts are eligible for inclusion in the PSA, the amounts are recorded as either a regulatory asset or liability.

Credit Risk

We are exposed to losses in the event of non-performance or non-payment by counterparties. See Note 18 for a discussion of our credit valuation adjustment policy.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "Market and Credit Risks" in Item 7 above for a discussion of quantitative and qualitative disclosures about market risk.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**INDEX TO FINANCIAL STATEMENTS AND
FINANCIAL STATEMENT SCHEDULES**

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See Note 13 and S-2 for the selected quarterly financial data (unaudited) required to be presented in this Item.

**MANAGEMENT'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING
(PINNACLE WEST CAPITAL CORPORATION)**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f), for Pinnacle West Capital Corporation. Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control — Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2011. The effectiveness of our internal control over financial reporting as of December 31, 2011 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is included herein and also relates to the Company's consolidated financial statements.

February 24, 2012

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Pinnacle West Capital Corporation
Phoenix, Arizona

We have audited the accompanying consolidated balance sheets of Pinnacle West Capital Corporation and subsidiaries (the "Company") as of December 31, 2011 and 2010 and the related consolidated statements of income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedules listed in the Index at Item 15. We also have audited the Company's internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and financial statement schedules and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pinnacle West Capital Corporation and Subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ DELOITTE & TOUCHE LLP

Phoenix, Arizona
February 24, 2012

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

	Year Ended December 31,		
	2011	2010	2009
OPERATING REVENUES			
Regulated electricity	\$ 3,237,194	\$ 3,180,678	\$ 3,149,187
Other revenues	4,185	8,521	4,469
Total	<u>3,241,379</u>	<u>3,189,199</u>	<u>3,153,656</u>
OPERATING EXPENSES			
Regulated electricity fuel and purchased power	1,009,464	1,046,815	1,178,620
Operations and maintenance	904,286	870,185	822,300
Depreciation and amortization	427,054	414,479	407,354
Taxes other than income taxes	147,408	135,328	123,270
Other expenses	6,659	7,509	5,984
Total	<u>2,494,871</u>	<u>2,474,316</u>	<u>2,537,528</u>
OPERATING INCOME	<u>746,508</u>	<u>714,883</u>	<u>616,128</u>
OTHER INCOME (DEDUCTIONS)			
Allowance for equity funds used during construction (Note 1)	23,707	22,066	14,999
Other income (Note 19)	3,111	6,387	5,159
Other expense (Note 19)	(10,451)	(9,921)	(14,300)
Total	<u>16,367</u>	<u>18,532</u>	<u>5,858</u>
INTEREST EXPENSE			
Interest charges	241,995	244,174	237,766
Allowance for borrowed funds used during construction (Note 1)	(18,358)	(16,479)	(10,379)
Total	<u>223,637</u>	<u>227,695</u>	<u>227,387</u>
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	<u>539,238</u>	<u>505,720</u>	<u>394,599</u>
INCOME TAXES (Note 4)	<u>183,604</u>	<u>160,869</u>	<u>138,551</u>
INCOME FROM CONTINUING OPERATIONS	<u>355,634</u>	<u>344,851</u>	<u>256,048</u>
INCOME (LOSS) FROM DISCONTINUED OPERATIONS Net of income tax expense (benefit) of \$7,418, \$16,260 and \$(109,641) (Note 21)	<u>11,306</u>	<u>25,358</u>	<u>(183,284)</u>
NET INCOME	<u>366,940</u>	<u>370,209</u>	<u>72,764</u>
Less: Net income attributable to noncontrolling interests (Note 20)	27,467	20,156	4,434
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	<u>\$ 339,473</u>	<u>\$ 350,053</u>	<u>\$ 68,330</u>
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING — BASIC	<u>109,053</u>	<u>106,573</u>	<u>101,161</u>
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING — DILUTED	<u>109,864</u>	<u>107,138</u>	<u>101,264</u>
EARNINGS PER WEIGHTED — AVERAGE COMMON SHARE OUTSTANDING			
Income from continuing operations attributable to common shareholders — basic	\$ 3.01	\$ 3.05	\$ 2.34
Net income attributable to common shareholders — basic	3.11	3.28	0.68
Income from continuing operations attributable to common shareholders — diluted	2.99	3.03	2.34
Net income attributable to common shareholders — diluted	3.09	3.27	0.67
DIVIDENDS DECLARED PER SHARE	<u>\$ 2.10</u>	<u>\$ 2.10</u>	<u>\$ 2.10</u>
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS:			
Income from continuing operations, net of tax	\$ 328,110	\$ 324,688	\$ 236,839
Discontinued operations, net of tax	11,363	25,365	(168,509)
Net income attributable to common shareholders	<u>\$ 339,473</u>	<u>\$ 350,053</u>	<u>\$ 68,330</u>

See Notes to Pinnacle West's Consolidated Financial Statements.

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

	December 31,	
	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 33,583	\$ 110,188
Customer and other receivables	284,183	324,207
Accrued unbilled revenues	125,239	103,292
Allowance for doubtful accounts	(3,748)	(7,981)
Materials and supplies (at average cost)	204,387	181,414
Fossil fuel (at average cost)	22,000	21,575
Deferred income taxes (Note 4)	130,571	124,897
Income tax receivable (Note 4)	6,466	2,483
Assets from risk management activities (Note 18)	30,264	73,788
Deferred fuel and purchased power regulatory asset (Note 3)	27,549	—
Other regulatory assets (Note 3)	69,072	62,286
Other current assets	26,904	28,362
Total current assets	956,470	1,024,511
INVESTMENTS AND OTHER ASSETS		
Assets from risk management activities (Note 18)	49,322	39,032
Nuclear decommissioning trust (Notes 14 and 23)	513,733	469,886
Other assets	64,588	116,216
Total investments and other assets	627,643	625,134
PROPERTY, PLANT AND EQUIPMENT (Notes 1, 6, 9 and 10)		
Plant in service and held for future use	13,753,971	13,201,960
Accumulated depreciation and amortization	(4,709,991)	(4,514,204)
Net	9,043,980	8,687,756
Construction work in progress	496,745	459,361
Palo Verde sale leaseback, net of accumulated depreciation of \$218,186 and \$213,094 (Note 20)	132,864	137,956
Intangible assets, net of accumulated amortization of \$373,706 and \$330,584	170,571	184,952
Nuclear fuel, net of accumulated amortization of \$113,375 and \$85,270	118,098	108,794
Total property, plant and equipment	9,962,258	9,578,819
DEFERRED DEBITS		
Regulatory assets (Notes 1, 3 and 4)	1,352,079	986,370
Income tax receivable (Note 4)	68,633	65,103
Other	143,935	113,061
Total deferred debits	1,564,647	1,164,534
TOTAL ASSETS		
	\$ 13,111,018	\$ 12,392,998

See Notes to Pinnacle West's Consolidated Financial Statements.

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

	December 31,	
	2011	2010
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 326,987	\$ 236,354
Accrued taxes	120,289	104,711
Accrued interest	54,872	54,831
Short-term borrowings (Note 5)	—	16,600
Current maturities of long-term debt (Note 6)	477,435	631,879
Customer deposits	72,176	68,322
Liabilities from risk management activities (Note 18)	53,968	58,976
Deferred fuel and purchased power regulatory liability (Note 3)	—	58,442
Other regulatory liabilities (Note 3)	88,362	80,526
Other current liabilities	148,616	139,063
Total current liabilities	1,342,705	1,449,704
LONG-TERM DEBT LESS CURRENT MATURITIES (Note 6)		
Long-term debt less current maturities	2,953,507	2,948,991
Palo Verde sale leaseback lessor notes less current maturities (Note 20)	65,547	96,803
Total long-term debt less current maturities	3,019,054	3,045,794
DEFERRED CREDITS AND OTHER		
Deferred income taxes (Note 4)	1,925,388	1,863,861
Regulatory liabilities (Notes 1 and 3)	737,332	614,063
Liability for asset retirements (Note 12)	279,643	328,571
Liabilities for pension and other postretirement benefits (Note 8)	1,268,910	813,121
Liabilities from risk management activities (Note 18)	82,495	65,390
Customer advances	116,805	121,645
Coal mine reclamation	117,896	117,243
Unrecognized tax benefits (Note 4)	72,270	66,349
Other	217,934	132,031
Total deferred credits and other	4,818,673	4,122,274
COMMITMENTS AND CONTINGENCIES (SEE NOTES)		
EQUITY (Note 7)		
Common stock, no par value; authorized 150,000,000 shares, issued 109,356,974 at end of 2011 and 108,820,067 at end of 2010	2,444,247	2,421,372
Treasury stock at cost; 111,161 shares at end of 2011 and 50,410 at end of 2010	(4,717)	(2,239)
Total common stock	2,439,530	2,419,133
Retained earnings	1,534,483	1,423,961
Accumulated other comprehensive loss:		
Pension and other postretirement benefits (Note 8)	(65,447)	(59,420)
Derivative instruments	(86,716)	(100,347)
Total accumulated other comprehensive loss	(152,163)	(159,767)
Total shareholders' equity	3,821,850	3,683,327
Noncontrolling interests (Note 20)	108,736	91,899
Total equity	3,930,586	3,775,226
TOTAL LIABILITIES AND EQUITY	\$ 13,111,018	\$ 12,392,998

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,		
	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income	\$ 366,940	\$ 370,209	\$ 72,764
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on sale of energy-related products and services business	(10,404)	—	—
Gain on sale of district cooling business	—	(41,973)	—
Depreciation and amortization including nuclear fuel	493,784	472,807	450,864
Deferred fuel and purchased power	69,166	93,631	(51,742)
Deferred fuel and purchased power amortization	(155,157)	(122,481)	147,018
Allowance for equity funds used during construction	(23,707)	(22,066)	(14,999)
Real estate impairment charges	—	16,731	280,188
Gain on real estate debt restructuring	—	(16,755)	—
Deferred income taxes	176,192	260,411	105,492
Change in mark-to-market valuations	4,064	2,688	(6,939)
Changes in current assets and liabilities:			
Customer and other receivables	40,626	(67,943)	12,292
Accrued unbilled revenues	(21,947)	7,679	(10,882)
Materials, supplies and fossil fuel	(23,398)	12,276	(12,261)
Other current assets	(3,079)	9,375	38,406
Accounts payable	58,346	9,125	(27,328)
Accrued taxes and income tax receivable — net	12,068	24,222	(31,792)
Other current liabilities	20,358	2,921	57,280
Change in margin and collateral accounts — assets	33,349	(9,937)	(12,806)
Change in margin and collateral accounts — liabilities	29,731	(88,315)	35,654
Change in long term income tax receivable	(3,530)	—	(131,984)
Change in unrecognized tax benefits	8,410	(73,621)	137,898
Change in other regulatory liabilities	37,009	56,801	82,650
Change in other long-term assets	(41,722)	(47,940)	(64,629)
Change in other long-term liabilities	58,484	(97,388)	12,161
Net cash flow provided by operating activities	<u>1,125,583</u>	<u>750,457</u>	<u>1,067,305</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(884,350)	(748,374)	(764,609)
Contributions in aid of construction	38,096	32,754	53,525
Allowance for borrowed funds used during construction	(18,358)	(16,778)	(10,745)
Proceeds from sale of district cooling business	—	100,300	—
Proceeds from sale of energy-related products and services business	45,111	—	—
Proceeds from nuclear decommissioning trust sales	497,780	560,469	441,242
Investment in nuclear decommissioning trust	(513,799)	(584,885)	(463,033)
Proceeds from sale of commercial real estate investments	1,375	72,038	43,370
Proceeds from sale of life insurance policies	55,444	—	—
Other	(3,306)	8,576	(4,667)
Net cash flow used for investing activities	<u>(782,007)</u>	<u>(575,900)</u>	<u>(704,917)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of long-term debt	470,353	—	867,469
Repayment of long-term debt	(655,169)	(106,572)	(456,882)
Short-term borrowings and payments — net	(16,600)	(137,115)	(516,754)
Dividends paid on common stock	(221,728)	(216,979)	(205,076)
Common stock equity issuance	15,841	255,971	3,302
Distributions to noncontrolling interests	(10,210)	(11,403)	(14,485)
Other	(2,668)	6,351	171
Net cash flow used for financing activities	<u>(420,181)</u>	<u>(209,747)</u>	<u>(322,255)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(76,605)	(35,190)	40,133
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	110,188	145,378	105,245
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 33,583	\$ 110,188	\$ 145,378
Supplemental disclosure of cash flow information Cash paid during the period for:			
Income taxes, net of (refunds)	\$ 10,324	\$ (23,447)	\$ (52,776)
Interest, net of amounts capitalized	\$ 217,789	\$ 221,728	\$ 216,608

See Notes to Pinnacle West's Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(dollars in thousands)

	Year Ended December 31,		
	2011	2010	2009
COMMON STOCK (Note 7)			
Balance at beginning of year	\$ 2,421,372	\$ 2,153,295	\$ 2,151,323
Issuance of common stock	11,057	263,297	10,620
Other	11,818	4,780	(8,648)
Balance at end of year	<u>2,444,247</u>	<u>2,421,372</u>	<u>2,153,295</u>
TREASURY STOCK (Note 7)			
Balance at beginning of year	(2,239)	(3,812)	(2,854)
Purchase of treasury stock	(3,720)	(82)	(2,156)
Reissuance of treasury stock used for stock compensation	1,242	1,655	1,198
Balance at end of year	<u>(4,717)</u>	<u>(2,239)</u>	<u>(3,812)</u>
RETAINED EARNINGS			
Balance at beginning of year	1,423,961	1,298,213	1,444,208
Net income attributable to common shareholders	339,473	350,053	68,330
Common stock dividends	(228,951)	(224,305)	(212,386)
Other	—	—	(1,939)
Balance at end of year	<u>1,534,483</u>	<u>1,423,961</u>	<u>1,298,213</u>
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)			
Balance at beginning of year	(159,767)	(131,587)	(146,698)
Pension and other postretirement benefits (Note 8):			
Unrealized actuarial loss, net of tax benefit of \$(6,067), \$(7,738) and \$(4,223)	(9,296)	(11,795)	(6,350)
Amortization to income:			
Actuarial loss, net of tax benefit of \$1,950, \$1,870 and \$1,705	2,990	2,868	2,615
Prior service cost, net of tax benefit of \$179, \$201 and \$215	275	308	329
Transition obligation, net of tax benefit of \$3, \$59 and \$39	5	91	61
Derivative instruments:			
Net unrealized loss, net of tax benefit of \$(37,389), \$(61,348) and \$(61,329)	(57,271)	(93,939)	(93,996)
Reclassification of net realized loss to income, net of tax benefit of \$46,288, \$48,453 and \$72,877	70,901	74,287	112,452
Balance at end of year	<u>(152,163)</u>	<u>(159,767)</u>	<u>(131,587)</u>
NONCONTROLLING INTERESTS			
Balance at beginning of year	91,899	111,895	124,990
Net income attributable to noncontrolling interests	27,467	20,156	4,434
Net capital activities by noncontrolling interests	(10,630)	(40,152)	(17,529)
Balance at end of year	<u>108,736</u>	<u>91,899</u>	<u>111,895</u>
TOTAL EQUITY	\$ 3,930,586	\$ 3,775,226	\$ 3,428,004
COMPREHENSIVE INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS			
Net income attributable to common shareholders	\$ 339,473	\$ 350,053	\$ 68,330
Other comprehensive income (loss)	7,605	(28,180)	15,111
Comprehensive income attributable to common shareholders	<u>\$ 347,078</u>	<u>\$ 321,873</u>	<u>\$ 83,441</u>

See Notes to Pinnacle West's Consolidated Financial Statements.

**PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies

Description of Business and Basis of Presentation

Pinnacle West is a holding company that conducts business through its subsidiaries; APS, SunCor, El Dorado, and formerly APSES. APS, our wholly-owned subsidiary, is a vertically-integrated electric utility that provides either retail or wholesale electric service to substantially all of the state of Arizona, with the major exceptions of about one-half of the Phoenix metropolitan area, the Tucson metropolitan area and Mohave County in northwestern Arizona. APS accounts for essentially all of our revenues and earnings, and is expected to continue to do so. SunCor was a developer of residential, commercial and industrial real estate projects in Arizona, New Mexico, Idaho and Utah but in 2009 and 2010, essentially all of these assets were sold. All activities for SunCor are now reported as discontinued operations (see Note 21). APSES provided energy-related projects to commercial and industrial retail customers in competitive markets in the western United States. APSES was sold in 2011 and is now reported as discontinued operations (see Note 21). El Dorado is an investment firm.

Pinnacle West's Consolidated Financial Statements include the accounts of Pinnacle West and our subsidiaries: APS, SunCor, APSES, and El Dorado. APS's consolidated financial statements include the accounts of APS and certain VIEs relating to the Palo Verde sale leaseback. Intercompany accounts and transactions between the consolidated companies have been eliminated.

We consolidate VIEs for which we are the primary beneficiary. We determine whether we are the primary beneficiary of a VIE through a qualitative analysis that identifies which variable interest holder has the controlling financial interest in the VIE. In performing our primary beneficiary analysis we consider all relevant facts and circumstances, including the design and activities of the VIE, the terms of the contracts the VIE has entered into, and which parties participated significantly in the design or redesign of the entity. We continually evaluate our primary beneficiary conclusions to determine if changes have occurred which would impact our primary beneficiary assessments. We have determined that APS is the primary beneficiary of certain VIE lessor trusts relating to the Palo Verde sale leaseback, and therefore APS consolidates these entities (see Note 20).

In preparing the consolidated financial statements, we have evaluated the events that have occurred after December 31, 2011 through the date the financial statements were issued.

Our consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments except as otherwise disclosed in the notes) that we believe are necessary for the fair presentation of our financial position, results of operations and cash flows for the periods presented. These consolidated financial statements and notes have been prepared consistently with the exception of the reclassification of certain prior year amounts on our Consolidated Statements of Income, Consolidated Balance Sheets, and Consolidated Statements of Cash Flows in accordance with accounting requirements for reporting discontinued operations (see Note 21) and the impacts related to the reclassification of regulatory assets and liabilities for the current portion (see Note 3).

Certain line items are presented in more detail on the Consolidated Statements of Cash Flows than was presented in the prior years. Other line items are more condensed than the previous presentation. The prior year amounts were reclassified to conform to the current year presentation. These reclassifications had no impact on total net cash flow provided by operating activities.

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The following tables show the impact of the reclassifications of prior years (previously reported) amounts (dollars in thousands):

Statement of Income for the Year Ended December, 2010	As previously reported	Reclassifications for discontinued operations	Amount reported after reclassification for discontinued operations
Operating Revenues			
Other revenues	\$ 82,967	\$ (74,446)	\$ 8,521
Operating Expenses			
Operations and maintenance	877,406	(7,221)	870,185
Depreciation and amortization	414,555	(76)	414,479
Taxes other than income taxes	135,334	(6)	135,328
Other expenses	65,651	(58,142)	7,509
Other			
Other income	6,368	19	6,387
Other expense	(9,764)	(157)	(9,921)
Interest Expense			
Allowance for borrowed funds used during construction	(16,539)	60	(16,479)
Income Taxes			
Income From Continuing Operations	164,321	(3,452)	160,869
Income From Discontinued Operations	350,598	(5,747)	344,851
	19,611	5,747	25,358

Statement of Income for the Year Ended December, 2009	As previously reported	Reclassifications for discontinued operations	Amount reported after reclassification for discontinued operations
Operating Revenues			
Other revenues	\$ 26,723	\$ (22,254)	\$ 4,469
Operating Expenses			
Operations and maintenance	831,863	(9,563)	822,300
Depreciation and amortization	407,463	(109)	407,354
Taxes other than income taxes	123,277	(7)	123,270
Other expenses	24,534	(18,550)	5,984
Other			
Other income	5,278	(119)	5,159
Other expense	(14,269)	(31)	(14,300)
Interest Expense			
Interest charges	237,527	239	237,766
Allowance for borrowed funds used during construction	(10,430)	51	(10,379)
Income Taxes			
Income From Continuing Operations	136,506	2,045	138,551
Income From Discontinued Operations	252,558	3,490	256,048
	(179,794)	(3,490)	(183,284)

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	As previously reported		Reclassifications for regulatory assets and liabilities		Amount reported after reclassification for regulatory assets and liabilities
Balance Sheets - December 31, 2010					
Current Assets — Other regulatory assets	\$ —		\$ 62,286	\$	62,286
Current Assets — Deferred income taxes	94,602		30,295		124,897
Deferred Debits — Regulatory assets	1,048,656		(62,286)		986,370
Current Liabilities — Deferred fuel and purchased power regulatory liability	—		58,442		58,442
Current Liabilities — Other regulatory liabilities	—		80,526		80,526
Deferred Credits and Other — Deferred income taxes	1,833,566		30,295		1,863,861
Deferred Credits and Other — Deferred fuel and purchased power regulatory liability	58,442		(58,442)		—
Deferred Credits and Other — Regulatory liabilities	694,589		(80,526)		614,063
 Statement of Cash Flows for the Year Ended December 31, 2010					
Cash Flows from Operating Activities					
Other current assets	\$ 5,246	\$ 4,129	\$	9,375	
Other current liabilities	5,204		(2,283)		2,921
Change in other regulatory liabilities	54,518		2,283		56,801
Change in other long-term assets	(43,189)		(4,751)		(47,940)
Expenditures for real estate investments	(622)		622		—
Other changes in real estate assets	4,068		(4,068)		—
Change in other long-term liabilities	(101,456)		4,068		(97,388)
		Reclassifications for regulatory assets and liabilities and to conform to current year presentation			Amounts reported after reclassification for regulatory assets and liabilities and to conform to current year presentation

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Statement of Cash Flows for the Year Ended December 31, 2009	As previously reported	Reclassifications for regulatory assets and liabilities and to conform to current year presentation	Amounts reported after reclassification for regulatory assets and liabilities and to conform to current year presentation
Cash Flows from Operating Activities			
Other current assets	\$ 24,647	\$ 13,759	\$ 38,406
Other current liabilities	29,274	28,006	57,280
Change in other regulatory liabilities	110,642	(27,992)	82,650
Change in other long-term assets	(47,899)	(16,730)	(64,629)
Change in other long-term liabilities	16,377	(4,216)	12,161
Expenditures for real estate investments	(2,957)	2,957	—
Other changes in real estate assets	(4,216)	4,216	—

Accounting Records and Use of Estimates

Our accounting records are maintained in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Regulatory Accounting

APS is regulated by the ACC and the FERC. The accompanying financial statements reflect the rate-making policies of these commissions. As a result, we capitalize certain costs that would be included as expense in the current period by unregulated companies. Regulatory assets represent incurred costs that have been deferred because they are probable of future recovery in customer rates. Regulatory liabilities generally represent expected future costs that have already been collected from customers.

Management continually assesses whether our regulatory assets are probable of future recovery by considering factors such as changes in the applicable regulatory environment and recent rate orders applicable to other regulated entities in the same jurisdiction. This determination reflects the current political and regulatory climate in the state and is subject to change in the future. If future recovery of costs ceases to be probable, the assets would be written off as a charge in current period earnings.

See Note 3 for additional information.

Electric Revenues

We derive electric revenues primarily from sales of electricity to our regulated Native Load customers. Revenues related to the sale of electricity are generally recorded when service is rendered or electricity is delivered to customers. The billing of electricity sales to individual Native Load customers is based on the reading of their meters, which occurs on a systematic basis throughout the month. Unbilled revenues are estimated by applying an average revenue/kWh to the number of estimated kWhs delivered but not billed. Differences historically between the actual and estimated unbilled revenues are immaterial. We exclude sales taxes and franchise fees on electric revenues from both revenue and taxes other than income taxes.

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Revenues from our Native Load customers and non-derivative instruments are reported on a gross basis on Pinnacle West's Consolidated Statements of Income. In the electricity business, some contracts to purchase energy are netted against other contracts to sell energy. This is called a "book-out" and usually occurs for contracts that have the same terms (quantities and delivery points) and for which power does not flow. We net these book-outs, which reduces both revenues and fuel and purchased power costs.

Effective January 1, 2010, electric revenues also include proceeds for line extension payments for new or upgraded service in accordance with the 2009 retail rate case settlement agreement (see Note 3). This revenue treatment continues through 2012, or until new rates are established in APS's next general retail rate case, if that is before year end 2012. Certain proceeds received under previous versions of the line extension policy, or for activities not involving an extension or upgrade of service (e.g., service relocations at the request of governmental entities or undergrounding of overhead facilities) will continue to be treated as contributions in aid of construction and will not impact electric revenues.

Allowance for Doubtful Accounts

The allowance for doubtful accounts represents our best estimate of existing accounts receivable that will ultimately be uncollectible. The allowance is calculated by applying estimated write-off factors to various classes of outstanding receivables, including accrued utility revenues. The write-off factors used to estimate uncollectible accounts are based upon consideration of both historical collections experience and management's best estimate of future collections success given the existing collections environment.

Utility Plant and Depreciation

Utility plant is the term we use to describe the business property and equipment that supports electric service, consisting primarily of generation, transmission and distribution facilities. We report utility plant at its original cost, which includes:

- material and labor;
- contractor costs;
- capitalized leases;
- construction overhead costs (where applicable); and
- allowance for funds used during construction.

We expense the costs of plant outages, major maintenance and routine maintenance as incurred. We charge retired utility plant to accumulated depreciation. Liabilities associated with the retirement of tangible long-lived assets are recognized at fair value as incurred and capitalized as part of the related tangible long-lived assets. Accretion of the liability due to the passage of time is an operating expense and the capitalized cost is depreciated over the useful life of the long-lived asset. See Note 12.

APS records a regulatory liability for the asset retirement obligations related to its regulated assets. This regulatory liability represents the difference between the amount that has been recovered in regulated rates and the amount calculated in accordance with guidance on accounting for asset

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retirement obligations. APS believes it can recover in regulated rates the costs capitalized in accordance with this accounting guidance.

We record depreciation on utility plant on a straight-line basis over the remaining useful life of the related assets. The approximate remaining average useful lives of our utility property at December 31, 2011 were as follows:

- Fossil plant — 18 years;
- Nuclear plant — 29 years;
- Other generation — 28 years;
- Transmission — 38 years;
- Distribution — 35 years; and
- Other — 7 years.

APS applied for twenty-year extensions of its operating licenses for each of the three Palo Verde units in December 2008. On April 21, 2011, the NRC approved the extensions of the Palo Verde licenses. The nuclear plant remaining life takes into consideration an ACC decision which authorizes the new Palo Verde Nuclear plant lives, effective January 1, 2012.

For the years 2009 through 2011, the depreciation rates ranged from a low of 1.30% to a high of 10.20%. The weighted-average rate was 2.98% for 2011, 2.98% for 2010, and 3.06% for 2009.

Allowance for Funds Used During Construction

AFUDC represents the approximate net composite interest cost of borrowed funds and an allowed return on the equity funds used for construction of regulated utility plant. Both the debt and equity components of AFUDC are non-cash amounts within the Consolidated Statement of Income. Plant construction costs, including AFUDC, are recovered in authorized rates through depreciation when completed projects are placed into commercial operation.

AFUDC was calculated by using a composite rate of 10.25% for 2011, 9.2% for 2010, and 5.9% for 2009. APS compounds AFUDC semi-annually and ceases to accrue AFUDC when construction work is completed and the property is placed in service.

Materials and Supplies

APS values materials, supplies and fossil fuel inventory using a weighted-average cost method. APS materials, supplies and fossil fuel inventories are carried at the lower of weighted-average cost or market, unless evidence indicates that the weighted-average cost (even if in excess of market) will be recovered.

Fair Value Measurements

We account for derivative instruments, investments held in our nuclear decommissioning trust, certain cash equivalents and plan assets held in our retirement and other benefit plans at fair value on a recurring basis. Due to the short-term nature of net accounts receivable, accounts payable, and short-term borrowings, the carrying values of these instruments approximate fair value. Fair value measurements may also be applied on a nonrecurring basis to other assets and liabilities in certain

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circumstances such as impairments. We also disclose fair value information for our long-term debt, which is carried at amortized cost (see Note 6).

Fair value is the price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between willing market participants on the measurement date. Inputs to fair value may include observable and unobservable data. We maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

We determine fair market value using observable inputs such as actively-quoted prices for identical instruments when available. When actively quoted prices are not available for the identical instruments we use other observable inputs, such as prices for similar instruments, other corroborative market information, or prices provided by other external sources. For options, long-term contracts and other contracts for which observable price data are not available, we use unobservable inputs, such as models and other valuation methods, to determine fair market value.

The use of models and other valuation methods to determine fair market value often requires subjective and complex judgment. Actual results could differ from the results estimated through application of these methods.

See Note 14 for additional information about fair value measurements.

Derivative Accounting

We are exposed to the impact of market fluctuations in the commodity price and transportation costs of electricity, natural gas, coal, emission allowances and in interest rates. We manage risks associated with market volatility by utilizing various physical and financial instruments that may qualify as derivatives, including futures, forwards, options and swaps. As part of our overall risk management program, we use such instruments to hedge purchases and sales of electricity and fuels. The changes in market value of such contracts have a high correlation to price changes in the hedged transactions.

We account for our derivative contracts in accordance with derivatives and hedging guidance, which requires all derivatives not qualifying for a scope exception to be measured at fair value on the balance sheet as either assets or liabilities. Transactions with counterparties that have master netting arrangements are reported net on the balance sheet. See Note 18 for additional information about our derivative instruments.

Loss Contingencies and Environmental Liabilities

Pinnacle West and APS are involved in certain legal and environmental matters that arise in the normal course of business. Contingent losses and environmental liabilities are recorded when it is determined that it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. When a range of the probable loss exists and no amount within the range is a better estimate than any other amount, Pinnacle West and APS record a loss contingency at the minimum amount in the range. Unless otherwise required by GAAP, legal fees are expensed as incurred.

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Retirement Plans and Other Benefits

Pinnacle West sponsors a qualified defined benefit and account balance pension plan for the employees of Pinnacle West and its subsidiaries. We also sponsor another postretirement benefit plan for the employees of Pinnacle West and our subsidiaries and provide medical and life insurance benefits to retired employees. Pension and other postretirement benefit expense are determined by actuarial valuations, based on assumptions that are evaluated annually. See Note 8 for additional information on pension and other postretirement benefits.

Nuclear Fuel

APS amortizes nuclear fuel by using the unit-of-production method. The unit-of-production method is based on actual physical usage. APS divides the cost of the fuel by the estimated number of thermal units it expects to produce with that fuel. APS then multiplies that rate by the number of thermal units produced within the current period. This calculation determines the current period nuclear fuel expense.

APS also charges nuclear fuel expense for the interim storage and permanent disposal of spent nuclear fuel. The DOE is responsible for the permanent disposal of spent nuclear fuel and charges APS \$0.001 per kWh of nuclear generation. See Note 11 for information on spent nuclear fuel disposal and Note 23 for information on nuclear decommissioning costs.

Income Taxes

Income taxes are provided using the asset and liability approach prescribed by guidance relating to accounting for income taxes. We file our federal income tax return on a consolidated basis and we file our state income tax returns on a consolidated or unitary basis. In accordance with our intercompany tax sharing agreement, federal and state income taxes are allocated to each first-tier subsidiary as though each first-tier subsidiary filed a separate income tax return. Any difference between that method and the consolidated (and unitary) income tax liability is attributed to the parent company. The income tax liability accounts reflect the tax and interest associated with management's estimate of the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement for all known and measurable tax exposures. See Note 4.

Real Estate Investments

We did not have any real estate investments at December 31, 2011 and December 31, 2010 on our Consolidated Balance Sheets. For the purposes of evaluating impairment, in accordance with the provisions on accounting for the impairment or disposal of long-lived assets; we classified our real estate assets, such as land under development, land held for future development, and commercial property as "held and used" in 2010 and 2009. When events or changes in circumstances indicated that the carrying values of real estate assets considered held and used would not be recoverable, we compared the undiscounted cash flows that we estimated would be generated by each asset to its carrying amount. If the carrying amount exceeded the undiscounted cash flows, we adjusted the asset to fair value and recognized an impairment charge. The adjusted value became the new book value (carrying amount) for held and used assets. Our internal models used inputs that we believe were consistent with those that would be used by market participants.

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Cash and Cash Equivalents

We consider all highly liquid investments with a remaining maturity of three months or less at acquisition to be cash equivalents.

Intangible Assets

We have no goodwill recorded and have separately disclosed other intangible assets, primarily APS's software, on Pinnacle West's Consolidated Balance Sheets. The intangible assets are amortized over their finite useful lives. Amortization expense was \$47 million in 2011, \$45 million in 2010, and \$35 million in 2009. Estimated amortization expense on existing intangible assets over the next five years is \$42 million in 2012, \$35 million in 2013, \$28 million in 2014, \$21 million in 2015, and \$13 million in 2016. At December 31, 2011, the weighted average remaining amortization period for intangible assets was 7 years.

Investments

El Dorado accounts for its investments using either the equity method (if significant influence) or the cost method (if less than 20% ownership).

Our investments in the nuclear decommissioning trust fund are accounted for in accordance with guidance on accounting for certain investments in debt and equity securities. See Note 14 and Note 23 for more information on these investments.

2. New Accounting Standards

In May 2011, the FASB issued amended guidance to converge fair value measurement and disclosure requirements for GAAP and IFRS. The amended guidance clarifies how certain fair value measurement principles should be applied and requires enhanced fair value disclosures. The guidance is effective for us on January 1, 2012. The adoption of this new guidance will result in additional fair value disclosures, but will not impact our financial statement results.

In June 2011, the FASB issued amended guidance on the presentation of comprehensive income intended to increase the prominence of items reported in other comprehensive income and to facilitate convergence with IFRS. The amended guidance requires entities to present total comprehensive income, which includes components of net income and components of other comprehensive income, in either a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance is effective for us on January 1, 2012. The guidance will change our presentation of comprehensive income, but will not impact our financial statement results.

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3. Regulatory Matters

Retail Rate Case Filing with the Arizona Corporation Commission

On June 1, 2011, APS filed an application with the ACC for a net retail base rate increase of \$95.5 million. APS requested that the increase become effective July 1, 2012. The request would increase the average retail customer bill approximately 6.6%. The filing is based on a test year ended December 31, 2010, adjusted as described below. On January 6, 2012, APS and other parties to APS's pending general retail rate case entered into an agreement (the "Settlement Agreement") detailing the terms upon which the parties have agreed to settle the rate case. The Settlement Agreement requires the approval of the ACC. Evidentiary hearings on the matter were completed on February 3, 2012. Opening briefs from parties are due February 29, 2012 and responsive briefs are due March 14, 2012. See below for details regarding the Settlement Agreement.

The key financial provisions of APS's original request included:

- an increase in non-fuel base rates of \$194.1 million, before the reclassification into base rates of \$44.9 million of revenues related to solar generation projects collected through APS's renewable energy surcharge (which will increase base rates) and \$143.5 million of lower fuel and purchased power costs currently addressed through the PSA (which will decrease base rates);
- a rate base of \$5.7 billion, which approximates the ACC-jurisdictional portion of the book value of utility assets, net of accumulated depreciation and other credits, as of December 31, 2010, subject to certain adjustments, including plant additions under construction at the end of the test year that are currently in service or expected to be placed into service before the proposed rates are requested to become effective;
- the following proposed capital structure and costs of capital:

	Capital Structure	Cost of Capital
Long-term debt	46.1%	6.38%
Common stock equity	53.9%	11.00%
Weighted-average cost of capital	8.87%	

- a Base Fuel Rate of \$0.03242 per kWh based on estimated 2012 prices (a decrease from the current Base Fuel Rate of \$0.03757 per kWh).

APS proposed that its PSA be modified to allow full pass-through of all fuel and purchased power costs, instead of the current 90/10 sharing provision. In addition, APS proposed a decoupling mechanism, which would address recovery of APS's fixed costs after reflecting implementation of ACC-mandated energy efficiency standards and renewable distributed generation.

Settlement Agreement

The Settlement Agreement provides for a zero net change in base rates, consisting of: (1) a non-fuel base rate increase of \$116.3 million; (2) a fuel-related base rate decrease of \$153.1 million (to be implemented by a change in the base fuel rate from \$0.03757 to \$0.03207 per kWh); and (3) the

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transfer of cost recovery for certain renewable energy projects from the RES surcharge to base rates in an estimated amount of \$36.8 million.

APS also agreed not to file its next general rate case before May 31, 2015, and not to request that its next general retail rate increase be effective prior to July 1, 2016. The Settlement Agreement allows APS to request a change to its base rates during the stay-out period in the event of an extraordinary event that, in the ACC's judgment, requires base rate relief in order to protect the public interest. Nor is APS precluded from seeking rate relief, or any other party to the Settlement Agreement precluded from petitioning the ACC to examine the reasonableness of APS's rates, in the event of significant regulatory developments that materially impact the financial results expected under the terms of the Settlement Agreement.

Other key provisions of the Settlement Agreement include the following:

- An authorized return on common equity of 10.0%;
- A capital structure comprised of 46.1% debt and 53.9% common equity;
- A test year ended December 31, 2010, adjusted to include plant that is in service as of March 31, 2012;
- Deferral for future recovery or refund of property taxes above or below a specified 2010 test year level caused by changes to the Arizona property tax rate as follows:
 - Deferral of 25% in 2012, 50% in 2013 and 75% for 2014 and subsequent years if Arizona property tax rates increase; and
 - Deferral of 100% in all years if Arizona property tax rates decrease;
- A procedure to allow APS to request rate adjustments prior to its next general rate case related to APS's proposed acquisition (should it be consummated) of additional interests in Units 4 and 5 and the related closure of Units 1-3 of the Four Corners Power Plant;
- Implementation of a "Lost Fixed Cost Recovery" rate mechanism to support energy efficiency and distributed renewable generation;
- Modifications to the Environmental Improvement Surcharge ("EIS") to allow for the recovery of carrying costs for capital expenditures associated with government-mandated environmental controls, subject to an existing cents per kWh cap on cost recovery that could produce approximately \$5 million annually;
- Modifications to the PSA, including the elimination of the current 90/10 sharing provision;
- Allowing a negative credit that currently exists in the PSA to continue until February 2013, rather than being reset on the anticipated July 1, 2012 rate effective date;

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- Modification of the TCA to streamline the process for future transmission-related rate changes; and
- Implementation of various changes to rate schedules, including the adoption of an experimental “buy-through” rate that could allow certain large commercial and industrial customers to select alternative sources of generation to be supplied by APS.

If the Settlement Agreement is approved by the ACC, APS expects that its provisions will become effective on or about July 1, 2012. As is the case with all such agreements, APS cannot predict whether the Settlement Agreement will be approved in the form filed or what changes may be ordered by the ACC and accepted by the parties.

2008 General Retail Rate Case Impacts

On December 30, 2009, the ACC issued an order approving a settlement agreement entered into by APS and twenty-one other parties in APS’s prior general retail rate case, which was originally filed in March 2008. The settlement agreement included a net retail rate increase of \$207.5 million, which represented a base rate increase of \$344.7 million less a reclassification of \$137.2 million of fuel and purchased power revenues from the then-existing PSA to base rates. The new rates were effective January 1, 2010. The settlement agreement also contained on-going requirements, commitments and authorizations, including the following:

- Revenue accounting treatment for line extension payments received for new or upgraded service from January 1, 2010 through year end 2012 (or until new rates are established in APS’s next general rate case, if that is before the end of 2012);
- An authorized return on common equity of 11%;
- A capital structure comprised of 46.2% debt and 53.8% common equity;
- A commitment from APS to reduce average annual operational expenses by at least \$30 million from 2010 through 2014 (APS filed a notification with the ACC on April 29, 2011, demonstrating its compliance with this provision in 2010);
- Authorization and requirements of equity infusions into APS of at least \$700 million during the period beginning June 1, 2009 through December 31, 2014 (\$253 million of which was infused into APS from proceeds of a Pinnacle West equity issuance in the second quarter of 2010); and
- Various modifications to the existing energy efficiency, demand-side management and renewable energy programs that require APS to, among other things, expand its conservation and demand-side management programs and its use of renewable energy, as well as allow for concurrent recovery of renewable energy expenses and provide for more concurrent recovery of demand-side management costs and incentives.

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Cost Recovery Mechanisms

APS has received regulatory decisions that allow for more timely recovery of certain costs through the following recovery mechanisms.

Renewable Energy Standard. In 2006, the ACC approved the RES. Under the RES, electric utilities that are regulated by the ACC must supply an increasing percentage of their retail electric energy sales from eligible renewable resources, including solar, wind, biomass, biogas and geothermal technologies. In order to achieve these requirements, the ACC allows APS to include a RES surcharge as part of customer bills to recover the approved amounts for use on renewable energy projects. Each year APS is required to file a five-year implementation plan with the ACC and seek approval for funding the upcoming year's RES budget.

On July 1, 2011, APS filed its annual RES implementation plan, covering the 2012-2016 timeframe and requesting 2012 RES funding of \$129 million to \$152 million. On December 14, 2011, the ACC voted to approve APS's 2012 RES Plan and authorized a total 2012 RES budget of \$110 million. Within that budget, the ACC authorized APS to, among other items, (i) own an additional 100 MW under the AZ Sun Program, for a total of 200 MW; (ii) recover revenue requirements for the second 100 MW as APS did for the first 100 MW of the AZ Sun Program; (iii) expand APS's School and Government Program by another 6.25 MW of utility owned distributed generation; and (iv) own another 25 MW of renewable generation to be described later and installed in 2014 and 2015. In addition, the ACC ordered an initial up front incentive of \$0.75 per watt for residential distributed energy and incentive level step downs throughout 2012 based upon the volume and timing of residential incentive applications. Under the ACC's order, residential incentives could fall to \$0.20 or \$0.10 per watt by the end of 2012 depending on demand.

Demand-Side Management Adjustor Charge (“DSMAC”). The 2008 retail rate case settlement agreement requires APS to submit an annual Energy Efficiency Implementation Plan for review by and approval of the ACC. In 2010, the DSMAC was modified to recover estimated amounts for use on certain demand-side management programs over the current year. Previously, the DSMAC allowed for such recovery only on a historical or after-the-fact basis. The surcharge allows for the recovery of energy efficiency expenses and any earned incentives.

The ACC previously approved recovery of all 2009 program costs plus incentives. The change from program cost recovery on a historical basis to recovery on a concurrent basis, as authorized in the 2009 retail rate case settlement agreement, resulted in this one-time need to address two years (2009 and 2010) of cost recovery. As requested by APS, 2009 program cost recovery is to be amortized over a three-year period.

On June 1, 2010, APS filed its 2011 Energy Efficiency Implementation Plan. In order to meet the energy efficiency goal for 2011 established by the settlement agreement of annual energy savings of 1.25%, expressed as a percent of total energy resources to meet retail load, APS proposed a total budget for 2011 of \$79 million. On February 17, 2011, a total budget for 2011 of \$80 million was approved and, when added to the amortization of 2009 program costs discussed above less the \$10 million already being recovered in general rates, the DSMAC would recover approximately \$75 million over a twelve-month period beginning March 1, 2011.

On June 1, 2011, APS filed its 2012 Energy Efficiency Implementation Plan to meet the energy efficiency requirements of the ACC's Energy Efficiency Rules, which became effective January 1, 2011. The 2012 requirement under such rules is for energy efficiency savings of 1.75% of APS retail sales for the prior year. This energy savings requirement is slightly higher than the goal established by

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the settlement agreement related to APS's 2008 retail rate case (1.5% of total energy resources). APS proposed a budget for 2012 of \$90 million. When added to the third and final year of the amortization of 2009 program costs authorized in 2009 and less the \$10 million already being recovered in general rates, the proposed 2012 DSMAC would recover approximately \$85 million over a twelve month period beginning March 1, 2012. APS expects a decision from the ACC prior to March 31, 2012.

PSA Mechanism and Balance. The PSA provides for the adjustment of retail rates to reflect variations in retail fuel and purchased power costs. The PSA is subject to specified parameters and procedures, including the following:

- APS records deferrals for recovery or refund to the extent actual retail fuel and purchased power costs vary from the Base Fuel Rate;
- under a 90/10 sharing arrangement, APS defers 90% of the difference between retail fuel and purchased power costs (excluding certain costs, such as renewable energy resources and the capacity components of long-term purchased power agreements acquired through competitive procurement) and the Base Fuel Rate; APS absorbs 10% of the retail fuel and purchased power costs above the Base Fuel Rate and retains 10% of the benefit from the retail fuel and purchased power costs that are below the Base Fuel Rate (see "Settlement Agreement" above for information regarding the elimination of this arrangement);
- an adjustment to the PSA rate is made annually each February 1st (unless otherwise approved by the ACC) and goes into effect automatically unless suspended by the ACC;
- the PSA uses a forward-looking estimate of fuel and purchased power costs to set the annual PSA rate, which is reconciled to actual costs experienced for each PSA Year (February 1 through January 31) (see the following bullet point);
- the PSA rate includes (a) a "Forward Component," under which APS recovers or refunds differences between expected fuel and purchased power costs for the upcoming calendar year and those embedded in the Base Fuel Rate; (b) a "Historical Component," under which differences between actual fuel and purchased power costs and those recovered through the combination of the Base Fuel Rate and the Forward Component are recovered during the next PSA Year; and (c) a "Transition Component," under which APS may seek mid-year PSA changes due to large variances between actual fuel and purchased power costs and the combination of the Base Fuel Rate and the Forward Component; and
- the PSA rate may not be increased or decreased more than \$0.004 per kWh in a year without permission of the ACC.

The following table shows the changes in the deferred fuel and purchased power regulatory asset (liability) for 2011 and 2010 (dollars in millions):

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	Year Ended December 31,	
	2011	2010
Beginning balance	\$ (58)	\$ (87)
Deferred fuel and purchased power costs-current period	(69)	(93)
Amounts refunded through revenues	155	122
Ending balance	<u>\$ 28</u>	<u>\$ (58)</u>

The PSA rate for the PSA year beginning February 1, 2012 is (\$0.0042) per kWh as compared to (\$0.0057) per kWh for the prior year. Any uncollected (overcollected) deferrals during the 2012 PSA year will be included in the calculation of the PSA rate for the PSA year beginning February 1, 2013.

Transmission Rates and Transmission Cost Adjustor. In July 2008, the FERC approved an Open Access Transmission Tariff for APS to move from fixed rates to a formula rate-setting methodology in order to more accurately reflect and recover the costs that APS incurs in providing transmission services. A large portion of the rate represents charges for transmission services to serve APS's retail customers ("Retail Transmission Charges"). In order to recover the Retail Transmission Charges, APS must file an application with, and obtain approval from, the ACC to reflect changes in Retail Transmission Charges through the TCA. If the Settlement Agreement (discussed above) is approved, an adjustment to rates to recover the Retail Transmission Charges will be made annually each June 1 and will go into effect automatically unless suspended by the ACC.

The formula rate is updated each year effective June 1 on the basis of APS's actual cost of service, as disclosed in APS's FERC Form 1 report for the previous fiscal year. Items to be updated include actual capital expenditures made as compared with previous projections, transmission revenue credits and other items. The resolution of proposed adjustments can result in significant volatility in the revenues to be collected. APS reviews the proposed formula rate filing amounts with the ACC staff. Any items or adjustments which are not agreed to by APS and the ACC staff can remain in dispute until settled or litigated at FERC. Settlement or litigated resolution of disputed issues could require an extended period of time and could have a significant effect on the Retail Transmission Charge because any adjustment, though applied prospectively, may be calculated to account for previously over-collected amounts.

Effective June 1, 2011, APS's annual wholesale transmission rates for all users of its transmission system increased by approximately \$44 million for the twelve-month period beginning June 1, 2011 in accordance with the FERC-approved formula as a result of higher costs and lower revenues reflected in the formula. Approximately \$38 million of this revenue increase relates to Retail Transmission Charges. The ACC approved the related increase of APS's TCA rate on June 21, 2011 and it became effective on July 1, 2011.

Regulatory Assets and Liabilities

As discussed in Note 1, as of March 31, 2011, the Company revised its presentation of regulatory assets and liabilities to separately reflect current and non-current amounts on the Consolidated Balance Sheets. This presentation is reflected in the tables below.

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The detail of regulatory assets is as follows (dollars in millions):

	Remaining Amortization Period	December 31, 2011		December 31, 2010	
		Current	Non-Current	Current	Non-Current
Pension and other postretirement benefits	(a)	\$ —	\$ 1,023	\$ —	\$ 669
Income taxes — AFUDC equity	2041	3	81	3	69
Deferred fuel and purchased power — mark-to-market (Note 18)	2016	43	34	42	35
Transmission vegetation management	2016	9	32	—	46
Coal reclamation	2026	2	35	2	36
Palo Verde VIE (Note 20)	2015	—	35	—	33
Deferred compensation	2036	—	33	—	32
Deferred fuel and purchased power (b)	2012	28	—	—	—
Income taxes — Medicare subsidy	2024	2	18	2	21
Loss on reacquired debt	2034	1	19	1	21
Income taxes — investment tax credit basis adjustment	2044	—	15	—	—
Pension and other postretirement benefits deferral	2015	—	12	—	—
Demand side management	2013	7	1	12	6
Other	Various	2	14	—	18
Total regulatory assets (c)		<u>\$ 97</u>	<u>\$ 1,352</u>	<u>\$ 62</u>	<u>\$ 986</u>

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- (a) This asset represents the future recovery in earnings of under-funded pension and other postretirement benefits obligation costs through retail rates. If these costs are disallowed by the ACC, this regulatory asset would be charged to OCI and result in lower future revenues.
- (b) See “Cost Recovery Mechanisms” discussion above.
- (c) There are no regulatory assets for which the ACC has allowed recovery of costs but not allowed a return by exclusion from rate base. FERC rates are set using a formula rate as described in “Transmission Rates and Transmission Cost Adjustor.”

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The detail of regulatory liabilities is as follows (dollars in millions):

	Remaining Amortization Period	December 31, 2011		December 31, 2010	
		Current	Non-Current	Current	Non-Current
Removal costs	(a)	\$ 22	\$ 349	\$ 22	\$ 357
Asset retirement obligations	(a)	—	225	—	184
Renewable energy standard (b)	2012	54	—	50	—
Income taxes — change in rates	2041	—	59	—	—
Spent nuclear fuel	2047	5	44	4	41
Deferred gains on utility property	2019	2	14	2	16
Income taxes-unamortized investment tax credit	2044	1	30	—	1
Deferred fuel and purchased power (b)(c)	—	—	—	58	—
Other	Various	4	16	3	15
Total regulatory liabilities		<u>\$ 88</u>	<u>\$ 737</u>	<u>\$ 139</u>	<u>\$ 614</u>

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- (a) In accordance with regulatory accounting guidance, APS accrues for removal costs for its regulated assets, even if there is no legal obligation for removal. See Note 12.
 (b) See "Cost Recovery Mechanisms" discussion above.
 (c) Subject to a carrying charge.

4. Income Taxes

Certain assets and liabilities are reported differently for income tax purposes than they are for financial statements purposes. The tax effect of these differences is recorded as deferred taxes. We calculate deferred taxes using the currently enacted income tax rates.

APS has recorded regulatory assets and regulatory liabilities related to income taxes on its Balance Sheets in accordance with accounting guidance for regulated operations. The regulatory assets are for certain temporary differences, primarily the allowance for equity funds used during construction and pension and other postretirement benefits. The regulatory liabilities primarily relate to deferred taxes resulting from investment tax credits ("ITC") and the change in income tax rates.

In accordance with regulatory requirements, APS investment tax credits are deferred and are amortized over the life of the related property with such amortization applied as a credit to reduce current income tax expense in the statement of income.

The \$69 million long-term income tax receivable on the Consolidated Balance Sheets represents the anticipated refunds related to an APS tax accounting method change approved by the IRS in the third quarter of 2009. This amount is classified as long-term, as cash refunds are not expected to be received in the next twelve months.

During the first quarter of 2010, the Company reached a settlement with the IRS with regard to the examination of tax returns for the years ended December 31, 2005 through 2007. As a result of this settlement, net uncertain tax positions decreased \$62 million, including approximately \$3 million

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

which decreased our effective tax rate. Additionally, the settlement resulted in the recognition of net interest benefits of approximately \$4 million through the effective tax rate.

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits, excluding interest and penalties, at the beginning and end of the year that are included in accrued taxes and unrecognized tax benefits (dollars in thousands):

	2011	2010	2009
Total unrecognized tax benefits, January 1	\$ 127,595	\$ 201,216	\$ 63,318
Additions for tax positions of the current year	10,915	7,551	44,094
Additions for tax positions of prior years	—	—	98,942
Reductions for tax positions of prior years for:			
Changes in judgment	(1,555)	(11,017)	—
Settlements with taxing authorities	(124)	(62,199)	(4,089)
Lapses of applicable statute of limitations	(826)	(7,956)	(1,049)
Total unrecognized tax benefits, December 31	<u>\$ 136,005</u>	<u>\$ 127,595</u>	<u>\$ 201,216</u>

Included in the balances of unrecognized tax benefits at December 31, 2011, 2010 and 2009 were approximately \$8 million, \$7 million and \$16 million, respectively, of tax positions that, if recognized, would decrease our effective tax rate.

As of the balance sheet date, the tax year ended December 31, 2008 and all subsequent tax years remain subject to examination by the IRS. With few exceptions, we are no longer subject to state income tax examinations by tax authorities for years prior to 2006. We do not anticipate that there will be any significant increases or decreases in our unrecognized tax benefits within the next twelve months.

We reflect interest and penalties, if any, on unrecognized tax benefits in the Consolidated Statements of Income as income tax expense. The amount of interest recognized in the Consolidated Statement of Income related to unrecognized tax benefits was a pre-tax expense of \$3 million for 2011, a pre-tax benefit of \$2 million for 2010 and a pre-tax expense of \$2 million for 2009.

The total amount of accrued liabilities for interest recognized in the Consolidated Balance Sheets related to unrecognized tax benefits was \$9 million as of December 31, 2011, \$6 million as of December 31, 2010 and \$8 million as of December 31, 2009. To the extent that matters are settled favorably, this amount could reverse and decrease our effective tax rate. Additionally, as of December 31, 2011, we have recognized \$4 million of interest income to be received on the overpayment of income taxes for certain adjustments that we have filed, or will file, with the IRS.

The components of income tax expense are as follows (dollars in thousands):

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Year Ended December 31,		
	2011	2010	2009
Current:			
Federal	\$ (310)	\$ (108,827)	\$ (38,502)
State	15,140	25,545	(38,080)
Total current	<u>14,830</u>	<u>(83,282)</u>	<u>(76,582)</u>
Deferred:			
Federal	159,566	260,236	62,874
State	16,626	10,911	42,618
Discontinued operations	—	(10,736)	—
Total deferred	<u>176,192</u>	<u>260,411</u>	<u>105,492</u>
Total income tax expense	<u>191,022</u>	<u>177,129</u>	<u>28,910</u>
Less: income tax expense (benefit) on discontinued operations	<u>7,418</u>	<u>16,260</u>	<u>(109,641)</u>
Income tax expense — continuing operations	<u><u>\$ 183,604</u></u>	<u><u>\$ 160,869</u></u>	<u><u>\$ 138,551</u></u>

The following chart compares pretax income from continuing operations at the 35% federal income tax rate to income tax expense — continuing operations (dollars in thousands):

	Year Ended December 31,		
	2011	2010	2009
Federal income tax expense at 35% statutory rate	\$ 188,733	\$ 177,002	\$ 138,110
Increases (reductions) in tax expense resulting from:			
State income tax net of federal income tax benefit	19,594	17,485	15,068
Credits and favorable adjustments related to prior years resolved in current year	—	(17,300)	—
Medicare Subsidy Part-D	823	1,311	(2,095)
Allowance for equity funds used during construction (see Note 1)	(6,881)	(6,563)	(4,265)
Palo Verde VIE noncontrolling interest (see Note 20)	(9,636)	(7,057)	(6,723)
Other	(9,029)	(4,009)	(1,544)
Income tax expense — continuing operations	<u><u>\$ 183,604</u></u>	<u><u>\$ 160,869</u></u>	<u><u>\$ 138,551</u></u>

PINNACLE WEST CAPITAL CORPORATION
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The following table shows the net deferred income tax liability recognized on the Consolidated Balance Sheets (dollars in thousands):

	December 31,	
	2011	2010
Current asset	\$ 130,571	\$ 124,897
Long-term liability	(1,925,388)	(1,863,861)
Deferred income taxes — net	\$ (1,794,817)	\$ (1,738,964)

On February 17, 2011, Arizona enacted legislation (H.B. 2001) that included a four year phase-in of corporate income tax rate reductions beginning in 2014. As a result of these tax rate reductions, Pinnacle West has revised the tax rate applicable to reversing temporary items in Arizona. In accordance with accounting for regulated companies, the benefit of this rate reduction is substantially offset by a regulatory liability. In 2011, APS increased regulatory liabilities by a total of \$62 million, with a corresponding decrease in accumulated deferred income tax liabilities to reflect the impact of this change in tax law.

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The components of the net deferred income tax liability were as follows (dollars in thousands):

	December 31,	
	2011	2010
DEFERRED TAX ASSETS		
Risk management activities	\$ 117,765	\$ 124,731
Regulatory liabilities:		
Asset retirement obligation and removal costs	236,739	222,448
Deferred fuel and purchased power	—	23,089
Renewable energy standard	19,722	18,749
Unamortized investment tax credits	31,460	642
Other	33,155	27,718
Pension and other postretirement liabilities	501,202	321,182
Real estate investments and assets held for sale	—	19,855
Renewable energy incentives	57,901	37,327
Credit and loss carryforwards	171,915	42,971
Other	73,759	68,684
Total deferred tax assets	1,243,618	907,396
DEFERRED TAX LIABILITIES		
Plant-related	(2,446,908)	(2,210,976)
Risk management activities	(30,171)	(30,125)
Regulatory assets:		
Allowance for equity funds used during construction	(33,347)	(28,276)
Deferred fuel and purchased power	(10,884)	—
Deferred fuel and purchased power — mark-to-market	(30,559)	(30,276)
Pension and other postretirement benefits	(408,716)	(264,313)
Other	(73,087)	(77,078)
Other	(4,763)	(5,316)
Total deferred tax liabilities	(3,038,435)	(2,646,360)
Deferred income taxes — net	\$ (1,794,817)	\$ (1,738,964)

As of December 31, 2011, the deferred tax assets for credit and loss carryforwards relate to federal general business credits (\$67 million) and federal net operating losses (\$92 million), both of which first begin to expire in 2029, and other federal and state loss carryforwards (\$13 million) which first begin to expire in 2014.

5. Lines of Credit and Short-Term Borrowings

The table below presents the consolidated credit facilities and the amounts available and outstanding as of December 31, 2011 (dollars in millions):

PINNACLE WEST CAPITAL CORPORATION
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Credit Facility	Expiration	Amount Committed	Unused Amount	Commitment Fees
Pinnacle West Revolving Credit Facility	November 2016	\$ 200	\$ 200	0.275%
APS Revolving Credit Facility	November 2016	500	500	0.225%
APS Revolving Credit Facility	February 2015	500	500	0.250%
Total		<u>\$ 1,200</u>	<u>\$ 1,200</u>	

Pinnacle West and APS maintain committed revolving credit facilities in order to enhance liquidity and provide credit support for their commercial paper programs. During the first quarter of 2011, APS refinanced an existing revolving credit facility (as discussed below) that would have otherwise matured in September 2011. During the fourth quarter of 2011, APS and Pinnacle West refinanced the existing credit facilities (as discussed below) that would have otherwise matured in February 2013.

Pinnacle West

On November 4, 2011, Pinnacle West refinanced its \$200 million revolving credit facility that would have matured in February 2013, with a new \$200 million facility. The new revolving credit facility terminates in November 2016. Interest rates are based on Pinnacle West senior unsecured debt credit ratings.

At December 31, 2011, the Pinnacle West credit facility was available to refinance indebtedness of the Company and for other general corporate purposes, including credit support for its \$200 million commercial paper program. Pinnacle West has the option to increase the amount of the facility up to a maximum of \$300 million upon the satisfaction of certain conditions and with the consent of the lenders. At December 31, 2011, Pinnacle West had no outstanding borrowings under its credit facility, no letters of credit and no commercial paper borrowings.

APS

On February 14, 2011, APS refinanced its \$489 million revolving credit facility that would have matured in September 2011, and increased the size of the facility to \$500 million. The new revolving credit facility terminates in February 2015. APS may increase the amount of the facility up to a maximum of \$700 million upon the satisfaction of certain conditions and with the consent of the lenders. APS will use the facility to refinance indebtedness and for other general corporate purposes. Interest rates are based on APS's senior unsecured debt credit ratings.

On November 4, 2011, APS refinanced its \$500 million revolving credit facility that would have matured in February 2013, with a new \$500 million facility. The new revolving credit facility terminates in November 2016. APS may increase the amount of the facility up to a maximum of \$700 million upon the satisfaction of certain conditions and with the consent of the lenders. APS will use

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

the facility to refinance indebtedness and for other general corporate purposes. Interest rates are based on APS's senior unsecured debt credit ratings.

The facilities described above are available to support its \$250 million commercial paper program, for bank borrowings or for issuances of letters of credit. At December 31, 2011, APS had no borrowings outstanding under any of its credit facilities and no outstanding commercial paper.

See "Financial Assurances" in Note 11 for discussion of APS's other letters of credit.

The table below presents the consolidated credit facilities and amounts available and outstanding and other short-term borrowings as of December 31, 2010 (dollars in millions):

Credit Facility	Expiration	Amount Committed	Letters of Credit Used	Short-Term Borrowings	Unused Amount	Weighted Average Interest Rate	Commitment Fees
Pinnacle West Revolving Credit Facility	February 2013	\$ 200	\$ —	\$ —	\$ 183	—	0.625%
Pinnacle West Commercial Paper	January 2011	—	—	17	—	0.840%	—
APS Revolving Credit Facility	February 2013	500	—	—	500	—	0.500%
APS Revolving Credit Facility	September 2011	489	20	—	469	—	0.100%
Total		<u>\$ 1,189</u>	<u>\$ 20</u>	<u>\$ 17</u>	<u>\$ 1,152</u>		

Pinnacle West

On February 12, 2010, Pinnacle West refinanced its \$283 million revolving credit facility that would have matured in December 2010, and decreased the size of the facility to \$200 million. This facility was refinanced on November 4, 2011.

APS

On February 12, 2010, APS refinanced its \$377 million credit facility that would have matured in December 2010, and increased the size of the facility to \$500 million. This facility was refinanced on November 4, 2011.

**PINNACLE WEST CAPITAL CORPORATION
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Debt Provisions

Although provisions in APS's articles of incorporation and ACC financing orders establish maximum amounts of preferred stock and debt that APS may issue, APS does not expect any of these provisions to limit its ability to meet its capital requirements. On October 30, 2007, the ACC issued a financing order in which it approved APS's request, subject to specified parameters and procedures, to increase (a) APS's short-term debt authorization from 7% of APS's capitalization to (i) 7% of APS's capitalization plus (ii) \$500 million (which is required to be used for purchases of natural gas and power) and (b) APS's long-term debt authorization from approximately \$3.2 billion to \$4.2 billion in light of the projected growth of APS and its customer base and the resulting projected financing needs. This financing order expires December 31, 2012; however, all debt previously authorized and outstanding on December 31, 2012 will remain authorized and valid obligations of APS.

On November 22, 2011, APS filed a financing application with the ACC requesting an increase in APS's long-term debt authorization (approximately \$4.2 billion) to approximately \$5.5 billion in light of the projected financing needed to fund APS's capital expenditure and maintenance program and other cash requirements. In addition, APS requested authorization to (i) allow for other types of securities providing long-term capital financing, including preferred stock, trust preferred securities or other forms of hybrid securities, and (ii) manage interest rate risks and exposure associated with any long-term or short-term indebtedness authorized by the ACC.

6. Long-Term Debt and Liquidity Matters

All of Pinnacle West's and APS's debt is unsecured. The following table presents the components of long-term debt on the Consolidated Balance Sheets outstanding at December 31, 2011 and 2010 (dollars in thousands):

PINNACLE WEST CAPITAL CORPORATION
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	Maturity Dates (a)	Interest Rates	December 31,	
			2011	2010
APS				
Pollution Control Bonds:				
Variable	2024-2038	(b)	\$ 43,580	\$ 43,580
Fixed	2029-2034	2.875%-6.000%	522,275	522,275
Pollution control bonds with senior notes	2029	5.050%	90,000	90,000
Total Pollution Control Bonds			655,855	655,855
Senior unsecured notes	2012-2041	4.650%-8.750%	2,625,000	2,725,000
Palo Verde sale leaseback lessor notes	2015	8.00%	96,803	126,000
Capitalized lease obligations	2012	(c)	1,029	2,001
Unamortized discount			(7,198)	(6,183)
Total APS Long-term debt			3,371,489	3,502,673
Less current maturities			477,435	456,879
Total APS Long-term debt less current maturities			2,894,054	3,045,794
Pinnacle West				
Senior notes	2011	5.91%	—	175,000
Term loan	2015	(d)	125,000	—
Total Pinnacle West Long-term debt			125,000	175,000
Less current maturities			—	175,000
Total Pinnacle West long-term debt less current maturities			125,000	—
TOTAL LONG-TERM DEBT LESS CURRENT MATURITIES			\$ 3,019,054	\$ 3,045,794

(a) This schedule does not reflect the timing of redemptions that may occur prior to maturities.

(b) The weighted-average rate for the variable rate pollution control bonds was 0.09% at December 31, 2011 and 0.32% at December 31, 2010.

(c) The weighted-average interest rate was 5.27% at December 31, 2011 and 5.29% at December 31, 2010.

(d) The weighted-average interest rate was 1.794% at December 31, 2011.

The following table shows principal payments due on Pinnacle West's and APS's total long-term debt and capitalized lease requirements (dollars in millions):

Year	Consolidated Pinnacle West		Consolidated APS	
2012	\$ 477		\$ 477	
2013	123		123	
2014	502		502	
2015	438		313	
2016	358		358	
Thereafter	1,606		1,606	
Total	\$ 3,504		\$ 3,379	

PINNACLE WEST CAPITAL CORPORATION
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Debt Fair Value

Our long-term debt fair value estimates are based on quoted market prices of the same or similar issues. Certain of our debt instruments contain third-party credit enhancements and, in accordance with GAAP, we do not consider the effect of these credit enhancements when determining fair value. The following table represents the estimated fair value of our long-term debt, including current maturities (dollars in millions):

	As of December 31, 2011		As of December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Pinnacle West	\$ 125	\$ 123	\$ 175	\$ 176
APS	3,371	3,803	3,503	3,737
Total	\$ 3,496	\$ 3,926	\$ 3,678	\$ 3,913

Credit Facilities and Debt Issuances*Pinnacle West*

On February 23, 2011, Pinnacle West entered into a \$175 million term loan facility that matures February 20, 2015. Pinnacle West used the proceeds of the loan to repay its 5.91% \$175 million Senior Notes. Interest rates are based on Pinnacle West's senior unsecured debt credit ratings or, if unavailable, its long-term issuer ratings. As of December 31, 2011, \$50 million of the \$175 million term loan facility had been repaid.

APS

On August 25, 2011, APS issued \$300 million of 5.05% unsecured senior notes that mature on September 1, 2041. The net proceeds from the sale of the notes were used along with cash on hand to repay at maturity APS's \$400 million aggregate principal amount of 6.375% senior notes due October 15, 2011.

On September 7, 2011, APS entered into a new letter of credit agreement supporting its approximately \$27 million aggregate principal amount of Coconino County, Arizona Pollution Control Corporation Pollution Control Revenue Refunding Bonds (Arizona Public Service Company Navajo Project), 2009 Series B. The agreement expires September 22, 2016.

On December 8, 2011, APS extended a letter of credit agreement supporting its approximately \$17 million aggregate principal amount of Coconino County, Arizona Pollution Control Corporation Pollution Control Revenue Bonds (Arizona Public Service Company Project), 1998. The agreement expires December 8, 2016.

On January 10, 2012, APS issued \$325 million of 4.50% unsecured senior notes that mature on April 1, 2042. The net proceeds from the sale will be used along with other funds to repay at maturity APS's \$375 million aggregate principal amount of 6.50% senior notes due March 1, 2012.

**PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

See Lines of Credit and Short-Term Borrowings in Note 5 and “Financial Assurances” in Note 11 for discussion of APS’s other letters of credit.

Debt Provisions

Pinnacle West’s and APS’s debt covenants related to their respective bank financing arrangements include maximum debt to capitalization ratios. Pinnacle West and APS comply with this covenant. For both Pinnacle West and APS, this covenant requires that the ratio of consolidated debt to total consolidated capitalization not exceed 65%. At December 31, 2011, the ratio was approximately 47% for Pinnacle West and 46% for APS. Failure to comply with such covenant levels would result in an event of default which, generally speaking, would require the immediate repayment of the debt subject to the covenants and could cross-default other debt. See further discussion of “cross-default” provisions below.

Neither Pinnacle West’s nor APS’s financing agreements contain “rating triggers” that would result in an acceleration of the required interest and principal payments in the event of a rating downgrade. However, our bank credit agreements contain a pricing grid in which the interest rates we pay for borrowings thereunder are determined by our current credit ratings.

All of Pinnacle West’s loan agreements contain “cross-default” provisions that would result in defaults and the potential acceleration of payment under these loan agreements if Pinnacle West or APS were to default under certain other material agreements. All of APS’s bank agreements contain cross-default provisions that would result in defaults and the potential acceleration of payment under these bank agreements if APS were to default under certain other material agreements. Pinnacle West and APS do not have a material adverse change restriction for credit facility borrowings.

An existing ACC order requires APS to maintain a common equity ratio of at least 40%. As defined in the ACC order, the common equity ratio is total shareholder equity divided by the sum of total shareholder equity and long-term debt, including current maturities of long-term debt. At December 31, 2011, APS was in compliance with this common equity ratio requirement. Its total shareholder equity was approximately \$3.9 billion, and total capitalization was approximately \$7.2 billion. APS would be prohibited from paying dividends if the payment would reduce its total shareholder equity below approximately \$2.9 billion, assuming APS’s total capitalization remains the same. Since APS was in compliance with this common equity ratio requirement, this restriction does not materially affect Pinnacle West’s ability to meet its ongoing capital requirements.

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7. Common Stock and Treasury Stock

Our common stock and treasury stock activity during each of the three years 2011, 2010 and 2009 is as follows (dollars in thousands):

	Common Stock		Treasury Stock	
	Shares	Amount	Shares	Amount
Balance at December 31, 2008	100,948,436	\$ 2,151,323	(59,827)	\$ (2,854)
Common stock issuance	354,995	10,620	—	—
Purchase of treasury stock (a)	—	—	(66,173)	(2,156)
Reissuance of treasury stock for stock compensation	—	—	32,761	1,198
Other	224,506	(8,648)	—	—
Balance at December 31, 2009	101,527,937	2,153,295	(93,239)	(3,812)
Common stock issuance (b)	7,172,405	263,297	—	—
Purchase of treasury stock (a)	—	—	(1,994)	(82)
Reissuance of treasury stock for stock compensation	—	—	44,823	1,655
Other	119,725	4,780	—	—
Balance at December 31, 2010	108,820,067	2,421,372	(50,410)	(2,239)
Common stock issuance	249,602	11,057	—	—
Purchase of treasury stock (a)	—	—	(88,440)	(3,720)
Reissuance of treasury stock for stock compensation	—	—	27,689	1,242
Other	287,305	11,818	—	—
Balance at December 31, 2011	<u>109,356,974</u>	<u>\$ 2,444,247</u>	<u>(111,161)</u>	<u>\$ (4,717)</u>

- (a) Primarily represents shares of common stock withheld from certain stock awards for tax purposes.
 (b) In April 2010, Pinnacle West issued 6,900,000 shares of common stock at an offering price of \$38.00 per share, resulting in net proceeds of approximately \$253 million. Pinnacle West contributed all of the net proceeds from this offering into APS in the form of equity infusions. APS has used these contributions to repay short-term indebtedness, to finance capital expenditures and for other general corporate purposes.

At December 31, 2011, Pinnacle West had 10 million shares of serial preferred stock authorized with no par value, none of which was outstanding, and APS had 15,535,000 shares of various types of preferred stock authorized with \$25, \$50 and \$100 par values, none of which was outstanding.

8. Retirement Plans and Other Benefits

Pinnacle West sponsors a qualified defined benefit and account balance pension plan (The Pinnacle West Capital Corporation Retirement Plan) and a non-qualified supplemental excess benefit retirement plan for the employees of Pinnacle West and its subsidiaries. All new employees participate in the account balance plan. Defined benefit plans specify the amount of benefits a plan participant is to receive using information about the participant. The pension plan covers nearly all employees. The supplemental excess benefit retirement plan covers officers of the Company and highly compensated

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employees designated for participation by the Board of Directors. Our employees do not contribute to the plans. Generally, we calculate the benefits based on age, years of service and pay.

Pinnacle West also sponsors another postretirement benefit plan (Pinnacle West Capital Corporation Group Life and Medical Plan) for the employees of Pinnacle West and its subsidiaries. This plan provides medical and life insurance benefits to retired employees. Employees must retire to become eligible for these retirement benefits, which are based on years of service and age. For the medical insurance plan, retirees make contributions to cover a portion of the plan costs. For the life insurance plan, retirees do not make contributions. We retain the right to change or eliminate these benefits.

Pinnacle West uses a December 31 measurement date each year for its pension and other postretirement benefit plans. The market-related value of our plan assets is their fair value at the measurement date. See Note 14 for discussion of how fair values are determined. Due to subjective and complex judgments, which may be required in determining fair values, actual results could differ from the results estimated through the application of these methods.

A significant portion of the changes in the actuarial gains and losses of our pension and postretirement plans is attributable to APS and therefore is recoverable in rates. Accordingly, these changes are recorded as a regulatory asset. In its 2009 retail rate case settlement, APS received approval to defer a portion of pension and other postretirement benefit cost increases incurred in 2011 and 2012. During 2011, we deferred pension and other postretirement benefit costs of approximately \$12 million.

On March 23, 2010, the President signed into law comprehensive health care reform legislation under the Patient Protection and Affordable Care Act (the "Act"). One feature of the Act is the elimination of the tax deduction for prescription drug costs that are reimbursed as part of the Medicare Part D subsidy. Although this tax increase does not take effect until 2013, we are required to recognize the full accounting impact in our financial statements in the period in which the Act is signed. In accordance with accounting for regulated companies, the loss of this deduction is substantially offset by a regulatory asset that will be recovered through future electric revenues. In the first quarter of 2010, Pinnacle West charged regulatory assets for a total of \$42 million, with a corresponding increase in accumulated deferred income tax liabilities, to reflect the impact of this change in tax law.

The following table provides details of the plans' net periodic benefit costs and the portion of these costs charged to expense (including administrative costs and excluding amounts capitalized as overhead construction, billed to electric plant participants or charged to the regulatory asset) (dollars in thousands):

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	Pension			Other Benefits		
	2011	2010	2009	2011	2010	2009
Service cost-benefits earned during the period	\$ 57,605	\$ 59,064	\$ 54,288	\$ 21,856	\$ 19,236	\$ 18,285
Interest cost on benefit obligation	124,727	122,724	118,282	46,807	42,428	39,180
Expected return on plan assets	(133,678)	(124,161)	(116,535)	(41,536)	(39,257)	(34,428)
Amortization of:						
Transition obligation	—	—	—	452	452	3,005
Prior service cost (credit)	1,400	1,705	2,080	(179)	(539)	(125)
Net actuarial loss	25,956	18,833	14,216	15,015	10,317	10,320
Net periodic benefit cost	<u>\$ 76,010</u>	<u>\$ 78,165</u>	<u>\$ 72,331</u>	<u>\$ 42,415</u>	<u>\$ 32,637</u>	<u>\$ 36,237</u>
Portion of cost charged to expense	<u><u>\$ 29,312</u></u>	<u><u>\$ 37,933</u></u>	<u><u>\$ 36,484</u></u>	<u><u>\$ 15,208</u></u>	<u><u>\$ 15,839</u></u>	<u><u>\$ 18,278</u></u>

The following table shows the plans' changes in the benefit obligations and funded status for the years 2011 and 2010 (dollars in thousands):

	Pension		Other Benefits	
	2011	2010	2011	2010
Change in Benefit Obligation				
Benefit obligation at January 1	\$ 2,345,060	\$ 2,074,131	\$ 827,897	\$ 700,535
Service cost	57,605	59,064	21,856	19,236
Interest cost	124,727	122,724	46,807	42,428
Benefit payments	(104,257)	(93,776)	(24,877)	(20,421)
Actuarial loss	275,991	183,365	171,674	98,094
Plan amendments	—	(448)	3,737	(11,975)
Benefit obligation at December 31	<u>2,699,126</u>	<u>2,345,060</u>	<u>1,047,094</u>	<u>827,897</u>
Change in Plan Assets				
Fair value of plan assets at January 1	1,775,596	1,461,808	567,410	490,455
Actual return on plan assets	162,042	190,380	58,367	60,255
Employer contributions	—	200,000	18,769	16,700
Benefit payments	(87,088)	(76,592)	(35,883)	—
Fair value of plan assets at December 31	<u>1,850,550</u>	<u>1,775,596</u>	<u>608,663</u>	<u>567,410</u>
Funded Status at December 31	<u>\$ (848,576)</u>	<u>\$ (569,464)</u>	<u>\$ (438,431)</u>	<u>\$ (260,487)</u>

The following table shows the projected benefit obligation and the accumulated benefit obligation for pension plans with an accumulated obligation in excess of plan assets as of December 31, 2011 and 2010 (dollars in thousands):

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	2011	2010
Projected benefit obligation	\$ 2,699,126	\$ 2,345,060
Accumulated benefit obligation	2,396,575	2,065,091
Fair value of plan assets	1,850,550	1,775,596

The following table shows the amounts recognized on the Consolidated Balance Sheets as of December 31, 2011 and 2010 (dollars in thousands):

	Pension		Other Benefits	
	2011	2010	2011	2010
Current liability	\$ (18,097)	\$ (16,830)	\$ —	\$ —
Noncurrent liability	(830,479)	(552,634)	(438,431)	(260,487)
Net amount recognized	<u>\$ (848,576)</u>	<u>\$ (569,464)</u>	<u>\$ (438,431)</u>	<u>\$ (260,487)</u>

The following table shows the details related to accumulated other comprehensive loss as of December 31, 2011 and 2010 (dollars in thousands):

	Pension		Other Benefits	
	2011	2010	2011	2010
Net actuarial loss	\$ 724,605	\$ 502,938	\$ 400,892	\$ 261,071
Prior service cost (credit)	4,312	5,712	(655)	(4,571)
Transition obligation	—	—	452	903
APS's portion recorded as a regulatory asset	(632,099)	(419,774)	(390,521)	(249,255)
Income tax benefit	(38,243)	(35,106)	(3,296)	(2,498)
Accumulated other comprehensive loss	<u>\$ 58,575</u>	<u>\$ 53,770</u>	<u>\$ 6,872</u>	<u>\$ 5,650</u>

The following table shows the estimated amounts that will be amortized from accumulated other comprehensive loss and regulatory assets into net periodic benefit cost in 2012 (dollars in thousands):

	Pension		Other Benefits	
	2011	2010	2011	2010
Net actuarial loss	\$ 43,070	\$ 23,638	—	—
Prior service cost (credit)	1,143	(179)	—	452
Transition obligation	—	—	—	—
Total amounts estimated to be amortized from accumulated other comprehensive loss and regulatory assets in 2012	<u>\$ 44,213</u>	<u>\$ 23,911</u>	<u>—</u>	<u>—</u>

The following table shows the weighted-average assumptions used for both the pension and other benefits to determine benefit obligations and net periodic benefit costs:

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	Benefit Obligations As of December 31,		Benefit Costs For the Years Ended December 31,		
	2011	2010	2011	2010	2009
Discount rate-pension	4.42%	5.31%	5.31%	5.90%	6.11%
Discount rate-other benefits	4.59%	5.49%	5.49%	6.00%	6.13%
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%	4.00%
Expected long-term return on plan assets	N/A	N/A	7.75%	8.25%	8.25%
Initial health care cost trend rate	7.50%	8.00%	8.00%	8.00%	8.00%
Ultimate health care cost trend rate	5.00%	5.00%	5.00%	5.00%	5.00%
Number of years to ultimate trend rate	4	4	4	4	4

In selecting the pretax expected long-term rate of return on plan assets we consider past performance and economic forecasts for the types of investments held by the plan. For the year 2012, we are assuming a 7.75% long-term rate of return on plan assets, which we believe is reasonable given our asset allocation in relation to historical and expected performance.

Assumed health care cost trend rates above have a significant effect on the amounts reported for the health care plans. In selecting our health care trend rates, we consider past performance and forecasts of health care costs. A one percentage point change in the assumed initial and ultimate health care cost trend rates would have the following effects (dollars in millions):

	1% Increase	1% Decrease
Effect on other postretirement benefits expense, after consideration of amounts capitalized or billed to electric plant participants	\$ 11	\$ (9)
Effect on service and interest cost components of net periodic other postretirement benefit costs	14	(11)
Effect on the accumulated other postretirement benefit obligation	187	(148)

Plan Assets

The Board of Directors has delegated oversight of the plans' assets to an Investment Management Committee, which has adopted an investment policy. The investment policy's overall strategy is to achieve an adequate level of trust assets relative to the benefit obligations. To achieve this objective, the plans' investment policies provide for mixes of investments including long-term fixed income assets and return-generating assets. Long-term fixed income assets are designed to offset changes in benefit obligations due to changes in discount rates and inflation. Return-generating assets are intended to provide a reasonable long-term rate of investment return with a prudent level of volatility. The determination of total allocation between return-generating and long-term fixed income

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assets is reviewed on at least an annual basis. Other investment strategies include the external management of the plans' assets, and the prohibition of investments in Pinnacle West securities.

Long-term fixed income assets consist primarily of fixed income debt securities issued by the U.S. Treasury, other government agencies, and corporations. Long-term fixed income assets may also include interest rate swaps, U.S. Treasury futures and other instruments. The investment policy does not provide for a specific mix of long-term fixed income assets, but does require the average credit rating of such assets to be considered upper medium grade or above. The 2011 year-end long-term fixed income asset strategy focused on investments in corporate bonds of primarily investment-grade U.S. issuers and long-term treasuries, with total long-term fixed income assets representing 46% of total pension plan assets and 46% of other benefit plans assets.

Return-generating assets in the pension plan and other benefit plans target a mix of approximately 64% U.S. equities, 27% international equities, and 9% alternative investments. The 2011 year-end U.S. equity holdings were invested primarily in large-cap companies in diverse industries. International equities include investments in emerging and developing markets. Return-generating assets also include investments in securities through commingled funds in common and collective trusts. Alternative investments primarily include investments in real estate. The 2011 year-end return-generating assets represented 54% of total pension plan assets and 54% of other benefit plans' assets.

See Note 14 for a discussion on the fair value hierarchy and how fair value methodologies are applied. The plans invest directly in fixed income and equity securities, in addition to investing indirectly in equity securities and real estate through the use of common and collective trusts. Equity securities held directly by the plans are valued using quoted active market prices from the published exchange on which the equity security trades, and are classified as Level 1. Fixed income securities issued by the U.S. Treasury held directly by the plans are valued using quoted active market prices, and are classified as Level 1. Fixed income securities issued by corporations, municipalities, and other agencies are primarily valued using quoted inactive market prices, or quoted active market prices for similar securities, or by utilizing calculations which incorporate observable inputs such as yield and interest rate curves. These instruments are classified as Level 2.

The common and collective trusts, which are similar to mutual funds, are maintained by banks or investment companies and hold certain investments in accordance with a stated set of objectives (such as tracking the performance of the S&P 500 index). The common and collective equity trusts are valued using net asset value ("NAV"), which is derived from the quoted active market prices of the underlying securities. The plans' common and collective real estate trust is valued using NAV, which is derived from the appraised values of the trust's underlying real estate assets. As of December 31, 2011 the plans were able to transact in the common and collective trusts at NAV and accordingly classify these investments as Level 2. Because the trust's shares are offered to a limited group of investors, they are not considered to be traded in an active market.

The plans' trustee provides valuation of our plan assets by using pricing services that utilize methodologies described to determine fair market value. We assess these valuations and verify that pricing can be supported by actual recent market transactions. Additionally, we obtain and review independent audit reports on the trustee's internal operating controls and valuation processes.

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The fair value of Pinnacle West's pension plan and other postretirement benefit plan assets at December 31, 2011, by asset category, are as follows (dollars in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Other (a)	Balance at December 31, 2011
Pension Plan:				
Assets:				
Cash and cash equivalents	\$ 1,441	\$ —	\$ —	\$ 1,441
Fixed Income Securities:				
Corporate	—	584,619	—	584,619
U.S. Treasury	207,862	—	—	207,862
Other (b)	—	62,906	—	62,906
Equities:				
U.S. Companies	436,393	—	—	436,393
International Companies	118,263	—	—	118,263
Common and collective trusts:				
U.S. Equities	—	139,321	—	139,321
International Equities	—	156,407	—	156,407
Real estate	—	106,147	—	106,147
Short-term investments and other	—	29,913	7,278	37,191
Total Pension Plan	<u>\$ 763,959</u>	<u>\$ 1,079,313</u>	<u>\$ 7,278</u>	<u>\$ 1,850,550</u>
Other Benefits:				
Assets:				
Cash and cash equivalents	\$ 160	\$ —	\$ —	\$ 160
Fixed Income Securities:				
Corporate	—	148,417	—	148,417
U.S. Treasury	103,321	—	—	103,321
Other (b)	—	30,105	—	30,105
Equities:				
U.S. Companies	179,235	—	—	179,235
International Companies	22,486	—	—	22,486
Common and collective trusts:				
U.S. Equities	—	52,507	—	52,507
International Equities	—	53,504	—	53,504
Real Estate	—	8,446	—	8,446
Short-term investments and other	—	8,516	1,966	10,482
Total Other Benefits	<u>\$ 305,202</u>	<u>\$ 301,495</u>	<u>\$ 1,966</u>	<u>\$ 608,663</u>

(a) Represents plan receivables and payables.

(b) This category consists primarily of debt securities issued by municipalities.

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The fair value of Pinnacle West's pension plan and other postretirement benefit plan assets at December 31, 2010, by asset category, are as follows (dollars in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Other (a)	Balance at December 31, 2010
Pension Plan:				
Assets:				
Cash and cash equivalents	\$ 2,375	\$ —	\$ —	\$ 2,375
Fixed Income Securities:				
Corporate	—	508,946	—	508,946
U.S. Treasury	163,313	—	—	163,313
Other (b)	—	53,358	—	53,358
Equities:				
U.S. Companies	462,973	—	—	462,973
International Companies	129,094	—	—	129,094
Other investments	—	5,549	8,071	13,620
Common and collective trusts:				
U.S. Equities	—	146,705	—	146,705
International Equities	—	177,114	—	177,114
Real estate	—	92,454	—	92,454
Short-term investments	—	25,644	—	25,644
Total Pension Plan	<u>\$ 757,755</u>	<u>\$ 1,009,770</u>	<u>\$ 8,071</u>	<u>\$ 1,775,596</u>
Other Benefits:				
Assets:				
Cash and cash equivalents	\$ 243	\$ —	\$ —	\$ 243
Fixed Income Securities:				
Corporate	—	118,660	—	118,660
U.S. Treasury	74,049	—	—	74,049
Other (b)	—	24,456	—	24,456
Equities:				
U.S. Companies	179,655	—	—	179,655
International Companies	25,121	—	—	25,121
Other investments	—	365	2,034	2,399
Common and collective trusts:				
U.S. Equities	—	54,144	—	54,144
International Equities	—	61,455	—	61,455
Real Estate	—	7,357	—	7,357
Short-term investments	—	19,871	—	19,871
Total Other Benefits	<u>\$ 279,068</u>	<u>\$ 286,308</u>	<u>\$ 2,034</u>	<u>\$ 567,410</u>

(a) Represents plan receivables and payables.

(b) This category consists primarily of municipal debt securities issued by municipalities.

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The following table shows the changes in fair value for assets that are measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2010 (dollars in thousands):

	Year Ended December 31, 2010	
	Pension	Other Benefits
Common and Collective Trusts — Real Estate		
Beginning balance at January 1	\$ 64,212	\$ 6,504
Actual return on assets still held (a)	(204)	(23)
Purchases, sales, and settlements	18,003	45
Transfers in and/or out of Level 3 (b)	(82,011)	(6,526)
Ending balance at December 31	\$ —	\$ —

- (a) The return for December 31, 2010 represents the return on assets held as of March 31, 2010, the beginning of the period in which all the assets were transferred out of Level 3.
- (b) Transfers into and out of Level 3 are measured at the beginning of the period in which the transfer occurs. Transfers out of Level 3 during 2010 relate to our Real Estate Common and Collective Trust being transferred to a Level 2 investment. During 2009 the Real Estate Common and Collective Trust had special redemption restrictions in place, which limited our ability to transact at the trust's NAV. During 2010 these special redemption restrictions were lifted, and in 2010 and 2011 we were able to transact at the NAV according to the trust's contractual redemption policy.

The plans had no investments valued using significant unobservable inputs (Level 3) for the year ended December 31, 2011.

Contributions

The required minimum contribution to our pension plan is approximately \$65 million in 2012, approximately \$160 million in 2013 and approximately \$160 million in 2014. In 2011, we did not make a contribution to our pension plan. The contribution to our other postretirement benefit plans in 2011 was approximately \$19 million. The contributions to our other postretirement benefit plans for 2012, 2013 and 2014 are expected to be approximately \$20 million each year. APS and other subsidiaries fund their share of the contributions. APS's share of the pension plan contribution was \$195 million in 2010. APS's share of the contributions to the other postretirement benefit plan were \$19 million in 2011, \$16 million in 2010, and \$15 million in 2009.

Estimated Future Benefit Payments

Benefit payments, which reflect estimated future employee service, for the next five years and the succeeding five years thereafter are estimated to be as follows (dollars in thousands):

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Year	Pension	Other Benefits (a)
2012	\$ 113,075	\$ 27,610
2013	122,750	30,562
2014	132,302	33,451
2015	141,516	36,489
2016	154,379	39,525
Years 2017-2021	941,377	246,091

(a) The estimated future other benefit payments take into account the Medicare Part D subsidy.

Electric plant participants contribute to the above amounts in accordance with their respective participation agreements.

Employee Savings Plan Benefits

Pinnacle West sponsors a defined contribution savings plan for eligible employees of Pinnacle West and its subsidiaries. In 2011, costs related to APS's employees represented 99% of the total cost of this plan. In a defined contribution savings plan, the benefits a participant receives result from regular contributions participants make to their own individual account, the Company's matching contributions and earnings or losses on their investments. Under this plan, the Company matches a percentage of the participants' contributions in cash which is then invested in the same investment mix as participants elect to invest their own future contributions. Pinnacle West recorded expenses for this plan of approximately \$8 million for 2011, \$9 million for 2010 and \$9 million for 2009.

9. Leases

We lease certain vehicles, land, buildings, equipment and miscellaneous other items through operating rental agreements with varying terms, provisions and expiration dates.

Total lease expense recognized in the Consolidated Statements of Income was \$21 million in 2011, \$23 million in 2010 and \$28 million in 2009. APS's lease expense was \$18 million in 2011, \$19 million in 2010 and \$19 million in 2009.

Estimated future minimum lease payments for Pinnacle West's and APS's operating leases, excluding purchased power agreements, are approximately as follows (dollars in millions):

Year	Pinnacle West Consolidated	APS
2012	\$ 21	\$ 18
2013	18	15
2014	15	12
2015	13	10
2016	2	2
Thereafter	23	22
Total future lease commitments	<u>\$ 92</u>	<u>\$ 79</u>

In 1986, APS entered into agreements with three separate lessor trust entities in order to sell and lease back interests in Palo Verde Unit 2 and related common facilities. These lessor trust entities have been deemed variable interest entities for which APS is the primary beneficiary. As the primary

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beneficiary APS consolidated these lessor trust entities. The above lease disclosures exclude the impacts of these sale leaseback transactions, as lease accounting for these agreements is eliminated upon consolidation. See Note 20 for a discussion of VIEs.

10. Jointly-Owned Facilities

APS shares ownership of some of its generating and transmission facilities with other companies. Our share of operations and maintenance expense and utility plant costs related to these facilities is accounted for using proportional consolidation. The following table shows APS's interests in those jointly-owned facilities recorded on the Consolidated Balance Sheets at December 31, 2011 (dollars in thousands):

	Percent Owned	Plant in Service	Accumulated Depreciation	Construction Work in Progress
Generating facilities:				
Palo Verde Units 1 and 3	29.1%	\$ 2,061,894	\$ 1,154,141	\$ 66,558
Palo Verde Unit 2 (a)	17.0%	661,006	365,704	33,032
Palo Verde Sale Leaseback	(a)	351,050	218,186	—
Four Corners Units 4 and 5	15.0%	165,139	104,910	2,357
Four Corners common	38.44%	16,413	5,997	750
Navajo Generating Station Units 1, 2 and 3	14.0%	264,227	170,777	10,327
Cholla common facilities (b)	63.3%(c)	146,642	51,985	1,661
Transmission facilities:				
ANPP 500kV System	33.0%(c)	88,451	30,123	10,161
Navajo Southern System	25.9%(c)	51,174	15,161	920
Palo Verde — Yuma 500kV System	44.1%(c)	8,816	4,331	—
Four Corners Switchyards	39.6%(c)	19,630	5,696	1,004
Phoenix — Mead System	17.5%(c)	39,374	10,731	—
Palo Verde — Estrella 500kV System	50.0%(c)	85,643	11,769	3,445
North Valley System	69.3%(c)	95,057	1,757	3,821
Round Valley System	50.0%(c)	570	320	—

(a) See Note 20.

(b) PacifiCorp owns Cholla Unit 4 and APS operates the unit for PacifiCorp. The common facilities at Cholla are jointly-owned.

(c) Weighted average of interests.

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11. Commitments and Contingencies

Palo Verde Nuclear Generating Station

Spent Nuclear Fuel and Waste Disposal

APS currently estimates it will incur \$122 million (in 2011 dollars) over the current life of Palo Verde for its share of the costs related to the on-site interim storage of spent nuclear fuel. At December 31, 2011, APS had a regulatory liability of \$49 million that represents amounts recovered in retail rates in excess of amounts spent for on-site interim spent fuel storage.

Nuclear Insurance

The Palo Verde participants are insured against public liability for a nuclear incident up to \$12.6 billion per occurrence. As required by the Price Anderson Nuclear Industries Indemnity Act, Palo Verde maintains the maximum available nuclear liability insurance in the amount of \$375 million, which is provided by commercial insurance carriers. The remaining balance of \$12.2 billion is provided through a mandatory industry wide retrospective assessment program. If losses at any nuclear power plant covered by the program exceed the accumulated funds, APS could be assessed retrospective premium adjustments. The maximum assessment per reactor under the program for each nuclear incident is approximately \$118 million, subject to an annual limit of \$18 million per incident, to be periodically adjusted for inflation. Based on APS's interest in the three Palo Verde units, APS's maximum potential assessment per incident for all three units is approximately \$103 million, with an annual payment limitation of approximately \$15 million.

The Palo Verde participants maintain "all risk" (including nuclear hazards) insurance for property damage to, and decontamination of, property at Palo Verde in the aggregate amount of \$2.75 billion, a substantial portion of which must first be applied to stabilization and decontamination. APS has also secured insurance against portions of any increased cost of generation or purchased power and business interruption resulting from a sudden and unforeseen accidental outage of any of the three units. The property damage, decontamination, and replacement power coverages are provided by Nuclear Electric Insurance Limited ("NEIL"). APS is subject to retrospective assessments under all NEIL policies if NEIL's losses in any policy year exceed accumulated funds. The maximum amount APS could incur under the current NEIL policies totals approximately \$18 million for each retrospective assessment declared by NEIL's Board of Directors due to losses. In addition, NEIL policies contain rating triggers that would result in APS providing approximately \$46 million of collateral assurance within 20 business days of a rating downgrade to non-investment grade. The insurance coverage discussed in this and the previous paragraph is subject to certain policy conditions and exclusions.

Fuel and Purchased Power Commitments and Purchase Obligations

APS is party to purchase obligations and various fuel and purchased power contracts with terms expiring between 2012 and 2042 that include required purchase provisions. APS estimates the contract requirements to be approximately \$580 million in 2012; \$528 million in 2013; \$556 million in 2014; \$535 million in 2015; \$503 million in 2016; and \$6.8 billion thereafter. However, these amounts may vary significantly pursuant to certain provisions in such contracts that permit us to decrease required purchases under certain circumstances.

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Of the various fuel and purchased power contracts mentioned above, some of those contracts have take-or-pay provisions. The contracts APS has for its coal supply include take-or-pay provisions. The current take-or-pay coal contracts have terms that expire in 2024.

The following table summarizes our actual and estimated take-or-pay commitments (dollars in millions):

	Actual			Estimated (a)					
	2009	2010	2011	2012	2013	2014	2015	2016	Thereafter
Coal take-or-pay commitments	\$ 93	\$ 66	\$ 68	\$ 79	\$ 82	\$ 86	\$ 88	\$ 58	\$ 148

- (a) Total take-or-pay commitments are approximately \$541 million. The total net present value of these commitments is approximately \$401 million.

Renewable Energy Credits

APS has entered into contracts to purchase renewable energy credits to comply with the RES. APS estimates the contract requirements to be approximately \$58 million in 2012; \$32 million in 2013; \$33 million in 2014; \$32 million in 2015; \$32 million in 2016; and \$388 million thereafter.

Coal Mine Reclamation Obligations

APS must reimburse certain coal providers for amounts incurred for coal mine reclamation. APS's coal mine reclamation obligation was approximately \$118 million at December 31, 2011 and \$117 million at December 31, 2010.

FERC Market Issues

On July 25, 2001, the FERC ordered an evidentiary proceeding to discuss and evaluate possible refunds for wholesale sales in the Pacific Northwest. The FERC affirmed the administrative law judge's conclusion that the prices in the Pacific Northwest were not unreasonable or unjust and refunds should not be ordered in this proceeding. This decision was appealed to the U.S. Court of Appeals for the Ninth Circuit and ultimately remanded to the FERC for further consideration. On October 3, 2011, the FERC ordered an evidentiary, trial-type hearing before an administrative law judge to address possible activity that may have influenced prices in the Pacific Northwest spot market during the period from December 25, 2000 through June 20, 2001. FERC rejected a market-wide remedy approach and instead directed that buyers seeking refunds must demonstrate that a particular seller engaged in unlawful market activity in the spot market and that such unlawful activity directly affected the particular contract or contracts to which the seller was a party.

This hearing has been held in abeyance to provide an opportunity for the parties to engage in settlement negotiations. Although the FERC has not yet determined whether any refunds will ultimately be required, we do not expect that the resolution of these issues will have a material adverse impact on our financial position, results of operations or cash flows.

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Superfund

Superfund establishes liability for the cleanup of hazardous substances found contaminating the soil, water or air. Those who generated, transported or disposed of hazardous substances at a contaminated site are among those who are PRPs. PRPs may be strictly, and often are jointly and severally, liable for clean-up. On September 3, 2003, the EPA advised APS that the EPA considers APS to be a PRP in the Motorola 52nd Street Superfund Site, OU3 in Phoenix, Arizona. APS has facilities that are within this Superfund site. APS and Pinnacle West have agreed with the EPA to perform certain investigative activities of the APS facilities within OU3. In addition, on September 23, 2009, APS agreed with the EPA and one other PRP to voluntarily assist with the funding and management of the site-wide groundwater remedial investigation and feasibility study work plan. We estimate that our costs related to this investigation and study will be approximately \$1 million. We anticipate incurring additional expenditures in the future, but because the overall investigation is not complete and ultimate remediation requirements are not yet finalized, at the present time we cannot accurately estimate our total expenditures.

Climate Change Lawsuit

In February 2008, the Native Village of Kivalina and the City of Kivalina, Alaska filed a lawsuit in federal court in the Northern District of California against nine oil companies, fourteen power companies (including Pinnacle West), and a coal company, alleging that the defendants' emissions of carbon dioxide contribute to global warming and constitute a public and private nuisance under both federal and state law. The plaintiffs also allege that the effects of global warming will require the relocation of the village, and they are seeking an unspecified amount of monetary damages. In June 2008, the defendants filed motions to dismiss the action, which were granted. The plaintiffs filed an appeal with the Ninth Circuit Court of Appeals in November 2009, and Pinnacle West filed its reply on June 30, 2010. On January 24, 2011, the defendants filed a motion, which was later granted, to defer calendaring of oral argument until after the United States Supreme Court ruled in a similar nuisance lawsuit, *American Electric Power Co., Inc. v. Connecticut*.

On June 20, 2011, the Supreme Court issued its opinion in *Connecticut* holding, among other things, that the Clean Air Act and the EPA actions authorized by the act, which are aimed at controlling greenhouse gas emissions, displace any federal common law right to seek abatement of greenhouse gas emissions from fossil fuel-fired power plants. However, the Court left open the issue of whether such claims may be available under state law. Oral argument in the *Kivalina* case was heard on November 28, 2011; the parties await the court's decision. We believe the action in *Kivalina* is without merit and will continue to defend against both the federal and state claims.

Southwest Power Outage

Regulatory Inquiry. On September 8, 2011 at approximately 3:30PM, a 500 kV transmission line running between the Hassayampa and North Gila substations in southwestern Arizona tripped out of service due to a fault that occurred at a switchyard operated by APS. At the time, an APS employee at the North Gila substation was performing a procedure to remove from service a capacitor bank that was believed not to be operating properly. Approximately ten minutes after the transmission line went off-line, generation and transmission resources for the Yuma area were lost, resulting in approximately 69,700 APS customers losing service.

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Within the same time period that APS's Yuma customers lost service, a series of transmission and generation disruptions occurred across the systems of several utilities that resulted in outages affecting portions of southern Arizona, southern California and northern Mexico. A total of approximately 7,900 MW of firm load and 2.8 million customers (1.6 million in the United States and 1.2 million in northern Mexico) were reported to have been affected. Service to all affected APS customers was restored by 9:15PM on September 8. Service to customers affected by the wider regional outages was restored by approximately 3:25AM on September 9.

APS has an internal review of the September 8 events underway. In addition:

- the FERC and the North American Electric Reliability Corporation ("NERC") are conducting a joint inquiry into the outages; and
- the Western Electricity Coordinating Council ("WECC") initiated a Detailed Disturbance Analysis process to identify and understand the cause of the events that occurred, and identify and ensure timely implementation of corrective actions.

APS cannot predict the timing, results or potential impacts of any of the inquiries into the September 8 events, or any other claims that may be made as a result of the outages. If violations of NERC Reliability Standards are ultimately determined to have occurred, FERC has the legal authority to assert a possible fine of up to \$1 million per violation per day that the violation is found to have been in existence.

Lawsuit. On September 12, 2011, two purported consumer class action complaints were filed in Federal District Court in San Diego, California, naming APS, Pinnacle West and San Diego Gas & Electric Company as defendants and seeking damages for loss of perishable inventory as a result of interruption of electrical service. On December 22, 2011, the plaintiffs voluntarily dismissed both lawsuits. In January 2012, one of the cases was refiled in California Superior Court in San Diego, California. APS and Pinnacle West have numerous defenses against any such complaints, and do not believe that any potential impact will be material.

New Source Review

On October 4, 2011, Earthjustice, on behalf of several environmental organizations, filed a lawsuit in the United States District Court for the District of New Mexico against APS and the other Four Corners participants alleging violations of the PSD provisions of the Clean Air Act. Subsequent to filing its original Complaint, on January 6, 2012, Earthjustice filed a First Amended Complaint adding claims for violations of the Clean Air Act's NSPS program. Among other things, the plaintiffs seek to have the court enjoin operations at Four Corners until APS applies for and obtains any required PSD permits and complies with the NSPS. The plaintiffs further request the court to order the payment of civil penalties, including a beneficial mitigation project. APS believes the claims in this matter are without merit and will vigorously defend against them. We are unable to determine a range of potential losses that are reasonably possible of occurring.

Financial Assurances

APS has entered into various agreements that require letters of credit for financial assurance purposes. At December 31, 2011, approximately \$44 million of letters of credit were outstanding to support existing pollution control bonds of a similar amount. The letters of credit are available to fund

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the payment of principal and interest of such debt obligations. These letters of credit expire in 2016. APS has also entered into letters of credit to support certain equity participants in the Palo Verde sale leaseback transactions (see Note 20 for further details on the Palo Verde sale leaseback transactions). These letters of credit will expire at December 31, 2015, totaling approximately \$52 million. Additionally, APS has issued two letters of credit to support the collateral obligations under a certain natural gas tolling contracts entered into with third parties. At December 31, 2011, \$30 million of letters of credit were outstanding to support these tolling contract obligations. These letters of credit will expire in 2015 and 2016.

We enter into agreements that include indemnification provisions relating to liabilities arising from or related to certain of our agreements; most significantly, APS has agreed to indemnify the equity participants and other parties in the Palo Verde sale leaseback transactions with respect to certain tax matters. Generally, a maximum obligation is not explicitly stated in the indemnification provisions and, therefore, the overall maximum amount of the obligation under such indemnification provisions cannot be reasonably estimated. Based on historical experience and evaluation of the specific indemnities, we do not believe that any material loss related to such indemnification provisions is likely.

Pinnacle West sold its investment in APSES on August 19, 2011. Upon the closing of the sale, Pinnacle West was released from its parental guarantee and surety bond obligations related to the APSES business. Pinnacle West has also issued parental guarantees and surety bonds for APS which were not material at December 31, 2011.

12. Asset Retirement Obligations

APS has asset retirement obligations for its Palo Verde nuclear facilities and certain other generation, transmission and distribution assets. The Palo Verde asset retirement obligation primarily relates to final plant decommissioning. This obligation is based on the NRC's requirements for disposal of radiated property or plant and agreements APS reached with the ACC for final decommissioning of the plant. In the first quarter of 2011, a new decommissioning study with updated cash flow estimates was completed for Palo Verde. This study reflects the twenty-year license extension approved by the NRC on April 21, 2011, which extends the commencement of decommissioning to 2045. The non-nuclear generation asset retirement obligations primarily relate to requirements for removing portions of those plants at the end of the plant life or lease term.

Some of APS's transmission and distribution assets have asset retirement obligations because they are subject to right of way and easement agreements that require final removal. These agreements have a history of uninterrupted renewal that APS expects to continue. As a result, APS cannot reasonably estimate the fair value of the asset retirement obligation related to such distribution and transmission assets.

Additionally, APS has aquifer protection permits for some of its generation sites that require the closure of certain facilities at those sites.

The following schedule shows the change in our asset retirement obligations for 2011 and 2010 (dollars in millions):

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	2011	2010
Asset retirement obligations at the beginning of year	\$ 329	\$ 302
Changes attributable to:		
Accretion expense	19	22
Estimated cash flow revisions	(68)	5
Asset retirement obligations at the end of year	<u>\$ 280</u>	<u>\$ 329</u>

In accordance with regulatory accounting, APS accrues removal costs for its regulated utility assets, even if there is no legal obligation for removal. See detail of regulatory liabilities in Note 3.

13. Selected Quarterly Financial Data (Unaudited)

Consolidated quarterly financial information for 2011 and 2010 is as follows (dollars in thousands, except per share amounts):

	2011 Quarter Ended				2011 Total
	March 31,(a)	June 30,	Sept. 30,	Dec. 31,	
Operating revenues	\$ 648,847	\$ 799,799	\$ 1,124,841	\$ 667,892	\$ 3,241,379
Operations and maintenance	255,029	210,590	210,035	228,632	904,286
Operating income	35,784	196,992	435,017	78,715	746,508
Income taxes	(6,005)	50,818	131,416	7,375	183,604
Income (loss) from continuing operations	(10,368)	93,185	253,273	19,544	355,634
Net income (loss) attributable to common shareholders	(15,135)	86,685	255,359	12,564	339,473
Earnings Per Share:					
Income (loss) from continuing operations attributable to common shareholders - Basic	\$ (0.15)	\$ 0.79	\$ 2.25	\$ 0.11	\$ 3.01
Net income (loss) attributable to common shareholders - Basic	(0.14)	0.80	2.34	0.12	3.11
Income (loss) from continuing operations attributable to common shareholders - Diluted	(0.15)	0.78	2.24	0.11	2.99
Net income (loss) attributable to common shareholders - Diluted	(0.14)	0.79	2.32	0.11	3.09

(a) The March 31, 2011 results were adjusted for the effect of reclassifications for discontinued operations (see Note 21). The adjustments resulted in a reduction in operating revenues of \$10,728, a reduction in operations and maintenance of \$1,457, a reduction in operating income of \$1,357, a decrease in income taxes of \$356, and a decrease in income from continuing operations of \$1,043.

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	2010 Quarter Ended				2010
	March 31,	June 30,	Sept. 30,	Dec. 31,	
As originally reported in the 2010 10-K:					
Operating revenues	\$ 620,355	\$ 820,594	\$ 1,139,085	\$ 683,611	\$ 3,263,645
Operations and maintenance	207,842	215,104	221,469	232,991	877,406
Operating income	57,668	203,273	403,625	59,318	723,884
Income taxes	(7,172)	51,829	123,486	(3,822)	164,321
Income from continuing operations	11,983	94,584	231,828	12,203	350,598
Net income (loss) attributable to common shareholders	(6,014)	114,797	233,920	7,350	350,053
Reclassification of discontinued operations (Note 21):					
Operating revenues	\$ (8,093)	\$ (17,799)	\$ (22,375)	\$ (26,179)	\$ (74,446)
Operations and maintenance	(1,529)	(1,495)	(1,811)	(2,386)	(7,221)
Operating income	(694)	(1,889)	(3,351)	(3,067)	(9,001)
Income taxes	(481)	(641)	(1,139)	(1,191)	(3,452)
Income (loss) from continuing operations	(292)	(1,270)	(2,266)	(1,919)	(5,747)
After reclassifications:					
Operating revenues	\$ 612,262	\$ 802,795	\$ 1,116,710	\$ 657,432	\$ 3,189,199
Operations and maintenance	206,313	213,609	219,658	230,605	870,185
Operating income	56,974	201,384	400,274	56,251	714,883
Income taxes	(7,653)	51,188	122,347	(5,013)	160,869
Income from continuing operations	11,691	93,314	229,562	10,284	344,851
Net income (loss) attributable to common shareholders	(6,014)	114,797	233,920	7,350	350,053
Earnings Per Share:					
As originally reported in the 2010 10-K					
Income from continuing operations attributable to common shareholders - Basic	\$ 0.07	\$ 0.84	\$ 2.09	\$ 0.07	\$ 3.10
Net income (loss) attributable to common shareholders - Basic	(0.06)	1.07	2.15	0.07	3.28
Income from continuing operations attributable to common shareholders - Diluted	0.07	0.83	2.08	0.06	3.08
Net income (loss) attributable to common shareholders - Diluted	(0.06)	1.07	2.14	0.07	3.27
Earnings Per Share:					
After reclassifications:					
Income from continuing operations attributable to common shareholders - Basic	\$ 0.06	\$ 0.82	\$ 2.07	\$ 0.05	\$ 3.05
Net income (loss) attributable to common shareholders - Basic	(0.06)	1.07	2.15	0.07	3.28
Income from continuing operations attributable to common shareholders - Diluted	0.06	0.82	2.06	0.05	3.03
Net income (loss) attributable to common shareholders - Diluted	(0.06)	1.07	2.14	0.07	3.27

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14. Fair Value Measurements

We classify our assets and liabilities that are carried at fair value within the fair value hierarchy. This hierarchy ranks the quality and reliability of the inputs used to determine fair values, which are then classified and disclosed in one of three categories. The three levels of the fair value hierarchy are:

Level 1 — Unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access at the measurement date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide information on an ongoing basis. This category includes exchange-traded equities, exchange-traded derivative instruments, cash equivalents, and investments in U.S. Treasury securities.

Level 2 — Utilizes quoted prices in active markets for similar assets or liabilities; quoted prices in markets that are not active; and model-derived valuations whose inputs are observable (such as yield curves). This category includes non-exchange traded contracts such as forwards, options, swaps and certain investments in fixed income securities. This category also includes investments in common and collective trusts and commingled funds that are redeemable and valued based on NAV.

Level 3 — Valuation models with significant unobservable inputs that are supported by little or no market activity. Instruments in this category include long-dated derivative transactions where models are required due to the length of the transaction, options, and transactions in locations where observable market data does not exist. The valuation models we employ utilize spot prices, forward prices, historical market data and other factors to forecast future prices. The primary valuation technique we use to calculate the fair value of contracts where price quotes are not available is based on the extrapolation of forward pricing curves using observable market data for more liquid delivery points in the same region and actual transactions at the more illiquid delivery points. Option contracts are valued using a Black-Scholes option pricing model that incorporates commodity prices, volatilities, and correlation factors.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Thus, a valuation may be classified in Level 3 even though the valuation may include significant inputs that are readily observable. We maximize the use of observable inputs and minimize the use of unobservable inputs. We rely primarily on the market approach of using prices and other market information for identical and/or comparable assets and liabilities. If market data is not readily available, inputs may reflect our own assumptions about the inputs market participants would use. Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities as well as their placement within the fair value hierarchy levels. We assess whether a market is active by obtaining observable broker quotes, reviewing actual market transactions, and assessing the volume of transactions. We consider broker quotes observable inputs when the quote is binding on the broker, we can validate the quote with market transactions, or we can determine that the inputs the broker used to arrive at the quoted price are observable.

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Recurring Fair Value Measurements

We apply recurring fair value measurements to certain cash equivalents, derivative instruments, investments held in our nuclear decommissioning trust and plan assets held in our retirement and other benefit plans. See Note 8 for the fair value discussion of plan assets held in our retirement and other benefit plans.

Cash Equivalents

Cash equivalents represent short-term investments with original maturities of three months or less in exchange traded money market funds that are valued using quoted prices in active markets.

Risk Management Activities — Derivative Instruments

Exchange traded commodity contracts are valued using unadjusted quoted prices. For non-exchange traded commodity contracts, we calculate fair market value based on the average of the bid and offer price, discounted to reflect net present value. We maintain certain valuation adjustments for a number of risks associated with the valuation of future commitments. These include valuation adjustments for liquidity and credit risks based on the financial condition of counterparties. The liquidity valuation adjustment represents the cost that would be incurred if all unmatched positions were closed out or hedged. The credit valuation adjustment represents estimated credit losses on our net exposure to counterparties, taking into account netting agreements, expected default experience for the credit rating of the counterparties and the overall diversification of the portfolio. We maintain credit policies that management believes minimize overall credit risk.

Certain non-exchange traded commodity contracts are valued based on unobservable inputs due to the long-term nature of contracts or the unique location of the transactions. Our long-dated energy transactions consist of observable valuations for the near term portion and unobservable valuations for the long-term portions of the transaction. Certain option contracts are valued using option valuation models which utilize both observable and unobservable inputs such as volatility rates and correlation factors. When the unobservable portion is significant to the overall valuation of the transaction, the entire transaction is classified as Level 3. Our classification of instruments as Level 3 is primarily reflective of the long-term nature of our energy transactions and the use of option valuation models with significant unobservable inputs.

Investments Held in our Nuclear Decommissioning Trust

The nuclear decommissioning trust invests in fixed income securities and equity securities. Equity securities are held indirectly through commingled funds. The commingled funds are valued based on NAV, which is primarily derived from the quoted active market prices of the underlying equity securities. We may transact in these commingled funds on a semi-monthly basis at the NAV, and accordingly classify these investments as Level 2. The commingled funds, which are similar to mutual funds, are maintained by a bank and hold investments in accordance with the stated objective of tracking the performance of the S&P 500 index. Because the commingled fund shares are offered to a limited group of investors, they are not considered to be traded in an active market.

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Cash equivalents reported within Level 2 represent investments held in a short-term investment commingled fund, valued using NAV, which invests in U.S. government fixed income securities. We may transact in this commingled fund on a daily basis at the NAV.

Fixed income securities issued by the U.S. Treasury held directly by the nuclear decommissioning trust are valued using quoted active market prices and are classified as Level 1. Fixed income securities issued by corporations, municipalities, and other agencies including mortgage-backed instruments are valued using quoted inactive market prices, quoted active market prices for similar securities, or by utilizing calculations which incorporate observable inputs such as yield and interest rate curves. These instruments are classified as Level 2. Whenever possible multiple market quotes are obtained which enables a cross-check validation. A primary price source is identified based on asset type, class, or issue of securities.

Our trustee provides valuation of our nuclear decommissioning trust assets by using pricing services that utilize the valuation methodologies described to determine fair market value. We assess these valuations and verify that pricing can be supported by actual recent market transactions. Additionally, we obtain and review independent audit reports on the trustee's operating controls and valuation processes. See Note 23 for additional discussion about our nuclear decommissioning trust.

Fair Value Tables

The following table presents the fair value at December 31, 2011 of our assets and liabilities that are measured at fair value on a recurring basis (dollars in millions):

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	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (a) (Level 3)	Other	Balance at December 31, 2011
Assets					
Risk management activities-derivative instruments:					
Commodity contracts	\$ —	\$ 70	\$ 74	\$ (64)(b)	\$ 80
Nuclear decommissioning trust:					
U.S. commingled equity funds	—	175	—	—	175
Fixed income securities:					
U.S. Treasury	69	—	—	—	69
Cash and cash equivalent funds	—	9	—	(1)(c)	8
Corporate debt	—	73	—	—	73
Mortgage-backed securities	—	78	—	—	78
Municipality bonds	—	90	—	—	90
Other	—	21	—	—	21
Subtotal nuclear decommissioning trust	<u>69</u>	<u>446</u>	<u>—</u>	<u>(1)</u>	<u>514</u>
Total	<u>\$ 69</u>	<u>\$ 516</u>	<u>\$ 74</u>	<u>\$ (65)</u>	<u>\$ 594</u>
Liabilities					
Risk management activities - derivative instruments:					
Commodity contracts	<u>\$ —</u>	<u>\$ (241)</u>	<u>\$ (125)</u>	<u>\$ 229(b)</u>	<u>\$ (137)</u>

(a) Primarily consists of heat rate options and other long-dated electricity contracts.

(b) Represents counterparty netting, margin and collateral. See Note 18.

(c) Represents nuclear decommissioning trust net pending securities sales and purchases.

The following table presents the fair value at December 31, 2010 of our assets and liabilities that are measured at fair value on a recurring basis (dollars in millions):

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	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (a) (Level 3)	Other	Balance at December 31, 2010
Assets					
Cash equivalents	\$ 35	\$ —	\$ —	\$ —	\$ 35
Risk management activities-derivative instruments:					
Commodity contracts	—	80	61	(28)(b)	113
Nuclear decommissioning trust:					
U.S. commingled equity funds	—	168	—	—	168
Fixed income securities:					
U.S. Treasury	50	—	—	—	50
Cash and cash equivalent funds	—	22	—	—	22
Corporate debt	—	60	—	—	60
Mortgage-backed securities	—	81	—	—	81
Municipality bonds	—	79	—	—	79
Other	—	20	—	(10)(c)	10
Subtotal nuclear decommissioning trust	<u>50</u>	<u>430</u>	<u>—</u>	<u>(10)</u>	<u>470</u>
Total	<u>\$ 85</u>	<u>\$ 510</u>	<u>\$ 61</u>	<u>\$ (38)</u>	<u>\$ 618</u>
Liabilities					
Risk management activities - derivative instruments:					
Commodity contracts	\$ (1)	\$ (280)	\$ (99)	\$ 256(b)	\$ (124)

(a) Primarily consists of long-dated electricity contracts.

(b) Represents counterparty netting, margin and collateral. See Note 18.

(c) Represents nuclear decommissioning trust net pending securities sales and purchases.

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The following table shows the changes in fair value for assets and liabilities that are measured at fair value on a recurring basis using Level 3 inputs for the years ended December 31, 2011 and 2010 (dollars in millions):

	Year Ended December 31,	
	2011	2010
Net risk management activities at beginning of period	\$ (38)	\$ (10)
Total net gains (losses) realized/unrealized:		
Included in earnings	2	(1)
Included in OCI	(5)	(14)
Deferred as a regulatory asset or liability	(10)	(38)
Settlements	11	19
Transfers into Level 3 from Level 2	(4)	5
Transfers from Level 3 into Level 2	(7)	1
Net risk management activities at end of period	\$ (51)	\$ (38)
Net unrealized gains (losses) included in earnings related to instruments still held at end of period	\$ 1	\$ (1)

Amounts included in earnings are recorded in either regulated electricity segment revenue or regulated electricity segment fuel and purchased power depending on the nature of the underlying contract.

Transfers reflect the fair market value at the beginning of the period and are triggered by a change in the lowest significant input as of the end of the period. We had no significant Level 1 transfers to or from any other hierarchy level. Transfers in or out of Level 3 are generally related to changes in the significance of reserves applied to derivative instruments. Transfers out of Level 3 may also be related to our long-dated energy transactions as they move closer to delivery and quoted prices become available.

Nonrecurring Fair Value Measurements

For the periods ended December 31, 2011 and 2010, we had no assets or liabilities measured at fair value on a nonrecurring basis.

Financial Instruments Not Carried at Fair Value

The carrying value of our net accounts receivable, accounts payable and short-term borrowings approximate fair value. For our long-term debt fair values see Note 6.

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15. Earnings Per Share

The following table presents earnings per weighted-average common share outstanding for the years ended December 31, 2011, 2010 and 2009:

	2011	2010	2009
Basic earnings per share:			
Income from continuing operations attributable to common shareholders	\$ 3.01	\$ 3.05	\$ 2.34
Income (loss) from discontinued operations	0.10	0.23	(1.66)
Earnings per share — basic	<u><u>\$ 3.11</u></u>	<u><u>\$ 3.28</u></u>	<u><u>\$ 0.68</u></u>
Diluted earnings per share:			
Income from continuing operations attributable to common shareholders	\$ 2.99	\$ 3.03	\$ 2.34
Income (loss) from discontinued operations	0.10	0.24	(1.67)
Earnings per share — diluted	<u><u>\$ 3.09</u></u>	<u><u>\$ 3.27</u></u>	<u><u>\$ 0.67</u></u>

Dilutive stock options and performance shares (which are contingently issuable) increased average common shares outstanding by approximately 811,000 shares in 2011, 565,000 shares in 2010 and 103,000 shares in 2009. Total average common shares outstanding for the purposes of calculating diluted earnings per share were 109,864,243 shares in 2011, 107,137,785 shares in 2010 and 101,263,795 shares in 2009.

For the year ended 2011, there were no common stock options that were excluded from the computation of diluted earnings per share as a result of the options' exercise prices being greater than the average market price of the common shares. Options to purchase shares of common stock that were not included in the computation of diluted earnings per share were 192,542 during 2010 and 572,301 during 2009.

16. Stock-Based Compensation

Pinnacle West grants long-term incentive awards under the 2007 long-term incentive plan ("2007 Plan") in the form of Stock Grants, Restricted Stock Units, Restricted Stock and Performance Shares and may grant incentive and stock options, stock appreciation rights, dividend equivalents and stock. The 2007 Plan, effective May 23, 2007, provides a maximum of 8 million common shares to be available for grant to eligible employees and members of the Board of Directors.

Restricted Stock Unit Awards and Stock Grants

Stock grants issued to non-officer members of the Board of Directors in 2009 under the 2007 Plan were paid in fully transferable shares of stock. The 2011 and 2010 grants issued under the 2007 Plan provided Directors the option to elect to receive a stock grant, or to defer receipt until a later date and receive restricted stock units in lieu of the stock grant. Directors who elect to defer may elect to receive payment in either (1) stock, or (2) 50% in cash and 50% in stock. The Director may elect to receive payments either (1) as of the last business day of the month following the month in which the Director separates from services on the Board, or (2) as of a date specified by the Director,

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which date must be after December 31 of the year in which the grant was received. The deferred restricted stock units accrue dividend rights equal to the amount of dividends the Director would have received if the Director had directly owned one share of common stock for each restricted stock unit held plus interest compounded quarterly. The dividends and interest are paid, based on the Director's election, in either (1) stock, or (2) 50% stock and 50% cash.

Restricted stock units have been granted to officers and key employees under the 2007 Plan in each year since 2007. From 2007 through 2009, officers and key employees elected to receive payment in either cash or in fully transferable shares of stock, in exchange for each restricted stock unit on pre-established valuation dates. For 2010 and 2011, participants elected to receive payment in either stock, or 50% cash and 50% stock.

Restricted stock unit awards vest and settle over a four-year period. In addition, officers and key employees accrue dividend rights on the vested restricted stock units, equal to the amount of dividends that they would have received had they directly owned stock equal to the number of vested restricted stock units from the date of grant to the date of payment plus interest compounded quarterly. The dividends and interest for the 2007 through 2009 awards are paid in cash. The dividends and interest for the 2010 and 2011 awards are paid in the same form as the restricted stock unit payment election. Restricted stock unit awards are accounted for as a liability award, with compensation cost initially calculated on the date of grant using Pinnacle West's closing stock price, and remeasured at each balance sheet date. Compensation expense for retirement eligible participants is recognized immediately.

An additional grant of restricted stock unit awards was made to officers of the Company on February 15, 2011, payable solely in shares of common stock upon the officer's retirement or other separation of employment. This award will vest 50% on February 15, 2013, 25% on February 15, 2014 and 25% on February 15, 2015, provided that the officer remains employed on such date. The officers will also accrue notional dividends equal to the amount of dividends that an officer would have received if the officer had directly owned one share of Pinnacle West common stock for each restricted stock unit held by the officer from the grant date to each dividend payment date. Each additional restricted stock unit will proportionally vest on the same remaining vesting schedule that applies to the original restricted stock unit.

The following table is a summary of granted restricted stock units and stock grants and the weighted average fair value for the years ended 2011, 2010 and 2009:

	2011	2010	2009
Units granted	292,242	202,341	261,006
Grant date fair value (a)	\$ 41.98	\$ 37.47	\$ 30.25

(a) weighted average fair value

The following table is a summary of the status of restricted stock units and stock grants, as of December 31, 2011 and changes during the year. This table represents only the stock portion of restricted stock units, per the election on payment discussed in the paragraph above:

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Nonvested shares	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2011	223,681	\$ 35.69
Granted	293,242	41.98
Vested	98,362	37.84
Forfeited	2,330	37.93
Nonvested at December 31, 2011	416,231	39.61

The amount of cash required to settle the payments on restricted stock units is (dollars in millions):

Year	2011	2010	2009
2007 Grant	\$ 1.0	\$ 0.9	\$ 0.8
2008 Grant	1.6	1.5	1.3
2009 Grant	1.5	1.4	—
2010 Grant	0.6	—	—

Performance Share Awards

Performance share awards have been granted to officers and key employees under the 2007 Plan since 2008. Performance share awards contain two performance elements criteria that affect the number of shares received after the end of a three-year performance period if performance criteria conditions are met.

The 2009 performance share grant criteria is based 50% upon the percentile ranking of Pinnacle West's earnings per share growth rate at the end of the three-year period as compared with the earnings per share growth of relevant companies in a specified utilities index, and the other 50% based upon six non-financial separate performance metrics. The exact number of shares issued will vary from 0% to 150% of the target award. Shares received include dividend rights paid in cash equal to the amount of dividends that they would have received had they directly owned stock equal to the number of vested performance shares from the date of grant to the date of payment plus interest compounded quarterly.

The 2011 and 2010 performance share grant criteria is based 50% upon the percentile ranking of Pinnacle West's total shareholder return at the end of the three-year performance period as compared with the total shareholder return of all relevant companies in a specified utilities index and the other 50% based upon six non-financial separate performance metrics. The exact number of shares issued will vary from 0% to 200% of the target award. Shares received include dividend rights paid in stock equal to the amount of dividends that they would have received had they directly owned stock equal to the number of vested performance shares from the date of grant to the date of payment plus interest compounded quarterly.

Performance share awards are accounted for as a liability awards, with compensation cost initially calculated on the date of grant using Pinnacle West's closing stock price, and remeasured at each balance sheet date. Compensation expense for retirement eligible participants is recognized immediately. Management also evaluates the probability of meeting the performance criteria at each balance sheet date. If the performance criteria are not achieved, no compensation cost is recognized and any previously recognized compensation cost is reversed.

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The following table is a summary of the performance shares granted and the weighted average fair value for the years ended 2011, 2010 and 2009:

	2011	2010	2009
Units granted	175,072	178,722	240,624
Grant date fair value (a)	\$ 41.71	\$ 37.57	\$ 30.19

(a) weighted average grant date fair value

The following table is a summary of the status of performance shares, as of December 31, 2011 and changes during the year:

Nonvested shares	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2011	395,312	\$ 33.44
Granted	175,072	41.71
Vested	218,310	30.14
Forfeited	4,128	36.09
Nonvested at December 31, 2011	<u><u>347,946</u></u>	<u><u>39.64</u></u>

Retention Units

The retention unit awards have fully vested and settled on January 4, 2010; for any employee that was eligible to retire before that date, the employee's retention units vested by retirement date and the compensation expense was recognized by retirement eligibility. Retention unit awards were granted to key employees in 2006 and 2007. Each retention unit award represented the right to receive a cash payment equal to the fair market value of one share of Pinnacle West's common stock, determined on pre-established valuation dates. Each retention unit award vested and settled in equal annual installments over a four-year period. In addition, the employee received a cash payment equal to the amount of dividends that the employee would have received if the employee had owned the stock from the date of grant to the date of payment plus interest. As this award was accounted for as a liability award, compensation costs, initially measured based on Pinnacle West's stock price on the grant date, were remeasured at each balance sheet date, using Pinnacle West's closing stock price.

The amount of cash to settle the payment on the first business day of 2010 was \$1.3 million, and 2009 was \$1.1 million.

Incentive Shares

On January 21, 2009, the Human Resources Committee approved under the 2007 Plan payment of 2008 incentive awards to officers in the form of a Pinnacle West common stock grant. A total of 138,756 shares were issued for this stock grant with a grant date fair value of \$32.58 per share. The stock grant was included in stock compensation expense in 2008.

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Stock Options

Pinnacle West has not granted stock options since 2004. Currently outstanding stock option grant terms cannot be longer than 10 years and options cannot be repriced during their terms.

The following table summarizes the option activity under prior equity incentive plans for the year ended December 31, 2011:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Months)	Aggregate Intrinsic Value (dollars in thousands)
Outstanding at January 1, 2011	82,224	\$ 39.37		
Exercised	44,766	40.70		
Forfeited or expired	14,500	42.55		
Outstanding at December 31, 2011	22,958	34.75	11	\$ 308
Exercisable at December 31, 2011	<u>22,958</u>	<u>34.75</u>	<u>11</u>	<u>\$ 308</u>

Cash received from options exercised under our share-based payment arrangements was \$1.8 million for 2011, \$4.6 million for 2010, and \$3 million for 2009. The tax benefit realized for the tax deductions from option exercises of the share-based payment arrangements were immaterial for all years.

The intrinsic value of options exercised was immaterial for all years.

As of December 31, 2011, there was \$20.5 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the plans. That cost is expected to be recognized over a weighted-average period of 2.2 years. The total fair value of shares vested during 2011 was \$14.4 million, 2010 was \$11 million, and 2009 was \$10 million.

The compensation cost that has been charged against Pinnacle West's income for share-based compensation plans was \$23 million in 2011, \$15 million in 2010, and \$5 million in 2009. The compensation cost that Pinnacle West has capitalized is immaterial for all years. Pinnacle West's total income tax benefit recognized in the Consolidated Statements of Income for share-based compensation arrangements was \$9 million in 2011, \$6 million in 2010, and \$2 million in 2009. APS's share of compensation cost that has been charged against income was \$22 million in 2011, \$15 million in 2010, and \$4 million in 2009.

Pinnacle West's current policy is to issue new shares to satisfy share requirements for stock compensation plans and it does not expect to repurchase any shares except to satisfy tax withholding obligations upon the vesting of restricted stock during 2011.

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17. Business Segments

Pinnacle West's reportable business segment is our regulated electricity segment, which consists of traditional regulated retail and wholesale electricity businesses (primarily electricity service to Native Load customers) and related activities and includes electricity generation, transmission and distribution.

Financial data for 2011, 2010 and 2009 is provided as follows (dollars in millions):

	Business Segments for the Year Ended December 31, 2011		
	Regulated Electricity Segment	All other (a)	Total
Operating revenues	\$ 3,237	\$ 4	\$ 3,241
Fuel and purchased power costs	1,009	—	1,009
Other operating expenses	1,055	3	1,058
Operating margin	1,173	1	1,174
Depreciation and amortization	427	—	427
Interest expense	224	—	224
Other expense (income)	(19)	3	(16)
Income from continuing operations before income taxes	541	(2)	539
Income taxes	184	(1)	183
Income from continuing operations	357	(1)	356
Income from discontinued operations — net of income tax expense of \$7 million (see Note 21)	—	11	11
Net income	357	10	367
Less: Net income attributable to noncontrolling interests	28	—	28
Net income attributable to common shareholders	\$ 329	\$ 10	\$ 339
Total assets	<u>\$ 13,068</u>	<u>\$ 43</u>	<u>\$ 13,111</u>
Capital expenditures	\$ 885	—	\$ 885

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	Business Segments for the Year Ended December 31, 2010		
	Regulated Electricity Segment	All other (a)	Total
Operating revenues	\$ 3,181	\$ 8	\$ 3,189
Fuel and purchased power costs	1,047	—	1,047
Other operating expenses	1,009	4	1,013
Operating margin	1,125	4	1,129
Depreciation and amortization	415	—	415
Interest expense	226	2	228
Other expense (income)	(22)	2	(20)
Income from continuing operations before income taxes	506	—	506
Income taxes	161	—	161
Income from continuing operations	345	—	345
Income from discontinued operations — net of income tax expense of \$16 million (see Note 21)	—	25	25
Net income	345	25	370
Less: Net income attributable to noncontrolling interests	20	—	20
Net income attributable to common shareholders	\$ 325	\$ 25	\$ 350
Total assets	<u>\$ 12,285</u>	<u>\$ 108</u>	<u>\$ 12,393</u>
Capital expenditures	<u>\$ 666</u>	<u>\$ 4</u>	<u>\$ 670</u>

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	Business Segments for the Year Ended December 31, 2009		
	Regulated Electricity Segment	All other (a)	Total
Operating revenues	\$ 3,149	\$ 5	\$ 3,154
Fuel and purchased power costs	1,179	—	1,179
Other operating expenses	948	4	952
Operating margin	1,022	1	1,023
Depreciation and amortization	407	—	407
Interest expense	226	1	227
Other expense (income)	(16)	10	(6)
Income (loss) from continuing operations before income taxes	405	(10)	395
Income taxes	143	(4)	139
Income (loss) from continuing operations	262	(6)	256
Loss from discontinued operations — net of income tax benefit of \$110 million (see Note 21)	—	(183)	(183)
Net income (loss)	262	(189)	73
Less: Net income (loss) attributable to noncontrolling interests	19	(14)	5
Net income (loss) attributable to common shareholders	\$ 243	\$ (175)	\$ 68
Total assets	<u>\$ 11,740</u>	<u>\$ 295</u>	<u>\$ 12,035</u>
Capital expenditures	<u>\$ 732</u>	<u>\$ 13</u>	<u>\$ 745</u>

(a) All other activities relate to SunCor, APSES and El Dorado. Income from discontinued operations for 2011 is primarily related to the sale of our investment in APSES. Income from discontinued operations for 2010 is primarily related to the APSES sale of its district cooling business. Loss from discontinued operations for 2009 is primarily related to real estate impairment charges at SunCor (see Note 22). None of these segments is a reportable business segment.

18. Derivative Accounting

We are exposed to the impact of market fluctuations in the commodity price and transportation costs of electricity, natural gas, coal, emissions allowances and in interest rates. We manage risks associated with market volatility by utilizing various physical and financial derivative instruments, including futures, forwards, options and swaps. As part of our overall risk management program, we may use derivative instruments to hedge purchases and sales of electricity and fuels. Derivative instruments that meet certain hedge accounting criteria are designated as cash flow hedges and are used to limit our exposure to cash flow variability on forecasted transactions. The changes in market value of such instruments have a high correlation to price changes in the hedged transactions. We also enter into derivative instruments for economic hedging purposes. While we believe the economic hedges mitigate exposure to fluctuations in commodity prices, some of these instruments

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may not meet the specific hedge accounting requirements and are not designated as accounting hedges. Contracts that have the same terms (quantities and delivery points) and for which power does not flow are netted, which reduces both revenues and fuel and purchased power costs in our Consolidated Statements of Income, but does not impact our financial condition, net income or cash flows.

Our derivative instruments, excluding those qualifying for a scope exception, are recorded on the balance sheet as an asset or liability and are measured at fair value; see Note 14 for a discussion of fair value measurements. Derivative instruments may qualify for the normal purchases and normal sales scope exception if they require physical delivery and the quantities represent those transacted in the normal course of business. Derivative instruments qualifying for the normal purchase and sales scope exception are accounted for under the accrual method of accounting and excluded from our derivative instrument discussion and disclosures below.

Hedge effectiveness is the degree to which the derivative instrument contract and the hedged item are correlated and is measured based on the relative changes in fair value of the derivative instrument contract and the hedged item over time. We assess hedge effectiveness both at inception and on a continuing basis. These assessments exclude the time value of certain options. For accounting hedges that are deemed an effective hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive income ("AOCI") and reclassified into earnings in the same period during which the hedged transaction affects earnings. We recognize in current earnings, subject to the PSA, the gains and losses representing hedge ineffectiveness, and the gains and losses on any hedge components which are excluded from our effectiveness assessment. As of December 31, 2011, we hedged the majority of certain exposures to the price variability of commodities for a maximum of 39 months.

APS defers for future rate treatment approximately 90% of unrealized gains and losses on certain derivatives, pursuant to the PSA mechanism, that would otherwise be recognized in income. Realized gains and losses on derivatives are deferred in accordance with the PSA to the extent the amounts are above or below the Base Fuel Rate (see Note 3). Gains and losses from derivatives in the following tables represent the amounts reflected in income before the effect of PSA deferrals.

As of December 31, 2011, we had the following outstanding gross notional volume of derivatives, which represent both purchases and sales (does not reflect net position):

Commodity	Quantity	
Power	11,882	GWh
Gas	118,199	Billion Btu

Gains and Losses from Derivative Instruments

The following table provides information about gains and losses from derivative instruments in designated cash flow accounting hedges during the year ended December 31, 2011 and December 31, 2010 (dollars in thousands):

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Commodity Contracts	Financial Statement Location	Year Ended December 31, 2011	Year Ended December 31, 2010
Loss Recognized in AOCI (Effective Portion)	Accumulated other comprehensive loss-derivative instruments	\$ (94,660)	\$ (155,287)
Loss Reclassified from AOCI into Income (Effective Portion Realized)	Regulated electricity fuel and purchased power	(117,189)	(122,740)
Gain (Loss) Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing) (a)	Regulated electricity fuel and purchased power	(211)	3,680

(a) During the year ended December 31, 2011 and 2010, we had no amounts reclassified from AOCI to earnings related to discontinued cash flow hedges.

During the next twelve months, we estimate that a net loss of \$80 million before income taxes will be reclassified from AOCI as an offset to the effect of market price changes for the related hedged transactions. In accordance with the PSA, certain of these amounts will be recorded as either a regulatory asset or liability and have no effect on earnings.

The following table provides information about gains and losses from derivative instruments not designated as accounting hedges during the year ended December 31, 2011 and December 31, 2010 (dollars in thousands):

Commodity Contracts	Financial Statement Location	Year Ended December 31, 2011	Year Ended December 31, 2010
Net Gain (Loss) Recognized in Income	Regulated electricity revenue	\$ (27)	\$ 1,436
Net Loss Recognized in Income	Regulated electricity fuel and purchased power expense	(52,113)	(107,690)
Total		<u>\$ (52,140)</u>	<u>\$ (106,254)</u>

Fair Values of Derivative Instruments in the Consolidated Balance Sheets

The following table provides information about the fair value of our risk management activities reported on a gross basis. Transactions with counterparties that have master netting arrangements are reported net on the balance sheet. These amounts are located in the assets and liabilities from risk management activities lines of our Consolidated Balance Sheets. Amounts are as of December 31, 2011 (dollars in thousands):

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Commodity Contracts	Designated as Hedging Instruments	Not Designated as Hedging Instruments	Margin and Collateral Provided to Counterparties	Collateral Provided from Counterparties (a)	Other (b)	Total
Current Assets	\$ 7,287	\$ 76,162	\$ 1,630	\$ —	\$ (54,815)	\$ 30,264
Investments and Other Assets	3,804	58,273	—	—	(12,755)	49,322
Total Assets	11,091	134,435	1,630	—	(67,570)	79,586
Current Liabilities	(82,195)	(124,028)	107,228	(11,145)	56,172	(53,968)
Deferred Credits and Other	(68,137)	(92,880)	65,768	—	12,754	(82,495)
Total Liabilities	(150,332)	(216,908)	172,996	(11,145)	68,926	(136,463)
Total Derivative Instruments	\$ (139,241)	\$ (82,473)	\$ 174,626	\$ (11,145)	\$ 1,356	\$ (56,877)

(a) Collateral relates to non-derivative instruments or derivative instruments that qualify for a scope exception.

(b) Other represents counterparty netting, options, and other risk management contracts.

The following table provides information about the fair value of our risk management activities reported on a gross basis at December 31, 2010 (dollars in thousands):

Commodity Contracts	Designated as Hedging Instruments	Not Designated as Hedging Instruments	Margin and Collateral Provided to Counterparties (a)	Collateral Provided from Counterparties (b)	Other (c)	Total
Current Assets	\$ 10,295	\$ 64,153	\$ 36,135	\$ (1,750)	\$ (35,045)	\$ 73,788
Investments and Other Assets	5,056	60,813	—	—	(26,837)	39,032
Total Assets	15,351	124,966	36,135	(1,750)	(61,882)	112,820
Current Liabilities	(108,387)	(112,847)	126,364	(1,250)	37,144	(58,976)
Deferred Credits and Other	(73,041)	(85,506)	66,393	—	26,764	(65,390)
Total Liabilities	(181,428)	(198,353)	192,757	(1,250)	63,908	(124,366)
Total Derivative Instruments	\$ (166,077)	\$ (73,387)	\$ 228,892	\$ (3,000)	\$ 2,026	\$ (11,546)

(a) Includes \$11 million of collateral relating to non-derivative instruments or derivative instruments that qualify for a scope exception.

(b) Includes \$1 million of collateral relating to non-derivative instruments or derivative instruments that qualify for a scope exception.

(c) Other represents counterparty netting, options, and other risk management contracts.

Credit Risk and Credit Related Contingent Features

We are exposed to losses in the event of nonperformance or nonpayment by counterparties. We have risk management contracts with many counterparties, including two counterparties for which our exposure represents approximately 80% of Pinnacle West's \$80 million of risk management assets as of December 31, 2011. This exposure relates to long-term traditional wholesale contracts with counterparties that have high credit quality. Our risk management process assesses and monitors the financial exposure of all counterparties. Despite the fact that the great

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majority of trading counterparties' debt is rated as investment grade by the credit rating agencies, there is still a possibility that one or more of these companies could default, resulting in a material impact on consolidated earnings for a given period. Counterparties in the portfolio consist principally of financial institutions, major energy companies, municipalities and local distribution companies. We maintain credit policies that we believe minimize overall credit risk to within acceptable limits. Determination of the credit quality of our counterparties is based upon a number of factors, including credit ratings and our evaluation of their financial condition. To manage credit risk, we employ collateral requirements and standardized agreements that allow for the netting of positive and negative exposures associated with a single counterparty. Valuation adjustments are established representing our estimated credit losses on our overall exposure to counterparties.

Certain of our derivative instrument contracts contain credit-risk-related contingent features including, among other things, investment grade credit rating provisions, credit-related cross default provisions, and adequate assurance provisions. Adequate assurance provisions allow a counterparty with reasonable grounds for uncertainty to demand additional collateral based on subjective events and/or conditions. For those derivative instruments in a net liability position, with investment grade credit contingencies, the counterparties could demand additional collateral if our debt credit rating were to fall below investment grade (below BBB- for Standard & Poor's or Fitch or Baa3 for Moody's).

The following table provides information about our derivative instruments that have credit-risk-related contingent features at December 31, 2011 (dollars in millions):

	December 31, 2011
Aggregate Fair Value of Derivative Instruments in a Liability Position	\$ 330
Cash Collateral Posted	147
Additional Cash Collateral in the Event Credit-Risk Related Contingent Features were Fully Triggered (a)	151

(a) This amount is after counterparty netting and includes those contracts which qualify for scope exceptions, which are excluded from the derivative details in the footnote above.

We also have energy related non-derivative instrument contracts with investment grade credit-related contingent features which could also require us to post additional collateral of approximately \$194 million if our debt credit ratings were to fall below investment grade.

19. Other Income and Other Expense

The following table provides detail of other income and other expense for 2011, 2010 and 2009 (dollars in thousands):

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	2011	2010	2009
Other income:			
Interest income	\$ 1,850	\$ 3,255	\$ 1,503
Investment gains — net	1,165	2,797	2,512
Miscellaneous	96	335	1,144
Total other income	\$ 3,111	\$ 6,387	\$ 5,159
Other expense:			
Non-operating costs	\$ (7,037)	\$ (6,831)	\$ (6,675)
Miscellaneous	(3,414)	(3,090)	(7,625)
Total other expense	\$ (10,451)	\$ (9,921)	\$ (14,300)

20. Palo Verde Sale Leaseback Variable Interest Entities

In 1986, APS entered into agreements with three separate VIE lessor trusts in order to sell and lease back interests in Palo Verde Unit 2 and related common facilities. APS will pay approximately \$49 million per year for the years 2011 to 2015 related to these leases. The leases do not contain fixed price purchase options or residual value guarantees. However, the lease agreements include fixed rate renewal periods which may have a significant impact on the VIEs' economic performance. We have concluded that these fixed rate renewal periods may give APS the ability to utilize the asset for a significant portion of the asset's economic life, and therefore provide APS with the power to direct activities of the VIEs that most significantly impact the VIEs' economic performance. In addition to the fixed rate renewal periods, our primary beneficiary analysis also considered that APS is the operating agent for Palo Verde, has fair value purchase options, and is obligated to decommission the leased assets.

As a result of consolidation we eliminate rent expense and recognize depreciation and interest expense, resulting in an increase in net income for 2011, 2010 and 2009 of \$28 million, \$20 million and \$19 million, respectively, entirely attributable to the noncontrolling interests. Income attributable to Pinnacle West shareholders remains the same. Consolidation of these VIEs also results in changes to our Consolidated Statements of Cash Flows, but does not impact net cash flows.

Our Consolidated Balance Sheets at December 31, 2011 and December 31, 2010 include the following amounts relating to the VIEs (in millions):

	December 31, 2011	December 31, 2010
Palo Verde sale leaseback property plant and equipment, net of accumulated depreciation	\$ 133	\$ 138
Current maturities of long term-debt	31	29
Palo Verde sale leaseback lessor notes long-term debt excluding current maturities	66	97
Equity-Noncontrolling interests	108	91

Assets of the VIEs are restricted and may only be used to settle the VIEs' debt obligations and for payment to the noncontrolling interest holders. Other than the VIEs' assets reported on our consolidated financial statements, the creditors of the VIEs have no other recourse to the assets of APS or Pinnacle West, except in certain circumstances such as a default by APS under the lease.

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APS is exposed to losses relating to these VIEs upon the occurrence of certain events that APS does not consider to be reasonably likely to occur. Under certain circumstances (for example, the NRC issuing specified violation orders with respect to Palo Verde or the occurrence of specified nuclear events), APS would be required to make specified payments to the VIEs' noncontrolling equity participants, assume the VIEs' debt, and take title to the leased Unit 2 interests, which, if appropriate, may be required to be written down in value. If such an event had occurred as of December 31, 2011, APS would have been required to pay the noncontrolling equity participants approximately \$141 million and assume \$97 million of debt. Since APS consolidates these VIEs, the debt APS would be required to assume is already reflected in our Consolidated Balance Sheets.

For regulatory ratemaking purposes the leases continue to be treated as operating leases and, as a result, we have recorded a regulatory asset relating to the arrangements.

21. Discontinued Operations

SunCor — In 2009, our real estate subsidiary, SunCor, began disposing of its homebuilding operations, master-planned communities, land parcels, commercial assets and golf courses in order to eliminate its outstanding debt. All activity for the income statement and prior comparative period income statement amounts are included in discontinued operations. In 2010 and 2009, SunCor recorded real estate impairment charges (see Note 22). SunCor's asset sales resulted in no gain for 2010 and 2009 due to the impairment charges discussed above. At December 31, 2011, SunCor had approximately \$9 million of assets on its balance sheet, including \$7 million of intercompany receivables, and \$2 million of other assets. In February 2012, SunCor filed for protection under the United States Bankruptcy Code to complete an orderly liquidation of its business. We do not expect SunCor's bankruptcy to have a material impact on Pinnacle West's financial position, results of operations, or cash flows.

APSES — On August 19, 2011, Pinnacle West sold its investment in APSES. The sale resulted in an after-tax gain from discontinued operations of approximately \$10 million. In June 2010, APSES sold its district cooling business. As a result of that sale, we recorded an after-tax gain from discontinued operations of approximately \$25 million. Prior period income statement amounts related to these sales and the associated revenues and costs are reflected in discontinued operations.

The following table provides revenue, income (loss) before income taxes and income (loss) after taxes classified as discontinued operations in Pinnacle West's Consolidated Statements of Income for the years ended December 31, 2011, 2010 and 2009 (dollars in millions):

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	2011	2010	2009
Revenue:			
SunCor	\$ 1	\$ 30	\$ 114
APSES	36	127	40
Total revenue	<u>37</u>	<u>157</u>	<u>154</u>
 Income (loss) before taxes:			
SunCor	\$ (2)	\$ (10)	\$ (276)
APSES	21	51	(3)
Total income (loss) before taxes	<u>19</u>	<u>41</u>	<u>(279)</u>
 Income (loss) after taxes:			
SunCor (a)	\$ (1)	\$ (6)	\$ (167)
APSES	12	31	(2)
Total income (loss) after taxes	<u>11</u>	<u>25</u>	<u>(169)</u>

(a) Includes a tax benefit recognized by the parent company in accordance with an intercompany tax sharing agreement of \$1 million for the year ended December 31, 2011, \$4 million for the year ended December 31, 2010, and \$113 million for the year ended December 31, 2009.

22. Real Estate Impairment Charge

In 2009, SunCor undertook and completed a review of its assets and strategies within its various markets as a result of the distressed conditions in real estate and credit markets. Based on the results of the review, on March 27, 2009, SunCor's Board of Directors authorized a series of strategic transactions to dispose of SunCor's homebuilding operations, master-planned communities, land parcels, commercial assets and golf courses in order to reduce SunCor's outstanding debt. As a result, SunCor took impairment charges in 2009 and 2010. There have been no additional impairments in 2011. All SunCor's operations are reflected in discontinued operations (see Note 21). The detail of the impairment charge is as follows (dollars in millions, and before income taxes):

	2010	2009
Discontinued Operations:		
Homebuilding and master-planned communities	\$ 1	\$ 170
Land parcels and commercial assets	11	87
Golf courses	1	23
Other	4	—
Subtotal	17	280
Less noncontrolling interests	—	(14)
Total	<u>17</u>	<u>266</u>

23. Nuclear Decommissioning Trust

To fund the costs APS expects to incur to decommission Palo Verde, APS established external decommissioning trusts in accordance with NRC regulations. Third-party investment managers are authorized to buy and sell securities per their stated investment guidelines. The trust

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

funds are invested in fixed income securities and equity securities. APS classifies investments in decommissioning trust funds as available for sale. As a result, we record the decommissioning trust funds at their fair value on our Consolidated Balance Sheets. See Note 14 for a discussion of how fair value is determined and the classification of the nuclear decommissioning trust investments within the fair value hierarchy. Because of the ability of APS to recover decommissioning costs in rates and in accordance with the regulatory treatment for decommissioning trust funds, we have deferred realized and unrealized gains and losses (including other-than-temporary impairments on investment securities) in other regulatory liabilities. The following table includes the unrealized gains and losses based on the original cost of the investment and summarizes the fair value of APS's nuclear decommissioning trust fund assets at December 31, 2011 and December 31, 2010 (dollars in millions):

	Fair Value	Total Unrealized Gains	Total Unrealized Losses
2011			
Equity securities	\$ 175	\$ 44	\$(1)
Fixed income securities	340	23	(1)
Net payables (a)	(1)	—	—
Total	\$ 514	\$ 67	\$(2)

(a) Net payables relate to pending securities sales and purchases.

	Fair Value	Total Unrealized Gains	Total Unrealized Losses
2010			
Equity securities	\$ 168	\$ 43	\$(1)
Fixed income securities	312	12	(2)
Net payables (a)	(10)	—	—
Total	\$ 470	\$ 55	\$(3)

(a) Net payables relate to pending securities sales and purchases.

The costs of securities sold are determined on the basis of specific identification. The following table sets forth approximate gains and losses and proceeds from the sale of securities by the nuclear decommissioning trust funds (dollars in millions):

	Year Ended December 31,		
	2011	2010	2009
Realized gains	\$ 8	\$ 17	\$ 10
Realized losses	(5)	(4)	(7)
Proceeds from the sale of securities (a)	498	560	441

(a) Proceeds are reinvested in the trust.

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The fair value of fixed income securities, summarized by contractual maturities, at December 31, 2011 is as follows (dollars in millions):

	Fair Value
Less than one year	\$ 13
1 year - 5 years	83
5 years - 10 years	114
Greater than 10 years	130
Total	<u>\$ 340</u>

**MANAGEMENT'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING
(ARIZONA PUBLIC SERVICE COMPANY)**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f), for Arizona Public Service Company. Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control — Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2011. The effectiveness of our internal control over financial reporting as of December 31, 2011 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is included herein and also relates to the Company's financial statements.

February 24, 2012

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholder of
Arizona Public Service Company
Phoenix, Arizona

We have audited the accompanying consolidated balance sheets of Arizona Public Service Company and subsidiary (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedule listed in the Index at Item 15. We also have audited the Company's internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and financial statement schedule and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Arizona Public Service Company and subsidiary as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ DELOITTE & TOUCHE LLP

Phoenix, Arizona

February 24, 2012

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

	Year Ended December 31,		
	2011	2010	2009
ELECTRIC OPERATING REVENUES	\$ 3,237,241	\$ 3,180,807	\$ 3,149,500
OPERATING EXPENSES			
Fuel and purchased power	1,009,464	1,046,815	1,178,620
Operations and maintenance	895,917	860,712	812,903
Depreciation and amortization	426,958	414,336	407,159
Income taxes (Notes 4 and S-1)	204,066	175,440	158,661
Taxes other than income taxes	146,453	134,467	122,358
Total	<u>2,682,858</u>	<u>2,631,770</u>	<u>2,679,701</u>
OPERATING INCOME	<u>554,383</u>	<u>549,037</u>	<u>469,799</u>
OTHER INCOME (DEDUCTIONS)			
Income taxes (Notes 4 and S-1)	11,524	4,975	6,087
Allowance for equity funds used during construction (Note 1)	23,707	22,066	14,999
Other income (Note S-3)	5,071	8,956	10,808
Other expense (Note S-3)	(15,328)	(15,859)	(18,001)
Total	<u>24,974</u>	<u>20,138</u>	<u>13,893</u>
INTEREST EXPENSE			
Interest on long-term debt	218,981	217,002	212,654
Interest on short-term borrowings	10,345	8,267	6,315
Debt discount, premium and expense	4,616	4,559	4,675
Allowance for borrowed funds used during construction (Note 1)	(18,358)	(16,479)	(10,386)
Total	<u>215,584</u>	<u>213,349</u>	<u>213,258</u>
NET INCOME	<u>363,773</u>	<u>355,826</u>	<u>270,434</u>
Less: Net income attributable to noncontrolling interests (Note 20)	<u>27,524</u>	<u>20,163</u>	<u>19,209</u>
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDER	<u>\$ 336,249</u>	<u>\$ 335,663</u>	<u>\$ 251,225</u>

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

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

	December 31,	
	2011	2010
ASSETS		
PROPERTY, PLANT AND EQUIPMENT (Notes 1, 6, 9 and 10)		
Plant in service and held for future use	\$ 13,750,105	\$ 13,197,254
Accumulated depreciation and amortization	(4,706,462)	(4,510,591)
Net	9,043,643	8,686,663
Construction work in progress	496,745	459,316
Palo Verde sale leaseback, net of accumulated depreciation of \$218,186 and \$213,094 (Note 20)	132,864	137,956
Intangible assets, net of accumulated amortization of \$372,573 and \$329,444	170,416	184,768
Nuclear fuel, net of accumulated amortization of \$113,375 and \$85,270	118,098	108,794
Total property, plant and equipment	9,961,766	9,577,497
INVESTMENTS AND OTHER ASSETS		
Nuclear decommissioning trust (Notes 14 and 23)	513,733	469,886
Assets from risk management activities (Note 18)	49,322	39,032
Other assets	30,551	71,428
Total investments and other assets	593,606	580,346
CURRENT ASSETS		
Cash and cash equivalents	19,873	99,937
Customer and other receivables	280,100	288,323
Accrued unbilled revenues	125,239	103,292
Allowance for doubtful accounts	(3,748)	(7,646)
Materials and supplies (at average cost)	204,387	181,414
Fossil fuel (at average cost)	22,000	21,575
Assets from risk management activities (Note 18)	30,264	73,788
Deferred fuel and purchased power regulatory asset (Note 3)	27,549	—
Other regulatory assets (Note 3)	69,072	62,286
Deferred income taxes (Notes 4 and S-1)	111,503	105,042
Other current assets	29,355	25,135
Total current assets	915,594	953,146
DEFERRED DEBITS		
Regulatory assets (Notes 1, 3, 4 and S-1)	1,352,079	986,370
Income tax receivable (Notes 4 and S-1)	69,028	65,498
Unamortized debt issue costs	21,181	20,530
Other	118,983	88,490
Total deferred debits	1,561,271	1,160,888
TOTAL ASSETS	\$ 13,032,237	\$ 12,271,877

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

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

	December 31,	
	2011	2010
LIABILITIES AND EQUITY		
CAPITALIZATION		
Common stock	\$ 178,162	\$ 178,162
Additional paid-in capital	2,379,696	2,379,696
Retained earnings	1,510,740	1,403,390
Accumulated other comprehensive (loss):		
Pension and other postretirement benefits (Note 8)	(38,886)	(35,961)
Derivative instruments	(86,705)	(100,334)
Total shareholder equity	3,943,007	3,824,953
Noncontrolling interests (Note 20)	108,399	91,084
Total equity	4,051,406	3,916,037
Long-term debt less current maturities (Note 6)	2,828,507	2,948,991
Palo Verde sale leaseback lessor notes less current maturities (Notes 6 and 20)	65,547	96,803
Total capitalization	6,945,460	6,961,831
CURRENT LIABILITIES		
Current maturities of long-term debt (Note 6)	477,435	456,879
Accounts payable	322,047	218,491
Accrued taxes	113,930	106,431
Accrued interest	54,611	54,638
Customer deposits	72,176	68,312
Liabilities from risk management activities (Note 18)	53,968	58,976
Deferred fuel and purchased power regulatory liability (Note 3)	—	58,442
Other regulatory liabilities (Note 3)	88,362	80,526
Other current liabilities	140,185	132,170
Total current liabilities	1,322,714	1,234,865
DEFERRED CREDITS AND OTHER		
Deferred income taxes (Notes 4 and S-1)	1,952,608	1,895,654
Regulatory liabilities (Notes 1, 3, 4, and S-1)	737,332	614,063
Liability for asset retirements (Note 12)	279,643	328,571
Liabilities for pension and other postretirement benefits (Note 8)	1,222,542	770,611
Liabilities from risk management activities (Note 18)	82,495	65,390
Customer advances	116,805	121,645
Coal mine reclamation	117,896	117,243
Unrecognized tax benefits (Notes 4 and S-1)	72,073	65,363
Other	182,669	96,641
Total deferred credits and other	4,764,063	4,075,181
COMMITMENTS AND CONTINGENCIES (SEE NOTES)		
TOTAL LIABILITIES AND EQUITY	\$ 13,032,237	\$ 12,271,877

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

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

	Year Ended December 31,		
	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 363,773	\$ 355,826	\$ 270,434
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization including nuclear fuel	493,653	471,226	445,988
Deferred fuel and purchased power	69,166	93,631	(51,742)
Deferred fuel and purchased power amortization	(155,157)	(122,481)	147,018
Allowance for equity funds used during construction	(23,707)	(22,066)	(14,999)
Deferred income taxes	168,805	224,095	192,914
Change in mark-to-market valuations	4,064	2,688	(6,939)
Changes in current assets and liabilities:			
Customer and other receivables	34,913	(49,956)	2,603
Accrued unbilled revenues	(21,947)	7,679	(10,882)
Materials, supplies and fossil fuel	(23,398)	12,276	(12,261)
Income tax receivable	(2,869)	—	—
Other current assets	(5,473)	4,718	4,332
Accounts payable	73,369	18,066	(22,129)
Accrued taxes	7,972	(51,620)	(61,078)
Other current liabilities	18,762	(2,853)	54,913
Change in margin and collateral accounts — assets	33,349	(9,937)	(13,206)
Change in margin and collateral accounts — liabilities	29,731	(88,315)	35,654
Change in long-term regulatory liabilities	37,009	56,801	82,650
Change in long-term income tax receivable	(3,530)	—	(132,379)
Change in unrecognized tax benefits	9,125	(73,189)	137,478
Change in other long-term assets	(41,788)	(46,118)	(67,507)
Change in other long-term liabilities	61,990	(85,136)	14,097
Net cash flow provided by operating activities	<u>1,127,812</u>	<u>695,335</u>	<u>994,959</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(878,546)	(747,967)	(754,301)
Contributions in aid of construction	38,096	32,754	53,525
Allowance for borrowed funds used during construction	(18,358)	(16,479)	(10,386)
Proceeds from nuclear decommissioning trust sales	497,780	560,469	441,242
Investment in nuclear decommissioning trust	(513,799)	(584,885)	(463,033)
Proceeds from sale of life insurance policies	44,183	—	—
Other	(3,306)	8,576	(4,667)
Net cash flow used for investing activities	<u>(833,950)</u>	<u>(747,532)</u>	<u>(737,620)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of long-term debt	295,353	—	863,780
Repayment of long-term debt	(430,169)	(27,694)	(365,696)
Short-term borrowings and payments — net	—	—	(521,684)
Equity infusion	—	252,833	—
Dividends paid on common stock	(228,900)	(182,400)	(170,000)
Noncontrolling interests	(10,210)	(11,403)	(14,485)
Net cash flow provided by (used for) financing activities	<u>(373,926)</u>	<u>31,336</u>	<u>(208,085)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(80,064)</u>	<u>(20,861)</u>	<u>49,254</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>99,937</u>	<u>120,798</u>	<u>71,544</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 19,873</u>	<u>\$ 99,937</u>	<u>\$ 120,798</u>
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Income taxes, net of refunds	\$ 25,975	\$ 81,339	\$ 13,555
Interest, net of amounts capitalized	\$ 210,995	\$ 208,251	\$ 194,346

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

ARIZONA PUBLIC SERVICE COMPANY
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(dollars in thousands)

	Year Ended December 31,		
	2011	2010	2009
COMMON STOCK	\$ 178,162	\$ 178,162	\$ 178,162
ADDITIONAL PAID-IN CAPITAL			
Balance at beginning of year	2,379,696	2,126,863	2,117,789
Equity infusion	—	252,833	—
Other	—	—	9,074
Balance at end of year	<u>2,379,696</u>	<u>2,379,696</u>	<u>2,126,863</u>
RETAINED EARNINGS			
Balance at beginning of year	1,403,390	1,250,126	1,168,901
Net income attributable to common shareholder	336,249	335,663	251,225
Dividends on common stock	(228,900)	(182,400)	(170,000)
Other	1	1	—
Balance at end of year	<u>1,510,740</u>	<u>1,403,390</u>	<u>1,250,126</u>
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)			
Balance at beginning of year	(136,295)	(109,796)	(125,702)
Pension and other postretirement benefits (Note 8):			
Unrealized actuarial loss, net of tax benefit of \$(3,828), \$(6,344) and \$(2,938)	(5,860)	(9,684)	(4,571)
Amortization to income:			
Actuarial loss, net of tax benefit of \$1,724, \$1,658 and \$1,387	2,639	2,541	2,126
Prior service cost, net of tax benefit of \$194, \$193 and \$190	296	295	291
Derivative instruments:			
Net unrealized loss, net of tax benefit of \$(37,397), \$(61,358) and \$(61,317)	(57,262)	(93,929)	(94,008)
Reclassification of net realized losses to income, net of tax benefit of \$46,298, \$48,462 and \$73,261	<u>70,891</u>	<u>74,278</u>	<u>112,068</u>
Balance at end of year	<u>(125,591)</u>	<u>(136,295)</u>	<u>(109,796)</u>
NONCONTROLLING INTERESTS			
Balance at beginning of year	91,084	82,324	77,601
Net income attributable to noncontrolling interests	27,524	20,163	19,209
Net capital activities by noncontrolling interests	(10,209)	(11,403)	(14,486)
Balance at end of year	<u>108,399</u>	<u>91,084</u>	<u>82,324</u>
TOTAL EQUITY	\$ 4,051,406	\$ 3,916,037	\$ 3,527,679
COMPREHENSIVE INCOME ATTRIBUTABLE TO COMMON SHAREHOLDER			
Net income attributable to common shareholder	\$ 336,249	\$ 335,663	\$ 251,225
Other comprehensive income (loss)	10,704	(26,499)	15,906
Total comprehensive income attributable to common shareholders	<u>\$ 346,953</u>	<u>\$ 309,164</u>	<u>\$ 267,131</u>

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

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Certain notes to Arizona Public Service Company's consolidated financial statements are combined with the notes to Pinnacle West Capital Corporation's consolidated financial statements. Listed below are the consolidated notes to Pinnacle West Capital Corporation's consolidated financial statements, the majority of which also relate to Arizona Public Service Company's consolidated financial statements. In addition, listed below are the supplemental notes which are required disclosures for Arizona Public Service Company and should be read in conjunction with Pinnacle West Capital Corporation's Consolidated Notes.

	Consolidated Footnote Reference	APS's Supplemental Footnote Reference
Summary of Significant Accounting Policies	Note 1	—
New Accounting Standards	Note 2	—
Regulatory Matters	Note 3	—
Income Taxes	Note 4	Note S-1
Lines of Credit and Short-Term Borrowings	Note 5	—
Long-Term Debt and Liquidity Matters	Note 6	—
Common Stock and Treasury Stock	Note 7	—
Retirement Plans and Other Benefits	Note 8	—
Leases	Note 9	—
Jointly-Owned Facilities	Note 10	—
Commitments and Contingencies	Note 11	—
Asset Retirement Obligations	Note 12	—
Selected Quarterly Financial Data (Unaudited)	Note 13	Note S-2
Fair Value Measurements	Note 14	—
Earnings Per Share	Note 15	—
Stock-Based Compensation	Note 16	—
Business Segments	Note 17	—
Derivative Accounting	Note 18	—
Other Income and Other Expense	Note 19	Note S-3
Palo Verde Sale Leaseback Variable Interest Entities	Note 20	—
Discontinued Operations	Note 21	—
Real Estate Impairment Charge	Note 22	—
Nuclear Decommissioning Trust	Note 23	—

**ARIZONA PUBLIC SERVICE COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

S-1. Income Taxes

APS is included in Pinnacle West's consolidated tax return. However, when Pinnacle West allocates income taxes to APS, it is done based upon APS's taxable income computed on a stand-alone basis, in accordance with the tax sharing agreement.

Certain assets and liabilities are reported differently for income tax purposes than they are for financial statements purposes. The tax effect of these differences is recorded as deferred taxes. We calculate deferred taxes using currently enacted tax rates.

APS has recorded regulatory assets and regulatory liabilities related to income taxes on its Balance Sheets in accordance with accounting guidance for regulated operations. The regulatory assets are for certain temporary differences, primarily the allowance for equity funds used during construction and pension and other postretirement benefits. The regulatory liabilities primarily relate to deferred taxes resulting from ITCs and the change in income tax rates.

In accordance with regulatory requirements, APS investment tax credits are deferred and are amortized over the life of the related property, with such amortization applied as a credit to reduce current income tax expense in the statement of income.

During the first quarter of 2010, the Company reached a settlement with the IRS with regard to the examination of tax returns for the years ended December 31, 2005 through 2007. As a result of this settlement, net uncertain tax positions decreased \$62 million, including approximately \$3 million which decreased our effective tax rate. Additionally, the settlement resulted in the recognition of net interest benefits of approximately \$4 million through the effective tax rate.

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits, excluding interest and penalties, at the beginning and end of the year that are included in accrued taxes and unrecognized tax benefits (dollars in thousands):

	2011	2010	2009
Total unrecognized tax benefits, January 1	\$ 126,698	\$ 199,887	\$ 62,409
Additions for tax positions of the current year	10,915	7,551	44,094
Additions for tax positions of prior years	—	—	98,269
Reductions for tax positions of prior years for:			
Changes in judgment	(1,555)	(10,964)	—
Settlements with taxing authorities	(124)	(61,820)	(4,089)
Lapses of applicable statute of limitations	(110)	(7,956)	(796)
Total unrecognized tax benefits, December 31	\$ 135,824	\$ 126,698	\$ 199,887

Included in the balance of unrecognized tax benefits at December 31, 2011, 2010 and 2009 were approximately \$8 million, \$6 million and \$15 million, respectively, of tax positions that, if recognized, would decrease our effective tax rate.

**ARIZONA PUBLIC SERVICE COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

As of the balance sheet date, the tax year ended December 31, 2008 and all subsequent tax years remain subject to examination by the IRS. With few exceptions, we are no longer subject to state income tax examinations by tax authorities for years prior to 2006. We do not anticipate that there will be any significant increases or decreases in our unrecognized tax benefits within the next twelve months.

We reflect interest and penalties, if any, on unrecognized tax benefits in the statement of income as income tax expense. The amount of interest recognized in the Statements of Income related to unrecognized tax benefits was a pre-tax expense of \$3 million for 2011, a pre-tax benefit of \$2 million for 2010 and a pre-tax expense of \$2 million for 2009.

The total amount of accrued liabilities for interest recognized in the Balance Sheets related to unrecognized tax benefits was \$9 million as of December 31, 2011, \$6 million as of December 31, 2010 and \$8 million as of December 31, 2009. To the extent that matters are settled favorably, this amount could reverse and decrease our effective tax rate. Additionally, as of December 31, 2011, we have recognized \$4 million of interest income to be received on the overpayment of income taxes for certain adjustments that we have filed, or will file, with the IRS.

The components of APS's income tax expense are as follows (dollars in thousands):

	Year Ended December 31,		
	2011	2010	2009
Current:			
Federal	\$ 4,633	\$ (71,036)	\$ (8,667)
State	<u>19,104</u>	<u>17,406</u>	<u>(31,673)</u>
Total current	<u>23,737</u>	<u>(53,630)</u>	<u>(40,340)</u>
Deferred:			
Federal	154,632	207,334	163,572
State	<u>14,173</u>	<u>16,761</u>	<u>29,342</u>
Total deferred	<u>168,805</u>	<u>224,095</u>	<u>192,914</u>
Total income tax expense	<u>\$ 192,542</u>	<u>\$ 170,465</u>	<u>\$ 152,574</u>

On the APS Statements of Income, federal and state income taxes are allocated between operating income and other income.

The following chart compares APS's pretax income at the 35% federal income tax rate to income tax expense (dollars in thousands):

ARIZONA PUBLIC SERVICE COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Year Ended December 31,		
	2011	2010	2009
Federal income tax expense at 35% statutory rate	\$ 194,710	\$ 184,202	\$ 148,053
Increases (reductions) in tax expense resulting from:			
State income tax net of federal income tax benefit	21,139	19,186	16,691
Credits and favorable adjustments related to prior years resolved in current year	—	(17,300)	—
Medicare Subsidy Part-D	823	889	(2,025)
Allowance for equity funds used during construction (see Note 1)	(6,880)	(6,563)	(4,265)
Palo Verde VIE noncontrolling interest (see Note 20)	(9,633)	(7,057)	(6,723)
Other	(7,617)	(2,892)	843
Income tax expense	\$ 192,542	\$ 170,465	\$ 152,574

The following table shows the net deferred income tax liability recognized on the APS Balance Sheets (dollars in thousands):

	December 31,	
	2011	2010
Current asset	\$ 111,503	\$ 105,042
Long-term liability	(1,952,608)	(1,895,654)
Deferred income taxes — net	\$ (1,841,105)	\$ (1,790,612)

On February 17, 2011, Arizona enacted legislation (H.B. 2001) that included a four year phase-in of corporate income tax rate reductions beginning in 2014. As a result of these tax rate reductions, Pinnacle West revised the tax rate applicable to reversing temporary items in Arizona. In accordance with accounting for regulated companies, the benefit of this rate reduction is substantially offset by a regulatory liability. In 2011, APS increased regulatory liabilities by a total of \$62 million, with a corresponding decrease in accumulated deferred income tax liabilities to reflect the impact of this change in tax law.

ARIZONA PUBLIC SERVICE COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The components of the net deferred income tax liability were as follows (dollars in thousands):

	December 31,	
	2011	2010
DEFERRED TAX ASSETS		
Regulatory liabilities:		
Asset retirement obligation and removal costs	\$ 236,739	\$ 222,448
Deferred fuel and purchased power	—	23,089
Renewable energy standard	19,722	18,749
Unamortized investment tax credits	31,460	642
Other	33,155	27,718
Risk management activities	117,765	124,731
Pension and other postretirement liabilities	494,744	303,055
Renewable energy incentives	57,901	37,327
Credit and loss carryforwards	106,668	—
Other	99,176	97,989
Total deferred tax assets	1,197,330	855,748
DEFERRED TAX LIABILITIES		
Plant-related	(2,446,908)	(2,210,976)
Risk management activities	(30,171)	(30,125)
Regulatory assets:		
Allowance for equity funds used during construction	(33,347)	(28,276)
Deferred fuel and purchased power	(10,884)	—
Deferred fuel and purchased power — mark-to-market	(30,559)	(30,276)
Pension and other postretirement benefits	(408,716)	(264,313)
Other	(73,087)	(77,078)
Other	(4,763)	(5,316)
Total deferred tax liabilities	(3,038,435)	(2,646,360)
Deferred income taxes — net	<u>\$ (1,841,105)</u>	<u>\$ (1,790,612)</u>

As of December 31, 2011, the deferred tax assets for credit and loss carryforwards relate to federal general business credits (\$60 million) and federal net operating losses (\$37 million), both of which first begin to expire in 2031, and other federal and state loss carryforwards (\$10 million) which first begin to expire in 2013.

ARIZONA PUBLIC SERVICE COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

S-2. Selected Quarterly Financial Data (Unaudited)

Quarterly financial information for 2011 and 2010 is as follows (dollars in thousands):

	2011 Quarter Ended,				2011 Total
	March 31,	June 30,	September 30,	December 31,	
Operating revenues	\$ 647,994	\$ 798,686	\$ 1,124,057	\$ 666,504	\$ 3,237,241
Operations and maintenance	252,607	208,597	207,967	226,746	895,917
Operating income	45,574	145,400	292,783	70,626	554,383
Net income (loss) attributable to common shareholder	(12,081)	87,705	246,333	14,292	336,249
	2010 Quarter Ended,				2010 Total
	March 31,	June 30,	September 30,	December 31,	
Operating revenues	\$ 611,476	\$ 799,467	\$ 1,116,220	\$ 653,644	\$ 3,180,807
Operations and maintenance	203,881	211,310	217,044	228,477	860,712
Operating income	65,435	146,249	277,009	60,344	549,037
Net income attributable to common shareholder	10,984	90,220	226,648	7,811	335,663

S-3. Other Income and Other Expense

The following table provides detail of APS's other income and other expense for 2011, 2010 and 2009 (dollars in thousands):

	2011	2010	2009
Other income:			
Interest income	\$ 406	\$ 668	\$ 502
SO2 emission allowance sales and other (a)	—	—	1,439
Investment gains — net	1,418	2,334	6,673
Miscellaneous	3,247	5,954	2,194
Total other income	<u>\$ 5,071</u>	<u>\$ 8,956</u>	<u>\$ 10,808</u>
Other expense:			
Non-operating costs (a)	\$ (8,810)	\$ (9,855)	\$ (7,368)
Asset dispositions	(1,352)	(612)	(656)
Miscellaneous	(5,166)	(5,392)	(9,977)
Total other expense	<u>\$ (15,328)</u>	<u>\$ (15,859)</u>	<u>\$ (18,001)</u>

(a) As defined by the FERC, includes below-the-line non-operating utility income and expense (items excluded from utility rate recovery).

PINNACLE WEST CAPITAL CORPORATION HOLDING COMPANY
SCHEDULE I — CONDENSED FINANCIAL INFORMATION OF REGISTRANT
CONDENSED STATEMENTS OF INCOME
(in thousands)

	Year Ended December 31,		
	2011	2010	2009
Operating revenues	\$ 1,034	\$ 2,810	\$ 1,157
Operating expenses	8,811	9,880	10,420
Operating loss	(7,777)	(7,070)	(9,263)
Other			
Equity in earnings (losses) of subsidiaries	335,859	358,527	(37,214)
Other income (expense)	(1,481)	(588)	2,102
Total	334,378	357,939	(35,112)
Interest expense	8,053	14,346	14,129
Income (loss) from continuing operations	318,548	336,523	(58,504)
Income tax benefit	(8,938)	(9,596)	(14,060)
Income (loss) from continuing operations — net of income taxes	327,486	346,119	(44,444)
Income from discontinued operations — net of income taxes	11,987	3,934	112,774
Net income attributable to common shareholders	\$ 339,473	\$ 350,053	\$ 68,330

See Notes to Pinnacle West's Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION HOLDING COMPANY
SCHEDULE I — CONDENSED FINANCIAL INFORMATION OF REGISTRANT
CONDENSED BALANCE SHEETS
(in thousands)

	Balance at December 31,	
	2011	2010
ASSETS		
Current assets		
Cash and cash equivalents	\$ 12,710	\$ 7,725
Customer and other receivables	62,418	75,745
Current deferred income taxes	19,068	19,855
Income tax receivable	1,804	3,736
Other current assets	55	61
Total current assets	96,055	107,122
Investments and other assets		
Investments in subsidiaries	4,026,289	3,901,935
Deferred income taxes	27,220	—
Other assets	16,898	58,071
Total investments and other assets	4,070,407	3,960,006
Total Assets	<u>\$ 4,166,462</u>	<u>\$ 4,067,128</u>
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	\$ 4,811	\$ 4,981
Accrued taxes	9,795	4,216
Short-term borrowings	—	16,600
Current maturities of long-term debt	—	175,000
Other current liabilities	28,295	28,101
Total current liabilities	42,901	228,898
Long-term debt less current maturities	125,000	—
Deferred credits and other		
Pension and other postretirement liabilities	32,513	28,607
Other	35,462	34,397
Total deferred credits and other	67,975	63,004
Common stock equity		
Common stock	2,439,530	2,419,133
Accumulated other comprehensive loss	(152,163)	(159,767)
Retained earnings	1,534,483	1,423,961
Total Pinnacle West Shareholders' equity	3,821,850	3,683,327
Noncontrolling interests	108,736	91,899
Total Equity	3,930,586	3,775,226
Total Liabilities and Equity	<u>\$ 4,166,462</u>	<u>\$ 4,067,128</u>

See Notes to Pinnacle West's Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION HOLDING COMPANY
SCHEDULE I — CONDENSED FINANCIAL INFORMATION OF REGISTRANT
CONDENSED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2011	2010	2009
Cash flows from operating activities			
Net income	\$ 339,473	\$ 350,053	\$ 68,330
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in earnings of subsidiaries — net	(335,859)	(358,527)	37,214
Depreciation and amortization	97	143	127
Gain on sale of energy-related business	(10,404)	—	—
Deferred income taxes	7,387	40,342	(106,536)
Customer and other receivables	(24,201)	(18,175)	(2,303)
Accounts payable	(2,677)	7,468	466
Accrued taxes and income tax receivables — net	7,512	59,640	44,625
Dividends received from subsidiaries	228,900	207,000	170,000
Other net	19,270	423	(2,379)
Net cash flow provided by operating activities	229,498	288,367	209,544
Cash flows from investing activities			
Investments in subsidiaries	—	(183,544)	(4,967)
Repayments of loans from subsidiaries	61,143	98,406	25,240
Proceeds from sale of energy-related products and services business	45,111	—	—
Advances of loans to subsidiaries	(64,970)	(119,293)	(21,587)
Proceeds from sale of life insurance policies	9,357	—	—
Net cash flow provided by (used for) investing activities	50,641	(204,431)	(1,314)
Cash flows from financing activities			
Issuance of long-term debt	175,000	—	—
Short-term borrowings and payments — net	(16,600)	(132,487)	4,566
Dividends paid on common stock	(221,728)	(216,979)	(205,076)
Repayment of long-term debt	(225,000)	—	—
Common stock equity issuance	15,841	255,971	3,302
Other	(2,667)	—	—
Net cash flow used for financing activities	(275,154)	(93,495)	(197,208)
Net increase (decrease) in cash and cash equivalents	4,985	(9,559)	11,022
Cash and cash equivalents at beginning of year	7,725	17,284	6,262
Cash and cash equivalents at end of year	\$ 12,710	\$ 7,725	\$ 17,284

See Notes to Pinnacle West's Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
SCHEDULE II — RESERVE FOR UNCOLLECTIBLES
(dollars in thousands)

Column A	Column B	Column C		Column D	Column E
		Additions	Charged to cost and expenses		
Description				Deductions	
Reserve for uncollectibles:					
2011	\$ 4,709	\$ 5,672	\$ —	\$ 6,633	\$ 3,748
2010	4,573	6,905	—	6,769	4,709
2009	3,383	7,617	—	6,427	4,573

ARIZONA PUBLIC SERVICE COMPANY
SCHEDULE II — RESERVE FOR UNCOLLECTIBLES
(dollars in thousands)

Column A	Column B	Column C		Column D	Column E
		Additions	Charged to cost and expenses		
Description				Deductions	
Reserve for uncollectibles:					
2011	\$ 4,376	\$ 5,751	\$ —	\$ 6,379	\$ 3,748
2010	4,483	6,756	—	6,863	4,376
2009	3,155	7,062	—	5,734	4,483

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS
ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

The term “disclosure controls and procedures” means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Securities Exchange Act of 1934 (the “Exchange Act”) (15 U.S.C. 78a *et seq.*) is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to a company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Pinnacle West’s management, with the participation of Pinnacle West’s Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of Pinnacle West’s disclosure controls and procedures as of December 31, 2011. Based on that evaluation, Pinnacle West’s Chief Executive Officer and Chief Financial Officer have concluded that, as of that date, Pinnacle West’s disclosure controls and procedures were effective.

APS’s management, with the participation of APS’s Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of APS’s disclosure controls and procedures as of December 31, 2011. Based on that evaluation, APS’s Chief Executive Officer and Chief Financial Officer have concluded that, as of that date, APS’s disclosure controls and procedures were effective.

(b) Management’s Annual Reports on Internal Control Over Financial Reporting

Reference is made to “Management’s Report on Internal Control Over Financial Reporting (Pinnacle West Capital Corporation)” on page 77 of this report and “Management’s Report on Internal Control Over Financial Reporting (Arizona Public Service Company)” on page 153 of this report.

(c) Attestation Reports of the Registered Public Accounting Firm

Reference is made to “Report of Independent Registered Public Accounting Firm” on page 78 of this report and “Report of Independent Registered Public Accounting Firm” on page 154 of this report on the internal control over financial reporting of Pinnacle West and APS, respectively.

(d) Changes In Internal Control Over Financial Reporting

The term “internal control over financial reporting” (defined in SEC Rule 13a-15(f)) refers to the process of a company that is designed to provide reasonable assurance regarding the reliability of

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financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

No change in Pinnacle West's or APS's internal control over financial reporting occurred during the fiscal quarter ended December 31, 2011 that materially affected, or is reasonably likely to materially affect, Pinnacle West's or APS's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE OF PINNACLE WEST

Reference is hereby made to "Information About Our Board and Corporate Governance," "Proposal 1 — Election of Directors" and to "Section 16 (a) Beneficial Ownership Reporting Compliance" in the Pinnacle West Proxy Statement relating to the Annual Meeting of Shareholders to be held on May 16, 2012 (the "2012 Proxy Statement") and to the "Executive Officers of Pinnacle West" section in Part I of this report.

Pinnacle West has adopted a Code of Ethics for Financial Executives that applies to financial executives including Pinnacle West's Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer, Controller, Treasurer, and persons holding substantially equivalent positions at Pinnacle West's subsidiaries. The Code of Ethics for Financial Executives is posted on Pinnacle West's website at www.pinnaclewest.com. Pinnacle West intends to satisfy the requirements under Item 5.05 of Form 8-K regarding disclosure of amendments to, or waivers from, provisions of the Code of Ethics for Financial Executives by posting such information on Pinnacle West's website.

ITEM 11. EXECUTIVE COMPENSATION

Reference is hereby made to "Directors' Compensation," "Report of the Human Resources Committee," "Executive Compensation," and "Human Resources Committee Interlocks and Insider Participation" in the 2012 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Reference is hereby made to "Shares of Pinnacle West Stock Owned by Management and Large Shareholders" and "Securities Authorized for Issuance Under Executive Compensation Plans" in the 2012 Proxy Statement.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND
DIRECTOR INDEPENDENCE**

Reference is hereby made to “Information About Our Board and Corporate Governance” and “Related Party Transactions” in the 2012 Proxy Statement.

**ITEM 14. PRINCIPAL ACCOUNTANT
FEES AND SERVICES**

Pinnacle West

Reference is hereby made to “Accounting and Auditing Matters — Audit Fees and — Pre-Approval Policies” in the 2012 Proxy Statement.

APS

The following fees were paid to APS’s independent registered public accountants, Deloitte & Touche LLP, for the last two fiscal years:

Type of Service	2010	2011
Audit Fees (1)	\$ 1,330,173	\$ 1,547,722
Audit-Related Fees (2)	138,247	183,091

-
- (1) The aggregate fees billed for services rendered for the audit of annual financial statements and for review of financial statements included in Reports on Form 10-Q.
- (2) The aggregate fees billed for assurance services that are reasonably related to the performance of the audit or review of the financial statements that are not included in Audit Fees reported above, which primarily consist of fees for employee benefit plan audits performed in 2011 and 2010.

Pinnacle West’s Audit Committee pre-approves each audit service and non-audit service to be provided by APS’s registered public accounting firm. The Audit Committee has delegated to the Chairman of the Audit Committee the authority to pre-approve audit and non-audit services to be performed by the independent public accountants if the services are not expected to cost more than \$50,000. The Chairman must report any pre-approval decisions to the Audit Committee at its next scheduled meeting. All of the services performed by Deloitte & Touche LLP for APS were pre-approved by the Audit Committee.

PART IV**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES****Financial Statements and Financial Statement Schedules**

See the Index to Financial Statements and Financial Statement Schedule in Part II, Item 8.

Exhibits Filed

The documents listed below are being filed or have previously been filed on behalf of Pinnacle West or APS and are incorporated herein by reference from the documents indicated and made a part hereof. Exhibits not identified as previously filed are filed herewith.

Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: ^a	Date Filed
3.1	Pinnacle West	Articles of Incorporation, restated as of May 21, 2008	3.1 to Pinnacle West/APS June 30, 2008 Form 10-Q Report, File No. 1-8962	8-7-08
3.2	Pinnacle West	Pinnacle West Capital Corporation Bylaws, amended as of May 19, 2010	3.1 to Pinnacle West/APS June 30, 2010 Form 10-Q Report, File No. 1-8962	8-3-10
3.3	APS	Articles of Incorporation, restated as of May 25, 1988	4.2 to APS's Form 18 Registration Nos. 33-33910 and 33-55248 by means of September 24, 1993 Form 8-K Report, File No. 1-4473	9-29-93
3.4	APS	Arizona Public Service Company Bylaws, amended as of December 16, 2008	3.4 to Pinnacle West/APS December 31, 2008 Form 10-K, File No. 1-4473	2-20-09
4.1	Pinnacle West	Specimen Certificate of Pinnacle West Capital Corporation Common Stock, no par value	4.1 to Pinnacle West June 28, 2011 Form 8-K Report, File No. 1-8962	6-28-11

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: ^a	Date Filed
4.2	Pinnacle West APS	Indenture dated as of January 1, 1995 among APS and The Bank of New York Mellon, as Trustee	4.6 to APS's Registration Statement Nos. 33-61228 and 33-55473 by means of January 1, 1995 Form 8-K Report, File No. 1-4473	1-11-95
4.2a	Pinnacle West APS	First Supplemental Indenture dated as of January 1, 1995	4.4 to APS's Registration Statement Nos. 33-61228 and 33-55473 by means of January 1, 1995 Form 8-K Report, File No. 1-4473	1-11-95
4.3	Pinnacle West APS	Indenture dated as of November 15, 1996 between APS and The Bank of New York, as Trustee	4.5 to APS's Registration Statements Nos. 33-61228, 33-55473, 33-64455 and 333- 15379 by means of November 19, 1996 Form 8-K Report, File No. 1-4473	11-22-96
4.3a	Pinnacle West APS	First Supplemental Indenture dated as of November 15, 1996	4.6 to APS's Registration Statements Nos. 33-61228, 33-55473, 33-64455 and 333-15379 by means of November 19, 1996 Form 8-K Report, File No. 1-4473	11-22-96
4.3b	Pinnacle West APS	Second Supplemental Indenture dated as of April 1, 1997	4.10 to APS's Registration Statement Nos. 33-55473, 33-64455 and 333-15379 by means of April 7, 1997 Form 8-K Report, File No. 1-4473	4-9-97
4.3c	Pinnacle West APS	Third Supplemental Indenture dated as of November 1, 2002	10.2 to Pinnacle West's March 31, 2003 Form 10-Q Report, File No. 1-8962	5-15-03

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: ^a	Date Filed
4.4	Pinnacle West	Indenture dated as of December 1, 2000 between the Company and The Bank of New York, as Trustee, relating to Senior Unsecured Debt Securities	4.1 to Pinnacle West's Registration Statement No. 333-52476	12-21-00
4.5	Pinnacle West	Indenture dated as of December 1, 2000 between the Company and The Bank of New York, as Trustee, relating to Subordinated Unsecured Debt Securities	4.2 to Pinnacle West's Registration Statement No. 333-52476	12-21-00
4.6	Pinnacle West APS	Indenture dated as of January 15, 1998 between APS and The Bank of New York Mellon Trust Company N.A. (successor to JPMorgan Chase Bank, N.A., formerly known as The Chase Manhattan Bank), as Trustee	4.10 to APS's Registration Statement Nos. 333-15379 and 333-27551 by means of January 13, 1998 Form 8-K Report, File No. 1-4473	1-16-98
4.6a	Pinnacle West APS	Fifth Supplemental Indenture dated as of October 1, 2001	4.1 to APS's September 30, 2001 Form 10-Q, File No. 1-4473	11-6-01
4.6b	Pinnacle West APS	Sixth Supplemental Indenture dated as of March 1, 2002	4.1 to APS's Registration Statement Nos. 333-63994 and 333-83398 by means of February 26, 2002 Form 8-K Report, File No. 1-4473	2-28-02
4.6c	Pinnacle West APS	Seventh Supplemental Indenture dated as of May 1, 2003	4.1 to APS's Registration Statement No. 333-90824 by means of May 7, 2003 Form 8-K Report, File No. 1-4473	5-9-03

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: ^a	Date Filed
4.6d	Pinnacle West APS	Eighth Supplemental Indenture dated as of June 15, 2004	4.1 to APS's Registration Statement No. 333-106772 by means of June 24, 2004 Form 8-K Report, File No. 1-4473	6-28-04
4.6e	Pinnacle West APS	Ninth Supplemental Indenture dated as of August 15, 2005	4.1 to APS's Registration Statements Nos. 333-106772 and 333-121512 by means of August 17, 2005 Form 8-K Report, File No. 1-4473	8-22-05
4.6f	APS	Tenth Supplemental Indenture dated as of August 1, 2006	4.1 to APS's July 31, 2006 Form 8-K Report, File No. 1-4473	8-3-06
4.6g	Pinnacle West APS	Eleventh Supplemental Indenture dated as of February 26, 2009	4.1 to Pinnacle West/APS February 23, 2009 Form 8-K Report, File Nos. 1-8962 and 1-4473	2-25-09
4.6h	Pinnacle West APS	Twelfth Supplemental Indenture dated as of August 25, 2011	4.1 to Pinnacle West/APS August 22, 2011 Form 8-K Report, File Nos. 1-8962 and 1-4473	8-24-11
4.6i	Pinnacle West APS	Thirteenth Supplemental Indenture dated as of January 13, 2012	4.1 to Pinnacle West/APS January 10, 2012 Form 8-K Report, File Nos. 1-8962 and 1-4473	1-12-12
4.7	Pinnacle West	Second Amended and Restated Pinnacle West Capital Corporation Investors Advantage Plan dated as of June 23, 2004	4.4 to Pinnacle West's June 23, 2004 Form 8-K Report, File No. 1-8962	8-9-04

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: ^a	Date Filed
4.7a	Pinnacle West	Third Amended and Restated Pinnacle West Capital Corporation Investors Advantage Plan dated as of November 25, 2008	4.1 to Pinnacle West's Form S-3 Registration Statement No. 333-155641, File No. 1-8962	11-25-08
4.8	Pinnacle West	Agreement, dated March 29, 1988, relating to the filing of instruments defining the rights of holders of long-term debt not in excess of 10% of the Company's total assets	4.1 to Pinnacle West's 1987 Form 10-K Report, File No. 1-8962	3-30-88
4.8a	Pinnacle West APS	Agreement, dated March 21, 1994, relating to the filing of instruments defining the rights of holders of APS long-term debt not in excess of 10% of APS's total assets	4.1 to APS's 1993 Form 10-K Report, File No. 1-4473	3-30-94
10.1.1	Pinnacle West APS	Two separate Decommissioning Trust Agreements (relating to PVNGS Units 1 and 3, respectively), each dated July 1, 1991, between APS and Mellon Bank, N.A., as Decommissioning Trustee	10.2 to APS's September 30, 1991 Form 10-Q Report, File No. 1-4473	11-14-91
10.1.1a	Pinnacle West APS	Amendment No. 1 to Decommissioning Trust Agreement (PVNGS Unit 1), dated as of December 1, 1994	10.1 to APS's 1994 Form 10-K Report, File No. 1-4473	3-30-95

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: ^a	Date Filed
10.1.1b	Pinnacle West APS	Amendment No. 1 to Decommissioning Trust Agreement (PVNGS Unit 3), dated as of December 1, 1994	10.2 to APS's 1994 Form 10-K Report, File No. 1-4473	3-30-95
10.1.1c	Pinnacle West APS	Amendment No. 2 to APS Decommissioning Trust Agreement (PVNGS Unit 1) dated as of July 1, 1991	10.4 to APS's 1996 Form 10-K Report, File No. 1-4473	3-28-97
10.1.1d	Pinnacle West APS	Amendment No. 2 to APS Decommissioning Trust Agreement (PVNGS Unit 3) dated as of July 1, 1991	10.6 to APS's 1996 Form 10-K Report, File No. 1-4473	3-28-97
10.1.1e	Pinnacle West APS	Amendment No. 3 to the Decommissioning Trust Agreement (PVNGS Unit 1), dated as of March 18, 2002	10.2 to Pinnacle West's March 31, 2002 Form 10-Q Report, File No. 1-8962	5-15-02
10.1.1f	Pinnacle West APS	Amendment No. 3 to the Decommissioning Trust Agreement (PVNGS Unit 3), dated as of March 18, 2002	10.4 to Pinnacle West's March 2002 Form 10-Q Report, File No. 1-8962	5-15-02
10.1.1g	Pinnacle West APS	Amendment No. 4 to the Decommissioning Trust Agreement (PVNGS Unit 1), dated as of December 19, 2003	10.3 to Pinnacle West's 2003 Form 10-K Report, File No. 1-8962	3-15-04
10.1.1h	Pinnacle West APS	Amendment No. 4 to the Decommissioning Trust Agreement (PVNGS Unit 3), dated as of December 19, 2003	10.5 to Pinnacle West's 2003 Form 10-K Report, File No. 1-8962	3-15-04

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: ^a	Date Filed
10.1.1i	Pinnacle West APS	Amendment No. 5 to the Decommissioning Trust Agreement (PVNGS Unit 1), dated as of May 1, 2007	10.1 to Pinnacle West/APS March 31, 2007 Form 10-Q Report, File Nos. 1-8962 and 1-4473	5-9-07
10.1.1j	Pinnacle West APS	Amendment No. 5 to the Decommissioning Trust Agreement (PVNGS Unit 3), dated as of May 1, 2007	10.2 to Pinnacle West/APS March 31, 2007 Form 10-Q Report, File Nos. 1-8962 and 104473	5-9-07
10.1.2	Pinnacle West APS	Amended and Restated Decommissioning Trust Agreement (PVNGS Unit 2) dated as of January 31, 1992, among APS, Mellon Bank, N.A., as Decommissioning Trustee, and State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee under two separate Trust Agreements, each with a separate Equity Participant, and as Lessor under two separate Facility Leases, each relating to an undivided interest in PVNGS Unit 2	10.1 to Pinnacle West's 1991 Form 10-K Report, File No. 1-8962	3-26-92
10.1.2a	Pinnacle West APS	First Amendment to Amended and Restated Decommissioning Trust Agreement (PVNGS Unit 2), dated as of November 1, 1992	10.2 to APS's 1992 Form 10-K Report, File No. 1-4473	3-30-93

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: ^a	Date Filed
10.1.2b	Pinnacle West APS	Amendment No. 2 to Amended and Restated Decommissioning Trust Agreement (PVNGS Unit 2), dated as of November 1, 1994	10.3 to APS's 1994 Form 10-K Report, File No. 1-4473	3-30-95
10.1.2c	Pinnacle West APS	Amendment No. 3 to Amended and Restated Decommissioning Trust Agreement (PVNGS Unit 2), dated as of June 20, 1996	10.1 to APS's June 30, 1996 Form 10-Q Report, File No. 1-4473	8-9-96
10.1.2d	Pinnacle West APS	Amendment No. 4 to Amended and Restated Decommissioning Trust Agreement (PVNGS Unit 2) dated as of December 16, 1996	APS 10.5 to APS's 1996 Form 10-K Report, File No. 1-4473	3-28-97
10.1.2e	Pinnacle West APS	Amendment No. 5 to the Amended and Restated Decommissioning Trust Agreement (PVNGS Unit 2), dated as of June 30, 2000	10.1 to Pinnacle West's March 31, 2002 Form 10-Q Report, File No. 1-8962	5-15-02
10.1.2f	Pinnacle West APS	Amendment No. 6 to the Amended and Restated Decommissioning Trust Agreement (PVNGS Unit 2), dated as of March 18, 2002	10.3 to Pinnacle West's March 31, 2002 Form 10-Q Report, File No. 1-8962	5-15-02
10.1.2g	Pinnacle West APS	Amendment No. 7 to the Amended and Restated Decommissioning Trust Agreement (PVNGS Unit 2), dated as of December 19, 2003	10.4 to Pinnacle West's 2003 Form 10-K Report, File No. 1-8962	3-15-04

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: ^a	Date Filed
10.1.2h	Pinnacle West APS	Amendment No. 8 to the Amended and Restated Decommissioning Trust Agreement (PVNGS Unit 2), dated as of April 1, 2007	10.1.2h to Pinnacle West's 2007 Form 10-K Report, File No. 1-8962	2-27-08
10.2.1 ^b	Pinnacle West APS	Arizona Public Service Company Deferred Compensation Plan, as restated, effective January 1, 1984, and the second and third amendments thereto, dated December 22, 1986, and December 23, 1987 respectively	10.4 to APS's 1988 Form 10-K Report, File No. 1-4473	3-8-89
10.2.1a ^b	Pinnacle West APS	Third Amendment to the Arizona Public Service Company Deferred Compensation Plan, effective as of January 1, 1993	10.3A to APS's 1993 Form 10-K Report, File No. 1-4473	3-30-94
10.2.1b ^b	Pinnacle West APS	Fourth Amendment to the Arizona Public Service Company Deferred Compensation Plan effective as of May 1, 1993	10.2 to APS's September 30, 1994 Form 10-Q Report, File No. 1-4473	11-10-94
10.2.1c ^b	Pinnacle West APS	Fifth Amendment to the Arizona Public Service Company Deferred Compensation Plan effective January 1, 1997	10.3A to APS's 1996 Form 10-K Report, File No. 1-4473	3-28-97

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: ^a	Date Filed
10.2.1d ^b	Pinnacle West APS	Sixth Amendment to the Arizona Public Service Company Deferred Compensation Plan effective January 1, 2001	10.8A to Pinnacle West's 2000 Form 10-K Report, File No. 1-8962	3-14-01
10.2.2 ^b	Pinnacle West APS	Arizona Public Service Company Directors' Deferred Compensation Plan, as restated, effective January 1, 1986	10.1 to APS's June 30, 1986 Form 10-Q Report, File No. 1-4473	8-13-86
10.2.2a ^b	Pinnacle West APS	Second Amendment to the Arizona Public Service Company Directors' Deferred Compensation Plan, effective as of January 1, 1993	10.2A to APS's 1993 Form 10-K Report, File No. 1-4473	3-30-94
10.2.2b ^b	Pinnacle West APS	Third Amendment to the Arizona Public Service Company Directors' Deferred Compensation Plan, effective as of May 1, 1993	10.1 to APS's September 30, 1994 Form 10-Q Report, File No. 1-4473	11-10-94
10.2.2c ^b	Pinnacle West APS	Fourth Amendment to the Arizona Public Service Company Directors Deferred Compensation Plan, effective as of January 1, 1999	10.8A to Pinnacle West's 1999 Form 10-K Report, File No. 1-8962	3-30-00
10.2.3 ^b	Pinnacle West APS	Trust for the Pinnacle West Capital Corporation, Arizona Public Service Company and SunCor Development Company Deferred Compensation Plans dated August 1, 1996	10.14A to Pinnacle West's 1999 Form 10-K Report, File No. 1-8962	3-30-00

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: ^a	Date Filed
10.2.3a ^b	Pinnacle West APS	First Amendment dated December 7, 1999 to the Trust for the Pinnacle West Capital Corporation, Arizona Public Service Company and SunCor Development Company Deferred Compensation Plans	10.15A to Pinnacle West's 1999 Form 10-K Report, File No. 1-8962	3-30-00
10.2.4 ^b	Pinnacle West APS	Pinnacle West Capital Corporation, Arizona Public Service Company, SunCor Development Company and El Dorado Investment Company Deferred Compensation Plan as amended and restated effective January 1, 1996	10.10A to APS's 1995 Form 10-K Report, File No. 1-4473	3-29-96
10.2.4a ^b	Pinnacle West APS	First Amendment effective as of January 1, 1999, to the Pinnacle West Capital Corporation, Arizona Public Service Company, SunCor Development Company and El Dorado Investment Company Deferred Compensation Plan	10.7A to Pinnacle West's 1999 Form 10-K Report, File No. 1-8962	3-30-00

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit:^a	Date Filed
10.2.4b ^b	Pinnacle West APS	Second Amendment effective January 1, 2000 to the Pinnacle West Capital Corporation, Arizona Public Service Company, SunCor Development Company and El Dorado Investment Company Deferred Compensation Plan	10.10A to Pinnacle West's 1999 Form 10-K Report, File No. 1-8962	3-30-00
10.2.4c ^b	Pinnacle West APS	Third Amendment to the Pinnacle West Capital Corporation, Arizona Public Service Company, SunCor Development Company and El Dorado Investment Company Deferred Compensation Plan, effective as of January 1, 2002	10.3 to Pinnacle West's March 31, 2003 Form 10-Q Report, File No. 1-8962	5-15-03
10.2.4d ^b	Pinnacle West APS	Fourth Amendment to the Pinnacle West Capital Corporation, Arizona Public Service Company, SunCor Development Company and El Dorado Investment Company Deferred Compensation Plan, effective January 1, 2003	10.64 to Pinnacle West/APS 2005 Form 10-K Report, File Nos. 1-8962 and 1-4473	3-13-06
10.2.5 ^b	Pinnacle West APS	Deferred Compensation Plan of 2005 for Employees of Pinnacle West Capital Corporation and Affiliates	10.2.6 to Pinnacle West/APS 2008 Form 10-K Report, File Nos. 1-8962 and 1-4473	2-20-09

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit:^a	Date Filed
10.2.5a ^b	Pinnacle West APS	First Amendment to the Deferred Compensation Plan of 2005 for Employees of Pinnacle West Capital Corporation and Affiliates	10.2.6a to Pinnacle West/APS 2009 Form 10-K Report, File Nos. 1-8962 and 1-4473	2-19-10
10.2.5b ^b	Pinnacle West APS	Second Amendment to the Deferred Compensation Plan of 2005 for Employees of Pinnacle West Capital Corporation and Affiliates		
10.3.1 ^b	Pinnacle West APS	Pinnacle West Capital Corporation Supplement Excess Benefit Retirement Plan, amended and restated as of January 1, 2003	10.7A to Pinnacle West's 2003 Form 10-K Report, File No. 1-8962	3-15-04
10.3.1a ^b	Pinnacle West APS	Pinnacle West Capital Corporation Supplemental Excess Benefit Retirement Plan, as amended and restated, dated December 18, 2003	10.48b to Pinnacle West/APS 2005 Form 10-K Report, File Nos. 1-8962 and 1-4473	3-13-06
10.3.2 ^b	Pinnacle West APS	Pinnacle West Capital Corporation Supplemental Excess Benefit Retirement Plan of 2005	10.3.2 to Pinnacle West/APS 2008 Form 10-K Report, File Nos. 1-8962 and 1-4473	2-20-09
10.4.1 ^b	APS	Letter Agreement dated December 20, 2006 between APS and Randall K. Edington	10.78 to Pinnacle West/APS 2006 Form 10-K Report, File Nos. 1-8962 and 1-4473	2-28-07

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: ^a	Date Filed
10.4.2 ^b	APS	Letter Agreement dated July 22, 2008 between APS and Randall K. Edington	10.3 to Pinnacle West/APS June 30, 2008 Form 10-Q Report, File No. 1-4473	8-07-08
10.4.3 ^b	Pinnacle West APS	Letter Agreement dated June 17, 2008 between Pinnacle West/APS and James R. Hatfield	10.1 to Pinnacle West/APS June 30, 2008 Form 10-Q Report, File Nos. 1-8962 and 1-4473	8-07-08
10.4.4 ^b	APS	Supplemental Agreement dated December 26, 2008 between APS and Randall K. Edington	10.4.10 to Pinnacle West/APS 2008 Form 10-K Report, File No. 1-4473	2-20-09
10.4.5 ^b	APS	Description of 2010 Palo Verde Specific Compensation Opportunity for Randall K. Edington	10.4.13 to Pinnacle West/APS 2009 Form 10-K Report, File Nos. 1-8962 and 1-4473	2-19-10
10.4.6 ^b	Pinnacle West	Letter Agreement dated May 21, 2009, between Pinnacle West Capital Corporation and David P. Falck	10.4 to Pinnacle West/APS March 31, 2010 Form 10-Q Report, File No. 1-8962	5-6-10
10.5.1 ^{bd}	Pinnacle West APS	Key Executive Employment and Severance Agreement between Pinnacle West and certain executive officers of Pinnacle West and its subsidiaries	10.77 to Pinnacle West/APS 2005 Form 10-K Report, File Nos. 1-8962 and 1-4473	3-13-06

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: ^a	Date Filed
10.5.1a ^{bd}	Pinnacle West APS	Form of Amended and Restated Key Executive Employment and Severance Agreement between Pinnacle West and certain officers of Pinnacle West and its subsidiaries	10.4 to Pinnacle West/APS September 30, 2007 Form 10-Q Report, File Nos. 1-8962 and 1-4473	11-6-07
10.5.2 ^{bd}	Pinnacle West APS	Form of Key Executive Employment and Severance Agreement between Pinnacle West and certain officers of Pinnacle West and its subsidiaries	10.3 to Pinnacle West/APS September 30, 2007 Form 10-Q Report, File Nos. 1-8962 and 1-4473	11-6-07
10.5.3 ^{bd}	Pinnacle West APS	Form of Key Executive Employment and Severance Agreement between Pinnacle West and certain officers of Pinnacle West and its subsidiaries	10.5.3 to Pinnacle West/APS 2009 Form 10-K Report, File Nos. 1-8962 and 1-4473	2-19-10
10.6.1 ^b	Pinnacle West APS	Pinnacle West Capital Corporation 2002 Long-Term Incentive Plan	10.5A to Pinnacle West's 2002 Form 10-K Report	3-31-03
10.6.1a ^{bd}	Pinnacle West APS	Performance Share Agreement under the Pinnacle West Capital Corporation 2002 Long-Term Incentive Plan	10.1 to Pinnacle West/APS December 9, 2005 Form 8-K Report, File Nos. 1-8962 and 1-4473	12-15-05
10.6.1b ^{bd}	Pinnacle West APS	Performance Share Agreement under the Pinnacle West Capital Corporation 2002 Long-Term Incentive Plan	10.1 to Pinnacle West/APS December 31, 2005 Form 8-K Report, File Nos. 1-8962 and 1-4473	2-1-06

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: ^a	Date Filed
10.6.1c ^{bd}	Pinnacle West APS	Performance Accelerated Stock Option Agreement under Pinnacle West Capital Corporation 2002 Long-Term Incentive Plan	10.98 to Pinnacle West/APS 2004 Form 10-K Report, File Nos. 1-8962 and 1-4473	3-16-05
10.6.1d ^{bd}	Pinnacle West APS	Performance Share Agreement under the Pinnacle West Capital Corporation 2002 Long-Term Incentive Plan	10.91 to Pinnacle West/APS 2005 Form 10-K Report, File Nos. 1-8962 and 1-4473	3-13-06
10.6.2 ^b	Pinnacle West	Pinnacle West Capital Corporation 2007 Long-Term Incentive Plan	Appendix B to the Proxy Statement for Pinnacle West's 2007 Annual Meeting of Shareholders, File No. 1-8962	4-20-07
10.6.2a ^b	Pinnacle West	First Amendment to the Pinnacle West Capital Corporation 2007 Long-Term Incentive Plan	10.2 to Pinnacle West/APS April 18, 2007 Form 8-K Report, File No. 1-8962	4-20-07
10.6.2b ^{bd}	Pinnacle West APS	Performance Share Agreement under the Pinnacle West Capital Corporation 2007 Long-Term Incentive Plan	10.3 to Pinnacle West/APS March 31, 2009 Form 10-Q Report, File Nos. 1-8962 and 1-4473	5-5-09
10.6.2c ^{bd}	Pinnacle West	Form of Performance Share Agreement under the Pinnacle West Capital Corporation 2007 Long-Term Incentive Plan	10.1 to Pinnacle West/APS June 30, 2010 Form 10-Q Report, File No. 1-8962	8-3-10
10.6.2d ^{bd}	Pinnacle West	Form of Restricted Stock Unit Agreement under the Pinnacle West Capital Corporation 2007 Long-Term Incentive Plan	10.2 to Pinnacle West/APS June 30, 2010 Form 10-Q Report, File No. 1-8962	8-3-10

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: ^a	Date Filed
10.6.2e ^{bd}	Pinnacle West	Form of Performance Share Agreement under the Pinnacle West Capital Corporation 2007 Long-Term Incentive Plan	10.4 to Pinnacle West/APS March 31, 2011 Form 10-Q Report, File No. 1-8962	4-29-11
10.6.2f ^{bd}	Pinnacle West	Form of Restricted Stock Unit Agreement under the Pinnacle West Capital Corporation 2007 Long-Term Incentive Plan	10.5 to Pinnacle West/APS March 31, 2011 Form 10-Q Report, File No. 1-8962	4-29-11
10.6.2g ^{bd}	Pinnacle West	Form of Restricted Stock Unit Agreement under the Pinnacle West Capital Corporation 2007 Long-Term Incentive Plan (Supplemental 2010 Award)	10.6 to Pinnacle West/APS March 31, 2011 Form 10-Q Report, File No. 1-8962	4-29-11
10.6.3 ^b	Pinnacle West	Description of Annual Stock Grants to Non-Employee Directors	10.1 to Pinnacle West/APS September 30, 2007 Form 10-Q Report, File No. 1-8962	11-6-07
10.6.4 ^b	Pinnacle West	Description of Stock Grant to W. Douglas Parker	10.2 to Pinnacle West/APS September 30, 2007 Form 10-Q Report, File No. 1-8962	11-6-07
10.6.5 ^b	Pinnacle West	Description of Annual Stock Grants to Non-Employee Directors	10.2 to Pinnacle West/APS June 30, 2008 Form 10-Q Report, File No. 1-8962	8-07-08
10.6.6 ^{bd}	Pinnacle West APS	Summary of 2012 CEO Variable Incentive Plan and Officer Variable Incentive Plan		
10.7.1	Pinnacle West APS	Indenture of Lease with Navajo Tribe of Indians, Four Corners Plant	5.01 to APS's Form S-7 Registration Statement, File No. 2-59644	9-1-77

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: ^a	Date Filed
10.7.1a	Pinnacle West APS	Supplemental and Additional Indenture of Lease, including amendments and supplements to original lease with Navajo Tribe of Indians, Four Corners Plant	5.02 to APS's Form S-7 Registration Statement, File No. 2-59644	9-1-77
10.7.1b	Pinnacle West APS	Amendment and Supplement No. 1 to Supplemental and Additional Indenture of Lease Four Corners, dated April 25, 1985	10.36 to Pinnacle West's Registration Statement on Form 8-B Report, File No. 1-8962	7-25-85
10.7.1c	Pinnacle West APS	Amendment and Supplement No. 2 to Supplemental and Additional Indenture of Lease with the Navajo Nation dated March 7, 2011	10.1 to Pinnacle West/APS March 31, 2011 Form 10-Q Report, File Nos. 1-8962 and 1-4473	4-29-11
10.7.1d	Pinnacle West APS	Amendment and Supplement No. 3 to Supplemental and Additional Indenture of Lease with the Navajo Nation dated March 7, 2011	10.2 to Pinnacle West/APS March 31, 2011 Form 10-Q Report, File Nos. 1-8962 and 1-4473	4-29-11
10.7.2	Pinnacle West APS	Application and Grant of multi-party rights-of-way and easements, Four Corners Plant Site	5.04 to APS's Form S-7 Registration Statement, File No. 2-59644	9-1-77

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: ^a	Date Filed
10.7.2a	Pinnacle West APS	Application and Amendment No. 1 to Grant of multi-party rights-of-way and easements, Four Corners Power Plant Site dated April 25, 1985	10.37 to Pinnacle West's Registration Statement on Form 8-B, File No. 1-8962	7-25-85
10.7.3	Pinnacle West APS	Application and Grant of Arizona Public Service Company rights- of-way and easements, Four Corners Plant Site	5.05 to APS's Form S-7 Registration Statement, File No. 2-59644	9-1-77
10.7.3a	Pinnacle West APS	Application and Amendment No. 1 to Grant of Arizona Public Service Company rights-of-way and easements, Four Corners Power Plant Site dated April 25, 1985	10.38 to Pinnacle West's Registration Statement on Form 8-B, File No. 1-8962	7-25-85
10.7.4	Pinnacle West APS	Four Corners Project Co-Tenancy Agreement Amendment No. 6	10.7 to Pinnacle West's 2000 Form 10-K Report, File No. 1-8962	3-14-01
10.8.1	Pinnacle West APS	Indenture of Lease, Navajo Units 1, 2, and 3	5(g) to APS's Form S-7 Registration Statement, File No. 2-36505	3-23-70
10.8.2	Pinnacle West APS	Application of Grant of rights-of-way and easements, Navajo Plant	5(h) to APS Form S-7 Registration Statement, File No. 2-36505	3-23-70
10.8.3	Pinnacle West APS	Water Service Contract Assignment with the United States Department of Interior, Bureau of Reclamation, Navajo Plant	5(l) to APS's Form S-7 Registration Statement, File No. 2-394442	3-16-71

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: ^a	Date Filed
10.8.4	Pinnacle West APS	Navajo Project Co-Tenancy Agreement dated as of March 23, 1976, and Supplement No. 1 thereto dated as of October 18, 1976, Amendment No. 1 dated as of July 5, 1988, and Amendment No. 2 dated as of June 14, 1996; Amendment No. 3 dated as of February 11, 1997; Amendment No. 4 dated as of January 21, 1997; Amendment No. 5 dated as of January 23, 1998; Amendment No. 6 dated as of July 31, 1998	10.107 to Pinnacle West/APS 2005 Form 10-K Report, File Nos. 1-8962 and 1-4473	3-13-06
10.8.5	Pinnacle West APS	Navajo Project Participation Agreement dated as of September 30, 1969, and Amendment and Supplement No. 1 dated as of January 16, 1970, and Coordinating Committee Agreement No. 1 dated as of September 30, 1971	10.108 to Pinnacle West/APS 2005 Form 10-K Report, File Nos. 1-8962 and 1-4473	3-13-06

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: ^a	Date Filed
10.9.1	Pinnacle West APS	Arizona Nuclear Power Project Participation Agreement, dated August 23, 1973, among APS Salt River Project Agricultural Improvement and Power District, Southern California Edison Company, Public Service Company of New Mexico, El Paso Electric Company, Southern California Public Power Authority, and Department of Water and Power of the City of Los Angeles, and amendments 1-12 thereto	10. 1 to APS's 1988 Form 10-K Report, File No. 1-4473	3-8-89
10.9.1a	Pinnacle West APS	Amendment No. 13, dated as of April 22, 1991, to Arizona Nuclear Power Project Participation Agreement, dated August 23, 1973, among APS, Salt River Project Agricultural Improvement and Power District, Southern California Edison Company, Public Service Company of New Mexico, El Paso Electric Company, Southern California Public Power Authority, and Department of Water and Power of the City of Los Angeles	10.1 to APS's March 31, 1991 Form 10-Q Report, File No. 1-4473	5-15-91

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: ^a	Date Filed
10.9.1b	Pinnacle West APS	Amendment No. 14 to Arizona Nuclear Power Project Participation Agreement, dated August 23, 1973, among APS, Salt River Project Agricultural Improvement and Power District, Southern California Edison Company, Public Service Company of New Mexico, El Paso Electric Company, Southern California Public Power Authority, and Department of Water and Power of the City of Los Angeles	99.1 to Pinnacle West's June 30, 2000 Form 10-Q Report, File No. 1-8962	8-14-00
10.9.1c	Pinnacle West APS	Amendment No. 15, dated November 29, 2010, to Arizona Nuclear Power Project Participation Agreement, dated August 23, 1973, among APS, Salt River Project Agricultural Improvement and Power District, Southern California Edison Company, Public Service Company of New Mexico, El Paso Electric Company, Southern California Public Power Authority, and Department of Water and Power of the City of Los Angeles	10.9.1c to Pinnacle West/APS 2010 Form 10-K Report, File Nos. 1-8962 and 1-4473	2-18-11

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: ^a	Date Filed
10.10.1	Pinnacle West APS	Asset Purchase and Power Exchange Agreement dated September 21, 1990 between APS and PacifiCorp, as amended as of October 11, 1990 and as of July 18, 1991	10.1 to APS's June 30, 1991 Form 10-Q Report, File No. 1-4473	8-8-91
10.10.2	Pinnacle West APS	Long-Term Power Transaction Agreement dated September 21, 1990 between APS and PacifiCorp, as amended as of October 11, 1990, and as of July 8, 1991	10.2 to APS's June 30, 1991 Form 10-Q Report, File No. 1-4473	8-8-91
10.10.2a	Pinnacle West APS	Amendment No. 1 dated April 5, 1995 to the Long-Term Power Transaction Agreement and Asset Purchase and Power Exchange Agreement between PacifiCorp and APS	10.3 to APS's 1995 Form 10-K Report, File No. 1-4473	3-29-96
10.10.3	Pinnacle West APS	Restated Transmission Agreement between PacifiCorp and APS dated April 5, 1995	10.4 to APS's 1995 Form 10-K Report, File No. 1-4473	3-29-96
10.10.4	Pinnacle West APS	Contract among PacifiCorp, APS and United States Department of Energy Western Area Power Administration, Salt Lake Area Integrated Projects for Firm Transmission Service dated May 5, 1995	10.5 to APS's 1995 Form 10-K Report, File No. 1-4473	3-29-96

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: ^a	Date Filed
10.10.5	Pinnacle West APS	Reciprocal Transmission Service Agreement between APS and PacifiCorp dated as of March 2, 1994	10.6 to APS's 1995 Form 10-K Report, File No. 1-4473	3-29-96
10.11.1	Pinnacle West APS	Five-Year Credit Agreement dated as of November 4, 2011 between APS, as Borrower, Barclays Bank PLC, as Agent, and the lenders and other parties thereto		
10.11.2	Pinnacle West	Credit Agreement dated as of February 23, 2011 among Pinnacle West Capital Corporation, as Borrower, Union Bank, N.A., as Agent, and the lenders and other parties thereto	10.3 to Pinnacle West/APS March 31, 2011 Form 10-Q Report, File No. 1-8962	4-29-11
10.11.3	Pinnacle West	Five-Year Credit Agreement dated as of November 4, 2011 among Pinnacle West Capital Corporation, as Borrower, Barclays Bank PLC, as Agent, and the lenders and other parties thereto		

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: ^a	Date Filed
10.11.4	APS	\$500,000,000 Four-Year Credit Agreement dated as of February 14, 2011 among Arizona Public Service Company as Borrower, Barclays Bank PLC, as Agent and Issuing Bank, Credit Suisse Securities (USA) LLC, as Syndication Agent, Credit Suisse AG, Cayman Islands Branch, as Issuing Bank, Bank of America, N.A. and Wells Fargo Bank, National Association, as Co-Documentation Agents and the other parties thereto	10.11.4 to Pinnacle West/APS 2010 Form 10-K Report, File Nos. 1-8962 and 1-4473	2-18-11
10.11.5	Pinnacle West APS	Reimbursement Agreement among APS, the Banks party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent and Issuing Bank, dated as of April 16, 2010	10.2 to Pinnacle West/APS March 31, 2010 Form 10-Q Report, File Nos. 1-8962 and 1-4473	5-6-10
10.11.5a	Pinnacle West APS	Amendment No. 1 to the Reimbursement Agreement among APS, the Banks party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent and Issuing Bank, dated December 22, 2011		

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: ^a	Date Filed
10.11.6	Pinnacle West APS	Reimbursement Agreement among APS, the Banks party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent and Issuing Bank, dated as of April 16, 2010	10.3 to Pinnacle West/APS March 31, 2010 Form 10-Q Report, File Nos. 1-8962 and 1-4473	5-6-10
10.11.6a	Pinnacle West APS	Amendment No. 1 to the Reimbursement Agreement among APS, the Banks party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent and Issuing Bank, dated December 22, 2011		
10.12.1 ^c	Pinnacle West APS	Facility Lease, dated as of August 1, 1986, between U.S. Bank National Association, successor to State Street Bank and Trust Company, as successor to The First National Bank of Boston, in its capacity as Owner Trustee, as Lessor, and APS, as Lessee	4.3 to APS's Form 18 Registration Statement, File No. 33-9480	10-24-86

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: ^a	Date Filed
10.12.1a ^c	Pinnacle West APS	Amendment No. 1, dated as of November 1, 1986, to Facility Lease, dated as of August 1, 1986, between U.S. Bank National Association, successor to State Street Bank and Trust Company, as successor to The First National Bank of Boston, in its capacity as Owner Trustee, as Lessor, and APS, as Lessee	10.5 to APS's September 30, 1986 Form 10-Q Report by means of Amendment No. 1 on December 3, 1986 Form 8, File No. 1-4473	12-4-86
10.12.1b ^c	Pinnacle West APS	Amendment No. 2 dated as of June 1, 1987 to Facility Lease dated as of August 1, 1986 between U.S. Bank National Association, successor to State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Lessor, and APS, as Lessee	10.3 to APS's 1988 Form 10-K Report, File No. 1-4473	3-8-89
10.12.1c ^c	Pinnacle West APS	Amendment No. 3, dated as of March 17, 1993, to Facility Lease, dated as of August 1, 1986, between U.S. Bank National Association, successor to State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Lessor, and APS, as Lessee	10.3 to APS's 1992 Form 10-K Report, File No. 1-4473	3-30-93

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: ^a	Date Filed
10.12.2	Pinnacle West APS	Facility Lease, dated as of December 15, 1986, between U.S. Bank National Association, successor to State Street Bank and Trust Company, as successor to The First National Bank of Boston, in its capacity as Owner Trustee, as Lessor, and APS, as Lessee	10.1 to APS's November 18, 1986 Form 8-K Report, File No. 1-4473	1-20-87
10.12.2a	Pinnacle West APS	Amendment No. 1, dated as of August 1, 1987, to Facility Lease, dated as of December 15, 1986, between U.S. Bank National Association, successor to State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Lessor, and APS, as Lessee	4.13 to APS's Form 18 Registration Statement No. 33-9480 by means of August 1, 1987 Form 8-K Report, File No. 1-4473	8-24-87
10.12.2b	Pinnacle West APS	Amendment No. 2, dated as of March 17, 1993, to Facility Lease, dated as of December 15, 1986, between U.S. Bank National Association, successor to State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Lessor, and APS, as Lessee	10.4 to APS's 1992 Form 10-K Report, File No. 1-4473	3-30-93

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: ^a	Date Filed
10.13.1	Pinnacle West APS	Agreement between Pinnacle West Energy Corporation and Arizona Public Service Company for Transportation and Treatment of Effluent by and between Pinnacle West Energy Corporation and APS dated as of the 10 th day of April, 2001	10.102 to Pinnacle West/APS 2004 Form 10-K Report, File Nos. 1-8962 and 1-4473	3-16-05
10.13.2	Pinnacle West APS	Agreement for the Transfer and Use of Wastewater and Effluent by and between APS, SRP and PWE dated June 1, 2001	10.103 to Pinnacle West/APS 2004 Form 10-K Report, File Nos. 1-8962 and 1-4473	3-16-05
10.13.3	Pinnacle West APS	Agreement for the Sale and Purchase of Wastewater Effluent dated November 13, 2000, by and between the City of Tolleson, Arizona, APS and SRP	10.104 to Pinnacle West/APS 2004 Form 10-K Report, File Nos. 1-8962 and 1-4473	3-16-05
10.13.4	Pinnacle West APS	Operating Agreement for the Co-Ownership of Wastewater Effluent dated November 16, 2000 by and between APS and SRP	10.105 to Pinnacle West/APS 2004 Form 10-K Report, File Nos. 1-8962 and 1-4473	3-16-05

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: ^a	Date Filed
10.13.5	Pinnacle West APS	Municipal Effluent Purchase and Sale Agreement dated April 29, 2010, by and between City of Phoenix, City of Mesa, City of Tempe, City of Scottsdale, City of Glendale, APS and Salt River Project Agricultural Improvement and Power District	10.1 to Pinnacle West/APS March 31, 2010 Form 10-Q Report, File Nos. 1-8962 and 1-4473	5-6-10
10.14.1	Pinnacle West APS	Contract, dated July 21, 1984, with DOE providing for the disposal of nuclear fuel and/or high-level radioactive waste, ANPP	10.31 to Pinnacle West's Form S-14 Registration Statement, File No. 2-96386	3-13-85
10.15.1	Pinnacle West APS	Territorial Agreement between APS and Salt River Project	10.1 to APS's March 31, 1998 Form 10-Q Report, File No. 1-4473	5-15-98
10.15.2	Pinnacle West APS	Power Coordination Agreement between APS and Salt River Project	10.2 to APS's March 31, 1998 Form 10-Q Report, File No. 1-4473	5-15-98
10.15.3	Pinnacle West APS	Memorandum of Agreement between APS and Salt River Project	10.3 to APS's March 31, 1998 Form 10-Q Report, File No. 1-4473	5-15-98
10.15.3a	Pinnacle West APS	Addendum to Memorandum of Agreement between APS and Salt River Project dated as of May 19, 1998	10.2 to APS's May 19, 1998 Form 8-K Report, File No. 1-4473	6-26-98

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: ^a	Date Filed
10.16	Pinnacle West APS	Purchase and Sale Agreement dated November 8, 2010 by and between Southern California Edison Company and APS	10.1 to Pinnacle West/APS November 8, 2010 Form 8-K Report, File Nos. 1-8962 and 1-4473	11-8-10
10.17	Pinnacle West APS	Proposed Settlement Agreement dated January 6, 2012 by and among APS and certain parties to its retail rate case		
12.1	Pinnacle West	Ratio of Earnings to Fixed Charges		
12.2	APS	Ratio of Earnings to Fixed Charges		
12.3	Pinnacle West	Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividend Requirements		
21.1	Pinnacle West	Subsidiaries of Pinnacle West		
23.1	Pinnacle West	Consent of Deloitte & Touche LLP		
23.2	APS	Consent of Deloitte & Touche LLP		
31.1	Pinnacle West	Certificate of Donald E. Brandt, Chief Executive Officer, pursuant to Rule 13a-14 (a) and Rule 15d-14(a) of the Securities Exchange Act, as amended		

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: ^a	Date Filed
31.2	Pinnacle West	Certificate of James R. Hatfield, Chief Financial Officer, pursuant to Rule 13a-14 (a) and Rule 15d-14(a) of the Securities Exchange Act, as amended		
31.3	APS	Certificate of Donald E. Brandt, Chief Executive Officer, pursuant to Rule 13a-14 (a) and Rule 15d-14(a) of the Securities Exchange Act, as amended		
31.4	APS	Certificate of James R. Hatfield, Chief Financial Officer, pursuant to Rule 13a-14 (a) and Rule 15d-14(a) of the Securities Exchange Act, as amended		
32.1 ^c	Pinnacle West	Certification of Chief Executive Officer and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002		
32.2 ^c	APS	Certification of Chief Executive Officer and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002		

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: ^a	Date Filed
99.1	Pinnacle West APS	Collateral Trust Indenture among PVNGS II Funding Corp., Inc., APS and Chemical Bank, as Trustee	4.2 to APS's 1992 Form 10-K Report, File No. 1- 3-30-93 4473	
99.1a	Pinnacle West APS	Supplemental Indenture to Collateral Trust Indenture among PVNGS II Funding Corp., Inc., APS and Chemical Bank, as Trustee	4.3 to APS's 1992 Form 10-K Report, File No. 1- 3-30-93 4473	
99.2 ^c	Pinnacle West APS	Participation Agreement, dated as of August 1, 1986, among PVNGS Funding Corp., Inc., Bank of America National Trust and Savings Association, State Street Bank and Trust Company, as successor to The First National Bank of Boston, in its individual capacity and as Owner Trustee, Chemical Bank, in its individual capacity and as Indenture Trustee, APS, and the Equity Participant named therein	28.1 to APS's September 30, 1992 Form 10-Q Report, File No. 1-4473	11-9-92

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: ^a	Date Filed
99.2a ^c	Pinnacle West APS	Amendment No. 1 dated as of November 1, 1986, to Participation Agreement, dated as of August 1, 1986, among PVNGS Funding Corp., Inc., Bank of America National Trust and Savings Association, State Street Bank and Trust Company, as successor to The First National Bank of Boston, in its individual capacity and as Owner Trustee, Chemical Bank, in its individual capacity and as Indenture Trustee, APS, and the Equity Participant named therein	10.8 to APS's September 30, 1986 Form 10-Q Report by means of Amendment No. 1, on December 3, 1986 Form 8, File No. 1-4473	12-4-86
99.2b ^c	Pinnacle West APS	Amendment No. 2, dated as of March 17, 1993, to Participation Agreement, dated as of August 1, 1986, among PVNGS Funding Corp., Inc., PVNGS II Funding Corp., Inc., State Street Bank and Trust Company, as successor to The First National Bank of Boston, in its individual capacity and as Owner Trustee, Chemical Bank, in its individual capacity and as Indenture Trustee, APS, and the Equity Participant named therein	28.4 to APS's 1992 Form 10-K Report, File No. 1-4473	3-30-93

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: ^a	Date Filed
99.3 ^c	Pinnacle West APS	Trust Indenture, Mortgage, Security Agreement and Assignment of Facility Lease, dated as of August 1, 1986, between State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee, and Chemical Bank, as Indenture Trustee	4.5 to APS's Form 18 Registration Statement, File No. 33-9480	10-24-86
99.3a ^c	Pinnacle West APS	Supplemental Indenture No. 1, dated as of November 1, 1986 to Trust Indenture, Mortgage, Security Agreement and Assignment of Facility Lease, dated as of August 1, 1986, between State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee, and Chemical Bank, as Indenture Trustee	10.6 to APS's September 30, 1986 Form 10-Q Report by means of Amendment No. 1 on December 3, 1986 Form 8, File No. 1-4473	12-4-86

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: ^a	Date Filed
99.3b ^c	Pinnacle West APS	Supplemental Indenture No. 2 to Trust Indenture, Mortgage, Security Agreement and Assignment of Facility Lease, dated as of August 1, 1986, between State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee, and Chemical Bank, as Lease Indenture Trustee	4.4 to APS's 1992 Form 10-K Report, File No. 1- 4473	3-30-93
99.4 ^c	Pinnacle West APS	Assignment, Assumption and Further Agreement, dated as of August 1, 1986, between APS and State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee	28.3 to APS's Form 18 Registration Statement, File No. 33-9480	10-24-86
99.4a ^c	Pinnacle West APS	Amendment No. 1, dated as of November 1, 1986, to Assignment, Assumption and Further Agreement, dated as of August 1, 1986, between APS and State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee	10.10 to APS's September 30, 1986 Form 10-Q Report by means of Amendment No. 1 on December 3, 1986 Form 8, File No. 1-4473	12-4-86

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: ^a	Date Filed
99.4b ^c	Pinnacle West APS	Amendment No. 2, dated as of March 17, 1993, to Assignment, Assumption and Further Agreement, dated as of August 1, 1986, between APS and State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee	28.6 to APS's 1992 Form 10-K Report, File No. 1-4473	3-30-93
99.5	Pinnacle West APS	Participation Agreement, dated as of December 15, 1986, among PVNGS Funding Report Corp., Inc., State Street Bank and Trust Company, as successor to The First National Bank of Boston, in its individual capacity and as Owner Trustee, Chemical Bank, in its individual capacity and as Indenture Trustee under a Trust Indenture, APS, and the Owner Participant named therein	28.2 to APS's September 30, 1992 Form 10-Q Report, File No. 1-4473	11-9-92

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: ^a	Date Filed
99.5a	Pinnacle West APS	Amendment No. 1, dated as of August 1, 1987, to Participation Agreement, dated as of December 15, 1986, among PVNGS Funding Corp., Inc. as Funding Corporation, State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee, Chemical Bank, as Indenture Trustee, APS, and the Owner Participant named therein	28.20 to APS's Form 18 Registration Statement No. 33-9480 by means of a November 6, 1986 Form 8-K Report, File No. 1-4473	8-10-87
99.5b	Pinnacle West APS	Amendment No. 2, dated as of March 17, 1993, to Participation Agreement, dated as of December 15, 1986, among PVNGS Funding Corp., Inc., PVNGS II Funding Corp., Inc., State Street Bank and Trust Company, as successor to The First National Bank of Boston, in its individual capacity and as Owner Trustee, Chemical Bank, in its individual capacity and as Indenture Trustee, APS, and the Owner Participant named therein	28.5 to APS's 1992 Form 10-K Report, File No. 1-4473	3-30-93

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: ^a	Date Filed
99.6	Pinnacle West APS	Trust Indenture, Mortgage Security Agreement and Assignment of Facility Lease, dated as of December 15, 1986, between State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee, and Chemical Bank, as Indenture Trustee	10.2 to APS's November 18, 1986 Form 10-K Report, File No. 1-4473	1-20-87
99.6a	Pinnacle West APS	Supplemental Indenture No. 1, dated as of August 1, 1987, to Trust Indenture, Mortgage, Security Agreement and Assignment of Facility Lease, dated as of December 15, 1986, between State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee, and Chemical Bank, as Indenture Trustee	4.13 to APS's Form 18 Registration Statement No. 33-9480 by means of August 1, 1987 Form 8-K Report, File No. 1-4473	8-24-87

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: ^a	Date Filed
99.6b	Pinnacle West APS	Supplemental Indenture No. 2 to Trust Indenture Mortgage, Security Agreement and Assignment of Facility Lease, dated as of December 15, 1986, between State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee, and Chemical Bank, as Lease Indenture Trustee	4.5 to APS's 1992 Form 10-K Report, File No. 1- 4473	3-30-93
99.7	Pinnacle West APS	Assignment, Assumption and Further Agreement, dated as of December 15, 1986, between APS and State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee	10.5 to APS's November 18, 1986 Form 8-K Report, File No. 1-4473	1-20-87
99.7a	Pinnacle West APS	Amendment No. 1, dated as of March 17, 1993, to Assignment, Assumption and Further Agreement, dated as of December 15, 1986, between APS and State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee	28.7 to APS's 1992 Form 10-K Report, File No. 1-4473	3-30-93
99.8 ^c	Pinnacle West APS	Indemnity Agreement dated as of March 17, 1993 by APS	28.3 to APS's 1992 Form 10-K Report, File No. 1-4473	3-30-93

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: ^a	Date Filed
99.9	Pinnacle West APS	Extension Letter, dated as of August 13, 1987, from the signatories of the Participation Agreement to Chemical Bank	28.20 to APS's Form 18 Registration Statement No. 33-9480 by means of a November 6, 1986 Form 8-K Report, File No. 1-4473	8-10-87
99.10	Pinnacle West APS	Arizona Corporation Commission Order, Decision No. 61969, dated September 29, 1999, including the Retail Electric Competition Rules	10.2 to APS's September 30, 1999 Form 10-Q Report, File No. 1-4473	11-15-99
99.11	Pinnacle West	Purchase Agreement by and among Pinnacle West Energy Corporation and GenWest, L.L.C. and Nevada Power Company, dated June 21, 2005	99.5 to Pinnacle West/APS June 30, 2005 Form 10-Q Report, File Nos. 1-8962 and 1-4473	8-9-05
101.INS ^e	Pinnacle West APS	XBRL Instance Document		
101.SCH ^e	Pinnacle West APS	XBRL Taxonomy Extension Schema Document		
101.CAL ^e	Pinnacle West APS	XBRL Taxonomy Extension Calculation Linkbase Document		
101.LAB ^e	Pinnacle West APS	XBRL Taxonomy Extension Label Linkbase Document		
101.PRE ^e	Pinnacle West APS	XBRL Taxonomy Extension Presentation Linkbase Document		

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Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: ^a	Date Filed
101.DEF ^e	Pinnacle West APS	XBRL Taxonomy Definition Linkbase Document		

^a Reports filed under File No. 1-4473 and 1-8962 were filed in the office of the Securities and Exchange Commission located in Washington, D.C.

^b Management contract or compensatory plan or arrangement to be filed as an exhibit pursuant to Item 15(b) of Form 10-K.

^c An additional document, substantially identical in all material respects to this Exhibit, has been entered into, relating to an additional Equity Participant. Although such additional document may differ in other respects (such as dollar amounts, percentages, tax indemnity matters, and dates of execution), there are no material details in which such document differs from this Exhibit.

^d Additional agreements, substantially identical in all material respects to this Exhibit have been entered into with additional persons. Although such additional documents may differ in other respects (such as dollar amounts and dates of execution), there are no material details in which such agreements differ from this Exhibit.

^e Furnished herewith as an Exhibit.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PINNACLE WEST CAPITAL CORPORATION
(Registrant)

Date: February 24, 2012

/s/ Donald E. Brandt

(Donald E. Brandt, Chairman of
the Board of Directors, President and
Chief Executive Officer)

Power of Attorney

We, the undersigned directors and executive officers of Pinnacle West Capital Corporation, hereby severally appoint James R. Hatfield and David P. Falck, and each of them, our true and lawful attorneys with full power to them and each of them to sign for us, and in our names in the capacities indicated below, any and all amendments to this Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Donald E. Brandt (Donald E. Brandt, Chairman of the Board of Directors, President and Chief Executive Officer)	Principal Executive Officer and Director	February 24, 2012
/s/ James R. Hatfield (James R. Hatfield, Senior Vice President and Chief Financial Officer)	Principal Financial Officer	February 24, 2012
/s/ Denise R. Danner (Denise R. Danner, Vice President, Controller and Chief Accounting Officer)	Principal Accounting Officer	February 24, 2012

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<u>/s/ Edward N. Basha, Jr.</u> (Edward N. Basha, Jr.)	Director	February 24, 2012
<u>/s/ Susan Clark-Johnson</u> (Susan Clark-Johnson)	Director	February 24, 2012
<u>/s/ Denis A. Cortese</u> (Denis A. Cortese)	Director	February 24, 2012
<u>/s/ Michael L. Gallagher</u> (Michael L. Gallagher)	Director	February 24, 2012
<u>/s/ Pamela Grant</u> (Pamela Grant)	Director	February 24, 2012
<u>/s/ Roy A. Herberger, Jr.</u> (Roy A. Herberger, Jr.)	Director	February 24, 2012
<u>/s/ Dale E. Klein</u> (Dale E. Klein)	Director	February 24, 2012
<u>/s/ Humberto S. Lopez</u> (Humberto S. Lopez)	Director	February 24, 2012
<u>/s/ Kathryn L. Munro</u> (Kathryn L. Munro)	Director	February 24, 2012
<u>/s/ Bruce J. Nordstrom</u> (Bruce J. Nordstrom)	Director	February 24, 2012

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ARIZONA PUBLIC SERVICE COMPANY
(Registrant)

Date: February 24, 2012

/s/ Donald E. Brandt

(Donald E. Brandt, Chairman of
the Board of Directors and Chief
Executive Officer)

Power of Attorney

We, the undersigned directors and executive officers of Arizona Public Service Company, hereby severally appoint James R. Hatfield and David P. Falck, and each of them, our true and lawful attorneys with full power to them and each of them to sign for us, and in our names in the capacities indicated below, any and all amendments to this Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Donald E. Brandt (Donald E. Brandt, Chairman of the Board of Directors and Chief Executive Officer)	Principal Executive Officer and Director	February 24, 2012
/s/ James R. Hatfield (James R. Hatfield, Senior Vice President and Chief Financial Officer)	Principal Financial Officer	February 24, 2012
/s/ Denise R. Danner (Denise R. Danner, Vice President, Controller and Chief Accounting Officer)	Principal Accounting Officer	February 24, 2012

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<u>/s/ Edward N. Basha, Jr.</u> (Edward N. Basha, Jr.)	Director	February 24, 2012
<u>/s/ Susan Clark-Johnson</u> (Susan Clark-Johnson)	Director	February 24, 2012
<u>/s/ Denis A. Cortese</u> (Denis A. Cortese)	Director	February 24, 2012
<u>/s/ Michael L. Gallagher</u> (Michael L. Gallagher)	Director	February 24, 2012
<u>/s/ Pamela Grant</u> (Pamela Grant)	Director	February 24, 2012
<u>/s/ Roy A. Herberger, Jr.</u> (Roy A. Herberger, Jr.)	Director	February 24, 2012
<u>/s/ Dale E. Klein</u> (Dale E. Klein)	Director	February 24, 2012
<u>/s/ Humberto S. Lopez</u> (Humberto S. Lopez)	Director	February 24, 2012
<u>/s/ Kathryn L. Munro</u> (Kathryn L. Munro)	Director	February 24, 2012
<u>/s/ Bruce J. Nordstrom</u> (Bruce J. Nordstrom)	Director	February 24, 2012

**SECOND AMENDMENT
TO THE
DEFERRED COMPENSATION PLAN OF 2005 FOR EMPLOYEES OF
PINNACLE WEST CAPITAL CORPORATION AND AFFILIATES**

Effective as of January 1, 2005, Pinnacle West Capital Corporation (the "Company") adopted the Deferred Compensation Plan of 2005 for Employees of Pinnacle West Capital Corporation and Affiliates (the "Plan"). The Plan has been amended on one prior occasion. By this instrument, the Company now desires to amend the Plan as described below.

1. This Second Amendment shall be effective as of October 19, 2011.
 2. This Second Amendment amends only the provisions of the Plan noted below. Those provisions not expressly amended shall be considered in full force and effect. This Second Amendment also supersedes the other provisions of the Plan to the extent those provisions are inconsistent with the provisions and intent of this Second Amendment.
 3. Section 1.7 ("Supplemental Rate") of the Plan is amended and restated in its entirety to read as follows:

1.7 Reserved.
 4. Section 1.13 ("Base Rate") of the Plan is amended and restated in its entirety to read as follows:

1.13 Reserved.
 5. Section 1.25 ("Plan Rate") of the Plan is amended and restated in its entirety to read as follows:

1.25 "Plan Rate" shall mean an interest rate determined for each Plan Year by the Committee, in its sole discretion, which rate shall be determined on or before the first business day of the month that precedes the beginning of the Plan Year for which the rate applies but which rate shall in no event be less than a rate of interest equal to the ten-year U.S. Treasury Note rate as published on the last business day of the first week of October preceding a Plan Year.
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6. The seventh sentence of Section 3.3 (Election to Defer; Effect of Election Form) is amended and restated in its entirety to read as follows:

With respect to the “excess interest credits” on the December 31, 2004 Account Balance of any Participant who had less than five years of Plan Participation as of December 31, 2004, the election of the form and time of payment made by such Participant with respect to the calendar year in which the Participant first earns five years of Plan Participation shall govern the form and time of payment of such excess interest credits. For this purpose, the “excess interest credits” are the interest credits in excess of the yield on ten-year U.S. Treasury Notes (as published on the last business day of the first week of October preceding the Plan Year).

7. Section 3.5 (Interest Crediting Prior to Distribution) of the Plan is amended and restated in its entirety to read as follows:

3.5 Interest Crediting Prior to Distribution. Prior to any distribution of benefits under Article 5, interest shall be credited in accordance with rules established by the Company. The rate of interest for crediting shall be the Plan Rate. If a Short-Term Payout is made, for purposes of crediting interest, the Account Balance shall be reduced as of the first day of the Plan Year in which the Short-Term Payout is made.

8. Section 3.7(a) (Installment Distribution — Interest Rate) of the Plan is amended and restated in its entirety to read as follows:

(a) Interest Rate. The interest rate to be used to calculate installment payment amounts shall be a fixed interest rate that is determined by averaging the Plan Rates for the Plan Year in which a Participant becomes eligible to receive a benefit and the four (4) preceding Plan Years. If a Participant has completed fewer than five (5) Years of Plan Participation, the interest rate to be used to calculate installment payment amounts shall be a fixed interest rate that is determined by averaging the Plan Rates for the relevant Plan Years in which the Participant participated in the Plan.

IN WITNESS WHEREOF, Pinnacle West Capital Corporation has caused this Second Amendment to be executed as of this 19th day of October, 2011.

PINNACLE WEST CAPITAL CORPORATION

By: /s/ Donald E. Brandt

Donald E. Brandt, Chairman of the Board, President and
Chief Executive Officer

Summary of 2012 Incentive Plans

On December 13, 2011, the Human Resources Committee (the “Committee”) of the Pinnacle West Capital Corporation (“Pinnacle West”) Board of Directors (the “Board”) approved the Pinnacle West 2012 Annual Incentive Award Plan (the “PNW Plan”), which provides an incentive award opportunity for Donald E. Brandt, the Chairman of the Board, President, and Chief Executive Officer of Pinnacle West and the Chairman of the Board and Chief Executive Officer of Arizona Public Service Company (“APS”). On December 14, 2011, the Board, acting on the recommendation of the Committee, approved the APS 2012 Annual Incentive Award Plan (the “APS Plan”) and the APS 2012 Annual Incentive Award Plan for PVNGS Employees (the “Palo Verde Plan”), which provide incentive award opportunities for Pinnacle West and APS employees, including the following “named executive officers” identified in the 2011 Proxy Statement: James R. Hatfield, Senior Vice President and Chief Financial Officer; Randall K. Edington, Executive Vice President and Chief Nuclear Officer of APS; David P. Falck, Executive Vice President, General Counsel and Secretary; and Donald G. Robinson, President and Chief Operating Officer of APS. The PNW Plan, the APS Plan, and the Palo Verde Plan are referred to collectively herein as the “2012 Plans.”

No incentive payments will be awarded under the PNW Plan or the APS Plan unless Pinnacle West, with respect to Mr. Brandt, and APS, with respect to Messrs. Hatfield, Falck and Robinson, each achieves a specified threshold earnings level. No incentive payment will be awarded under the Palo Verde Plan, with respect to Mr. Edington, unless the Palo Verde Nuclear Generating Station (“Palo Verde”) achieves specified threshold business unit performance goals. The Committee will evaluate the impacts of unusual or nonrecurring adjustments to earnings in determining whether any earnings level has been met for purposes of the 2012 Plans, and Arizona Corporation Commission rate-related impacts will be excluded. The impacts of any sale or disposal of real estate development operations will be excluded for purposes of the PNW Plan.

The award opportunities for Mr. Brandt and Mr. Robinson are based on the achievement of specified 2012 Pinnacle West and APS earnings levels, respectively. The awards achieved may be further adjusted by the Committee based upon its evaluation of business results and each officer’s individual performance. Mr. Brandt has an award opportunity of up to 50% of his base salary if the threshold earnings level is met, up to 100% of his base salary if a target earnings level is met, and up to 200% of his base salary if a maximum earnings level is met, before adjustment for business results and individual performance; however, in no event may Mr. Brandt’s award exceed 200% of his base salary. Mr. Robinson has an award opportunity of up to 37.5% of his base salary if the threshold earnings level is met, up to 75% of his base salary if a target earnings level is met, and up to 150% of his base salary if a maximum earnings level is met, before adjustment for business results and individual performance; however, in no event may Mr. Robinson’s award exceed 150% of his base salary. In considering Messrs. Brandt’s and Robinson’s individual performance, the Committee may take into account factors

such as shareholder value creation, customer service, financial strength, operating performance and safety.

The award opportunities for Messrs. Hatfield and Falck under the APS Plan and for Mr. Edington under the Palo Verde Plan are based on the achievement of specified 2012 APS earnings levels and specified business unit performance goals. The awards achieved may be further adjusted by the Committee, with input from the Chief Executive Officer (“CEO”), based upon its evaluation of each officer’s individual performance. Messrs. Hatfield and Falck have a target award opportunity of up to 50% of their base salary. Messrs. Hatfield and Falck may earn less than the target amount or more, up to a maximum award opportunity of up to 100% of their base salary, depending on the achievement of the earnings and business unit performance goals separately or in combination, and before adjustment for individual performance. Mr. Edington has an award opportunity of 12.5% up to a maximum of 100% of his base salary, depending on the achievement of the earnings and business unit performance goals, separately or in combination, and before adjustment for individual performance. In no event may the awards to Messrs. Hatfield, Falck and Edington exceed 100% of their base salary. The business unit performance indicators that will be considered for Messrs. Hatfield and Falck are derived from APS’ critical areas of focus as provided in its Strategic Framework: customers and communities, employees, operational excellence and shareholder value. The business unit performance indicators for Mr. Edington are based on employees, operational excellence, performance improvement and shareholder value. In considering each officer’s individual performance, with input from the CEO, the Committee may take into account factors such as shareholder value creation, customer service, financial strength, operational performance and safety.

In addition, consistent with Mr. Edington’s letter agreement regarding his employment, the Board approved a separate compensation opportunity for Mr. Edington of up to \$125,000 upon the achievement of specific performance measures tied to Palo Verde operations performance and regulatory evaluations.

U.S. \$500,000,000
FIVE-YEAR CREDIT AGREEMENT
Dated as of November 4, 2011

among

ARIZONA PUBLIC SERVICE COMPANY,
as Borrower,

THE LENDERS PARTY HERETO,

BARCLAYS BANK PLC ,
as Agent and Issuing Bank ,

THE ROYAL BANK OF SCOTLAND plc
and
WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Co-Syndication Agents ,

THE ROYAL BANK OF SCOTLAND plc
and
WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Issuing Banks,

BANK OF AMERICA, N.A.
and
CREDIT SUISSE AG, CAYMAN ISLANDS BRANCH,
as Co-Documentation Agents ,

BARCLAYS CAPITAL
RBS SECURITIES INC.
WELLS FARGO SECURITIES, LLC
MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED
and
CREDIT SUISSE SECURITIES (USA) LLC,
as Joint Lead Arrangers

and

BARCLAYS CAPITAL
RBS SECURITIES INC.
and
WELLS FARGO SECURITIES, LLC,
as Joint Book Runners

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Exhibit C Form of Assignment and Assumption

FIVE-YEAR CREDIT AGREEMENT

Dated as of November 4, 2011

ARIZONA PUBLIC SERVICE COMPANY, an Arizona corporation (the “Borrower”), the banks, financial institutions and other institutional lenders (the “Initial Lenders”) and initial issuing banks (the “Initial Issuing Banks”) listed on the signature pages hereof, the other Lenders (as hereinafter defined), BARCLAYS BANK PLC, as Agent for the Lenders (as hereinafter defined), THE ROYAL BANK OF SCOTLAND plc and WELLS FARGO BANK, NATIONAL ASSOCIATION, as Co-Syndication Agents and BANK OF AMERICA, N.A. and CREDIT SUISSE AG, CAYMAN ISLANDS BRANCH, as Co-Documentation Agents, agree as follows:

The Borrower has requested that the Lenders provide a revolving credit facility for the purposes set forth herein, and the Lenders are willing to do so on the terms and conditions set forth herein.

In consideration of the mutual covenants and agreements herein contained, the parties hereto covenant and agree as follows:

ARTICLE I

DEFINITIONS AND ACCOUNTING TERMS

Section 1.01 Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings:

“2007 Order” means Decision No. 69947, dated October 30, 2007, of the Arizona Corporation Commission.

“Administrative Questionnaire” means an Administrative Questionnaire in a form supplied by the Agent.

“Advance” means a Revolving Advance or a Swingline Advance.

“Affected Lender” means any Lender, as reasonably determined by the Agent or if the Agent is the Affected Lender, by the Required Lenders, that (a) has failed to (i) fund all or any portion of any Revolving Advance within three (3) Business Days of the date such Revolving Advances were required to be funded hereunder unless such Lender notifies the Agent and the Borrower in writing that such failure is the result of such Lender’s determination that one or more conditions precedent to funding (each of which conditions precedent, together with any applicable default, shall be specifically identified in writing) has not been satisfied, or (ii) pay to the Agent, any Issuing Bank, the Swingline Lender, if any, or any other Lender any other amount required to be paid by it hereunder (including in respect of its participation in Letters of Credit and funding obligations in respect of Swingline Advances) within three (3) Business Days of the date when due, (b) has notified the Borrower, the Agent, any Issuing Bank or any Lender in writing of its intention not to fund any Revolving Advance or any of its other funding obligations under this Agreement, (c) has failed, within three Business Days after written request by the Agent, or if the Agent is the Affected Lender, by the Required Lenders, to confirm that it will

comply with the terms of this Agreement relating to its obligations to fund prospective Revolving Advances and other funding obligations under this Agreement or (d) shall (or whose parent company shall) generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or shall have had any proceeding instituted by or against such Lender (or its parent company) seeking to adjudicate it as bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or custodian for it or for any substantial part of its property and, in the case of any such proceeding instituted against it (but not instituted by it), either such proceeding shall remain undismissed or unstayed for a period of 30 days, or any of the actions sought in such proceeding (including, without limitation, the entry of an order for relief against, or the appointment of a receiver, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or custodian for, it or for any substantial part of its property) shall occur, or shall take (or whose parent company shall take) any corporate action to authorize any of the actions set forth above in this subsection (e), provided that a Lender shall not be deemed to be an Affected Lender solely by virtue of the ownership or acquisition of any equity interest in any Lender or any Person that directly or indirectly controls such Lender by a Governmental Authority or an instrumentality thereof.

“Affiliate” means, as to any Person, any other Person that, directly or indirectly, controls, is controlled by or is under common control with such Person or is a director or officer of such Person. For purposes of this definition, the term “control” (including the terms “controlling”, “controlled by” and “under common control with”) of a Person means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of Voting Stock, by contract or otherwise.

“Agent” means Barclays Bank in its capacity as administrative agent under any of the Loan Documents, or any successor administrative agent.

“Agent’s Account” means the account of the Agent designated on Schedule 8.02 under the heading “Agent’s Account” or such other account as the Agent may designate to the Lenders and the Borrower from time to time.

“Agent’s Office” means the Agent’s address and, as appropriate, the Agent’s Account, or such other address or account as the Agent may from time to time notify to the Borrower and the Lenders.

“Applicable Lending Office” means, with respect to each Lender, such Lender’s Domestic Lending Office in the case of a Base Rate Advance and such Lender’s Eurodollar Lending Office in the case of a Eurodollar Rate Advance.

“Applicable Rate” means, from time to time, the following percentages per annum determined by reference to the Public Debt Rating as set forth below:

Public Debt Rating S&P/Moody's	Eurodollar Rate Advances	Base Rate Advances	Commitment Fee
Level 1 \geq A/A2	1.000%	0.000%	0.100%
Level 2 < Level 1 but \geq A-/A3	1.125%	0.125%	0.125%
Level 3 < Level 2 but \geq BBB+/Baa1	1.250%	0.250%	0.175%
Level 4 < Level 3 but \geq BBB/Baa2	1.500%	0.500%	0.225%
Level 5 < Level 4 but \geq BBB-/Baa3	1.750%	0.750%	0.275%
Level 6 < Level 5	2.000%	1.000%	0.375%

“Approved Fund” means any Fund that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of any entity that administers or manages a Lender.

“Arrangers” means, collectively, Barclays Capital, the investment banking division of Barclays Bank PLC, RBS Securities Inc., Wells Fargo Securities, LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, and Credit Suisse Securities (USA) LLC.

“Assignment and Assumption” means an assignment and assumption entered into by a Lender and an Eligible Assignee, and accepted by the Agent, in substantially the form of Exhibit C hereto.

“Assuming Lender” has the meaning specified in Section 2.18(d).

“Assumption Agreement” has the meaning specified in Section 2.18(d)(ii).

“Authorized Officer” means the chairman of the board, chief executive officer, chief operating officer, chief financial officer, chief accounting officer, president, any vice president, treasurer, controller or any assistant treasurer of the Borrower.

“Available Amount” of any Letter of Credit means, at any time, the maximum amount available to be drawn under such Letter of Credit at such time (assuming compliance at such time with all conditions to drawing).

“Barclays Bank” means Barclays Bank PLC.

“Base Rate” means for any day a fluctuating rate per annum equal to the highest of:

- (a) the rate of interest in effect for such day as publicly announced from time to time by the Agent as its "prime rate";
- (b) the Federal Funds Rate plus 0.50%; and
- (c) an amount equal to (i) the Eurodollar Rate for a one month Interest Period on such day (or if such day is not a Business Day, the immediately preceding Business Day) plus (ii) 1%.

"Prime rate" means the rate of interest in effect for such day as publicly announced from time to time by the Agent as its "prime rate." The "prime rate" is a rate set by the Agent based upon various factors including the Agent's costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate. Any change in the "prime rate" announced by the Agent shall take effect at the opening of business on the day specified in the public announcement of such change.

"Base Rate Advance" means a Revolving Advance that bears interest as provided in Section 2.07(a)(i).

"Borrower" has the meaning given to such term in the introductory paragraph hereof.

"Borrower Information" has the meaning specified in Section 8.08.

"Borrowing" means (a) a borrowing consisting of simultaneous Revolving Advances of the same Type made by each of the Lenders pursuant to Section 2.01(a) or (b) Swingline Advances.

"Business Day" means a day of the year on which banks are not required or authorized by Law to close in New York City or Phoenix, Arizona and, if the applicable Business Day relates to any Advance in which interest is calculated by reference to the Eurodollar Rate, on which dealings are carried on in the London interbank market.

"Capital Lease Obligations" means as to any Person, the obligations of such Person to pay rent or other amounts under a lease of (or other agreement conveying the right to use) real and/or personal property, which obligations are required to be classified and accounted for as a capital lease on the balance sheet of such Person under GAAP and, for the purposes of this Agreement, the amount of such obligations shall be the capitalized amount thereof, determined in accordance with GAAP.

"Change in Law" means the occurrence, after the date of this Agreement, of any of the following: (a) the adoption of any Law, (b) any change in any Law or in the administration, interpretation or application thereof by any Governmental Authority or (c) the making or issuance of any request, guideline or directive (whether or not having the force of law) by any Governmental Authority; provided, however, that notwithstanding anything herein to the contrary, (i) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines, requirements and directives thereunder, issued in connection therewith or in implementation thereof, and (ii) all requests, rules, guidelines, requirements and directives

promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to a “Change in Law” regardless of the date enacted, adopted, issued or implemented.

“Commitment” means a Revolving Credit Commitment or a Letter of Credit Commitment.

“Commitment Date” has the meaning specified in Section 2.18(b).

“Commitment Increase” has the meaning specified in Section 2.18(a).

“Consolidated” refers to the consolidation of accounts in accordance with GAAP.

“Consolidated Indebtedness” means, at any date, the Indebtedness of the Borrower and its Consolidated Subsidiaries determined on a Consolidated basis as of such date; provided, however, that so long as the creditors of the VIE Lessor Trusts have no recourse to the assets of the Borrower, “Consolidated Indebtedness” shall not include any Indebtedness or other obligations of the VIE Lessor Trusts.

“Consolidated Net Worth” means, at any date, the sum as of such date of (a) the par value (or value stated on the books of the Borrower) of all classes of capital stock of the Borrower and its Subsidiaries, excluding the Borrower’s capital stock owned by the Borrower and/or its Subsidiaries, *plus* (or *minus* in the case of a surplus deficit) (b) the amount of the Consolidated surplus, whether capital or earned, of the Borrower, determined in accordance with GAAP as of the end of the most recent calendar month (excluding the effect on the Borrower’s accumulated other comprehensive income/loss of the ongoing application of Accounting Standards Codification Topic 815).

“Consolidated Subsidiary” means, at any date, any Subsidiary or other entity the accounts of which would be Consolidated with those of the Borrower on its Consolidated financial statements if such financial statements were prepared as of such date; provided that in no event will Consolidated Subsidiaries include the VIE Lessor Trusts.

“Convert”, “Conversion” and “Converted” each refers to a conversion of Revolving Advances of one Type into Revolving Advances of the other Type pursuant to Section 2.08, Section 2.09 or Section 2.12.

“Credit Extension” means each of the following: (a) a Borrowing and (b) the issuance of a Letter of Credit.

“Debtor Relief Laws” means the Bankruptcy Code of the United States of America, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws of the United States of America or other applicable jurisdictions from time to time in effect and affecting the rights of creditors generally.

“Default” means any Event of Default or any event that would constitute an Event of Default but for the requirement that notice be given or time elapse or both.

“Dollars” or **“\$”** means dollars of the United States of America.

“Domestic Lending Office” means, with respect to any Lender, the office of such Lender described as such in such Lender’s Administrative Questionnaire, or such other office or offices as a Lender may from time to time notify the Borrower and the Agent.

“Effective Date” has the meaning specified in Section 3.01.

“Eligible Assignee” means any Person that meets the requirements to be an assignee under Section 8.07(b)(iii), (v) and (vi) (subject to such consents, if any, as may be required under Section 8.07(b)(iii)).

“Environmental Action” means any action, suit, demand, demand letter, claim, notice of non-compliance or violation, notice of liability or potential liability, investigation, proceeding, consent order or consent agreement relating in any way to any Environmental Law, Environmental Permit or Hazardous Materials or arising from alleged injury or threat of injury to health, safety or the environment and relating to any Environmental Law, including, without limitation, (a) by any Governmental Authority for enforcement, cleanup, removal, response, remedial or other actions or damages and (b) by any Governmental Authority or any third party for damages, contribution, indemnification, cost recovery, compensation or injunctive relief.

“Environmental Law” means any federal, state, local or foreign statute, law, ordinance, rule, regulation, code, order, judgment, decree or judicial or agency interpretation, policy or guidance relating to pollution or protection of the environment, natural resources or, to the extent relating to exposure to Hazardous Materials, human health or safety, including, without limitation, those relating to the use, handling, transportation, treatment, storage, disposal, release or discharge of Hazardous Materials.

“Environmental Permit” means any permit, approval, identification number, license or other authorization required under any Environmental Law.

“ERISA” means the Employee Retirement Income Security Act of 1974.

“ERISA Affiliate” means any trade or business (whether or not incorporated) under common control with the Borrower within the meaning of Section 414(b) or (c) of the Internal Revenue Code (and Sections 414(m) and (o) of the Internal Revenue Code for purposes of provisions relating to Section 412 of the Internal Revenue Code).

“ERISA Event” means (a) a Reportable Event with respect to a Pension Plan; (b) a withdrawal by the Borrower or any ERISA Affiliate from a Pension Plan subject to Section 4063 of ERISA during a plan year in which it was a substantial employer (as defined in Section 4001(a)(2) of ERISA) or a cessation of operations that is treated as such a withdrawal under Section 4062(e) of ERISA; (c) a complete or partial withdrawal by the Borrower or any ERISA Affiliate from a Multiemployer Plan or notification that a Multiemployer Plan is in reorganization; (d) the filing of a notice of intent to terminate, the treatment of a Plan amendment

as a termination under Section 4041 or 4041A of ERISA, or the commencement of proceedings by the PBGC to terminate a Pension Plan or Multiemployer Plan; (e) an event or condition which constitutes grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan or Multiemployer Plan; or (f) the imposition of any liability under Title IV of ERISA, other than for PBGC premiums due but not delinquent under Section 4007 of ERISA, upon the Borrower or any ERISA Affiliate.

“Eurodollar Lending Office” means, with respect to any Lender, the office of such Lender described as such in such Lender’s Administrative Questionnaire, or such other office or offices as a Lender may from time to time notify the Borrower and the Agent.

“Eurodollar Rate” means:

(a) for any Interest Period with respect to a Eurodollar Rate Advance, the rate per annum equal to the British Bankers Association LIBOR Rate (“BBA LIBOR”), as published by Reuters (or other commercially available source providing quotations of BBA LIBOR as designated by the Agent from time to time) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, for Dollar deposits (for delivery on the first day of such Interest Period) with a term equivalent to such Interest Period. If such rate is not available at such time for any reason, then the “Eurodollar Rate” for such Interest Period shall be the rate per annum determined by the Agent to be the rate at which deposits in dollars for delivery on the first day of such Interest Period in same day funds in the approximate amount of the Eurodollar Rate Advance being made, continued or converted by the Agent and with a term equivalent to such Interest Period would be offered by the Agent to major banks in the London interbank eurodollar market at their request at approximately 11:00 a.m. (London time) two Business Days prior to the commencement of such Interest Period; and

(b) for any interest rate calculation with respect to a Base Rate Advance, the rate per annum equal to (i) BBA LIBOR, at approximately 11:00 a.m. two Business Days prior to, London time on the date of determination (provided that if such day is not a Business Day in London, the next preceding Business Day in London) for Dollar deposits being delivered in the London interbank market for a term of one month commencing that day or (ii) if such published rate is not available at such time for any reason, the rate determined by the Agent to be the rate at which deposits in Dollars for delivery on the date of determination in same day funds in the approximate amount of the Base Rate Advance being made, continued or converted by the Agent and with a term equal to one month would be offered by the Agent’s London Branch to major banks in the London interbank Eurodollar market at their request at the date and time of determination.

“Eurodollar Rate Advance” means a Revolving Advance that bears interest at a rate based on the Eurodollar Rate (other than a Base Rate Advance bearing interest at a rate based on the Eurodollar Rate).

“Events of Default” has the meaning specified in Section 6.01.

“Excluded Taxes” means, with respect to the Agent, any Lender, any Issuing Bank or any other recipient of any payment to be made by or on account of any obligation of the Borrower

hereunder, (a) taxes imposed on or measured by its overall net income (however denominated), and franchise taxes imposed on it (in lieu of net income taxes), by the United States of America or the jurisdiction (or any political subdivision thereof) under the Laws of which such recipient is organized or does business or in which its principal office is located or, in the case of any Lender, in which its Applicable Lending Office is located, (b) any branch profits taxes imposed by the United States of America or any similar tax imposed by any other jurisdiction in which the Borrower is located, (c) any backup withholding tax that is required by the Internal Revenue Code to be withheld from amounts payable to a Lender that has failed to comply with clause (A) of Section 2.14(e)(ii), (d) in the case of a Foreign Lender (other than as agreed to between any assignee and the Borrower pursuant to a request by the Borrower under Section 2.20), any United States of America withholding tax that (i) is required to be imposed on amounts payable to such Foreign Lender pursuant to the Laws in force at the time such Foreign Lender becomes a party hereto (or designates a new Applicable Lending Office) or (ii) is attributable to such Foreign Lender's failure or inability (other than as a result of a Change in Law) to comply with clause (B) of Section 2.14(e)(ii), except to the extent that such Foreign Lender (or its assignor, if any) was entitled, at the time of designation of a new Applicable Lending Office (or assignment), to receive additional amounts from the Borrower with respect to such withholding tax pursuant to Section 2.14(a)(i) or (ii) and (v) any United States withholding tax imposed by FATCA.

“FATCA” means Section 1471 through 1474 of the Internal Revenue Code, as of the date of this Agreement, and any regulations or official interpretations thereof.

“Federal Funds Rate” means, for any day, the rate per annum equal to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided that (a) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate (rounded upward, if necessary, to a whole multiple of 1/100 of 1%) charged to the Agent on such day on such transactions as determined by the Agent, and (c) solely for purposes for determining the Money Market Rate, any such other publication or means of determining the rate for federal funds as agreed to between the Borrower and Swingline Lender.

“Fee Letters” means (a) each of the following letters to the Borrower dated October 11, 2011: (i) the letter from Barclays Capital, RBS Securities Inc. and Wells Fargo Securities, LLC, (ii) the letter from Merrill Lynch, Pierce, Fenner & Smith Incorporated and Credit Suisse Securities (USA) LLC, and (iii) the agent fee letter from Barclays Bank PLC, as Agent, each relating to certain fees payable by the Borrower to such parties in respect of the transactions contemplated by this Agreement and (b) any letter between the Borrower and any Issuing Bank other than an Initial Issuing Bank relating to certain fees payable to such Issuing Bank in its capacity as such, each as amended, modified, restated or supplemented from time to time.

“Foreign Lender” means any Lender that is organized under the Laws of a jurisdiction other than that in which the Borrower is resident for tax purposes (including such a Lender when acting in the capacity of an Issuing Bank or a Swingline Lender). For purposes of this definition,

the United States of America, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

“Four Corners Acquisition” means the acquisition by the Borrower from Southern California Edison Company (“SCE”) of SCE’s interests in Units 4 and 5 of the Four Corners Power Plant near Farmington, New Mexico, pursuant to the Purchase and Sale Agreement, dated as of November 8, 2010, by and between SCE and the Borrower.

“Fund” means any Person (other than a natural person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its business.

“GAAP” has the meaning specified in Section 1.03.

“Governmental Authority” means the government of the United States of America or any other nation, or of any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including any supra-national bodies such as the European Union or the European Central Bank).

“Guarantee” means as to any Person, any obligation, contingent or otherwise, of such Person directly or indirectly guaranteeing any Indebtedness of any other Person or in any manner providing for the payment of any Indebtedness of any other Person or otherwise protecting the holder of such Indebtedness against loss (whether by virtue of partnership arrangements, agreements to keep well, to purchase assets, goods, securities or services, or to take-or-pay or otherwise), provided that the term “Guarantee” shall not include endorsements for collection or deposit in the ordinary course of business. The term “Guarantee” used as a verb has a corresponding meaning.

“Hazardous Materials” means (a) petroleum and petroleum products, byproducts or breakdown products, radioactive materials, asbestos-containing materials, polychlorinated biphenyls and radon gas and (b) any other chemicals, materials or substances designated, classified or regulated as hazardous or toxic or as a pollutant or contaminant under any Environmental Law.

“Hedge Agreement” means any interest rate swap, cap or collar agreement, interest rate future or option contract, currency swap agreement, currency future or option contract, commodity future or option contract, commodity forward contract or other similar agreement.

“Increase Date” has the meaning specified in Section 2.18(a).

“Increasing Lender” has the meaning specified in Section 2.18(b).

“Indebtedness” means as to any Person at any date (without duplication): (a) indebtedness created, issued, incurred or assumed by such Person for borrowed money or evidenced by bonds, debentures, notes or similar instruments; (b) all obligations of such Person to pay the deferred purchase price of property or services, excluding, however, trade accounts

payable (other than for borrowed money) arising in, and accrued expenses incurred in, the ordinary course of business of such Person so long as such trade accounts payable are paid within 180 days (unless subject to a good faith dispute) of the date incurred; (c) all Indebtedness secured by a lien on any asset of such Person, to the extent such Indebtedness has been assumed by, or is a recourse obligation of, such Person; (d) all Guarantees by such Person; (e) all Capital Lease Obligations of such Person; and (f) the amount of all reimbursement obligations of such Person (whether contingent or otherwise) in respect of letters of credit, bankers' acceptances, surety or other bonds and similar instruments in support of Indebtedness.

“Indemnified Taxes” means Taxes other than Excluded Taxes.

“Initial Issuing Banks” has the meaning given to such term in the introductory paragraph hereof.

“Initial Lenders” has the meaning given to such term in the introductory paragraph hereof.

“Interest Period” means, for each Eurodollar Rate Advance comprising part of the same Borrowing, the period commencing on the date such Eurodollar Rate Advance is disbursed or the date of the Conversion of any Base Rate Advance into such Eurodollar Rate Advance and ending on the last day of the period selected by the Borrower pursuant to the provisions below and, thereafter, each subsequent period commencing on the last day of the immediately preceding Interest Period and ending on the last day of the period selected by the Borrower pursuant to the provisions below. The duration of each such Interest Period shall be one, two, three or six months, as the Borrower may, upon notice received by the Agent not later than 12:00 noon on the third Business Day prior to the first day of such Interest Period, select; provided, however, that:

- (a) the Borrower may not select any Interest Period that ends after the Termination Date;
- (b) Interest Periods commencing on the same date for Eurodollar Rate Advances comprising part of the same Borrowing shall be of the same duration;
- (c) whenever the last day of any Interest Period would otherwise occur on a day other than a Business Day, the last day of such Interest Period shall be extended to occur on the next succeeding Business Day, provided, however, that, if such extension would cause the last day of such Interest Period to occur in the next following calendar month, the last day of such Interest Period shall occur on the next preceding Business Day; and
- (d) whenever the first day of any Interest Period occurs on a day of an initial calendar month for which there is no numerically corresponding day in the calendar month that succeeds such initial calendar month by the number of months equal to the number of months in such Interest Period, such Interest Period shall end on the last Business Day of such succeeding calendar month.

“Internal Revenue Code” means the Internal Revenue Code of 1986, as amended from time to time, and the regulations promulgated and rulings issued thereunder.

“ISP” means, with respect to any Letter of Credit, the “International Standby Practices 1998” published by the Institute of International Banking Law & Practice, Inc. (or such later version thereof as may be in effect at the time of issuance).

“Issuing Bank” means the Initial Issuing Banks or any other Lender approved by the Borrower that may agree to issue Letters of Credit pursuant to an Assignment and Assumption or other agreement in form satisfactory to the Borrower and the Agent, so long as such Lender expressly agrees to perform in accordance with their terms all of the obligations that by the terms of this Agreement are required to be performed by it as an Issuing Bank and notifies the Agent of its Applicable Lending Office (which information shall be recorded by the Agent in the Register), for so long as such Initial Issuing Bank or Lender, as the case may be, shall have a Letter of Credit Commitment.

“L/C Advance” means, with respect to each Lender, such Lender’s funding of its participation in any L/C Borrowing in accordance with its Ratable Share.

“L/C Borrowing” means an extension of credit resulting from a drawing under any Letter of Credit which has not been reimbursed on the date when made nor refinanced as a Base Rate Advance.

“L/C Cash Deposit Account” means an interest bearing cash deposit account to be established and maintained by the Agent, over which the Agent shall have sole dominion and control, upon terms as may be satisfactory to the Agent.

“L/C Obligations” means, as at any date of determination, the aggregate Available Amount of all outstanding Letters of Credit plus the aggregate of all Unreimbursed Amounts, including all L/C Borrowings. For all purposes of this Agreement, if on any date of determination a Letter of Credit has expired by its terms but any amount may still be drawn thereunder by reason of the operation of Rule 3.14 of the ISP, such Letter of Credit shall be deemed to be “outstanding” in the amount so remaining available to be drawn.

“L/C Related Documents” means with respect to any Letter of Credit, the Letter of Credit Application, and any other document, agreement and instrument entered into by any Issuing Bank and the Borrower or in favor of any Issuing Bank and relating to such Letter of Credit.

“Laws” means, collectively, all international, foreign, Federal, state and local statutes, treaties, rules, guidelines, regulations, ordinances, codes and administrative or judicial precedents or authorities, including the interpretation or administration thereof by any Governmental Authority charged with the enforcement, interpretation or administration thereof, and all applicable administrative orders, directed duties, licenses, authorizations and permits of, and agreements with, any Governmental Authority.

“Lenders” means the Initial Lenders, each Issuing Bank, the Swingline Lender, if any, each Assuming Lender that shall become a party hereto pursuant to Section 2.18 and each Person that shall become a party hereto pursuant to Section 8.07.

“Letter of Credit” has the meaning specified in Section 2.01(b).

“Letter of Credit Application” means an application and agreement for the issuance or amendment of a Letter of Credit in the form from time to time in use by any Issuing Bank.

“Letter of Credit Commitment” means, with respect to each Issuing Bank, the obligation of such Issuing Bank to issue Letters of Credit for the account of the Borrower from time to time in an aggregate amount equal to (a) for each of the Initial Issuing Banks, \$80,000,000 and (b) for any other Issuing Bank, as separately agreed to by such Issuing Bank and the Borrower. The Letter of Credit Commitment is part of, and not in addition to, the Revolving Credit Commitments.

“Letter of Credit Expiration Date” means the day that is five Business Days prior to the Termination Date.

“Lien” means any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or otherwise), charge or other security interest or preferential arrangement that has the practical effect of creating a security interest, including, without limitation, the lien or retained security title of a conditional vendor and any easement, right of way or other encumbrance on title to real property, and any capital lease having substantially the same economic effect as any of the foregoing.

“Loan Documents” mean this Agreement, each Note, each L/C Related Document and the Fee Letters.

“Material Adverse Effect” means a material adverse effect on (a) the financial condition, operations, business or property of the Borrower and its Subsidiaries taken as a whole, (b) the rights and remedies of the Agent or any Lender under this Agreement or any Note or (c) the ability of the Borrower to perform its obligations under this Agreement or any Note.

“Material Subsidiary” means, at any time, a Subsidiary of the Borrower which as of such time meets the definition of a “significant subsidiary” included as of the date hereof in Regulation S-X of the Securities and Exchange Commission or whose assets at such time exceed 10% of the assets of the Borrower and the Subsidiaries (on a consolidated basis).

“Money Market Rate” means (a) the Federal Funds Rate plus (b) the Applicable Rate for Eurodollar Rate Advances.

“Money Market Rate Advance” means a Swingline Advance that bears interest at a rate based on the Money Market Rate.

“Moody’s” means Moody’s Investors Service, Inc.

“Multiemployer Plan” means any employee benefit plan of the type described in Section 4001(a)(3) of ERISA, to which the Borrower or any ERISA Affiliate makes or is obligated to make contributions, or during the preceding five plan years, has made or been obligated to make contributions.

"Note" means a promissory note of the Borrower payable to the order of any Lender, delivered pursuant to a request made under Section 2.16 in substantially the form of Exhibit A hereto.

"Notice of Borrowing" has the meaning specified in Section 2.02(a).

"Obligations" means all advances to, and debts, liabilities, obligations, covenants and duties of, the Borrower arising under any Loan Document or otherwise with respect to any Revolving Advance, Swingline Advance or Letter of Credit, whether direct or indirect (including those acquired by assumption), absolute or contingent, due or to become due, now existing or hereafter arising and including interest and fees that accrue under any Loan Document after the commencement by or against the Borrower of any proceeding under any Debtor Relief Laws naming such Person as the debtor in such proceeding, regardless of whether such interest and fees are allowed claims in such proceeding.

"Other Taxes" means all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or under any other Loan Document or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement or any other Loan Document.

"PBGС" means the Pension Benefit Guaranty Corporation.

"Pension Plan" means any "employee pension benefit plan" (as such term is defined in Section 3(2) of ERISA), other than a Multiemployer Plan, that is subject to Title IV of ERISA and is sponsored or maintained by the Borrower or any ERISA Affiliate or to which the Borrower or any ERISA Affiliate contributes or has an obligation to contribute, or in the case of a multiple employer or other plan described in Section 4064(a) of ERISA, has made contributions at any time during the immediately preceding five plan years.

"Permitted Lien" of the Borrower or any Material Subsidiary means any of the following:

(i) Liens for taxes, assessments or other governmental charges or levies not at the time delinquent or thereafter payable without penalty or being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with GAAP shall have been made;

(ii) Liens imposed by or arising by operation of law, such as Liens of carriers, warehousemen, mechanics, materialmen and landlords incurred in the ordinary course of business, including, without limitation, landlord's liens arising under Arizona Law under leases entered into by the Borrower in the 1986 sale and leaseback transactions with respect to PVNGS Unit 2 and securing the payment of rent under such leases, in each case, for sums not overdue for a period of more than 30 days or being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with GAAP shall have been made;

(iii) Liens incurred in the ordinary course of business in connection with worker's compensation, unemployment insurance or other forms of governmental insurance or benefits or other similar statutory obligations;

- (iv) Liens to secure obligations on surety or appeal bonds;
- (v) Liens on cash deposits in the nature of a right of setoff, banker's lien, counterclaim or netting of cash amounts owed arising in the ordinary course of business on deposit accounts, commodity accounts or securities accounts;
- (vi) easements, restrictions, reservations, licenses, covenants, and other defects of title that are not, in the aggregate, materially adverse to the use of such property for the purpose for which it is used;
- (vii) Liens securing claims against or other obligations of any Person other than the Borrower or any Subsidiary of the Borrower neither assumed nor guaranteed by the Borrower or any Subsidiary of the Borrower nor on which the Borrower or any Subsidiary of the Borrower customarily pays interest, existing upon real estate or rights in or relating to real estate acquired by the Borrower or any Subsidiary of the Borrower for use in the operation of the business of the Borrower or any Subsidiary of the Borrower, including, without limitation, for the generation, transmission or distribution of electric energy, transportation, telephonic, telegraphic, radio, wireless or other electronic communication or any other purpose;
- (viii) rights reserved to or vested in and Liens on assets arising out of obligations or duties to any municipality or public authority with respect to any right, power, franchise, grant, license or permit, or by any provision of Law;
- (ix) rights reserved to or vested in others to take or receive any part of the power pursuant to firm power commitment contracts, purchased power contracts, tolling agreements and similar agreements, coal, gas, oil or other minerals, timber or other products generated, developed, manufactured or produced by, or grown on, or acquired with, any property of the Borrower;
- (x) rights reserved to or vested in any municipality or public authority to control or regulate any property of the Borrower, or to use such property in a manner that does not materially impair the use of such property for the purposes for which it is held by the Borrower;
- (xi) security interests granted in favor of the lessors in the Borrower's Decommissioning Trust Agreement (PVNGS Unit 2) dated as of January 31, 1992 (such agreement, as amended or otherwise modified from time to time, being the "Unit 2 Trust Agreement") entered into in connection with the PVNGS Unit 2 sale leaseback transaction to secure the Borrower's obligations in respect of the decommissioning of PVNGS Unit 2 or related facilities;
- (xii) Liens that may exist with respect to the Unit 2 Trust Agreement (other than as described in paragraph (xi) above) or with respect to either of the Borrower's Decommissioning Trust Agreement (PVNGS Unit 1) or Decommissioning Trust Agreement (PVNGS Unit 3), each dated as of July 1, 1991, as amended or otherwise modified from time to time, relating to the Borrower's obligation to set aside funds for the decommissioning and retirement from service of such Units;

(xiii) pledges of pollution control bonds and related rights to secure the Borrower's reimbursement obligations in respect of letters of credit, bond insurance, and other credit or liquidity enhancements supporting pollution control bond transactions, provided that such pollution control bonds are not secured by any other assets of the Borrower or any Material Subsidiary;

(xiv) rights and interests of Persons other than the Borrower or any Material Subsidiary (including, without limitation, acquisition rights), related obligations of the Borrower or any Material Subsidiary and restrictions on it or its property arising out of contracts, agreements and other instruments to which the Borrower or any Material Subsidiary is a party that relate to the common ownership or joint use of property or other use of property for the benefit of one or more third parties or that allow a third party to purchase property of the Borrower or any Material Subsidiary and all Liens on the interests of Persons other than the Borrower or any Material Subsidiary in such property;

(xv) transfers of operational or other control of facilities to a regional transmission organization or other similar body and Liens on such facilities to cover expenses, fees and other costs of such an organization or body;

(xvi) Liens established on specified bank accounts of the Borrower to secure the Borrower's reimbursement obligations in respect of letters of credit supporting commercial paper issued by the Borrower and similar arrangements for collateral security with respect to refinancings or replacements of the same;

(xvii) rights of transmission users or any regional transmission organizations or similar entities in transmission facilities;

(xviii) Liens on property of the Borrower sold in a transaction permitted by Section 5.02(a) to another Person pursuant to a conditional sales agreement where the Borrower retains title;

(xix) Liens created under this Agreement;

(xx) Liens on cash or cash equivalents not to exceed \$200,000,000 (A) deposited in margin accounts with or on behalf of futures contract brokers or paid over to other contract counterparties or (B) pledged or deposited as collateral to a contract counterparty to secure obligations with respect to (1) contracts (other than for Indebtedness) for commercial and trading activities in the ordinary course of business for the purchase, transmission, distribution, sale, storage, lease or hedge of any energy or energy related commodity or (2) Hedge Agreements;

(xxi) Liens granted on cash or cash equivalents to defease Indebtedness of the Borrower or any of its Subsidiaries;

(xxii) Liens granted on cash or cash equivalents constituting proceeds from any sale or disposition of assets that is not prohibited by Section 5.02(c) deposited in escrow accounts or otherwise withheld or set aside to secure obligations of the Borrower or any Subsidiary providing for indemnification, adjustment of purchase price or any similar

obligations, in each case, in an amount not to exceed the amount of gross proceeds received by the Borrower or any Subsidiary in connection with such sale or disposition;

(xxiii) Liens, deposits and similar arrangements to secure the performance of bids, tenders or contracts (other than contracts for borrowed money), public or statutory obligations, performance bonds and other obligations of a like nature incurred in the ordinary course of business by the Borrower or any of its Subsidiaries;

(xxiv) rights of lessees arising under leases entered into by the Borrower or any of its Subsidiaries as lessor, in the ordinary course of business;

(xxv) any Liens on or reservations with respect to governmental and other licenses, permits, franchises, consents and allowances;

(xxvi) Liens on property which is the subject of a Capital Lease Obligation designating the Borrower or any of its Subsidiaries as lessee and all right, title and interest of the Borrower or any of its Subsidiaries in and to such property and in, to and under such lease agreement, whether or not such lease agreement is intended as a security;

(xxvii) licenses of intellectual property entered into in the ordinary course of business;

(xxviii) Liens solely on any cash earnest money deposits made by the Borrower or any of its Subsidiaries in connection with any letter of intent or purchase agreement permitted hereunder;

(xxix) deposits or funds established for the removal from service of operating facilities and coal mines and related facilities or other similar facilities used in connection therewith; and

(xxx) Liens on cash deposits used to secure letters of credit under defaulting lender provisions in credit or reimbursement facilities; provided, however, that no Lien in favor of the PBGC shall, in any event, be a Permitted Lien.

“Person” means an individual, partnership, corporation (including a business trust), joint stock company, trust, unincorporated association, joint venture, limited liability company or other entity, or a government or any political subdivision or agency thereof.

“Plan” means any “employee benefit plan” (as such term is defined in Section 3(3) of ERISA) established by the Borrower or, with respect to any such plan that is subject to Section 412 of the Internal Revenue Code or Title IV of ERISA, any ERISA Affiliate.

“Public Debt Rating” means, as of any date, the rating that has been most recently announced by either S&P or Moody’s, as the case may be, for any class of non-credit enhanced long-term senior unsecured debt issued by the Borrower or, if any such rating agency shall have

issued more than one such rating, the lowest such rating issued by such rating agency. For purposes of the foregoing, (a) if only one of S&P and Moody's shall have in effect a Public Debt Rating, the Applicable Rate shall be determined by reference to the available rating; (b) if neither S&P nor Moody's shall have in effect a Public Debt Rating, the Applicable Rate will be set in accordance with Level 6 under the definition of "Applicable Rate"; (c) if the ratings established by S&P and Moody's shall fall within different levels, the Applicable Rate shall be based upon the higher rating unless such ratings differ by two or more levels, in which case the applicable level will be deemed to be one level below the higher of such levels; (d) if any rating established by S&P or Moody's shall be changed (other than as a result of a change in the basis on which ratings are established), such change shall be effective as of the date on which such change is first announced publicly by the rating agency making such change; and (e) if S&P or Moody's shall change the basis on which ratings are established, each reference to the Public Debt Rating announced by S&P or Moody's, as the case may be, shall refer to the then equivalent rating by S&P or Moody's, as the case may be.

"PVNGS" means the Palo Verde Nuclear Generating Station.

"PWCC" means Pinnacle West Capital Corporation, an Arizona corporation.

"Ratable Share" of any amount means, with respect to any Lender at any time but subject to the provisions of Section 2.19, the product of such amount times a fraction the numerator of which is the amount of such Lender's Revolving Credit Commitment at such time (or, if the Revolving Credit Commitments shall have been terminated pursuant to Section 2.05 or 6.01, such Lender's Revolving Credit Commitment as in effect immediately prior to such termination) and the denominator of which is the aggregate amount of all Revolving Credit Commitments at such time (or, if the Revolving Credit Commitments shall have been terminated pursuant to Section 2.05 or 6.01, the aggregate amount of all Revolving Credit Commitments as in effect immediately prior to such termination).

"Register" has the meaning specified in Section 8.07(c).

"Related Parties" means, with respect to any Person, such Person's Affiliates and the partners, directors, officers, employees, agents, trustees and advisors of such Person and of such Person's Affiliates.

"Reportable Event" means any of the events set forth in Section 4043(c) of ERISA, other than events for which the 30-day notice period has been waived under the final regulations issued under Section 4043, as in effect as of the date of this Agreement (the "Section 4043 Regulations"). Any changes made to the Section 4043 Regulations that become effective after the Effective Date shall have no impact on the definition of Reportable Event as used herein unless otherwise amended by the Borrower and the Required Lenders.

"Required Lenders" means, at any time, but subject to Section 2.19, Lenders holding in the aggregate more than 50% of (a) the Revolving Credit Commitments or (b) if the Revolving Credit Commitments have been terminated, the Total Outstandings.

"Revolving Advance" means an advance by a Lender to the Borrower as part of a Borrowing, including a Base Rate Advance made pursuant to Section 2.03(c), but excluding any

L/C Advance made as part of an L/C Borrowing and any Swingline Advance, and refers to a Base Rate Advance or a Eurodollar Rate Advance (each of which shall be a Type of Revolving Advance).

“Revolving Credit Commitment” means, as to any Lender, its obligation to (a) make Revolving Advances to the Borrower pursuant to Section 2.01 and 2.03(c), (b) purchase participations in L/C Obligations and (c) make Revolving Advances pursuant to Section 2.03A(c) for the purpose of repaying Swingline Advances, in an aggregate principal amount at any one time outstanding not to exceed the amount set forth opposite such Lender’s name on Schedule 1.01 under the column “Revolving Credit Commitment” or if such Lender has become a Lender hereunder pursuant to an Assumption Agreement or if such Lender has entered into any Assignment and Assumption, the amount set forth for such Lender in the Register, in each case as such amount may be reduced pursuant to Section 2.05 or increased pursuant to Section 2.18.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc.

“Sale Leaseback Obligation Bonds” means PVNGS II Funding Corp.’s (a) 8.00% Secured Lease Obligation Bonds, Series 1993, due 2015; (b) any other bonds issued by or on behalf of the Borrower in connection with a sale/leaseback transaction; and (c) any refinancing or refunding of the obligations specified in subclauses (a) and (b) above.

“SEC Reports” means the Borrower’s (i) Form 10-K Report for the year ended December 31, 2010, (ii) Form 10-Q Reports for the quarters ended March 31, 2011, June 30, 2011, and September 30, 2011, (iii) Form 8-K Reports filed on February 18, February 22, April 22, June 1, and August 24 of 2011.

“Subsequent Order” means any decision, order or ruling of the Arizona Corporation Commission issued after the Effective Date relating to the incurrence or maintenance of Indebtedness by the Borrower and that amends, supersedes or otherwise modifies the 2007 Order or any successor decision, order or ruling.

“Subsidiary” of any Person means any corporation, partnership, joint venture, limited liability company, trust or estate of which (or in which) more than 50% of (a) the issued and outstanding Voting Stock, (b) the interest in the capital or profits of such limited liability company, partnership or joint venture or (c) the beneficial interest in such trust or estate, is at the time directly or indirectly owned or controlled by such Person, by such Person and one or more of its other Subsidiaries or by one or more of such Person’s other Subsidiaries; provided that in no event will Subsidiaries include the VIE Lessor Trusts.

“Swingline Advance” means an advance made by the Swingline Lender, if any, to the Borrower pursuant to Section 2.03A.

“Swingline Eurodollar Rate Advance” means a Swingline Advance that bears interest at a rate equivalent to (a) clause (b) under the definition of Eurodollar Rate, plus (b) the Applicable Rate for Eurodollar Rate Advances.

“Swingline Exposure” means, at any time, the aggregate principal amount of all Swingline Advances outstanding at such time. The Swingline Exposure of any Lender shall be its Ratable Share of the total Swingline Exposure at such time.

“Swingline Lender” means, upon notice to the Agent by such Lender and the Borrower, any Lender approved by the Borrower and the Agent from time to time that may agree to fund Swingline Advances.

“Taxes” means all present or future taxes, levies, imposts, duties, deductions, withholdings (including backup withholding), assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

“Termination Date” means the earlier of (a) November 4, 2016 and (b) the date of termination in whole of the Commitments pursuant to Section 2.05 or 6.01.

“Total Outstandings” means the sum of (a) the aggregate principal amount of all Revolving Advances plus (b) all L/C Obligations outstanding plus (c) the aggregate Swingline Exposure.

“Type” means a Base Rate Advance or a Eurodollar Rate Advance.

“Unreimbursed Amount” has the meaning specified in Section 2.03(c)(i).

“Unissued Letter of Credit Commitment” means, with respect to any Issuing Bank, the obligation of such Issuing Bank to issue Letters of Credit for the account of the Borrower in an amount equal to the excess of (a) the amount of its Letter of Credit Commitment over (b) the aggregate Available Amount of all Letters of Credit issued by such Issuing Bank.

“Unused Commitment” means, with respect to each Lender at any time, (a) such Lender’s Revolving Credit Commitment at such time minus (b) the sum of (i) the aggregate principal amount of all Revolving Advances made by such Lender (in its capacity as a Lender) and outstanding at such time and (ii) such Lender’s Ratable Share of the aggregate L/C Obligations and, other than for the purposes of calculation of the commitment fees, such Lender’s Ratable Share of the aggregate Swingline Exposure outstanding at such time.

“VIE Lessor Trusts” means the three (3) separate variable-interest entity lessor trusts that purchased from, and leased back to, the Borrower certain interests in the PVNGS Unit 2 and related common facilities, as described in Note 9 of Notes to Condensed Consolidated Financial Statements in the Borrower’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2010.

“Voting Stock” means capital stock issued by a corporation, or equivalent interests in any other Person, the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of directors (or persons performing similar functions) of such Person, even if the right so to vote has been suspended by the happening of such a contingency.

Section 1.02 Other Interpretive Provisions. With reference to this Agreement and each other Loan Document, unless otherwise specified herein or in such other Loan Document:

(a) The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include," "includes" and "including" shall be deemed to be followed by the phrase "without limitation." The word "will" shall be construed to have the same meaning and effect as the word "shall." Unless the context requires otherwise, (i) any definition of or reference to any agreement, instrument or other document shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein or in any other Loan Document), (ii) any reference herein to any Person shall be construed to include such Person's permitted successors and permitted assigns, (iii) the words "herein," "hereof" and "hereunder," and words of similar import when used in any Loan Document, shall be construed to refer to such Loan Document in its entirety and not to any particular provision thereof, (iv) all references in a Loan Document to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, the Loan Document in which such references appear, (v) any reference to any law shall include all statutory and regulatory provisions consolidating, amending, replacing or interpreting such law and any reference to any law or regulation shall, unless otherwise specified, refer to such law or regulation as amended, modified or supplemented from time to time, and (vi) the words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

(b) In the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including;" the words "to" and "until" each mean "to but excluding;" and the word "through" means "to and including."

(c) Section headings herein and in the other Loan Documents are included for convenience of reference only and shall not affect the interpretation of this Agreement or any other Loan Document.

Section 1.03 Accounting Terms. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared, in accordance with generally accepted accounting principles as in effect from time to time, applied on a basis consistent (except for changes concurred in by the Borrower's independent public accountants) with the most recent audited Consolidated financial statements of the Borrower delivered to the Agent ("GAAP"). If at any time any change in GAAP or in the interpretation thereof would affect the computation of any financial ratio or requirement set forth in any Loan Document, and either the Borrower or the Required Lenders shall so request, the Agent, the Lenders and the Borrower shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in GAAP or in the interpretation thereof (subject to the approval of the Required Lenders); provided that, unless and until so amended, such ratio or requirement shall continue to be computed in accordance with GAAP prior to such change therein.

Section 1.04 Rounding. Any financial ratios required to be maintained by the Borrower pursuant to this Agreement shall be calculated by dividing the appropriate component by the

other component, carrying the result to one place more than the number of places by which such ratio is expressed herein and rounding the result up or down to the nearest number (with a rounding-up if there is no nearest number).

Section 1.05 Times of Day. Unless otherwise specified, all references herein to times of day shall be references to Eastern time (daylight or standard, as applicable).

ARTICLE II

AMOUNTS AND TERMS OF THE ADVANCES AND LETTERS OF CREDIT

Section 2.01 The Revolving Advances and Letters of Credit.

(a) The Revolving Advances. Each Lender severally agrees, on the terms and conditions hereinafter set forth, to make Revolving Advances in Dollars to the Borrower from time to time on any Business Day during the period from the Effective Date until the Termination Date in an amount not to exceed such Lender's Unused Commitment. Each Borrowing (other than a Swingline Advance) shall be in an aggregate amount of \$5,000,000 or an integral multiple of \$1,000,000 in excess thereof and shall consist of Revolving Advances of the same Type made on the same day by the Lenders ratably according to their respective Revolving Credit Commitments. Within the limits of each Lender's Revolving Credit Commitment, and subject to the other terms and conditions hereof, the Borrower may borrow under this Section 2.01(a), prepay pursuant to Section 2.10 and reborrow under this Section 2.01(a). Any Swingline Advance shall be made and repaid in accordance with the procedures set forth in Section 2.03A.

(b) Letters of Credit. Each Issuing Bank agrees, on the terms and conditions hereinafter set forth, in reliance upon the agreements of the other Lenders set forth in this Agreement, to issue standby letters of credit (each a " Letter of Credit ") for the account of the Borrower from time to time on any Business Day during the period from the Effective Date until 30 days before the Termination Date in an aggregate Available Amount for all Letters of Credit issued by each Issuing Bank not to exceed at any time such Issuing Bank's Letter of Credit Commitment, provided that after giving effect to the issuance of any Letter of Credit, (i) the Total Outstanding shall not exceed the aggregate Revolving Credit Commitments and (ii) each Lender's Ratable Share of the Total Outstanding shall not exceed such Lender's Revolving Credit Commitment. No Letter of Credit shall have an expiration date (including all rights of the Borrower or the beneficiary to require renewal) later than the Letter of Credit Expiration Date. Within the limits referred to above, the Borrower may from time to time request the issuance of Letters of Credit under this Section 2.01(b). The terms "issue", "issued", "issuance" and all similar terms, when applied to a Letter of Credit, shall include any renewal, extension or amendment thereof.

Section 2.02 Making the Revolving Advances.

(a) Except as otherwise provided in Section 2.03(c), each Borrowing (other than a Swingline Advance) shall be made on notice, given not later than (x) 12:00 noon on the third

Business Day prior to the date of the proposed Borrowing in the case of a Borrowing consisting of Eurodollar Rate Advances or (y) 12:00 noon on the date of the proposed Borrowing in the case of a Borrowing consisting of Base Rate Advances, by the Borrower to the Agent, which shall give to each Lender prompt notice thereof by facsimile. Each such notice of a Borrowing (a "Notice of Borrowing") shall be in writing or by facsimile in substantially the form of Exhibit B hereto, specifying therein the requested (i) date of such Borrowing, (ii) Type of Revolving Advances comprising such Borrowing, (iii) aggregate amount of such Borrowing, and (iv) in the case of a Borrowing consisting of Eurodollar Rate Advances, initial Interest Period for each such Revolving Advance. Each Lender shall, in the case of a Borrowing consisting of Base Rate Advances, before 2:00 p.m. on the date of such Borrowing, and in the case of a Borrowing consisting of Eurodollar Rate Advances, before 11:00 a.m. on date of such Borrowing, make available for the account of its Applicable Lending Office to the Agent at the Agent's Account, in same day funds, such Lender's Ratable Share of such Borrowing. After the Agent's receipt of such funds and upon fulfillment of the applicable conditions set forth in Article III, the Agent will make such funds available to the Borrower at the Agent's address referred to in Section 8.02 or as requested by the Borrower in the applicable Notice of Borrowing.

(b) Anything in subsection (a) above to the contrary notwithstanding, (i) the Borrower may not select Eurodollar Rate Advances for any Borrowing if the aggregate amount of such Borrowing is less than \$5,000,000 or if the obligation of the Lenders to make Eurodollar Rate Advances shall then be suspended pursuant to Section 2.08 or 2.12 and (ii) at no time shall there be more than fifteen different Interest Periods outstanding for Eurodollar Rate Advances.

(c) Each Notice of Borrowing shall be irrevocable and binding on the Borrower. In the case of any Borrowing that the related Notice of Borrowing specifies is to be comprised of Eurodollar Rate Advances, the Borrower shall indemnify each Lender against any loss, cost or expense reasonably incurred by such Lender as a result of any failure to fulfill on or before the date specified in such Notice of Borrowing for such Borrowing the applicable conditions set forth in Article III, including, without limitation, any loss (excluding loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Lender to fund the Revolving Advance to be made by such Lender as part of such Borrowing when such Revolving Advance, as a result of such failure, is not made on such date.

(d) Unless the Agent shall have received notice from a Lender prior to the time of the applicable Borrowing that such Lender will not make available to the Agent such Lender's Ratable Share of such Borrowing, the Agent may assume that such Lender has made such portion available to the Agent on the date of such Borrowing in accordance with subsection (a) of this Section 2.02 and the Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Lender shall not have so made such Ratable Share available to the Agent, such Lender and the Borrower severally agree to repay to the Agent within one Business Day after demand for such Lender and within three Business Days after demand for the Borrower such corresponding amount together with interest thereon, for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Agent, at (i) in the case of the Borrower, the interest rate applicable at the time to Revolving Advances comprising such Borrowing and (ii) in the case of such Lender, the Federal Funds Rate. If the Borrower and such Lender shall pay such interest to

the Agent for the same or an overlapping period, the Agent shall promptly remit to the Borrower the amount of such interest paid by the Borrower for such period. If such Lender shall repay to the Agent such corresponding amount, such amount so repaid shall constitute such Lender's Revolving Advance as part of such Borrowing for purposes of this Agreement.

(e) The failure of any Lender to make the Revolving Advance to be made by it as part of any Borrowing shall not relieve any other Lender of its obligation, if any, hereunder to make its Revolving Advance on the date of such Borrowing, but no Lender shall be responsible for the failure of any other Lender to make the Revolving Advance to be made by such other Lender on the date of any Borrowing.

Section 2.03 Letters of Credit.

(a) General.

(i) No Issuing Bank shall issue any Letter of Credit, if the expiry date of such requested Letter of Credit would occur after the Letter of Credit Expiration Date, unless all the Lenders have approved such expiry date.

(ii) No Issuing Bank shall be under any obligation to issue any Letter of Credit if:

(A) any order, judgment or decree of any Governmental Authority or arbitrator shall by its terms purport to enjoin or restrain such Issuing Bank from issuing such Letter of Credit, or any Law applicable to such Issuing Bank or any request or directive (whether or not having the force of law) from any Governmental Authority with jurisdiction over such Issuing Bank shall prohibit, or request that such Issuing Bank refrain from, the issuance of letters of credit generally or such Letter of Credit in particular or shall impose upon such Issuing Bank with respect to such Letter of Credit any restriction, reserve or capital requirement (for which such Issuing Bank is not otherwise compensated hereunder) not in effect on the Effective Date, or shall impose upon such Issuing Bank any unreimbursed loss, cost or expense which was not applicable on the Effective Date and which, in each such case, such Issuing Bank in good faith deems material to it;

(B) except as otherwise agreed by the Borrower and such Issuing Bank, such Letter of Credit is in an initial stated amount less than \$350,000;

(C) such Letter of Credit is to be denominated in a currency other than Dollars;

(D) such Letter of Credit contains any provisions for automatic reinstatement of the stated amount after any drawing thereunder;

(E) subject to Section 2.03(b)(iii), the expiry date of such requested Letter of Credit would occur more than twelve months after the date of issuance or last extension; or

(F) any Lender is at such time an Affected Lender hereunder, unless the applicable Issuing Bank is satisfied that the related exposure will be 100% covered by the Commitments of the non-Affected Lenders or, if not so covered, until such Issuing Bank has entered into arrangements satisfactory to it in its sole discretion with the Borrower or such Affected Lender to eliminate such Issuing Bank's risk with respect to such Affected Lender, and participating interests in any such newly issued Letter of Credit shall be allocated among non-Affected Lenders in a manner consistent with Section 2.19(c)(i) (and Affected Lenders shall not participate therein);

(iii) No Issuing Bank shall amend any Letter of Credit if such Issuing Bank would not be permitted at such time to issue such Letter of Credit in its amended form under the terms hereof.

(iv) No Issuing Bank shall be under any obligation to amend any Letter of Credit if (A) such Issuing Bank would have no obligation at such time to issue such Letter of Credit in its amended form under the terms hereof, or (B) the beneficiary of such Letter of Credit does not accept the proposed amendment to such Letter of Credit.

(b) Procedures for Issuance and Amendment of Letters of Credit; Auto-Extension Letters of Credit .

(i) Each Letter of Credit shall be issued or amended, as the case may be, upon the request of the Borrower delivered to the applicable Issuing Bank (with a copy to the Agent) in the form of a Letter of Credit Application, appropriately completed and signed by an Authorized Officer of the Borrower. Such Letter of Credit Application must be received by such Issuing Bank and the Agent not later than 11:00 a.m. at least two Business Days (or such later date and time as the Agent and such Issuing Bank may agree in a particular instance in their sole discretion) prior to the proposed issuance date or date of amendment, as the case may be. In the case of a request for an initial issuance of a Letter of Credit, such Letter of Credit Application shall specify in form and detail satisfactory to the applicable Issuing Bank: (A) the proposed issuance date of the requested Letter of Credit (which shall be a Business Day); (B) the amount thereof; (C) the expiry date thereof; (D) the name and address of the beneficiary thereof; (E) the documents to be presented by such beneficiary in case of any drawing thereunder; (F) the full text of any certificate to be presented by such beneficiary in case of any drawing thereunder; (G) the purpose and nature of the requested Letter of Credit; and (H) such other matters as such Issuing Bank may require. In the case of a request for an amendment of any outstanding Letter of Credit, such Letter of Credit Application shall specify in form and detail satisfactory to the applicable Issuing Bank (A) the Letter of Credit to be amended; (B) the proposed date of amendment thereof (which shall be a Business Day); (C) the nature of the proposed amendment; and (D) such other matters as such Issuing Bank may require. Additionally, the Borrower shall furnish to the applicable Issuing Bank and the Agent such other documents and information pertaining to such requested Letter of Credit issuance or amendment, including any L/C Related Documents, as the applicable Issuing Bank or the Agent may require. In the event and to the extent that the provisions of any Letter of Credit Application or other L/C Related

Document shall conflict with this Agreement, the provisions of this Agreement shall govern. Without limitation of the immediately preceding sentence, no such Letter of Credit Application or other L/C Related Document may impose any additional conditions on the issuance or maintenance of a Letter of Credit, any additional default provisions, collateral requirements or other obligations of the Borrower to any Issuing Bank, other than as stated in this Agreement.

(ii) Promptly after receipt of any Letter of Credit Application, the applicable Issuing Bank will confirm with the Agent (by telephone or in writing) that the Agent has received a copy of such Letter of Credit Application from the Borrower and, if not, such Issuing Bank will provide the Agent with a copy thereof. Unless the applicable Issuing Bank has received written notice from the Required Lenders, the Agent or the Borrower, at least one Business Day prior to the requested date of issuance or amendment of the applicable Letter of Credit, that one or more applicable conditions contained in Article III shall not then be satisfied, then, subject to the terms and conditions hereof, such Issuing Bank shall, on the requested date, issue a Letter of Credit for the account of the Borrower or enter into the applicable amendment, as the case may be, in each case in accordance with such Issuing Bank's usual and customary business practices. Immediately upon the issuance of each Letter of Credit, each Lender shall be deemed to, and hereby irrevocably and unconditionally agrees to, purchase from such Issuing Bank a risk participation in such Letter of Credit in an amount equal to the product of such Lender's Ratable Share times the amount of such Letter of Credit.

(iii) If the Borrower so requests in any applicable Letter of Credit Application, the applicable Issuing Bank may, in its sole and absolute discretion, agree to issue a Letter of Credit that has automatic extension provisions (each, an "Auto-Extension Letter of Credit"); provided that any such Auto-Extension Letter of Credit must permit such Issuing Bank to prevent any such extension at least once in each twelve-month period (commencing with the date of issuance of such Letter of Credit) by giving prior notice to the beneficiary thereof not later than a day (the "Non-Extension Notice Date") in each such twelve-month period to be agreed upon at the time such Letter of Credit is issued. Unless otherwise directed by the applicable Issuing Bank, the Borrower shall not be required to make a specific request to the applicable Issuing Bank for any such extension. Once an Auto-Extension Letter of Credit has been issued, the Lenders shall be deemed to have authorized (but may not require) the applicable Issuing Bank to permit the extension of such Letter of Credit at any time to an expiry date not later than the Letter of Credit Expiration Date; provided, however, that the applicable Issuing Bank shall not permit any such extension (or may issue a Notice of Non-Extension) if (A) such Issuing Bank has determined that it would not be permitted at such time to issue such Letter of Credit in its revised form (as extended) by reason of the provisions of clause (i) of Section 2.03(a) (or would have no obligation to issue such Letter of Credit by reason of the provisions of clause (ii) of Section 2.03(a)), or (B) it has received notice (which may be by telephone or in writing) on or before the day that is seven Business Days before the Non-Extension Notice Date (1) from the Agent that the Required Lenders have elected not to permit such extension pursuant to Section 6.02 or (2) from the Agent, the Required Lenders or the Borrower that one or more of the applicable conditions specified in Section 3.02 is not

then satisfied, and in each such case directing such Issuing Bank not to permit such extension.

(iv) Promptly after its delivery of any Letter of Credit or any amendment to a Letter of Credit to an advising bank with respect thereto or to the beneficiary thereof, the applicable Issuing Bank will also deliver to the Borrower and the Agent a true and complete copy of such Letter of Credit or amendment.

(c) Drawings and Reimbursements; Funding of Participations.

(i) Subject to the provisions below, not later than 2:30 p.m. on the date (the “Honor Date”) that any Issuing Bank makes any payment on a drawing on any Letter of Credit, if the Borrower shall have received notice of such payment prior to 11:30 a.m. on such date, or, if such notice has not been received by the Borrower prior to such time on such date, then not later than 2:30 p.m. on the next Business Day, the Borrower shall reimburse such Issuing Bank through the Agent in an amount equal to the amount of such drawing together with interest thereon. If the Borrower fails to so reimburse such Issuing Bank by such time, unless the Borrower shall have advised the Agent that it does not meet the conditions specified in either clause (B) or (C) below, the Agent shall promptly notify each Lender of the Honor Date, the amount of the unreimbursed drawing (the “Unreimbursed Amount”), and the amount of such Lender’s Ratable Share thereof. In such event, the Borrower shall be deemed to have requested a Base Rate Advance to be disbursed on the Honor Date in an amount equal to the Unreimbursed Amount, without regard to the minimum and multiples specified in Section 2.01(a) or the delivery of a Notice of Borrowing but subject to (A) the amount of the aggregate Unused Commitments, (B) no Event of Default having occurred and be continuing, or resulting therefrom, and (C) the conditions specified in Sections 3.02(c) and (d) being satisfied on and as of the date of the applicable Base Rate Advance and, to the extent so financed, the Borrower’s obligation to satisfy the reimbursement obligation created by such payment by the Issuing Bank on the Honor Date shall be discharged and replaced by the resulting Base Rate Advance. Any notice given by any Issuing Bank or the Agent pursuant to this Section 2.03(c)(i) may be given by telephone if immediately confirmed in writing; provided that the lack of such an immediate confirmation shall not affect the conclusiveness or binding effect of such notice.

(ii) Each Lender shall upon any notice pursuant to Section 2.03(c)(i) make funds available to the Agent for the account of the applicable Issuing Bank at the Agent’s Office in an amount equal to its Ratable Share of the Unreimbursed Amount not later than 4:00 p.m. on the Business Day specified in such notice by the Agent, whereupon, subject to the provisions of Section 2.03(c)(iii), each Lender that so makes funds available shall be deemed to have made a Base Rate Advance to the Borrower in such amount. The Agent shall remit the funds so received to the applicable Issuing Bank.

(iii) With respect to any Unreimbursed Amount that is not fully refinanced by a Base Rate Advance because any of the conditions set forth in clauses (A), (B) or (C) of Section 2.03(c)(i) cannot be satisfied or for any other reason, then not later than 2:30 p.m. on the next Business Day after the day notice of the drawing is given to the Borrower, in

the case of a failure to meet any such condition, or in any other case, after notice of the event resulting in the outstanding Unreimbursed Amount, the Borrower shall reimburse such Issuing Bank through the Agent in an amount equal to the amount of such outstanding Unreimbursed Amount with interest thereon. If the Borrower fails to so reimburse such Issuing Bank by such time, the Borrower shall be deemed to have incurred from the applicable Issuing Bank an L/C Borrowing in the amount of the Unreimbursed Amount that is not so refinanced, which L/C Borrowing shall be due and payable on demand (together with interest) and shall bear interest at the Base Rate in effect from time to time plus the Applicable Rate for Base Rate Advances in effect from time to time plus 2% per annum. In such event, each Lender's payment to the Agent for the account of the applicable Issuing Bank pursuant to Section 2.03(c)(ii) shall be deemed payment in respect of its participation in such L/C Borrowing and shall constitute an L/C Advance from such Lender in satisfaction of its participation obligation under this Section 2.03.

(iv) Until each Lender funds its Base Rate Advance or L/C Advance pursuant to this Section 2.03(c) to reimburse the applicable Issuing Bank for any amount drawn under any Letter of Credit, interest in respect of such Lender's Ratable Share of such amount shall be solely for the account of the applicable Issuing Bank.

(v) Each Lender's obligation to make Base Rate Advances or L/C Advances to reimburse the applicable Issuing Bank for amounts drawn under Letters of Credit, as contemplated by this Section 2.03(c), shall be absolute and unconditional and shall not be affected by any circumstance, including (A) any setoff, counterclaim, recoupment, defense or other right which such Lender may have against such Issuing Bank, the Borrower or any other Person for any reason whatsoever; (B) the occurrence or continuance of a Default, or (C) any other occurrence, event or condition, whether or not similar to any of the foregoing; provided, however, that each Lender's obligation to make Base Rate Advances pursuant to this Section 2.03(c) is subject to the conditions set forth in Section 2.03(c)(i). No such making of an L/C Advance shall relieve or otherwise impair the obligation of the Borrower to reimburse the applicable Issuing Bank for the amount of any payment made by such Issuing Bank under any Letter of Credit, together with interest as provided herein.

(vi) If any Lender fails to make available to the Agent for the account of the applicable Issuing Bank any amount required to be paid by such Lender pursuant to the foregoing provisions of this Section 2.03(c) by the time specified in Section 2.03(c)(ii), such Issuing Bank shall be entitled to recover from such Lender (acting through the Agent), on demand, such amount with interest thereon for the period from the date such payment is required to the date on which such payment is immediately available to such Issuing Bank at a rate per annum equal to the greater of the Federal Funds Rate and a rate determined by such Issuing Bank in accordance with banking industry rules on interbank compensation, plus any administrative, processing or similar fees customarily charged by such Issuing Bank in connection with the foregoing. If such Lender pays such amount (with interest and fees as aforesaid), the amount so paid shall constitute such Lender's Base Rate Advance included in the relevant Borrowing or L/C Advance in respect of the relevant L/C Borrowing, as the case may be. A certificate of the applicable Issuing Bank

submitted to any Lender (through the Agent) with respect to any amounts owing under this clause (vi) shall be conclusive absent manifest error.

(d) Repayment of Participations.

(i) At any time after the applicable Issuing Bank has made a payment under any Letter of Credit and has received from any Lender such Lender's L/C Advance in respect of such payment in accordance with Section 2.03(c), if the Agent receives for the account of such Issuing Bank any payment in respect of the related Unreimbursed Amount or interest thereon (whether directly from the Borrower or otherwise, including proceeds of Cash Collateral (as defined in Section 2.03(h)) applied thereto by the Agent), the Agent will distribute to such Lender its Ratable Share thereof in the same funds as those received by the Agent.

(ii) If any payment received by the Agent for the account of the applicable Issuing Bank pursuant to Section 2.03(c)(i) is required to be returned under any of the circumstances described in Section 8.12 (including pursuant to any settlement entered into by such Issuing Bank in its discretion), each Lender shall pay to the Agent for the account of such Issuing Bank its Ratable Share thereof on demand of the Agent, plus interest thereon from the date of such demand to the date such amount is returned by such Lender, at a rate per annum equal to the Federal Funds Rate from time to time in effect. The obligations of the Lenders under this clause shall survive the payment in full of the Obligations and the termination of this Agreement.

(e) Failure to Make Revolving Advances. The failure of any Lender to make the Revolving Advance to be made by it on the date specified in Section 2.03(c) or any L/C Advance shall not relieve any other Lender of its obligation hereunder to make its Revolving Advance or L/C Advance, as the case may be, to be made by such other Lender on such date.

(f) Obligations Absolute. The obligation of the Borrower to reimburse the applicable Issuing Bank for each drawing under each Letter of Credit and to repay each L/C Borrowing shall be absolute, unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement under all circumstances, including the following:

(i) any lack of validity or enforceability of such Letter of Credit, this Agreement, or any other Loan Document;

(ii) the existence of any claim, counterclaim, setoff, defense or other right that the Borrower may have at any time against any beneficiary or any transferee of such Letter of Credit (or any Person for whom any such beneficiary or any such transferee may be acting), any Issuing Bank or any other Person, whether in connection with this Agreement, the transactions contemplated hereby or by such Letter of Credit or any agreement or instrument relating thereto, or any unrelated transaction;

(iii) any draft, demand, certificate or other document presented under such Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect; or any loss or delay in the

transmission or otherwise of any document required in order to make a drawing under such Letter of Credit;

(iv) any payment by the applicable Issuing Bank under such Letter of Credit against presentation of a draft or certificate that does not strictly comply with the terms of such Letter of Credit; or any payment made by the applicable Issuing Bank under such Letter of Credit to any Person purporting to be a trustee in bankruptcy, debtor-in-possession, assignee for the benefit of creditors, liquidator, receiver or other representative of or successor to any beneficiary or any transferee of such Letter of Credit, including any arising in connection with any proceeding under any Debtor Relief Law; or

(v) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing, including any other circumstance that might otherwise constitute a defense available to, or a discharge of, the Borrower.

provided, however, that nothing in this Section 2.03(f) shall limit the rights of the Borrower under Section 2.03(g).

The Borrower shall promptly examine a copy of each Letter of Credit and each amendment thereto that is delivered to it and, in the event of any claim of noncompliance with the Borrower's instructions or other irregularity that is known to the Borrower in connection with any draw under such Letter of Credit of which the Borrower has reasonable notice, the Borrower will immediately notify the applicable Issuing Bank. To the extent allowed by applicable Law, Borrower shall be conclusively deemed to have waived any such claim against the applicable Issuing Bank and its correspondents unless such notice is given as aforesaid. Nothing herein shall require the Borrower to make any determination as to whether the drawing is in accordance with the requirements of the Letter of Credit, provided that the Borrower may waive any discrepancies in the drawing on any such Letter of Credit.

(g) Role of Issuing Bank. Each Lender and the Borrower agree that, in paying any drawing under a Letter of Credit, the applicable Issuing Bank shall not have any responsibility to obtain any document (other than any sight draft, certificates and documents expressly required by the Letter of Credit) or to ascertain or inquire as to the validity or accuracy of any such document or the authority of the Person executing or delivering any such document. None of the applicable Issuing Bank, the Agent, any of their respective Related Parties nor any correspondent, participant or assignee of such Issuing Bank shall be liable to any Lender for (i) any action taken or omitted in connection herewith at the request or with the approval of the Lenders or the Required Lenders, as applicable; (ii) any action taken or omitted in the absence of gross negligence or willful misconduct; or (iii) the due execution, effectiveness, validity or enforceability of any document or instrument related to any Letter of Credit or L/C Related Document. The Borrower hereby assumes all risks of the acts or omissions of any beneficiary or transferee with respect to its use of any Letter of Credit; provided, however, that this assumption is not intended to, and shall not, preclude the Borrower's pursuing such rights and remedies as it may have against the beneficiary or transferee at Law or under any other agreement. None of the applicable Issuing Bank, the Agent, any of their respective Related Parties nor any correspondent, participant or assignee of such Issuing Bank shall be liable or responsible for any

of the matters described in clauses (i) through (v) of Section 2.03(f); provided, however, that anything in such clauses to the contrary notwithstanding, the Borrower may have a claim against the applicable Issuing Bank, and such Issuing Bank may be liable to the Borrower, to the extent, but only to the extent, of any direct, as opposed to consequential or exemplary, damages suffered by the Borrower which the Borrower proves were caused by such Issuing Bank's willful misconduct or gross negligence or such Issuing Bank's willful failure to pay under any Letter of Credit after the presentation to it by the beneficiary of a sight draft and certificate(s) strictly complying with the terms and conditions of a Letter of Credit. In furtherance and not in limitation of the foregoing, the applicable Issuing Bank may accept documents that appear on its face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary, and such Issuing Bank shall not be responsible for the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign a Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason.

(h) Cash Collateral. Upon the request of the Agent, if, as of the Letter of Credit Expiration Date, any L/C Obligation for any reason remains outstanding, the Borrower shall, in each case, immediately Cash Collateralize the then outstanding L/C Obligations. Section 6.02 sets forth certain additional requirements to deliver Cash Collateral hereunder. For purposes of this Section 2.03, Section 2.19(c)(ii) and Section 6.02, "Cash Collateralize" means to pledge and deposit with or deliver to the Agent, for the benefit of the Issuing Banks and the Lenders, as collateral for the L/C Obligations, cash or deposit account balances pursuant to documentation in form and substance satisfactory to the Agent and each Issuing Bank (which documents are hereby consented to by the Lenders). Derivatives of such term have corresponding meanings. The Borrower hereby grants to the Agent, for the benefit of the Issuing Banks and the Lenders, a security interest in all such cash, deposit accounts and all balances therein and all proceeds of the foregoing. Cash Collateral shall be maintained in blocked, non-interest bearing deposit accounts with the Agent.

(i) Applicability of ISP. Unless otherwise expressly agreed by the applicable Issuing Bank and the Borrower when a Letter of Credit is issued, the rules of the ISP shall apply to each standby Letter of Credit.

(j) Letter of Credit Reports. Each Issuing Bank shall furnish (A) to the Agent on the first Business Day of each month a written report summarizing issuance and expiration dates of Letters of Credit issued by such Issuing Bank during the preceding month and drawings during such month under all such Letters of Credit and (B) to the Agent on the first Business Day of each calendar quarter a written report setting forth the average daily aggregate Available Amount during the preceding calendar quarter of all Letters of Credit issued by such Issuing Bank.

(k) Interim Interest. Except as provided in Section 2.03(c)(ii) with respect to Unreimbursed Amounts refinanced as Base Rate Advances and Section 2.03(c)(iii) with respect to L/C Borrowings, unless the Borrower shall reimburse each payment by an Issuing Bank pursuant to a Letter of Credit in full on the Honor Date, the Unreimbursed Amount thereof shall bear interest, for each day from and including the Honor Date to but excluding the date that the Borrower reimburses such Issuing Bank for the Unreimbursed Amount in full, at the rate per annum equal to (i) the Base Rate in effect from time to time plus the Applicable Rate for Base

Rate Advances in effect from time to time, to but excluding the next Business Day after the Honor Date and (ii) from and including the next Business Day after the Honor Date, the Base Rate in effect from time to time plus the Applicable Rate for Base Rate Advances in effect from time to time plus 2% per annum.

Section 2.03A Swingline Advances.

(a) Amount of Swingline Advances. Subject to the terms and conditions set forth herein, the Swingline Lender will make Swingline Advances in Dollars to the Borrower from time to time during the period from the Effective Date until the Termination Date, in an aggregate principal amount at any time outstanding that will not result in (i) the aggregate principal amount of all outstanding Swingline Advances exceeding \$50,000,000 (or such lesser amount as agreed between the Borrower and the Swingline Lender) or (ii) the Total Outstanding exceeding the aggregate Revolving Credit Commitment. Each Swingline Advance shall be in an aggregate amount of \$500,000 or an integral multiple of \$100,000 in excess thereof or such greater amounts as agreed between the Borrower and the Swingline Lender. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrower may borrow, prepay and reborrow Swingline Advances. The Swingline Lender shall be under no obligation to make a Swingline Advance if any Lender is at such time an Affected Lender hereunder, unless the Swingline Lender is satisfied that the related exposure will be 100% covered by the Commitments of the non-Affected Lenders or, if not so covered, until the Swingline Lender has entered into arrangements satisfactory to it in its sole discretion with the Borrower or such Affected Lender to eliminate the Swingline Lender's risk with respect to such Affected Lender, and participating interests in any such newly made Swingline Advance shall be allocated among non-Affected Lenders in a manner consistent with Section 2.19(c)(i) (and Affected Lenders shall not participate therein).

(b) Borrowing Notice and Making of Swingline Advances. To request a Swingline Advance, the Borrower shall notify the Swingline Lender and the Agent of such request by telephone (confirmed by facsimile), not later than 2:00 p.m. (or such later time as the Swingline Lender may determine in its sole discretion), on the day of such Swingline Advance. Each such notice shall be irrevocable and shall specify the requested date (which shall be a Business Day) and amount of the requested Swingline Advance. The Swingline Lender shall promptly notify the Borrower and the Agent (and the Agent shall promptly notify each Lender) and the Swingline Lender shall make each Swingline Advance available to the Borrower by 2:30 p.m. (or such later time as may be agreed by the Swingline Lender and the Borrower) on the requested date of such Swingline Advance in a manner agreed upon by the Borrower and the Swingline Lender. Each Swingline Advance shall bear interest at the Base Rate, or, at the option of the Borrower and subject to prior agreement between the Borrower and the Swingline Lender, shall be a Swingline Eurodollar Rate Advance or a Money Market Rate Advance.

(c) Repayment of Swingline Advances. Each Swingline Advance shall be paid in full by the Borrower on the earlier of (x) on or before the fourteenth (14th) Business Day after the date such Swingline Advance was made by the Swingline Lender or (y) the Termination Date. A Swingline Advance may not be repaid with the proceeds from another Swingline Advance. In addition, the Swingline Lender (i) may at any time in its sole discretion with respect to any outstanding Swingline Advance, or (ii) shall, on the fourteenth (14th) Business Day after the date

any Swingline Advance is made and which has not been otherwise repaid, require each Lender (including the Swingline Lender) to make a Revolving Advance in the amount of such Lender's Ratable Share of such Swingline Advance (including, without limitation, any interest accrued and unpaid thereon), for the purpose of repaying such Swingline Advance. Not later than 2:00 p.m. on the date of any notice received pursuant to this Section 2.03A(c), each Lender shall make available to the Agent its required Revolving Advance, in immediately available funds in the same manner as provided in Section 2.02 (a) with respect to Revolving Advances made by such Lender. Revolving Advances made pursuant to this Section 2.03A(c) shall initially be Base Rate Advances and thereafter may be continued as Base Rate Advances or converted into Eurodollar Rate Advances in the manner provided in Section 2.09 and subject to the other conditions and limitations set forth in this Article II. Each Lender's obligation to make Revolving Advances pursuant to this Section 2.03A(c) to repay Swingline Advances shall be unconditional, continuing, irrevocable and absolute and shall not be affected by any circumstances, including, without limitation, (a) any set-off, counterclaim, recoupment, defense or other right which such Lender may have against the Agent, the Swingline Lender or any other Person, (b) the occurrence or continuance of a Default or an Event of Default, (c) any adverse change in the condition (financial or otherwise) of the Borrower, or (d) any other circumstance, happening or event whatsoever. In the event that any Lender fails to make payment to the Agent of any amount due under this Section 2.03A(c), the Agent shall be entitled to receive, retain and apply against such obligation the principal and interest otherwise payable to such Lender hereunder until the Agent receives such payment from such Lender or such obligation is otherwise fully satisfied. In addition to the foregoing, if for any reason any Lender fails to make payment to the Agent of any amount due under this Section 2.03A(c), such Lender shall be deemed, at the option of the Agent, to have unconditionally and irrevocably purchased from the Swingline Lender without recourse or warranty, an undivided interest and participation in the applicable Swingline Advance in the amount of such Revolving Advance, and such interest and participation may be recovered from such Lender together with interest thereon at the Federal Funds Rate for each day during the period commencing on the date of demand and ending on the date such amount is received.

(d) Swingline Advances Reports. The Swingline Lender shall furnish to the Agent on each Business Day a written report summarizing outstanding Swingline Advances made by the Swingline Lender and the due date for the repayment of such Swingline Advances; provided that if no Swingline Advances are outstanding, no such report shall be required to be delivered.

(e) Successor Swingline Lender. Subject to the appointment and acceptance of a successor Swingline Lender as provided in this paragraph, the Borrower may, upon not less than ten (10) Business Days prior notice to the Agent and the Lenders, replace the existing Swingline Lender with the consent of the Agent (which consent shall not unreasonably be withheld). Upon the acceptance of its appointment as Swingline Lender hereunder by a successor, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the replaced Swingline Lender, and the replaced Swingline Lender shall be discharged from its duties and obligations hereunder. The fees payable by the Borrower to a successor Swingline Lender shall be as agreed between the Borrower and such successor. After the Swingline Lender's replacement hereunder, the provisions of this Article and Section 8.04 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Swingline Lender.

Section 2.04 Fees.

(a) Commitment Fee. The Borrower agrees to pay to the Agent for the account of each Lender a commitment fee on such Lender's Unused Commitment (provided that, for the avoidance of doubt, and without duplication, such Lender's Unused Commitment shall be calculated exclusive of such Lender's Swingline Exposure and, if such Lender is the Swingline Lender, without giving effect to the Swingline Advances, and in no event shall the aggregate of such commitment fees exceed an amount calculated based on the product of (a) the aggregate Revolving Credit Commitments minus the aggregate principal amount of all Revolving Advances and aggregate L/C Obligations and (b) the Applicable Rate for commitment fees) from the Effective Date in the case of each Initial Lender and from the effective date specified in the Assumption Agreement or in the Assignment and Assumption pursuant to which it became a Lender in the case of each other Lender until the Termination Date at a rate per annum equal to the Applicable Rate for commitment fees in effect from time to time, payable in arrears quarterly on the last day of each March, June, September and December, commencing December 31, 2011, and on the Termination Date, provided that no commitment fee shall accrue with respect to the Unused Commitment of an Affected Lender so long as such Lender shall be an Affected Lender.

(b) Letter of Credit Fees.

(i) The Borrower shall pay to the Agent for the account of each Lender a commission on such Lender's Ratable Share of the average daily aggregate Available Amount of all Letters of Credit outstanding from time to time at a rate per annum equal to the Applicable Rate for Eurodollar Rate Advances in effect from time to time, during such calendar quarter, payable in arrears quarterly on the last day of each March, June, September and December, commencing with the quarter ended December 31, 2011, and on the Termination Date; provided that the Applicable Rate for Eurodollar Rate Advances shall be 2% above such Applicable Rate in effect upon the occurrence and during the continuation of an Event of Default if the Borrower is required to pay default interest pursuant to Section 2.07(b).

(ii) The Borrower shall pay to each Issuing Bank, for its own account, a fronting fee with respect to each Letter of Credit issued by such Issuing Bank, payable in the amounts and at the times specified in the applicable Fee Letter between the Borrower and such Issuing Bank, and such other commissions, issuance fees, transfer fees and other fees and charges in connection with the issuance or administration of each Letter of Credit as the Borrower and such Issuing Bank shall agree promptly following receipt of an invoice therefor.

(c) Agent's Fees. The Borrower shall pay to the Agent for its own account such fees as are agreed between the Borrower and the Agent pursuant to the Fee Letter between the Borrower and the Agent.

Section 2.05 Optional Termination or Reduction of the Commitments .

(a) The Borrower shall have the right, upon at least three Business Days' notice to the Agent, to terminate in whole or permanently reduce ratably in part the Unused Commitments or the Unissued Letter of Credit Commitments, provided that each partial reduction shall be in the aggregate amount of \$10,000,000 or an integral multiple of \$1,000,000 in excess thereof.

(b) So long as no Default or Event of Default shall be continuing, the Borrower shall have the right, at any time, upon at least ten Business Days' notice to an Affected Lender (with a copy to the Agent), to terminate in whole such Lender's Revolving Credit Commitment and, if applicable, its Letter of Credit Commitment, without affecting the Commitments of any other Lender. Such termination shall be effective, (x) with respect to such Lender's Unused Commitment, on the date set forth in such notice, provided, however, that such date shall be no earlier than ten Business Days after receipt of such notice and (y) with respect to each Revolving Advance outstanding to such Lender, in the case of Base Rate Advances, on the date set forth in such notice and, in the case of Eurodollar Rate Advances, on the last day of the then current Interest Period relating to such Revolving Advance. Upon termination of a Lender's Commitments under this Section 2.05(b), the Borrower will pay or cause to be paid all principal of, and interest accrued to the date of such payment on, Revolving Advances (and if such Lender is the Swingline Lender, the Swingline Advances) owing to such Lender and, subject to Section 2.19, pay any accrued commitment fees or Letter of Credit fees payable to such Lender pursuant to the provisions of Section 2.04, and all other amounts payable to such Lender hereunder (including, but not limited to, any increased costs or other amounts owing under Section 2.11 and any indemnification for Taxes under Section 2.14); and, if such Lender is an Issuing Bank, shall pay to such Issuing Bank for deposit in an escrow account an amount equal to the Available Amount of all Letters of Credit issued by such Issuing Bank, whereupon all Letters of Credit issued by such Issuing Bank shall be deemed to have been issued outside of this Agreement on a bilateral basis and shall cease for all purposes to constitute a Letter of Credit issued under this Agreement, and upon such payments, except as otherwise provided below, the obligations of such Lender hereunder shall, by the provisions hereof, be released and discharged; provided, however, that (i) such Lender's rights under Sections 2.11, 2.14 and 8.04, and, in the case of an Issuing Bank, Section 8.04(c), and its obligations under Section 8.04 and 8.08, in each case in accordance with the terms thereof, shall survive such release and discharge as to matters occurring prior to such date and (ii) such escrow agreement shall be in a form reasonably agreed to by the Borrower and such Issuing Bank, but in no event shall either the Borrower or such Issuing Bank require any waivers, covenants, events of default or other provisions that are more restrictive than or inconsistent with the provisions of this Agreement. Subject to Section 2.18, the aggregate amount of the Commitments of the Lenders once reduced pursuant to this Section 2.05(b) may not be reinstated. The termination of the Commitments of an Affected Lender pursuant to this Section 2.05(b) will not be deemed to be a waiver of any right that the Borrower, the Agent, any Issuing Bank, the Swingline Lender or any other Lender may have against the Affected Lender that arose prior to the date of such termination. Upon any such termination, the Ratable Share of each remaining Lender will be revised.

Section 2.06 Repayment of Advances. The Borrower shall repay to the Agent for the ratable account of the Lenders on the Termination Date the aggregate principal amount of the

Revolving Advances made by such Lender and then outstanding. The Borrower shall repay Swingline Advances in accordance with Section 2.03A(c).

Section 2.07 Interest on Advances.

(a) Scheduled Interest. The Borrower shall pay interest on the unpaid principal amount of each Advance owing to each Lender (including the Swingline Lender) from the date of such Advance until such principal amount shall be paid in full, at the following rates per annum:

(i) Base Rate Advances. During such periods as such Revolving Advance is a Base Rate Advance, a rate per annum equal at all times to the sum of (x) the Base Rate in effect from time to time plus (y) the Applicable Rate for Base Rate Advances in effect from time to time, payable in arrears quarterly on the last day of each March, June, September and December during such periods and on the date such Base Rate Advance shall be Converted or paid in full.

(ii) Eurodollar Rate Advances. During such periods as such Revolving Advance is a Eurodollar Rate Advance, a rate per annum equal at all times during each Interest Period for such Revolving Advance to the sum of (x) the Eurodollar Rate for such Interest Period for such Revolving Advance plus (y) the Applicable Rate for Eurodollar Rate Advances in effect from time to time, payable in arrears on the last day of such Interest Period and, if such Interest Period has a duration of more than three months, on each day that occurs during such Interest Period every three months from the first day of such Interest Period and on the date such Eurodollar Rate Advance shall be Converted or paid in full.

(iii) Swingline Advances. During such period as such Swingline Advance remains outstanding, the Base Rate or, as agreed to by the Swingline Lender and the Borrower, the Money Market Rate or the Eurodollar Rate, payable on the date such Swingline Advance is required to be repaid.

(b) Default Interest. Upon the occurrence and during the continuance of an Event of Default under Section 6.01(a), the Agent may, and upon the request of the Required Lenders shall, require the Borrower to pay interest (“Default Interest”) on (i) the unpaid principal amount of each Advance owing to each Lender, payable in arrears on the dates referred to in clause (a)(i), (a)(ii) or (a)(iii) above, at a rate per annum equal at all times to 2% per annum above the rate per annum required to be paid on such Advance pursuant to clause (a)(i), (a)(ii) or (a)(iii) above and (ii) to the fullest extent permitted by Law, the amount of any interest, fee or other amount payable hereunder that is not paid when due, from the date such amount shall be due until such amount shall be paid in full, payable in arrears on the date such amount shall be paid in full and on demand, at a rate per annum equal at all times to 2% per annum above the rate per annum required to be paid on Base Rate Advances pursuant to clause (a)(i) above, provided, however, that following acceleration of the Advances pursuant to Section 6.01, Default Interest shall accrue and be payable hereunder whether or not previously required by the Agent.

(c) Interest Rate Limitation. Nothing contained in this Agreement or in any other Loan Document shall be deemed to establish or require the payment of interest to any Lender at a rate in excess of the maximum rate permitted by applicable Law. If the amount of interest payable for the account of any Lender on any interest payment date would exceed the maximum amount permitted by applicable Law to be charged by such Lender, the amount of interest payable for its account on such interest payment date shall be automatically reduced to such maximum permissible amount. In the event of any such reduction affecting any Lender, if from time to time thereafter the amount of interest payable for the account of such Lender on any interest payment date would be less than the maximum amount permitted by applicable Law to be charged by such Lender, then the amount of interest payable for its account on such subsequent interest payment date shall be automatically increased to such maximum permissible amount, provided that at no time shall the aggregate amount by which interest paid for the account of any Lender has been increased pursuant to this sentence exceed the aggregate amount by which interest paid for its account has theretofore been reduced pursuant to the previous sentence.

Section 2.08 Interest Rate Determination.

(a) The Agent shall give prompt notice to the Borrower and the Lenders of the applicable interest rate determined by the Agent for purposes of Section 2.07(a).

(b) If the Required Lenders determine that for any reason in connection with any request for a Eurodollar Rate Advance or a Conversion to or continuation thereof that (a) Dollar deposits are not being offered to banks in the London interbank eurodollar market for the applicable amount and Interest Period of such Eurodollar Rate Advance, (b) adequate and reasonable means do not exist for determining the Eurodollar Rate for any requested Interest Period with respect to a proposed Eurodollar Rate Advance, or (c) the Eurodollar Rate for any requested Interest Period with respect to a proposed Eurodollar Rate Advance does not adequately and fairly reflect the cost to such Lenders of funding such Revolving Advance, the Agent will promptly so notify the Borrower and each Lender, whereupon each Eurodollar Rate Advance will automatically on the last day of the then existing Interest Period therefor Convert into a Base Rate Advance. Thereafter, the obligation of the Lenders to make or maintain Eurodollar Rate Advances shall be suspended until the Agent (upon the instruction of the Required Lenders) revokes such notice. Upon receipt of such notice, the Borrower may revoke any pending request for a Borrowing of, Conversion to or continuation of Eurodollar Rate Advances or, failing that, will be deemed to have Converted such request into a request for a Base Rate Advance in the amount specified therein.

(c) If the Borrower shall fail to select the duration of any Interest Period for any Eurodollar Rate Advances in accordance with the provisions contained in the definition of "Interest Period" in Section 1.01, the Agent will forthwith so notify the Borrower and the Lenders and such Revolving Advances will automatically, on the last day of the then existing Interest Period therefor, Convert into Base Rate Advances.

(d) On the date on which the aggregate unpaid principal amount of Eurodollar Rate Advances comprising any Borrowing shall be reduced, by payment or prepayment or otherwise,

to less than \$5,000,000, such Revolving Advances shall automatically Convert into Base Rate Advances.

(e) Upon the occurrence and during the continuance of any Event of Default,

(i) with respect to Eurodollar Rate Advances, each such Revolving Advance will automatically, on the last day of the then existing Interest Period therefor, Convert into a Base Rate Advance (or if such Revolving Advance is then a Base Rate Advance, will continue as a Base Rate Advance); and

(ii) the obligation of the Lenders to make Eurodollar Rate Advances or to Convert Revolving Advances into Eurodollar Rate Advances shall be suspended until the Agent shall notify the Borrower and the Lenders that the circumstances causing such suspension no longer exist.

Section 2.09 Optional Conversion of Revolving Advances. The Borrower may on any Business Day, upon notice given to the Agent not later than 12:00 noon on the third Business Day prior to the date of the proposed Conversion and subject to the provisions of Sections 2.08 and 2.12, Convert all Revolving Advances of one Type comprising the same Borrowing into Revolving Advances of the other Type; provided, however, that (a) any Conversion of Eurodollar Rate Advances into Base Rate Advances shall be made only on the last day of an Interest Period for such Eurodollar Rate Advances, (b) any Conversion of Base Rate Advances into Eurodollar Rate Advances shall be in an amount not less than the minimum amount specified in Section 2.02(b), (c) no Conversion of any Revolving Advances shall result in more separate Borrowings than permitted under Section 2.02(b) and (d) no Swingline Advances may be converted. Each such notice of a Conversion shall, within the restrictions specified above, specify (i) the date of such Conversion, (ii) the Revolving Advances to be Converted, and (iii) if such Conversion is into Eurodollar Rate Advances, the duration of the initial Interest Period for each such Revolving Advance. Each notice of Conversion shall be irrevocable and binding on the Borrower.

Section 2.10 Prepayments of Advances.

(a) Optional. At any time and from time to time, the Borrower shall have the right to prepay any Advance, in whole or in part, without premium or penalty (except as provided in clause (y) below), upon notice at least two Business Days' prior to the date of such prepayment, in the case of Eurodollar Rate Advances, and not later than 11:00 a.m. on the date of such prepayment in the case of Base Rate Advances and Swingline Advances, to the Agent (and, in the case of prepayment a Swingline Advance, the Swingline Lender) specifying the proposed date of such prepayment and the aggregate principal amount and Type of the Advance to be prepaid (and, in the case of Eurodollar Rate Advances, the Interest Period of the Borrowing pursuant to which made); provided, however, that (x) each partial prepayment shall be in an aggregate principal amount of \$5,000,000 or an integral multiple of \$1,000,000 in excess thereof, and shall be accompanied by accrued interest to the date of prepayment on the principal amount prepaid, and (y) in the event of any such prepayment of a Eurodollar Rate Advance, the Borrower shall be obligated to reimburse the Lenders in respect thereof pursuant to Section 8.04 (e).

(b) Mandatory.

(i) The Borrower shall prepay the aggregate principal amount of the Advances, together with accrued interest to the date of prepayment on the principal amount prepaid, without requirement of demand therefor, or shall pay or prepay any other Indebtedness then outstanding at any time, when and to the extent required to comply with applicable Laws of any Governmental Authority, including the 2007 Order and/or any Subsequent Order, or applicable resolutions of the Board of Directors of the Borrower.

(ii) If for any reason the Total Outstandings at any time exceed the aggregate Revolving Credit Commitments then in effect, the Borrower shall, within one Business Day after notice thereof, prepay Advances and/or Cash Collateralize the L/C Obligations in an aggregate amount equal to such excess; provided, however,, that the Borrower shall not be required to Cash Collateralize the L/C Obligations pursuant to this Section 2.10(b) unless, after the prepayment in full of the Advances, the Total Outstandings exceed the aggregate Revolving Credit Commitments then in effect.

Section 2.11 Increased Costs.

(a) Increased Costs Generally. If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended or participated in by, any Lender (except any reserve requirement contemplated by Section 2.11(e)) or any Issuing Bank; or

(ii) impose on any Lender or any Issuing Bank or the London interbank market any other condition, cost or expense affecting this Agreement or Eurodollar Rate Advances made by such Lender or any Letter of Credit or participation therein;

and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any Eurodollar Rate Advance (or of maintaining its obligation to make any such Revolving Advance), or to increase the cost to such Lender or such Issuing Bank of participating in, issuing or maintaining any Letter of Credit (or of maintaining its obligation to participate in or to issue any Letter of Credit), or to reduce the amount of any sum received or receivable by such Lender or such Issuing Bank hereunder (whether of principal, interest or any other amount) then, upon request of such Lender or such Issuing Bank, the Borrower will pay to such Lender or such Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or such Issuing Bank, as the case may be, for such additional costs incurred or reduction suffered.

(b) Capital Requirements. If any Lender or any Issuing Bank determines that any Change in Law affecting such Lender or such Issuing Bank or any Applicable Lending Office of such Lender or such Lender's or such Issuing Bank's holding company, if any, regarding capital requirements has or would have the effect of reducing the rate of return on such Lender's or such Issuing Bank's capital or on the capital of such Lender's or such Issuing Bank's holding company, if any, as a consequence of this Agreement, the Commitments of such Lender or the

Advances made by, or participations in Letters of Credit held by, such Lender, or the Letters of Credit issued by such Issuing Bank, to a level below that which such Lender or such Issuing Bank or such Lender's or such Issuing Bank's holding company could have achieved but for such Change in Law (taking into consideration such Lender's or such Issuing Bank's policies and the policies of such Lender's or such Issuing Bank's holding company with respect to capital adequacy), then from time to time the Borrower will pay to such Lender or such Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or such Issuing Bank or such Lender's or such Issuing Bank's holding company for any such reduction suffered.

(c) Certificates for Reimbursement. A certificate of a Lender or an Issuing Bank setting forth the amount or amounts necessary to compensate such Lender or such Issuing Bank or its holding company, as the case may be, as specified in subsection (a) or (b) of this Section and delivered to the Borrower shall be conclusive and binding upon all parties absent manifest error. The Borrower shall pay such Lender or such Issuing Bank, as the case may be, the amount shown as due on any such certificate within 30 days after receipt thereof.

(d) Delay in Requests. Failure or delay on the part of any Lender or any Issuing Bank to demand compensation pursuant to the foregoing provisions of this Section shall not constitute a waiver of such Lender's or such Issuing Bank's right to demand such compensation, provided that the Borrower shall not be required to compensate a Lender or an Issuing Bank pursuant to the foregoing provisions of this Section for any increased costs incurred or reductions suffered more than three months prior to the date that such Lender or such Issuing Bank, as the case may be, notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of such Lender's or such Issuing Bank's intention to claim compensation therefor (except that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the three-month period referred to above shall be extended to include the period of retroactive effect thereof).

(e) Reserves on Eurodollar Rate Advances. The Borrower shall pay to each Lender, as long as such Lender shall be required to maintain reserves with respect to liabilities or assets consisting of or including Eurocurrency funds or deposits (currently known as "Eurocurrency liabilities"), additional interest on the unpaid principal amount of each Eurodollar Rate Advance equal to the actual costs of such reserves allocated to such Revolving Advance by such Lender (as determined by such Lender in good faith, which determination shall be conclusive absent manifest error), which shall be due and payable on each date on which interest is payable on such Eurodollar Rate Advance, provided the Borrower shall have received at least 30 days' prior notice (with a copy to the Agent) of such additional interest from such Lender. If a Lender fails to give notice 30 days prior to the relevant interest payment date, such additional interest shall be due and payable 30 days from receipt of such notice.

Section 2.12 Illegality. If any Lender shall have determined in good faith that the introduction of or any change in any applicable Law or in the interpretation or administration thereof by any Governmental Authority charged with the interpretation or administration thereof, or compliance with any guideline or request from any such Governmental Authority (whether or not having the force of law), for any Lender or its Applicable Lending Office to make, maintain or fund Eurodollar Rate Advances, or to determine or charge interest rates based upon the

Eurodollar Rate, or any Governmental Authority has imposed material restrictions on the authority of such Lender to purchase or sell, or to take deposits of, Dollars in the London interbank market, then, on notice thereof by such Lender to the Borrower through the Agent, any obligation of such Lender to make or continue Eurodollar Rate Advances or to convert Base Rate Advances to Eurodollar Rate Advances shall be suspended until such Lender notifies the Agent and the Borrower that the circumstances giving rise to such determination no longer exist. Upon receipt of such notice, the Borrower shall, upon demand from such Lender (with a copy to the Agent), prepay or, if applicable, convert all Eurodollar Rate Advances of such Lender to Base Rate Advances, either on the last day of the Interest Period therefor, if such Lender may lawfully continue to maintain such Eurodollar Rate Advances to such day, or immediately, if such Lender may not lawfully continue to maintain such Eurodollar Rate Advances. Upon any such prepayment or conversion, the Borrower shall also pay accrued interest on the amount so prepaid or converted.

Section 2.13 Payments and Computations .

(a) All payments to be made by the Borrower shall be made without condition or deduction for any counterclaim, defense, recoupment or setoff. The Borrower shall make each payment hereunder not later than 1:00 p.m. on the day when due in U.S. dollars to the Agent at the Agent's Account in same day funds. The Agent will promptly thereafter cause to be distributed like funds relating to the payment of principal, interest, fees or commissions ratably (other than amounts payable pursuant to Section 2.05(b), 2.11, 2.12, 2.14, 2.20 or 8.04(e)) to the Lenders for the account of their respective Applicable Lending Offices, and like funds relating to the payment of any other amount payable to any Lender to such Lender for the account of its Applicable Lending Office, in each case to be applied in accordance with the terms of this Agreement. Upon any Assuming Lender becoming a Lender hereunder as a result of a Commitment Increase pursuant to Section 2.18, and upon the Agent's receipt of such Lender's Assumption Agreement and recording of the information contained therein in the Register, from and after the applicable Increase Date, the Agent shall make all payments hereunder and under any Notes issued in connection therewith in respect of the interest assumed thereby to the Assuming Lender. Upon its acceptance of an Assignment and Assumption and recording of the information contained therein in the Register pursuant to Section 8.07(c), from and after the effective date specified in such Assignment and Assumption, the Agent shall make all payments hereunder and under the Notes in respect of the interest assigned thereby to the Lender assignee thereunder, and the parties to such Assignment and Assumption shall make all appropriate adjustments in such payments for periods prior to such effective date directly between themselves.

(b) All computations of interest based on (i) the Prime rate (as defined in the definition of "Base Rate" in Section 1.01) shall be made by the Agent on the basis of a year of 365 or 366 days, as the case may be and (ii) the Federal Funds Rate, the Eurodollar Rate and of fees and Letter of Credit commissions shall be made by the Agent on the basis of a year of 360 days, in each case for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest, fees or commissions are payable. Interest on Swingline Advances shall be calculated on the basis of a year of 360 days or such other basis agreed to by the Swingline Lender and the Borrower, in each case for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest

is payable. Each determination by the Agent of an interest rate hereunder shall be conclusive and binding for all purposes, absent manifest error.

(c) Whenever any payment hereunder or under the Notes shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest, fees or commissions, as the case may be; provided, however, that, if such extension would cause payment of interest on or principal of Eurodollar Rate Advances to be made in the next following calendar month, such payment shall be made on the next preceding Business Day.

(d) Unless the Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Lenders hereunder that the Borrower will not make such payment in full, the Agent may assume that the Borrower has made such payment in full to the Agent on such date and the Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent the Borrower shall not have so made such payment in full to the Agent, each Lender shall repay to the Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the Agent, at the Federal Funds Rate.

Section 2.14 Taxes.

(a) Payments Free of Taxes; Obligation to Withhold; Payments on Account of Taxes.

(i) Any and all payments by or on account of any obligation of the Borrower hereunder or under any other Loan Document shall to the extent permitted by applicable Laws be made free and clear of and without reduction or withholding for any Taxes. If, however, applicable Laws require the Borrower or the Agent to withhold or deduct any Tax, such Tax shall be withheld or deducted in accordance with such Laws as determined by the Borrower or the Agent, as the case may be, upon the basis of the information and documentation to be delivered pursuant to subsection (e) below.

(ii) If the Borrower or the Agent shall be required by the Internal Revenue Code to withhold or deduct any Taxes, including both United States of America Federal backup withholding and withholding taxes, from any payment, then (A) the Agent shall withhold or make such deductions as are determined by the Agent to be required based upon the information and documentation it has received pursuant to subsection (e) below, (B) the Agent shall timely pay the full amount withheld or deducted to the relevant Governmental Authority in accordance with the Internal Revenue Code, and (C) to the extent that the withholding or deduction is made on account of Indemnified Taxes or Other Taxes, the sum payable by the Borrower shall be increased as necessary so that after any required withholding or the making of all required deductions (including deductions applicable to additional sums payable under this Section) the Agent, Lender or Issuing Bank, as the case may be, receives an amount equal to the sum it would have received had no such withholding or deduction been made.

(b) Payment of Other Taxes by the Borrower. Without limiting the provisions of subsection (a) above, the Borrower shall timely pay any Other Taxes to the relevant Governmental Authority in accordance with applicable Laws.

(c) Tax Indemnifications.

(i) Without limiting the provisions of subsection (a) or (b) above, the Borrower shall, and does hereby, indemnify the Agent, each Lender and each Issuing Bank, and shall make payment in respect thereof within 30 days after written demand therefor, for the full amount of any Indemnified Taxes or Other Taxes (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section) withheld or deducted by the Borrower or the Agent or paid by the Agent, such Lender or such Issuing Bank, as the case may be, and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. The Borrower shall also, and does hereby, indemnify the Agent, and shall make payment in respect thereof within 10 days after demand therefor, for any amount which a Lender or an Issuing Bank for any reason fails to pay indefeasibly to the Agent as required by clause (ii) of this subsection. A certificate as to the amount of any such payment or liability delivered to the Borrower by a Lender or an Issuing Bank (with a copy to the Agent), or by the Agent on its own behalf or on behalf of a Lender or an Issuing Bank, shall be conclusive absent manifest error.

(ii) Without limiting the provisions of subsection (a) or (b) above, each Lender and each Issuing Bank shall, and does hereby, indemnify the Borrower and the Agent, and shall make payment in respect thereof within 30 days after demand therefor, against any and all Taxes and any and all related losses, claims, liabilities, penalties, interest and expenses (including the fees, charges and disbursements of any counsel for the Borrower or the Agent) incurred by or asserted against the Borrower or the Agent by any Governmental Authority as a result of the failure by such Lender or such Issuing Bank, as the case may be, to deliver, or as a result of the inaccuracy, inadequacy or deficiency of, any documentation required to be delivered by such Lender or such Issuing Bank, as the case may be, to the Borrower or the Agent pursuant to subsection (e). Each Lender and each Issuing Bank hereby authorizes the Agent to set off and apply any and all amounts at any time owing to such Lender or such Issuing Bank, as the case may be, under this Agreement or any other Loan Document against any amount due to the Agent under this clause (ii). The agreements in this clause (ii) shall survive the resignation and/or replacement of the Agent, any assignment of rights by, or the replacement of, a Lender or an Issuing Bank, the termination of the Commitments and the repayment, satisfaction or discharge of all other Obligations.

(d) Evidence of Payments. Upon request by the Borrower or the Agent, as the case may be, after any payment of Taxes by the Borrower or by the Agent to a Governmental Authority as provided in this 2.14, the Borrower shall deliver to the Agent or the Agent shall deliver to the Borrower, as the case may be, the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of any return required by Laws

to report such payment or other evidence of such payment reasonably satisfactory to the Borrower or the Agent, as the case may be.

(e) Status of Lenders; Tax Documentation .

(i) Each Lender shall deliver to the Borrower and to the Agent, at the time or times prescribed by applicable Laws or when reasonably requested by the Borrower or the Agent, such properly completed and executed documentation prescribed by applicable Laws or by the taxing authorities of any jurisdiction and such other reasonably requested information as will permit the Borrower or the Agent, as the case may be, to determine (A) whether or not payments made hereunder or under any other Loan Document are subject to Taxes, (B) if applicable, the required rate of withholding or deduction, and (C) such Lender's entitlement to any available exemption from, or reduction of, applicable Taxes in respect of all payments to be made to such Lender by the Borrower pursuant to this Agreement or otherwise to establish such Lender's status for withholding tax purposes in the applicable jurisdiction.

(ii) Without limiting the generality of the foregoing, if the Borrower is resident for tax purposes in the United States of America,

(A) any Lender that is a "United States person" within the meaning of Section 7701(a)(30) of the Internal Revenue Code shall deliver to the Borrower and the Agent executed originals of Internal Revenue Service Form W-9 or such other documentation or information prescribed by applicable Laws or reasonably requested by the Borrower or the Agent as will enable the Borrower or the Agent, as the case may be, to determine whether or not such Lender is subject to backup withholding or information reporting requirements; and

(B) each Foreign Lender that is entitled under the Internal Revenue Code or any applicable treaty to an exemption from or reduction of withholding tax with respect to payments hereunder or under any other Loan Document shall deliver to the Borrower and the Agent (in such number of copies as shall be requested by the recipient) on or prior to the date on which such Foreign Lender becomes a Lender under this Agreement (and from time to time thereafter upon the request of the Borrower or the Agent, but only if such Foreign Lender is legally entitled to do so), whichever of the following is applicable:

(1) executed originals of Internal Revenue Service Form W-8BEN claiming eligibility for benefits of an income tax treaty to which the United States of America is a party,

(2) executed originals of Internal Revenue Service Form W-8ECI,

(3) documentation, executed originals of Internal Revenue Service Form W-8IMY and all required supporting documentation,

(4) in the case of a Foreign Lender claiming the benefits of the exemption for portfolio interest under section 881(c) of the Internal Revenue Code, (x) a certificate to the effect that such Foreign Lender is not (A) a "bank" within the meaning of section 881(c)(3)(A) of the Internal Revenue Code, (B) a "10 percent shareholder" of the Borrower within the meaning of section 881(c)(3)(B) of the Internal Revenue Code, or (C) a "controlled foreign corporation" described in section 881(c)(3)(C) of the Internal Revenue Code and (y) executed originals of Internal Revenue Service Form W-8BEN, or

(5) executed originals of any other form prescribed by applicable Laws as a basis for claiming exemption from or a reduction in United States of America Federal withholding tax together with such supplementary documentation as may be prescribed by applicable Laws to permit the Borrower or the Agent to determine the withholding or deduction required to be made.

(iii) Each Lender shall promptly (A) notify the Borrower and the Agent of any change in circumstances which would modify or render invalid any claimed exemption or reduction, and (B) take such steps as shall not be materially disadvantageous to it, in the reasonable judgment of such Lender, and as may be reasonably necessary (including the re-designation of its Applicable Lending Office) to avoid any requirement of applicable Laws of any jurisdiction that the Borrower or the Agent make any withholding or deduction for taxes from amounts payable to such Lender.

(iv) if a payment made to a Lender under any Loan Document would be subject to U.S. federal withholding Tax imposed by FATCA if such Lender were to fail to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471 (b) or 1472(b) of the Internal Revenue Code, as applicable), such Lender shall deliver to each of the Borrower and the Agent at the time or times prescribed by law and at such time or times reasonably requested by the Borrower or the Agent such documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the Internal Revenue Code) and such additional documentation reasonably requested by the Borrower or the Agent as may be necessary for the Borrower and the Agent to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender's obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of this clause (iv), "FATCA" shall include any amendments made to FATCA after the date of this Agreement.

(f) Treatment of Certain Refunds. Unless required by applicable Laws, at no time shall the Agent have any obligation to file for or otherwise pursue on behalf of a Lender or an Issuing Bank, or have any obligation to pay to any Lender or any Issuing Bank, any refund of Taxes withheld or deducted from funds paid for the account of such Lender or such Issuing Bank, as the case may be. If the Agent, any Lender or any Issuing Bank determines, in its sole discretion, that it has received a refund of any Taxes or Other Taxes as to which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts

pursuant to this Section, it shall pay to the Borrower an amount equal to such refund (but only to the extent of indemnity payments made, or additional amounts paid, by the Borrower under this Section with respect to the Taxes or Other Taxes giving rise to such refund), net of all reasonable out-of-pocket expenses incurred by the Agent, such Lender or such Issuing Bank, as the case may be, and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund), provided that the Borrower, upon the request of the Agent, such Lender or such Issuing Bank, agrees to repay the amount paid over to the Borrower (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) to the Agent, such Lender or such Issuing Bank in the event the Agent, such Lender or such Issuing Bank is required to repay such refund to such Governmental Authority. This subsection shall not be construed to require the Agent, any Lender or any Issuing Bank to make available its tax returns (or any other information relating to its taxes that it deems confidential) to the Borrower or any other Person.

(g) Payments. Failure or delay on the part of the Agent, any Lender or any Issuing Bank to demand compensation pursuant to the foregoing provisions of this Section 2.14 shall not constitute a waiver of the Agent's, such Lender's or such Issuing Bank's right to demand such compensation, provided that the Borrower shall not be required to compensate the Agent, a Lender or an Issuing Bank pursuant to the foregoing provisions of this Section 2.14 for any Indemnified Taxes or Other Taxes imposed or asserted by the relevant Governmental Authority more than three months prior to the date that the Agent, such Lender or such Issuing Bank, as the case may be, claims compensation with respect thereto (except that, if a Change in Law giving rise to such Indemnified Taxes or Other Taxes is retroactive, then the three-month period referred to above shall be extended to include the period of retroactive effect thereof).

(h) Each of the Agent, any Issuing Bank or any Lender agrees to cooperate with any reasonable request made by the Borrower in respect of a claim of a refund in respect of Indemnified Taxes as to which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section 2.14 if (i) the Borrower has agreed in writing to pay all of the Agent's or such Issuing Bank's or such Lender's reasonable out-of-pocket costs and expenses relating to such claim, (ii) the Agent or such Issuing Bank or such Lender determines, in its good faith judgment, that it would not be disadvantaged, unduly burdened or prejudiced as a result of such claim and (iii) the Borrower furnishes, upon request of the Agent, or such Issuing Bank or such Lender, an opinion of tax counsel (such opinion, which can be reasoned, and such counsel to be reasonably acceptable to such Lender, or such Issuing Bank or the Agent) that the Borrower is likely to receive a refund or credit.

Section 2.15 Sharing of Payments, Etc. If any Lender shall obtain any payment (whether voluntary, involuntary, through the exercise of any right of set-off, or otherwise) on account of the Advances or L/C Advances owing to it (other than pursuant to Section 2.05(b), 2.11, 2.12, 2.14, 2.20 or 8.04(e) or any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Advances or participations in Letters of Credit to any assignee or participant, other than to the Borrower or any Subsidiary thereof if permitted hereby (as to which the provisions of this Section 2.15 shall apply) in excess of its Ratable Share of payments on account of the Advances obtained by all the Lenders, such Lender shall forthwith purchase from the other Lenders (for cash at face value) such participations in the Advances owing to them as shall be necessary to cause such purchasing Lender to share the

excess payment ratably with each of them; provided, however, that if all or any portion of such excess payment is thereafter recovered from such purchasing Lender, such purchase from each Lender shall be rescinded and such Lender shall repay to the purchasing Lender the purchase price to the extent of such recovery together with an amount equal to such Lender's Ratable Share (according to the proportion of (i) the amount of such Lender's required repayment to (ii) the total amount so recovered from the purchasing Lender) of any interest or other amount paid or payable by the purchasing Lender in respect of the total amount so recovered. The Borrower agrees that any Lender so purchasing a participation from another Lender pursuant to this Section 2.15 may, to the fullest extent permitted by Law, exercise all its rights of payment (including the right of set-off) with respect to such participation as fully as if such Lender were the direct creditor of the Borrower in the amount of such participation.

Section 2.16 Evidence of Debt.

(a) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Advance owing to such Lender from time to time, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder in respect of Advances. The Borrower agrees that upon notice by any Lender (including the Swingline Lender) to the Borrower (with a copy of such notice to the Agent) to the effect that a Note is required or appropriate in order for such Lender to evidence (whether for purposes of pledge, enforcement or otherwise) the Advances owing to, or to be made by, such Lender, the Borrower shall promptly execute and deliver to such Lender a Note payable to the order of such Lender in a principal amount up to the Revolving Credit Commitment of such Lender.

(b) The Register maintained by the Agent pursuant to Section 8.07(c) shall include a control account, and a subsidiary account for each Lender, in which accounts (taken together) shall be recorded (i) the date and amount of each Borrowing made hereunder, the Type of Advances comprising such Borrowing and, if appropriate, the Interest Period applicable thereto, (ii) the terms of each Assumption Agreement and each Assignment and Assumption delivered to and accepted by it, (iii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iv) the amount of any sum received by the Agent from the Borrower hereunder and each Lender's share thereof.

(c) Entries made in good faith by the Agent in the Register pursuant to subsection (b) above, and by each Lender in its account or accounts pursuant to subsection (a) above, shall be prima facie evidence of the amount of principal and interest due and payable or to become due and payable from the Borrower to, in the case of the Register, each Lender and, in the case of such account or accounts, such Lender, under this Agreement, absent manifest error; provided, however, that the failure of the Agent or such Lender to make an entry, or any finding that an entry is incorrect, in the Register or such account or accounts shall not limit or otherwise affect the obligations of the Borrower under this Agreement.

Section 2.17 Use of Proceeds. The proceeds of the Advances shall be available (and the Borrower agrees that it shall use such proceeds) solely to refinance Indebtedness of the Borrower from time to time and for other general corporate purposes of the Borrower, subject to such restrictions that are imposed in the 2007 Order and/or any Subsequent Order.

Section 2.18 Increase in the Aggregate Revolving Credit Commitments.

(a) The Borrower may, at any time prior to the Termination Date, by notice to the Agent, request that the aggregate amount of the Revolving Credit Commitments be increased by an amount of \$10,000,000 or an integral multiple thereof (each a “Commitment Increase”) to be effective as of a date that is at least 90 days prior to the Termination Date (the “Increase Date”) as specified in the related notice to the Agent; provided, however that (i) in no event shall the aggregate amount of the Revolving Credit Commitments at any time exceed \$700,000,000 or the aggregate amount of Commitment Increases exceed \$200,000,000 and (ii) on the date of any request by the Borrower for a Commitment Increase and on the related Increase Date, the applicable conditions set forth in this Section 2.18 shall be satisfied.

(b) The Agent shall promptly notify the Lenders of a request by the Borrower for a Commitment Increase, which notice shall include (i) the proposed amount of such requested Commitment Increase, (ii) the proposed Increase Date and (iii) the date by which Lenders wishing to participate in the Commitment Increase must commit to an increase in the amount of their respective Revolving Credit Commitments (the “Commitment Date”). Each Lender that is willing to participate in such requested Commitment Increase (each an “Increasing Lender”) shall, in its sole discretion, give written notice to the Agent on or prior to the Commitment Date of the amount by which it is willing to increase its Revolving Credit Commitment. If the Lenders notify the Agent that they are willing to increase the amount of their respective Revolving Credit Commitments by an aggregate amount that exceeds the amount of the requested Commitment Increase, the requested Commitment Increase shall be allocated among the Lenders willing to participate therein in such amounts as are agreed between the Borrower and the Agent. Each Increasing Lender shall be subject to such applicable consents, if any, as may be required under Section 8.07(b)(iii).

(c) Promptly following each Commitment Date, the Agent shall notify the Borrower as to the amount, if any, by which the Lenders are willing to participate in the requested Commitment Increase. If the aggregate amount by which the Lenders are willing to participate in any requested Commitment Increase on any such Commitment Date is less than the requested Commitment Increase, then the Borrower may extend offers to one or more Eligible Assignees to participate in any portion of the requested Commitment Increase that has not been committed to by the Lenders as of the applicable Commitment Date; provided, however, that the Revolving Credit Commitment of each such Eligible Assignee shall be in an amount of not less than \$10,000,000.

(d) On each Increase Date, each Eligible Assignee that accepts an offer to participate in a requested Commitment Increase in accordance with Section 2.18(b) (each such Eligible Assignee, an “Assuming Lender”) shall become a Lender party to this Agreement as of such Increase Date and the Revolving Credit Commitment of each Increasing Lender for such requested Commitment Increase shall be so increased by the amount by which the Increasing Lender agreed to increase its Revolving Credit Commitment (or by the amount allocated to such Lender pursuant to the last sentence of Section 2.18(b)) as of such Increase Date; provided, however, that the Agent shall have received on or before such Increase Date the following, each dated such date:

- (i) (A) certified copies of resolutions of the Board of Directors of the Borrower approving the Commitment Increase and the corresponding modifications to this Agreement, (B) an opinion of counsel for the Borrower (which may be in-house counsel), in form and substance reasonably acceptable to the Required Lenders and (C) a certificate from a duly authorized officer of the Borrower, stating that the conditions set forth in Section 3.02(a) and (b) are satisfied;
- (ii) an assumption agreement from each Assuming Lender, if any, in form and substance satisfactory to the Borrower and the Agent (each an “Assumption Agreement”), duly executed by such Assuming Lender, the Agent, the Borrower and each other Person required to consent thereto, as applicable under Section 8.07(b)(iii); and
- (iii) confirmation from each Increasing Lender of the increase in the amount of its Revolving Credit Commitment in a writing satisfactory to the Borrower and the Agent.

On each Increase Date, upon fulfillment of the conditions set forth in the immediately preceding sentence of this Section 2.18(d), the Agent shall notify the Lenders (including, without limitation, each Assuming Lender) and the Borrower, on or before 1:00 p.m., by telecopier, of the occurrence of the Commitment Increase to be effected on such Increase Date and shall record in the Register the relevant information with respect to each Increasing Lender and each Assuming Lender on such date. Each Increasing Lender and each Assuming Lender shall, before 2:00 p.m. on the Increase Date, make available for the account of its Applicable Lending Office to the Agent at the Agent’s Account, in same day funds, in the case of such Assuming Lender, an amount equal to such Assuming Lender’s Ratable Share of the Borrowings then outstanding (calculated based on its Revolving Credit Commitment as a percentage of the aggregate Revolving Credit Commitments outstanding after giving effect to the relevant Commitment Increase) and, in the case of such Increasing Lender, an amount equal to the excess of (i) such Increasing Lender’s Ratable Share of the Borrowings then outstanding (calculated based on its Revolving Credit Commitment as a percentage of the aggregate Revolving Credit Commitments outstanding after giving effect to the relevant Commitment Increase) over (ii) such Increasing Lender’s Ratable Share of the Borrowings then outstanding (calculated based on its Revolving Credit Commitment (without giving effect to the relevant Commitment Increase) as a percentage of the aggregate Revolving Credit Commitments (without giving effect to the relevant Commitment Increase)). After the Agent’s receipt of such funds from each such Increasing Lender and each such Assuming Lender, the Agent will promptly thereafter cause to be distributed like funds to the other Lenders for the account of their respective Applicable Lending Offices in an amount to each other Lender such that the aggregate amount of the outstanding Advances owing to each Lender after giving effect to such distribution equals such Lender’s Ratable Share of the Borrowings then outstanding (calculated based on its Revolving Credit Commitment as a percentage of the aggregate Revolving Credit Commitments outstanding after giving effect to the relevant Commitment Increase).

Section 2.19 Affected Lenders. Notwithstanding any provision of this Agreement to the contrary, if any Lender becomes an Affected Lender, then the following provisions shall apply for so long as such Lender is an Affected Lender:

- (a) fees shall cease to accrue on the Unused Commitment of such Affected Lender pursuant to Section 2.04(a);
- (b) the Revolving Credit Commitment and Advances of such Affected Lender shall not be included in determining whether the Required Lenders have taken or may take any action hereunder (including any consent to any amendment or waiver pursuant to Section 8.01), other than any waiver, amendment or modification requiring the consent of all Lenders or of each Lender affected;
- (c) if (x) there shall be any Available Amount under any outstanding Letter of Credit or (y) any Swingline Exposure shall exist during any time a Lender is an Affected Lender, then:
- (i) so long as no Default or Event of Default has occurred and is continuing, all or any part of the Available Amount of all such Letters of Credit and Swingline Exposure shall be reallocated among the non-Affected Lenders in accordance with their respective Ratable Shares (disregarding any Affected Lender's Revolving Credit Commitment) but only to the extent that with respect to each non-Affected Lender the sum of (A) the aggregate principal amount of all Revolving Advances made by such non-Affected Lender (in its capacity as a Lender) and outstanding at such time plus (B) such non-Affected Lender's Ratable Share (after giving effect to the reallocation contemplated in this Section 2.19(c)(i)) of the outstanding L/C Obligations plus (C) such non-Affected Lender's Ratable Share (after giving effect to the reallocation contemplated in this Section 2.19(c)(i)) of the outstanding Swingline Exposure, does not exceed such non-Affected Lender's Revolving Credit Commitment;
- (ii) if the reallocation described in clause (i) above cannot, or can only partially, be effected, the Borrower shall within one (1) Business Day following notice by the Agent (x) first, prepay such unallocable Swingline Exposure and (y) second, Cash Collateralize for the benefit of the applicable Issuing Bank only the Borrower's obligations corresponding to such Affected Lender's Ratable Share of the Available Amount of outstanding Letters of Credit (after giving effect to any partial reallocation pursuant to clause (i) above) (the "Affected Lender Share") in accordance with the procedures set forth in Section 2.03(h) for so long as such there shall be any Available Amount of outstanding Letters of Credit;
- (iii) if the Ratable Share of the Available Amount of outstanding Letters of Credit and the Swingline Exposure of the non-Affected Lenders is reallocated pursuant to this Section 2.19(c), then the fees payable to the Lenders pursuant to Section 2.04(a) and Section 2.04(b) shall be adjusted in accordance with such non-Affected Lenders' Ratable Shares;
- (iv) if any Affected Lender Share is not reallocated pursuant to clause (i) above and if the Borrower fails to Cash Collateralize any portion of such Affected Lender Share pursuant to clause (ii) above, then, without prejudice to any rights or remedies of any Issuing Bank or any Lender hereunder, the fee payable under Section 2.04(b) with respect to such Affected Lender Share shall be payable to the Issuing Bank until such Affected Lender Share is reallocated; and

(v) if the Borrower Cash Collateralizes any portion of any Affected Lender Share pursuant to clause (ii) above, the Borrower shall not be required to pay any fees to such Affected Lender pursuant to Section 2.04(b)(i) or the applicable Issuing Bank pursuant to Section 2.04(b)(ii) (solely with respect to any fronting fee) with respect to such Affected Lender's Affected Lender Share during the period such Affected Lender's Affected Lender Share is Cash Collateralized;

(d) to the extent the Agent receives any payments or other amounts for the account of an Affected Lender under this Agreement, such Affected Lender shall be deemed to have requested that the Agent use such payment or other amount to fulfill such Affected Lender's previously unsatisfied obligations to fund a Revolving Advance under Section 2.03(c) or Section 2.03A(c) or L/C Advance or any other unfunded payment obligation of such Affected Lender under this Agreement; and

(e) for the avoidance of doubt, the Borrower, each Issuing Bank, the Swingline Lender, the Agent and each other Lender shall retain and reserve its other rights and remedies respecting each Affected Lender.

In the event that the Agent, the Borrower, the Swingline Lender and the Issuing Banks each agrees that an Affected Lender has adequately remedied all matters that caused such Lender to be an Affected Lender, then the Ratable Shares of the Lenders shall be readjusted to reflect the inclusion of such Lender's Revolving Credit Commitment and on such date such Lender shall purchase at par such of the Revolving Advances of the other Lenders as the Agent shall determine may be necessary in order for such Lender to hold such Revolving Advances in accordance with its Ratable Share. In addition, at such time as the Affected Lender is replaced by another Lender pursuant to Section 2.20, the Ratable Shares of the Lenders will be readjusted to reflect the inclusion of the replacing Lender's Commitment in accordance with Section 2.20. In either such case, this Section 2.19 will no longer apply.

Section 2.20 Replacement of Lenders. If any Lender requests compensation under Section 2.11, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.14, or if any Lender is an Affected Lender, then the Borrower may, at its sole expense and effort, upon notice to such Lender and the Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in, and consents required by, Section 8.07), all of its interests, rights and obligations under this Agreement and the related Loan Documents to one or more assignees that shall assume such obligations (which any such assignee may be another Lender, if a Lender accepts such assignment), provided that:

(a) the Borrower shall have paid to the Agent the assignment fee specified in Section 8.07(b);

(b) such Lender shall have received payment of an amount equal to the outstanding principal of its Revolving Advances and L/C Advances, accrued interest thereon, accrued fees and all other amounts payable to it hereunder and under the other Loan Documents (including any amounts under Section 8.04(e)) from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts);

- (c) in the case of any such assignment resulting from a claim for compensation under Section 2.11 or payments required to be made pursuant to Section 2.14, such assignment will result in a reduction in such compensation or payments thereafter; and
- (d) such assignment does not conflict with applicable Laws.

A Lender shall not be required to make any such assignment or delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower to require such assignment and delegation cease to apply.

ARTICLE III

CONDITIONS PRECEDENT

Section 3.01 Conditions Precedent to Effectiveness. This Agreement shall become effective on and as of the first date (the “Effective Date”) on which the following conditions precedent have been satisfied:

(a) The Lenders shall have been given such access to the management, records, books of account, contracts and properties of the Borrower and its Subsidiaries as they shall have requested.

(b) The Borrower shall have paid all accrued fees and agreed expenses of the Agent, the Arrangers and the Lenders and the reasonable accrued fees and expenses of counsel to the Agent that have been invoiced at least one Business Day prior to the Effective Date.

(c) On the Effective Date, the following statements shall be true and the Agent shall have received a certificate signed by a duly authorized officer of the Borrower, dated the Effective Date, stating that:

- (i) The representations and warranties contained in Section 4.01 are true and correct on and as of the Effective Date, and
- (ii) No event has occurred and is continuing that constitutes a Default.

(d) The Agent shall have received on or before the Effective Date the following, each dated such day, in form and substance satisfactory to the Agent and the Lenders:

(i) Receipt by the Agent of executed counterparts of this Agreement properly executed by a duly authorized officer of the Borrower and by each Lender.

(ii) The Notes, payable to the order of the Lenders to the extent requested by any Lender pursuant to Section 2.16.

(iii) The articles of incorporation of the Borrower certified to be true and complete as of a recent date by the appropriate governmental authority of the state or other jurisdiction of its incorporation and certified by a secretary, assistant secretary or associate secretary of the Borrower to be true and correct as of the Effective Date.

(iv) The bylaws of the Borrower certified by a secretary, assistant secretary or associate secretary of the Borrower to be true and correct as of the Effective Date.

(v) Certified copies of the resolutions of the Board of Directors of the Borrower approving this Agreement and the Notes, and of all documents evidencing other necessary corporate action and governmental approvals, if any, with respect to this Agreement and the Notes.

(vi) A certificate of the secretary, assistant secretary or associate secretary of the Borrower certifying the names and true signatures of the officers of the Borrower authorized to sign this Agreement and the Notes and the other documents to be delivered hereunder.

(vii) A certificate as of a recent date from the Borrower's state of incorporation evidencing that the Borrower is in good standing in its state of organization or formation.

(viii) A favorable opinion of counsel for the Borrower, in form and substance reasonably acceptable to the Lenders.

(ix) A favorable opinion of Sidley Austin LLP, counsel for the Agent, in form and substance reasonably acceptable to the Lenders.

(e) Concurrently with or before the Effective Date, (i) all principal, interest and other amounts outstanding under the Borrower's existing Three-Year Credit Agreement dated as of February 12, 2010 (the "Existing Senior Credit Agreement") shall be repaid and satisfied in full, (ii) all commitments to extend credit under the Existing Senior Credit Agreement shall be terminated and (iii) any letters of credit outstanding under the Existing Senior Credit Agreement shall have been terminated, canceled, transferred or replaced; and the Agent shall have received evidence of the foregoing satisfactory to it, including an escrow agreement or payoff letter executed by the lenders or the agent under the Existing Senior Credit Agreement if applicable.

(f) The Agent shall have received evidence satisfactory to it of the refinancing of that certain \$200,000,000 Three-Year Credit Agreement dated as of February 12, 2010 by and among Pinnacle West Capital Corporation, as borrower, the lenders from time to time, parties thereto and Bank of America, N.A., as administrative agent, on terms and conditions reasonably acceptable to the Agent.

Section 3.02 Conditions Precedent to Each Credit Extension and Commitment Increase. The obligation of each Lender to make an Advance (other than an L/C Advance or an Advance made pursuant to Section 2.03(c) or Section 2.03A(c)) on the occasion of each Borrowing, the obligation of each Issuing Bank to issue a Letter of Credit, and each Commitment Increase shall be subject to the conditions precedent that the Effective Date shall have occurred and on the date of such Borrowing or such issuance (as the case may be), or the applicable Increase Date, the following statements shall be true (and each of the giving of the applicable Notice of Borrowing or request for issuance and the acceptance by the Borrower of the proceeds of such Borrowing shall constitute a representation and warranty by the Borrower that on the date of such Borrowing or date of such issuance such statements are true):(a) the representations and warranties contained in Section 4.01 (other than Section 4.01(k), and in the case of a Borrowing or issuance

of a Letter of Credit, Section 4.01(e)(ii) and 4.01(f)(ii)) are correct on and as of such date, before and after giving effect to such Borrowing or issuance of a Letter of Credit, or such Commitment Increase and to the application of the proceeds therefrom, as though made on and as of such date;

(b) no event has occurred and is continuing, or would result from such Borrowing or issuance of a Letter of Credit, or such Commitment Increase or from the application of the proceeds therefrom, that constitutes a Default;

(c) all required regulatory authorizations including the 2007 Order and/or any Subsequent Order in respect of such Credit Extension have been obtained and are in full force and effect and, before and after giving effect to such Borrowing or such issuance of a Letter of Credit and to the application of the proceeds therefrom, the Borrower is in compliance with the provisions of the applicable order; and

(d) before and after giving effect to such Credit Extension and to the application of the proceeds therefrom, as though made on and as of such date, the Indebtedness of the Borrower does not exceed that permitted by (i) applicable resolutions of the Board of Directors of the Borrower, (ii) applicable Arizona Law, or (iii) the 2007 Order or any Subsequent Order, whichever is in force and effect at such time.

Each request for Credit Extension (which shall not include a Conversion or a continuation of Eurodollar Rate Advances) submitted by the Borrower shall be deemed to be a representation and warranty that the conditions specified in Sections 3.02(a) through (d) have been satisfied on and as of the date of the applicable Credit Extension.

Section 3.03 Determinations Under Section 3.01. For purposes of determining compliance with the conditions specified in Section 3.01 and the satisfaction of each Lender with respect to letters delivered to it from the Borrower as set forth in Sections 4.01(a), 4.01(e) and 4.01(f), each Lender that has signed this Agreement shall be deemed to have consented to, approved or accepted or to be satisfied with each document or other matter required thereunder to be consented to or approved by or acceptable or satisfactory to the Lenders unless an officer of the Agent responsible for the transactions contemplated by this Agreement shall have received notice from such Lender prior to the date that the Borrower designates as the proposed Effective Date, specifying its objection thereto. The Agent shall promptly notify the Lenders and the Borrower of the occurrence of the Effective Date.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

Section 4.01 Representations and Warranties of the Borrower. The Borrower represents and warrants as follows:

(a) Each of the Borrower and each Material Subsidiary: (i) is a corporation or other entity duly organized and validly existing under the Laws of the jurisdiction of its incorporation or organization; (ii) has all requisite corporate or if the Material Subsidiary is not a corporation, other comparable power necessary to own its assets and carry on its business as presently conducted; (iii) has all governmental licenses, authorizations, consents and approvals necessary

to own its assets and carry on its business as presently conducted, if the failure to have any such license, authorization, consent or approval is reasonably likely to have a Material Adverse Effect and except as disclosed to the Agent in the SEC Reports or by means of a letter from the Borrower to the Lenders (such letter, if any, to be delivered to the Agent for prompt distribution to the Lenders) delivered prior to the execution and delivery of this Agreement (which, in each case, shall be satisfactory to each Lender in its sole discretion) and except that (A) the Borrower from time to time may make minor extensions of its lines, plants, services or systems prior to the time a related franchise, certificate of convenience and necessity, license or permit is procured, (B) from time to time communities served by the Borrower may become incorporated and considerable time may elapse before such a franchise is procured, (C) certain such franchises may have expired prior to the renegotiation thereof, (D) certain minor defects and exceptions may exist which, individually and in the aggregate, are not material and (E) certain franchises, certificates, licenses and permits may not be specific as to their geographical scope); and (iv) is qualified to do business in all jurisdictions in which the nature of the business conducted by it makes such qualification necessary and where failure so to qualify is reasonably likely to have a Material Adverse Effect.

(b) The execution, delivery and performance by the Borrower of this Agreement and the other Loan Documents, and the consummation of the transactions contemplated hereby and thereby, are within the Borrower's corporate powers, have been duly authorized by all necessary corporate action, and do not or did not (i) contravene the Borrower's articles of incorporation or by-laws, (ii) contravene any Law (including without limitation the 2007 Order and/or any Subsequent Order), decree, writ, injunction or determination of any Governmental Authority, in each case applicable to or binding upon the Borrower or any of its properties, (iii) contravene any contractual restriction binding on or affecting the Borrower or (iv) cause the creation or imposition of any Lien upon the assets of the Borrower or any Material Subsidiary, except for Liens created under this Agreement and except where such contravention or creation or imposition of such Lien is not reasonably likely to have a Material Adverse Effect.

(c) No authorization or approval or other action by, and no notice to or filing with, any Governmental Authority is required for the due execution, delivery and performance by the Borrower of this Agreement or the Notes to be delivered by it, except for the 2007 Order or any Subsequent Order, which has been duly obtained and is in full force and effect, and any notices or compliance filings required therein.

(d) This Agreement has been, and each of the other Loan Documents upon execution and delivery will have been, duly executed and delivered by the Borrower. This Agreement is, and each of the other Loan Documents upon execution and delivery will be, the legal, valid and binding obligation of the Borrower enforceable against the Borrower in accordance with their respective terms, subject, however, to the application by a court of general principles of equity and to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar Laws affecting creditors' rights generally.

(e) (i) The Consolidated balance sheet of the Borrower as of December 31, 2010, and the related Consolidated statements of income and cash flows of the Borrower for the fiscal year then ended, accompanied by an opinion thereon of Deloitte & Touche LLP, independent registered public accountants, and the Consolidated balance sheet of the Borrower as of

September 30, 2011, and the related Consolidated statements of income and cash flows of the Borrower for the nine months then ended, duly certified by the chief financial officer of the Borrower, copies of which have been furnished to the Agent, fairly present in all material respects, subject, in the case of said balance sheet as of September 30, 2011, and said statements of income and cash flows for the nine months then ended, to year-end audit adjustments, the Consolidated financial condition of the Borrower as at such dates and the Consolidated results of the operations of the Borrower for the periods ended on such dates, all in accordance with GAAP (except as disclosed therein). (ii) Except as disclosed to the Agent in the SEC Reports or by means of a letter from the Borrower to the Lenders (such letter, if any, to be delivered to the Agent for prompt distribution to the Lenders) delivered prior to the execution and delivery of this Agreement (which, in each case, shall be satisfactory to each Lender in its sole discretion), since December 31, 2010, there has been no Material Adverse Effect.

(f) There is no pending or, to the knowledge of an Authorized Officer of the Borrower, threatened action, suit, investigation, litigation or proceeding, including, without limitation, any Environmental Action, affecting the Borrower or any of its Subsidiaries before any court, governmental agency or arbitrator that (i) purports to affect the legality, validity or enforceability of this Agreement or any other Loan Document or the consummation of the transactions contemplated hereby or (ii) would be reasonably likely to have a Material Adverse Effect (except as disclosed to the Agent in the SEC Reports or by means of a letter from the Borrower to the Lenders (such letter, if any, to be delivered to the Agent for prompt distribution to the Lenders) delivered prior to the execution and delivery of this Agreement (which, in each case, shall be satisfactory to each Lender in its sole discretion)) and there has been no adverse change in the status, or financial effect on the Borrower or any of its Subsidiaries, of such disclosed litigation that would be reasonably likely to have a Material Adverse Effect.

(g) No proceeds of any Advance will be used to acquire any equity security not issued by the Borrower of a class that is registered pursuant to Section 12 of the Securities Exchange Act of 1934.

(h) The Borrower is not engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation U issued by the Board of Governors of the Federal Reserve System), and no proceeds of any Advance will be used to purchase or carry any margin stock or to extend credit to others for the purpose of purchasing or carrying any margin stock, in any case in violation of Regulation U. After application of the proceeds of any Advance, not more than 25% of the value of the assets subject to any restriction under this Agreement on the right to sell, pledge, transfer, or otherwise dispose of such assets is represented by margin stock.

(i) The Borrower and its Subsidiaries have filed all United States of America Federal income tax returns and all other material tax returns which are required to be filed by them and have paid all taxes due pursuant to such returns or pursuant to any assessment received by the Borrower or any of its Subsidiaries, except to the extent that (i) such taxes are being contested in good faith and by appropriate proceedings and that appropriate reserves for the payment thereof have been maintained by the Borrower and its Subsidiaries in accordance with GAAP or (ii) the failure to make such filings or such payments is not reasonably likely to have a Material Adverse Effect. The charges, accruals and reserves on the books of the Borrower and its Material

Subsidiaries as set forth in the most recent financial statements of the Borrower delivered to the Agent pursuant to Section 4.01(e) or Section 5.01(h)(i) or (ii) hereof in respect of taxes and other governmental charges are, in the opinion of the Borrower, adequate.

(j) Set forth on Schedule 4.01(j) hereto (as such schedule may be modified from time to time by the Borrower by written notice to the Agent) is a complete and accurate list of all the Subsidiaries of the Borrower and, as of the Effective Date, no such Subsidiary of the Borrower is a Material Subsidiary.

(k) Set forth on Schedule 4.01(k) hereto is a complete and accurate list identifying any Indebtedness of the Borrower outstanding in a principal amount equal to or exceeding \$5,000,000 and which is not described in the financial statements referred to in Section 4.01(e).

(l) The Borrower is not an “investment company”, or a company “controlled” by an “investment company”, within the meaning of the Investment Company Act of 1940, as amended.

(m) No report, certificate or other written information furnished by the Borrower or any of its Subsidiaries to any Agent or any Lender in connection with the transactions contemplated hereby and the negotiation of this Agreement or delivered hereunder or any other Loan Document (as modified or supplemented by other information so furnished) at the time so furnished, when taken together as a whole with all such written information so furnished, contains an untrue statement of a material fact or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except as would not reasonably be expected to result in a Material Adverse Effect; provided that with respect to any projected financial information, forecasts, estimates or forward-looking information, the Borrower represents only that such information and materials have been prepared in good faith on the basis of assumptions believed to be reasonable at the time of preparation of such forecasts, and no representation or warranty is made as to the actual attainability of any such projections, forecasts, estimates or forward-looking information.

ARTICLE V

COVENANTS OF THE BORROWER

Section 5.01 Affirmative Covenants. So long as any Advance shall remain unpaid, any Letter of Credit shall remain outstanding or any Lender shall have any Commitment hereunder, the Borrower shall:

(a) Compliance with Laws, Etc. (i) Comply, and cause each of its Material Subsidiaries to comply, in all material respects, with all applicable Laws of Governmental Authorities, such compliance to include, without limitation, compliance with ERISA and Environmental Laws, unless the failure to so comply is not reasonably likely to have a Material Adverse Effect and (ii) comply at all times with the 2007 Order, any Subsequent Order, Arizona Revised Statutes, Section 40-302 and all similar or comparable Laws, orders, decrees, writs, injunctions or determinations of any Governmental Authority relating to the incurrence or

maintenance of Indebtedness by the Borrower, unless the failure to so comply is not reasonably likely to have a Material Adverse Effect.

(b) Payment of Taxes, Etc. Pay and discharge, and cause each of its Subsidiaries to pay and discharge, before the same shall become delinquent, all taxes, assessments and governmental charges or levies imposed upon it or upon its property; provided, however, that neither the Borrower nor any of its Subsidiaries shall be required to pay or discharge any such tax, assessment, charge or levy (i) that is being contested in good faith and by proper proceedings and as to which appropriate reserves are being maintained in accordance with GAAP or (ii) if the failure to pay such tax, assessment, charge or levy is not reasonably likely to have a Material Adverse Effect.

(c) Maintenance of Insurance. Maintain, and cause each of its Material Subsidiaries to maintain, insurance with responsible and reputable insurance companies or associations in such amounts and covering such risks as is usually carried by companies engaged in similar businesses and owning similar properties in the same general areas in which the Borrower or such Subsidiary operates; provided, however, that the Borrower and its Subsidiaries may self-insure to the same extent as other companies engaged in similar businesses and owning similar properties in the same general areas in which the Borrower or such Subsidiary operates and to the extent consistent with prudent business practice.

(d) Preservation of Corporate Existence, Etc. Preserve and maintain, and cause each of its Material Subsidiaries to preserve and maintain, its corporate existence, rights (charter and statutory) and franchises (other than "franchises" as described in Arizona Revised Statutes, Section 40-283 or any successor provision) reasonably necessary in the normal conduct of its business, if the failure to maintain such rights or privileges is reasonably likely to have a Material Adverse Effect, and use its commercially reasonable efforts to preserve and maintain such franchises reasonably necessary in the normal conduct of its business, except that (i) the Borrower from time to time may make minor extensions of its lines, plants, services or systems prior to the time a related franchise, certificate of convenience and necessity, license or permit is procured, (ii) from time to time communities served by the Borrower may become incorporated and considerable time may elapse before such a franchise is procured, (iii) certain such franchises may have expired prior to the renegotiation thereof, (iv) certain minor defects and exceptions may exist which, individually and in the aggregate, are not material and (v) certain franchises, certificates, licenses and permits may not be specific as to their geographical scope; provided, however, that the Borrower and its Subsidiaries may consummate any merger or consolidation permitted under Section 5.02(b).

(e) Visitation Rights. At any reasonable time and from time to time, permit and cause each of its Subsidiaries to permit the Agent or any of the Lenders or any agents or representatives thereof, to examine and make copies of and abstracts from the records and books of account of, and visit the properties of, the Borrower and any of its Subsidiaries, and to discuss the affairs, finances and accounts of the Borrower and any of its Subsidiaries with any of their officers or directors; provided, however, that the Borrower and its Subsidiaries reserve the right to restrict access to any of its properties in accordance with reasonably adopted procedures relating to safety and security; and provided further that the costs and expenses incurred by such Lender or agents or representatives in connection with any such examinations, copies, abstracts,

visits or discussions shall be, upon the occurrence and during the continuation of a Default, for the account of the Borrower and, in all other circumstances, for the account of such Lender.

(f) Keeping of Books. Keep, and cause each of its Material Subsidiaries to keep, proper books of record and account, in which full and correct entries shall be made of all financial transactions and the assets and business of the Borrower and each such Subsidiary in a manner that permits the preparation of financial statements in accordance with GAAP.

(g) Maintenance of Properties, Etc. Keep, and cause each Material Subsidiary to keep, all property useful and necessary in its business in good working order and condition (ordinary wear and tear excepted), if the failure to do so is reasonably likely to have a Material Adverse Effect, it being understood that this covenant relates only to the working order and condition of such properties and shall not be construed as a covenant not to dispose of properties.

(h) Reporting Requirements. Furnish to the Agent:

(i) as soon as available and in any event within 50 days after the end of each of the first three fiscal quarters of each fiscal year of the Borrower, (A) for each such fiscal quarter of the Borrower, Consolidated statements of income and cash flows of the Borrower for such fiscal quarter setting forth in each case in comparative form the corresponding figures for the corresponding fiscal quarter in the preceding fiscal year and (B) for the period commencing at the end of the previous fiscal year and ending with the end of each fiscal quarter, Consolidated statements of income and cash flows of the Borrower for such period setting forth in each case in comparative form the corresponding figures for the corresponding period in the preceding fiscal year; provided that so long as the Borrower remains subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, the Borrower may provide, in satisfaction of the requirements of this first sentence of this Section 5.01(h)(i), its report on Form 10-Q for such fiscal quarter. Each set of financial statements provided under this Section 5.01(h)(i) shall be accompanied by a certificate of an Authorized Officer, which certificate shall state that said Consolidated financial statements fairly present in all material respects the Consolidated financial condition and results of operations of the Borrower in accordance with GAAP (except as disclosed therein) as at the end of, and for, such period (subject to normal year-end audit adjustments) and shall set forth reasonably detailed calculations demonstrating compliance with Section 5.03;

(ii) as soon as available and in any event within 90 days after the end of each fiscal year of the Borrower, audited Consolidated statements of income and cash flows of the Borrower for such year and the related Consolidated balance sheet of the Borrower as at the end of such year, setting forth in each case in comparative form the corresponding figures for the preceding fiscal year; provided that, so long as the Borrower remains subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, the Borrower may provide, in satisfaction of the requirements of this first sentence of this Section 5.01(h)(ii), its report on Form 10-K for such fiscal year. Each set of financial statements provided pursuant to this Section 5.01(h)(ii) shall be accompanied by (A) an opinion thereon of independent certified public accountants of recognized national standing, which opinion shall state that said Consolidated financial statements

fairly present in all material respects the Consolidated financial condition and results of operations of the Borrower as at the end of, and for, such fiscal year, in accordance with GAAP (except as disclosed therein) and (B) a certificate of an Authorized Officer, which certificate shall set forth reasonably detailed calculations demonstrating compliance with Section 5.03;

(iii) as soon as possible and in any event within five days after any Authorized Officer of the Borrower knows of the occurrence of each Default continuing on the date of such statement, a statement of an Authorized Officer of the Borrower setting forth details of such Default and the action that the Borrower has taken and proposes to take with respect thereto;

(iv) promptly after the sending or filing thereof, copies of all reports and registration statements (other than exhibits thereto and registration statements on Form S-8 or its equivalent) that the Borrower or any Subsidiary files with the Securities and Exchange Commission;

(v) promptly after an Authorized Officer becomes aware of the commencement thereof, notice of all actions and proceedings before any court, governmental agency or arbitrator affecting the Borrower or any of its Subsidiaries of the type described in Section 4.01(f), except with respect to any matter referred to in Section 4.01(f)(ii), to the extent disclosed in a report on Form 8-K, Form 10-Q or Form 10-K of the Borrower;

(vi) promptly after (A) any amendment or modification of the 2007 Order, (B) any amendment or modification of Arizona Revised Statutes, Section 40-302, or the promulgation, amendment or modification of any successor or similar statute, or (C) the promulgation, amendment or modification of any Subsequent Order by the Arizona Corporation Commission or any successor thereto, in any case if such amendment, modification or promulgation could affect the validity or enforceability of the indebtedness of the Borrower pursuant to this Agreement, a copy thereof;

(vii) promptly after an Authorized Officer becomes aware of the occurrence thereof, notice of any change by Moody's or S&P of their respective Public Debt Rating or of the cessation (or subsequent commencement) by Moody's or S&P of publication of their respective Public Debt Rating;

(viii) promptly after the occurrence of any ERISA Event, together with (x) a written statement of an Authorized Officer of the Borrower specifying the details of such ERISA Event and the action that the Borrower has taken and proposes to take with respect thereto, (y) a copy of any notice with respect to such ERISA Event that may be required to be filed with the PBGC and (z) a copy of any notice delivered by the PBGC to the Borrower or an ERISA Affiliate with respect to such ERISA Event; and

(ix) such other information respecting the Borrower or any of its Subsidiaries as any Lender through the Agent may from time to time reasonably request.

Information required to be delivered pursuant to Sections 5.01(h)(i), (ii) and (iv) above shall be deemed to have been delivered on the date on which the Borrower provides notice to the Agent that such information has been posted on the Borrower's parent's website on the Internet at www.pinnaclewest.com, at sec.gov/edaux/searches.htm or at another website identified in such notice and accessible by the Lenders without charge; provided that (i) such notice may be included in a certificate delivered pursuant to Section 5.01(h)(i) or (ii) and (ii) the Borrower shall deliver paper copies of the information referred to in Section 5.01(h)(i), (ii), and (iv) to any Lender which requests such delivery.

- (i) Change in Nature of Business. Conduct the same general type of business conducted on the date hereof.

Section 5.02 Negative Covenants. So long as any Advance shall remain unpaid, any Letter of Credit shall remain outstanding or any Lender shall have any Commitment hereunder, the Borrower shall not:

(a) Liens, Etc. Create or suffer to exist, or permit any of its Material Subsidiaries to create or suffer to exist, any Lien on or with respect to any of its properties, whether now owned or hereafter acquired, or assign, or permit any of its Material Subsidiaries to assign, any right to receive income, other than:

- (i) Permitted Liens;

(ii) Liens upon or in, or conditional sales agreements or other title retention agreements with respect to, any real or personal property acquired or held by the Borrower or any Subsidiary in the ordinary course of business to secure the purchase price of such property, or the construction of or improvements to such property, or to secure Indebtedness incurred solely for the purpose of financing the acquisition, construction or improvement of such property to be subject to such Liens (including any Liens placed on such property within 180 days after the latest of the acquisition, completion of construction or improvement of such property), or Liens existing on such property at the time of its acquisition (other than any such Liens created in contemplation of such acquisition that were not incurred to finance the acquisition of such property) or extensions, renewals, refundings or replacements of any of the foregoing for the same or a lesser amount, provided, however, that no such Lien shall extend to or cover any properties of any character other than the property being acquired, constructed or improved and proceeds, improvements and replacements thereof and no such extension, renewal, refunding or replacement shall extend to or cover any properties not theretofore subject to the Lien being extended, renewed, refunded or replaced;

(iii) assignments of the right to receive income, and Liens on property, of a Person existing at the time such Person is merged into or consolidated with the Borrower or any Subsidiary of the Borrower or becomes a Subsidiary of the Borrower;

(iv) Liens with respect to the leases and related documents entered into by the Borrower in connection with PVNGS Unit 2 and Liens with respect to the leased interests and related rights if the Borrower reacquires ownership in any of those interests or

acquires any of the equity or owner participants' interests in the trusts that hold title to such leased interests, whether or not it also directly assumes the Sale Leaseback Obligation Bonds, and Liens on the Borrower's interests in the trusts that hold title to such leased interests and related rights in the event that the Borrower acquires any of the equity or owner participants' interests in such trusts pursuant to a "special transfer" under the Borrower's existing PVNGS Unit 2 sale and leaseback transactions and any Liens resulting or deemed to have resulted if the PVNGS Unit 2 leases are required to be accounted for as capital leases in accordance with GAAP;

(v) other assignments of the right to receive income and Liens securing Indebtedness or claims in an aggregate principal amount not to exceed 20% of the Borrower's total assets as stated on the most recent balance sheet of the Borrower provided pursuant to Section 4.01(e)(i) or 5.01(h)(ii) hereof at any time outstanding; and

(vi) the replacement, extension or renewal of any Lien permitted by clause (iii) or (iv) above upon or in the same property theretofore subject thereto or the replacement, extension or renewal (without increase in the amount or change in any direct or contingent obligor) of the Indebtedness secured thereby.

(b) Mergers, Etc. Merge or consolidate with or into any Person, or permit any of its Material Subsidiaries to do so, except that (i) any Material Subsidiary of the Borrower may merge or consolidate with or into any other Material Subsidiary of the Borrower, (ii) any Subsidiary of the Borrower may merge into the Borrower or any Material Subsidiary of the Borrower and (iii) the Borrower or any Material Subsidiary may merge with any other Person so long as the Borrower or such Material Subsidiary is the surviving corporation, provided, in each case, that no Default shall have occurred and be continuing at the time of such proposed transaction or would result therefrom.

(c) Sales, Etc. of Assets. Sell, lease, transfer or otherwise dispose of, or permit any of its Material Subsidiaries to sell, lease, transfer or otherwise dispose of, any assets, or grant any option or other right to purchase, lease or otherwise acquire any assets to any Person other than the Borrower or any Subsidiary of the Borrower, except (i) dispositions in the ordinary course of business, including, without limitation, sales or other dispositions of electricity and related and ancillary services, other commodities, emissions credits and similar mechanisms for reducing pollution, and damaged, obsolete, worn out or surplus property no longer required or useful in the business or operations of the Borrower or any of its Subsidiaries, (ii) sale or other disposition of patents, copyrights, trademarks or other intellectual property that are, in the Borrower's reasonable judgment, no longer economically practicable to maintain or necessary in the conduct of the business of the Borrower or its Subsidiaries and any license or sublicense of intellectual property that does not interfere with the business of the Borrower or any Material Subsidiary, (iii) in a transaction authorized by subsection (b) of this Section, (iv) individual dispositions occurring in the ordinary course of business which involve assets with a book value not exceeding \$5,000,000, (v) sales, leases, transfers or dispositions of assets during the term of this Agreement having an aggregate book value not to exceed 30% of the total of all assets properly appearing on the most recent balance sheet of the Borrower provided pursuant to Section 4.01(e)(i) or 5.01(h)(ii) hereof, (vi) at any time following the consummation of the Four Corners Acquisition and the closure by the Borrower of Units 1, 2 and 3 of the Four Corners Power Plant

near Farmington, New Mexico, as described in the SEC Reports, disposition of all or any portion of the Borrower's interests in such Units 1, 2 and 3, and (vii) any Lien permitted under Section 5.02(a).

Section 5.03 Financial Covenant. So long as any Advance shall remain unpaid, any Letter of Credit shall remain outstanding or any Lender shall have any Commitment hereunder, the Borrower will maintain a ratio of (a) Consolidated Indebtedness to (b) the sum of Consolidated Indebtedness plus Consolidated Net Worth of not greater than 0.65 to 1.0.

ARTICLE VI

EVENTS OF DEFAULT

Section 6.01 Events of Default. If any of the following events ("Events of Default") shall occur and be continuing:

(a) The Borrower shall fail to pay when due (i) any principal of any Advance, (ii) any drawing under any Letter of Credit, or (iii) any interest on any Advance or any other fees or other amounts payable under this Agreement or any other Loan Documents, and (in the case of this clause (iii) only), such failure shall continue for a period of three Business Days; or

(b) Any representation or warranty made by the Borrower herein or by the Borrower (or any of its officers) in any certificate or other document delivered in connection with this Agreement or any other Loan Document shall prove to have been incorrect in any material respect when made or deemed made or furnished; or

(c) (i) The Borrower shall fail to perform or observe any term, covenant or agreement contained in Section 5.01(d) (as to the corporate existence of the Borrower), (h)(iii) or (h)(vi), 5.02 or 5.03, or (ii) the Borrower shall fail to perform or observe any other term, covenant or agreement contained in Section 5.01(e) if such failure shall remain unremedied for 15 days after written notice thereof shall have been given to the Borrower by the Agent or any Lender or (iii) the Borrower shall fail to perform or observe any other term, covenant or agreement contained in this Agreement or any other Loan Document on its part to be performed or observed if such failure shall remain unremedied for 30 days after written notice thereof shall have been given to the Borrower by the Agent or any Lender; or

(d) (i) The Borrower or any of its Material Subsidiaries shall fail to pay (A) any principal of or premium or interest on any Indebtedness that is outstanding in a principal amount of at least \$35,000,000 in the aggregate (but excluding Indebtedness outstanding hereunder), or (B) an amount, or post collateral as contractually required in an amount, of at least \$35,000,000 in respect of any Hedge Agreement, of the Borrower or such Material Subsidiary (as the case may be), in each case, when the same becomes due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Indebtedness or Hedge Agreement; or (ii) any event of default shall exist under any agreement or instrument relating to any such Indebtedness and shall continue after the applicable grace period,

if any, specified in such agreement or instrument, if the effect of such event is to accelerate, or to permit the acceleration of, the maturity of such Indebtedness; or

(e) The Borrower or any of its Material Subsidiaries shall fail to pay any principal of or premium or interest in respect of any operating lease in respect of which the payment obligations of the Borrower have a present value of at least \$35,000,000, when the same becomes due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure shall continue after the applicable grace period, if any, specified in such operating lease, if the effect of such failure is to terminate, or to permit the termination of, such operating lease; or

(f) The Borrower or any of its Material Subsidiaries shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against the Borrower or any of its Material Subsidiaries seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any Debtor Relief Law, or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its property and, in the case of any such proceeding instituted against it (but not instituted by it), either such proceeding shall remain undismissed or unstayed for a period of 60 days, or any of the actions sought in such proceeding (including, without limitation, the entry of an order for relief against, or the appointment of a receiver, trustee, custodian or other similar official for, it or for any substantial part of its property) shall occur; or the Borrower or any of its Material Subsidiaries shall take any corporate action to authorize any of the actions set forth above in this subsection (f); or

(g) Judgments or orders for the payment of money that exceeds any applicable insurance coverage (the insurer of which shall be rated at least "A" by A.M. Best Company) by more than \$35,000,000 in the aggregate shall be rendered against the Borrower or any Material Subsidiary and such judgments or orders shall continue unsatisfied or unstayed for a period of 45 days; or

(h) (i) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, but excluding any employee benefit plan of such person or its subsidiaries, and any person or entity acting in its capacity as trustee, agent or other fiduciary or administrator of any such plan) becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Securities Exchange Act of 1934), directly or indirectly, of 30% or more of the equity securities of PWCC entitled to vote for members of the board of directors of PWCC; or (ii) during any period of 24 consecutive months, a majority of the members of the board of directors of PWCC cease (other than due to death or disability) to be composed of individuals (A) who were members of that board on the first day of such period, (B) whose election or nomination to that board was approved by individuals referred to in clause (A) above constituting at the time of such election or nomination at least a majority of that board or (C) whose election or nomination to that board was approved by individuals referred to in clauses (A) and (B) above constituting at the time of such election or nomination at least a majority of that board; or (iii) PWCC shall cease for any reason to own, directly or indirectly, 80% of the Voting Stock of the Borrower; or

(i) (i) An ERISA Event occurs with respect to a Pension Plan or Multiemployer Plan which has resulted or could reasonably be expected to result in liability of the Borrower under Title IV of ERISA to the Pension Plan, Multiemployer Plan or the PBGC in an aggregate amount in excess of \$35,000,000, or (ii) the Borrower or any ERISA Affiliate fails to pay when due, after the expiration of any applicable grace period, any installment payment with respect to its withdrawal liability under Section 4201 of ERISA under a Multiemployer Plan in an aggregate amount in excess of \$35,000,000;

then, and in any such event, the Agent shall at the request, or may with the consent, of the Required Lenders, by notice to the Borrower, (i) declare the obligation of each Lender to make Advances (other than L/C Advances) and of the Issuing Banks to issue Letters of Credit to be terminated, whereupon the same shall forthwith terminate, (ii) declare the Advances, all interest thereon and all other amounts payable under this Agreement to be forthwith due and payable, whereupon the Advances, all such interest and all such amounts shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Borrower; provided, however, that in the event of an actual or deemed entry of an order for relief with respect to the Borrower under the Bankruptcy Code of the United States of America, (A) the obligation of each Lender to make Advances (other than L/C Advances) and of the Issuing Banks to issue Letters of Credit shall automatically be terminated and (B) the Advances, all such interest and all such amounts shall automatically become and be due and payable, without presentment, demand, protest or any notice of any kind, all of which are hereby expressly waived by the Borrower and (iii) exercise all rights and remedies available to it under this Agreement, the other Loan Documents and applicable Law.

Section 6.02 Actions in Respect of Letters of Credit upon Default . If any Event of Default shall have occurred and be continuing, the Agent may with the consent, or shall at the request, of the Required Lenders, irrespective of whether it is taking any of the actions described in Section 6.01 or otherwise, (a) make demand upon the Borrower to, and forthwith upon such demand the Borrower will Cash Collateralize the aggregate Available Amount of all Letters of Credit then outstanding (whether or not any beneficiary under any Letter of Credit shall have drawn or be entitled at such time to draw thereunder) or (b) make such other arrangements in respect of the outstanding Letters of Credit as shall be acceptable to the Required Lenders, provided, however, that in the event of an actual or deemed entry of an order for relief with respect to the Borrower under the Bankruptcy Code of the United States of America, the Borrower will Cash Collateralize the aggregate Available Amount of all Letters of Credit then outstanding, without presentment, demand, protest or any notice of any kind, all of which are hereby expressly waived by the Borrower. If at any time the Agent determines that any funds held in the L/C Cash Deposit Account are subject to any right or interest of any Person other than the Agent, the Issuing Banks and the Lenders or that the total amount of such funds is less than the aggregate Available Amount of all Letters of Credit, the Borrower will, forthwith upon demand by the Agent, pay to the Agent, as additional funds to be deposited and held in the L/C Cash Deposit Account, an amount equal to the excess of (a) such aggregate Available Amount over (b) the total amount of funds, if any, then held in the L/C Cash Deposit Account that are free and clear of any such right and interest. Upon the drawing of any Letter of Credit, to the extent funds are on deposit in the L/C Cash Deposit Account, such funds shall be applied to reimburse the Issuing Banks to the extent permitted by applicable Law, or each Lender to the extent such Lender has funded a Revolving Advance in respect of such Letter of Credit. The

Borrower hereby grants to the Agent, for the benefit of the Issuing Banks and the Lenders, a Lien upon and security interest in the L/C Cash Deposit Account and all amounts held therein from time to time as security for the L/C Obligations, and for application to the Borrower's reimbursement obligations as and when the same shall arise. The Agent shall have exclusive dominion and control, including the exclusive right of withdrawal, over such account. After all such Letters of Credit shall have expired or been fully drawn upon and all other obligations of the Borrower hereunder and under the other Loan Documents shall have been paid in full, the balance, if any, in such L/C Cash Deposit Account shall be promptly returned to the Borrower.

ARTICLE VII

THE AGENT

Section 7.01 Appointment and Authority. Each of the Lenders (for purposes of this Article, references to the Lenders shall also mean the Issuing Banks) hereby irrevocably appoints Barclays Bank to act on its behalf as the Agent hereunder and under the other Loan Documents and authorizes the Agent to take such actions on its behalf and to exercise such powers as are delegated to the Agent by the terms hereof or thereof, together with such actions and powers as are reasonably incidental thereto. Except as set forth in Section 7.06, the provisions of this Article are solely for the benefit of the Agent and the Lenders, and neither the Borrower nor any of its Affiliates shall have rights as a third party beneficiary of any of such provisions.

Section 7.02 Rights as a Lender. The Person serving as the Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Agent and the term "Lender" or "Lenders" shall, unless otherwise expressly indicated or unless the context otherwise requires, include the Person serving as the Agent hereunder in its individual capacity. Such Person and its Affiliates may accept deposits from, lend money to, act as the financial advisor or in any other advisory capacity for and generally engage in any kind of business with the Borrower or any Subsidiary or other Affiliate thereof as if such Person were not the Agent hereunder and without any duty to account therefor to the Lenders.

Section 7.03 Exculpatory Provisions. The Agent shall not have any duties or obligations except those expressly set forth herein and in the other Loan Documents. Without limiting the generality of the foregoing, the Agent:

- (a) shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing;
- (b) shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated hereby or by the other Loan Documents that the Agent is required to exercise as directed in writing by the Required Lenders (or such other number or percentage of the Lenders as shall be expressly provided for herein), provided that the Agent shall not be required to take any action that, in its opinion or the opinion of its counsel, may expose the Agent to liability or that is contrary to any Loan Document or applicable Law; and

(c) shall not, except as expressly set forth herein and in the other Loan Documents, have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to the Borrower or any of its Affiliates that is communicated to or obtained by the Person serving as the Agent or any of its Affiliates in any capacity.

The Agent shall not be liable for any action taken or not taken by it (i) with the consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary, or as the Agent shall believe in good faith shall be necessary, under the circumstances as provided in Section 6.01 and 8.01) or (ii) in the absence of its own gross negligence or willful misconduct. The Agent shall be deemed not to have knowledge of any Default unless and until notice describing such Default is given to the Agent by the Borrower or a Lender.

The Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with this Agreement or any other Loan Document, (ii) the contents of any certificate, report or other document delivered hereunder or thereunder or in connection herewith or therewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth herein or therein or the occurrence of any Default, (iv) the validity, enforceability, effectiveness or genuineness of this Agreement, any other Loan Document or any other agreement, instrument or document or (v) the satisfaction of any condition set forth in Article III or elsewhere herein, other than to confirm receipt of items expressly required to be delivered to the Agent.

Section 7.04 Reliance by Agent. The Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing (including any electronic message, internet or intranet website posting or other distribution) believed by it to be genuine and to have been signed, sent or otherwise authenticated by the proper Person. The Agent also may rely upon any statement made to it orally or by telephone and believed by it to have been made by the proper Person, and shall not incur any liability for relying thereon. In determining compliance with any condition hereunder to the making of any Advance, or the issuance of a Letter of Credit, that by its terms must be fulfilled to the satisfaction of a Lender or an Issuing Bank, the Agent may presume that such condition is satisfactory to such Lender or such Issuing Bank unless the Agent shall have received notice to the contrary from such Lender or such Issuing Bank prior to the making of such Advance or the issuance of such Letter of Credit. The Agent may consult with legal counsel (who may be counsel for the Borrower), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in good faith in accordance with the advice of any such counsel, accountants or experts.

Section 7.05 Delegation of Duties. The Agent may perform any and all of its duties and exercise its rights and powers hereunder or under any other Loan Document by or through any one or more sub-agents appointed by the Agent. The Agent and any such sub-agent may perform any and all of its duties and exercise its rights and powers by or through their respective Related Parties. The exculpatory provisions of this Article shall apply to any such sub-agent and to the Related Parties of the Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Agent.

Section 7.06 Resignation of Agent. The Agent may at any time give notice of its resignation to the Lenders and the Borrower. Upon receipt of any such notice of resignation, the Required Lenders shall have the right, with the consent of the Borrower so long as no Event of Default has occurred and is continuing, to appoint a successor, which shall be a bank with an office in the United States of America, or an Affiliate of any such bank with an office in the United States of America. If no such successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 45 days after the retiring Agent gives notice of its resignation, then the retiring Agent may, on behalf of the Lenders, appoint a successor Agent meeting the qualifications set forth above; provided that if the Agent shall notify the Borrower and the Lenders that no qualifying Person has accepted such appointment, then such resignation shall nonetheless become effective in accordance with such notice and (1) the retiring Agent shall be discharged from its duties and obligations hereunder and under the other Loan Documents (except that in the case of any collateral security held by the Agent on behalf of the Lenders under any of the Loan Documents, the retiring Agent shall continue to hold such collateral security until such time as a successor Agent is appointed) and (2) all payments, communications and determinations provided to be made by, to or through the Agent shall instead be made by or to each Lender directly, until such time as the Required Lenders appoint a successor Agent as provided for above in this Section. Upon the acceptance of a successor's appointment as Agent hereunder, such successor shall succeed to and become vested with all of the rights, powers, privileges and duties of the retiring (or retired) Agent, and the retiring Agent shall be discharged from all of its duties and obligations hereunder or under the other Loan Documents (if not already discharged therefrom as provided above in this Section). The fees payable by the Borrower to a successor Agent shall be as agreed between the Borrower and such successor. After the retiring Agent's resignation hereunder and under the other Loan Documents, the provisions of this Article and Section 8.04 shall continue in effect for the benefit of such retiring Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while the retiring Agent was acting as Agent.

Section 7.07 Non-Reliance on Agent and Other Lenders. Each Lender acknowledges that it has, independently and without reliance upon the Agent or any other Lender or any of their Related Parties and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Agent or any other Lender or any of their Related Parties and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any other Loan Document or any related agreement or any document furnished hereunder or thereunder.

Section 7.08 No Other Duties, Etc.. Anything herein to the contrary notwithstanding, none of the Arrangers, Syndication Agents, Documentation Agents or other agents listed on the cover page hereof shall have any powers, duties or responsibilities under this Agreement or any of the other Loan Documents, except in its capacity, as applicable, as the Agent or a Lender hereunder.

Section 7.09 Issuing Banks. Each Issuing Bank shall act on behalf of the Lenders with respect to any Letters of Credit issued by it and the documents associated therewith, and each

Issuing Bank shall have all of the benefits and immunities provided in this Article VII (other than Section 7.02) to the same extent as such provisions apply to the Agent.

ARTICLE VIII

MISCELLANEOUS

Section 8.01 Amendments, Etc. No amendment or waiver of any provision of this Agreement or any other Loan Document, nor consent to any departure by the Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by the Required Lenders, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no amendment, waiver or consent shall

(a) unless agreed to by each Lender directly affected thereby, (i) reduce or forgive the principal amount of any Advance or the Borrower's obligations to reimburse any drawing on a Letter of Credit, reduce the rate of or forgive any interest thereon (provided that only the consent of the Required Lenders shall be required to waive the applicability of any post-default increase in interest rates), or reduce or forgive any fees hereunder (other than fees payable to the Agent, the Arrangers, any Issuing Bank or the Swingline Lender, if any, for their own respective accounts), (ii) extend the final scheduled maturity date or any other scheduled date for the payment of any principal or interest on any Advance, extend the time of payment of any obligation of the Borrower to reimburse any drawing on any Letter of Credit or any interest thereon, extend the expiry date of any Letter of Credit beyond the Letter of Credit Expiration Date, or extend the time of payment of any fees hereunder (other than fees payable to the Agent, the Arrangers, any Issuing Bank or the Swingline Lender, if any, for their own respective accounts), or (iii) increase any Revolving Credit Commitment of any such Lender over the amount thereof in effect or extend the maturity thereof (it being understood that a waiver of any condition precedent set forth in Section 3.02 or of any Default, if agreed to by the Required Lenders or all Lenders (as may be required hereunder with respect to such waiver), shall not constitute such an increase);

(b) unless agreed to by all of the Lenders, (i) reduce the percentage of the aggregate Revolving Credit Commitments or of the aggregate unpaid principal amount of the Advances, or the number or percentage of Lenders, that shall be required for the Lenders or any of them to take or approve, or direct the Agent to take, any action hereunder or under any other Loan Document (including as set forth in the definition of "Required Lenders"), (ii) change any other provision of this Agreement or any of the other Loan Documents requiring, by its terms, the consent or approval of all the Lenders for such amendment, modification, waiver, discharge, termination or consent, or (iii) change or waive any provision of Section 2.15, any other provision of this Agreement or any other Loan Document requiring pro rata treatment of any Lenders, or this Section 8.01 or Section 2.19(b); and

(c) unless agreed to by the Issuing Banks, the Swingline Lender, if any, or the Agent in addition to the Lenders required as provided hereinabove to take such action, affect the respective rights or obligations of the Issuing Banks, the Swingline Lender, if any, or the Agent, as applicable, hereunder or under any of the other Loan Documents.

(d) Notwithstanding the foregoing, this Agreement may be amended (or amended and restated) pursuant to an increase in the Revolving Credit Commitment pursuant to Section 2.18 with only the consents prescribed by such Section.

Section 8.02 Notices, Etc.

(a) All notices and other communications provided for hereunder shall be either (x) in writing (including facsimile communication) and mailed, faxed or delivered or (y) as and to the extent set forth in Sections 8.02(b) and (c) and in the proviso to this Section 8.02(a), if to the Borrower, at the address specified on Schedule 8.02; if to any Lender, at its Domestic Lending Office; if to the Agent, at the address specified on Schedule 8.02; if to the Swingline Lender, at the address specified by the Swingline Lender to the Borrower and the Agent, and if to any Issuing Bank, at the address specified on Schedule 8.02 or, as to the Borrower or the Agent, at such other address as shall be designated by such party in a written notice to the other parties and, as to each other party, at such other address as shall be designated by such party in a written notice to the Borrower and the Agent. All such notices and communications shall, when mailed or faxed, be effective when deposited in the mails or faxed, respectively, except that notices and communications to the Agent pursuant to Article II, III or VII shall not be effective until received by the Agent. Delivery by facsimile of an executed counterpart of any amendment or waiver of any provision of this Agreement or the Notes or of any Exhibit hereto to be executed and delivered hereunder shall be effective as delivery of a manually executed counterpart thereof. Notices delivered through electronic communications to the extent provided in subsection (b) below, shall be effective as provided in such subsection (b). Upon request of the Borrower, the Agent will provide to the Borrower (i) copies of each Administrative Questionnaire or (ii) the address of each Lender.

(b) Notices and other communications to the Lenders, the Agent and the Issuing Banks hereunder may be delivered or furnished by electronic communication (including e-mail and Internet or intranet websites) pursuant to procedures approved by the Agent and agreed to by the Borrower, provided that the foregoing shall not apply to notices to any Lender or the Issuing Banks pursuant to Article II if such Lender or the Issuing Banks, as applicable, has notified the Agent and the Borrower that it is incapable of receiving notices under such Article by electronic communication. The Agent or the Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it, provided that approval of such procedures may be limited to particular notices or communications. Unless the Agent and the Borrower otherwise agree, (i) notices and other communications sent to an e-mail address shall be deemed received upon the sender's receipt of an acknowledgement from the intended recipient (such as by the "return receipt requested" function, as available, return e-mail or other written acknowledgement), provided that if such notice or other communication is not sent during the normal business hours of the recipient, such notice or communication shall be deemed to have been sent at the opening of business on the next business day for the recipient, and (ii) notices or communications posted to an Internet or intranet website shall be deemed received upon the deemed receipt by the intended recipient at its e-mail address as described in the foregoing clause (i) of notification that such notice or communication is available and identifying the website address therefor.

(c) The Borrower agrees that the Agent may make materials delivered to the Agent pursuant to Sections 5.01(h)(i), (ii) and (iv), as well as any other written information, documents, instruments and other material relating to the Borrower or any of its Subsidiaries and relating to this Agreement, the Notes or the transactions contemplated hereby, or any other materials or matters relating to this Agreement, the Notes or any of the transactions contemplated hereby (collectively, the “Communications”) available to the Lenders by posting such notices on Intralinks or a substantially similar electronic system (the “Platform”). The Borrower acknowledges that (i) the distribution of material through an electronic medium is not necessarily secure and that there are confidentiality and other risks associated with such distribution, (ii) the Platform is provided “as is” and “as available” and (iii) neither the Agent nor any of its Affiliates warrants the accuracy, adequacy or completeness of the Communications or the Platform and each expressly disclaims liability for errors or omissions in the Communications or the Platform. No warranty of any kind, express, implied or statutory, including, without limitation, any warranty of merchantability, fitness for a particular purpose, non-infringement of third party rights or freedom from viruses or other code defects, is made by the Agent or any of its Affiliates in connection with the Platform.

(d) Each Lender agrees that notice to it (as provided in the next sentence) (a “Notice”) specifying that any Communications have been posted to the Platform shall constitute effective delivery of such information, documents or other materials to such Lender for purposes of this Agreement; provided that if requested by any Lender the Agent shall deliver a copy of the Communications to such Lender by e-mail, facsimile or mail. Each Lender agrees (i) to notify the Agent in writing of such Lender’s e-mail address to which a Notice may be sent by electronic transmission (including by electronic communication) on or before the date such Lender becomes a party to this Agreement (and from time to time thereafter to ensure that the Agent has on record an effective e-mail address for such Lender) and (ii) that any Notice may be sent to such e-mail address.

(e) The Borrower hereby acknowledges that certain of the Lenders may be “public-side” Lenders (*i.e.*, Lenders that do not wish to receive material non-public information with respect to the Borrower or its securities) (each, a “Public Lender”). The Borrower hereby agrees that (w) all Communications that are to be made available to Public Lenders shall be clearly and conspicuously marked “PUBLIC” which shall mean that the word “PUBLIC” shall appear prominently on the first page thereof; (x) by marking Communications “PUBLIC,” the Borrower shall be deemed to have authorized the Agent, the Arranger and the Lenders to treat such Communications as not containing any material non-public information with respect to the Borrower or its securities for purposes of United States of America federal and state securities laws; (y) all Communications marked “PUBLIC” are permitted to be made available through a portion of the Platform designated as “Public Investor;” and (z) the Agent and the Arranger shall be entitled to treat any Communications that are not marked “PUBLIC” as being suitable only for posting on a portion of the Platform not marked as “Public Investor.” Notwithstanding the foregoing, the Borrower shall be under no obligation to mark any Communications “PUBLIC.” Notwithstanding anything to the contrary herein, the Borrower and the Agent need not provide to any Public Lender any information, notice, or other document hereunder that is not public information, including without limitation, the Notice of Borrowing and any notice of Default.

Section 8.03 No Waiver; Cumulative Remedies; Enforcement. No failure by any Lender, any Issuing Bank or the Agent to exercise, and no delay by any such Person in exercising, any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by Law.

Notwithstanding anything to the contrary contained herein or in any other Loan Document, the authority to enforce rights and remedies hereunder and under the other Loan Documents against the Borrower shall be vested exclusively in, and all actions and proceedings at Law in connection with such enforcement shall be instituted and maintained exclusively by, the Agent in accordance with Article VI for the benefit of all the Lenders and the Issuing Banks; provided, however, that the foregoing shall not prohibit (a) the Agent from exercising on its own behalf the rights and remedies that inure to its benefit (solely in its capacity as Agent) hereunder and under the other Loan Documents, (b) any Issuing Bank from exercising the rights and remedies that inure to its benefit (solely in its capacity as an Issuing Bank) hereunder and under the other Loan Documents, (c) any Lender from exercising setoff rights in accordance with Section 8.05 (subject to the terms of Section 2.15), or (d) any Lender from filing proofs of claim or appearing and filing pleadings on its own behalf during the pendency of a proceeding relative to the Borrower under any Debtor Relief Law; and provided, further, that if at any time there is no Person acting as Agent hereunder and under the other Loan Documents, then (i) the Required Lenders shall have the rights otherwise ascribed to the Agent pursuant to Article VI and (ii) in addition to the matters set forth in clauses (b), (c) and (d) of the preceding proviso and subject to Section 2.15, any Lender may, with the consent of the Required Lenders, enforce any rights and remedies available to it and as authorized by the Required Lenders.

Section 8.04 Costs and Expenses; Indemnity; Damage Waiver.

(a) The Borrower agrees to pay on demand all costs and expenses of the Agent in connection with the administration, modification and amendment of this Agreement, the Notes and the other Loan Documents to be delivered hereunder, including, without limitation, the reasonable fees and expenses of counsel for the Agent with respect thereto and with respect to advising the Agent as to its rights and responsibilities under this Agreement. The Borrower further agrees to pay on demand all costs and expenses of the Agent and the Lenders, if any (including, without limitation, reasonable counsel fees and expenses), in connection with the enforcement (whether through negotiations, legal proceedings or otherwise) of this Agreement, the Notes and the other Loan Documents to be delivered hereunder, including, without limitation, reasonable fees and expenses of counsel for the Agent and each Lender in connection with the enforcement of rights under this Section 8.04(a).

(b) The Borrower agrees to indemnify and hold harmless the Agent (and any sub-agent thereof), each Lender, and each Related Party of any of the foregoing (each, an "Indemnified Party") from and against any and all claims, damages, losses, liabilities and expenses (including, without limitation, reasonable fees and expenses of counsel) incurred by or asserted or awarded against any Indemnified Party, in each case arising out of or in connection with or by reason of (including, without limitation, in connection with any investigation,

litigation or proceeding or preparation of a defense in connection therewith, whether based on contract, tort or any other theory,) (i) the Notes, this Agreement, any of the transactions contemplated herein or the actual or proposed use of the proceeds of any Advance or Letter of Credit (including any refusal by any Issuing Bank to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit), or (ii) the actual or alleged presence of Hazardous Materials on any property of the Borrower or any of its Subsidiaries or any Environmental Action relating in any way to the Borrower or any of its Subsidiaries, provided that such indemnity shall not, as to any Indemnified Party, be available to the extent (a) such fees and expenses are expressly stated in this Agreement to be payable by the Indemnified Party, included expenses payable under Section 2.14, Section 5.01(e) and Section 8.07(b) or (b) such claim, damage, loss, liability or expense is found in a final, non-appealable judgment by a court of competent jurisdiction to have resulted from such Indemnified Party's gross negligence, willful misconduct or material breach of its obligations under this Agreement, in which case any fees and expenses previously paid or advanced by the Borrower to such Indemnified Party in respect of such indemnified obligation will be returned by such Indemnified Party. In the case of an investigation, litigation or other proceeding to which the indemnity in this Section 8.04(b) applies, such indemnity shall be effective whether or not such investigation, litigation or proceeding is brought by the Borrower, its directors, equityholders or creditors or an Indemnified Party or any other Person, whether or not any Indemnified Party is otherwise a party thereto, and whether or not the transactions contemplated hereby are consummated, provided that if the Borrower and such Indemnified Party are adverse parties in any such litigation or proceeding, and the Borrower prevails in a final, non-appealable judgment by a court of competent jurisdiction, any fees or expenses previously paid or advanced by the Borrower to such Indemnified Party pursuant to this Section 8.04(b) will be returned by such Indemnified Party.

(c) To the extent that the Borrower for any reason fails to indefeasibly pay any amount required under subsection (a) or (b) of this Section to be paid by it to the Agent (or any sub-agent thereof), any Issuing Bank or any Related Party of any of the foregoing (and without limiting its obligation to do so), each Lender severally agrees to pay to the Agent (or any such sub-agent), such Issuing Bank or such Related Party, as the case may be, such Lender's Ratable Share (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount, provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Agent (or any such sub-agent) or such Issuing Bank in its capacity as such, or against any Related Party of any of the foregoing acting for the Agent (or any such sub-agent) or such Issuing Bank in connection with such capacity.

(d) Without limiting the rights of indemnification set forth in this Agreement with respect to liabilities asserted by third parties, each party hereto also agrees not to assert any claim for special, indirect, consequential or punitive damages against the other parties hereto, or any Related Person any party hereto, on any theory of liability, arising out of or otherwise relating to the Notes, this Agreement, any of the transactions contemplated herein or the actual or proposed use of the proceeds of the Advances or the Letters of Credit. No Indemnified Party shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems (including Intralinks, SyndTrak or similar systems) in connection with this

Agreement or the other Loan Documents, provided that such indemnity shall not, as to any Indemnified Party, be available to the extent such damages are found in a final, non-appealable judgment by a court of competent jurisdiction to have resulted from such Indemnified Party's gross negligence or willful misconduct.

(e) If any payment of principal of, or Conversion of, any Eurodollar Rate Advance is made by the Borrower to or for the account of a Lender other than on the last day of the Interest Period for such Revolving Advance, as a result of a payment or Conversion pursuant to Section 2.08(d) or (e), 2.10 or 2.12, acceleration of the maturity of the Revolving Advances pursuant to Section 6.01 or for any other reason, or by an Eligible Assignee to a Lender other than on the last day of the Interest Period for such Revolving Advance upon an assignment of rights and obligations under this Agreement pursuant to Section 8.07 as a result of a demand by the Borrower pursuant to Section 8.07(a), the Borrower shall, upon demand by such Lender (with a copy of such demand to the Agent), pay to the Agent for the account of such Lender any amounts required to compensate such Lender for any additional losses, costs or expenses that it may reasonably incur as a result of such payment or Conversion, including, without limitation, any loss (excluding loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by any Lender to fund or maintain such Revolving Advance.

(f) Without prejudice to the survival of any other agreement of the Borrower hereunder, the agreements and obligations of the Borrower contained in Sections 2.11, 2.14 and 8.04 shall survive the payment in full of principal, interest and all other amounts payable hereunder and under the Notes.

Section 8.05 **Right of Set-off**. Upon (i) the occurrence and during the continuance of any Event of Default and (ii) the making of the request or the granting of the consent specified by Section 6.01 to authorize the Agent to declare the Advances due and payable pursuant to the provisions of Section 6.01, each Lender, each Issuing Bank and each of their respective Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by Law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Lender, such Issuing Bank or any such Affiliate to or for the credit or the account of the Borrower against any and all of the obligations of the Borrower now or hereafter existing under this Agreement or any other Loan Document to such Lender or Issuing Bank, whether or not such Lender or Issuing Bank shall have made any demand under this Agreement or such Note and although such obligations may be contingent or unmatured or are owed to a branch or office of such Lender or such Issuing Bank different from the branch or office holding such deposit or obligated on such indebtedness. Each Lender and each Issuing Bank agrees promptly to notify the Borrower after any such set-off and application, provided that the failure to give such notice shall not affect the validity of such set-off and application. The rights of each Lender and each Issuing Bank under this Section are in addition to other rights and remedies (including, without limitation, other rights of set-off) that such Lender may have.

Section 8.06 **Binding Effect**. Except as provided in Section 3.01, this Agreement shall become effective when it shall have been executed by the Borrower and the Agent and when the Agent shall have been notified by each Initial Lender that such Initial Lender has executed it and

thereafter shall be binding upon and inure to the benefit of the Borrower, the Agent and each Lender and their respective successors and assigns, except that the Borrower shall not have the right to assign its rights hereunder or any interest herein without the prior written consent of the Lenders.

Section 8.07 Successors and Assigns.

(a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of the Agent and each Lender (and any purported assignment or transfer without such consent shall be null and void) and no Lender may assign or otherwise transfer any of its rights or obligations hereunder except (i) to an assignee in accordance with the provisions of subsection (b) of this Section, (ii) by way of participation in accordance with the provisions of subsection (d) of this Section, or (iii) by way of pledge or assignment of a security interest subject to the restrictions of subsection (f) of this Section. Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby, Participants to the extent provided in subsection (d) of this Section and, to the extent expressly contemplated hereby, the Related Parties of each of the Agent, the Issuing Banks and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Any Lender may at any time assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Revolving Credit Commitment, Swingline Exposure and the Revolving Advances (including for purposes of this subsection (b), participations in L/C Obligations) at the time owing to it); provided that any such assignment shall be subject to the following conditions:

(i) Minimum Amounts.

(A) in the case of an assignment of the entire remaining amount of the assigning Lender's Revolving Credit Commitment and the Revolving Advances at the time owing to it or in the case of an assignment to a Lender, no minimum amount need be assigned; and

(B) in any case not described in subsection (b)(i)(A) of this Section, the aggregate amount of the Revolving Credit Commitment (which for this purpose includes Revolving Advances outstanding thereunder) or, if the Revolving Credit Commitment is not then in effect, the principal outstanding balance of the Revolving Advances of the assigning Lender subject to each such assignment, determined as of the date the Assignment and Assumption with respect to which such assignment is delivered to the Agent or, if "Trade Date" is specified in the Assignment and Assumption, as of the Trade Date, shall not be less than \$5,000,000 unless each of the Agent and, so long as no Event of Default has occurred and is continuing, the Borrower otherwise consents (each such consent not to be unreasonably withheld or delayed).

(ii) Proportionate Amounts. Each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement with respect to the Revolving Advances, L/C Obligations, Swingline Exposure or the Revolving Credit Commitment assigned, and each such assignment shall be of a constant, and not a varying, percentage of all rights and obligations under this Agreement;

(iii) Required Consents. No consent shall be required for any assignment except to the extent required by subsection (b)(i)(B) of this Section and, in addition:

(A) the consent of the Borrower (such consent not to be unreasonably withheld or delayed; provided that the Borrower shall be deemed to have consented to any such assignment unless it shall object thereto by written notice to the Agent within ten (10) Business Days after having received notice thereof) shall be required unless (1) an Event of Default has occurred and is continuing at the time of such assignment or (2) such assignment is to a Lender, an Affiliate of a Lender or an Approved Fund;

(B) the consent of the Agent (such consent not to be unreasonably withheld or delayed) shall be required if such assignment is to a Person that is not a Lender, an Affiliate of a Lender or an Approved Fund with respect to such Lender;

(C) the consent of each Issuing Bank (such consent not to be unreasonably withheld or delayed) shall be required for any assignment that increases the obligation of the assignee to participate in exposure under one or more Letters of Credit (whether or not then outstanding); and

(D) the consent of the Swingline Lender, if any, (such consent not to be unreasonably withheld or delayed) shall be required for any assignment that increases the obligation of the assignee to participate in exposure under Swingline Advances (whether or not then outstanding).

(iv) Assignment and Assumption. The parties to each assignment shall execute and deliver to the Agent an Assignment and Assumption, together with a processing and recordation fee in the amount of \$3,500; provided, however, that no such fee shall be payable in the case of an assignment made at the request of the Borrower to an existing Lender. The assignee, if it is not a Lender, shall deliver to the Agent an Administrative Questionnaire.

(v) No Assignment to Borrower. No such assignment shall be made to the Borrower or any of the Borrower's Affiliates or Subsidiaries.

(vi) No Assignment to Natural Persons. No such assignment shall be made to a natural person.

Subject to acceptance and recording thereof by the Agent pursuant to subsection (c) of this Section and notice thereof to the Borrower, from and after the effective date specified in

each Assignment and Assumption, the assignee thereunder shall be a party to this Agreement and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto) but shall continue to be entitled to the benefits of Sections 2.11, 2.14 and 8.04 with respect to facts and circumstances occurring prior to the effective date of such assignment. Upon request, the Borrower (at its expense) shall execute and deliver a Note to the assignee Lender. Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this subsection shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with subsection (d) of this Section.

(c) Register. The Agent shall maintain at the Agent's Office a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Revolving Credit Commitments of, and principal amounts of the Advances and L/C Obligations owing to, each Lender pursuant to the terms hereof from time to time (the " Register "). The entries in the Register shall be conclusive, absent manifest error, and the Borrower, the Agent and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrower and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(d) Participations. Any Lender may at any time, without the consent of, or notice to, the Borrower or the Agent, sell participations to any Person (other than a natural person or the Borrower or any of the Borrower's Affiliates or Subsidiaries) (each, a " Participant ") in all or a portion of such Lender's rights and/or obligations under this Agreement (including all or a portion of its Revolving Credit Commitment, Swingline Exposure and/or the Revolving Advances (including such Lender's participations in L/C Obligations) owing to it); provided that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) the Borrower, the Agent, the Lenders and the Issuing Banks shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement and (iv) no participant under any such participation shall have any right to approve any amendment or waiver of any provision of this Agreement or any Note, or any consent to any departure by the Borrower therefrom, except to the extent that such amendment, waiver or consent would reduce the principal of, or interest on, any Obligations or any fees or other amounts payable hereunder, in each case to the extent subject to such participation, or postpone any date fixed for any payment of principal of, or interest on, any Obligations or any fees or other amounts payable hereunder, in each case to the extent subject to such participation.

Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the

Participant, agree to any amendment, waiver or other modification addressing the matters set forth in clause (iv) above to the extent subject to such participation. Subject to subsection (e) of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 2.11, 2.14 and 8.04(e) to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to subsection (b) of this Section. To the extent permitted by Law, each Participant also shall be entitled to the benefits of Section 8.05 as though it were a Lender, provided such Participant agrees to be subject to Section 2.15 as though it were a Lender.

(e) Limitations upon Participant Rights. A Participant shall not be entitled to receive any greater payment under Section 2.11 or 2.14 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 2.14 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with Section 2.14(e) as though it were a Lender.

(f) Certain Pledges. Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement (including under its Note, if any) to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank or other central banking authority; provided that no such pledge or assignment shall release such Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

(g) Resignation as an Issuing Bank after Assignment. Notwithstanding anything to the contrary contained herein, if at any time any Issuing Bank assigns all of its Revolving Credit Commitment and Revolving Advances pursuant to subsection (b) above, such Issuing Bank may, upon 30 days' notice to the Borrower and the Lenders, resign as an Issuing Bank. If any Issuing Bank resigns, it shall retain all the rights, powers, privileges and duties of an Issuing Bank hereunder with respect to all Letters of Credit outstanding as of the effective date of its resignation as an Issuing Bank and all L/C Obligations with respect thereto (including the right to require the Lenders to make Base Rate Advances or fund risk participations in Unreimbursed Amounts pursuant to Section 2.03(c)).

(h) The words "execution," "signed," "signature," and words of like import in any Assignment and Assumption shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable Law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state Laws based on the Uniform Electronic Transactions Act.

Section 8.08 Confidentiality. Neither the Agent nor any Lender may disclose to any Person any confidential, proprietary or non-public information of the Borrower furnished to the Agent or the Lenders by the Borrower (such information being referred to collectively herein as the "Borrower Information"), except that each of the Agent and each of the Lenders may disclose

Borrower Information (i) to its and its affiliates' employees, officers, directors, agents and advisors having a need to know in connection with this Agreement (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Borrower Information and instructed to keep such Borrower Information confidential on substantially the same terms as provided herein), (ii) to the extent requested by any regulatory authority, (iii) to the extent required by applicable Laws or regulations or by any subpoena or similar legal process, (iv) to any other party to this Agreement, (v) in connection with the exercise of any remedies hereunder or any suit, action or proceeding relating to this Agreement or the enforcement of rights hereunder, (vi) subject to an agreement containing provisions substantially the same as those of this Section 8.08, (A) to any assignee or participant or prospective assignee or participant, (B) any direct, indirect, actual or prospective counterparty (and its advisor) to any swap, derivative or securitization transaction related to the obligations under this Agreement and (C) to any credit insurance provider relating to the Borrower and its Obligations, (vii) to the extent such Borrower Information (A) is or becomes generally available to the public on a non-confidential basis other than as a result of a breach of this Section 8.08 by the Agent or such Lender or their Related Parties, or (B) is or becomes available to the Agent or such Lender on a nonconfidential basis from a source other than the Borrower (provided that the source of such information was not known by the recipient after inquiry to be bound by a confidentiality agreement with or other contractual, legal or fiduciary obligation of confidentiality to the Borrower or any other Person with respect to such information) and (viii) with the consent of the Borrower. The obligations under this Section 8.08 shall survive for two calendar years after the date of the termination of this Agreement.

Section 8.09 Governing Law. This Agreement and the Notes shall be governed by, and construed in accordance with, the Laws of the State of New York (including Sections 5-1401 and 5-1402 of the General Obligations Law but otherwise without regard to conflict of law principles).

Section 8.10 Counterparts; Integration; Effectiveness. This Agreement may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement and the other Loan Documents constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 3.01, this Agreement shall become effective when it shall have been executed by the Agent and when the Agent shall have received counterparts hereof that, when taken together, bear the signatures of each of the other parties hereto. Delivery of an executed counterpart of a signature page of this Agreement by telecopy or other electronic imaging means shall be effective as delivery of a manually executed counterpart of this Agreement.

Section 8.11 Jurisdiction, Etc.

(a) Each of the parties hereto hereby submits to the exclusive jurisdiction of any New York State court or federal court of the United States of America sitting in the Borough of Manhattan in New York City, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or the other Loan Documents, or for recognition or enforcement of any judgment, and each of the parties hereto hereby agrees that all

claims in respect of any such action or proceeding may be heard and determined in any such New York State court or, to the extent permitted by Law, in such federal court. Nothing in this Agreement shall affect any right that any party may otherwise have to bring any action or proceeding relating to this Agreement or the Notes in the courts of any jurisdiction.

(b) Each of the parties hereto irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection that it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or the Notes in any New York State or federal court. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by Law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

Section 8.12 Payments Set Aside. To the extent that any payment by or on behalf of the Borrower is made to the Agent, any Issuing Bank or any Lender, or the Agent, any Issuing Bank or any Lender exercises its right of setoff, and such payment or the proceeds of such setoff or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by the Agent, such Issuing Bank or such Lender in its discretion) to be repaid to a trustee, receiver or any other party, in connection with any proceeding under any Debtor Relief Law or otherwise, then (a) to the extent of such recovery, the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such setoff had not occurred, and (b) each Lender and each Issuing Bank severally agrees to pay to the Agent upon demand its applicable share (without duplication) of any amount so recovered from or repaid by the Agent, plus interest thereon from the date of such demand to the date such payment is made at a rate per annum equal to the Federal Funds Rate from time to time in effect. The obligations of the Lenders and the Issuing Banks under clause (b) of the preceding sentence shall survive the payment in full of the Obligations and the termination of this Agreement.

Section 8.13 Patriot Act. Each Lender hereby notifies the Borrower that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the “Act”), it is required to obtain, verify and record information that identifies each borrower, guarantor or grantor (the “Loan Parties”), which information includes the name and address of each Loan Party and other information that will allow such Lender to identify such Loan Party in accordance with the Act. The Borrower shall provide, to the extent commercially reasonable, such information and take such actions as are reasonably requested by the Agent or any Lender in order to assist the Agent and such Lender in maintaining compliance with the Act.

Section 8.14 Waiver of Jury Trial. EACH OF THE BORROWER, THE AGENT AND THE LENDERS HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED ON CONTRACT, TORT OR OTHERWISE) ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE NOTES OR ANY OTHER LOAN DOCUMENT OR THE ACTIONS OF THE BORROWER, THE AGENT OR ANY LENDER IN THE NEGOTIATION, ADMINISTRATION, PERFORMANCE OR ENFORCEMENT THEREOF.

Section 8.15 No Advisory or Fiduciary Responsibility. In connection with all aspects of each transaction contemplated hereby, the Borrower acknowledges and agrees that: (i) the

credit facilities provided for hereunder and any related arranging or other services in connection therewith (including in connection with any amendment, waiver or other modification hereof or of any other Loan Document) are an arm's-length commercial transaction between the Borrower, on the one hand, and the Agent, each of the Lenders and each of the Arrangers, on the other hand, and the Borrower is capable of evaluating and understanding and understands and accepts the terms, risks and conditions of the transactions contemplated hereby and by the other Loan Documents (including any amendment, waiver or other modification hereof or thereof); (ii) in connection with the process leading to such transaction, each of the Agent, the Lenders and the Arrangers is and has been acting solely as a principal and is not the financial advisor, agent or fiduciary, for the Borrower or any of its Affiliates, stockholders, creditors or employees or any other Person; (iii) neither the Agent nor any Lender or Arranger has assumed or will assume an advisory, agency or fiduciary responsibility in favor of the Borrower with respect to any of the transactions contemplated hereby or the process leading thereto, including with respect to any amendment, waiver or other modification hereof or of any other Loan Document (irrespective of whether the Agent or any Lender or Arranger has advised or is currently advising the Borrower or any of its Affiliates on other matters) and neither the Agent nor any Lender or Arranger has any obligation to the Borrower with respect to the transactions contemplated hereby except those obligations expressly set forth herein and in the other Loan Documents; (iv) the Agent, each of the Lenders and the Arrangers and their respective Affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Borrower and its Affiliates, and neither the Agent nor any Lender or Arranger has any obligation to disclose any of such interests by virtue of any advisory, agency or fiduciary relationship; and (v) the Agent and each Lender and Arranger have not provided and will not provide any legal, accounting, regulatory or tax advice with respect to any of the transactions contemplated hereby (including any amendment, waiver or other modification hereof or of any other Loan Document) and the Borrower has consulted its own legal, accounting, regulatory and tax advisors to the extent it has deemed appropriate. The Borrower hereby waives and releases, to the fullest extent permitted by Law, any claims that it may have against the Agent and each Lender and Arranger with respect to any breach or alleged breach of agency or fiduciary duty in connection with the Loan Documents.

Section 8.16 Survival of Representations and Warranties. All representations and warranties made hereunder and in any other Loan Document or other document delivered pursuant hereto or thereto or in connection herewith or therewith shall survive the execution and delivery hereof and thereof. Such representations and warranties have been or will be relied upon by the Agent and each Lender, regardless of any investigation made by the Agent or any Lender or on their behalf, and shall continue in full force and effect as long as any Advance or any other Obligation hereunder shall remain unpaid or unsatisfied or any Letter of Credit shall remain outstanding.

Section 8.17 Severability. If any provision of this Agreement or the other Loan Documents is held to be illegal, invalid or unenforceable, (a) the legality, validity and enforceability of the remaining provisions of this Agreement and the other Loan Documents shall not be affected or impaired thereby and (b) the parties shall endeavor in good faith negotiations to replace the illegal, invalid or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the illegal, invalid or unenforceable provisions. The invalidity of a provision in a particular jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

ARIZONA PUBLIC SERVICE COMPANY

By /s/ Lee R. Nickloy

Name: Lee R. Nickloy
Title: Vice President & Treasurer

Signature Page to APS Credit Agreement

BARCLAYS BANK PLC ,
as Agent, an Issuing Bank and a Lender

By /s/ Ann E. Sutton
Name: Ann E. Sutton
Title: Director

Signature Page to APS Credit Agreement

THE ROYAL BANK OF SCOTLAND PLC,
as a Lender and an Issuing Bank

By /s/ Tyler J. McCarthy
Name: Tyler J. McCarthy
Title: Director

Signature Page to APS Credit Agreement

**WELLS FARGO BANK, NATIONAL
ASSOCIATION**, as a Lender and an Issuing Bank

By /s/ Yann Blindert
Name: Yann Blindert
Title: Director

Signature Page to APS Credit Agreement

BANK OF AMERICA, N.A., as a Lender

By /s/ Patrick Martin
Name: Patrick Martin
Title: Director

Signature Page to APS Credit Agreement

**CREDIT SUISSE AG, CAYMAN ISLANDS
BRANCH , as a Lender**

By /s/ Shaheen Malik
Name: Shaheen Malik
Title: Vice President

By /s/ Rahul Parmar
Name: Rahul Parmar
Title: Associate

Signature Page to APS Credit Agreement

THE BANK OF NEW YORK MELLON,
as a Lender

By /s/ Mark W. Rogers
Name: Mark W. Rogers
Title: Vice President

Signature Page to APS Credit Agreement

BANK OF THE WEST, as a Lender

By /s/ Joshua R. Shade

Name: Joshua R. Shade

Title: Vice President

Signature Page to APS Credit Agreement

BNP PARIBAS, as a Lender

By /s/ Francis DeLaney

Name: Francis DeLaney
Title: Managing Director

By /s/ Pasquale Perraglia

Name: Pasquale Perraglia
Title: Vice President

Signature Page to APS Credit Agreement

CITIBANK, N.A., as a Lender

By /s/ Devin Moore
Name: Devin Moore
Title: Vice President

Signature Page to APS Credit Agreement

**DEUTSCHE BANK AG NEW YORK
BRANCH, as a Lender**

By /s/ Ming Chu
Name: Ming Chu
Title: Vice President

By /s/ Edward D Herko
Name: Edward D Herko
Title: Director

Signature Page to APS Credit Agreement

JPMORGAN CHASE BANK, N.A.,
as a Lender

By /s/ Nancy R. Barwig
Name: Nancy R. Barwig
Title: Credit Executive

Signature Page to APS Credit Agreement

KEYBANK NATIONAL ASSOCIATION,
as a Lender

By /s/ Keven D. Smith

Name: Keven D. Smith
Title: Senior Vice President

Signature Page to APS Credit Agreement

UNION BANK, N.A., as a Lender

By /s/ Efrain Soto

Name: Efrain Soto
Title: Vice President

Signature Page to APS Credit Agreement

THE BANK OF NOVA SCOTIA,
as a Lender

By /s/ Thane Rattew

Name: Thane Rattew
Title: Managing Director

Signature Page to APS Credit Agreement

SUNTRUST BANK, as a Lender

By /s/ Andrew Johnson
Name: Andrew Johnson
Title: Director

Signature Page to APS Credit Agreement

UBS LOAN FINANCE LLC, as a Lender

By /s/ Irja R. Otsa

Name: Irja R. Otsa

Title: Associate Director

By /s/ Joselin Fernandes

Name: Joselin Fernandes

Title: Associate Director

Signature Page to APS Credit Agreement

U.S. BANK NATIONAL ASSOCIATION,
as a Lender

By /s/ Raymond J. Palmer

Name: Raymond J. Palmer
Title: Senior Vice President

Signature Page to APS Credit Agreement

**CANADIAN IMPERIAL BANK OF
COMMERCE, NEW YORK AGENCY,
as a Lender**

By /s/ Robert Casey, Jr.

Name: Robert Casey, Jr.
Title: Executive Director

By /s/ Michael Gewirtz

Name: Michael Gewirtz
Title: Executive Director

Signature Page to APS Credit Agreement

COMERICA BANK, as a Lender

By /s/ Fatima Arshad
Name: Fatima Arshad
Title: Vice President

Signature Page to APS Credit Agreement

NATIONAL BANK OF ARIZONA,
as a Lender

By /s/ Abran Villegas
Name: Abran Villegas
Title: Vice President

Signature Page to APS Credit Agreement

THE NORTHERN TRUST COMPANY,
as a Lender

By /s/ John Lascody

Name: John Lascody

Title: Second Vice President

Signature Page to APS Credit Agreement

UMB BANK ARIZONA, N.A.,
as a Lender

By /s/ Kyle McMillian

Name: Kyle McMillian

Title: AVP/Commercial Banking Officer

Signature Page to APS Credit Agreement

SCHEDULE 1.01
COMMITMENTS AND RATALE SHARES

Bank	Revolving Credit Commitment	Ratable Share
Barclays Bank PLC	\$ 36,000,000.00	7.200000000%
The Royal Bank of Scotland plc	\$ 36,000,000.00	7.200000000%
Wells Fargo Bank, National Association	\$ 36,000,000.00	7.200000000%
Bank of America, N.A.	\$ 36,000,000.00	7.200000000%
Credit Suisse AG, Cayman Islands Branch	\$ 36,000,000.00	7.200000000%
The Bank of New York Mellon	\$ 23,571,428.57	4.714285714%
Bank of the West	\$ 16,500,000.00	3.300000000%
BNP Paribas	\$ 7,071,428.60	1.414285720%
Citibank, N.A.	\$ 23,571,428.57	4.714285714%
Deutsche Bank AG New York Branch	\$ 23,571,428.57	4.714285714%
JPMorgan Chase Bank, N.A.	\$ 23,571,428.57	4.714285714%
KeyBank National Association	\$ 23,571,428.57	4.714285714%
Union Bank, N.A.	\$ 23,571,428.57	4.714285714%
The Bank of Nova Scotia	\$ 23,571,428.57	4.714285714%
SunTrust Bank	\$ 23,571,428.57	4.714285714%
UBS Loan Finance LLC	\$ 23,571,428.57	4.714285714%
U.S. Bank National Association	\$ 23,571,428.57	4.714285714%
Canadian Imperial Bank of Commerce, New York Agency	\$ 12,142,857.14	2.428571428%
Comerica Bank	\$ 12,142,857.14	2.428571428%
National Bank of Arizona	\$ 12,142,857.14	2.428571428%
The Northern Trust Company	\$ 12,142,857.14	2.428571428%
UMB Bank Arizona, N.A.	\$ 12,142,857.14	2.428571428%
TOTAL	\$ 500,000,000.00	100.000000000%

**SCHEDULE 4.01(j)
SUBSIDIARIES(1)**

Bixco, Inc.
Axiom Power Solutions, Inc.
PWE Newco, Inc.

-
- (1) The Borrower's three nuclear decommissioning trusts relating to PVNGS may also be deemed to be subsidiaries under a literal reading of the definition.
-

**SCHEDULE 4.01(k)
EXISTING INDEBTEDNESS**

None.

SCHEDULE 8.02
CERTAIN ADDRESSES FOR NOTICES

BORROWER:

Arizona Public Service Company
400 North 5th Street
Mail Station 9040
Phoenix, AZ 85004
Attention: Treasurer
Telephone: (602) 250-3300
Telecopier: (602) 250-3902
Electronic lee.nickloy@pinnaclewest.com

AGENT :

Agent's Office
(for payments and Requests for Credit Extensions):

Barclays Bank PLC
1301 6th Avenue, 9th floor
New York, NY 10019
Attention: Joe Tricamo
Telephone: (212) 320-7564
Email: joe.tricamo@barcap.com

with copies to:

Barclays Bank PLC
745 Seventh Avenue
New York, NY 10019
Attention: Alicia Borys
Facsimile: (212) 526-5115
Telephone: (212) 526-4291
Email: Alicia.borys@barcap.com

Barclays Bank PLC
745 Seventh Avenue
New York, NY 10019
Attention: Vanessa A. Kurbatskiy
Facsimile: (212) 526-5115
Telephone: (212) 526-2799
Email: Vanessa.kurbatskiy@barcap.com

Agent's Account/Barclays Bank Agency Service Wiring Information

Barclays Bank PLC
New York, New York
ABA: 026002574

Account Number: 050-01910-4
Account Name: Clad Control Account
Ref: Arizona Public Service

Other Notices as Agent :

Barclays Bank PLC
745 Seventh Avenue
New York, NY 10019
Attention: Alicia Borys
Facsimile: (212) 526-5115
Telephone: (212) 526-4291
Email: Alicia.borys@barcap.com

Barclays Bank PLC
745 Seventh Avenue
New York, NY 10019
Attention: Vanessa A. Kurbatskiy
Facsimile: (212) 526-5115
Telephone: (212) 526-2799
Email: Vanessa.kurbatskiy@barcap.com

ISSUING BANKS:

Barclays Bank PLC

Barclays Bank PLC
200 Park Avenue
New York, NY 10166
Attn. Letters of Credit / Dawn Townsend
Facsimile (212) 412-5011
Telephone (201) 499-2081
Email xraletterofcredit@baclayscapital.com

The Royal Bank of Scotland plc

The Royal Bank of Scotland plc
600 Washington Boulevard
Stamford, CT 06901
Attention: Richard Emmich
Facsimile: (203) 873-3569
Telephone: (203) 897-7619
Email: richard.emmich@rbs.com

and

Attention: Marchette Major
Facsimile: (203) 873-3569
Telephone: (203) 897-7638
Email: marchette.major@rbs.com

Wells Fargo Bank, National Association

Wells Fargo Bank, National Association
Corporate Banking - Utility and Power Group
1300 SW 5th Avenue, 7th Floor
Mail Code: MAC P6101-076
Portland, OR 97201
Attention: Yann Blindert
Telephone: (503) 886-2215
Facsimile: (503) 886-2211
E-mail: yann.blindert@wellsfargo.com

**EXHIBIT A — FORM OF
PROMISSORY NOTE**

, 20

FOR VALUE RECEIVED, the undersigned, ARIZONA PUBLIC SERVICE COMPANY, an Arizona corporation (the “Borrower”), hereby promises to pay to the order of _____ or its registered assigns (the “Lender”), in accordance with the provisions of the Credit Agreement (as hereinafter defined), the principal amount of each Advance from time to time made by the Lender to the Borrower pursuant to the Five-Year Credit Agreement dated as of November 4, 2011 among the Borrower, the Lender and certain other lenders parties thereto, Barclays Bank PLC, as Agent for the Lender and such other lenders, and the issuing banks and other agents party thereto (as amended or modified from time to time, the “Credit Agreement”; the terms defined therein being used herein as therein defined) outstanding on such date.

The Borrower promises to pay interest on the unpaid principal amount of each Advance from the date of such Advance until such principal amount is paid in full, at such interest rates, and payable at such times, as are specified in the Credit Agreement.

Both principal and interest are payable in lawful money of the United States of America to the Agent for the account of the Lender in same day funds at the address and account specified on Schedule 8.02. Each Advance owing to the Lender by the Borrower pursuant to the Credit Agreement, and all payments made on account of principal thereof, shall be recorded by the Lender and, prior to any transfer hereof, endorsed on the grid attached hereto which is part of this Promissory Note.

This Promissory Note is one of the Notes referred to in, and is entitled to the benefits of, the Credit Agreement. The Credit Agreement, among other things, (i) provides for the making of Advances by the Lender to the Borrower from time to time in an aggregate amount not to exceed at any time the Lender’s Unused Commitment, the indebtedness of the Borrower resulting from each such Advance being evidenced by this Promissory Note and (ii) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events and also for prepayments on account of principal hereof prior to the maturity hereof upon the terms and conditions therein specified.

THIS PROMISSORY NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

ARIZONA PUBLIC SERVICE COMPANY

By _____

Name: _____
Title: _____

A-1

ADVANCES AND PAYMENTS OF PRINCIPAL

Date	Amount of Advance	Amount of Principal Paid or Prepaid	Unpaid Principal Balance	Notation Made By

A-2

**EXHIBIT B — FORM OF NOTICE OF
BORROWING**

Barclays Bank PLC, as Agent
for the Lenders parties
to the Credit Agreement
referred to below

Attention: Bank Loan Syndications Department

[Date]

Ladies and Gentlemen:

The undersigned, Arizona Public Service Company, refers to the Five-Year Credit Agreement, dated as of November 4, 2011 (as amended or modified from time to time, the “Credit Agreement”, the terms defined therein being used herein as therein defined), among the undersigned, certain Lenders parties thereto, Barclays Bank PLC, as Agent for said Lenders and the Issuing Banks and other agents party thereto, and hereby gives you notice, irrevocably, pursuant to Section 2.02 of the Credit Agreement that the undersigned hereby requests a Borrowing under the Credit Agreement, and in that connection sets forth below the information relating to such Borrowing (the “Proposed Borrowing”) as required by Section 2.02(a) of the Credit Agreement:

- (i) The Business Day of the Proposed Borrowing is , 20 .
- (ii) The Type of Revolving Advances comprising the Proposed Borrowing is [Base Rate Advances] [Eurodollar Rate Advances].
- (iii) The aggregate amount of the Proposed Borrowing is \$.
- [iv) The initial Interest Period for each Eurodollar Rate Advance made as part of the Proposed Borrowing is month[s].]

The undersigned hereby certifies that the following statements are true on the date hereof, and will be true on the date of the Proposed Borrowing:

(A) the representations and warranties contained in Section 4.01 (other than Sections 4.01(k), 4.01(e)(ii) and 4.01(f)(ii)) of the Credit Agreement are correct, before and after giving effect to the Proposed Borrowing and to the application of the proceeds therefrom, as though made on and as of such date;

(B) no event has occurred and is continuing, or would result from such Proposed Borrowing or from the application of the proceeds therefrom, that constitutes a Default;

(C) all required regulatory authorizations including the 2007 Order and/or any Subsequent Order in respect of the Proposed Borrowing have been obtained and are in full force and effect and, before and after giving effect to the Proposed Borrowing and to the application of

the proceeds therefrom, the Borrower is in compliance with the provisions of the applicable order; and

(D) before and after giving effect to the Proposed Borrowing and to the application of the proceeds therefrom, as though made on and as of such date, the Indebtedness of the Borrower does not exceed that permitted by (i) applicable resolutions of the Board of Directors of the Borrower, (ii) applicable Arizona Laws, or (iii) the 2007 Order or any Subsequent Order, whichever is in force and effect at such time.

Very truly yours,

ARIZONA PUBLIC SERVICE COMPANY

By _____

Name: _____

Title: _____

B-2

**EXHIBIT C — FORM OF
ASSIGNMENT AND ASSUMPTION**

This Assignment and Assumption (the “Assignment and Assumption”) is dated as of the Effective Date set forth below and is entered into by and between [Insert name of Assignor] (the “Assignor”) and [Insert name of Assignee] (the “Assignee”). Capitalized terms used but not defined herein shall have the meanings given to them in the Credit Agreement identified below (as amended, the “Credit Agreement”), receipt of a copy of which is hereby acknowledged by the Assignee. Annex 1 attached hereto (the “Standard Terms and Conditions”) is hereby agreed to and incorporated herein by reference and made a part of this Assignment and Assumption as if set forth herein in full.

For an agreed consideration, the Assignor hereby irrevocably sells and assigns to the Assignee, and the Assignee hereby irrevocably purchases and assumes from the Assignor, subject to and in accordance with the Standard Terms and Conditions and the Credit Agreement, as of the Effective Date referred to below (i) all of the Assignor’s rights and obligations in its capacity as a Lender under the Credit Agreement and any other documents or instruments delivered pursuant thereto to the extent related to the amount and percentage interest identified below of all of such outstanding rights and obligations of the Assignor under the respective facilities identified below (including without limitation any letters of credit, guarantees, and swingline loans included in such facilities) and (ii) to the extent permitted to be assigned under applicable Law, all claims, suits, causes of action and any other right of the Assignor (in its capacity as a Lender) against any Person, whether known or unknown, arising under or in connection with the Credit Agreement, any other documents or instruments delivered pursuant thereto or the loan transactions governed thereby or in any way based on or related to any of the foregoing, including, but not limited to, contract claims, tort claims, malpractice claims, statutory claims and all other claims at Law or in equity related to the rights and obligations sold and assigned pursuant to clause (i) above (the rights and obligations sold and assigned pursuant to clauses (i) and (ii) above being referred to herein collectively as, the “Assigned Interest”). Each such sale and assignment is without recourse to the Assignor and, except as expressly provided in this Assignment and Assumption, without representation or warranty by the Assignor. Assignee shall deliver (if it is not already a Lender) to the Agent an Administrative Questionnaire.

1. Assignor:
2. Assignee:
[and is an Affiliate of [identify Bank](1)]
3. Borrower: Arizona Public Service Company
4. Agent: Barclays Bank PLC, as the administrative agent under the Credit Agreement
5. Credit Agreement: The Five-Year Credit Agreement dated as of November 4, 2011, by and among the Borrower, the Lenders party thereto, the Agent and the Issuing Banks and other agents party thereto.
6. Assigned Interest:

(1) Select as applicable.

Aggregate Amount of Commitment for all Lenders	Amount of Commitment Assigned	Percentage Assigned of Commitment(2)	CUSIP Number
\$	\$	%	

[7. Trade Date:](3)

Effective Date: , 20 [TO BE INSERTED BY AGENT AND WHICH SHALL BE THE EFFECTIVE DATE OF RECORDATION OF TRANSFER IN THE REGISTER THEREFOR.]

The terms set forth in this Assignment and Assumption are hereby agreed to:

ASSIGNOR
[NAME OF ASSIGNOR]

By _____

Name: _____
Title: _____

ASSIGNEE
[NAME OF ASSIGNEE]

By _____

Name: _____
Title: _____

[Consented to and] (4) Accepted:
BARCLAYS BANK PLC, as Agent

By _____
Name: _____
Title: _____

[Consented to:] (5)
[BARCLAYS BANK PLC, as Issuing Bank]

By _____
Name: _____
Title: _____

-
- (2) Set forth, to at least 9 decimals, as a percentage of the Commitment of all Banks thereunder.
 (3) To be completed if the Assignor and the Assignee intend that the minimum assignment amount is to be determined as of the Trade Date.
 (4) To be added only if the consent of the Agent is required by the terms of the Credit Agreement.
 (5) To be added only if the consent of the Borrowers and/or other parties (e.g. Issuing Bank) is required by the terms of the Credit Agreement.

[THE ROYAL BANK OF SCOTLAND plc, as Issuing Bank]

By _____

Name:

Title:

[WELLS FARGO BANK, NATIONAL ASSOCIATION, as Issuing Bank]

By _____

Name:

Title:

ARIZONA PUBLIC SERVICE COMPANY

By _____

Name:

Title:

**ANNEX 1 TO ASSIGNMENT AND ASSUMPTION
STANDARD TERMS AND CONDITIONS FOR
ASSIGNMENT AND ASSUMPTION**

1. Representations and Warranties .

1.1 Assignor. The Assignor (a) represents and warrants that (i) it is the legal and beneficial owner of the Assigned Interest, (ii) the Assigned Interest is free and clear of any lien, encumbrance or other adverse claim and (iii) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby; and (b) assumes no responsibility with respect to (i) any statements, warranties or representations made in or in connection with the Credit Agreement or any other Loan Document, (ii) the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents, (iii) the financial condition of the Borrower, any of its Subsidiaries or Affiliates or any other Person obligated in respect of any Loan Document or (iv) the performance or observance by the Borrower of any of its obligations under any Loan Document.

1.2 Assignee. The Assignee (a) represents and warrants that (i) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby and to become a Lender under the Credit Agreement, (ii) it meets all the requirements to be an Eligible Assignee under Section 8.07 of the Credit Agreement (subject to such consents, if any, as may be required under Section 8.07 of the Credit Agreement), (iii) from and after the Effective Date, it shall be bound by the provisions of the Credit Agreement as a Lender thereunder and, to the extent of the Assigned Interest, shall have the obligations of a Lender thereunder, (iv) it is sophisticated with respect to decisions to acquire assets of the type represented by the Assigned Interest and either it, or the Person exercising discretion in making its decision to acquire the Assigned Interest, is experienced in acquiring assets of such type, (v) it has received a copy of the Credit Agreement, and has received or has been accorded the opportunity to receive copies of the most recent financial statements referred to in Section 4.01(e) or delivered pursuant to Section 5.01(h), as applicable, thereof, as applicable, and such other documents and information as it deems appropriate to make its own credit analysis and decision to enter into this Assignment and Assumption and to purchase the Assigned Interest, (vi) it has, independently and without reliance upon the Agent, the Assignor or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Assignment and Assumption and to purchase the Assigned Interest, and (vi) if it is a foreign lender, attached to the Assignment and Assumption is any documentation required to be delivered by it pursuant to the terms of the Credit Agreement, duly completed and executed by the Assignee; and (b) agrees that (i) it will, independently and without reliance on the Agent, the Assignor or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, and (ii) it will perform in accordance with their terms all of the obligations which by the terms of the Loan Documents are required to be performed by it as a Lender.

2. Payments. From and after the Effective Date, the Agent shall make all payments in respect of the Assigned Interest (including payments of principal, interest, fees and other

amounts) to the Assignor for amounts which have accrued to but excluding the Effective Date and to the Assignee for amounts which have accrued from and after the Effective Date.

3. General Provisions. This Assignment and Assumption shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns. This Assignment and Assumption may be executed in any number of counterparts, which together shall constitute one instrument. Delivery of an executed counterpart of a signature page of this Assignment and Assumption by facsimile shall be effective as delivery of a manually executed counterpart of this Assignment and Assumption. This Assignment and Assumption shall be governed by, and construed in accordance with, the Law of the State of New York.

U.S. \$200,000,000
FIVE-YEAR CREDIT AGREEMENT
Dated as of November 4, 2011

among

PINNACLE WEST CAPITAL CORPORATION,
as Borrower,

THE LENDERS PARTY HERETO,

BARCLAYS BANK PLC ,
as Agent and Issuing Bank.

THE ROYAL BANK OF SCOTLAND plc
and
WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Co-Syndication Agents,

THE ROYAL BANK OF SCOTLAND plc
and
WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Issuing Banks,

BANK OF AMERICA, N.A.
and
CREDIT SUISSE AG, CAYMAN ISLANDS BRANCH,
as Co-Documentation Agents,

BARCLAYS CAPITAL
RBS SECURITIES INC.
WELLS FARGO SECURITIES, LLC
MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED
and
CREDIT SUISSE SECURITIES (USA) LLC,
as Joint Lead Arrangers

and

BARCLAYS CAPITAL
RBS SECURITIES INC.
and
WELLS FARGO SECURITIES, LLC,
as Joint Book Runners

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Exhibit C Form of Assignment and Assumption

FIVE-YEAR CREDIT AGREEMENT

Dated as of November 4, 2011

PINNACLE WEST CAPITAL CORPORATION, an Arizona corporation (the “Borrower”), the banks, financial institutions and other institutional lenders (the “Initial Lenders”) and initial issuing banks (the “Initial Issuing Banks”) listed on the signature pages hereof, the other Lenders (as hereinafter defined), BARCLAYS BANK PLC, as Agent for the Lenders (as hereinafter defined), THE ROYAL BANK OF SCOTLAND plc and WELLS FARGO BANK, NATIONAL ASSOCIATION, as Co-Syndication Agents and BANK OF AMERICA, N.A. and CREDIT SUISSE AG, CAYMAN ISLANDS BRANCH, as Co-Documentation Agents, agree as follows:

The Borrower has requested that the Lenders provide a revolving credit facility for the purposes set forth herein, and the Lenders are willing to do so on the terms and conditions set forth herein.

In consideration of the mutual covenants and agreements herein contained, the parties hereto covenant and agree as follows:

ARTICLE I

DEFINITIONS AND ACCOUNTING TERMS

Section 1.01 Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings:

“Administrative Questionnaire” means an Administrative Questionnaire in a form supplied by the Agent.

“Advance” means a Revolving Advance or a Swingline Advance.

“Affected Lender” means any Lender, as reasonably determined by the Agent or if the Agent is the Affected Lender, by the Required Lenders, that (a) has failed to (i) fund all or any portion of any Revolving Advance within three (3) Business Days of the date such Revolving Advances were required to be funded hereunder unless such Lender notifies the Agent and the Borrower in writing that such failure is the result of such Lender’s determination that one or more conditions precedent to funding (each of which conditions precedent, together with any applicable default, shall be specifically identified in writing) has not been satisfied, or (ii) pay to the Agent, any Issuing Bank, the Swingline Lender, if any, or any other Lender any other amount required to be paid by it hereunder (including in respect of its participation in Letters of Credit and funding obligations in respect of Swingline Advances) within three (3) Business Days of the date when due, (b) has notified the Borrower, the Agent, any Issuing Bank or any Lender in writing of its intention not to fund any Revolving Advance or any of its other funding obligations under this Agreement, (c) has failed, within three Business Days after written request by the Agent, or if the Agent is the Affected Lender, by the Required Lenders, to confirm that it will comply with the terms of this Agreement relating to its obligations to fund prospective

Revolving Advances and other funding obligations under this Agreement or (d) shall (or whose parent company shall) generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or shall have had any proceeding instituted by or against such Lender (or its parent company) seeking to adjudicate it as bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or custodian for it or for any substantial part of its property and, in the case of any such proceeding instituted against it (but not instituted by it), either such proceeding shall remain undismissed or unstayed for a period of 30 days, or any of the actions sought in such proceeding (including, without limitation, the entry of an order for relief against, or the appointment of a receiver, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or custodian for, it or for any substantial part of its property) shall occur, or shall take (or whose parent company shall take) any corporate action to authorize any of the actions set forth above in this subsection (e), provided that a Lender shall not be deemed to be an Affected Lender solely by virtue of the ownership or acquisition of any equity interest in any Lender or any Person that directly or indirectly controls such Lender by a Governmental Authority or an instrumentality thereof.

“Affiliate” means, as to any Person, any other Person that, directly or indirectly, controls, is controlled by or is under common control with such Person or is a director or officer of such Person. For purposes of this definition, the term “control” (including the terms “controlling”, “controlled by” and “under common control with”) of a Person means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of Voting Stock, by contract or otherwise.

“Agent” means Barclays Bank in its capacity as administrative agent under any of the Loan Documents, or any successor administrative agent.

“Agent’s Account” means the account of the Agent designated on Schedule 8.02 under the heading “Agent’s Account” or such other account as the Agent may designate to the Lenders and the Borrower from time to time.

“Agent’s Office” means the Agent’s address and, as appropriate, the Agent’s Account, or such other address or account as the Agent may from time to time notify to the Borrower and the Lenders.

“Applicable Lending Office” means, with respect to each Lender, such Lender’s Domestic Lending Office in the case of a Base Rate Advance and such Lender’s Eurodollar Lending Office in the case of a Eurodollar Rate Advance.

“Applicable Rate” means, from time to time, the following percentages per annum determined by reference to the Public Debt Rating as set forth below:

Public Debt Rating S&P/Moody's	Eurodollar Rate Advances	Base Rate Advances	Commitment Fee
Level 1 \geq A-/A3	1.125%	0.125%	0.125%
Level 2 < Level 1 but \geq BBB+/Baa1	1.250%	0.250%	0.175%
Level 3 < Level 2 but \geq BBB/Baa2	1.500%	0.500%	0.225%
Level 4 < Level 3 but \geq BBB-/Baa3	1.750%	0.750%	0.275%
Level 5 < Level 4 but \geq BB+/Ba1	2.000%	1.000%	0.375%
Level 6 < Level 5	2.250%	1.250%	0.500%

“Approved Fund” means any Fund that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of any entity that administers or manages a Lender.

“APS” means Arizona Public Service Company, an Arizona corporation.

“Arrangers” means, collectively, Barclays Capital, the investment banking division of Barclays Bank PLC, RBS Securities Inc., Wells Fargo Securities, LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, and Credit Suisse Securities (USA) LLC.

“Assignment and Assumption” means an assignment and assumption entered into by a Lender and an Eligible Assignee, and accepted by the Agent, in substantially the form of Exhibit C hereto.

“Assuming Lender” has the meaning specified in Section 2.18(d).

“Assumption Agreement” has the meaning specified in Section 2.18(d)(ii).

“Authorized Officer” means the chairman of the board, chief executive officer, chief operating officer, chief financial officer, chief accounting officer, president, any vice president, treasurer, controller or any assistant treasurer of the Borrower.

“Available Amount” of any Letter of Credit means, at any time, the maximum amount available to be drawn under such Letter of Credit at such time (assuming compliance at such time with all conditions to drawing).

“Barclays Bank” means Barclays Bank PLC.

“Base Rate” means for any day a fluctuating rate per annum equal to the highest of:

- (a) the rate of interest in effect for such day as publicly announced from time to time by the Agent as its “prime rate”;
- (b) the Federal Funds Rate plus 0.50%; and
- (c) an amount equal to (i) the Eurodollar Rate for a one month Interest Period on such day (or if such day is not a Business Day, the immediately preceding Business Day) plus (ii) 1%.

“Prime rate” means the rate of interest in effect for such day as publicly announced from time to time by the Agent as its “prime rate.” The “prime rate” is a rate set by the Agent based upon various factors including the Agent’s costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate. Any change in the “prime rate” announced by the Agent shall take effect at the opening of business on the day specified in the public announcement of such change.

“Base Rate Advance” means a Revolving Advance that bears interest as provided in Section 2.07(a)(i).

“Borrower” has the meaning given to such term in the introductory paragraph hereof.

“Borrower Information” has the meaning specified in Section 8.08.

“Borrowing” means (a) a borrowing consisting of simultaneous Revolving Advances of the same Type made by each of the Lenders pursuant to Section 2.01(a) or (b) Swingline Advances.

“Business Day” means a day of the year on which banks are not required or authorized by Law to close in New York City or Phoenix, Arizona and, if the applicable Business Day relates to any Advance in which interest is calculated by reference to the Eurodollar Rate, on which dealings are carried on in the London interbank market.

“Capital Lease Obligations” means as to any Person, the obligations of such Person to pay rent or other amounts under a lease of (or other agreement conveying the right to use) real and/or personal property, which obligations are required to be classified and accounted for as a capital lease on the balance sheet of such Person under GAAP and, for the purposes of this Agreement, the amount of such obligations shall be the capitalized amount thereof, determined in accordance with GAAP.

“Change in Law” means the occurrence, after the date of this Agreement, of any of the following: (a) the adoption of any Law, (b) any change in any Law or in the administration, interpretation or application thereof by any Governmental Authority or (c) the making or issuance of any request, guideline or directive (whether or not having the force of law) by any Governmental Authority; provided, however, that notwithstanding anything herein to the contrary, (i) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests,

rules, guidelines, requirements and directives thereunder, issued in connection therewith or in implementation thereof, and (ii) all requests, rules, guidelines, requirements and directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to a "Change in Law" regardless of the date enacted, adopted, issued or implemented.

"Commitment" means a Revolving Credit Commitment or a Letter of Credit Commitment.

"Commitment Date" has the meaning specified in Section 2.18(b).

"Commitment Increase" has the meaning specified in Section 2.18(a).

"Consolidated" refers to the consolidation of accounts in accordance with GAAP.

"Consolidated Indebtedness" means, at any date, the Indebtedness of the Borrower and its Consolidated Subsidiaries determined on a Consolidated basis as of such date; provided, however, that so long as the creditors of the VIE Lessor Trusts have no recourse to the assets of APS, "Consolidated Indebtedness" shall not include any Indebtedness or other obligations of the VIE Lessor Trusts.

"Consolidated Net Worth" means, at any date, the sum as of such date of (a) the par value (or value stated on the books of the Borrower) of all classes of capital stock of the Borrower and its Subsidiaries, excluding the Borrower's capital stock owned by the Borrower and/or its Subsidiaries, *plus* (or *minus* in the case of a surplus deficit) (b) the amount of the Consolidated surplus, whether capital or earned, of the Borrower, determined in accordance with GAAP as of the end of the most recent calendar month (excluding the effect on the Borrower's accumulated other comprehensive income/loss of the ongoing application of Accounting Standards Codification Topic 815).

"Consolidated Subsidiary" means, at any date, any Subsidiary or other entity the accounts of which would be Consolidated with those of the Borrower on its Consolidated financial statements if such financial statements were prepared as of such date; provided that in no event will Consolidated Subsidiaries include the VIE Lessor Trusts.

"Convert", "Conversion" and "Converted" each refers to a conversion of Revolving Advances of one Type into Revolving Advances of the other Type pursuant to Section 2.08, Section 2.09 or Section 2.12.

"Credit Extension" means each of the following: (a) a Borrowing and (b) the issuance of a Letter of Credit.

"Debtor Relief Laws" means the Bankruptcy Code of the United States of America, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws of the United States of America or other applicable jurisdictions from time to time in effect and affecting the rights of creditors generally.

“Default” means any Event of Default or any event that would constitute an Event of Default but for the requirement that notice be given or time elapse or both.

“Dollars” or **“\$”** means dollars of the United States of America.

“Domestic Lending Office” means, with respect to any Lender, the office of such Lender described as such in such Lender’s Administrative Questionnaire, or such other office or offices as a Lender may from time to time notify the Borrower and the Agent.

“Effective Date” has the meaning specified in Section 3.01.

“Eligible Assignee” means any Person that meets the requirements to be an assignee under Section 8.07(b)(iii), (v) and (vi) (subject to such consents, if any, as may be required under Section 8.07(b)(iii)).

“Environmental Action” means any action, suit, demand, demand letter, claim, notice of non-compliance or violation, notice of liability or potential liability, investigation, proceeding, consent order or consent agreement relating in any way to any Environmental Law, Environmental Permit or Hazardous Materials or arising from alleged injury or threat of injury to health, safety or the environment and relating to any Environmental Law, including, without limitation, (a) by any Governmental Authority for enforcement, cleanup, removal, response, remedial or other actions or damages and (b) by any Governmental Authority or any third party for damages, contribution, indemnification, cost recovery, compensation or injunctive relief.

“Environmental Law” means any federal, state, local or foreign statute, law, ordinance, rule, regulation, code, order, judgment, decree or judicial or agency interpretation, policy or guidance relating to pollution or protection of the environment, natural resources or, to the extent relating to exposure to Hazardous Materials, human health or safety, including, without limitation, those relating to the use, handling, transportation, treatment, storage, disposal, release or discharge of Hazardous Materials.

“Environmental Permit” means any permit, approval, identification number, license or other authorization required under any Environmental Law.

“ERISA” means the Employee Retirement Income Security Act of 1974.

“ERISA Affiliate” means any trade or business (whether or not incorporated) under common control with the Borrower within the meaning of Section 414(b) or (c) of the Internal Revenue Code (and Sections 414(m) and (o) of the Internal Revenue Code for purposes of provisions relating to Section 412 of the Internal Revenue Code).

“ERISA Event” means (a) a Reportable Event with respect to a Pension Plan; (b) a withdrawal by the Borrower or any ERISA Affiliate from a Pension Plan subject to Section 4063 of ERISA during a plan year in which it was a substantial employer (as defined in Section 4001(a)(2) of ERISA) or a cessation of operations that is treated as such a withdrawal under Section 4062(e) of ERISA; (c) a complete or partial withdrawal by the Borrower or any ERISA Affiliate from a Multiemployer Plan or notification that a Multiemployer Plan is in reorganization; (d) the filing of a notice of intent to terminate, the treatment of a Plan amendment

as a termination under Section 4041 or 4041A of ERISA, or the commencement of proceedings by the PBGC to terminate a Pension Plan or Multiemployer Plan; (e) an event or condition which constitutes grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan or Multiemployer Plan; or (f) the imposition of any liability under Title IV of ERISA, other than for PBGC premiums due but not delinquent under Section 4007 of ERISA, upon the Borrower or any ERISA Affiliate.

“Eurodollar Lending Office” means, with respect to any Lender, the office of such Lender described as such in such Lender’s Administrative Questionnaire, or such other office or offices as a Lender may from time to time notify the Borrower and the Agent.

“Eurodollar Rate” means:

(a) for any Interest Period with respect to a Eurodollar Rate Advance, the rate per annum equal to the British Bankers Association LIBOR Rate (“BBA LIBOR”), as published by Reuters (or other commercially available source providing quotations of BBA LIBOR as designated by the Agent from time to time) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, for Dollar deposits (for delivery on the first day of such Interest Period) with a term equivalent to such Interest Period. If such rate is not available at such time for any reason, then the “Eurodollar Rate” for such Interest Period shall be the rate per annum determined by the Agent to be the rate at which deposits in dollars for delivery on the first day of such Interest Period in same day funds in the approximate amount of the Eurodollar Rate Advance being made, continued or converted by the Agent and with a term equivalent to such Interest Period would be offered by the Agent to major banks in the London interbank eurodollar market at their request at approximately 11:00 a.m. (London time) two Business Days prior to the commencement of such Interest Period; and

(b) for any interest rate calculation with respect to a Base Rate Advance, the rate per annum equal to (i) BBA LIBOR, at approximately 11:00 a.m. two Business Days prior to, London time on the date of determination (provided that if such day is not a Business Day in London, the next preceding Business Day in London) for Dollar deposits being delivered in the London interbank market for a term of one month commencing that day or (ii) if such published rate is not available at such time for any reason, the rate determined by the Agent to be the rate at which deposits in Dollars for delivery on the date of determination in same day funds in the approximate amount of the Base Rate Advance being made, continued or converted by the Agent and with a term equal to one month would be offered by the Agent’s London Branch to major banks in the London interbank Eurodollar market at their request at the date and time of determination.

“Eurodollar Rate Advance” means a Revolving Advance that bears interest at a rate based on the Eurodollar Rate (other than a Base Rate Advance bearing interest at a rate based on the Eurodollar Rate).

“Events of Default” has the meaning specified in Section 6.01.

“Excluded Taxes” means, with respect to the Agent, any Lender, any Issuing Bank or any other recipient of any payment to be made by or on account of any obligation of the Borrower

hereunder, (a) taxes imposed on or measured by its overall net income (however denominated), and franchise taxes imposed on it (in lieu of net income taxes), by the United States of America or the jurisdiction (or any political subdivision thereof) under the Laws of which such recipient is organized or does business or in which its principal office is located or, in the case of any Lender, in which its Applicable Lending Office is located, (b) any branch profits taxes imposed by the United States of America or any similar tax imposed by any other jurisdiction in which the Borrower is located, (c) any backup withholding tax that is required by the Internal Revenue Code to be withheld from amounts payable to a Lender that has failed to comply with clause (A) of Section 2.14(e)(ii), (d) in the case of a Foreign Lender (other than as agreed to between any assignee and the Borrower pursuant to a request by the Borrower under Section 2.20), any United States of America withholding tax that (i) is required to be imposed on amounts payable to such Foreign Lender pursuant to the Laws in force at the time such Foreign Lender becomes a party hereto (or designates a new Applicable Lending Office) or (ii) is attributable to such Foreign Lender's failure or inability (other than as a result of a Change in Law) to comply with clause (B) of Section 2.14(e)(ii), except to the extent that such Foreign Lender (or its assignor, if any) was entitled, at the time of designation of a new Applicable Lending Office (or assignment), to receive additional amounts from the Borrower with respect to such withholding tax pursuant to Section 2.14(a)(i) or (ii) and (v) any United States withholding tax imposed by FATCA.

“FATCA” means Section 1471 through 1474 of the Internal Revenue Code, as of the date of this Agreement, and any regulations or official interpretations thereof.

“Federal Funds Rate” means, for any day, the rate per annum equal to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided that (a) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate (rounded upward, if necessary, to a whole multiple of 1/100 of 1%) charged to the Agent on such day on such transactions as determined by the Agent, and (c) solely for purposes for determining the Money Market Rate, any such other publication or means of determining the rate for federal funds as agreed to between the Borrower and Swingline Lender.

“Fee Letters” means (a) each of the following letters to the Borrower dated October 11, 2011: (i) the letter from Barclays Capital, RBS Securities Inc. and Wells Fargo Securities, LLC, (ii) the letter from Merrill Lynch, Pierce, Fenner & Smith Incorporated and Credit Suisse Securities (USA) LLC, and (iii) the agent fee letter from Barclays Bank PLC, as Agent, each relating to certain fees payable by the Borrower to such parties in respect of the transactions contemplated by this Agreement and (b) any letter between the Borrower and any Issuing Bank other than an Initial Issuing Bank relating to certain fees payable to such Issuing Bank in its capacity as such, each as amended, modified, restated or supplemented from time to time.

“Foreign Lender” means any Lender that is organized under the Laws of a jurisdiction other than that in which the Borrower is resident for tax purposes (including such a Lender when acting in the capacity of an Issuing Bank or a Swingline Lender). For purposes of this definition,

the United States of America, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

“Four Corners Acquisition” means the acquisition by APS from Southern California Edison Company (“SCE”) of SCE’s interests in Units 4 and 5 of the Four Corners Power Plant near Farmington, New Mexico, pursuant to the Purchase and Sale Agreement, dated as of November 8, 2010, by and between SCE and APS.

“Fund” means any Person (other than a natural person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its business.

“GAAP” has the meaning specified in Section 1.03.

“Governmental Authority” means the government of the United States of America or any other nation, or of any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including any supra-national bodies such as the European Union or the European Central Bank).

“Guarantee” means as to any Person, any obligation, contingent or otherwise, of such Person directly or indirectly guaranteeing any Indebtedness of any other Person or in any manner providing for the payment of any Indebtedness of any other Person or otherwise protecting the holder of such Indebtedness against loss (whether by virtue of partnership arrangements, agreements to keep well, to purchase assets, goods, securities or services, or to take-or-pay or otherwise), provided that the term “Guarantee” shall not include endorsements for collection or deposit in the ordinary course of business. The term “Guarantee” used as a verb has a corresponding meaning.

“Hazardous Materials” means (a) petroleum and petroleum products, byproducts or breakdown products, radioactive materials, asbestos-containing materials, polychlorinated biphenyls and radon gas and (b) any other chemicals, materials or substances designated, classified or regulated as hazardous or toxic or as a pollutant or contaminant under any Environmental Law.

“Hedge Agreement” means any interest rate swap, cap or collar agreement, interest rate future or option contract, currency swap agreement, currency future or option contract, commodity future or option contract, commodity forward contract or other similar agreement.

“Increase Date” has the meaning specified in Section 2.18(a).

“Increasing Lender” has the meaning specified in Section 2.18(b).

“Indebtedness” means as to any Person at any date (without duplication): (a) indebtedness created, issued, incurred or assumed by such Person for borrowed money or evidenced by bonds, debentures, notes or similar instruments; (b) all obligations of such Person to pay the deferred purchase price of property or services, excluding, however, trade accounts

payable (other than for borrowed money) arising in, and accrued expenses incurred in, the ordinary course of business of such Person so long as such trade accounts payable are paid within 180 days (unless subject to a good faith dispute) of the date incurred; (c) all Indebtedness secured by a lien on any asset of such Person, to the extent such Indebtedness has been assumed by, or is a recourse obligation of, such Person; (d) all Guarantees by such Person; (e) all Capital Lease Obligations of such Person; and (f) the amount of all reimbursement obligations of such Person (whether contingent or otherwise) in respect of letters of credit, bankers' acceptances, surety or other bonds and similar instruments in support of Indebtedness.

“Indemnified Taxes” means Taxes other than Excluded Taxes.

“Initial Issuing Banks” has the meaning given to such term in the introductory paragraph hereof.

“Initial Lenders” has the meaning given to such term in the introductory paragraph hereof.

“Interest Period” means, for each Eurodollar Rate Advance comprising part of the same Borrowing, the period commencing on the date such Eurodollar Rate Advance is disbursed or the date of the Conversion of any Base Rate Advance into such Eurodollar Rate Advance and ending on the last day of the period selected by the Borrower pursuant to the provisions below and, thereafter, each subsequent period commencing on the last day of the immediately preceding Interest Period and ending on the last day of the period selected by the Borrower pursuant to the provisions below. The duration of each such Interest Period shall be one, two, three or six months, as the Borrower may, upon notice received by the Agent not later than 12:00 noon on the third Business Day prior to the first day of such Interest Period, select; provided, however, that:

- (a) the Borrower may not select any Interest Period that ends after the Termination Date;
- (b) Interest Periods commencing on the same date for Eurodollar Rate Advances comprising part of the same Borrowing shall be of the same duration;
- (c) whenever the last day of any Interest Period would otherwise occur on a day other than a Business Day, the last day of such Interest Period shall be extended to occur on the next succeeding Business Day, provided, however, that, if such extension would cause the last day of such Interest Period to occur in the next following calendar month, the last day of such Interest Period shall occur on the next preceding Business Day; and
- (d) whenever the first day of any Interest Period occurs on a day of an initial calendar month for which there is no numerically corresponding day in the calendar month that succeeds such initial calendar month by the number of months equal to the number of months in such Interest Period, such Interest Period shall end on the last Business Day of such succeeding calendar month.

“Internal Revenue Code” means the Internal Revenue Code of 1986, as amended from time to time, and the regulations promulgated and rulings issued thereunder.

“ISP” means, with respect to any Letter of Credit, the “International Standby Practices 1998” published by the Institute of International Banking Law & Practice, Inc. (or such later version thereof as may be in effect at the time of issuance).

“Issuing Bank” means the Initial Issuing Banks or any other Lender approved by the Borrower that may agree to issue Letters of Credit pursuant to an Assignment and Assumption or other agreement in form satisfactory to the Borrower and the Agent, so long as such Lender expressly agrees to perform in accordance with their terms all of the obligations that by the terms of this Agreement are required to be performed by it as an Issuing Bank and notifies the Agent of its Applicable Lending Office (which information shall be recorded by the Agent in the Register), for so long as such Initial Issuing Bank or Lender, as the case may be, shall have a Letter of Credit Commitment.

“L/C Advance” means, with respect to each Lender, such Lender’s funding of its participation in any L/C Borrowing in accordance with its Ratable Share.

“L/C Borrowing” means an extension of credit resulting from a drawing under any Letter of Credit which has not been reimbursed on the date when made nor refinanced as a Base Rate Advance.

“L/C Cash Deposit Account” means an interest bearing cash deposit account to be established and maintained by the Agent, over which the Agent shall have sole dominion and control, upon terms as may be satisfactory to the Agent.

“L/C Obligations” means, as at any date of determination, the aggregate Available Amount of all outstanding Letters of Credit plus the aggregate of all Unreimbursed Amounts, including all L/C Borrowings. For all purposes of this Agreement, if on any date of determination a Letter of Credit has expired by its terms but any amount may still be drawn thereunder by reason of the operation of Rule 3.14 of the ISP, such Letter of Credit shall be deemed to be “outstanding” in the amount so remaining available to be drawn.

“L/C Related Documents” means with respect to any Letter of Credit, the Letter of Credit Application, and any other document, agreement and instrument entered into by any Issuing Bank and the Borrower or in favor of any Issuing Bank and relating to such Letter of Credit.

“Laws” means, collectively, all international, foreign, Federal, state and local statutes, treaties, rules, guidelines, regulations, ordinances, codes and administrative or judicial precedents or authorities, including the interpretation or administration thereof by any Governmental Authority charged with the enforcement, interpretation or administration thereof, and all applicable administrative orders, directed duties, licenses, authorizations and permits of, and agreements with, any Governmental Authority.

“Lenders” means the Initial Lenders, each Issuing Bank, the Swingline Lender, if any, each Assuming Lender that shall become a party hereto pursuant to Section 2.18 and each Person that shall become a party hereto pursuant to Section 8.07.

“Letter of Credit” has the meaning specified in Section 2.01(b).

“Letter of Credit Application” means an application and agreement for the issuance or amendment of a Letter of Credit in the form from time to time in use by any Issuing Bank.

“Letter of Credit Commitment” means, with respect to each Issuing Bank, the obligation of such Issuing Bank to issue Letters of Credit for the account of the Borrower from time to time in an aggregate amount equal to (a) for each of the Initial Issuing Banks, \$30,000,000 and (b) for any other Issuing Bank, as separately agreed to by such Issuing Bank and the Borrower. The Letter of Credit Commitment is part of, and not in addition to, the Revolving Credit Commitments.

“Letter of Credit Expiration Date” means the day that is five Business Days prior to the Termination Date.

“Lien” means any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or otherwise), charge or other security interest or preferential arrangement that has the practical effect of creating a security interest, including, without limitation, the lien or retained security title of a conditional vendor and any easement, right of way or other encumbrance on title to real property, and any capital lease having substantially the same economic effect as any of the foregoing.

“Loan Documents” mean this Agreement, each Note, each L/C Related Document and the Fee Letters.

“Material Adverse Effect” means a material adverse effect on (a) the financial condition, operations, business or property of the Borrower and its Subsidiaries (excluding SunCor Development Company and its Subsidiaries) taken as a whole, (b) the rights and remedies of the Agent or any Lender under this Agreement or any Note or (c) the ability of the Borrower to perform its obligations under this Agreement or any Note.

“Material Subsidiary” means APS, at any time, and each other Subsidiary of the Borrower (excluding SunCor Development Company and its Subsidiaries) which as of such time meets the definition of a “significant subsidiary” included as of the date hereof in Regulation S-X of the Securities and Exchange Commission or whose assets at such time exceed 10% of the assets of the Borrower and the Subsidiaries (on a consolidated basis).

“Money Market Rate” means (a) the Federal Funds Rate plus (b) the Applicable Rate for Eurodollar Rate Advances.

“Money Market Rate Advance” means a Swingline Advance that bears interest at a rate based on the Money Market Rate.

“Moody’s” means Moody’s Investors Service, Inc.

“Multiemployer Plan” means any employee benefit plan of the type described in Section 4001(a)(3) of ERISA, to which the Borrower or any ERISA Affiliate makes or is

obligated to make contributions, or during the preceding five plan years, has made or been obligated to make contributions.

“Note” means a promissory note of the Borrower payable to the order of any Lender, delivered pursuant to a request made under Section 2.16 in substantially the form of Exhibit A hereto.

“Notice of Borrowing” has the meaning specified in Section 2.02(a).

“Obligations” means all advances to, and debts, liabilities, obligations, covenants and duties of, the Borrower arising under any Loan Document or otherwise with respect to any Revolving Advance, Swingline Advance or Letter of Credit, whether direct or indirect (including those acquired by assumption), absolute or contingent, due or to become due, now existing or hereafter arising and including interest and fees that accrue under any Loan Document after the commencement by or against the Borrower of any proceeding under any Debtor Relief Laws naming such Person as the debtor in such proceeding, regardless of whether such interest and fees are allowed claims in such proceeding.

“Other Taxes” means all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or under any other Loan Document or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement or any other Loan Document.

“PBGC” means the Pension Benefit Guaranty Corporation.

“Pension Plan” means any “employee pension benefit plan” (as such term is defined in Section 3(2) of ERISA), other than a Multiemployer Plan, that is subject to Title IV of ERISA and is sponsored or maintained by the Borrower or any ERISA Affiliate or to which the Borrower or any ERISA Affiliate contributes or has an obligation to contribute, or in the case of a multiple employer or other plan described in Section 4064(a) of ERISA, has made contributions at any time during the immediately preceding five plan years.

“Person” means an individual, partnership, corporation (including a business trust), joint stock company, trust, unincorporated association, joint venture, limited liability company or other entity, or a government or any political subdivision or agency thereof.

“Plan” means any “employee benefit plan” (as such term is defined in Section 3(3) of ERISA) established by the Borrower or, with respect to any such plan that is subject to Section 412 of the Internal Revenue Code or Title IV of ERISA, any ERISA Affiliate.

“Public Debt Rating” means, as of any date, the rating that has been most recently announced by either S&P or Moody’s, as the case may be, applicable to any outstanding class of non-credit enhanced long-term senior unsecured debt issued by, or, if no such senior unsecured debt is outstanding at the time of determination, such rating for bank credit facilities for, the Borrower or, if any such rating agency shall have issued more than one such rating, the lowest such rating issued by such rating agency. For purposes of the foregoing, (a) if only one of S&P and Moody’s shall have in effect a Public Debt Rating, the Applicable Rate shall be determined by reference to the available rating; (b) if neither S&P nor Moody’s shall have in effect a Public

Debt Rating, the Applicable Rate will be set in accordance with Level 6 under the definition of “Applicable Rate”; (c) if the ratings established by S&P and Moody’s shall fall within different levels, the Applicable Rate shall be based upon the higher rating unless such ratings differ by two or more levels, in which case the applicable level will be deemed to be one level below the higher of such levels; (d) if any rating established by S&P or Moody’s shall be changed (other than as a result of a change in the basis on which ratings are established), such change shall be effective as of the date on which such change is first announced publicly by the rating agency making such change; and (e) if S&P or Moody’s shall change the basis on which ratings are established, each reference to the Public Debt Rating announced by S&P or Moody’s, as the case may be, shall refer to the then equivalent rating by S&P or Moody’s, as the case may be.

“PVNGS” means the Palo Verde Nuclear Generating Station.

“Ratable Share” of any amount means, with respect to any Lender at any time but subject to the provisions of Section 2.19, the product of such amount times a fraction the numerator of which is the amount of such Lender’s Revolving Credit Commitment at such time (or, if the Revolving Credit Commitments shall have been terminated pursuant to Section 2.05 or 6.01, such Lender’s Revolving Credit Commitment as in effect immediately prior to such termination) and the denominator of which is the aggregate amount of all Revolving Credit Commitments at such time (or, if the Revolving Credit Commitments shall have been terminated pursuant to Section 2.05 or 6.01, the aggregate amount of all Revolving Credit Commitments as in effect immediately prior to such termination).

“Register” has the meaning specified in Section 8.07(c).

“Related Parties” means, with respect to any Person, such Person’s Affiliates and the partners, directors, officers, employees, agents, trustees and advisors of such Person and of such Person’s Affiliates.

“Reportable Event” means any of the events set forth in Section 4043(c) of ERISA, other than events for which the 30-day notice period has been waived under the final regulations issued under Section 4043, as in effect as of the date of this Agreement (the “Section 4043 Regulations”). Any changes made to the Section 4043 Regulations that become effective after the Effective Date shall have no impact on the definition of Reportable Event as used herein unless otherwise amended by the Borrower and the Required Lenders.

“Required Lenders” means, at any time, but subject to Section 2.19, Lenders holding in the aggregate more than 50% of (a) the Revolving Credit Commitments or (b) if the Revolving Credit Commitments have been terminated, the Total Outstandings.

“Revolving Advance” means an advance by a Lender to the Borrower as part of a Borrowing, including a Base Rate Advance made pursuant to Section 2.03(c), but excluding any L/C Advance made as part of an L/C Borrowing and any Swingline Advance, and refers to a Base Rate Advance or a Eurodollar Rate Advance (each of which shall be a Type of Revolving Advance).

“Revolving Credit Commitment” means, as to any Lender, its obligation to (a) make Revolving Advances to the Borrower pursuant to Section 2.01 and 2.03(c), (b) purchase

participations in L/C Obligations and (c) make Revolving Advances pursuant to Section 2.03A(c) for the purpose of repaying Swingline Advances, in an aggregate principal amount at any one time outstanding not to exceed the amount set forth opposite such Lender's name on Schedule 1.01 under the column "Revolving Credit Commitment" or if such Lender has become a Lender hereunder pursuant to an Assumption Agreement or if such Lender has entered into any Assignment and Assumption, the amount set forth for such Lender in the Register, in each case as such amount may be reduced pursuant to Section 2.05 or increased pursuant to Section 2.18.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.

"Sale Leaseback Obligation Bonds" means PVNGS II Funding Corp.'s (a) 8.00% Secured Lease Obligation Bonds, Series 1993, due 2015; (b) any other bonds issued by or on behalf of the Borrower in connection with a sale/leaseback transaction; and (c) any refinancing or refunding of the obligations specified in subclauses (a) and (b) above.

"SEC Reports" means the Borrower's (i) Form 10-K Report for the year ended December 31, 2010, (ii) Form 10-Q Reports for the quarters ended March 31, 2011, June 30, 2011, and September 30, 2011, (iii) Form 8-K Reports filed on February 18, February 22, February 25, April 22, May 24, June 1, June 28, July 1, and August 24 of 2011.

"Subsidiary" of any Person means any corporation, partnership, joint venture, limited liability company, trust or estate of which (or in which) more than 50% of (a) the issued and outstanding Voting Stock, (b) the interest in the capital or profits of such limited liability company, partnership or joint venture or (c) the beneficial interest in such trust or estate, is at the time directly or indirectly owned or controlled by such Person, by such Person and one or more of its other Subsidiaries or by one or more of such Person's other Subsidiaries; provided that in no event will Subsidiaries include the VIE Lessor Trusts.

"Swingline Advance" means an advance made by the Swingline Lender, if any, to the Borrower pursuant to Section 2.03A.

"Swingline Eurodollar Rate Advance" means a Swingline Advance that bears interest at a rate equivalent to (a) clause (b) under the definition of Eurodollar Rate, plus (b) the Applicable Rate for Eurodollar Rate Advances.

"Swingline Exposure" means, at any time, the aggregate principal amount of all Swingline Advances outstanding at such time. The Swingline Exposure of any Lender shall be its Ratable Share of the total Swingline Exposure at such time.

"Swingline Lender" means, upon notice to the Agent by such Lender and the Borrower, any Lender approved by the Borrower and the Agent from time to time that may agree to fund Swingline Advances.

"Taxes" means all present or future taxes, levies, imposts, duties, deductions, withholdings (including backup withholding), assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

“Termination Date” means the earlier of (a) November 4, 2016 and (b) the date of termination in whole of the Commitments pursuant to Section 2.05 or 6.01.

“Total Outstandings” means the sum of (a) the aggregate principal amount of all Revolving Advances plus (b) all L/C Obligations outstanding plus (c) the aggregate Swingline Exposure.

“Type” means a Base Rate Advance or a Eurodollar Rate Advance.

“Unreimbursed Amount” has the meaning specified in Section 2.03(c)(i).

“Unissued Letter of Credit Commitment” means, with respect to any Issuing Bank, the obligation of such Issuing Bank to issue Letters of Credit for the account of the Borrower in an amount equal to the excess of (a) the amount of its Letter of Credit Commitment over (b) the aggregate Available Amount of all Letters of Credit issued by such Issuing Bank.

“Unused Commitment” means, with respect to each Lender at any time, (a) such Lender’s Revolving Credit Commitment at such time minus (b) the sum of (i) the aggregate principal amount of all Revolving Advances made by such Lender (in its capacity as a Lender) and outstanding at such time and (ii) such Lender’s Ratable Share of the aggregate L/C Obligations and, other than for the purposes of calculation of the commitment fees, such Lender’s Ratable Share of the aggregate Swingline Exposure outstanding at such time.

“VIE Lessor Trusts” means the three (3) separate variable-interest entity lessor trusts that purchased from, and leased back to, APS certain interests in the PVNGS Unit 2 and related common facilities, as described in Note 9 of Notes to Condensed Consolidated Financial Statements in APS’ Quarterly Report on Form 10-Q for the quarter ended March 31, 2010.

“Voting Stock” means capital stock issued by a corporation, or equivalent interests in any other Person, the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of directors (or persons performing similar functions) of such Person, even if the right so to vote has been suspended by the happening of such a contingency.

Section 1.02 Other Interpretive Provisions. With reference to this Agreement and each other Loan Document, unless otherwise specified herein or in such other Loan Document:

(a) The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include,” “includes” and “including” shall be deemed to be followed by the phrase “without limitation.” The word “will” shall be construed to have the same meaning and effect as the word “shall.” Unless the context requires otherwise, (i) any definition of or reference to any agreement, instrument or other document shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein or in any other Loan Document), (ii) any reference herein to any Person shall be construed to include such Person’s permitted successors and permitted assigns, (iii) the words “herein,” “hereof” and “hereunder,” and words of similar import when used in any Loan Document, shall be construed to refer to

such Loan Document in its entirety and not to any particular provision thereof, (iv) all references in a Loan Document to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, the Loan Document in which such references appear, (v) any reference to any law shall include all statutory and regulatory provisions consolidating, amending, replacing or interpreting such law and any reference to any law or regulation shall, unless otherwise specified, refer to such law or regulation as amended, modified or supplemented from time to time, and (vi) the words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

(b) In the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including;" the words "to" and "until" each mean "to but excluding;" and the word "through" means "to and including."

(c) Section headings herein and in the other Loan Documents are included for convenience of reference only and shall not affect the interpretation of this Agreement or any other Loan Document.

Section 1.03 Accounting Terms. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared, in accordance with generally accepted accounting principles as in effect from time to time, applied on a basis consistent (except for changes concurred in by the Borrower's independent public accountants) with the most recent audited Consolidated financial statements of the Borrower delivered to the Agent ("GAAP"). If at any time any change in GAAP or in the interpretation thereof would affect the computation of any financial ratio or requirement set forth in any Loan Document, and either the Borrower or the Required Lenders shall so request, the Agent, the Lenders and the Borrower shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in GAAP or in the interpretation thereof (subject to the approval of the Required Lenders); provided that, unless and until so amended, such ratio or requirement shall continue to be computed in accordance with GAAP prior to such change therein.

Section 1.04 Rounding. Any financial ratios required to be maintained by the Borrower pursuant to this Agreement shall be calculated by dividing the appropriate component by the other component, carrying the result to one place more than the number of places by which such ratio is expressed herein and rounding the result up or down to the nearest number (with a rounding-up if there is no nearest number).

Section 1.05 Times of Day. Unless otherwise specified, all references herein to times of day shall be references to Eastern time (daylight or standard, as applicable).

ARTICLE II

AMOUNTS AND TERMS OF THE ADVANCES AND LETTERS OF CREDIT

Section 2.01 The Revolving Advances and Letters of Credit.

(a) The Revolving Advances. Each Lender severally agrees, on the terms and conditions hereinafter set forth, to make Revolving Advances in Dollars to the Borrower from time to time on any Business Day during the period from the Effective Date until the Termination Date in an amount not to exceed such Lender's Unused Commitment. Each Borrowing (other than a Swingline Advance) shall be in an aggregate amount of \$5,000,000 or an integral multiple of \$1,000,000 in excess thereof and shall consist of Revolving Advances of the same Type made on the same day by the Lenders ratably according to their respective Revolving Credit Commitments. Within the limits of each Lender's Revolving Credit Commitment, and subject to the other terms and conditions hereof, the Borrower may borrow under this Section 2.01(a), prepay pursuant to Section 2.10 and reborrow under this Section 2.01(a). Any Swingline Advance shall be made and repaid in accordance with the procedures set forth in Section 2.03A.

(b) Letters of Credit. Each Issuing Bank agrees, on the terms and conditions hereinafter set forth, in reliance upon the agreements of the other Lenders set forth in this Agreement, to issue standby letters of credit (each a "Letter of Credit") for the account of the Borrower from time to time on any Business Day during the period from the Effective Date until 30 days before the Termination Date in an aggregate Available Amount for all Letters of Credit issued by each Issuing Bank not to exceed at any time such Issuing Bank's Letter of Credit Commitment, provided that after giving effect to the issuance of any Letter of Credit, (i) the Total Outstanding shall not exceed the aggregate Revolving Credit Commitments and (ii) each Lender's Ratable Share of the Total Outstanding shall not exceed such Lender's Revolving Credit Commitment. No Letter of Credit shall have an expiration date (including all rights of the Borrower or the beneficiary to require renewal) later than the Letter of Credit Expiration Date. Within the limits referred to above, the Borrower may from time to time request the issuance of Letters of Credit under this Section 2.01(b). The terms "issue", "issued", "issuance" and all similar terms, when applied to a Letter of Credit, shall include any renewal, extension or amendment thereof.

Section 2.02 Making the Revolving Advances .

(a) Except as otherwise provided in Section 2.03(c), each Borrowing (other than a Swingline Advance) shall be made on notice, given not later than (x) 12:00 noon on the third Business Day prior to the date of the proposed Borrowing in the case of a Borrowing consisting of Eurodollar Rate Advances or (y) 12:00 noon on the date of the proposed Borrowing in the case of a Borrowing consisting of Base Rate Advances, by the Borrower to the Agent, which shall give to each Lender prompt notice thereof by facsimile. Each such notice of a Borrowing (a "Notice of Borrowing") shall be in writing or by facsimile in substantially the form of Exhibit B hereto, specifying therein the requested (i) date of such Borrowing, (ii) Type of Revolving Advances comprising such Borrowing, (iii) aggregate amount of such Borrowing, and (iv) in the

case of a Borrowing consisting of Eurodollar Rate Advances, initial Interest Period for each such Revolving Advance. Each Lender shall, in the case of a Borrowing consisting of Base Rate Advances, before 2:00 p.m. on the date of such Borrowing, and in the case of a Borrowing consisting of Eurodollar Rate Advances, before 11:00 a.m. on date of such Borrowing, make available for the account of its Applicable Lending Office to the Agent at the Agent's Account, in same day funds, such Lender's Ratable Share of such Borrowing. After the Agent's receipt of such funds and upon fulfillment of the applicable conditions set forth in Article III, the Agent will make such funds available to the Borrower at the Agent's address referred to in Section 8.02 or as requested by the Borrower in the applicable Notice of Borrowing.

(b) Anything in subsection (a) above to the contrary notwithstanding, (i) the Borrower may not select Eurodollar Rate Advances for any Borrowing if the aggregate amount of such Borrowing is less than \$5,000,000 or if the obligation of the Lenders to make Eurodollar Rate Advances shall then be suspended pursuant to Section 2.08 or 2.12 and (ii) at no time shall there be more than fifteen different Interest Periods outstanding for Eurodollar Rate Advances.

(c) Each Notice of Borrowing shall be irrevocable and binding on the Borrower. In the case of any Borrowing that the related Notice of Borrowing specifies is to be comprised of Eurodollar Rate Advances, the Borrower shall indemnify each Lender against any loss, cost or expense reasonably incurred by such Lender as a result of any failure to fulfill on or before the date specified in such Notice of Borrowing for such Borrowing the applicable conditions set forth in Article III, including, without limitation, any loss (excluding loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Lender to fund the Revolving Advance to be made by such Lender as part of such Borrowing when such Revolving Advance, as a result of such failure, is not made on such date.

(d) Unless the Agent shall have received notice from a Lender prior to the time of the applicable Borrowing that such Lender will not make available to the Agent such Lender's Ratable Share of such Borrowing, the Agent may assume that such Lender has made such portion available to the Agent on the date of such Borrowing in accordance with subsection (a) of this Section 2.02 and the Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Lender shall not have so made such Ratable Share available to the Agent, such Lender and the Borrower severally agree to repay to the Agent within one Business Day after demand for such Lender and within three Business Days after demand for the Borrower such corresponding amount together with interest thereon, for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Agent, at (i) in the case of the Borrower, the interest rate applicable at the time to Revolving Advances comprising such Borrowing and (ii) in the case of such Lender, the Federal Funds Rate. If the Borrower and such Lender shall pay such interest to the Agent for the same or an overlapping period, the Agent shall promptly remit to the Borrower the amount of such interest paid by the Borrower for such period. If such Lender shall repay to the Agent such corresponding amount, such amount so repaid shall constitute such Lender's Revolving Advance as part of such Borrowing for purposes of this Agreement.

(e) The failure of any Lender to make the Revolving Advance to be made by it as part of any Borrowing shall not relieve any other Lender of its obligation, if any, hereunder to make

its Revolving Advance on the date of such Borrowing, but no Lender shall be responsible for the failure of any other Lender to make the Revolving Advance to be made by such other Lender on the date of any Borrowing.

Section 2.03 Letters of Credit.

(a) General.

(i) No Issuing Bank shall issue any Letter of Credit, if the expiry date of such requested Letter of Credit would occur after the Letter of Credit Expiration Date, unless all the Lenders have approved such expiry date.

(ii) No Issuing Bank shall be under any obligation to issue any Letter of Credit if:

(A) any order, judgment or decree of any Governmental Authority or arbitrator shall by its terms purport to enjoin or restrain such Issuing Bank from issuing such Letter of Credit, or any Law applicable to such Issuing Bank or any request or directive (whether or not having the force of law) from any Governmental Authority with jurisdiction over such Issuing Bank shall prohibit, or request that such Issuing Bank refrain from, the issuance of letters of credit generally or such Letter of Credit in particular or shall impose upon such Issuing Bank with respect to such Letter of Credit any restriction, reserve or capital requirement (for which such Issuing Bank is not otherwise compensated hereunder) not in effect on the Effective Date, or shall impose upon such Issuing Bank any unreimbursed loss, cost or expense which was not applicable on the Effective Date and which, in each such case, such Issuing Bank in good faith deems material to it;

(B) except as otherwise agreed by the Borrower and such Issuing Bank, such Letter of Credit is in an initial stated amount less than \$350,000;

(C) such Letter of Credit is to be denominated in a currency other than Dollars;

(D) such Letter of Credit contains any provisions for automatic reinstatement of the stated amount after any drawing thereunder;

(E) subject to Section 2.03(b)(iii), the expiry date of such requested Letter of Credit would occur more than twelve months after the date of issuance or last extension; or

(F) any Lender is at such time an Affected Lender hereunder, unless the applicable Issuing Bank is satisfied that the related exposure will be 100% covered by the Commitments of the non-Affected Lenders or, if not so covered, until such Issuing Bank has entered into arrangements satisfactory to it in its sole discretion with the Borrower or such Affected Lender to eliminate such Issuing Bank's risk with respect to such Affected Lender, and participating interests in

any such newly issued Letter of Credit shall be allocated among non-Affected Lenders in a manner consistent with Section 2.19(c)(i) (and Affected Lenders shall not participate therein);

(iii) No Issuing Bank shall amend any Letter of Credit if such Issuing Bank would not be permitted at such time to issue such Letter of Credit in its amended form under the terms hereof.

(iv) No Issuing Bank shall be under any obligation to amend any Letter of Credit if (A) such Issuing Bank would have no obligation at such time to issue such Letter of Credit in its amended form under the terms hereof, or (B) the beneficiary of such Letter of Credit does not accept the proposed amendment to such Letter of Credit.

(b) Procedures for Issuance and Amendment of Letters of Credit; Auto-Extension Letters of Credit .

(i) Each Letter of Credit shall be issued or amended, as the case may be, upon the request of the Borrower delivered to the applicable Issuing Bank (with a copy to the Agent) in the form of a Letter of Credit Application, appropriately completed and signed by an Authorized Officer of the Borrower. Such Letter of Credit Application must be received by such Issuing Bank and the Agent not later than 11:00 a.m. at least two Business Days (or such later date and time as the Agent and such Issuing Bank may agree in a particular instance in their sole discretion) prior to the proposed issuance date or date of amendment, as the case may be. In the case of a request for an initial issuance of a Letter of Credit, such Letter of Credit Application shall specify in form and detail satisfactory to the applicable Issuing Bank: (A) the proposed issuance date of the requested Letter of Credit (which shall be a Business Day); (B) the amount thereof; (C) the expiry date thereof; (D) the name and address of the beneficiary thereof; (E) the documents to be presented by such beneficiary in case of any drawing thereunder; (F) the full text of any certificate to be presented by such beneficiary in case of any drawing thereunder; (G) the purpose and nature of the requested Letter of Credit; and (H) such other matters as such Issuing Bank may require. In the case of a request for an amendment of any outstanding Letter of Credit, such Letter of Credit Application shall specify in form and detail satisfactory to the applicable Issuing Bank (A) the Letter of Credit to be amended; (B) the proposed date of amendment thereof (which shall be a Business Day); (C) the nature of the proposed amendment; and (D) such other matters as such Issuing Bank may require. Additionally, the Borrower shall furnish to the applicable Issuing Bank and the Agent such other documents and information pertaining to such requested Letter of Credit issuance or amendment, including any L/C Related Documents, as the applicable Issuing Bank or the Agent may require. In the event and to the extent that the provisions of any Letter of Credit Application or other L/C Related Document shall conflict with this Agreement, the provisions of this Agreement shall govern. Without limitation of the immediately preceding sentence, no such Letter of Credit Application or other L/C Related Document may impose any additional conditions on the issuance or maintenance of a Letter of Credit, any additional default provisions, collateral requirements or other obligations of the Borrower to any Issuing Bank, other than as stated in this Agreement.

(ii) Promptly after receipt of any Letter of Credit Application, the applicable Issuing Bank will confirm with the Agent (by telephone or in writing) that the Agent has received a copy of such Letter of Credit Application from the Borrower and, if not, such Issuing Bank will provide the Agent with a copy thereof. Unless the applicable Issuing Bank has received written notice from the Required Lenders, the Agent or the Borrower, at least one Business Day prior to the requested date of issuance or amendment of the applicable Letter of Credit, that one or more applicable conditions contained in Article III shall not then be satisfied, then, subject to the terms and conditions hereof, such Issuing Bank shall, on the requested date, issue a Letter of Credit for the account of the Borrower or enter into the applicable amendment, as the case may be, in each case in accordance with such Issuing Bank's usual and customary business practices. Immediately upon the issuance of each Letter of Credit, each Lender shall be deemed to, and hereby irrevocably and unconditionally agrees to, purchase from such Issuing Bank a risk participation in such Letter of Credit in an amount equal to the product of such Lender's Ratable Share times the amount of such Letter of Credit.

(iii) If the Borrower so requests in any applicable Letter of Credit Application, the applicable Issuing Bank may, in its sole and absolute discretion, agree to issue a Letter of Credit that has automatic extension provisions (each, an "Auto-Extension Letter of Credit"); provided that any such Auto-Extension Letter of Credit must permit such Issuing Bank to prevent any such extension at least once in each twelve-month period (commencing with the date of issuance of such Letter of Credit) by giving prior notice to the beneficiary thereof not later than a day (the "Non-Extension Notice Date") in each such twelve-month period to be agreed upon at the time such Letter of Credit is issued. Unless otherwise directed by the applicable Issuing Bank, the Borrower shall not be required to make a specific request to the applicable Issuing Bank for any such extension. Once an Auto-Extension Letter of Credit has been issued, the Lenders shall be deemed to have authorized (but may not require) the applicable Issuing Bank to permit the extension of such Letter of Credit at any time to an expiry date not later than the Letter of Credit Expiration Date; provided, however, that the applicable Issuing Bank shall not permit any such extension (or may issue a Notice of Non-Extension) if (A) such Issuing Bank has determined that it would not be permitted at such time to issue such Letter of Credit in its revised form (as extended) by reason of the provisions of clause (i) of Section 2.03(a) (or would have no obligation to issue such Letter of Credit by reason of the provisions of clause (ii) of Section 2.03(a)), or (B) it has received notice (which may be by telephone or in writing) on or before the day that is seven Business Days before the Non-Extension Notice Date (1) from the Agent that the Required Lenders have elected not to permit such extension pursuant to Section 6.02 or (2) from the Agent, the Required Lenders or the Borrower that one or more of the applicable conditions specified in Section 3.02 is not then satisfied, and in each such case directing such Issuing Bank not to permit such extension.

(iv) Promptly after its delivery of any Letter of Credit or any amendment to a Letter of Credit to an advising bank with respect thereto or to the beneficiary thereof, the applicable Issuing Bank will also deliver to the Borrower and the Agent a true and complete copy of such Letter of Credit or amendment.

(c) Drawings and Reimbursements; Funding of Participations .

(i) Subject to the provisions below, not later than 2:30 p.m. on the date (the “Honor Date”) that any Issuing Bank makes any payment on a drawing on any Letter of Credit, if the Borrower shall have received notice of such payment prior to 11:30 a.m. on such date, or, if such notice has not been received by the Borrower prior to such time on such date, then not later than 2:30 p.m. on the next Business Day, the Borrower shall reimburse such Issuing Bank through the Agent in an amount equal to the amount of such drawing together with interest thereon. If the Borrower fails to so reimburse such Issuing Bank by such time, unless the Borrower shall have advised the Agent that it does not meet the conditions specified in clause (B) below, the Agent shall promptly notify each Lender of the Honor Date, the amount of the unreimbursed drawing (the “Unreimbursed Amount”), and the amount of such Lender’s Ratable Share thereof. In such event, the Borrower shall be deemed to have requested a Base Rate Advance to be disbursed on the Honor Date in an amount equal to the Unreimbursed Amount, without regard to the minimum and multiples specified in Section 2.01(a) or the delivery of a Notice of Borrowing but subject to (A) the amount of the aggregate Unused Commitments and (B) no Event of Default having occurred and be continuing, or resulting therefrom and, to the extent so financed, the Borrower’s obligation to satisfy the reimbursement obligation created by such payment by the Issuing Bank on the Honor Date shall be discharged and replaced by the resulting Base Rate Advance. Any notice given by any Issuing Bank or the Agent pursuant to this Section 2.03(c)(i) may be given by telephone if immediately confirmed in writing; provided that the lack of such an immediate confirmation shall not affect the conclusiveness or binding effect of such notice.

(ii) Each Lender shall upon any notice pursuant to Section 2.03(c)(i) make funds available to the Agent for the account of the applicable Issuing Bank at the Agent’s Office in an amount equal to its Ratable Share of the Unreimbursed Amount not later than 4:00 p.m. on the Business Day specified in such notice by the Agent, whereupon, subject to the provisions of Section 2.03(c)(iii), each Lender that so makes funds available shall be deemed to have made a Base Rate Advance to the Borrower in such amount. The Agent shall remit the funds so received to the applicable Issuing Bank.

(iii) With respect to any Unreimbursed Amount that is not fully refinanced by a Base Rate Advance because any of the conditions set forth in clauses (A), (B) or (C) of Section 2.03(c)(i) cannot be satisfied or for any other reason, then not later than 2:30 p.m. on the next Business Day after the day notice of the drawing is given to the Borrower, in the case of a failure to meet any such condition, or in any other case, after notice of the event resulting in the outstanding Unreimbursed Amount, the Borrower shall reimburse such Issuing Bank through the Agent in an amount equal to the amount of such outstanding Unreimbursed Amount with interest thereon. If the Borrower fails to so reimburse such Issuing Bank by such time, the Borrower shall be deemed to have incurred from the applicable Issuing Bank an L/C Borrowing in the amount of the Unreimbursed Amount that is not so refinanced, which L/C Borrowing shall be due and payable on demand (together with interest) and shall bear interest at the Base Rate in effect from time to time plus the Applicable Rate for Base Rate Advances in effect from time to time plus 2% per annum. In such event, each Lender’s payment to the Agent for

the account of the applicable Issuing Bank pursuant to Section 2.03(c)(ii) shall be deemed payment in respect of its participation in such L/C Borrowing and shall constitute an L/C Advance from such Lender in satisfaction of its participation obligation under this Section 2.03.

(iv) Until each Lender funds its Base Rate Advance or L/C Advance pursuant to this Section 2.03(c) to reimburse the applicable Issuing Bank for any amount drawn under any Letter of Credit, interest in respect of such Lender's Ratable Share of such amount shall be solely for the account of the applicable Issuing Bank.

(v) Each Lender's obligation to make Base Rate Advances or L/C Advances to reimburse the applicable Issuing Bank for amounts drawn under Letters of Credit, as contemplated by this Section 2.03(c), shall be absolute and unconditional and shall not be affected by any circumstance, including (A) any setoff, counterclaim, recoupment, defense or other right which such Lender may have against such Issuing Bank, the Borrower or any other Person for any reason whatsoever; (B) the occurrence or continuance of a Default, or (C) any other occurrence, event or condition, whether or not similar to any of the foregoing; provided, however, that each Lender's obligation to make Base Rate Advances pursuant to this Section 2.03(c) is subject to the conditions set forth in Section 2.03(c)(i). No such making of an L/C Advance shall relieve or otherwise impair the obligation of the Borrower to reimburse the applicable Issuing Bank for the amount of any payment made by such Issuing Bank under any Letter of Credit, together with interest as provided herein.

(vi) If any Lender fails to make available to the Agent for the account of the applicable Issuing Bank any amount required to be paid by such Lender pursuant to the foregoing provisions of this Section 2.03(c) by the time specified in Section 2.03(c)(ii), such Issuing Bank shall be entitled to recover from such Lender (acting through the Agent), on demand, such amount with interest thereon for the period from the date such payment is required to the date on which such payment is immediately available to such Issuing Bank at a rate per annum equal to the greater of the Federal Funds Rate and a rate determined by such Issuing Bank in accordance with banking industry rules on interbank compensation, plus any administrative, processing or similar fees customarily charged by such Issuing Bank in connection with the foregoing. If such Lender pays such amount (with interest and fees as aforesaid), the amount so paid shall constitute such Lender's Base Rate Advance included in the relevant Borrowing or L/C Advance in respect of the relevant L/C Borrowing, as the case may be. A certificate of the applicable Issuing Bank submitted to any Lender (through the Agent) with respect to any amounts owing under this clause (vi) shall be conclusive absent manifest error.

(d) Repayment of Participations.

(i) At any time after the applicable Issuing Bank has made a payment under any Letter of Credit and has received from any Lender such Lender's L/C Advance in respect of such payment in accordance with Section 2.03(c), if the Agent receives for the account of such Issuing Bank any payment in respect of the related Unreimbursed Amount or interest thereon (whether directly from the Borrower or otherwise, including

proceeds of Cash Collateral (as defined in Section 2.03(h)) applied thereto by the Agent), the Agent will distribute to such Lender its Ratable Share thereof in the same funds as those received by the Agent.

(ii) If any payment received by the Agent for the account of the applicable Issuing Bank pursuant to Section 2.03(c)(i) is required to be returned under any of the circumstances described in Section 8.12 (including pursuant to any settlement entered into by such Issuing Bank in its discretion), each Lender shall pay to the Agent for the account of such Issuing Bank its Ratable Share thereof on demand of the Agent, plus interest thereon from the date of such demand to the date such amount is returned by such Lender, at a rate per annum equal to the Federal Funds Rate from time to time in effect. The obligations of the Lenders under this clause shall survive the payment in full of the Obligations and the termination of this Agreement.

(e) Failure to Make Revolving Advances. The failure of any Lender to make the Revolving Advance to be made by it on the date specified in Section 2.03(c) or any L/C Advance shall not relieve any other Lender of its obligation hereunder to make its Revolving Advance or L/C Advance, as the case may be, to be made by such other Lender on such date.

(f) Obligations Absolute. The obligation of the Borrower to reimburse the applicable Issuing Bank for each drawing under each Letter of Credit and to repay each L/C Borrowing shall be absolute, unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement under all circumstances, including the following:

(i) any lack of validity or enforceability of such Letter of Credit, this Agreement, or any other Loan Document;

(ii) the existence of any claim, counterclaim, setoff, defense or other right that the Borrower may have at any time against any beneficiary or any transferee of such Letter of Credit (or any Person for whom any such beneficiary or any such transferee may be acting), any Issuing Bank or any other Person, whether in connection with this Agreement, the transactions contemplated hereby or by such Letter of Credit or any agreement or instrument relating thereto, or any unrelated transaction;

(iii) any draft, demand, certificate or other document presented under such Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect; or any loss or delay in the transmission or otherwise of any document required in order to make a drawing under such Letter of Credit;

(iv) any payment by the applicable Issuing Bank under such Letter of Credit against presentation of a draft or certificate that does not strictly comply with the terms of such Letter of Credit; or any payment made by the applicable Issuing Bank under such Letter of Credit to any Person purporting to be a trustee in bankruptcy, debtor-in-possession, assignee for the benefit of creditors, liquidator, receiver or other representative of or successor to any beneficiary or any transferee of such Letter of Credit;

Credit, including any arising in connection with any proceeding under any Debtor Relief Law; or

(v) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing, including any other circumstance that might otherwise constitute a defense available to, or a discharge of, the Borrower.

provided, however, that nothing in this Section 2.03(f) shall limit the rights of the Borrower under Section 2.03(g).

The Borrower shall promptly examine a copy of each Letter of Credit and each amendment thereto that is delivered to it and, in the event of any claim of noncompliance with the Borrower's instructions or other irregularity that is known to the Borrower in connection with any draw under such Letter of Credit of which the Borrower has reasonable notice, the Borrower will immediately notify the applicable Issuing Bank. To the extent allowed by applicable Law, Borrower shall be conclusively deemed to have waived any such claim against the applicable Issuing Bank and its correspondents unless such notice is given as aforesaid. Nothing herein shall require the Borrower to make any determination as to whether the drawing is in accordance with the requirements of the Letter of Credit, provided that the Borrower may waive any discrepancies in the drawing on any such Letter of Credit.

(g) Role of Issuing Bank. Each Lender and the Borrower agree that, in paying any drawing under a Letter of Credit, the applicable Issuing Bank shall not have any responsibility to obtain any document (other than any sight draft, certificates and documents expressly required by the Letter of Credit) or to ascertain or inquire as to the validity or accuracy of any such document or the authority of the Person executing or delivering any such document. None of the applicable Issuing Bank, the Agent, any of their respective Related Parties nor any correspondent, participant or assignee of such Issuing Bank shall be liable to any Lender for (i) any action taken or omitted in connection herewith at the request or with the approval of the Lenders or the Required Lenders, as applicable; (ii) any action taken or omitted in the absence of gross negligence or willful misconduct; or (iii) the due execution, effectiveness, validity or enforceability of any document or instrument related to any Letter of Credit or L/C Related Document. The Borrower hereby assumes all risks of the acts or omissions of any beneficiary or transferee with respect to its use of any Letter of Credit; provided, however, that this assumption is not intended to, and shall not, preclude the Borrower's pursuing such rights and remedies as it may have against the beneficiary or transferee at Law or under any other agreement. None of the applicable Issuing Bank, the Agent, any of their respective Related Parties nor any correspondent, participant or assignee of such Issuing Bank shall be liable or responsible for any of the matters described in clauses (i) through (v) of Section 2.03(f); provided, however, that anything in such clauses to the contrary notwithstanding, the Borrower may have a claim against the applicable Issuing Bank, and such Issuing Bank may be liable to the Borrower, to the extent, but only to the extent, of any direct, as opposed to consequential or exemplary, damages suffered by the Borrower which the Borrower proves were caused by such Issuing Bank's willful misconduct or gross negligence or such Issuing Bank's willful failure to pay under any Letter of Credit after the presentation to it by the beneficiary of a sight draft and certificate(s) strictly complying with the terms and conditions of a Letter of Credit. In furtherance and not in limitation of the foregoing, the applicable Issuing Bank may accept documents that appear on its

face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary, and such Issuing Bank shall not be responsible for the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign a Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason.

(h) Cash Collateral. Upon the request of the Agent, if, as of the Letter of Credit Expiration Date, any L/C Obligation for any reason remains outstanding, the Borrower shall, in each case, immediately Cash Collateralize the then outstanding L/C Obligations. Section 6.02 sets forth certain additional requirements to deliver Cash Collateral hereunder. For purposes of this Section 2.03, Section 2.19(c)(ii) and Section 6.02, “Cash Collateralize” means to pledge and deposit with or deliver to the Agent, for the benefit of the Issuing Banks and the Lenders, as collateral for the L/C Obligations, cash or deposit account balances pursuant to documentation in form and substance satisfactory to the Agent and each Issuing Bank (which documents are hereby consented to by the Lenders). Derivatives of such term have corresponding meanings. The Borrower hereby grants to the Agent, for the benefit of the Issuing Banks and the Lenders, a security interest in all such cash, deposit accounts and all balances therein and all proceeds of the foregoing. Cash Collateral shall be maintained in blocked, non-interest bearing deposit accounts with the Agent.

(i) Applicability of ISP. Unless otherwise expressly agreed by the applicable Issuing Bank and the Borrower when a Letter of Credit is issued, the rules of the ISP shall apply to each standby Letter of Credit.

(j) Letter of Credit Reports. Each Issuing Bank shall furnish (A) to the Agent on the first Business Day of each month a written report summarizing issuance and expiration dates of Letters of Credit issued by such Issuing Bank during the preceding month and drawings during such month under all such Letters of Credit and (B) to the Agent on the first Business Day of each calendar quarter a written report setting forth the average daily aggregate Available Amount during the preceding calendar quarter of all Letters of Credit issued by such Issuing Bank.

(k) Interim Interest. Except as provided in Section 2.03(c)(ii) with respect to Unreimbursed Amounts refinanced as Base Rate Advances and Section 2.03(c)(iii) with respect to L/C Borrowings, unless the Borrower shall reimburse each payment by an Issuing Bank pursuant to a Letter of Credit in full on the Honor Date, the Unreimbursed Amount thereof shall bear interest, for each day from and including the Honor Date to but excluding the date that the Borrower reimburses such Issuing Bank for the Unreimbursed Amount in full, at the rate per annum equal to (i) the Base Rate in effect from time to time plus the Applicable Rate for Base Rate Advances in effect from time to time, to but excluding the next Business Day after the Honor Date and (ii) from and including the next Business Day after the Honor Date, the Base Rate in effect from time to time plus the Applicable Rate for Base Rate Advances in effect from time to time plus 2% per annum.

Section 2.03A Swingline Advances.

(a) Amount of Swingline Advances. Subject to the terms and conditions set forth herein, the Swingline Lender will make Swingline Advances in Dollars to the Borrower from

time to time during the period from the Effective Date until the Termination Date, in an aggregate principal amount at any time outstanding that will not result in (i) the aggregate principal amount of all outstanding Swingline Advances exceeding \$25,000,000 (or such lesser amount as agreed between the Borrower and the Swingline Lender) or (ii) the Total Outstanding exceeding the aggregate Revolving Credit Commitment. Each Swingline Advance shall be in an aggregate amount of \$500,000 or an integral multiple of \$100,000 in excess thereof or such greater amounts as agreed between the Borrower and the Swingline Lender. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrower may borrow, prepay and reborrow Swingline Advances. The Swingline Lender shall be under no obligation to make a Swingline Advance if any Lender is at such time an Affected Lender hereunder, unless the Swingline Lender is satisfied that the related exposure will be 100% covered by the Commitments of the non-Affected Lenders or, if not so covered, until the Swingline Lender has entered into arrangements satisfactory to it in its sole discretion with the Borrower or such Affected Lender to eliminate the Swingline Lender's risk with respect to such Affected Lender, and participating interests in any such newly made Swingline Advance shall be allocated among non-Affected Lenders in a manner consistent with Section 2.19(c)(i) (and Affected Lenders shall not participate therein).

(b) Borrowing Notice and Making of Swingline Advances. To request a Swingline Advance, the Borrower shall notify the Swingline Lender and the Agent of such request by telephone (confirmed by facsimile), not later than 2:00 p.m. (or such later time as the Swingline Lender may determine in its sole discretion), on the day of such Swingline Advance. Each such notice shall be irrevocable and shall specify the requested date (which shall be a Business Day) and amount of the requested Swingline Advance. The Swingline Lender shall promptly notify the Borrower and the Agent (and the Agent shall promptly notify each Lender) and the Swingline Lender shall make each Swingline Advance available to the Borrower by 2:30 p.m. (or such later time as may be agreed by the Swingline Lender and the Borrower) on the requested date of such Swingline Advance in a manner agreed upon by the Borrower and the Swingline Lender. Each Swingline Advance shall bear interest at the Base Rate, or, at the option of the Borrower and subject to prior agreement between the Borrower and the Swingline Lender, shall be a Swingline Eurodollar Rate Advance or a Money Market Rate Advance.

(c) Repayment of Swingline Advances. Each Swingline Advance shall be paid in full by the Borrower on the earlier of (x) on or before the fourteenth (14th) Business Day after the date such Swingline Advance was made by the Swingline Lender or (y) the Termination Date. A Swingline Advance may not be repaid with the proceeds from another Swingline Advance. In addition, the Swingline Lender (i) may at any time in its sole discretion with respect to any outstanding Swingline Advance, or (ii) shall, on the fourteenth (14th) Business Day after the date any Swingline Advance is made and which has not been otherwise repaid, require each Lender (including the Swingline Lender) to make a Revolving Advance in the amount of such Lender's Ratable Share of such Swingline Advance (including, without limitation, any interest accrued and unpaid thereon), for the purpose of repaying such Swingline Advance. Not later than 2:00 p.m. on the date of any notice received pursuant to this Section 2.03A(c), each Lender shall make available to the Agent its required Revolving Advance, in immediately available funds in the same manner as provided in Section 2.02(a) with respect to Revolving Advances made by such Lender. Revolving Advances made pursuant to this Section 2.03A(c) shall initially be Base Rate Advances and thereafter may be continued as Base Rate Advances or converted into Eurodollar

Rate Advances in the manner provided in Section 2.09 and subject to the other conditions and limitations set forth in this Article II. Each Lender's obligation to make Revolving Advances pursuant to this Section 2.03A(c) to repay Swingline Advances shall be unconditional, continuing, irrevocable and absolute and shall not be affected by any circumstances, including, without limitation, (a) any set-off, counterclaim, recoupment, defense or other right which such Lender may have against the Agent, the Swingline Lender or any other Person, (b) the occurrence or continuance of a Default or an Event of Default, (c) any adverse change in the condition (financial or otherwise) of the Borrower, or (d) any other circumstance, happening or event whatsoever. In the event that any Lender fails to make payment to the Agent of any amount due under this Section 2.03A(c), the Agent shall be entitled to receive, retain and apply against such obligation the principal and interest otherwise payable to such Lender hereunder until the Agent receives such payment from such Lender or such obligation is otherwise fully satisfied. In addition to the foregoing, if for any reason any Lender fails to make payment to the Agent of any amount due under this Section 2.03A(c), such Lender shall be deemed, at the option of the Agent, to have unconditionally and irrevocably purchased from the Swingline Lender without recourse or warranty, an undivided interest and participation in the applicable Swingline Advance in the amount of such Revolving Advance, and such interest and participation may be recovered from such Lender together with interest thereon at the Federal Funds Rate for each day during the period commencing on the date of demand and ending on the date such amount is received.

(d) **Swingline Advances Reports**. The Swingline Lender shall furnish to the Agent on each Business Day a written report summarizing outstanding Swingline Advances made by the Swingline Lender and the due date for the repayment of such Swingline Advances; provided that if no Swingline Advances are outstanding, no such report shall be required to be delivered.

(e) **Successor Swingline Lender**. Subject to the appointment and acceptance of a successor Swingline Lender as provided in this paragraph, the Borrower may, upon not less than ten (10) Business Days prior notice to the Agent and the Lenders, replace the existing Swingline Lender with the consent of the Agent (which consent shall not unreasonably be withheld). Upon the acceptance of its appointment as Swingline Lender hereunder by a successor, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the replaced Swingline Lender, and the replaced Swingline Lender shall be discharged from its duties and obligations hereunder. The fees payable by the Borrower to a successor Swingline Lender shall be as agreed between the Borrower and such successor. After the Swingline Lender's replacement hereunder, the provisions of this Article and Section 8.04 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Swingline Lender.

Section 2.04 Fees.

(a) **Commitment Fee**. The Borrower agrees to pay to the Agent for the account of each Lender a commitment fee on such Lender's Unused Commitment (provided that, for the avoidance of doubt, and without duplication, such Lender's Unused Commitment shall be calculated exclusive of such Lender's Swingline Exposure and, if such Lender is the Swingline Lender, without giving effect to the Swingline Advances, and in no event shall the aggregate of such commitment fees exceed an amount calculated based on the product of (a) the aggregate

Revolving Credit Commitments minus the aggregate principal amount of all Revolving Advances and aggregate L/C Obligations and (b) the Applicable Rate for commitment fees) from the Effective Date in the case of each Initial Lender and from the effective date specified in the Assumption Agreement or in the Assignment and Assumption pursuant to which it became a Lender in the case of each other Lender until the Termination Date at a rate per annum equal to the Applicable Rate for commitment fees in effect from time to time, payable in arrears quarterly on the last day of each March, June, September and December, commencing December 31, 2011, and on the Termination Date, provided that no commitment fee shall accrue with respect to the Unused Commitment of an Affected Lender so long as such Lender shall be an Affected Lender.

(b) Letter of Credit Fees.

(i) The Borrower shall pay to the Agent for the account of each Lender a commission on such Lender's Ratable Share of the average daily aggregate Available Amount of all Letters of Credit outstanding from time to time at a rate per annum equal to the Applicable Rate for Eurodollar Rate Advances in effect from time to time, during such calendar quarter, payable in arrears quarterly on the last day of each March, June, September and December, commencing with the quarter ended December 31, 2011, and on the Termination Date; provided that the Applicable Rate for Eurodollar Rate Advances shall be 2% above such Applicable Rate in effect upon the occurrence and during the continuation of an Event of Default if the Borrower is required to pay default interest pursuant to Section 2.07(b).

(ii) The Borrower shall pay to each Issuing Bank, for its own account, a fronting fee with respect to each Letter of Credit issued by such Issuing Bank, payable in the amounts and at the times specified in the applicable Fee Letter between the Borrower and such Issuing Bank, and such other commissions, issuance fees, transfer fees and other fees and charges in connection with the issuance or administration of each Letter of Credit as the Borrower and such Issuing Bank shall agree promptly following receipt of an invoice therefor.

(c) Agent's Fees. The Borrower shall pay to the Agent for its own account such fees as are agreed between the Borrower and the Agent pursuant to the Fee Letter between the Borrower and the Agent.

Section 2.05 Optional Termination or Reduction of the Commitments.

(a) The Borrower shall have the right, upon at least three Business Days' notice to the Agent, to terminate in whole or permanently reduce ratably in part the Unused Commitments or the Unissued Letter of Credit Commitments, provided that each partial reduction shall be in the aggregate amount of \$10,000,000 or an integral multiple of \$1,000,000 in excess thereof.

(b) So long as no Default or Event of Default shall be continuing, the Borrower shall have the right, at any time, upon at least ten Business Days' notice to an Affected Lender (with a copy to the Agent), to terminate in whole such Lender's Revolving Credit Commitment and, if applicable, its Letter of Credit Commitment, without affecting the Commitments of any other

Lender. Such termination shall be effective, (x) with respect to such Lender's Unused Commitment, on the date set forth in such notice, provided, however, that such date shall be no earlier than ten Business Days after receipt of such notice and (y) with respect to each Revolving Advance outstanding to such Lender, in the case of Base Rate Advances, on the date set forth in such notice and, in the case of Eurodollar Rate Advances, on the last day of the then current Interest Period relating to such Revolving Advance. Upon termination of a Lender's Commitments under this Section 2.05(b), the Borrower will pay or cause to be paid all principal of, and interest accrued to the date of such payment on, Revolving Advances (and if such Lender is the Swingline Lender, the Swingline Advances) owing to such Lender and, subject to Section 2.19, pay any accrued commitment fees or Letter of Credit fees payable to such Lender pursuant to the provisions of Section 2.04, and all other amounts payable to such Lender hereunder (including, but not limited to, any increased costs or other amounts owing under Section 2.11 and any indemnification for Taxes under Section 2.14); and, if such Lender is an Issuing Bank, shall pay to such Issuing Bank for deposit in an escrow account an amount equal to the Available Amount of all Letters of Credit issued by such Issuing Bank, whereupon all Letters of Credit issued by such Issuing Bank shall be deemed to have been issued outside of this Agreement on a bilateral basis and shall cease for all purposes to constitute a Letter of Credit issued under this Agreement, and upon such payments, except as otherwise provided below, the obligations of such Lender hereunder shall, by the provisions hereof, be released and discharged; provided, however, that (i) such Lender's rights under Sections 2.11, 2.14 and 8.04, and, in the case of an Issuing Bank, Section 8.04(c), and its obligations under Section 8.04 and 8.08, in each case in accordance with the terms thereof, shall survive such release and discharge as to matters occurring prior to such date and (ii) such escrow agreement shall be in a form reasonably agreed to by the Borrower and such Issuing Bank, but in no event shall either the Borrower or such Issuing Bank require any waivers, covenants, events of default or other provisions that are more restrictive than or inconsistent with the provisions of this Agreement. Subject to Section 2.18, the aggregate amount of the Commitments of the Lenders once reduced pursuant to this Section 2.05(b) may not be reinstated. The termination of the Commitments of an Affected Lender pursuant to this Section 2.05(b) will not be deemed to be a waiver of any right that the Borrower, the Agent, any Issuing Bank, the Swingline Lender or any other Lender may have against the Affected Lender that arose prior to the date of such termination. Upon any such termination, the Ratable Share of each remaining Lender will be revised.

Section 2.06 Repayment of Advances. The Borrower shall repay to the Agent for the ratable account of the Lenders on the Termination Date the aggregate principal amount of the Revolving Advances made by such Lender and then outstanding. The Borrower shall repay Swingline Advances in accordance with Section 2.03A(c).

Section 2.07 Interest on Advances.

(a) Scheduled Interest. The Borrower shall pay interest on the unpaid principal amount of each Advance owing to each Lender (including the Swingline Lender) from the date of such Advance until such principal amount shall be paid in full, at the following rates per annum:

(i) Base Rate Advances. During such periods as such Revolving Advance is a Base Rate Advance, a rate per annum equal at all times to the sum of (x) the Base Rate

in effect from time to time plus (y) the Applicable Rate for Base Rate Advances in effect from time to time, payable in arrears quarterly on the last day of each March, June, September and December during such periods and on the date such Base Rate Advance shall be Converted or paid in full.

(ii) Eurodollar Rate Advances. During such periods as such Revolving Advance is a Eurodollar Rate Advance, a rate per annum equal at all times during each Interest Period for such Revolving Advance to the sum of (x) the Eurodollar Rate for such Interest Period for such Revolving Advance plus (y) the Applicable Rate for Eurodollar Rate Advances in effect from time to time, payable in arrears on the last day of such Interest Period and, if such Interest Period has a duration of more than three months, on each day that occurs during such Interest Period every three months from the first day of such Interest Period and on the date such Eurodollar Rate Advance shall be Converted or paid in full.

(iii) Swingline Advances. During such period as such Swingline Advance remains outstanding, the Base Rate or, as agreed to by the Swingline Lender and the Borrower, the Money Market Rate or the Eurodollar Rate, payable on the date such Swingline Advance is required to be repaid.

(b) Default Interest. Upon the occurrence and during the continuance of an Event of Default under Section 6.01(a), the Agent may, and upon the request of the Required Lenders shall, require the Borrower to pay interest ("Default Interest") on (i) the unpaid principal amount of each Advance owing to each Lender, payable in arrears on the dates referred to in clause (a)(i), (a)(ii) or (a)(iii) above, at a rate per annum equal at all times to 2% per annum above the rate per annum required to be paid on such Advance pursuant to clause (a)(i), (a)(ii) or (a)(iii) above and (ii) to the fullest extent permitted by Law, the amount of any interest, fee or other amount payable hereunder that is not paid when due, from the date such amount shall be due until such amount shall be paid in full, payable in arrears on the date such amount shall be paid in full and on demand, at a rate per annum equal at all times to 2% per annum above the rate per annum required to be paid on Base Rate Advances pursuant to clause (a)(i) above, provided, however, that following acceleration of the Advances pursuant to Section 6.01, Default Interest shall accrue and be payable hereunder whether or not previously required by the Agent.

(c) Interest Rate Limitation. Nothing contained in this Agreement or in any other Loan Document shall be deemed to establish or require the payment of interest to any Lender at a rate in excess of the maximum rate permitted by applicable Law. If the amount of interest payable for the account of any Lender on any interest payment date would exceed the maximum amount permitted by applicable Law to be charged by such Lender, the amount of interest payable for its account on such interest payment date shall be automatically reduced to such maximum permissible amount. In the event of any such reduction affecting any Lender, if from time to time thereafter the amount of interest payable for the account of such Lender on any interest payment date would be less than the maximum amount permitted by applicable Law to be charged by such Lender, then the amount of interest payable for its account on such subsequent interest payment date shall be automatically increased to such maximum permissible amount, provided that at no time shall the aggregate amount

by which interest paid for the account of any Lender has been increased pursuant to this sentence exceed the aggregate amount by which interest paid for its account has theretofore been reduced pursuant to the previous sentence.

Section 2.08 Interest Rate Determination .

(a) The Agent shall give prompt notice to the Borrower and the Lenders of the applicable interest rate determined by the Agent for purposes of Section 2.07(a).

(b) If the Required Lenders determine that for any reason in connection with any request for a Eurodollar Rate Advance or a Conversion to or continuation thereof that (a) Dollar deposits are not being offered to banks in the London interbank eurodollar market for the applicable amount and Interest Period of such Eurodollar Rate Advance, (b) adequate and reasonable means do not exist for determining the Eurodollar Rate for any requested Interest Period with respect to a proposed Eurodollar Rate Advance, or (c) the Eurodollar Rate for any requested Interest Period with respect to a proposed Eurodollar Rate Advance does not adequately and fairly reflect the cost to such Lenders of funding such Revolving Advance, the Agent will promptly so notify the Borrower and each Lender, whereupon each Eurodollar Rate Advance will automatically on the last day of the then existing Interest Period therefor Convert into a Base Rate Advance. Thereafter, the obligation of the Lenders to make or maintain Eurodollar Rate Advances shall be suspended until the Agent (upon the instruction of the Required Lenders) revokes such notice. Upon receipt of such notice, the Borrower may revoke any pending request for a Borrowing of, Conversion to or continuation of Eurodollar Rate Advances or, failing that, will be deemed to have Converted such request into a request for a Base Rate Advance in the amount specified therein.

(c) If the Borrower shall fail to select the duration of any Interest Period for any Eurodollar Rate Advances in accordance with the provisions contained in the definition of "Interest Period" in Section 1.01, the Agent will forthwith so notify the Borrower and the Lenders and such Revolving Advances will automatically, on the last day of the then existing Interest Period therefor, Convert into Base Rate Advances.

(d) On the date on which the aggregate unpaid principal amount of Eurodollar Rate Advances comprising any Borrowing shall be reduced, by payment or prepayment or otherwise, to less than \$5,000,000, such Revolving Advances shall automatically Convert into Base Rate Advances.

(e) Upon the occurrence and during the continuance of any Event of Default,

(i) with respect to Eurodollar Rate Advances, each such Revolving Advance will automatically, on the last day of the then existing Interest Period therefor, Convert into a Base Rate Advance (or if such Revolving Advance is then a Base Rate Advance, will continue as a Base Rate Advance); and

(ii) the obligation of the Lenders to make Eurodollar Rate Advances or to Convert Revolving Advances into Eurodollar Rate Advances shall be suspended until the Agent shall notify the Borrower and the Lenders that the circumstances causing such suspension no longer exist.

Section 2.09 Optional Conversion of Revolving Advances. The Borrower may on any Business Day, upon notice given to the Agent not later than 12:00 noon on the third Business Day prior to the date of the proposed Conversion and subject to the provisions of Sections 2.08 and 2.12, Convert all Revolving Advances of one Type comprising the same Borrowing into Revolving Advances of the other Type; provided, however, that (a) any Conversion of Eurodollar Rate Advances into Base Rate Advances shall be made only on the last day of an Interest Period for such Eurodollar Rate Advances, (b) any Conversion of Base Rate Advances into Eurodollar Rate Advances shall be in an amount not less than the minimum amount specified in Section 2.02(b), (c) no Conversion of any Revolving Advances shall result in more separate Borrowings than permitted under Section 2.02(b) and (d) no Swingline Advances may be converted. Each such notice of a Conversion shall, within the restrictions specified above, specify (i) the date of such Conversion, (ii) the Revolving Advances to be Converted, and (iii) if such Conversion is into Eurodollar Rate Advances, the duration of the initial Interest Period for each such Revolving Advance. Each notice of Conversion shall be irrevocable and binding on the Borrower.

Section 2.10 Prepayments of Advances.

(a) Optional. At any time and from time to time, the Borrower shall have the right to prepay any Advance, in whole or in part, without premium or penalty (except as provided in clause (y) below), upon notice at least two Business Days' prior to the date of such prepayment, in the case of Eurodollar Rate Advances, and not later than 11:00 a.m. on the date of such prepayment in the case of Base Rate Advances and Swingline Advances, to the Agent (and, in the case of prepayment a Swingline Advance, the Swingline Lender) specifying the proposed date of such prepayment and the aggregate principal amount and Type of the Advance to be prepaid (and, in the case of Eurodollar Rate Advances, the Interest Period of the Borrowing pursuant to which made); provided, however, that (x) each partial prepayment shall be in an aggregate principal amount of \$5,000,000 or an integral multiple of \$1,000,000 in excess thereof, and shall be accompanied by accrued interest to the date of prepayment on the principal amount prepaid, and (y) in the event of any such prepayment of a Eurodollar Rate Advance, the Borrower shall be obligated to reimburse the Lenders in respect thereof pursuant to Section 8.04 (e).

(b) Mandatory.

(i) The Borrower shall prepay the aggregate principal amount of the Advances, together with accrued interest to the date of prepayment on the principal amount prepaid, without requirement of demand therefor, or shall pay or prepay any other Indebtedness then outstanding at any time, when and to the extent required to comply with applicable Laws of any Governmental Authority or applicable resolutions of the Board of Directors of the Borrower.

(ii) If for any reason the Total Outstandings at any time exceed the aggregate Revolving Credit Commitments then in effect, the Borrower shall, within one Business Day after notice thereof, prepay Advances and/or Cash Collateralize the L/C Obligations in an aggregate amount equal to such excess; provided, however, that the Borrower shall not be required to Cash Collateralize the L/C Obligations pursuant to this Section 2.10(b)

unless, after the prepayment in full of the Advances, the Total Outstandings exceed the aggregate Revolving Credit Commitments then in effect.

Section 2.11 Increased Costs.

(a) Increased Costs Generally. If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended or participated in by, any Lender (except any reserve requirement contemplated by Section 2.11(e)) or any Issuing Bank; or

(ii) impose on any Lender or any Issuing Bank or the London interbank market any other condition, cost or expense affecting this Agreement or Eurodollar Rate Advances made by such Lender or any Letter of Credit or participation therein;

and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any Eurodollar Rate Advance (or of maintaining its obligation to make any such Revolving Advance), or to increase the cost to such Lender or such Issuing Bank of participating in, issuing or maintaining any Letter of Credit (or of maintaining its obligation to participate in or to issue any Letter of Credit), or to reduce the amount of any sum received or receivable by such Lender or such Issuing Bank hereunder (whether of principal, interest or any other amount) then, upon request of such Lender or such Issuing Bank, the Borrower will pay to such Lender or such Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or such Issuing Bank, as the case may be, for such additional costs incurred or reduction suffered.

(b) Capital Requirements. If any Lender or any Issuing Bank determines that any Change in Law affecting such Lender or such Issuing Bank or any Applicable Lending Office of such Lender or such Lender's or such Issuing Bank's holding company, if any, regarding capital requirements has or would have the effect of reducing the rate of return on such Lender's or such Issuing Bank's capital or on the capital of such Lender's or such Issuing Bank's holding company, if any, as a consequence of this Agreement, the Commitments of such Lender or the Advances made by, or participations in Letters of Credit held by, such Lender, or the Letters of Credit issued by such Issuing Bank, to a level below that which such Lender or such Issuing Bank or such Lender's or such Issuing Bank's holding company could have achieved but for such Change in Law (taking into consideration such Lender's or such Issuing Bank's policies and the policies of such Lender's or such Issuing Bank's holding company with respect to capital adequacy), then from time to time the Borrower will pay to such Lender or such Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or such Issuing Bank or such Lender's or such Issuing Bank's holding company for any such reduction suffered.

(c) Certificates for Reimbursement. A certificate of a Lender or an Issuing Bank setting forth the amount or amounts necessary to compensate such Lender or such Issuing Bank or its holding company, as the case may be, as specified in subsection (a) or (b) of this Section and delivered to the Borrower shall be conclusive and binding upon all parties absent manifest

error. The Borrower shall pay such Lender or such Issuing Bank, as the case may be, the amount shown as due on any such certificate within 30 days after receipt thereof.

(d) Delay in Requests. Failure or delay on the part of any Lender or any Issuing Bank to demand compensation pursuant to the foregoing provisions of this Section shall not constitute a waiver of such Lender's or such Issuing Bank's right to demand such compensation, provided that the Borrower shall not be required to compensate a Lender or an Issuing Bank pursuant to the foregoing provisions of this Section for any increased costs incurred or reductions suffered more than three months prior to the date that such Lender or such Issuing Bank, as the case may be, notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of such Lender's or such Issuing Bank's intention to claim compensation therefor (except that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the three-month period referred to above shall be extended to include the period of retroactive effect thereof).

(e) Reserves on Eurodollar Rate Advances. The Borrower shall pay to each Lender, as long as such Lender shall be required to maintain reserves with respect to liabilities or assets consisting of or including Eurocurrency funds or deposits (currently known as "Eurocurrency liabilities"), additional interest on the unpaid principal amount of each Eurodollar Rate Advance equal to the actual costs of such reserves allocated to such Revolving Advance by such Lender (as determined by such Lender in good faith, which determination shall be conclusive absent manifest error), which shall be due and payable on each date on which interest is payable on such Eurodollar Rate Advance, provided the Borrower shall have received at least 30 days' prior notice (with a copy to the Agent) of such additional interest from such Lender. If a Lender fails to give notice 30 days prior to the relevant interest payment date, such additional interest shall be due and payable 30 days from receipt of such notice.

Section 2.12 Illegality. If any Lender shall have determined in good faith that the introduction of or any change in any applicable Law or in the interpretation or administration thereof by any Governmental Authority charged with the interpretation or administration thereof, or compliance with any guideline or request from any such Governmental Authority (whether or not having the force of law), for any Lender or its Applicable Lending Office to make, maintain or fund Eurodollar Rate Advances, or to determine or charge interest rates based upon the Eurodollar Rate, or any Governmental Authority has imposed material restrictions on the authority of such Lender to purchase or sell, or to take deposits of, Dollars in the London interbank market, then, on notice thereof by such Lender to the Borrower through the Agent, any obligation of such Lender to make or continue Eurodollar Rate Advances or to convert Base Rate Advances to Eurodollar Rate Advances shall be suspended until such Lender notifies the Agent and the Borrower that the circumstances giving rise to such determination no longer exist. Upon receipt of such notice, the Borrower shall, upon demand from such Lender (with a copy to the Agent), prepay or, if applicable, convert all Eurodollar Rate Advances of such Lender to Base Rate Advances, either on the last day of the Interest Period therefor, if such Lender may lawfully continue to maintain such Eurodollar Rate Advances to such day, or immediately, if such Lender may not lawfully continue to maintain such Eurodollar Rate Advances. Upon any such prepayment or conversion, the Borrower shall also pay accrued interest on the amount so prepaid or converted.

Section 2.13 Payments and Computations .

(a) All payments to be made by the Borrower shall be made without condition or deduction for any counterclaim, defense, recoupment or setoff. The Borrower shall make each payment hereunder not later than 1:00 p.m. on the day when due in U.S. dollars to the Agent at the Agent's Account in same day funds. The Agent will promptly thereafter cause to be distributed like funds relating to the payment of principal, interest, fees or commissions ratably (other than amounts payable pursuant to Section 2.05(b), 2.11, 2.12, 2.14, 2.20 or 8.04(e)) to the Lenders for the account of their respective Applicable Lending Offices, and like funds relating to the payment of any other amount payable to any Lender to such Lender for the account of its Applicable Lending Office, in each case to be applied in accordance with the terms of this Agreement. Upon any Assuming Lender becoming a Lender hereunder as a result of a Commitment Increase pursuant to Section 2.18, and upon the Agent's receipt of such Lender's Assumption Agreement and recording of the information contained therein in the Register, from and after the applicable Increase Date, the Agent shall make all payments hereunder and under any Notes issued in connection therewith in respect of the interest assumed thereby to the Assuming Lender. Upon its acceptance of an Assignment and Assumption and recording of the information contained therein in the Register pursuant to Section 8.07(c), from and after the effective date specified in such Assignment and Assumption, the Agent shall make all payments hereunder and under the Notes in respect of the interest assigned thereby to the Lender assignee thereunder, and the parties to such Assignment and Assumption shall make all appropriate adjustments in such payments for periods prior to such effective date directly between themselves.

(b) All computations of interest based on (i) the Prime rate (as defined in the definition of "Base Rate" in Section 1.01) shall be made by the Agent on the basis of a year of 365 or 366 days, as the case may be and (ii) the Federal Funds Rate, the Eurodollar Rate and of fees and Letter of Credit commissions shall be made by the Agent on the basis of a year of 360 days, in each case for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest, fees or commissions are payable. Interest on Swingline Advances shall be calculated on the basis of a year of 360 days or such other basis agreed to by the Swingline Lender and the Borrower, in each case for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest is payable. Each determination by the Agent of an interest rate hereunder shall be conclusive and binding for all purposes, absent manifest error.

(c) Whenever any payment hereunder or under the Notes shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest, fees or commissions, as the case may be; provided, however, that, if such extension would cause payment of interest on or principal of Eurodollar Rate Advances to be made in the next following calendar month, such payment shall be made on the next preceding Business Day.

(d) Unless the Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Lenders hereunder that the Borrower will not make such payment in full, the Agent may assume that the Borrower has made such payment in full to the Agent on such date and the Agent may, in reliance upon such assumption, cause to be distributed

to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent the Borrower shall not have so made such payment in full to the Agent, each Lender shall repay to the Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the Agent, at the Federal Funds Rate.

Section 2.14 Taxes.

(a) Payments Free of Taxes; Obligation to Withhold; Payments on Account of Taxes.

(i) Any and all payments by or on account of any obligation of the Borrower hereunder or under any other Loan Document shall to the extent permitted by applicable Laws be made free and clear of and without reduction or withholding for any Taxes. If, however, applicable Laws require the Borrower or the Agent to withhold or deduct any Tax, such Tax shall be withheld or deducted in accordance with such Laws as determined by the Borrower or the Agent, as the case may be, upon the basis of the information and documentation to be delivered pursuant to subsection (e) below.

(ii) If the Borrower or the Agent shall be required by the Internal Revenue Code to withhold or deduct any Taxes, including both United States of America Federal backup withholding and withholding taxes, from any payment, then (A) the Agent shall withhold or make such deductions as are determined by the Agent to be required based upon the information and documentation it has received pursuant to subsection (e) below, (B) the Agent shall timely pay the full amount withheld or deducted to the relevant Governmental Authority in accordance with the Internal Revenue Code, and (C) to the extent that the withholding or deduction is made on account of Indemnified Taxes or Other Taxes, the sum payable by the Borrower shall be increased as necessary so that after any required withholding or the making of all required deductions (including deductions applicable to additional sums payable under this Section) the Agent, Lender or Issuing Bank, as the case may be, receives an amount equal to the sum it would have received had no such withholding or deduction been made.

(b) Payment of Other Taxes by the Borrower. Without limiting the provisions of subsection (a) above, the Borrower shall timely pay any Other Taxes to the relevant Governmental Authority in accordance with applicable Laws.

(c) Tax Indemnifications.

(i) Without limiting the provisions of subsection (a) or (b) above, the Borrower shall, and does hereby, indemnify the Agent, each Lender and each Issuing Bank, and shall make payment in respect thereof within 30 days after written demand therefor, for the full amount of any Indemnified Taxes or Other Taxes (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section) withheld or deducted by the Borrower or the Agent or paid by the Agent, such Lender or such Issuing Bank, as the case may be, and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by

the relevant Governmental Authority. The Borrower shall also, and does hereby, indemnify the Agent, and shall make payment in respect thereof within 10 days after demand therefor, for any amount which a Lender or an Issuing Bank for any reason fails to pay indefeasibly to the Agent as required by clause (ii) of this subsection. A certificate as to the amount of any such payment or liability delivered to the Borrower by a Lender or an Issuing Bank (with a copy to the Agent), or by the Agent on its own behalf or on behalf of a Lender or an Issuing Bank, shall be conclusive absent manifest error.

(ii) Without limiting the provisions of subsection (a) or (b) above, each Lender and each Issuing Bank shall, and does hereby, indemnify the Borrower and the Agent, and shall make payment in respect thereof within 30 days after demand therefor, against any and all Taxes and any and all related losses, claims, liabilities, penalties, interest and expenses (including the fees, charges and disbursements of any counsel for the Borrower or the Agent) incurred by or asserted against the Borrower or the Agent by any Governmental Authority as a result of the failure by such Lender or such Issuing Bank, as the case may be, to deliver, or as a result of the inaccuracy, inadequacy or deficiency of, any documentation required to be delivered by such Lender or such Issuing Bank, as the case may be, to the Borrower or the Agent pursuant to subsection (e). Each Lender and each Issuing Bank hereby authorizes the Agent to set off and apply any and all amounts at any time owing to such Lender or such Issuing Bank, as the case may be, under this Agreement or any other Loan Document against any amount due to the Agent under this clause (ii). The agreements in this clause (ii) shall survive the resignation and/or replacement of the Agent, any assignment of rights by, or the replacement of, a Lender or an Issuing Bank, the termination of the Commitments and the repayment, satisfaction or discharge of all other Obligations.

(d) Evidence of Payments. Upon request by the Borrower or the Agent, as the case may be, after any payment of Taxes by the Borrower or by the Agent to a Governmental Authority as provided in this 2.14, the Borrower shall deliver to the Agent or the Agent shall deliver to the Borrower, as the case may be, the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of any return required by Laws to report such payment or other evidence of such payment reasonably satisfactory to the Borrower or the Agent, as the case may be.

(e) Status of Lenders; Tax Documentation.

(i) Each Lender shall deliver to the Borrower and to the Agent, at the time or times prescribed by applicable Laws or when reasonably requested by the Borrower or the Agent, such properly completed and executed documentation prescribed by applicable Laws or by the taxing authorities of any jurisdiction and such other reasonably requested information as will permit the Borrower or the Agent, as the case may be, to determine (A) whether or not payments made hereunder or under any other Loan Document are subject to Taxes, (B) if applicable, the required rate of withholding or deduction, and (C) such Lender's entitlement to any available exemption from, or reduction of, applicable Taxes in respect of all payments to be made to such Lender by the Borrower pursuant to this Agreement or otherwise to establish such Lender's status for withholding tax purposes in the applicable jurisdiction.

(ii) Without limiting the generality of the foregoing, if the Borrower is resident for tax purposes in the United States of America,

(A) any Lender that is a “United States person” within the meaning of Section 7701(a)(30) of the Internal Revenue Code shall deliver to the Borrower and the Agent executed originals of Internal Revenue Service Form W-9 or such other documentation or information prescribed by applicable Laws or reasonably requested by the Borrower or the Agent as will enable the Borrower or the Agent, as the case may be, to determine whether or not such Lender is subject to backup withholding or information reporting requirements; and

(B) each Foreign Lender that is entitled under the Internal Revenue Code or any applicable treaty to an exemption from or reduction of withholding tax with respect to payments hereunder or under any other Loan Document shall deliver to the Borrower and the Agent (in such number of copies as shall be requested by the recipient) on or prior to the date on which such Foreign Lender becomes a Lender under this Agreement (and from time to time thereafter upon the request of the Borrower or the Agent, but only if such Foreign Lender is legally entitled to do so), whichever of the following is applicable:

(1) executed originals of Internal Revenue Service Form W-8BEN claiming eligibility for benefits of an income tax treaty to which the United States of America is a party,

(2) executed originals of Internal Revenue Service Form W-8ECI,

(3) documentation, executed originals of Internal Revenue Service Form W-8IMY and all required supporting

(4) in the case of a Foreign Lender claiming the benefits of the exemption for portfolio interest under section 881(c) of the Internal Revenue Code, (x) a certificate to the effect that such Foreign Lender is not (A) a “bank” within the meaning of section 881(c)(3)(A) of the Internal Revenue Code, (B) a “10 percent shareholder” of the Borrower within the meaning of section 881(c)(3)(B) of the Internal Revenue Code, or (C) a “controlled foreign corporation” described in section 881(c)(3)(C) of the Internal Revenue Code and (y) executed originals of Internal Revenue Service Form W-8BEN, or

(5) executed originals of any other form prescribed by applicable Laws as a basis for claiming exemption from or a reduction in United States of America Federal withholding tax together with such supplementary documentation as may be prescribed by applicable Laws to permit the Borrower or the Agent to determine the withholding or deduction required to be made.

(iii) Each Lender shall promptly (A) notify the Borrower and the Agent of any change in circumstances which would modify or render invalid any claimed exemption or reduction, and (B) take such steps as shall not be materially disadvantageous to it, in the reasonable judgment of such Lender, and as may be reasonably necessary (including the re-designation of its Applicable Lending Office) to avoid any requirement of applicable Laws of any jurisdiction that the Borrower or the Agent make any withholding or deduction for taxes from amounts payable to such Lender.

(iv) if a payment made to a Lender under any Loan Document would be subject to U.S. federal withholding Tax imposed by FATCA if such Lender were to fail to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472 (b) of the Internal Revenue Code, as applicable), such Lender shall deliver to each of the Borrower and the Agent at the time or times prescribed by law and at such time or times reasonably requested by the Borrower or the Agent such documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the Internal Revenue Code) and such additional documentation reasonably requested by the Borrower or the Agent as may be necessary for the Borrower and the Agent to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender's obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of this clause (iv), "FATCA" shall include any amendments made to FATCA after the date of this Agreement.

(f) **Treatment of Certain Refunds**. Unless required by applicable Laws, at no time shall the Agent have any obligation to file for or otherwise pursue on behalf of a Lender or an Issuing Bank, or have any obligation to pay to any Lender or any Issuing Bank, any refund of Taxes withheld or deducted from funds paid for the account of such Lender or such Issuing Bank, as the case may be. If the Agent, any Lender or any Issuing Bank determines, in its sole discretion, that it has received a refund of any Taxes or Other Taxes as to which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section, it shall pay to the Borrower an amount equal to such refund (but only to the extent of indemnity payments made, or additional amounts paid, by the Borrower under this Section with respect to the Taxes or Other Taxes giving rise to such refund), net of all reasonable out-of-pocket expenses incurred by the Agent, such Lender or such Issuing Bank, as the case may be, and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund), provided that the Borrower, upon the request of the Agent, such Lender or such Issuing Bank, agrees to repay the amount paid over to the Borrower (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) to the Agent, such Lender or such Issuing Bank in the event the Agent, such Lender or such Issuing Bank is required to repay such refund to such Governmental Authority. This subsection shall not be construed to require the Agent, any Lender or any Issuing Bank to make available its tax returns (or any other information relating to its taxes that it deems confidential) to the Borrower or any other Person.

(g) **Payments**. Failure or delay on the part of the Agent, any Lender or any Issuing Bank to demand compensation pursuant to the foregoing provisions of this Section 2.14 shall not constitute a waiver of the Agent's, such Lender's or such Issuing Bank's right to demand such

compensation, provided that the Borrower shall not be required to compensate the Agent, a Lender or an Issuing Bank pursuant to the foregoing provisions of this Section 2.14 for any Indemnified Taxes or Other Taxes imposed or asserted by the relevant Governmental Authority more than three months prior to the date that the Agent, such Lender or such Issuing Bank, as the case may be, claims compensation with respect thereto (except that, if a Change in Law giving rise to such Indemnified Taxes or Other Taxes is retroactive, then the three-month period referred to above shall be extended to include the period of retroactive effect thereof).

(h) Each of the Agent, any Issuing Bank or any Lender agrees to cooperate with any reasonable request made by the Borrower in respect of a claim of a refund in respect of Indemnified Taxes as to which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section 2.14 if (i) the Borrower has agreed in writing to pay all of the Agent's or such Issuing Bank's or such Lender's reasonable out-of-pocket costs and expenses relating to such claim, (ii) the Agent or such Issuing Bank or such Lender determines, in its good faith judgment, that it would not be disadvantaged, unduly burdened or prejudiced as a result of such claim and (iii) the Borrower furnishes, upon request of the Agent, or such Issuing Bank or such Lender, an opinion of tax counsel (such opinion, which can be reasoned, and such counsel to be reasonably acceptable to such Lender, or such Issuing Bank or the Agent) that the Borrower is likely to receive a refund or credit.

Section 2.15 Sharing of Payments, Etc. If any Lender shall obtain any payment (whether voluntary, involuntary, through the exercise of any right of set-off, or otherwise) on account of the Advances or L/C Advances owing to it (other than pursuant to Section 2.05(b), 2.11, 2.12, 2.14, 2.20 or 8.04 (e) or any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Advances or participations in Letters of Credit to any assignee or participant, other than to the Borrower or any Subsidiary thereof if permitted hereby (as to which the provisions of this Section 2.15 shall apply) in excess of its Ratable Share of payments on account of the Advances obtained by all the Lenders, such Lender shall forthwith purchase from the other Lenders (for cash at face value) such participations in the Advances owing to them as shall be necessary to cause such purchasing Lender to share the excess payment ratably with each of them; provided, however, that if all or any portion of such excess payment is thereafter recovered from such purchasing Lender, such purchase from each Lender shall be rescinded and such Lender shall repay to the purchasing Lender the purchase price to the extent of such recovery together with an amount equal to such Lender's Ratable Share (according to the proportion of (i) the amount of such Lender's required repayment to (ii) the total amount so recovered from the purchasing Lender) of any interest or other amount paid or payable by the purchasing Lender in respect of the total amount so recovered. The Borrower agrees that any Lender so purchasing a participation from another Lender pursuant to this Section 2.15 may, to the fullest extent permitted by Law, exercise all its rights of payment (including the right of set-off) with respect to such participation as fully as if such Lender were the direct creditor of the Borrower in the amount of such participation.

Section 2.16 Evidence of Debt.

(a) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Advance owing to such Lender from time to time, including the amounts of principal and interest

payable and paid to such Lender from time to time hereunder in respect of Advances. The Borrower agrees that upon notice by any Lender (including the Swingline Lender) to the Borrower (with a copy of such notice to the Agent) to the effect that a Note is required or appropriate in order for such Lender to evidence (whether for purposes of pledge, enforcement or otherwise) the Advances owing to, or to be made by, such Lender, the Borrower shall promptly execute and deliver to such Lender a Note payable to the order of such Lender in a principal amount up to the Revolving Credit Commitment of such Lender.

(b) The Register maintained by the Agent pursuant to Section 8.07(c) shall include a control account, and a subsidiary account for each Lender, in which accounts (taken together) shall be recorded (i) the date and amount of each Borrowing made hereunder, the Type of Advances comprising such Borrowing and, if appropriate, the Interest Period applicable thereto, (ii) the terms of each Assumption Agreement and each Assignment and Assumption delivered to and accepted by it, (iii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iv) the amount of any sum received by the Agent from the Borrower hereunder and each Lender's share thereof.

(c) Entries made in good faith by the Agent in the Register pursuant to subsection (b) above, and by each Lender in its account or accounts pursuant to subsection (a) above, shall be prima facie evidence of the amount of principal and interest due and payable or to become due and payable from the Borrower to, in the case of the Register, each Lender and, in the case of such account or accounts, such Lender, under this Agreement, absent manifest error; provided, however, that the failure of the Agent or such Lender to make an entry, or any finding that an entry is incorrect, in the Register or such account or accounts shall not limit or otherwise affect the obligations of the Borrower under this Agreement.

Section 2.17 Use of Proceeds. The proceeds of the Advances shall be available (and the Borrower agrees that it shall use such proceeds) solely to refinance Indebtedness of the Borrower from time to time and for other general corporate purposes of the Borrower.

Section 2.18 Increase in the Aggregate Revolving Credit Commitments.

(a) The Borrower may, at any time prior to the Termination Date, by notice to the Agent, request that the aggregate amount of the Revolving Credit Commitments be increased by an amount of \$10,000,000 or an integral multiple thereof (each a " Commitment Increase ") to be effective as of a date that is at least 90 days prior to the Termination Date (the " Increase Date ") as specified in the related notice to the Agent; provided, however that (i) in no event shall the aggregate amount of the Revolving Credit Commitments at any time exceed \$300,000,000 or the aggregate amount of Commitment Increases exceed \$100,000,000 and (ii) on the date of any request by the Borrower for a Commitment Increase and on the related Increase Date, the applicable conditions set forth in this Section 2.18 shall be satisfied.

(b) The Agent shall promptly notify the Lenders of a request by the Borrower for a Commitment Increase, which notice shall include (i) the proposed amount of such requested Commitment Increase, (ii) the proposed Increase Date and (iii) the date by which Lenders wishing to participate in the Commitment Increase must commit to an increase in the amount of their respective Revolving Credit Commitments (the " Commitment Date "). Each Lender that is

willing to participate in such requested Commitment Increase (each an “Increasing Lender”) shall, in its sole discretion, give written notice to the Agent on or prior to the Commitment Date of the amount by which it is willing to increase its Revolving Credit Commitment. If the Lenders notify the Agent that they are willing to increase the amount of their respective Revolving Credit Commitments by an aggregate amount that exceeds the amount of the requested Commitment Increase, the requested Commitment Increase shall be allocated among the Lenders willing to participate therein in such amounts as are agreed between the Borrower and the Agent. Each Increasing Lender shall be subject to such applicable consents, if any, as may be required under Section 8.07(b)(iii).

(c) Promptly following each Commitment Date, the Agent shall notify the Borrower as to the amount, if any, by which the Lenders are willing to participate in the requested Commitment Increase. If the aggregate amount by which the Lenders are willing to participate in any requested Commitment Increase on any such Commitment Date is less than the requested Commitment Increase, then the Borrower may extend offers to one or more Eligible Assignees to participate in any portion of the requested Commitment Increase that has not been committed to by the Lenders as of the applicable Commitment Date; provided, however, that the Revolving Credit Commitment of each such Eligible Assignee shall be in an amount of not less than \$10,000,000.

(d) On each Increase Date, each Eligible Assignee that accepts an offer to participate in a requested Commitment Increase in accordance with Section 2.18(b) (each such Eligible Assignee, an “Assuming Lender”) shall become a Lender party to this Agreement as of such Increase Date and the Revolving Credit Commitment of each Increasing Lender for such requested Commitment Increase shall be so increased by the amount by which the Increasing Lender agreed to increase its Revolving Credit Commitment (or by the amount allocated to such Lender pursuant to the last sentence of Section 2.18(b)) as of such Increase Date; provided, however, that the Agent shall have received on or before such Increase Date the following, each dated such date:

(i) (A) certified copies of resolutions of the Board of Directors of the Borrower approving the Commitment Increase and the corresponding modifications to this Agreement, (B) an opinion of counsel for the Borrower (which may be in-house counsel), in form and substance reasonably acceptable to the Required Lenders and (C) a certificate from a duly authorized officer of the Borrower, stating that the conditions set forth in Section 3.02(a) and (b) are satisfied;

(ii) an assumption agreement from each Assuming Lender, if any, in form and substance satisfactory to the Borrower and the Agent (each an “Assumption Agreement”), duly executed by such Assuming Lender, the Agent, the Borrower and each other Person required to consent thereto, as applicable under Section 8.07(b)(iii); and

(iii) confirmation from each Increasing Lender of the increase in the amount of its Revolving Credit Commitment in a writing satisfactory to the Borrower and the Agent.

On each Increase Date, upon fulfillment of the conditions set forth in the immediately preceding sentence of this Section 2.18(d), the Agent shall notify the Lenders (including, without limitation, each Assuming Lender) and the Borrower, on or before 1:00 p.m., by telecopier, of the occurrence of the Commitment Increase to be effected on such Increase Date and shall record in the Register the relevant information with respect to each Increasing Lender and each Assuming Lender on such date. Each Increasing Lender and each Assuming Lender shall, before 2:00 p.m. on the Increase Date, make available for the account of its Applicable Lending Office to the Agent at the Agent's Account, in same day funds, in the case of such Assuming Lender, an amount equal to such Assuming Lender's Ratable Share of the Borrowings then outstanding (calculated based on its Revolving Credit Commitment as a percentage of the aggregate Revolving Credit Commitments outstanding after giving effect to the relevant Commitment Increase) and, in the case of such Increasing Lender, an amount equal to the excess of (i) such Increasing Lender's Ratable Share of the Borrowings then outstanding (calculated based on its Revolving Credit Commitment as a percentage of the aggregate Revolving Credit Commitments outstanding after giving effect to the relevant Commitment Increase) over (ii) such Increasing Lender's Ratable Share of the Borrowings then outstanding (calculated based on its Revolving Credit Commitment (without giving effect to the relevant Commitment Increase) as a percentage of the aggregate Revolving Credit Commitments (without giving effect to the relevant Commitment Increase)). After the Agent's receipt of such funds from each such Increasing Lender and each such Assuming Lender, the Agent will promptly thereafter cause to be distributed like funds to the other Lenders for the account of their respective Applicable Lending Offices in an amount to each other Lender such that the aggregate amount of the outstanding Advances owing to each Lender after giving effect to such distribution equals such Lender's Ratable Share of the Borrowings then outstanding (calculated based on its Revolving Credit Commitment as a percentage of the aggregate Revolving Credit Commitments outstanding after giving effect to the relevant Commitment Increase).

Section 2.19 Affected Lenders. Notwithstanding any provision of this Agreement to the contrary, if any Lender becomes an Affected Lender, then the following provisions shall apply for so long as such Lender is an Affected Lender:

- (a) fees shall cease to accrue on the Unused Commitment of such Affected Lender pursuant to Section 2.04(a);
- (b) the Revolving Credit Commitment and Advances of such Affected Lender shall not be included in determining whether the Required Lenders have taken or may take any action hereunder (including any consent to any amendment or waiver pursuant to Section 8.01), other than any waiver, amendment or modification requiring the consent of all Lenders or of each Lender affected;
- (c) if (x) there shall be any Available Amount under any outstanding Letter of Credit or (y) any Swingline Exposure shall exist during any time a Lender is an Affected Lender, then:
 - (i) so long as no Default or Event of Default has occurred and is continuing, all or any part of the Available Amount of all such Letters of Credit and Swingline Exposure shall be reallocated among the non-Affected Lenders in accordance with their respective Ratable Shares (disregarding any Affected Lender's Revolving Credit

Commitment) but only to the extent that with respect to each non-Affected Lender the sum of (A) the aggregate principal amount of all Revolving Advances made by such non-Affected Lender (in its capacity as a Lender) and outstanding at such time plus (B) such non-Affected Lender's Ratable Share (after giving effect to the reallocation contemplated in this Section 2.19(c)(i)) of the outstanding L/C Obligations plus (C) such non-Affected Lender's Ratable Share (after giving effect to the reallocation contemplated in this Section 2.19(c)(i)) of the outstanding Swingline Exposure, does not exceed such non-Affected Lender's Revolving Credit Commitment;

(ii) if the reallocation described in clause (i) above cannot, or can only partially, be effected, the Borrower shall within one (1) Business Day following notice by the Agent (x) first, prepay such unallocable Swingline Exposure and (y) second, Cash Collateralize for the benefit of the applicable Issuing Bank only the Borrower's obligations corresponding to such Affected Lender's Ratable Share of the Available Amount of outstanding Letters of Credit (after giving effect to any partial reallocation pursuant to clause (i) above) (the "Affected Lender Share") in accordance with the procedures set forth in Section 2.03(h) for so long as such there shall be any Available Amount of outstanding Letters of Credit;

(iii) if the Ratable Share of the Available Amount of outstanding Letters of Credit and the Swingline Exposure of the non-Affected Lenders is reallocated pursuant to this Section 2.19(c), then the fees payable to the Lenders pursuant to Section 2.04(a) and Section 2.04(b) shall be adjusted in accordance with such non-Affected Lenders' Ratable Shares;

(iv) if any Affected Lender Share is not reallocated pursuant to clause (i) above and if the Borrower fails to Cash Collateralize any portion of such Affected Lender Share pursuant to clause (ii) above, then, without prejudice to any rights or remedies of any Issuing Bank or any Lender hereunder, the fee payable under Section 2.04(b) with respect to such Affected Lender Share shall be payable to the Issuing Bank until such Affected Lender Share is reallocated; and

(v) if the Borrower Cash Collateralizes any portion of any Affected Lender Share pursuant to clause (ii) above, the Borrower shall not be required to pay any fees to such Affected Lender pursuant to Section 2.04(b)(i) or the applicable Issuing Bank pursuant to Section 2.04(b)(ii) (solely with respect to any fronting fee) with respect to such Affected Lender's Affected Lender Share during the period such Affected Lender's Affected Lender Share is Cash Collateralized;

(d) to the extent the Agent receives any payments or other amounts for the account of an Affected Lender under this Agreement, such Affected Lender shall be deemed to have requested that the Agent use such payment or other amount to fulfill such Affected Lender's previously unsatisfied obligations to fund a Revolving Advance under Section 2.03(c) or Section 2.03A(c) or L/C Advance or any other unfunded payment obligation of such Affected Lender under this Agreement; and

(e) for the avoidance of doubt, the Borrower, each Issuing Bank, the Swingline Lender, the Agent and each other Lender shall retain and reserve its other rights and remedies respecting each Affected Lender.

In the event that the Agent, the Borrower, the Swingline Lender and the Issuing Banks each agrees that an Affected Lender has adequately remedied all matters that caused such Lender to be an Affected Lender, then the Ratable Shares of the Lenders shall be readjusted to reflect the inclusion of such Lender's Revolving Credit Commitment and on such date such Lender shall purchase at par such of the Revolving Advances of the other Lenders as the Agent shall determine may be necessary in order for such Lender to hold such Revolving Advances in accordance with its Ratable Share. In addition, at such time as the Affected Lender is replaced by another Lender pursuant to Section 2.20, the Ratable Shares of the Lenders will be readjusted to reflect the inclusion of the replacing Lender's Commitment in accordance with Section 2.20. In either such case, this Section 2.19 will no longer apply.

Section 2.20 Replacement of Lenders. If any Lender requests compensation under Section 2.11, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.14, or if any Lender is an Affected Lender, then the Borrower may, at its sole expense and effort, upon notice to such Lender and the Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in, and consents required by, Section 8.07), all of its interests, rights and obligations under this Agreement and the related Loan Documents to one or more assignees that shall assume such obligations (which any such assignee may be another Lender, if a Lender accepts such assignment), provided that:

- (a) the Borrower shall have paid to the Agent the assignment fee specified in Section 8.07(b);
- (b) such Lender shall have received payment of an amount equal to the outstanding principal of its Revolving Advances and L/C Advances, accrued interest thereon, accrued fees and all other amounts payable to it hereunder and under the other Loan Documents (including any amounts under Section 8.04(e)) from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts);
- (c) in the case of any such assignment resulting from a claim for compensation under Section 2.11 or payments required to be made pursuant to Section 2.14, such assignment will result in a reduction in such compensation or payments thereafter; and
- (d) such assignment does not conflict with applicable Laws.

A Lender shall not be required to make any such assignment or delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower to require such assignment and delegation cease to apply.

ARTICLE III

CONDITIONS PRECEDENT

Section 3.01 **Conditions Precedent to Effectiveness**. This Agreement shall become effective on and as of the first date (the “Effective Date”) on which the following conditions precedent have been satisfied:

(a) The Lenders shall have been given such access to the management, records, books of account, contracts and properties of the Borrower and its Subsidiaries as they shall have requested.

(b) The Borrower shall have paid all accrued fees and agreed expenses of the Agent, the Arrangers and the Lenders and the reasonable accrued fees and expenses of counsel to the Agent that have been invoiced at least one Business Day prior to the Effective Date.

(c) On the Effective Date, the following statements shall be true and the Agent shall have received a certificate signed by a duly authorized officer of the Borrower, dated the Effective Date, stating that:

- (i) The representations and warranties contained in Section 4.01 are true and correct on and as of the Effective Date, and
- (ii) No event has occurred and is continuing that constitutes a Default.

(d) The Agent shall have received on or before the Effective Date the following, each dated such day, in form and substance satisfactory to the Agent and the Lenders:

(i) Receipt by the Agent of executed counterparts of this Agreement properly executed by a duly authorized officer of the Borrower and by each Lender.

(ii) The Notes, payable to the order of the Lenders to the extent requested by any Lender pursuant to Section 2.16.

(iii) The articles of incorporation of the Borrower certified to be true and complete as of a recent date by the appropriate governmental authority of the state or other jurisdiction of its incorporation and certified by a secretary, assistant secretary or associate secretary of the Borrower to be true and correct as of the Effective Date.

(iv) The bylaws of the Borrower certified by a secretary, assistant secretary or associate secretary of the Borrower to be true and correct as of the Effective Date.

(v) Certified copies of the resolutions of the Board of Directors of the Borrower approving this Agreement and the Notes, and of all documents evidencing other necessary corporate action and governmental approvals, if any, with respect to this Agreement and the Notes.

(vi) A certificate of the secretary, assistant secretary or associate secretary of the Borrower certifying the names and true signatures of the officers of the Borrower authorized to sign this Agreement and the Notes and the other documents to be delivered hereunder.

(vii) A certificate as of a recent date from the Borrower's state of incorporation evidencing that the Borrower is in good standing in its state of organization or formation.

(viii) A favorable opinion of counsel for the Borrower, in form and substance reasonably acceptable to the Lenders.

(ix) A favorable opinion of Sidley Austin LLP, counsel for the Agent, in form and substance reasonably acceptable to the Lenders.

(e) Concurrently with or before the Effective Date, (i) all principal, interest and other amounts outstanding under the Borrower's existing Three-Year Credit Agreement dated as of February 12, 2010 (the "Existing Senior Credit Agreement") shall be repaid and satisfied in full, (ii) all commitments to extend credit under the Existing Senior Credit Agreement shall be terminated and (iii) any letters of credit outstanding under the Existing Senior Credit Agreement shall have been terminated, canceled, transferred or replaced; and the Agent shall have received evidence of the foregoing satisfactory to it, including an escrow agreement or payoff letter executed by the lenders or the agent under the Existing Senior Credit Agreement if applicable.

(f) The Agent shall have received evidence satisfactory to it of the refinancing of that certain \$500,000,000 Three-Year Credit Agreement dated as of February 12, 2010 by and among Arizona Public Service Company, as borrower, the lenders from time to time, parties thereto and Bank of America, N.A., as administrative agent, on terms and conditions reasonably acceptable to the Agent.

Section 3.02 Conditions Precedent to Each Credit Extension and Commitment Increase. The obligation of each Lender to make an Advance (other than an L/C Advance or an Advance made pursuant to Section 2.03(c) or Section 2.03A(c)) on the occasion of each Borrowing, the obligation of each Issuing Bank to issue a Letter of Credit, and each Commitment Increase shall be subject to the conditions precedent that the Effective Date shall have occurred and on the date of such Borrowing or such issuance (as the case may be), or the applicable Increase Date, the following statements shall be true (and each of the giving of the applicable Notice of Borrowing or request for issuance and the acceptance by the Borrower of the proceeds of such Borrowing shall constitute a representation and warranty by the Borrower that on the date of such Borrowing or date of such issuance such statements are true):(a) the representations and warranties contained in Section 4.01 (other than Section 4.01(k), and in the case of a Borrowing or issuance of a Letter of Credit, Section 4.01(e)(ii) and 4.01(f)(ii)) are correct on and as of such date, before and after giving effect to such Borrowing or issuance of a Letter of Credit, or such Commitment Increase and to the application of the proceeds therefrom, as though made on and as of such date; and

(b) no event has occurred and is continuing, or would result from such Borrowing or issuance of a Letter of Credit, or such Commitment Increase or from the application of the proceeds therefrom, that constitutes a Default.

Each request for Credit Extension (which shall not include a Conversion or a continuation of Eurodollar Rate Advances) submitted by the Borrower shall be deemed to be a representation and warranty that the conditions specified in Sections 3.02(a) and (b) have been satisfied on and as of the date of the applicable Credit Extension.

Section 3.03 Determinations Under Section 3.01. For purposes of determining compliance with the conditions specified in Section 3.01 and the satisfaction of each Lender with respect to letters delivered to it from the Borrower as set forth in Sections 4.01(a), 4.01(e) and 4.01(f), each Lender that has signed this Agreement shall be deemed to have consented to, approved or accepted or to be satisfied with each document or other matter required thereunder to be consented to or approved by or acceptable or satisfactory to the Lenders unless an officer of the Agent responsible for the transactions contemplated by this Agreement shall have received notice from such Lender prior to the date that the Borrower designates as the proposed Effective Date, specifying its objection thereto. The Agent shall promptly notify the Lenders and the Borrower of the occurrence of the Effective Date.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

Section 4.01 Representations and Warranties of the Borrower. The Borrower represents and warrants as follows:

(a) Each of the Borrower and each Material Subsidiary: (i) is a corporation or other entity duly organized and validly existing under the Laws of the jurisdiction of its incorporation or organization; (ii) has all requisite corporate or if the Material Subsidiary is not a corporation, other comparable power necessary to own its assets and carry on its business as presently conducted; (iii) has all governmental licenses, authorizations, consents and approvals necessary to own its assets and carry on its business as presently conducted, if the failure to have any such license, authorization, consent or approval is reasonably likely to have a Material Adverse Effect and except as disclosed to the Agent in the SEC Reports or by means of a letter from the Borrower to the Lenders (such letter, if any, to be delivered to the Agent for prompt distribution to the Lenders) delivered prior to the execution and delivery of this Agreement (which, in each case, shall be satisfactory to each Lender in its sole discretion) and except that (A) APS from time to time may make minor extensions of its lines, plants, services or systems prior to the time a related franchise, certificate of convenience and necessity, license or permit is procured, (B) from time to time communities served by APS may become incorporated and considerable time may elapse before such a franchise is procured, (C) certain such franchises may have expired prior to the renegotiation thereof, (D) certain minor defects and exceptions may exist which, individually and in the aggregate, are not material and (E) certain franchises, certificates, licenses and permits may not be specific as to their geographical scope); and (iv) is qualified to do business in all jurisdictions in which the nature of the business conducted by it makes such

qualification necessary and where failure so to qualify is reasonably likely to have a Material Adverse Effect.

(b) The execution, delivery and performance by the Borrower of this Agreement and the other Loan Documents, and the consummation of the transactions contemplated hereby and thereby, are within the Borrower's corporate powers, have been duly authorized by all necessary corporate action, and do not or did not (i) contravene the Borrower's articles of incorporation or by-laws, (ii) contravene any Law, decree, writ, injunction or determination of any Governmental Authority, in each case applicable to or binding upon the Borrower or any of its properties, (iii) contravene any contractual restriction binding on or affecting the Borrower or (iv) cause the creation or imposition of any Lien upon the assets of the Borrower or any Material Subsidiary, except for Liens created under this Agreement and except where such contravention or creation or imposition of such Lien is not reasonably likely to have a Material Adverse Effect.

(c) No authorization or approval or other action by, and no notice to or filing with, any Governmental Authority is required for the due execution, delivery and performance by the Borrower of this Agreement or the Notes to be delivered by it.

(d) This Agreement has been, and each of the other Loan Documents upon execution and delivery will have been, duly executed and delivered by the Borrower. This Agreement is, and each of the other Loan Documents upon execution and delivery will be, the legal, valid and binding obligation of the Borrower enforceable against the Borrower in accordance with their respective terms, subject, however, to the application by a court of general principles of equity and to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar Laws affecting creditors' rights generally.

(e) (i) The Consolidated balance sheet of the Borrower as of December 31, 2010, and the related Consolidated statements of income and cash flows of the Borrower for the fiscal year then ended, accompanied by an opinion thereon of Deloitte & Touche LLP, independent registered public accountants, and the Consolidated balance sheet of the Borrower as of September 30, 2011, and the related Consolidated statements of income and cash flows of the Borrower for the nine months then ended, duly certified by the chief financial officer of the Borrower, copies of which have been furnished to the Agent, fairly present in all material respects, subject, in the case of said balance sheet as of September 30, 2011, and said statements of income and cash flows for the nine months then ended, to year-end audit adjustments, the Consolidated financial condition of the Borrower as at such dates and the Consolidated results of the operations of the Borrower for the periods ended on such dates, all in accordance with GAAP (except as disclosed therein).
(ii) Except as disclosed to the Agent in the SEC Reports or by means of a letter from the Borrower to the Lenders (such letter, if any, to be delivered to the Agent for prompt distribution to the Lenders) delivered prior to the execution and delivery of this Agreement (which, in each case, shall be satisfactory to each Lender in its sole discretion), since December 31, 2010, there has been no Material Adverse Effect.

(f) There is no pending or, to the knowledge of an Authorized Officer of the Borrower, threatened action, suit, investigation, litigation or proceeding, including, without limitation, any Environmental Action, affecting the Borrower or any of its Subsidiaries before any court, governmental agency or arbitrator that (i) purports to affect the legality, validity or

enforceability of this Agreement or any other Loan Document or the consummation of the transactions contemplated hereby or (ii) would be reasonably likely to have a Material Adverse Effect (except as disclosed to the Agent in the SEC Reports or by means of a letter from the Borrower to the Lenders (such letter, if any, to be delivered to the Agent for prompt distribution to the Lenders) delivered prior to the execution and delivery of this Agreement (which, in each case, shall be satisfactory to each Lender in its sole discretion)) and there has been no adverse change in the status, or financial effect on the Borrower or any of its Subsidiaries, of such disclosed litigation that would be reasonably likely to have a Material Adverse Effect.

(g) No proceeds of any Advance will be used to acquire any equity security not issued by the Borrower of a class that is registered pursuant to Section 12 of the Securities Exchange Act of 1934.

(h) The Borrower is not engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation U issued by the Board of Governors of the Federal Reserve System), and no proceeds of any Advance will be used to purchase or carry any margin stock or to extend credit to others for the purpose of purchasing or carrying any margin stock, in any case in violation of Regulation U. After application of the proceeds of any Advance, not more than 25% of the value of the assets subject to any restriction under this Agreement on the right to sell, pledge, transfer, or otherwise dispose of such assets is represented by margin stock.

(i) The Borrower and its Subsidiaries have filed all United States of America Federal income tax returns and all other material tax returns which are required to be filed by them and have paid all taxes due pursuant to such returns or pursuant to any assessment received by the Borrower or any of its Subsidiaries, except to the extent that (i) such taxes are being contested in good faith and by appropriate proceedings and that appropriate reserves for the payment thereof have been maintained by the Borrower and its Subsidiaries in accordance with GAAP or (ii) the failure to make such filings or such payments is not reasonably likely to have a Material Adverse Effect. The charges, accruals and reserves on the books of the Borrower and its Material Subsidiaries as set forth in the most recent financial statements of the Borrower delivered to the Agent pursuant to Section 4.01(e) or Section 5.01(h)(i) or (ii) hereof in respect of taxes and other governmental charges are, in the opinion of the Borrower, adequate.

(j) Set forth on Schedule 4.01(j) hereto (as such schedule may be modified from time to time by the Borrower by written notice to the Agent) is a complete and accurate list of all the Material Subsidiaries of the Borrower.

(k) Set forth on Schedule 4.01(k) hereto is a complete and accurate list identifying any Indebtedness of the Borrower outstanding in a principal amount equal to or exceeding \$5,000,000 and which is not described in the financial statements referred to in Section 4.01(e).

(l) The Borrower is not an “investment company”, or a company “controlled” by an “investment company”, within the meaning of the Investment Company Act of 1940, as amended.

(m) No report, certificate or other written information furnished by the Borrower or any of its Subsidiaries to any Agent or any Lender in connection with the transactions contemplated hereby and the negotiation of this Agreement or delivered hereunder or any other Loan Document (as modified or supplemented by other information so furnished) at the time so furnished, when taken together as a whole with all such written information so furnished, contains an untrue statement of a material fact or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except as would not reasonably be expected to result in a Material Adverse Effect; provided that with respect to any projected financial information, forecasts, estimates or forward-looking information, the Borrower represents only that such information and materials have been prepared in good faith on the basis of assumptions believed to be reasonable at the time of preparation of such forecasts, and no representation or warranty is made as to the actual attainability of any such projections, forecasts, estimates or forward-looking information.

ARTICLE V

COVENANTS OF THE BORROWER

Section 5.01 Affirmative Covenants. So long as any Advance shall remain unpaid, any Letter of Credit shall remain outstanding or any Lender shall have any Commitment hereunder, the Borrower shall:

(a) Compliance with Laws, Etc. (i) Comply, and cause each of its Material Subsidiaries to comply, in all material respects, with all applicable Laws of Governmental Authorities, such compliance to include, without limitation, compliance with ERISA and Environmental Laws, unless the failure to so comply is not reasonably likely to have a Material Adverse Effect and (ii) comply at all times with all Laws, orders, decrees, writs, injunctions or determinations of any Governmental Authority relating to the incurrence or maintenance of Indebtedness by the Borrower, unless the failure to so comply is not reasonably likely to have a Material Adverse Effect.

(b) Payment of Taxes, Etc. Pay and discharge, and cause each of its Subsidiaries to pay and discharge, before the same shall become delinquent, all taxes, assessments and governmental charges or levies imposed upon it or upon its property; provided, however, that neither the Borrower nor any of its Subsidiaries shall be required to pay or discharge any such tax, assessment, charge or levy (i) that is being contested in good faith and by proper proceedings and as to which appropriate reserves are being maintained in accordance with GAAP or (ii) if the failure to pay such tax, assessment, charge or levy is not reasonably likely to have a Material Adverse Effect.

(c) Maintenance of Insurance. Maintain, and cause each of its Material Subsidiaries to maintain, insurance with responsible and reputable insurance companies or associations in such amounts and covering such risks as is usually carried by companies engaged in similar businesses and owning similar properties in the same general areas in which the Borrower or such Subsidiary operates; provided, however, that the Borrower and its Subsidiaries may self-insure to the same extent as other companies engaged in similar businesses and owning similar

properties in the same general areas in which the Borrower or such Subsidiary operates and to the extent consistent with prudent business practice.

(d) Preservation of Corporate Existence, Etc. Preserve and maintain, and cause each of its Material Subsidiaries to preserve and maintain, its corporate existence, rights (charter and statutory) and franchises (other than "franchises" as described in Arizona Revised Statutes, Section 40-283 or any successor provision) reasonably necessary in the normal conduct of its business, if the failure to maintain such rights or privileges is reasonably likely to have a Material Adverse Effect, and, in the case of APS, will cause APS to use its commercially reasonable efforts to preserve and maintain such franchises reasonably necessary in the normal conduct of its business, except that (i) APS from time to time may make minor extensions of its lines, plants, services or systems prior to the time a related franchise, certificate of convenience and necessity, license or permit is procured, (ii) from time to time communities served by APS may become incorporated and considerable time may elapse before such a franchise is procured, (iii) certain such franchises may have expired prior to the renegotiation thereof, (iv) certain minor defects and exceptions may exist which, individually and in the aggregate, are not material and (v) certain franchises, certificates, licenses and permits may not be specific as to their geographical scope; provided, however, that the Borrower and its Subsidiaries may consummate any merger or consolidation permitted under Section 5.02(b).

(e) Visitation Rights. At any reasonable time and from time to time, permit and cause each of its Subsidiaries to permit the Agent or any of the Lenders or any agents or representatives thereof, to examine and make copies of and abstracts from the records and books of account of, and visit the properties of, the Borrower and any of its Subsidiaries, and to discuss the affairs, finances and accounts of the Borrower and any of its Subsidiaries with any of their officers or directors; provided, however, that the Borrower and its Subsidiaries reserve the right to restrict access to any of its properties in accordance with reasonably adopted procedures relating to safety and security; and provided further that the costs and expenses incurred by such Lender or agents or representatives in connection with any such examinations, copies, abstracts, visits or discussions shall be, upon the occurrence and during the continuation of a Default, for the account of the Borrower and, in all other circumstances, for the account of such Lender.

(f) Keeping of Books. Keep, and cause each of its Material Subsidiaries to keep, proper books of record and account, in which full and correct entries shall be made of all financial transactions and the assets and business of the Borrower and each such Subsidiary in a manner that permits the preparation of financial statements in accordance with GAAP.

(g) Maintenance of Properties, Etc. Keep, and cause each Material Subsidiary to keep, all property useful and necessary in its business in good working order and condition (ordinary wear and tear excepted), if the failure to do so is reasonably likely to have a Material Adverse Effect, it being understood that this covenant relates only to the working order and condition of such properties and shall not be construed as a covenant not to dispose of properties.

(h) Reporting Requirements. Furnish to the Agent:

(i) as soon as available and in any event within 50 days after the end of each of the first three fiscal quarters of each fiscal year of the Borrower, (A) for each such

fiscal quarter of the Borrower, Consolidated statements of income and cash flows of the Borrower for such fiscal quarter setting forth in each case in comparative form the corresponding figures for the corresponding fiscal quarter in the preceding fiscal year and (B) for the period commencing at the end of the previous fiscal year and ending with the end of each fiscal quarter, Consolidated statements of income and cash flows of the Borrower for such period setting forth in each case in comparative form the corresponding figures for the corresponding period in the preceding fiscal year; provided that so long as the Borrower remains subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, the Borrower may provide, in satisfaction of the requirements of this first sentence of this Section 5.01(h)(i), its report on Form 10-Q for such fiscal quarter. Each set of financial statements provided under this Section 5.01(h)(i) shall be accompanied by a certificate of an Authorized Officer, which certificate shall state that said Consolidated financial statements fairly present in all material respects the Consolidated financial condition and results of operations of the Borrower in accordance with GAAP (except as disclosed therein) as at the end of, and for, such period (subject to normal year-end audit adjustments) and shall set forth reasonably detailed calculations demonstrating compliance with Section 5.03;

(ii) as soon as available and in any event within 90 days after the end of each fiscal year of the Borrower, audited Consolidated statements of income and cash flows of the Borrower for such year and the related Consolidated balance sheet of the Borrower as at the end of such year, setting forth in each case in comparative form the corresponding figures for the preceding fiscal year; provided that, so long as the Borrower remains subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, the Borrower may provide, in satisfaction of the requirements of this first sentence of this Section 5.01(h)(ii), its report on Form 10-K for such fiscal year. Each set of financial statements provided pursuant to this Section 5.01(h)(ii) shall be accompanied by (A) an opinion thereon of independent certified public accountants of recognized national standing, which opinion shall state that said Consolidated financial statements fairly present in all material respects the Consolidated financial condition and results of operations of the Borrower as at the end of, and for, such fiscal year, in accordance with GAAP (except as disclosed therein) and (B) a certificate of an Authorized Officer, which certificate shall set forth reasonably detailed calculations demonstrating compliance with Section 5.03;

(iii) as soon as possible and in any event within five days after any Authorized Officer of the Borrower knows of the occurrence of each Default continuing on the date of such statement, a statement of an Authorized Officer of the Borrower setting forth details of such Default and the action that the Borrower has taken and proposes to take with respect thereto;

(iv) promptly after the sending or filing thereof, copies of all reports and registration statements (other than exhibits thereto and registration statements on Form S-8 or its equivalent) that the Borrower or any Subsidiary files with the Securities and Exchange Commission;

(v) promptly after an Authorized Officer becomes aware of the commencement thereof, notice of all actions and proceedings before any court, governmental agency or arbitrator affecting the Borrower or any of its Subsidiaries of the type described in Section 4.01(f), except with respect to any matter referred to in Section 4.01(f)(ii), to the extent disclosed in a report on Form 8-K, Form 10-Q or Form 10-K of the Borrower;

(vi) promptly after an Authorized Officer becomes aware of the occurrence thereof, notice of any change by Moody's or S&P of their respective Public Debt Rating or of the cessation (or subsequent commencement) by Moody's or S&P of publication of their respective Public Debt Rating;

(vii) promptly after the occurrence of any ERISA Event, together with (x) a written statement of an Authorized Officer of the Borrower specifying the details of such ERISA Event and the action that the Borrower has taken and proposes to take with respect thereto, (y) a copy of any notice with respect to such ERISA Event that may be required to be filed with the PBGC and (z) a copy of any notice delivered by the PBGC to the Borrower or an ERISA Affiliate with respect to such ERISA Event; and

(viii) such other information respecting the Borrower or any of its Subsidiaries as any Lender through the Agent may from time to time reasonably request.

Information required to be delivered pursuant to Sections 5.01(h)(i), (ii) and (iv) above shall be deemed to have been delivered on the date on which the Borrower provides notice to the Agent that such information has been posted on the Borrower's website on the Internet at www.pinnaclewest.com, at sec.gov/edaux/searches.htm or at another website identified in such notice and accessible by the Lenders without charge; provided that (i) such notice may be included in a certificate delivered pursuant to Section 5.01(h)(i) or (ii) and (ii) the Borrower shall deliver paper copies of the information referred to in Section 5.01(h)(i), (ii), and (iv) to any Lender which requests such delivery.

(i) Change in Nature of Business. Conduct directly or through its Subsidiaries the same general type of business conducted by the Borrower and its Material Subsidiaries on the date hereof.

Section 5.02 Negative Covenants. So long as any Advance shall remain unpaid, any Letter of Credit shall remain outstanding or any Lender shall have any Commitment hereunder, the Borrower shall not:

(a) Liens, Etc. Directly or indirectly create, incur, assume or permit to exist any Lien securing Indebtedness for borrowed money on or with respect to any property or asset (including, without limitation, the capital stock of APS) of the Borrower, whether now owned or held or hereafter acquired (unless it makes, or causes to be made, effective provision whereby the Obligations will be equally and ratably secured with any and all other obligations thereby secured so long as such other Indebtedness shall be so secured, such security to be pursuant to an agreement reasonably satisfactory to the Required Lenders); provided, however, that this Section 5.02(a) shall not apply to Liens securing Indebtedness for borrowed money (other than

Indebtedness for borrowed money secured by the capital stock of APS) which do not in the aggregate exceed at any time outstanding the principal amount of \$50,000,000.

(b) Mergers, Etc. Merge or consolidate with or into any Person, or permit any of its Material Subsidiaries to do so, except that (i) any Material Subsidiary of the Borrower may merge or consolidate with or into any other Material Subsidiary of the Borrower, (ii) any Subsidiary of the Borrower may merge into the Borrower or any Material Subsidiary of the Borrower and (iii) the Borrower or any Material Subsidiary may merge with any other Person so long as the Borrower or such Material Subsidiary is the surviving corporation, provided, in each case, that no Default shall have occurred and be continuing at the time of such proposed transaction or would result therefrom.

(c) Sales, Etc. of Assets. Sell, lease, transfer or otherwise dispose of, or permit any of its Material Subsidiaries to sell, lease, transfer or otherwise dispose of, any assets, or grant any option or other right to purchase, lease or otherwise acquire any assets to any Person other than the Borrower or any Subsidiary of the Borrower, except (i) dispositions in the ordinary course of business, including, without limitation, sales or other dispositions of electricity and related and ancillary services, other commodities, emissions credits and similar mechanisms for reducing pollution, and damaged, obsolete, worn out or surplus property no longer required or useful in the business or operations of the Borrower or any of its Subsidiaries, (ii) sale or other disposition of patents, copyrights, trademarks or other intellectual property that are, in the Borrower's reasonable judgment, no longer economically practicable to maintain or necessary in the conduct of the business of the Borrower or its Subsidiaries and any license or sublicense of intellectual property that does not interfere with the business of the Borrower or any Material Subsidiary, (iii) in a transaction authorized by subsection (b) of this Section, (iv) individual dispositions occurring in the ordinary course of business which involve assets with a book value not exceeding \$5,000,000, (v) sales, leases, transfers or dispositions of assets during the term of this Agreement having an aggregate book value not to exceed 30% of the total of all assets properly appearing on the most recent balance sheet of the Borrower provided pursuant to Section 4.01(e)(i) or 5.01(h)(ii) hereof, (vi) at any time following the consummation of the Four Corners Acquisition and the closure by APS of Units 1, 2 and 3 of the Four Corners Power Plant near Farmington, New Mexico, as described in the SEC Reports, disposition of all or any portion of APS' interests in such Units 1, 2 and 3, and (vii) any Lien permitted under Section 5.02 (a).

(d) Ownership of APS. Except to the extent permitted under Section 5.02(b), the Borrower will at all times continue to own directly or indirectly at least 80% of the outstanding capital stock of APS.

Section 5.03 Financial Covenant. So long as any Advance shall remain unpaid, any Letter of Credit shall remain outstanding or any Lender shall have any Commitment hereunder, the Borrower will maintain a ratio of (a) Consolidated Indebtedness to (b) the sum of Consolidated Indebtedness plus Consolidated Net Worth of not greater than 0.65 to 1.0.

ARTICLE VI

EVENTS OF DEFAULT

Section 6.01 Events of Default. If any of the following events (“Events of Default”) shall occur and be continuing:

- (a) The Borrower shall fail to pay when due (i) any principal of any Advance, (ii) any drawing under any Letter of Credit, or (iii) any interest on any Advance or any other fees or other amounts payable under this Agreement or any other Loan Documents, and (in the case of this clause (iii) only), such failure shall continue for a period of three Business Days; or
- (b) Any representation or warranty made by the Borrower herein or by the Borrower (or any of its officers) in any certificate or other document delivered in connection with this Agreement or any other Loan Document shall prove to have been incorrect in any material respect when made or deemed made or furnished; or
- (c) (i) The Borrower shall fail to perform or observe any term, covenant or agreement contained in Section 5.01(d) (as to the corporate existence of the Borrower), (h)(iii) or (h)(vi), 5.02 or 5.03, or (ii) the Borrower shall fail to perform or observe any other term, covenant or agreement contained in Section 5.01(e) if such failure shall remain unremedied for 15 days after written notice thereof shall have been given to the Borrower by the Agent or any Lender or (iii) the Borrower shall fail to perform or observe any other term, covenant or agreement contained in this Agreement or any other Loan Document on its part to be performed or observed if such failure shall remain unremedied for 30 days after written notice thereof shall have been given to the Borrower by the Agent or any Lender; or
- (d) (i) The Borrower or any of its Material Subsidiaries shall fail to pay (A) any principal of or premium or interest on any Indebtedness that is outstanding in a principal amount of at least \$35,000,000 in the aggregate (but excluding Indebtedness outstanding hereunder), or (B) an amount, or post collateral as contractually required in an amount, of at least \$35,000,000 in respect of any Hedge Agreement, of the Borrower or such Material Subsidiary (as the case may be), in each case, when the same becomes due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Indebtedness or Hedge Agreement; or (ii) any event of default shall exist under any agreement or instrument relating to any such Indebtedness and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such event is to accelerate, or to permit the acceleration of, the maturity of such Indebtedness; or
- (e) The Borrower or any of its Material Subsidiaries shall fail to pay any principal of or premium or interest in respect of any operating lease in respect of which the payment obligations of the Borrower have a present value of at least \$35,000,000, when the same becomes due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure shall continue after the applicable grace period, if any, specified in such operating lease, if the effect of such failure is to terminate, or to permit the termination of, such operating lease; or

(f) The Borrower or any of its Material Subsidiaries shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against the Borrower or any of its Material Subsidiaries seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any Debtor Relief Law, or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its property and, in the case of any such proceeding instituted against it (but not instituted by it), either such proceeding shall remain undismissed or unstayed for a period of 60 days, or any of the actions sought in such proceeding (including, without limitation, the entry of an order for relief against, or the appointment of a receiver, trustee, custodian or other similar official for, it or for any substantial part of its property) shall occur; or the Borrower or any of its Material Subsidiaries shall take any corporate action to authorize any of the actions set forth above in this subsection (f); or

(g) Judgments or orders for the payment of money that exceeds any applicable insurance coverage (the insurer of which shall be rated at least "A" by A.M. Best Company) by more than \$35,000,000 in the aggregate shall be rendered against the Borrower or any Material Subsidiary and such judgments or orders shall continue unsatisfied or unstayed for a period of 45 days; or

(h) (i) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, but excluding any employee benefit plan of such person or its subsidiaries, and any person or entity acting in its capacity as trustee, agent or other fiduciary or administrator of any such plan) becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Securities Exchange Act of 1934), directly or indirectly, of 30% or more of the equity securities of the Borrower entitled to vote for members of the board of directors of the Borrower; or (ii) during any period of 24 consecutive months, a majority of the members of the board of directors of the Borrower cease (other than due to death or disability) to be composed of individuals (A) who were members of that board on the first day of such period, (B) whose election or nomination to that board was approved by individuals referred to in clause (A) above constituting at the time of such election or nomination at least a majority of that board or (C) whose election or nomination to that board was approved by individuals referred to in clauses (A) and (B) above constituting at the time of such election or nomination at least a majority of that board; or

(i) (i) An ERISA Event occurs with respect to a Pension Plan or Multiemployer Plan which has resulted or could reasonably be expected to result in liability of the Borrower under Title IV of ERISA to the Pension Plan, Multiemployer Plan or the PBGC in an aggregate amount in excess of \$35,000,000, or (ii) the Borrower or any ERISA Affiliate fails to pay when due, after the expiration of any applicable grace period, any installment payment with respect to its withdrawal liability under Section 4201 of ERISA under a Multiemployer Plan in an aggregate amount in excess of \$35,000,000;

then, and in any such event, the Agent shall at the request, or may with the consent, of the Required Lenders, by notice to the Borrower, (i) declare the obligation of each Lender to make Advances (other than L/C Advances) and of the Issuing Banks to issue Letters of Credit to be

terminated, whereupon the same shall forthwith terminate, (ii) declare the Advances, all interest thereon and all other amounts payable under this Agreement to be forthwith due and payable, whereupon the Advances, all such interest and all such amounts shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Borrower; provided, however, that in the event of an actual or deemed entry of an order for relief with respect to the Borrower under the Bankruptcy Code of the United States of America, (A) the obligation of each Lender to make Advances (other than L/C Advances) and of the Issuing Banks to issue Letters of Credit shall automatically be terminated and (B) the Advances, all such interest and all such amounts shall automatically become and be due and payable, without presentment, demand, protest or any notice of any kind, all of which are hereby expressly waived by the Borrower and (iii) exercise all rights and remedies available to it under this Agreement, the other Loan Documents and applicable Law.

Section 6.02 Actions in Respect of Letters of Credit upon Default. If any Event of Default shall have occurred and be continuing, the Agent may with the consent, or shall at the request, of the Required Lenders, irrespective of whether it is taking any of the actions described in Section 6.01 or otherwise, (a) make demand upon the Borrower to, and forthwith upon such demand the Borrower will Cash Collateralize the aggregate Available Amount of all Letters of Credit then outstanding (whether or not any beneficiary under any Letter of Credit shall have drawn or be entitled at such time to draw thereunder) or (b) make such other arrangements in respect of the outstanding Letters of Credit as shall be acceptable to the Required Lenders, provided, however, that in the event of an actual or deemed entry of an order for relief with respect to the Borrower under the Bankruptcy Code of the United States of America, the Borrower will Cash Collateralize the aggregate Available Amount of all Letters of Credit then outstanding, without presentment, demand, protest or any notice of any kind, all of which are hereby expressly waived by the Borrower. If at any time the Agent determines that any funds held in the L/C Cash Deposit Account are subject to any right or interest of any Person other than the Agent, the Issuing Banks and the Lenders or that the total amount of such funds is less than the aggregate Available Amount of all Letters of Credit, the Borrower will, forthwith upon demand by the Agent, pay to the Agent, as additional funds to be deposited and held in the L/C Cash Deposit Account, an amount equal to the excess of (a) such aggregate Available Amount over (b) the total amount of funds, if any, then held in the L/C Cash Deposit Account that are free and clear of any such right and interest. Upon the drawing of any Letter of Credit, to the extent funds are on deposit in the L/C Cash Deposit Account, such funds shall be applied to reimburse the Issuing Banks to the extent permitted by applicable Law, or each Lender to the extent such Lender has funded a Revolving Advance in respect of such Letter of Credit. The Borrower hereby grants to the Agent, for the benefit of the Issuing Banks and the Lenders, a Lien upon and security interest in the L/C Cash Deposit Account and all amounts held therein from time to time as security for the L/C Obligations, and for application to the Borrower's reimbursement obligations as and when the same shall arise. The Agent shall have exclusive dominion and control, including the exclusive right of withdrawal, over such account. After all such Letters of Credit shall have expired or been fully drawn upon and all other obligations of the Borrower hereunder and under the other Loan Documents shall have been paid in full, the balance, if any, in such L/C Cash Deposit Account shall be promptly returned to the Borrower.

ARTICLE VII

THE AGENT

Section 7.01 Appointment and Authority. Each of the Lenders (for purposes of this Article, references to the Lenders shall also mean the Issuing Banks) hereby irrevocably appoints Barclays Bank to act on its behalf as the Agent hereunder and under the other Loan Documents and authorizes the Agent to take such actions on its behalf and to exercise such powers as are delegated to the Agent by the terms hereof or thereof, together with such actions and powers as are reasonably incidental thereto. Except as set forth in Section 7.06, the provisions of this Article are solely for the benefit of the Agent and the Lenders, and neither the Borrower nor any of its Affiliates shall have rights as a third party beneficiary of any of such provisions.

Section 7.02 Rights as a Lender. The Person serving as the Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Agent and the term "Lender" or "Lenders" shall, unless otherwise expressly indicated or unless the context otherwise requires, include the Person serving as the Agent hereunder in its individual capacity. Such Person and its Affiliates may accept deposits from, lend money to, act as the financial advisor or in any other advisory capacity for and generally engage in any kind of business with the Borrower or any Subsidiary or other Affiliate thereof as if such Person were not the Agent hereunder and without any duty to account therefor to the Lenders.

Section 7.03 Exculpatory Provisions. The Agent shall not have any duties or obligations except those expressly set forth herein and in the other Loan Documents. Without limiting the generality of the foregoing, the Agent:

- (a) shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing;
- (b) shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated hereby or by the other Loan Documents that the Agent is required to exercise as directed in writing by the Required Lenders (or such other number or percentage of the Lenders as shall be expressly provided for herein), provided that the Agent shall not be required to take any action that, in its opinion or the opinion of its counsel, may expose the Agent to liability or that is contrary to any Loan Document or applicable Law; and
- (c) shall not, except as expressly set forth herein and in the other Loan Documents, have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to the Borrower or any of its Affiliates that is communicated to or obtained by the Person serving as the Agent or any of its Affiliates in any capacity.

The Agent shall not be liable for any action taken or not taken by it (i) with the consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary, or as the Agent shall believe in good faith shall be necessary, under the circumstances as provided in Section 6.01 and 8.01) or (ii) in the absence of its own gross

negligence or willful misconduct. The Agent shall be deemed not to have knowledge of any Default unless and until notice describing such Default is given to the Agent by the Borrower or a Lender.

The Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with this Agreement or any other Loan Document, (ii) the contents of any certificate, report or other document delivered hereunder or thereunder or in connection herewith or therewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth herein or therein or the occurrence of any Default, (iv) the validity, enforceability, effectiveness or genuineness of this Agreement, any other Loan Document or any other agreement, instrument or document or (v) the satisfaction of any condition set forth in Article III or elsewhere herein, other than to confirm receipt of items expressly required to be delivered to the Agent.

Section 7.04 Reliance by Agent. The Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing (including any electronic message, internet or intranet website posting or other distribution) believed by it to be genuine and to have been signed, sent or otherwise authenticated by the proper Person. The Agent also may rely upon any statement made to it orally or by telephone and believed by it to have been made by the proper Person, and shall not incur any liability for relying thereon. In determining compliance with any condition hereunder to the making of any Advance, or the issuance of a Letter of Credit, that by its terms must be fulfilled to the satisfaction of a Lender or an Issuing Bank, the Agent may presume that such condition is satisfactory to such Lender or such Issuing Bank unless the Agent shall have received notice to the contrary from such Lender or such Issuing Bank prior to the making of such Advance or the issuance of such Letter of Credit. The Agent may consult with legal counsel (who may be counsel for the Borrower), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in good faith in accordance with the advice of any such counsel, accountants or experts.

Section 7.05 Delegation of Duties. The Agent may perform any and all of its duties and exercise its rights and powers hereunder or under any other Loan Document by or through any one or more sub-agents appointed by the Agent. The Agent and any such sub-agent may perform any and all of its duties and exercise its rights and powers by or through their respective Related Parties. The exculpatory provisions of this Article shall apply to any such sub-agent and to the Related Parties of the Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Agent.

Section 7.06 Resignation of Agent. The Agent may at any time give notice of its resignation to the Lenders and the Borrower. Upon receipt of any such notice of resignation, the Required Lenders shall have the right, with the consent of the Borrower so long as no Event of Default has occurred and is continuing, to appoint a successor, which shall be a bank with an office in the United States of America, or an Affiliate of any such bank with an office in the United States of America. If no such successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 45 days after the retiring Agent gives notice of its resignation, then the retiring Agent may, on behalf of the Lenders, appoint a

successor Agent meeting the qualifications set forth above; provided that if the Agent shall notify the Borrower and the Lenders that no qualifying Person has accepted such appointment, then such resignation shall nonetheless become effective in accordance with such notice and (1) the retiring Agent shall be discharged from its duties and obligations hereunder and under the other Loan Documents (except that in the case of any collateral security held by the Agent on behalf of the Lenders under any of the Loan Documents, the retiring Agent shall continue to hold such collateral security until such time as a successor Agent is appointed) and (2) all payments, communications and determinations provided to be made by, to or through the Agent shall instead be made by or to each Lender directly, until such time as the Required Lenders appoint a successor Agent as provided for above in this Section. Upon the acceptance of a successor's appointment as Agent hereunder, such successor shall succeed to and become vested with all of the rights, powers, privileges and duties of the retiring (or retired) Agent, and the retiring Agent shall be discharged from all of its duties and obligations hereunder or under the other Loan Documents (if not already discharged therefrom as provided above in this Section). The fees payable by the Borrower to a successor Agent shall be as agreed between the Borrower and such successor. After the retiring Agent's resignation hereunder and under the other Loan Documents, the provisions of this Article and Section 8.04 shall continue in effect for the benefit of such retiring Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while the retiring Agent was acting as Agent.

Section 7.07 Non-Reliance on Agent and Other Lenders. Each Lender acknowledges that it has, independently and without reliance upon the Agent or any other Lender or any of their Related Parties and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Agent or any other Lender or any of their Related Parties and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any other Loan Document or any related agreement or any document furnished hereunder or thereunder.

Section 7.08 No Other Duties, Etc.. Anything herein to the contrary notwithstanding, none of the Arrangers, Syndication Agents, Documentation Agents or other agents listed on the cover page hereof shall have any powers, duties or responsibilities under this Agreement or any of the other Loan Documents, except in its capacity, as applicable, as the Agent or a Lender hereunder.

Section 7.09 Issuing Banks. Each Issuing Bank shall act on behalf of the Lenders with respect to any Letters of Credit issued by it and the documents associated therewith, and each Issuing Bank shall have all of the benefits and immunities provided in this Article VII (other than Section 7.02) to the same extent as such provisions apply to the Agent.

ARTICLE VIII

MISCELLANEOUS

Section 8.01 Amendments, Etc.. No amendment or waiver of any provision of this Agreement or any other Loan Document, nor consent to any departure by the Borrower

therefrom, shall in any event be effective unless the same shall be in writing and signed by the Required Lenders, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no amendment, waiver or consent shall

(a) unless agreed to by each Lender directly affected thereby, (i) reduce or forgive the principal amount of any Advance or the Borrower's obligations to reimburse any drawing on a Letter of Credit, reduce the rate of or forgive any interest thereon (provided that only the consent of the Required Lenders shall be required to waive the applicability of any post-default increase in interest rates), or reduce or forgive any fees hereunder (other than fees payable to the Agent, the Arrangers, any Issuing Bank or the Swingline Lender, if any, for their own respective accounts), (ii) extend the final scheduled maturity date or any other scheduled date for the payment of any principal or interest on any Advance, extend the time of payment of any obligation of the Borrower to reimburse any drawing on any Letter of Credit or any interest thereon, extend the expiry date of any Letter of Credit beyond the Letter of Credit Expiration Date, or extend the time of payment of any fees hereunder (other than fees payable to the Agent, the Arrangers, any Issuing Bank or the Swingline Lender, if any, for their own respective accounts), or (iii) increase any Revolving Credit Commitment of any such Lender over the amount thereof in effect or extend the maturity thereof (it being understood that a waiver of any condition precedent set forth in Section 3.02 or of any Default, if agreed to by the Required Lenders or all Lenders (as may be required hereunder with respect to such waiver), shall not constitute such an increase);

(b) unless agreed to by all of the Lenders, (i) reduce the percentage of the aggregate Revolving Credit Commitments or of the aggregate unpaid principal amount of the Advances, or the number or percentage of Lenders, that shall be required for the Lenders or any of them to take or approve, or direct the Agent to take, any action hereunder or under any other Loan Document (including as set forth in the definition of "Required Lenders"), (ii) change any other provision of this Agreement or any of the other Loan Documents requiring, by its terms, the consent or approval of all the Lenders for such amendment, modification, waiver, discharge, termination or consent, or (iii) change or waive any provision of Section 2.15, any other provision of this Agreement or any other Loan Document requiring pro rata treatment of any Lenders, or this Section 8.01 or Section 2.19(b); and

(c) unless agreed to by the Issuing Banks, the Swingline Lender, if any, or the Agent in addition to the Lenders required as provided hereinabove to take such action, affect the respective rights or obligations of the Issuing Banks, the Swingline Lender, if any, or the Agent, as applicable, hereunder or under any of the other Loan Documents.

(d) Notwithstanding the foregoing, this Agreement may be amended (or amended and restated) pursuant to an increase in the Revolving Credit Commitment pursuant to Section 2.18 with only the consents prescribed by such Section.

Section 8.02 Notices, Etc.

(a) All notices and other communications provided for hereunder shall be either (x) in writing (including facsimile communication) and mailed, faxed or delivered or (y) as and to the

extent set forth in Sections 8.02(b) and (c) and in the proviso to this Section 8.02(a), if to the Borrower, at the address specified on Schedule 8.02; if to any Lender, at its Domestic Lending Office; if to the Agent, at the address specified on Schedule 8.02; if to the Swingline Lender, at the address specified by the Swingline Lender to the Borrower and the Agent, and if to any Issuing Bank, at the address specified on Schedule 8.02 or, as to the Borrower or the Agent, at such other address as shall be designated by such party in a written notice to the other parties and, as to each other party, at such other address as shall be designated by such party in a written notice to the Borrower and the Agent. All such notices and communications shall, when mailed or faxed, be effective when deposited in the mails or faxed, respectively, except that notices and communications to the Agent pursuant to Article II, III or VII shall not be effective until received by the Agent. Delivery by facsimile of an executed counterpart of any amendment or waiver of any provision of this Agreement or the Notes or of any Exhibit hereto to be executed and delivered hereunder shall be effective as delivery of a manually executed counterpart thereof. Notices delivered through electronic communications to the extent provided in subsection (b) below, shall be effective as provided in such subsection (b). Upon request of the Borrower, the Agent will provide to the Borrower (i) copies of each Administrative Questionnaire or (ii) the address of each Lender.

(b) Notices and other communications to the Lenders, the Agent and the Issuing Banks hereunder may be delivered or furnished by electronic communication (including e-mail and Internet or intranet websites) pursuant to procedures approved by the Agent and agreed to by the Borrower, provided that the foregoing shall not apply to notices to any Lender or the Issuing Banks pursuant to Article II if such Lender or the Issuing Banks, as applicable, has notified the Agent and the Borrower that it is incapable of receiving notices under such Article by electronic communication. The Agent or the Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it, provided that approval of such procedures may be limited to particular notices or communications. Unless the Agent and the Borrower otherwise agree, (i) notices and other communications sent to an e-mail address shall be deemed received upon the sender's receipt of an acknowledgement from the intended recipient (such as by the "return receipt requested" function, as available, return e-mail or other written acknowledgement), provided that if such notice or other communication is not sent during the normal business hours of the recipient, such notice or communication shall be deemed to have been sent at the opening of business on the next business day for the recipient, and (ii) notices or communications posted to an Internet or intranet website shall be deemed received upon the deemed receipt by the intended recipient at its e-mail address as described in the foregoing clause (i) of notification that such notice or communication is available and identifying the website address therefor.

(c) The Borrower agrees that the Agent may make materials delivered to the Agent pursuant to Sections 5.01(h)(i), (ii) and (iv), as well as any other written information, documents, instruments and other material relating to the Borrower or any of its Subsidiaries and relating to this Agreement, the Notes or the transactions contemplated hereby, or any other materials or matters relating to this Agreement, the Notes or any of the transactions contemplated hereby (collectively, the "Communications") available to the Lenders by posting such notices on Intralinks or a substantially similar electronic system (the "Platform"). The Borrower acknowledges that (i) the distribution of material through an electronic medium is not necessarily secure and that there are confidentiality and other risks associated with such distribution, (ii) the

Platform is provided “as is” and “as available” and (iii) neither the Agent nor any of its Affiliates warrants the accuracy, adequacy or completeness of the Communications or the Platform and each expressly disclaims liability for errors or omissions in the Communications or the Platform. No warranty of any kind, express, implied or statutory, including, without limitation, any warranty of merchantability, fitness for a particular purpose, non-infringement of third party rights or freedom from viruses or other code defects, is made by the Agent or any of its Affiliates in connection with the Platform.

(d) Each Lender agrees that notice to it (as provided in the next sentence) (a “Notice”) specifying that any Communications have been posted to the Platform shall constitute effective delivery of such information, documents or other materials to such Lender for purposes of this Agreement; provided that if requested by any Lender the Agent shall deliver a copy of the Communications to such Lender by e-mail, facsimile or mail. Each Lender agrees (i) to notify the Agent in writing of such Lender’s e-mail address to which a Notice may be sent by electronic transmission (including by electronic communication) on or before the date such Lender becomes a party to this Agreement (and from time to time thereafter to ensure that the Agent has on record an effective e-mail address for such Lender) and (ii) that any Notice may be sent to such e-mail address.

(e) The Borrower hereby acknowledges that certain of the Lenders may be “public-side” Lenders (*i.e.*, Lenders that do not wish to receive material non-public information with respect to the Borrower or its securities) (each, a “Public Lender”). The Borrower hereby agrees that (w) all Communications that are to be made available to Public Lenders shall be clearly and conspicuously marked “PUBLIC” which shall mean that the word “PUBLIC” shall appear prominently on the first page thereof; (x) by marking Communications “PUBLIC,” the Borrower shall be deemed to have authorized the Agent, the Arranger and the Lenders to treat such Communications as not containing any material non-public information with respect to the Borrower or its securities for purposes of United States of America federal and state securities laws; (y) all Communications marked “PUBLIC” are permitted to be made available through a portion of the Platform designated as “Public Investor;” and (z) the Agent and the Arranger shall be entitled to treat any Communications that are not marked “PUBLIC” as being suitable only for posting on a portion of the Platform not marked as “Public Investor.” Notwithstanding the foregoing, the Borrower shall be under no obligation to mark any Communications “PUBLIC.” Notwithstanding anything to the contrary herein, the Borrower and the Agent need not provide to any Public Lender any information, notice, or other document hereunder that is not public information, including without limitation, the Notice of Borrowing and any notice of Default.

Section 8.03 No Waiver; Cumulative Remedies; Enforcement. No failure by any Lender, any Issuing Bank or the Agent to exercise, and no delay by any such Person in exercising, any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by Law.

Notwithstanding anything to the contrary contained herein or in any other Loan Document, the authority to enforce rights and remedies hereunder and under the other Loan

Documents against the Borrower shall be vested exclusively in, and all actions and proceedings at Law in connection with such enforcement shall be instituted and maintained exclusively by, the Agent in accordance with Article VI for the benefit of all the Lenders and the Issuing Banks; provided, however, that the foregoing shall not prohibit (a) the Agent from exercising on its own behalf the rights and remedies that inure to its benefit (solely in its capacity as Agent) hereunder and under the other Loan Documents, (b) any Issuing Bank from exercising the rights and remedies that inure to its benefit (solely in its capacity as an Issuing Bank) hereunder and under the other Loan Documents, (c) any Lender from exercising setoff rights in accordance with Section 8.05 (subject to the terms of Section 2.15), or (d) any Lender from filing proofs of claim or appearing and filing pleadings on its own behalf during the pendency of a proceeding relative to the Borrower under any Debtor Relief Law; and provided, further, that if at any time there is no Person acting as Agent hereunder and under the other Loan Documents, then (i) the Required Lenders shall have the rights otherwise ascribed to the Agent pursuant to Article VI and (ii) in addition to the matters set forth in clauses (b), (c) and (d) of the preceding proviso and subject to Section 2.15, any Lender may, with the consent of the Required Lenders, enforce any rights and remedies available to it and as authorized by the Required Lenders.

Section 8.04 Costs and Expenses; Indemnity; Damage Waiver.

(a) The Borrower agrees to pay on demand all costs and expenses of the Agent in connection with the administration, modification and amendment of this Agreement, the Notes and the other Loan Documents to be delivered hereunder, including, without limitation, the reasonable fees and expenses of counsel for the Agent with respect thereto and with respect to advising the Agent as to its rights and responsibilities under this Agreement. The Borrower further agrees to pay on demand all costs and expenses of the Agent and the Lenders, if any (including, without limitation, reasonable counsel fees and expenses), in connection with the enforcement (whether through negotiations, legal proceedings or otherwise) of this Agreement, the Notes and the other Loan Documents to be delivered hereunder, including, without limitation, reasonable fees and expenses of counsel for the Agent and each Lender in connection with the enforcement of rights under this Section 8.04(a).

(b) The Borrower agrees to indemnify and hold harmless the Agent (and any sub-agent thereof), each Lender, and each Related Party of any of the foregoing (each, an “Indemnified Party”) from and against any and all claims, damages, losses, liabilities and expenses (including, without limitation, reasonable fees and expenses of counsel) incurred by or asserted or awarded against any Indemnified Party, in each case arising out of or in connection with or by reason of (including, without limitation, in connection with any investigation, litigation or proceeding or preparation of a defense in connection therewith, whether based on contract, tort or any other theory,) (i) the Notes, this Agreement, any of the transactions contemplated herein or the actual or proposed use of the proceeds of any Advance or Letter of Credit (including any refusal by any Issuing Bank to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit), or (ii) the actual or alleged presence of Hazardous Materials on any property of the Borrower or any of its Subsidiaries or any Environmental Action relating in any way to the Borrower or any of its Subsidiaries, provided that such indemnity shall not, as to any Indemnified Party, be available to the extent (a) such fees and expenses are expressly stated in this Agreement to be payable by the Indemnified Party, included expenses payable

under Section 2.14, Section 5.01(e) and Section 8.07(b) or (b) such claim, damage, loss, liability or expense is found in a final, non-appealable judgment by a court of competent jurisdiction to have resulted from such Indemnified Party's gross negligence, willful misconduct or material breach of its obligations under this Agreement, in which case any fees and expenses previously paid or advanced by the Borrower to such Indemnified Party in respect of such indemnified obligation will be returned by such Indemnified Party. In the case of an investigation, litigation or other proceeding to which the indemnity in this Section 8.04(b) applies, such indemnity shall be effective whether or not such investigation, litigation or proceeding is brought by the Borrower, its directors, equityholders or creditors or an Indemnified Party or any other Person, whether or not any Indemnified Party is otherwise a party thereto, and whether or not the transactions contemplated hereby are consummated, provided that if the Borrower and such Indemnified Party are adverse parties in any such litigation or proceeding, and the Borrower prevails in a final, non-appealable judgment by a court of competent jurisdiction, any fees or expenses previously paid or advanced by the Borrower to such Indemnified Party pursuant to this Section 8.04(b) will be returned by such Indemnified Party.

(c) To the extent that the Borrower for any reason fails to indefeasibly pay any amount required under subsection (a) or (b) of this Section to be paid by it to the Agent (or any sub-agent thereof), any Issuing Bank or any Related Party of any of the foregoing (and without limiting its obligation to do so), each Lender severally agrees to pay to the Agent (or any such sub-agent), such Issuing Bank or such Related Party, as the case may be, such Lender's Ratable Share (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount, provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Agent (or any such sub-agent) or such Issuing Bank in its capacity as such, or against any Related Party of any of the foregoing acting for the Agent (or any such sub-agent) or such Issuing Bank in connection with such capacity.

(d) Without limiting the rights of indemnification set forth in this Agreement with respect to liabilities asserted by third parties, each party hereto also agrees not to assert any claim for special, indirect, consequential or punitive damages against the other parties hereto, or any Related Person any party hereto, on any theory of liability, arising out of or otherwise relating to the Notes, this Agreement, any of the transactions contemplated herein or the actual or proposed use of the proceeds of the Advances or the Letters of Credit. No Indemnified Party shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems (including Intralinks, SyndTrak or similar systems) in connection with this Agreement or the other Loan Documents, provided that such indemnity shall not, as to any Indemnified Party, be available to the extent such damages are found in a final, non-appealable judgment by a court of competent jurisdiction to have resulted from such Indemnified Party's gross negligence or willful misconduct.

(e) If any payment of principal of, or Conversion of, any Eurodollar Rate Advance is made by the Borrower to or for the account of a Lender other than on the last day of the Interest Period for such Revolving Advance, as a result of a payment or Conversion pursuant to Section 2.08(d) or (e), 2.10 or 2.12, acceleration of the maturity of the Revolving Advances pursuant to Section 6.01 or for any other reason, or by an Eligible Assignee to a Lender other than on the last

day of the Interest Period for such Revolving Advance upon an assignment of rights and obligations under this Agreement pursuant to Section 8.07 as a result of a demand by the Borrower pursuant to Section 8.07(a), the Borrower shall, upon demand by such Lender (with a copy of such demand to the Agent), pay to the Agent for the account of such Lender any amounts required to compensate such Lender for any additional losses, costs or expenses that it may reasonably incur as a result of such payment or Conversion, including, without limitation, any loss (excluding loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by any Lender to fund or maintain such Revolving Advance.

(f) Without prejudice to the survival of any other agreement of the Borrower hereunder, the agreements and obligations of the Borrower contained in Sections 2.11, 2.14 and 8.04 shall survive the payment in full of principal, interest and all other amounts payable hereunder and under the Notes.

Section 8.05 Right of Set-off. Upon (i) the occurrence and during the continuance of any Event of Default and (ii) the making of the request or the granting of the consent specified by Section 6.01 to authorize the Agent to declare the Advances due and payable pursuant to the provisions of Section 6.01, each Lender, each Issuing Bank and each of their respective Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by Law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Lender, such Issuing Bank or any such Affiliate to or for the credit or the account of the Borrower against any and all of the obligations of the Borrower now or hereafter existing under this Agreement or any other Loan Document to such Lender or Issuing Bank, whether or not such Lender or Issuing Bank shall have made any demand under this Agreement or such Note and although such obligations may be contingent or unmatured or are owed to a branch or office of such Lender or such Issuing Bank different from the branch or office holding such deposit or obligated on such indebtedness. Each Lender and each Issuing Bank agrees promptly to notify the Borrower after any such set-off and application, provided that the failure to give such notice shall not affect the validity of such set-off and application. The rights of each Lender and each Issuing Bank under this Section are in addition to other rights and remedies (including, without limitation, other rights of set-off) that such Lender may have.

Section 8.06 Binding Effect. Except as provided in Section 3.01, this Agreement shall become effective when it shall have been executed by the Borrower and the Agent and when the Agent shall have been notified by each Initial Lender that such Initial Lender has executed it and thereafter shall be binding upon and inure to the benefit of the Borrower, the Agent and each Lender and their respective successors and assigns, except that the Borrower shall not have the right to assign its rights hereunder or any interest herein without the prior written consent of the Lenders.

Section 8.07 Successors and Assigns.

(a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without

the prior written consent of the Agent and each Lender (and any purported assignment or transfer without such consent shall be null and void) and no Lender may assign or otherwise transfer any of its rights or obligations hereunder except (i) to an assignee in accordance with the provisions of subsection (b) of this Section, (ii) by way of participation in accordance with the provisions of subsection (d) of this Section, or (iii) by way of pledge or assignment of a security interest subject to the restrictions of subsection (f) of this Section. Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby, Participants to the extent provided in subsection (d) of this Section and, to the extent expressly contemplated hereby, the Related Parties of each of the Agent, the Issuing Banks and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Any Lender may at any time assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Revolving Credit Commitment, Swingline Exposure and the Revolving Advances (including for purposes of this subsection (b), participations in L/C Obligations) at the time owing to it); provided that any such assignment shall be subject to the following conditions:

(i) Minimum Amounts.

(A) in the case of an assignment of the entire remaining amount of the assigning Lender's Revolving Credit Commitment and the Revolving Advances at the time owing to it or in the case of an assignment to a Lender, no minimum amount need be assigned; and

(B) in any case not described in subsection (b)(i)(A) of this Section, the aggregate amount of the Revolving Credit Commitment (which for this purpose includes Revolving Advances outstanding thereunder) or, if the Revolving Credit Commitment is not then in effect, the principal outstanding balance of the Revolving Advances of the assigning Lender subject to each such assignment, determined as of the date the Assignment and Assumption with respect to which such assignment is delivered to the Agent or, if "Trade Date" is specified in the Assignment and Assumption, as of the Trade Date, shall not be less than \$5,000,000 unless each of the Agent and, so long as no Event of Default has occurred and is continuing, the Borrower otherwise consents (each such consent not to be unreasonably withheld or delayed).

(ii) Proportionate Amounts. Each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement with respect to the Revolving Advances, L/C Obligations, Swingline Exposure or the Revolving Credit Commitment assigned, and each such assignment shall be of a constant, and not a varying, percentage of all rights and obligations under this Agreement;

(iii) Required Consents. No consent shall be required for any assignment except to the extent required by subsection (b)(i)(B) of this Section and, in addition:

(A) the consent of the Borrower (such consent not to be unreasonably withheld or delayed; provided that the Borrower shall be deemed to have consented to any such assignment unless it shall object thereto by written notice to the Agent within ten (10) Business Days after having received notice thereof) shall be required unless (1) an Event of Default has occurred and is continuing at the time of such assignment or (2) such assignment is to a Lender, an Affiliate of a Lender or an Approved Fund;

(B) the consent of the Agent (such consent not to be unreasonably withheld or delayed) shall be required if such assignment is to a Person that is not a Lender, an Affiliate of a Lender or an Approved Fund with respect to such Lender;

(C) the consent of each Issuing Bank (such consent not to be unreasonably withheld or delayed) shall be required for any assignment that increases the obligation of the assignee to participate in exposure under one or more Letters of Credit (whether or not then outstanding); and

(D) the consent of the Swingline Lender, if any, (such consent not to be unreasonably withheld or delayed) shall be required for any assignment that increases the obligation of the assignee to participate in exposure under Swingline Advances (whether or not then outstanding).

(iv) Assignment and Assumption. The parties to each assignment shall execute and deliver to the Agent an Assignment and Assumption, together with a processing and recordation fee in the amount of \$3,500; provided, however, that no such fee shall be payable in the case of an assignment made at the request of the Borrower to an existing Lender. The assignee, if it is not a Lender, shall deliver to the Agent an Administrative Questionnaire.

(v) No Assignment to Borrower. No such assignment shall be made to the Borrower or any of the Borrower's Affiliates or Subsidiaries.

(vi) No Assignment to Natural Persons. No such assignment shall be made to a natural person.

Subject to acceptance and recording thereof by the Agent pursuant to subsection (c) of this Section and notice thereof to the Borrower, from and after the effective date specified in each Assignment and Assumption, the assignee thereunder shall be a party to this Agreement and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto) but shall continue to be entitled to the benefits of Sections 2.11, 2.14 and 8.04 with respect to facts and circumstances occurring prior to the effective date of such assignment. Upon request, the Borrower (at its expense) shall execute and deliver a Note to the

assignee Lender. Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this subsection shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with subsection (d) of this Section.

(c) Register. The Agent shall maintain at the Agent's Office a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Revolving Credit Commitments of, and principal amounts of the Advances and L/C Obligations owing to, each Lender pursuant to the terms hereof from time to time (the " Register "). The entries in the Register shall be conclusive, absent manifest error, and the Borrower, the Agent and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrower and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(d) Participations . Any Lender may at any time, without the consent of, or notice to, the Borrower or the Agent, sell participations to any Person (other than a natural person or the Borrower or any of the Borrower's Affiliates or Subsidiaries) (each, a " Participant ") in all or a portion of such Lender's rights and/or obligations under this Agreement (including all or a portion of its Revolving Credit Commitment, Swingline Exposure and/or the Revolving Advances (including such Lender's participations in L/C Obligations) owing to it); provided that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) the Borrower, the Agent, the Lenders and the Issuing Banks shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement and (iv) no participant under any such participation shall have any right to approve any amendment or waiver of any provision of this Agreement or any Note, or any consent to any departure by the Borrower therefrom, except to the extent that such amendment, waiver or consent would reduce the principal of, or interest on, any Obligations or any fees or other amounts payable hereunder, in each case to the extent subject to such participation, or postpone any date fixed for any payment of principal of, or interest on, any Obligations or any fees or other amounts payable hereunder, in each case to the extent subject to such participation.

Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, waiver or other modification addressing the matters set forth in clause (iv) above to the extent subject to such participation. Subject to subsection (e) of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 2.11, 2.14 and 8.04(e) to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to subsection (b) of this Section. To the extent permitted by Law, each Participant also shall be entitled to the benefits of Section 8.05 as though it were a Lender, provided such Participant agrees to be subject to Section 2.15 as though it were a Lender.

(e) Limitations upon Participant Rights. A Participant shall not be entitled to receive any greater payment under Section 2.11 or 2.14 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 2.14 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with Section 2.14(e) as though it were a Lender.

(f) Certain Pledges. Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement (including under its Note, if any) to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank or other central banking authority; provided that no such pledge or assignment shall release such Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

(g) Resignation as an Issuing Bank after Assignment. Notwithstanding anything to the contrary contained herein, if at any time any Issuing Bank assigns all of its Revolving Credit Commitment and Revolving Advances pursuant to subsection (b) above, such Issuing Bank may, upon 30 days' notice to the Borrower and the Lenders, resign as an Issuing Bank. If any Issuing Bank resigns, it shall retain all the rights, powers, privileges and duties of an Issuing Bank hereunder with respect to all Letters of Credit outstanding as of the effective date of its resignation as an Issuing Bank and all L/C Obligations with respect thereto (including the right to require the Lenders to make Base Rate Advances or fund risk participations in Unreimbursed Amounts pursuant to Section 2.03(c)).

(h) The words "execution," "signed," "signature," and words of like import in any Assignment and Assumption shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable Law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state Laws based on the Uniform Electronic Transactions Act.

Section 8.08 Confidentiality. Neither the Agent nor any Lender may disclose to any Person any confidential, proprietary or non-public information of the Borrower furnished to the Agent or the Lenders by the Borrower (such information being referred to collectively herein as the "Borrower Information"), except that each of the Agent and each of the Lenders may disclose Borrower Information (i) to its and its affiliates' employees, officers, directors, agents and advisors having a need to know in connection with this Agreement (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Borrower Information and instructed to keep such Borrower Information confidential on substantially the same terms as provided herein), (ii) to the extent requested by any regulatory authority, (iii) to the extent required by applicable Laws or regulations or by any subpoena or similar legal process, (iv) to any other party to this Agreement, (v) in connection with the exercise of any remedies hereunder or any suit, action or proceeding relating to this Agreement

or the enforcement of rights hereunder, (vi) subject to an agreement containing provisions substantially the same as those of this Section 8.08, (A) to any assignee or participant or prospective assignee or participant, (B) any direct, indirect, actual or prospective counterparty (and its advisor) to any swap, derivative or securitization transaction related to the obligations under this Agreement and (C) to any credit insurance provider relating to the Borrower and its Obligations, (vii) to the extent such Borrower Information (A) is or becomes generally available to the public on a non-confidential basis other than as a result of a breach of this Section 8.08 by the Agent or such Lender or their Related Parties, or (B) is or becomes available to the Agent or such Lender on a nonconfidential basis from a source other than the Borrower (provided that the source of such information was not known by the recipient after inquiry to be bound by a confidentiality agreement with or other contractual, legal or fiduciary obligation of confidentiality to the Borrower or any other Person with respect to such information) and (viii) with the consent of the Borrower. The obligations under this Section 8.08 shall survive for two calendar years after the date of the termination of this Agreement.

Section 8.09 Governing Law. This Agreement and the Notes shall be governed by, and construed in accordance with, the Laws of the State of New York (including Sections 5-1401 and 5-1402 of the General Obligations Law but otherwise without regard to conflict of law principles).

Section 8.10 Counterparts; Integration; Effectiveness. This Agreement may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement and the other Loan Documents constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 3.01, this Agreement shall become effective when it shall have been executed by the Agent and when the Agent shall have received counterparts hereof that, when taken together, bear the signatures of each of the other parties hereto. Delivery of an executed counterpart of a signature page of this Agreement by telecopy or other electronic imaging means shall be effective as delivery of a manually executed counterpart of this Agreement.

Section 8.11 Jurisdiction, Etc.

(a) Each of the parties hereto hereby submits to the exclusive jurisdiction of any New York State court or federal court of the United States of America sitting in the Borough of Manhattan in New York City, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or the other Loan Documents, or for recognition or enforcement of any judgment, and each of the parties hereto hereby agrees that all claims in respect of any such action or proceeding may be heard and determined in any such New York State court or, to the extent permitted by Law, in such federal court. Nothing in this Agreement shall affect any right that any party may otherwise have to bring any action or proceeding relating to this Agreement or the Notes in the courts of any jurisdiction.

(b) Each of the parties hereto irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection that it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or

the Notes in any New York State or federal court. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by Law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

Section 8.12 Payments Set Aside. To the extent that any payment by or on behalf of the Borrower is made to the Agent, any Issuing Bank or any Lender, or the Agent, any Issuing Bank or any Lender exercises its right of setoff, and such payment or the proceeds of such setoff or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by the Agent, such Issuing Bank or such Lender in its discretion) to be repaid to a trustee, receiver or any other party, in connection with any proceeding under any Debtor Relief Law or otherwise, then (a) to the extent of such recovery, the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such setoff had not occurred, and (b) each Lender and each Issuing Bank severally agrees to pay to the Agent upon demand its applicable share (without duplication) of any amount so recovered from or repaid by the Agent, plus interest thereon from the date of such demand to the date such payment is made at a rate per annum equal to the Federal Funds Rate from time to time in effect. The obligations of the Lenders and the Issuing Banks under clause (b) of the preceding sentence shall survive the payment in full of the Obligations and the termination of this Agreement.

Section 8.13 Patriot Act. Each Lender hereby notifies the Borrower that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the “Act”), it is required to obtain, verify and record information that identifies each borrower, guarantor or grantor (the “Loan Parties”), which information includes the name and address of each Loan Party and other information that will allow such Lender to identify such Loan Party in accordance with the Act. The Borrower shall provide, to the extent commercially reasonable, such information and take such actions as are reasonably requested by the Agent or any Lender in order to assist the Agent and such Lender in maintaining compliance with the Act.

Section 8.14 Waiver of Jury Trial. EACH OF THE BORROWER, THE AGENT AND THE LENDERS HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED ON CONTRACT, TORT OR OTHERWISE) ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE NOTES OR ANY OTHER LOAN DOCUMENT OR THE ACTIONS OF THE BORROWER, THE AGENT OR ANY LENDER IN THE NEGOTIATION, ADMINISTRATION, PERFORMANCE OR ENFORCEMENT THEREOF.

Section 8.15 No Advisory or Fiduciary Responsibility. In connection with all aspects of each transaction contemplated hereby, the Borrower acknowledges and agrees that: (i) the credit facilities provided for hereunder and any related arranging or other services in connection therewith (including in connection with any amendment, waiver or other modification hereof or of any other Loan Document) are an arm’s-length commercial transaction between the Borrower, on the one hand, and the Agent, each of the Lenders and each of the Arrangers, on the other hand, and the Borrower is capable of evaluating and understanding and understands and accepts the terms, risks and conditions of the transactions contemplated hereby and by the other Loan Documents (including any amendment, waiver or other modification hereof or thereof); (ii) in connection with the process leading to such transaction, each of the Agent, the Lenders and the

Arrangers is and has been acting solely as a principal and is not the financial advisor, agent or fiduciary, for the Borrower or any of its Affiliates, stockholders, creditors or employees or any other Person; (iii) neither the Agent nor any Lender or Arranger has assumed or will assume an advisory, agency or fiduciary responsibility in favor of the Borrower with respect to any of the transactions contemplated hereby or the process leading thereto, including with respect to any amendment, waiver or other modification hereof or of any other Loan Document (irrespective of whether the Agent or any Lender or Arranger has advised or is currently advising the Borrower or any of its Affiliates on other matters) and neither the Agent nor any Lender or Arranger has any obligation to the Borrower with respect to the transactions contemplated hereby except those obligations expressly set forth herein and in the other Loan Documents; (iv) the Agent, each of the Lenders and the Arrangers and their respective Affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Borrower and its Affiliates, and neither the Agent nor any Lender or Arranger has any obligation to disclose any of such interests by virtue of any advisory, agency or fiduciary relationship; and (v) the Agent and each Lender and Arranger have not provided and will not provide any legal, accounting, regulatory or tax advice with respect to any of the transactions contemplated hereby (including any amendment, waiver or other modification hereof or of any other Loan Document) and the Borrower has consulted its own legal, accounting, regulatory and tax advisors to the extent it has deemed appropriate. The Borrower hereby waives and releases, to the fullest extent permitted by Law, any claims that it may have against the Agent and each Lender and Arranger with respect to any breach or alleged breach of agency or fiduciary duty in connection with the Loan Documents.

Section 8.16 Survival of Representations and Warranties. All representations and warranties made hereunder and in any other Loan Document or other document delivered pursuant hereto or thereto or in connection herewith or therewith shall survive the execution and delivery hereof and thereof. Such representations and warranties have been or will be relied upon by the Agent and each Lender, regardless of any investigation made by the Agent or any Lender or on their behalf, and shall continue in full force and effect as long as any Advance or any other Obligation hereunder shall remain unpaid or unsatisfied or any Letter of Credit shall remain outstanding.

Section 8.17 Severability. If any provision of this Agreement or the other Loan Documents is held to be illegal, invalid or unenforceable, (a) the legality, validity and enforceability of the remaining provisions of this Agreement and the other Loan Documents shall not be affected or impaired thereby and (b) the parties shall endeavor in good faith negotiations to replace the illegal, invalid or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the illegal, invalid or unenforceable provisions. The invalidity of a provision in a particular jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

PINNACLE WEST CAPITAL CORPORATION

By /s/ Lee R. Nickloy

Name: Lee R. Nickloy
Title: Vice President & Treasurer

Signature Page to PNW Credit Agreement

BARCLAYS BANK PLC ,
as Agent, an Issuing Bank and a Lender

By /s/ Ann E. Sutton
Name: Ann E. Sutton
Title: Director

Signature Page to PNW Credit Agreement

THE ROYAL BANK OF SCOTLAND PLC,
as a Lender and an Issuing Bank

By /s/ Tyler J. McCarthy
Name: Tyler J. McCarthy
Title: Director

Signature Page to PNW Credit Agreement

**WELLS FARGO BANK, NATIONAL
ASSOCIATION, as a Lender and an Issuing Bank**

By /s/ Yann Blindert
Name: Yann Blindert
Title: Director

Signature Page to PNW Credit Agreement

BANK OF AMERICA, N.A., as a Lender

By /s/ Patrick Martin
Name: Patrick Martin
Title: Director

Signature Page to PNW Credit Agreement

**CREDIT SUISSE AG CAYMAN ISLANDS
BRANCH, a s a Lender**

By /s/ Shaheen Malik
Name: Shaheen Malik
Title: Vice President

By /s/ Rahul Parmar
Name: Rahul Parmar
Title: Associate

Signature Page to PNW Credit Agreement

THE BANK OF NEW YORK MELLON,
a s a Lender

By /s/ Mark W. Rogers
Name: Mark W. Rogers
Title: Vice President

Signature Page to PNW Credit Agreement

BANK OF THE WEST, a s a Lender

By /s/ Joshua R. Shade
Name: Joshua R. Shade
Title: Vice President

Signature Page to PNW Credit Agreement

BNP PARIBAS, a s a Lender

By /s/ Francis DeLaney

Name: Francis DeLaney
Title: Managing Director

By /s/Pasquale Perraglia

Name: Pasquale Perraglia
Title: Vice President

Signature Page to PNW Credit Agreement

CITIBANK, N.A., as a Lender

By /s/ Devin Moore

Name: Devin Moore

Title: Vice President

Signature Page to PNW Credit Agreement

**DEUTSCHE BANK AG NEW YORK
BRANCH, as a Lender**

By /s/ Ming Chu
Name: Ming Chu
Title: Vice President

By /s/ Edward D Herko
Name: Edward D Herko
Title: Director

Signature Page to PNW Credit Agreement

JPMORGAN CHASE BANK, N.A.,
a s a Lender

By /s/ Nancy R. Barwig
Name: Nancy R. Barwig
Title: Credit Executive

Signature Page to PNW Credit Agreement

KEYBANK NATIONAL ASSOCIATION,
as a Lender

By /s/ Keven D. Smith

Name: Keven D. Smith

Title: Senior Vice President

Signature Page to PNW Credit Agreement

UNION BANK, N.A., as a Lender

By /s/ Efrain Soto
Name: Efrain Soto
Title: Vice President

Signature Page to PNW Credit Agreement

SCOTIABANC, INC.,
as a Lender

By /s/ J.F. Todd

Name: J.F. Todd

Title: Managing Director

Signature Page to PNW Credit Agreement

SUNTRUST BANK, as a Lender

By /s/ Andrew Johnson
Name: Andrew Johnson
Title: Director

Signature Page to PNW Credit Agreement

UBS LOAN FINANCE LLC, as a Lender

By /s/ Irja R. Otsa

Name: Irja R. Otsa

Title: Associate Director

By /s/ Joselin Fernandes

Name: Joselin Fernandes

Title: Associate Director

Signature Page to PNW Credit Agreement

U.S. BANK NATIONAL ASSOCIATION,
as a Lender

By /s/ Raymond J. Palmer

Name: Raymond J. Palmer

Title: Senior Vice President

Signature Page to PNW Credit Agreement

**CANADIAN IMPERIAL BANK OF
COMMERCE, NEW YORK AGENCY,
as a Lender**

By /s/ Robert Casey, Jr.

Name: Robert Casey, Jr.
Title: Executive Director

By /s/ Michael Gewirtz

Name: Michael Gewirtz
Title: Executive Director

Signature Page to PNW Credit Agreement

COMERICA BANK, as a Lender

By /s/ Fatima Arshad
Name: Fatima Arshad
Title: Vice President

Signature Page to PNW Credit Agreement

NATIONAL BANK OF ARIZONA,
as a Lender

By /s/ Abran Villegas
Name: Abran Villegas
Title: Vice President

Signature Page to PNW Credit Agreement

THE NORTHERN TRUST COMPANY,
as a Lender

By /s/ John Lascody

Name: John Lascody

Title: Second Vice President

Signature Page to PNW Credit Agreement

UMB BANK ARIZONA, N.A.,
as a Lender

By /s/ Kyle McMillian

Name: Kyle McMillian

Title: AVP/Commercial Banking Officer

Signature Page to PNW Credit Agreement

SCHEDULE 1.01
COMMITMENTS AND RATABLE SHARES

Bank	Revolving Credit Commitment	Ratable Share
Barclays Bank PLC	\$ 14,400,000.00	7.200000000%
The Royal Bank of Scotland plc	\$ 14,400,000.00	7.200000000%
Wells Fargo Bank, National Association	\$ 14,400,000.00	7.200000000%
Bank of America, N.A.	\$ 14,400,000.00	7.200000000%
Credit Suisse AG, Cayman Islands Branch	\$ 14,400,000.00	7.200000000%
The Bank of New York Mellon	\$ 9,428,571.43	4.714285715%
Bank of the West	\$ 6,600,000.00	3.300000000%
BNP Paribas	\$ 2,828,571.40	1.414285700%
Citibank, N.A.	\$ 9,428,571.43	4.714285715%
Deutsche Bank AG New York Branch	\$ 9,428,571.43	4.714285715%
JPMorgan Chase Bank, N.A.	\$ 9,428,571.43	4.714285715%
KeyBank National Association	\$ 9,428,571.43	4.714285715%
Union Bank, N.A.	\$ 9,428,571.43	4.714285715%
Scotiabanc Inc.	\$ 9,428,571.43	4.714285715%
SunTrust Bank	\$ 9,428,571.43	4.714285715%
UBS Loan Finance LLC	\$ 9,428,571.43	4.714285715%
U.S. Bank National Association	\$ 9,428,571.43	4.714285715%
Canadian Imperial Bank of Commerce, New York Agency	\$ 4,857,142.86	2.428571430%
Comerica Bank	\$ 4,857,142.86	2.428571430%
National Bank of Arizona	\$ 4,857,142.86	2.428571430%
The Northern Trust Company	\$ 4,857,142.86	2.428571430%
UMB Bank Arizona, N.A.	\$ 4,857,142.86	2.428571430%
TOTAL	\$ 200,000,000.00	100.000000000%

**SCHEDULE 4.01(j)
SUBSIDIARIES**

Arizona Public Service Company

**SCHEDULE 4.01(k)
EXISTING INDEBTEDNESS**

None.

SCHEDULE 8.02
CERTAIN ADDRESSES FOR NOTICES

BORROWER:

Pinnacle West Capital Corporation
400 North 5th Street
Mail Station 9040
Phoenix, AZ 85004
Attention: Treasurer
Telephone: (602) 250-3300
Telecopier: (602) 250-3902
Electronic lee.nickloy@pinnaclewest.com

AGENT :

Agent's Office
(for payments and Requests for Credit Extensions):

Barclays Bank PLC
1301 6th Avenue, 9th floor
New York, NY 10019
Attention: Joe Tricamo
Telephone: (212) 320-7564
Email: joe.tricamo@barcap.com

with copies to:

Barclays Bank PLC
745 Seventh Avenue
New York, NY 10019
Attention: Alicia Borys
Facsimile: (212) 526-5115
Telephone: (212) 526-4291
Email: Alicia.borys@barcap.com

Barclays Bank PLC
745 Seventh Avenue
New York, NY 10019
Attention: Vanessa A. Kurbatskiy
Facsimile: (212) 526-5115
Telephone: (212) 526-2799
Email: Vanessa.kurbatskiy@barcap.com

Agent's Account/Barclays Bank Agency Service Wiring Information

Barclays Bank PLC
New York, New York
ABA: 026002574

Account Number: 050-01910-4
Account Name: Clad Control Account
Ref: Arizona Public Service

Other Notices as Agent :

Barclays Bank PLC
745 Seventh Avenue
New York, NY 10019
Attention: Alicia Borys
Facsimile: (212) 526-5115
Telephone: (212) 526-4291
Email: Alicia.borys@barcap.com

Barclays Bank PLC
745 Seventh Avenue
New York, NY 10019
Attention: Vanessa A. Kurbatskiy
Facsimile: (212) 526-5115
Telephone: (212) 526-2799
Email: Vanessa.kurbatskiy@barcap.com

ISSUING BANKS:

Barclays Bank PLC

Barclays Bank PLC
200 Park Avenue
New York, NY 10166
Attn. Letters of Credit / Dawn Townsend
Facsimile (212) 412-5011
Telephone (201) 499-2081
Email xraletterofcredit@baclayscapital.com

The Royal Bank of Scotland plc

The Royal Bank of Scotland plc
600 Washington Boulevard
Stamford, CT 06901
Attention: Richard Emmich
Facsimile: (203) 873-3569
Telephone: (203) 897-7619
Email: richard.emmich@rbs.com

and

Attention: Marchette Major
Facsimile: (203) 873-3569
Telephone: (203) 897-7638
Email: marchette.major@rbs.com

Wells Fargo Bank, National Association

Wells Fargo Bank, National Association
Corporate Banking - Utility and Power Group
1300 SW 5th Avenue, 7th Floor
Mail Code: MAC P6101-076
Portland, OR 97201
Attention: Yann Blindert
Telephone: (503) 886-2215
Facsimile: (503) 886-2211
E-mail: yann.blindert@wellsfargo.com

**EXHIBIT A — FORM OF
PROMISSORY NOTE**

, 20

FOR VALUE RECEIVED, the undersigned, PINNACLE WEST CAPITAL CORPORATION, an Arizona corporation (the “Borrower”), hereby promises to pay to the order of _____ or its registered assigns (the “Lender”), in accordance with the provisions of the Credit Agreement (as hereinafter defined), the principal amount of each Advance from time to time made by the Lender to the Borrower pursuant to the Five-Year Credit Agreement dated as of November 4, 2011 among the Borrower, the Lender and certain other lenders parties thereto, Barclays Bank PLC, as Agent for the Lender and such other lenders, and the issuing banks and other agents party thereto (as amended or modified from time to time, the “Credit Agreement”; the terms defined therein being used herein as therein defined) outstanding on such date.

The Borrower promises to pay interest on the unpaid principal amount of each Advance from the date of such Advance until such principal amount is paid in full, at such interest rates, and payable at such times, as are specified in the Credit Agreement.

Both principal and interest are payable in lawful money of the United States of America to the Agent for the account of the Lender in same day funds at the address and account specified on Schedule 8.02. Each Advance owing to the Lender by the Borrower pursuant to the Credit Agreement, and all payments made on account of principal thereof, shall be recorded by the Lender and, prior to any transfer hereof, endorsed on the grid attached hereto which is part of this Promissory Note.

This Promissory Note is one of the Notes referred to in, and is entitled to the benefits of, the Credit Agreement. The Credit Agreement, among other things, (i) provides for the making of Advances by the Lender to the Borrower from time to time in an aggregate amount not to exceed at any time the Lender’s Unused Commitment, the indebtedness of the Borrower resulting from each such Advance being evidenced by this Promissory Note and (ii) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events and also for prepayments on account of principal hereof prior to the maturity hereof upon the terms and conditions therein specified.

THIS PROMISSORY NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

PINNACLE WEST CAPITAL CORPORATION

By _____

Name: _____

Title: _____

A-1

ADVANCES AND PAYMENTS OF PRINCIPAL

Date	Amount of Advance	Amount of Principal Paid or Prepaid	Unpaid Principal Balance	Notation Made By

A-2

**EXHIBIT B — FORM OF NOTICE OF
BORROWING**

Barclays Bank PLC, as Agent
for the Lenders parties
to the Credit Agreement
referred to below

Attention: Bank Loan Syndications Department

[Date]

Ladies and Gentlemen:

The undersigned, Pinnacle West Capital Corporation, refers to the Five-Year Credit Agreement, dated as of November 4, 2011 (as amended or modified from time to time, the “Credit Agreement”, the terms defined therein being used herein as therein defined), among the undersigned, certain Lenders parties thereto, Barclays Bank PLC, as Agent for said Lenders and the Issuing Banks and other agents party thereto, and hereby gives you notice, irrevocably, pursuant to Section 2.02 of the Credit Agreement that the undersigned hereby requests a Borrowing under the Credit Agreement, and in that connection sets forth below the information relating to such Borrowing (the “Proposed Borrowing”) as required by Section 2.02(a) of the Credit Agreement:

- (i) The Business Day of the Proposed Borrowing is , 20 .
- (ii) The Type of Revolving Advances comprising the Proposed Borrowing is [Base Rate Advances] [Eurodollar Rate Advances].
- (iii) The aggregate amount of the Proposed Borrowing is \$.
- [iv) The initial Interest Period for each Eurodollar Rate Advance made as part of the Proposed Borrowing is month[s].]

The undersigned hereby certifies that the following statements are true on the date hereof, and will be true on the date of the Proposed Borrowing:

(A) the representations and warranties contained in Section 4.01 (other than Sections 4.01(k), 4.01(e)(ii) and 4.01(f)(ii)) of the Credit Agreement are correct, before and after giving effect to the Proposed Borrowing and to the application of the proceeds therefrom, as though made on and as of such date;

(B) no event has occurred and is continuing, or would result from such Proposed Borrowing or from the application of the proceeds therefrom, that constitutes a Default; and

(C) before and after giving effect to the Proposed Borrowing and to the application of the proceeds therefrom, as though made on and as of such date, the Indebtedness of the Borrower

does not exceed that permitted by (i) applicable resolutions of the Board of Directors of the Borrower or (ii) applicable Laws of any Governmental Authority.

Very truly yours,

PINNACLE WEST CAPITAL CORPORATION

By _____

Name: _____

Title: _____

B-2

**EXHIBIT C — FORM OF
ASSIGNMENT AND ASSUMPTION**

This Assignment and Assumption (the “Assignment and Assumption”) is dated as of the Effective Date set forth below and is entered into by and between [Insert name of Assignor] (the “Assignor”) and [Insert name of Assignee] (the “Assignee”). Capitalized terms used but not defined herein shall have the meanings given to them in the Credit Agreement identified below (as amended, the “Credit Agreement”), receipt of a copy of which is hereby acknowledged by the Assignee. Annex 1 attached hereto (the “Standard Terms and Conditions”) is hereby agreed to and incorporated herein by reference and made a part of this Assignment and Assumption as if set forth herein in full.

For an agreed consideration, the Assignor hereby irrevocably sells and assigns to the Assignee, and the Assignee hereby irrevocably purchases and assumes from the Assignor, subject to and in accordance with the Standard Terms and Conditions and the Credit Agreement, as of the Effective Date referred to below (i) all of the Assignor’s rights and obligations in its capacity as a Lender under the Credit Agreement and any other documents or instruments delivered pursuant thereto to the extent related to the amount and percentage interest identified below of all of such outstanding rights and obligations of the Assignor under the respective facilities identified below (including without limitation any letters of credit, guarantees, and swingline loans included in such facilities) and (ii) to the extent permitted to be assigned under applicable Law, all claims, suits, causes of action and any other right of the Assignor (in its capacity as a Lender) against any Person, whether known or unknown, arising under or in connection with the Credit Agreement, any other documents or instruments delivered pursuant thereto or the loan transactions governed thereby or in any way based on or related to any of the foregoing, including, but not limited to, contract claims, tort claims, malpractice claims, statutory claims and all other claims at Law or in equity related to the rights and obligations sold and assigned pursuant to clause (i) above (the rights and obligations sold and assigned pursuant to clauses (i) and (ii) above being referred to herein collectively as, the “Assigned Interest”). Each such sale and assignment is without recourse to the Assignor and, except as expressly provided in this Assignment and Assumption, without representation or warranty by the Assignor. Assignee shall deliver (if it is not already a Lender) to the Agent an Administrative Questionnaire.

1. Assignor:
2. Assignee:
[and is an Affiliate of [identify Bank](1)]
3. Borrower: Pinnacle West Capital Corporation
4. Agent: Barclays Bank PLC, as the administrative agent under the Credit Agreement
5. Credit Agreement: The Five-Year Credit Agreement dated as of November 4, 2011, by and among the Borrower, the Lenders party thereto, the Agent and the Issuing Banks and other agents party thereto.
6. Assigned Interest:

(1) Select as applicable.

Aggregate Amount of Commitment for all Lenders	Amount of Commitment Assigned	Percentage Assigned of Commitment(2)	CUSIP Number
\$	\$	%	

[7. Trade Date:](3)

Effective Date: , 20 [TO BE INSERTED BY AGENT AND WHICH SHALL BE THE EFFECTIVE DATE OF RECORDATION OF TRANSFER IN THE REGISTER THEREFOR.]

The terms set forth in this Assignment and Assumption are hereby agreed to:

ASSIGNOR
[NAME OF ASSIGNOR]

By _____
Name: _____
Title: _____

ASSIGNEE
[NAME OF ASSIGNEE]

By _____
Name: _____
Title: _____

[Consented to and] (4) Accepted:
BARCLAYS BANK PLC, as Agent

By _____
Name: _____
Title: _____

[Consented to:] (5)

[BARCLAYS BANK PLC, as Issuing Bank]

By _____
Name: _____
Title: _____

-
- (2) Set forth, to at least 9 decimals, as a percentage of the Commitment of all Banks thereunder.
 (3) To be completed if the Assignor and the Assignee intend that the minimum assignment amount is to be determined as of the Trade Date.
 (4) To be added only if the consent of the Agent is required by the terms of the Credit Agreement.
 (5) To be added only if the consent of the Borrowers and/or other parties (e.g. Issuing Bank) is required by the terms of the Credit Agreement.

[THE ROYAL BANK OF SCOTLAND plc, as Issuing Bank]

By _____
Name:
Title:

[WELLS FARGO BANK, NATIONAL ASSOCIATION, as Issuing Bank]

By _____
Name:
Title:

PINNACLE WEST CAPITAL CORPORATION

By _____
Name:
Title:

**ANNEX 1 TO ASSIGNMENT AND ASSUMPTION
STANDARD TERMS AND CONDITIONS FOR
ASSIGNMENT AND ASSUMPTION**

1. Representations and Warranties.

1.1 Assignor. The Assignor (a) represents and warrants that (i) it is the legal and beneficial owner of the Assigned Interest, (ii) the Assigned Interest is free and clear of any lien, encumbrance or other adverse claim and (iii) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby; and (b) assumes no responsibility with respect to (i) any statements, warranties or representations made in or in connection with the Credit Agreement or any other Loan Document, (ii) the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents, (iii) the financial condition of the Borrower, any of its Subsidiaries or Affiliates or any other Person obligated in respect of any Loan Document or (iv) the performance or observance by the Borrower of any of its obligations under any Loan Document.

1.2 Assignee. The Assignee (a) represents and warrants that (i) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby and to become a Lender under the Credit Agreement, (ii) it meets all the requirements to be an Eligible Assignee under Section 8.07 of the Credit Agreement (subject to such consents, if any, as may be required under Section 8.07 of the Credit Agreement), (iii) from and after the Effective Date, it shall be bound by the provisions of the Credit Agreement as a Lender thereunder and, to the extent of the Assigned Interest, shall have the obligations of a Lender thereunder, (iv) it is sophisticated with respect to decisions to acquire assets of the type represented by the Assigned Interest and either it, or the Person exercising discretion in making its decision to acquire the Assigned Interest, is experienced in acquiring assets of such type, (v) it has received a copy of the Credit Agreement, and has received or has been accorded the opportunity to receive copies of the most recent financial statements referred to in Section 4.01(e) or delivered pursuant to Section 5.01(h), as applicable, thereof, as applicable, and such other documents and information as it deems appropriate to make its own credit analysis and decision to enter into this Assignment and Assumption and to purchase the Assigned Interest, (vi) it has, independently and without reliance upon the Agent, the Assignor or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Assignment and Assumption and to purchase the Assigned Interest, and (vi) if it is a foreign lender, attached to the Assignment and Assumption is any documentation required to be delivered by it pursuant to the terms of the Credit Agreement, duly completed and executed by the Assignee; and (b) agrees that (i) it will, independently and without reliance on the Agent, the Assignor or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, and (ii) it will perform in accordance with their terms all of the obligations which by the terms of the Loan Documents are required to be performed by it as a Lender.

2. Payments. From and after the Effective Date, the Agent shall make all payments in respect of the Assigned Interest (including payments of principal, interest, fees and other

amounts) to the Assignor for amounts which have accrued to but excluding the Effective Date and to the Assignee for amounts which have accrued from and after the Effective Date.

3. General Provisions. This Assignment and Assumption shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns. This Assignment and Assumption may be executed in any number of counterparts, which together shall constitute one instrument. Delivery of an executed counterpart of a signature page of this Assignment and Assumption by facsimile shall be effective as delivery of a manually executed counterpart of this Assignment and Assumption. This Assignment and Assumption shall be governed by, and construed in accordance with, the Law of the State of New York.

AMENDMENT NO. 1

This AMENDMENT NO. 1 (this “Amendment”), dated as of December 22, 2011, is entered into by and among Arizona Public Service Company (“APS”), the Banks signatory hereto (the “Banks”) and JPMorgan Chase Bank, N.A., as a Bank, as Issuing Bank (in such capacity, the “Issuing Bank”), and as Administrative Agent (in such capacity, the “Administrative Agent”).

WITNESSETH:

WHEREAS, APS, the Banks, the Issuing Bank and the Administrative Agent have entered into that certain Reimbursement Agreement dated as of April 16, 2010 (as amended, restated, supplemented or otherwise modified from time to time, the “Reimbursement Agreement”), in connection with which the Issuing Bank issued its Amended and Restated Irrevocable Transferable Letter of Credit No. P-010151 (the “Letter of Credit”); and

WHEREAS, the parties hereto desire to amend the Reimbursement Agreement as set forth below and to extend the Letter of Credit until December 31, 2015;

NOW THEREFORE, in consideration of the premises herein contained, and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto hereby agree as follows:

Section 1.1 Defined Terms. Capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in the Reimbursement Agreement.

Section 1.2 Amendments to the Reimbursement Agreement. Subject to the satisfaction of the conditions precedent set forth in Section 1.4 below, the Reimbursement Agreement is hereby amended as follows:

(a) Section 1 of the Reimbursement Agreement is hereby amended by deleting Schedule I, referenced in the definition of “Base Rate Margin” and “Letter of Credit Commission Rate” in its entirety and replacing it with Amended Schedule I attached hereto.

(b) Section 1 of the Reimbursement Agreement is hereby amended by adding the definition of “FATCA” in proper alphabetical order to read as follows:

““FATCA” means Sections 1471 through 1474 of the Code, as of the date of this Amendment, and any regulations or official interpretations thereof.”

(c) Section 1 of the Reimbursement Agreement is hereby amended by deleting the definition of “Financial Information” set forth therein and replacing it with the following:

““Financial Information” means (i) the annual report of the Company on Form 10-K for the year ended December 31, 2010, as filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended, (ii) the Company’s Form 10-Q reports for the quarters ended March 31,

2011, June 30, 2011 and September 30, 2011 and (iii) the Company's current reports on Form 8-K filed on February 18, February 22, April 22, June 1, August 24, and November 4 of 2011, as so filed."

(d) Section 1 of the Reimbursement Agreement is hereby amended by adding the definition of "Four Corners Acquisition" in proper alphabetical order to read as follows:

"“Four Corners Acquisition” means the acquisition by the Company from Southern California Edison Company (“SCE”) of SCE’s interest in Units 4 and 5, together with any other property, assets, interests or rights related thereto, of the Four Corners Power Plant near Farmington, New Mexico, pursuant to the Purchase and Sale Agreement, dated as of November 8, 2010, by and between SCE and the Company.”

(e) Section 1 of the Reimbursement Agreement is hereby amended by deleting the definition of “Material Subsidiary” set forth therein and replacing it with the following:

"“Material Subsidiary” means, at any time, a Subsidiary of the Company which as of such time meets the definition of a “significant subsidiary” included as of December 22, 2011 in Regulation S-X of the Securities and Exchange Commission or whose assets at such time exceed 10% of the assets of the Company and its Subsidiaries (on a consolidated basis).”

(f) Section 1 of the Reimbursement Agreement is hereby amended by deleting the definition of “Stated Termination Date” set forth therein and replacing it with the following:

"“Stated Termination Date” means December 31, 2015, or such later date to which such Stated Termination Date shall have been extended pursuant to Section 17.”

(g) Section 2(d)(i) of the Reimbursement Agreement is hereby amended to add the following after the words: “or the Letter of Credit or its Participation therein” appearing in the 10th line thereof:

"(each, a “**Change in Law**”).”

(h) Section 2(d)(iii) of the Reimbursement Agreement is hereby amended to add the following at the end thereof:

"Notwithstanding anything in this Section 2(d) to the contrary, for all purposes of this Agreement, (x) all requests, rules, guidelines, directives, interpretations or guidance in connection with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, as enacted by the United States Congress, and signed into law on July 21, 2010, shall be deemed to be a change in law, regardless of the date enacted, adopted or issued, and (y) all requests, rules, guidelines, directives, interpretations or guidance promulgated by the Bank for International Settlements, the Basel Committee on Banking Regulations and Supervisory Practices (or any successor or similar authority) or any Governmental Authority

shall be deemed to be a Change in Law, regardless of the date enacted, adopted or issued.”

(i) Section 2(e) of the Reimbursement Agreement is hereby amended by deleting the definition of “**Taxes**” set forth therein and replacing it with the following:

“**Taxes**” means any and all present or future taxes, duties, levies, imposts, deductions, charges or withholdings with respect to any payment by the Company pursuant to this Agreement, and all liabilities with respect thereto, excluding (i) in the case of each Bank and the Administrative Agent, taxes imposed on or measured by its net income, and franchise or similar taxes imposed on it, by the United States, or by the jurisdiction (or any political subdivision thereof) under the laws of which such Bank or the Administrative Agent (as the case may be) is organized or does business or in which its principal executive office is located or, in the case of each Bank, in which its Applicable Booking Office is located, (ii) any branch profits taxes imposed by the United States or any similar tax imposed by any other jurisdiction in which the Company is located, (iii) any backup withholding that is required by the Internal Revenue Code to be withheld from amounts payable to a Bank that has failed to comply with Section 2(e)(iii)(2)(A), (iv) in the case of each Bank, any United States withholding tax imposed with respect to any payment by the Company pursuant to this Agreement, but only up to the rate (if any) at which United States withholding tax would apply to such payments to such Bank at the time such Bank first becomes a party to this Agreement and (v) any United States withholding tax imposed by FATCA.”

(j) Sections 6(a), 6(e), 6(f), 6(h), 6(i), 7(a), 7(b) and 7(c) of the Reimbursement Agreement are hereby amended to replace each occurrence of the phrase “financial condition or financial prospects” with a phrase “financial condition, operations, business or property”.

(k) Section 8(a) of the Reimbursement Agreement is hereby amended to add the following to the end thereof:

“and (vii) at any time following the consummation of the Four Corners Acquisition and the closure by the Company of Units 1, 2 and 3 of the Four Corners Power Plant near Farmington, New Mexico, as described in the Financial Information, disposition of all or any portion of the Company’s interests in such Units 1, 2 and 3.”

(l) The address for notices and other communications to the Issuing Bank, set forth in Section 11(a)(iii) of the Reimbursement Agreement, is hereby replaced with the following:

JPMorgan Chase Bank, N.A.
131 S. Dearborn, 5th Floor
Mail Code IL1-0236
Standby Letter of Credit Unit
Chicago, IL 60603-5506
Facsimile No.: (312) 954-6163

Telephone No.: (800) 634-1969, Option 1
Attention: Standby Service Unit

(m) The Reimbursement Agreement is hereby amended by adding a new Section 31 to read as follows:

“Section 31. FATCA Certification.

“If a payment made to the Issuing Bank or a Bank hereunder would be subject to U.S. federal withholding tax imposed by FATCA if the Issuing Bank or such Bank were to fail to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Code, as applicable), the Issuing Bank or such Bank shall deliver to each of the Company and the Administrative Agent, at the time or times prescribed by law and at such time or times reasonably requested by the Company or the Administrative Agent, such documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the Code) and such additional documentation reasonably requested by the Company or the Administrative Agent as may be necessary for the Company and the Administrative Agent to comply with its obligations under FATCA, to determine that the Issuing Bank or such Bank has or has not complied with the Issuing Bank’s or such Bank’s obligations under FATCA and, as necessary, to determine the amount to deduct and withhold from such payment. Solely for purposes of this Section 31, “FATCA” shall include any amendments made to FATCA after the date of this Agreement.”

(n) Each of the parties hereto hereby acknowledges and agrees, and directs the Issuing Bank, to amend the Letter of Credit as set forth on Exhibit A attached hereto.

Section 1.3 Representations and Warranties. APS represents and warrants to the Administrative Agent and each Bank that:

(a) After giving effect to the amendments contemplated herein, the representations and warranties of APS set forth in Section 6 of the Reimbursement Agreement are true, correct and complete in all material respects on the date hereof as if made on and as of the date hereof and there exists no Reimbursement Default or Default or Event Default under the Facility Lease on the date hereof; provided that in the case of any representation or warranty in Section 6 of the Reimbursement Agreement that expressly relates to facts in existence on an earlier date, the reaffirmation thereof under this Section 1.3(a) shall be made as of such earlier date.

(b) The execution and delivery by APS of this Amendment have been duly authorized by proper corporate proceedings of APS and this Amendment and the Reimbursement Agreement constitute the legal, valid and binding obligation of APS enforceable against APS in accordance with their respective terms, except as such enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws of general applicability affecting the enforcement of creditors’ rights generally.

Section 1.4 Conditions Precedent. This Amendment shall become effective (the “Effective Date”) as of December 22, 2011, upon the receipt by the Administrative Agent of (i) an opinion of in-house counsel of APS in form and substance reasonably satisfactory to the Administrative Agent, (ii) a certificate of the secretary or the associate secretary of APS certifying (a) that there have been no changes in the certificate of incorporation or bylaws of APS since April 16, 2010, (b) resolutions of its Board of Directors authorizing the execution, delivery and performance of the Reimbursement Agreement, as modified by this Amendment, and (c) the incumbency and specimen signature of each of its officers authorized to sign this Amendment, (iii) duly executed copies of this Amendment from each of APS, the Banks, the Issuing Bank and the Administrative Agent and (iv) payment of the fees and expenses of Agent’s Counsel and all other expenses required to be paid on the Effective Date.

Section 1.5 Continuing Effectiveness, Etc.

(a) Upon the effectiveness of this Amendment, each reference in the Reimbursement Agreement to “this Agreement,” “hereunder,” “hereof,” “herein,” “hereby” or words of like import shall mean and be a reference to the Reimbursement Agreement as modified hereby and each reference to the Reimbursement Agreement in any other document, instrument or agreement executed and/or delivered in connection with the Reimbursement Agreement shall mean and be a reference to the Reimbursement Agreement as modified hereby.

(b) Except as specifically modified hereby, the Reimbursement Agreement and the instruments and agreements executed and/or delivered in connection therewith shall remain in full force and effect and are hereby ratified and confirmed.

Section 1.6 CHOICE OF LAW. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK (INCLUDING SECTIONS 5-1401 AND 5-1402 OF THE GENERAL OBLIGATIONS LAW BUT OTHERWISE WITHOUT REGARD TO CONFLICT OF LAW PRINCIPLES).

Section 1.7 Execution in Counterparts. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

Section 1.8 Successors and Assigns. This Amendment shall be binding upon APS, the Issuing Bank, the Banks and the Administrative Agent and their respective successors and assigns, and shall inure to the benefit of APS, the Issuing Bank, the Banks and the Administrative Agent and their respective successors and assigns.

Section 1.9 Integration. This Amendment contains the final and complete integration of all prior expressions by the parties hereto with respect to the subject matter hereof and shall constitute the entire agreement among the parties hereto with respect to the subject matter hereof superseding all prior oral or written understandings.

Section 1.10 Headings. Section headings in this Amendment are included herein for convenience or reference only and shall not constitute a part of this Amendment for any other purpose.

[signature pages follow]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed and delivered by their duly authorized officers as of the date hereof.

ARIZONA PUBLIC SERVICE COMPANY

By: /s/ Lee R. Nickloy

Name: Lee R. Nickloy

Title: Vice President and Treasurer

JPMORGAN CHASE BANK, N.A., as Administrative
Agent, as Issuing Bank and as a Bank

By: /s/ Nancy R. Barwig

Name: Nancy R. Barwig

Title: Credit Executive

UNION BANK, N.A., as a Bank

By: /s/ Efrain Soto

Name: Efrain Soto

Title: Vice President

AMENDMENT NO. 1

This AMENDMENT NO. 1 (this “Amendment”), dated as of December 22, 2011, is entered into by and among Arizona Public Service Company (“APS”), the Banks signatory hereto (the “Banks”) and JPMorgan Chase Bank, N.A., as a Bank, as Issuing Bank (in such capacity, the “Issuing Bank”), and as Administrative Agent (in such capacity, the “Administrative Agent”).

WITNESSETH:

WHEREAS, APS, the Banks, the Issuing Bank and the Administrative Agent have entered into that certain Reimbursement Agreement dated as of April 16, 2010 (as amended, restated, supplemented or otherwise modified from time to time, the “Reimbursement Agreement”), in connection with which the Issuing Bank issued its Amended and Restated Irrevocable Transferable Letter of Credit No. P-010152 (the “Letter of Credit”); and

WHEREAS, the parties hereto desire to amend the Reimbursement Agreement as set forth below and to extend the Letter of Credit until December 31, 2015;

NOW THEREFORE, in consideration of the premises herein contained, and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto hereby agree as follows:

Section 1.1 Defined Terms. Capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in the Reimbursement Agreement.

Section 1.2 Amendments to the Reimbursement Agreement. Subject to the satisfaction of the conditions precedent set forth in Section 1.4 below, the Reimbursement Agreement is hereby amended as follows:

(a) Section 1 of the Reimbursement Agreement is hereby amended by deleting Schedule I, referenced in the definition of “Base Rate Margin” and “Letter of Credit Commission Rate” in its entirety and replacing it with Amended Schedule I attached hereto.

(b) Section 1 of the Reimbursement Agreement is hereby amended by adding the definition of “FATCA” in proper alphabetical order to read as follows:

““FATCA” means Sections 1471 through 1474 of the Code, as of the date of this Amendment, and any regulations or official interpretations thereof.”

(c) Section 1 of the Reimbursement Agreement is hereby amended by deleting the definition of “Financial Information” set forth therein and replacing it with the following:

““Financial Information” means (i) the annual report of the Company on Form 10-K for the year ended December 31, 2010, as filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended, (ii) the Company’s Form 10-Q reports for the quarters ended March 31,

2011, June 30, 2011 and September 30, 2011 and (iii) the Company's current reports on Form 8-K filed on February 18, February 22, April 22, June 1, August 24, and November 4 of 2011, as so filed."

(d) Section 1 of the Reimbursement Agreement is hereby amended by adding the definition of "Four Corners Acquisition" in proper alphabetical order to read as follows:

"“Four Corners Acquisition” means the acquisition by the Company from Southern California Edison Company (“SCE”) of SCE’s interest in Units 4 and 5, together with any other property, assets, interests or rights related thereto, of the Four Corners Power Plant near Farmington, New Mexico, pursuant to the Purchase and Sale Agreement, dated as of November 8, 2010, by and between SCE and the Company.”

(e) Section 1 of the Reimbursement Agreement is hereby amended by deleting the definition of “Material Subsidiary” set forth therein and replacing it with the following:

"“Material Subsidiary” means, at any time, a Subsidiary of the Company which as of such time meets the definition of a “significant subsidiary” included as of December 22, 2011 in Regulation S-X of the Securities and Exchange Commission or whose assets at such time exceed 10% of the assets of the Company and its Subsidiaries (on a consolidated basis).”

(f) Section 1 of the Reimbursement Agreement is hereby amended by deleting the definition of “Stated Termination Date” set forth therein and replacing it with the following:

"“Stated Termination Date” means December 31, 2015, or such later date to which such Stated Termination Date shall have been extended pursuant to Section 17.”

(g) Section 2(d)(i) of the Reimbursement Agreement is hereby amended to add the following after the words: “or the Letter of Credit or its Participation therein” appearing in the 10th line thereof:

"(each, a “**Change in Law**”).”

(h) Section 2(d)(iii) of the Reimbursement Agreement is hereby amended to add the following at the end thereof:

"Notwithstanding anything in this Section 2(d) to the contrary, for all purposes of this Agreement, (x) all requests, rules, guidelines, directives, interpretations or guidance in connection with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, as enacted by the United States Congress, and signed into law on July 21, 2010, shall be deemed to be a change in law, regardless of the date enacted, adopted or issued, and (y) all requests, rules, guidelines, directives, interpretations or guidance promulgated by the Bank for International Settlements, the Basel Committee on Banking Regulations and Supervisory Practices (or any successor or similar authority) or any Governmental Authority

shall be deemed to be a Change in Law, regardless of the date enacted, adopted or issued.”

(i) Section 2(e) of the Reimbursement Agreement is hereby amended by deleting the definition of “**Taxes**” set forth therein and replacing it with the following:

“**Taxes**” means any and all present or future taxes, duties, levies, imposts, deductions, charges or withholdings with respect to any payment by the Company pursuant to this Agreement, and all liabilities with respect thereto, excluding (i) in the case of each Bank and the Administrative Agent, taxes imposed on or measured by its net income, and franchise or similar taxes imposed on it, by the United States, or by the jurisdiction (or any political subdivision thereof) under the laws of which such Bank or the Administrative Agent (as the case may be) is organized or does business or in which its principal executive office is located or, in the case of each Bank, in which its Applicable Booking Office is located, (ii) any branch profits taxes imposed by the United States or any similar tax imposed by any other jurisdiction in which the Company is located, (iii) any backup withholding that is required by the Internal Revenue Code to be withheld from amounts payable to a Bank that has failed to comply with Section 2(e)(iii)(2)(A), (iv) in the case of each Bank, any United States withholding tax imposed with respect to any payment by the Company pursuant to this Agreement, but only up to the rate (if any) at which United States withholding tax would apply to such payments to such Bank at the time such Bank first becomes a party to this Agreement and (v) any United States withholding tax imposed by FATCA.”

(j) Sections 6(a), 6(e), 6(f), 6(h), 6(i), 7(a), 7(b) and 7(c) of the Reimbursement Agreement are hereby amended to replace each occurrence of the phrase “financial condition or financial prospects” with a phrase “financial condition, operations, business or property”.

(k) Section 8(a) of the Reimbursement Agreement is hereby amended to add the following to the end thereof:

“and (vii) at any time following the consummation of the Four Corners Acquisition and the closure by the Company of Units 1, 2 and 3 of the Four Corners Power Plant near Farmington, New Mexico, as described in the Financial Information, disposition of all or any portion of the Company’s interests in such Units 1, 2 and 3.”

(l) The address for notices and other communications to the Issuing Bank, set forth in Section 11(a)(iii) of the Reimbursement Agreement, is hereby replaced with the following:

JPMorgan Chase Bank, N.A.
131 S. Dearborn, 5th Floor
Mail Code IL1-0236
Standby Letter of Credit Unit
Chicago, IL 60603-5506
Facsimile No.: (312) 954-6163

Telephone No.: (800) 634-1969, Option 1
Attention: Standby Service Unit

(m) The Reimbursement Agreement is hereby amended by adding a new Section 31 to read as follows:

“Section 31. FATCA Certification.

“If a payment made to the Issuing Bank or a Bank hereunder would be subject to U.S. federal withholding tax imposed by FATCA if the Issuing Bank or such Bank were to fail to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Code, as applicable), the Issuing Bank or such Bank shall deliver to each of the Company and the Administrative Agent, at the time or times prescribed by law and at such time or times reasonably requested by the Company or the Administrative Agent, such documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the Code) and such additional documentation reasonably requested by the Company or the Administrative Agent as may be necessary for the Company and the Administrative Agent to comply with its obligations under FATCA, to determine that the Issuing Bank or such Bank has or has not complied with the Issuing Bank’s or such Bank’s obligations under FATCA and, as necessary, to determine the amount to deduct and withhold from such payment. Solely for purposes of this Section 31, “FATCA” shall include any amendments made to FATCA after the date of this Agreement.”

(n) Each of the parties hereto hereby acknowledges and agrees, and directs the Issuing Bank, to amend the Letter of Credit as set forth on Exhibit A attached hereto.

Section 1.3 Representations and Warranties. APS represents and warrants to the Administrative Agent and each Bank that:

(a) After giving effect to the amendments contemplated herein, the representations and warranties of APS set forth in Section 6 of the Reimbursement Agreement are true, correct and complete in all material respects on the date hereof as if made on and as of the date hereof and there exists no Reimbursement Default or Default or Event Default under the Facility Lease on the date hereof; provided that in the case of any representation or warranty in Section 6 of the Reimbursement Agreement that expressly relates to facts in existence on an earlier date, the reaffirmation thereof under this Section 1.3(a) shall be made as of such earlier date.

(b) The execution and delivery by APS of this Amendment have been duly authorized by proper corporate proceedings of APS and this Amendment and the Reimbursement Agreement constitute the legal, valid and binding obligation of APS enforceable against APS in accordance with their respective terms, except as such enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws of general applicability affecting the enforcement of creditors’ rights generally.

Section 1.4 Conditions Precedent. This Amendment shall become effective (the “Effective Date”) as of December 22, 2011, upon the receipt by the Administrative Agent of (i) an opinion of in-house counsel of APS in form and substance reasonably satisfactory to the Administrative Agent, (ii) a certificate of the secretary or the associate secretary of APS certifying (a) that there have been no changes in the certificate of incorporation or bylaws of APS since April 16, 2010, (b) resolutions of its Board of Directors authorizing the execution, delivery and performance of the Reimbursement Agreement, as modified by this Amendment, and (c) the incumbency and specimen signature of each of its officers authorized to sign this Amendment, (iii) duly executed copies of this Amendment from each of APS, the Banks, the Issuing Bank and the Administrative Agent and (iv) payment of the fees and expenses of Agent’s Counsel and all other expenses required to be paid on the Effective Date.

Section 1.5 Continuing Effectiveness, Etc.

(a) Upon the effectiveness of this Amendment, each reference in the Reimbursement Agreement to “this Agreement,” “hereunder,” “hereof,” “herein,” “hereby” or words of like import shall mean and be a reference to the Reimbursement Agreement as modified hereby and each reference to the Reimbursement Agreement in any other document, instrument or agreement executed and/or delivered in connection with the Reimbursement Agreement shall mean and be a reference to the Reimbursement Agreement as modified hereby.

(b) Except as specifically modified hereby, the Reimbursement Agreement and the instruments and agreements executed and/or delivered in connection therewith shall remain in full force and effect and are hereby ratified and confirmed.

Section 1.6 CHOICE OF LAW. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK (INCLUDING SECTIONS 5-1401 AND 5-1402 OF THE GENERAL OBLIGATIONS LAW BUT OTHERWISE WITHOUT REGARD TO CONFLICT OF LAW PRINCIPLES).

Section 1.7 Execution in Counterparts. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

Section 1.8 Successors and Assigns. This Amendment shall be binding upon APS, the Issuing Bank, the Banks and the Administrative Agent and their respective successors and assigns, and shall inure to the benefit of APS, the Issuing Bank, the Banks and the Administrative Agent and their respective successors and assigns.

Section 1.9 Integration. This Amendment contains the final and complete integration of all prior expressions by the parties hereto with respect to the subject matter hereof and shall constitute the entire agreement among the parties hereto with respect to the subject matter hereof superseding all prior oral or written understandings.

Section 1.10 Headings. Section headings in this Amendment are included herein for convenience or reference only and shall not constitute a part of this Amendment for any other purpose.

[signature pages follow]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed and delivered by their duly authorized officers as of the date hereof.

ARIZONA PUBLIC SERVICE COMPANY

By: /s/ Lee R. Nickloy

Name: Lee R. Nickloy

Title: Vice President and Treasurer

JPMORGAN CHASE BANK, N.A., as Administrative
Agent, as Issuing Bank and as a Bank

By: /s/ Nancy R. Barwig

Name: Nancy R. Barwig

Title: Credit Executive

UNION BANK, N.A., as a Bank

By: /s/ Efrain Soto

Name: Efrain Soto

Title: Vice President

ARIZONA PUBLIC SERVICE COMPANY

PROPOSED SETTLEMENT AGREEMENT

DOCKET NO. E-01345A-11-0224

January 6, 2012

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**PROPOSED SETTLEMENT AGREEMENT OF DOCKET NO.
E-01 345-A-11-0224 ARIZONA PUBLIC SERVICE COMPANY REQUEST
FOR RATE ADJUSTMENT**

The purpose of this Settlement Agreement (“Agreement”) is to settle disputed issues related to Docket No. E-01345A-11-0224, Arizona Public Service Company’s (“APS” or “Company”) application to increase rates. This Agreement is entered into by the following entities:

Arizona Corporation Commission Utilities Division (“Staff”)
Arizona Public Service Company (“APS”)
Residential Utility Consumer Office (“RUCO”)
Cynthia Zwick
Federal Executive Agencies (“FEA”)
Kroger Co. (“Kroger”)
Freeport-McMoRan Copper & Gold Inc. (“Freeport-McMoRan”)
Arizonans for Electric Choice and Competition (“AECC”)
Wal-Mart Stores, Inc. and Sam’s West, Inc. (“Wal-Mart”)
IBEW Locals 387, 640, 769 (“IBEW”)
AzAg Group (“AzAG”)
Arizona Competitive Power Alliance (“AzCPA”)
AARP (“AARP”)
Arizona Association of Realtors (“AAR”)
Barbara Wyllie-Pecora (“Wyllie-Pecora”)
Arizona Investment Council (“AIC”)
Southwestern Power Group II, LLC (“SWPG”)
Bowie Power Station, LLC (“Bowie”)
Noble Americas Energy Solutions LLC (“Noble”)
Constellation NewEnergy, Inc. (“Constellation”)
Direct Energy, LLC (“Direct”)
Shell Energy North America (US), L.P. (“Shell”)

These entities shall be referred to collectively as “Signatories;” a single entity shall be referred to individually as a “Signatory.”

I. RECITALS

- 1.1 APS filed the rate application underlying Docket No. E-01345A-11-0224 on June 1, 2011. Staff found the application sufficient on July 1, 2011.
- 1.2 Subsequently, the Arizona Corporation Commission (“Commission”) approved applications to intervene filed by AARP, Arizona Association of Realtors, AzCPA, AIC, ASBA, Association of School Business Officials, AZAg Group, Barbara Wyllie-Pecora, Cynthia Zwick, FEA, Freeport-McMoRan and AECC (collectively “AECC”), IBEW Locals 387, 640 and 769, Interwest, Kroger, Mel Beard, Noble et al, NRDC, RUCO, SWEEP, SWPG, Bowie, TEP, the Town of Gilbert, the Town of Wickenburg, Wal-Mart and Sam’s Club, and WRA. Mel Beard subsequently withdrew as an intervenor in the case.
- 1.3 APS filed a notice of settlement discussions on November 18, 2011. Settlement discussions began on November 30, 2011. The settlement discussions were open, transparent, and inclusive of all parties to this Docket who desired to participate. All parties to this Docket were notified of the settlement discussion process, were encouraged to participate in the negotiations, and were provided with an equal opportunity to participate. Commission Staff filed a Preliminary Term Sheet regarding this matter on December 9, 2011, which was discussed in a Special Open Meeting held on December 16, 2011.
- 1.4 The terms of this Agreement are just, reasonable, fair, and in the public interest in that they, among other things, establish just and reasonable rates for APS customers; promote the convenience, comfort and safety, and the preservation of health, of the employees and patrons of APS; resolve the issues arising from this Docket; and avoid unnecessary litigation expense and delay.
- 1.5 The Signatories believe that this Agreement balances the interests of both APS and its customers. These benefits include:
 - an overall zero dollar base rate increase;
 - a zero percent bill impact for the remainder of 2012 (Commission-approved adjustors (including the possibility of a Four Corners rider pursuant to paragraph 10.3) may increase customer bills after December 31, 2012);

- a four year rate case stay out , in which APS agrees not to raise base rates as a result of any new general rate case filing prior to July 1, 2016;
 - a buy-through rate for industrial and large commercial customers;
 - a narrowly-tailored Lost Fixed Cost Recovery (“LFCR”) mechanism that supports energy efficiency (“EE”) and distributed generation (“DG”) at any level or pace set by this Commission;
 - an opt-out rate design for residential customers who choose not to participate in the LFCR;
 - a process for simplifying customers’ bill format; and
 - bill assistance for additional low income customers, at shareholder expense.
- 1.6 The Signatories agree to ask the Commission (1) to find that the terms and conditions of this Agreement are just and reasonable and in the public interest, along with any and all other necessary findings, and (2) to approve the Agreement and order that it and the rates contained herein become effective on July 1, 2012.

TERMS AND CONDITIONS

II. RATE CASE STABILITY PROVISION

- 2.1 APS agrees not to file its next general rate case prior to May 31, 2015. The test year end date for the base rate increase filing contemplated in this section shall be no earlier than December 31, 2014 but need not coincide with the end of a calendar year. No new base rates resulting from APS’s next general rate case will be effective before July 1, 2016.

III. RATE INCREASE

- 3.1 APS shall receive a base rate increase of zero dollars (“revenue requirement”). This amount is comprised of: (1) a non-fuel base rate increase of \$116.3 million, which includes providing for a return on and of plant that is in service as of March 31, 2012 (“Post-Test Year Plant”); (2) a fuel base rate decrease of

\$153.1 million; and (3) a transfer of cost recovery from the Renewable Energy Surcharge (“RES”) to base rates described in Paragraph VIII herein.

- 3.2 The Company’s jurisdictional fair value rate base used to establish the rates agreed to herein is \$8,167,126,000. The Company’s total adjusted Test Year revenue is \$2,868,858,000.

IV. BILL IMPACT

- 4.1 When new rates become effective, customers will have on average a 0.0% bill impact or less. This zero percent or slightly negative bill impact will be achieved by allowing the negative credit that exists in the Company’s Power Supply Adjustor (“PSA”) to continue until February 1, 2013, at which time it will reset. The annual 4 mill cap will be applied after the impact of the expiration of the then-current PSA credit.
- 4.2 Subsequent to the PSA reset for General Service customers in February 2013, the percentage bill impact spread resulting from this Settlement among the various segments of that customer class shall be equal. This shall be accomplished as set forth in Attachment A.
- 4.3 A zero percent bill impact will continue for the remainder of 2012 (Commission-approved adjustors (including the possibility of a Four Corners rider pursuant to paragraph 10.3) may increase customer bills after December 31, 2012).

V. COST OF CAPITAL

- 5.1 A capital structure comprised of 46.06% debt and 53.94% common equity shall be adopted.
- 5.2 A return on common equity of 10.0% and an embedded cost of debt of 6.38% shall be adopted.
- 5.3 A fair value rate of return of 6.09%, which includes a return on the fair value rate base increment of 1.0%, shall be adopted.
- 5.4 The provisions set forth herein regarding the quantification of cost of capital, fair value rate base, fair value rate of return, and the revenue requirement are made for purposes of settlement only and should not be construed as admissions against interest or waivers of litigation positions related to other or future cases.

VI. DEPRECIATION/AMORTIZATION AND DECOMMISSIONING

- 6.1 With the exception of Uniform System of Accounts 370.01 (electronic meters), 370.02 (electro-mechanical meters), and 370.03 (AMI meters), the depreciation and amortization rates proposed by APS and contained in Attachment REW-2 to Dr. Ron White's Pre-filed Direct Testimony shall be adopted until further order of the Commission. For Accounts 370.01, 370.02 and 370.03, the current depreciation rates will be retained, as proposed by Commission Staff Witness Ralph Smith.
- 6.2 The annual nuclear decommissioning amounts reflected in the rates agreed to herein are those shown in APS Witness Jason LaBenz workpaper JCL_WP22, page 4, attached hereto as Attachment B.
- 6.3 APS shall file a request that the Commission adjust the Company's System Benefit Charge ("SBC") and reduce such charge to reflect a corresponding reduction of the decommissioning trust funding obligations collected through the SBC related to the full funding of Palo Verde Unit 2. Such filing shall be made in sufficient time for the reduction to occur by January 2016.

VII. FUEL AND POWER SUPPLY ADJUSTMENT PROVISIONS

- 7.1 The base fuel rate shall be lowered from \$0.037571 per kWh as set in Commission Decision No. 71448 to \$0.032071 per kWh. This change shall take effect on the effective date of the new rates contained in this Agreement, in accordance with the current approved Plan of Administration for the Power Supply Adjustor ("PSA").
- 7.2 For purposes of this case, APS will withdraw its request to recover through the PSA the cost of chemicals required for environmental compliance at APS's power plants, and APS shall not raise this request before its next general rate case.
- 7.3 The 90/10 sharing provision in APS's PSA will be eliminated. The PSA shall be modified to require APS to apply interest on the PSA balance annually, rather than monthly, at the following rates: any over-collection existing at the end of the PSA year will accrue interest at a rate equal to the Company's authorized ROE or APS's then-existing short term borrowing rate, whichever is greater, and will be refunded to customers over the following 12 months; any under-collection existing at the end of the PSA year will accrue interest at a rate

equal to the Company's authorized ROE or APS's then-existing short term borrowing rate, whichever is less, and will be recovered from customers over the following 12 months. APS may, at any time during the PSA year, request to reduce the PSA rate through the Transition Component. Any such request shall become effective beginning with the first billing cycle of the month following the filing date of the request.

- 7.4 To incent prudent fuel and power procurement and use, APS shall be subject to periodic audits. The first audit shall be for calendar year 2014. Commission Staff shall select a consultant to perform this audit and subsequent audits. Each audit shall be funded by APS in an amount not to exceed \$100,000 per audit.

- 7.5 The PSA Plan of Administration shall be amended as set forth in Attachment C.

VIII. RENEWABLE ENERGY

- 8.1 APS currently collects the costs associated with certain APS-owned renewable energy projects through the RES. Consistent with the treatment of other Post-Test Year Plant adopted in this Agreement, the portion of those renewable projects that have been closed to plant in service as of March 31, 2012, shall be rate based and recovery of those costs shall be accomplished through base rates. The specific projects to be rate based pursuant to this Section are identified in Attachment D.
- 8.2 Effective with the date of the Commission's order in this matter, the capital carrying costs(1) for any APS renewable energy-related capital investments shall not be recovered through the RES adjustor, except that capital carrying costs for renewable energy-related capital investments that APS makes in compliance with Commission Decision No. 71448 shall be recovered in the RES adjustor unless and until specifically authorized for recovery in another adjustor or in base rates.
- 8.3 On the effective date of the new rates contained in this Agreement, the RES adjustor rate established for 2012 in Docket No. E-01345A-11-0264 shall be reduced to reflect the removal of the projects identified in Attachment D. At the same time, the renewable energy-related purchased power agreement costs that were moved from the RES to the PSA pursuant to the Commission's

(1) Capital carrying costs include (1) a return at the Company's Weighted Average Cost of Capital approved by the Commission in this rate case; (2) depreciation expense; (3) income taxes; (4) property taxes; (5) deferred taxes and tax credits where appropriate; and (6) associated O&M.

Decision in Docket No. E-01345A-11-0264, shall be transferred back to the RES.

- 8.4 To provide the Commission with greater flexibility in setting RES adjustor rates and related caps, the requirement established in Decision No. 67744 that any changes to RES charges and caps must be allocated between customer classes according to certain set proportions shall be eliminated.

IX. ENERGY EFFICIENCY/LOST FIXED COST RECOVERY/OPT-OUT RESIDENTIAL RATE/LARGE GENERAL SERVICE CUSTOMER EXCLUSION

- 9.1 The Signatories support energy efficiency as a low cost energy resource. The Signatories also recognize that, under APS's current volumetric rate design, the Company recovers a significant portion of its fixed costs of service through kilowatt-hour ("kWh") sales. Commission rules related to EE and Distributed Generation ("DG") require APS to sell fewer kWh, which, in turn, prevents the Company from being able to recover a portion of the fixed costs of service embedded in its energy rates.
- 9.2 The Signatories also recognize the Commission's interest in directing EE and DG policy. In signing this Agreement, the Signatories intend that a Lost Fixed Cost Recovery ("LFCR") mechanism with residential opt-out rates shall be adopted that allows APS relief from the financial impact of verified lost kWh sales attributable to Commission requirements regarding EE and DG while preserving maximum flexibility for the Commission to adjust EE and DG requirements, either upward or downward, as the Commission may deem appropriate as a matter of policy. Nothing in this Agreement is intended to bind the Commission to any specific EE or DG policy or standard.
- 9.3 To address the goals of Sections 9.1 and 9.2, the Signatories propose that the Commission adopt for APS an LFCR, similar to that recommended by Staff in this proceeding. The LFCR shall recover a portion of distribution and transmission costs associated with residential, commercial and industrial customers when sales levels are reduced by EE and DG. It shall not recover lost fixed costs attributable to other potential factors, such as weather or general economic conditions. The LFCR mechanism shall exclude the portion of distribution and transmission costs that is recovered through the Basic Service Charge ("BSC") and fifty (50) percent of such costs recovered through non-generation/non-TCA demand charges.

- 9.4 The LFCR shall be adjusted annually to account for the unrecovered costs associated with a portion of distribution and transmission costs resulting from EE programs as demonstrated by the Measurement, Evaluation and Reporting (“MER”) conducted for EE programs and from DG as demonstrated pursuant to the means described in Section 9.5 below. An annual 1% year over year cap based on Total Company revenues will be applied to the adjustment. Any amount in excess of the 1% cap will be deferred (with interest at the nominal one-year Treasury Constant Maturities rate contained in the Federal Reserve Statistical Release H-15 or its successor publication) for collection until the first future adjustment period in which including such costs, would not cause the annual increase to exceed the 1% cap. The amount of any cap level set herein shall be evaluated in APS’s next rate case.
- 9.5 For the purpose of the LFCR mechanism, APS shall be allowed to use statistical verification, output profile, or meter data for DG systems until December 31, 2014. Beginning January of 2015, APS shall only use meter data to calculate DG system savings
- 9.6 APS will file with the Commission to adjust its LFCR by January 15 of each year, and Staff will use its best efforts to process the matter by March 1 of each year. Each annual LFCR adjustment will not go into effect unless approved by the Commission. The annual adjustment will use actual data for the period through September and forecast data for the remainder of the year. The following year’s adjustment shall be trued-up for verified EE MER and metered or otherwise verified DG results. The first adjustment will not occur before March 1, 2013. The March 1, 2013 adjustment shall include reduced sales from EE and DG for 2012 and will be pro-rated from the date rates become effective pursuant to a Commission decision on this Agreement. Subsequent adjustments shall reflect the full impact of reduced sales in the prior year plus the cumulative impact from previous adjustments, subject to the cap described in Section 9.4 herein.
- 9.7 The LFCR mechanism shall not apply to large General Service customers taking service under rate schedules E-32 L, E-32 L TOU, E-34, E-35 and E-36 XL, or to unmetered General Service customers under E-30 and lighting schedules. These rate schedules shall be modified in accordance with Attachment K to address unrecovered fixed costs through changes in rate design with enhanced distribution demand and BSC charges and a corresponding adjustment to energy charges.

- 9.8 Residential customers shall have a rate schedule choice to opt out of the LFCR by electing an optional BSC, graduated by kWh monthly usage. That option is attached hereto as Attachment E. The optional BSC will be incorporated into each residential rate schedule to provide customers with the maximum flexibility to opt out without requiring a shift to a different rate schedule. The purpose of this opt out rate is to replicate, on average, the effects of the LFCR.
- 9.9 APS shall seek stakeholder input regarding the development of a customer outreach program to inform and educate customers about both the LFCR and voluntary opt-out rates and shall implement this outreach program.
- 9.10 On January 15 of each year, APS shall file compliance reports with the Commission consistent with the schedules attached to the LFCR Plan of Administration. These reports shall include a comparison of the revenues recovered through the LFCR to those that would have been recovered had the Company's revenue per customer decoupling (full decoupling) proposal been adopted.
- 9.11 The LFCR shall be subject to Commission review at any time, the first to occur no later than APS's next general rate case. If the Commission decides to suspend, terminate, or materially modify the LFCR mechanism prior to the Company's next general rate case, and does not provide alternative relief that adequately addresses fixed cost revenue erosion, the moratorium for filing general rate case applications shall terminate.
- 9.12 The LFCR Plan of Administration is attached hereto as Attachment F.
- 9.13 The LFCR was designed to be a flexible means to maximize the policy options available to the Commissioners and to customers, allowing the pursuit of EE and DG programs at any level or pace directed by the Commission. The Signatories agree that if the Commission declines to adopt the LFCR or an alternative mechanism that adequately addresses fixed cost revenue erosion in this case, APS shall be granted relief from either the relevant EE and DG requirements or the financial impacts of EE and DG during that time.
- 9.14 For future Demand-Side Management ("DSM") Implementation Plan filings:
- (a) Beginning with APS's 2013 DSM Implementation Plan (filed in 2012), and excluding DSM-related capital investments already authorized by the

Commission, carrying costs for DSM-related capital investments shall not be recovered through the DSM Adjustment Clause.

- (b) APS's performance incentive shall be modified (1) to eliminate the top two tiers of percentages to be applied to Net Benefits or Percent of Program Costs based on APS's achievement relative to the EE Standard, and (2) to change the fourth tier to include any achievement greater than 105%. The first three tiers remain unchanged.

Achievement Relative to the Energy Efficiency Standard	Performance Incentive as % of Energy Efficiency Net Benefits	Performance Incentive Capped at % of Energy Efficiency Program Costs	Proposed Change from Current
<u><85%</u>	<u>0%</u>	<u>0%</u>	<u>No Change</u>
<u>85% to 95%</u>	<u>6%</u>	<u>12%</u>	<u>No Change</u>
<u>96% to 105%</u>	<u>7%</u>	<u>14%</u>	<u>No Change</u>
<u>>105%</u>	<u>8%</u>	<u>16%</u>	<u>New</u>
<u>+106% to 115%</u>	<u>8%</u>	<u>16%</u>	<u>Eliminated</u>
<u>+16% to 125%</u>	<u>9%</u>	<u>18%</u>	<u>Eliminated</u>
<u>>125%</u>	<u>10%</u>	<u>20%</u>	<u>Eliminated</u>

- (c) APS shall use the inputs and methodology that Commission Staff uses when calculating the present value of benefits and costs for DSM measures in its Societal Cost test. Commission Staff will regularly re-evaluate such inputs

and methodologies, considering comments from APS and other stakeholders.

- (d) APS will work with stakeholders and Staff to develop and file for Commission consideration a new performance incentive structure by December 31, 2012 that optimizes the connection between energy efficiency, rates and utility business incentives and that creates a clear connection between the level of performance incentive and achievement of cost-effective energy savings. This rate case shall be held open to allow for Commission approval of including the new performance incentive structure in the DSM Adjustment Clause. At that time, the Commission should determine the plan year to which the new performance incentive structure shall apply. The Signatories shall recommend that any new performance incentive structure adopted should apply to the first plan year filed after its adoption.
 - (e) APS's DSM programs and associated energy savings shall be independently reviewed every five years by an evaluator selected by Staff and paid for by APS in an amount not to exceed \$100,000. The first review shall occur in APS's next general rate case or within five (5) years of a Commission order in this case, whichever is sooner.
- 9.15 APS shall compile and make available to all parties of the docket a technical reference manual documenting program and measure saving assumptions and incremental costs no later than December 31, 2013. This manual would be updated on an annual basis as part of the DSM implementation plan process and would serve as a reference tool for the LFCR analysis.
- 9.16 APS currently collects \$10 million of DSM costs in base rates, which level will be retained.
- 9.17 The DSM Adjustment Clause Plan of Administration shall be modified to reflect the terms of this Agreement as set forth in Attachment G.

X. RATE TREATMENT RELATED TO ANY ACQUISITION BY APS OF SOUTHERN CALIFORNIA EDISON'S SHARE OF FOUR CORNERS UNITS 4-5.

- 10.1 In Docket No. E-01345A-10-0474, APS has sought Commission permission to pursue acquisition of Southern California Edison's ("SCE") current ownership interest in Four Corners Units 4 and 5 and to retire Four Corners Units 1-3 (the "proposed Four Corners transaction").
- 10.2 Except as provided in Section 9.14(d), this rate case shall remain open for the sole purpose of allowing APS to file a request, no later than December 31, 2013, that its rates be adjusted to reflect the proposed Four Corners transaction, should the Commission allow APS to pursue the acquisition and should the transaction thereafter close. Specifically, APS may within ten (10) business days after any Closing Date but no later than December 31, 2013, file an application with the Commission seeking to reflect in rates the rate base and expense effects associated with the acquisition of SCE's share of Units 4 and 5, the rate base and expense effects associated with the retirement of Units 1-3, and any cost deferral authorized in Docket No. E-01345A-10-0474. APS shall also be permitted to seek authorization to amend the PSA Plan of Administration to include in the PSA the post-acquisition Operations and Maintenance expense associated with Four Corners Units 1-3 as a cost of producing off-system sales until closure of Units 1-3, provided that such costs do not exceed off-system sales revenue in any given year. APS's rates shall be adjusted only if the Commission finds the Four Corners transaction to be prudent.
- 10.3 Any filing seeking a rate adjustment pursuant to Section 10.2 shall include at a minimum the following schedules: (1) the most current APS balance sheet at the time of filing; (2) the most current APS income statement at the time of filing; (3) an earnings schedule that demonstrates that the operating income resulting from the rate adjustment does not result in a return on rate base in excess of that authorized by this Agreement in the period after the rate adjustment becomes effective; (4) a revenue requirement calculation, including the amortization of any deferred costs; (5) an adjustment rider that recovers the rate base and non-PSA related expenses associated with any Four Corners acquisition on an equal percentage basis across all rate schedules which shall not become effective before July 1, 2013; (6) an adjusted rate base schedule; and (7) a typical bill analysis under present and filed rates.

- 10.4 The Signatories shall not raise any issues in the rate adjustment proceeding other than those specifically described in Section 10.2. The Signatories shall use good faith efforts to process this rate adjustment request within a reasonable time.
- 10.5 If, at any time, APS determines that the Four Corners Transaction will not close, it shall so inform the Commission and the Signatories by filing a Notice to that effect in this Docket.

XI. MODIFICATION TO ENVIRONMENTAL IMPROVEMENT SURCHARGE

- 11.1 For purposes of this proceeding, APS shall withdraw its request for approval of the proposed Environmental and Reliability Account (“ERA”) mechanism, and APS shall not raise this request before its next general rate case.
- 11.2 APS shall implement a revised version of the existing Environmental Improvement Surcharge (“EIS”). As amended, APS shall no longer receive customer dollars through the EIS to pay for government-mandated environmental controls. However, when APS invests capital to fund any government-mandated environmental controls, the EIS will recover the associated capital carrying costs, subject to a cap equal to the charge currently in place for the EIS. Adjustments to the EIS shall become effective each April 1st unless Staff requests Commission review or unless otherwise ordered by the Commission. APS will not request a change in the rate cap prior to its next general rate case.
- 11.3 APS will be held responsible for demonstrating that the environmental controls were government-mandated and represented a reasonable and prudent option available to the Company at that time sufficient to meet the environmental requirements.
- 11.4 The EIS Plan of Administration shall be revised as set forth in Attachment H.
- 11.5 The existing EIS will be reset to zero on the effective date of the new rates contained in this Agreement.

XII. COST DEFERRAL RELATED TO CHANGES IN ARIZONA PROPERTY TAX RATE

- 12.1 APS shall be allowed to defer for future recovery, in accordance with the provisions of Accounting Standards Codification (“ASC”) 980 (formerly SFAS

No. 71), the following portions of Arizona property tax expense above or below the test year level of \$141.5 million caused by changes to the applicable Arizona composite property tax rate (not changes in the assessed value of property).

(a) When the property tax rate increases:

- For 2012: 25% (prorated with an assumed July 1 rate effective date);
- For 2013: 50%; and
- For 2014 and all subsequent years: 75%.

(b) When the property tax rate decreases: 100% in all years.

No interest shall be applied to the deferred balance.

12.2 Beginning with the effective date of the Commission decision resulting from APS's next general rate case, any final property tax rate deferral that has a positive balance will be recovered from customers over 10 years and any deferral that has a negative balance will be refunded to customers over 3 years.

12.3 The Signatories reserve the right to review APS's property tax deferrals for reasonableness and prudence such that the deferrals can be recognized in accordance with the provisions of ASC-980 (formerly SFAS No. 71).

XIII. TRANSMISSION COST ADJUSTMENT MECHANISM

13.1 The level of transmission costs presently in APS's base rates will remain in base rates until further order of the Commission.

13.2 The annual TCA adjustment will become effective June 1 of each year without the need for affirmative Commission approval, unless Staff requests Commission review or unless otherwise ordered by the Commission.

13.3 APS shall file a notice with Docket Control that includes its revised TCA tariff, along with a copy of its FERC information filing of its annual update of transmission service rates pursuant to its Open Access Transmission tariff ("OATT"). This notice shall be filed with the Commission by May 15 of each year.

13.4 The TCA Plan of Administration shall be modified as set forth in Attachment I.

XIV. LOW INCOME PROGRAMS

- 14.1 In Section 16.3 of the 2009 Settlement, APS committed to augment the bill assistance program approved in Decision No. 69663 by funding \$5 million to assist customers whose incomes exceed 150% of the Federal Poverty Income Guidelines but are less than or equal to 200% of the Federal Poverty Income Guidelines. This Agreement provides that any funds remaining of that \$5 million funding requirement may be used to so assist customers whose incomes are less than or equal to 200% of the Federal Poverty Income Guidelines.
- 14.2 PSA and DSMAC adjustor rates shall apply to low-income customers. The billing method for low income customers shall be simplified by transferring customers to their corresponding non-low income rate schedule and applying the PSA and DSMAC rate schedules to those bills, but then applying a discount to the total bill such that low income customers, like other APS customers, will have no bill impact in this case as a result of the billing method change.

XV. SERVICE SCHEDULE 3 (LINE EXTENSIONS)

- 15.1 Version 12 of Service Schedule 3, as approved in Decision No. 72684 (November 18, 2011), shall become effective on the date that rates from this case become effective.

XVI. BILL PRESENTATION

- 16.1 Within 90 days following approval of this Agreement, APS will initiate stakeholder meetings to address issues related to the APS bill presentation with a goal of making the bill easier for customers to understand. APS shall thereafter file an application with the Commission for any authorization needed to modify its bill presentation. Such application shall explain how the APS bill presentation proposal reflects the input of stakeholders during the stakeholder meeting process.

XVII. RATE DESIGN

- 17.1 The Company's proposed Experimental Rate Schedule AG-1, a buy through rate for large commercial and industrial customers, should be capped at 200 MW and should be approved as modified herein, as should corresponding changes to the PSA. Proposed Experimental Rate Schedule AG-1 is set forth in Attachment J. Proposed Experimental Rate Schedule AG-1 does not address the subject of retail electric competition.

- 17.2 APS shall make commercially reasonable efforts to eliminate or mitigate all unrecovered costs resulting from the AG-1 experimental program established in this docket. If there are any lost fixed generation costs related to the AG-1 experimental rate, in its next general rate case, APS shall provide testimony that explains why it was unable to eliminate all lost fixed generation costs. Because AG-1 is an experimental program that may benefit certain General Service customers, and because residential customers cannot participate in the program, any APS proposal in APS's next general rate case that seeks to collect lost fixed generation costs related to the AG-1 experimental rate shall not propose to recover such costs from residential customers.
- 17.3 As recommended by Staff Witness McGarry, APS shall file a study in its next General Rate Case Application to support the cost basis of the various charges in Service Schedule 1, taking into account the impact Smart Grid technology may have on these costs.
- 17.4 APS shall withdraw its request to establish Service Schedule 9, an economic development service schedule. In its place, APS is authorized to pursue economic development opportunities through the use of Commission-approved special contracts.
- 17.5 The remaining rate design issues presented by this case shall be resolved as set forth in Attachment K.

XVIII. COMPLIANCE MATTERS

- 18.1 Within ten days after the Commission issues a written order in this matter, APS shall file compliance schedules associated with this Docket for Staff review. Subject to Staff review, such compliance schedules will become effective on the effective date of the new rates contained in this Agreement.
- 18.2 APS shall report to the Commission identifying the extent of the challenges regarding workforce planning, the specific actions that APS is taking to address the issue, and the progress APS is making toward meeting those goals. The workforce planning report, which shall be filed on an annual basis in this docket on or before May 31, shall be limited to the following job classifications: Electrician-J Journeyman, Lineman-J Journeyman, Technician-E&I, and Operator-Power Plant (a/k/a Auxiliary Operators and Control Operators). At a minimum, the workforce planning report shall set forth: (1) the number of employees then currently holding these positions; (2) the present mean and median ages of APS's workforce with respect to those job

classifications; (3) the share of retirement-eligible employees, both as a percentage and in absolute terms, in each of these job classifications; and (4) anticipated hiring and attrition levels for each of these job classifications.

- 18.3 Decision No. 70667, as a compliance item, requires APS to periodically file with the Commission certain communications with rating agencies. It is appropriate to eliminate this filing requirement at this time.

XIX. FORCE MAJEURE PROVISION

- 19.1 Nothing in this Agreement shall prevent APS from requesting a change to its base rates in the event of conditions or circumstances that constitute an emergency. For the purposes of this Agreement, the term “emergency” is limited to an extraordinary event that, in the Commission’s judgment, requires base rate relief in order to protect the public interest. This provision is not intended to preclude APS from seeking rate relief or any Signatory from petitioning the Commission to examine the reasonableness of APS’s rates pursuant to this Section in the event of significant developments that materially impact the financial results expected under the terms of this Agreement. This provision is not intended to preclude any party, including any Signatory to this Agreement, from opposing an application for rate relief filed by APS pursuant to this paragraph. Nothing in this provision is intended to limit the Commission’s ability to change rates at any time pursuant to its lawful authority.

XX. COMMISSION EVALUATION OF PROPOSED SETTLEMENT

- 20.1 All currently filed testimony and exhibits shall be offered into the Commission’s record as evidence.
- 20.2 The Signatories recognize that Staff does not have the power to bind the Commission. For purposes of proposing a settlement agreement, Staff acts in the same manner as any party to a Commission proceeding.
- 20.3 This Agreement shall serve as a procedural device by which the Signatories will submit their proposed settlement of APS’s pending rate case, Docket No. E-01345A-11-0224, to the Commission.
- 20.4 The Signatories recognize that the Commission will independently consider and evaluate the terms of this Agreement. If the Commission issues an order adopting all material terms of this Agreement, such action shall constitute

Commission approval of the Agreement. Thereafter, the Signatories shall abide by the terms as approved by the Commission.

- 20.5 If the Commission fails to issue an order adopting all material terms of this Agreement, any or all of the Signatories may withdraw from this Agreement, and such Signatory or Signatories may pursue without prejudice their respective remedies at law. For purposes of this Agreement, whether a term is material shall be left to the discretion of the Signatory choosing to withdraw from the Agreement. If a Signatory withdraws from the Agreement pursuant to this paragraph and files an application for rehearing, the other Signatories, except for Staff, shall support the application for rehearing by filing a document with the Commission that supports approval of the Agreement in its entirety. Staff shall not be obligated to file any document or take any position regarding the withdrawing Signatory's application for rehearing.

XXI. MISCELLANEOUS PROVISIONS

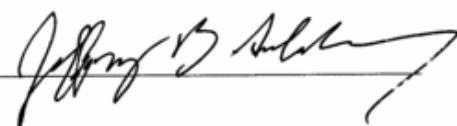
- 21.1 This case has attracted a large number of participants with widely diverse interests. To achieve consensus for settlement, many participants are accepting positions that, in any other circumstances, they would be unwilling to accept. They are doing so because this Agreement, as a whole, is consistent with their long-term interests and with the broad public interest. The acceptance by any Signatory of a specific element of this Agreement shall not be considered as precedent for acceptance of that element in any other context.
- 21.2 No Signatory is bound by any position asserted in negotiations, except as expressly stated in this Agreement. No Signatory shall offer evidence of conduct or statements made in the course of negotiating this Agreement before this Commission, any other regulatory agency, or any court.
- 21.3 Neither this Agreement nor any of the positions taken in this Agreement by any of the Signatories may be referred to, cited, or relied upon as precedent in any proceeding before the Commission, any other regulatory agency, or any court for any purpose except to secure approval of this Agreement and enforce its terms.
- 21.4 To the extent any provision of this Agreement is inconsistent with any existing Commission order, rule, or regulation, this Agreement shall control.
- 21.5 Each of the terms of this Agreement is in consideration of all other terms of this Agreement. Accordingly, the terms are not severable.

- 21.6 The Signatories shall make reasonable and good faith efforts necessary to obtain a Commission order approving this Agreement. The Signatories shall support and defend this Agreement before the Commission. Subject to paragraph 20.5, if the Commission adopts an order approving all material terms of the Agreement, the Signatories will support and defend the Commission's order before any court or regulatory agency in which it may be at issue.
- 21.7 This Agreement may be executed in any number of counterparts and by each Signatory on separate counterparts, each of which when so executed and delivered shall be deemed an original and all of which taken together shall constitute one and the same instrument. This Agreement may also be executed electronically or by facsimile.

ARIZONA CORPORATION COMMISSION

By 

ARIZONA PUBLIC SERVICE COMPANY

By 

RESIDENTIAL UTILITY CONSUMER OFFICE

By 

Docket No. E-01345A-11-0224

By Cynthia Zwick
Cynthia Zwick

DATED: January 5, 2012

Docket No. E-01345A-11-0224

By Karen S. White
Karen S. White
Federal Executive Agencies

DATED: January 6, 2012

Docket No. E-01345A-11-0224

By KBoehm
Kurt J. Boehm, Esq.
Attorney for Kroger Co.

DATED: 1-6-12, 2012

By 
C. Webb Crockett
Patrick J. Black
Fennemore Craig, P.C.
Attorneys for Freeport-McMoRan Copper & Gold Inc.

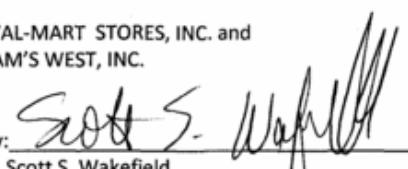
DATED: January 6, 2012

By 
C. Webb Crockett
Patrick J. Black
Fennemore Craig, P.C.
Attorneys for Arizonans for Electric Choice and Competition

DATED: January 6, 2012

WAL-MART STORES, INC. and
SAM'S WEST, INC.

By:


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Attorneys for Wal-Mart Stores, Inc. and
Sam's West, Inc.

Dated: January 6, 2012

Docket No. E-01345A-11-0224

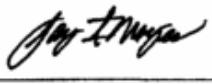
By:



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Attorney for Intervenors IBEW Locals 387, 640 & 769

DATED: January 6, 2012

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DATED: January 6, 2012

By 

Greg Patterson
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Director:

DATED: January 6, 2012

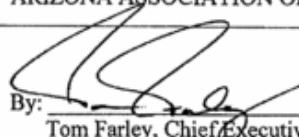
By Craig A. Martz
Craig A. Martz
AARP

DATED: 1/6, 2012

Docket No. E-01345A-11-0224

ARIZONA ASSOCIATION OF REALTORS, INC.

By:


Tom Farley, Chief Executive Officer

DATED: January 6, 2012

By Barbara Wyllie Pecora
BARBARA WYLLIE - PECORA

DATED: 1-6-12, 2012

By



Gary Yaquinto, its President
Arizona Investment Council

DATED:  2012

Docket No. E-01345A-11-0224

By Lawrence V. Robertson, Jr.

Lawrence V. Robertson, Jr.

On behalf of Southwestern Power Group II, L.L.C.

DATED: January 6, 2012

Docket No. E-01345A-11-0224

By Lawrence V. Robertson, Jr.

Lawrence V. Robertson, Jr.

On behalf of Bowie Power Station, L.L.C.

DATED: January 6, 2012

Docket No. E-01345A-11-0224

By Lawrence V. Robertson, Jr.

Lawrence V. Robertson, Jr.

On behalf of Noble Americas Energy Solutions
LLC

DATED: January 6, 2012

Docket No. E-01345A-11-0224

By Lawrence V. Robertson, Jr.

Lawrence V. Robertson, Jr.

On behalf of Constellation NewEnergy, Inc.

DATED: January 6, 2012

Docket No. E-01345A-11-0224

By Lawrence V. Robertson, Jr.

Lawrence V. Robertson, Jr.

On behalf of Direct Energy, LLC

DATED: January 6, 2012

Docket No. E-01345A-11-0224

By Lawrence V. Robertson, Jr.

Lawrence V. Robertson, Jr.

On behalf of Shell Energy North America (US),
L.P.

DATED: January 6, 2012

Arizona Public Service Company
Equalize Impact of Transferring Fuel from Base Rates to PSA
Across General Service Rate Classes

Attachment A

153,087,000 Fuel transfer to PSA
 27,689,606,547 Test Year Retail kWh
 0.00553 PSA Impact /kWh

	Adjusted kWh	Adjusted Present Revenue (\$)	PSA Impact (\$)	PSA Impact (%)	Equal % PSA Impact (%)	Equal % PSA Impact (%)	PSA Delta (\$)	Equalization Charge \$/kWh	Base Rate Increase (%)
1.	2.	3.	4.	5.	6.	7.	8.	9.	10.
E-20	36,664,060	\$ 3,885,908	\$ 202,752	5.218%	5.82%	\$ 226,004	\$ 23,252	0.00063	0.60%
E-32 XS	1,418,941,092	199,176,817	7,846,744	3.940%	5.82%	11,584,124	3,737,380	0.00263	1.88%
E-32 S	2,551,982,755	290,020,650	14,112,465	4.866%	5.82%	16,867,601	2,755,136	0.00108	0.95%
E-32 M	3,279,541,910	317,315,278	18,135,867	5.715%	5.82%	18,454,236	318,369	0.00010	0.10%
E-32 L	3,647,138,613	303,798,301	20,168,677	6.639%	5.82%	17,668,909	(2,499,768)	(0.00069)	-0.82%
E-32 TOU XS	4,608,869	632,665	25,487	4.029%	5.82%	36,796	11,309	0.00245	1.79%
E-32 TOU S	41,567,188	4,454,447	229,867	5.160%	5.82%	259,071	29,204	0.00067	0.66%
E-32 TOU M	69,936,556	6,385,132	386,749	6.057%	5.82%	371,359	(15,390)	(0.00022)	-0.24%
E-32 TOU L	295,613,941	22,916,517	1,634,745	7.133%	5.82%	1,332,825	(301,920)	(0.00103)	-1.32%
E-34	1,086,047,211	80,597,093	6,005,841	7.452%	5.82%	4,687,527	(1,318,314)	(0.00121)	-1.64%
E-35	1,673,368,627	112,009,467	9,253,729	8.262%	5.82%	6,514,471	(2,739,258)	(0.00163)	-2.45%
	14,105,410,822	\$ 1,341,192,275	\$ 78,002,923	5.816%	5.82%	\$ 78,002,923	\$ -		

Attachment B

ARIZONA PUBLIC SERVICE COMPANY
 Palo Verde Decommissioning/ISFSI Trust Amounts
 Test Year 12 Months Ended 12/31/10
 (Dollars in Thousands)

YEAR	<u>6/1/2045</u>	<u>4/24/2046</u>	<u>11/25/2047</u>	<u>TOTAL</u>	<u>ACC</u>
	UNIT 1	UNIT 2	UNIT 3		Jurisdictional Amount ^[1]
2011	\$ 4,558	\$ 6,047	\$ 5,414	\$ 16,019	\$ 15,630
2012	449	14,968	1,832	17,249	16,830
2013	449	14,968	1,832	17,249	16,830
2014	449	14,968	1,832	17,249	16,830
2015	449	14,968	1,832	17,249	16,830
2016	449	-	1,832	2,281	2,226
2017	449	-	1,832	2,281	2,226
2018	449	-	1,832	2,281	2,226
2019	449	-	1,832	2,281	2,226
2020	449	-	1,832	2,281	2,226
2021	449	-	1,832	2,281	2,226
2022	449	-	1,832	2,281	2,226
2023	449	-	1,832	2,281	2,226
2024	449	-	1,832	2,281	2,226
2025	449	-	1,832	2,281	2,226
2026	449	-	1,832	2,281	2,226
2027	449	-	1,832	2,281	2,226
2028	449	-	1,832	2,281	2,226
2029	449	-	1,832	2,281	2,226
2030	449	-	1,832	2,281	2,226
2031	449	-	1,832	2,281	2,226
2032	449	-	1,832	2,281	2,226
2033	449	-	1,832	2,281	2,226
2034	449	-	1,832	2,281	2,226
2035	449	-	1,832	2,281	2,226
2036	449	-	1,832	2,281	2,226
2037	449	-	1,832	2,281	2,226
2038	449	-	1,832	2,281	2,226
2039	449	-	1,832	2,281	2,226
2040	449	-	1,832	2,281	2,226
2041	449	-	1,832	2,281	2,226
2042	449	-	1,832	2,281	2,226
2043	449	-	1,832	2,281	2,226
2044	449	-	1,832	2,281	2,226
2045	225	-	1,832	2,056	2,006
2046	-	-	1,832	1,832	1,787
2047	-	-	1,832	1,832	1,787
	<u>\$ 19,604</u>	<u>\$ 65,919</u>	<u>\$ 71,360</u>	<u>\$ 156,883</u>	<u>\$ 153,071</u>

[1] ACC Jurisdictional share is approximately 97.57%

Power Supply Adjustment Plan of Administration

Table of Contents

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I. General Description

This document describes the plan for administering the Power Supply Adjustment mechanism ("PSA") approved for Arizona Public Service Company ("APS") by the Commission on June 28, 2007 in Decision No. 69663, amended by the Commission on December 30, 2009 in Decision No. 71448, and as further amended by the Commission on [insert date] in Decision No. xxxx. The PSA provides for the recovery of fuel and purchased power costs, to the extent that actual fuel and purchased power costs deviate from the amount recovered through APS' Base Cost of Fuel and Purchased Power (\$0.032071 per kWh) authorized in Decision No. xxxx, from [insert date]. It also provides for refund or recovery of the net margins from sales of emission allowances, to the extent the actual sales margins deviate from the base rate amount of (\$0.000001) per kWh¹.

The PSA described in this Plan of Administration ("POA") uses a forward-looking estimate of fuel and purchased power costs and margins on the sales of emission allowances ("PSA Costs") to set a rate that is then reconciled to actual costs experienced.

This PSA includes a limit of \$0.004 per kilowatt-hour (kWh) on the amount the PSA rate may change in any one year absent express approval of the Commission. This PSA also provides a mechanism for mid-year rate adjustment in the event that conditions change sufficiently to cause extraordinarily high balances to accrue under application of this PSA.

¹ (\$0.000001) per kWh is the result of the following: (2010 net gains from sales of SO₂ allowances of \$21,178)/(2010 test year native load sales of 28,075,248 MWh)/1000.

2. PSA Components

The PSA Rate will consist of three components designed to provide for the recovery of actual, prudently incurred PSA Costs. Those components are:

1. The Forward Component, which recovers or refunds differences between expected PSA Year (each February 1 through January 31 period shall constitute a PSA Year) PSA Costs and those embedded in base rates.
2. The Historical Component, which tracks the differences between the PSA Year's actual fuel and purchased power costs and those recovered through the combination of base rates and the Forward Component, and which provides for their recovery during the next PSA Year.
3. The Transition Component, which provides for:
 - a. The opportunity to seek mid-year changes in the PSA rate in cases where variances between the anticipated recovery of fuel and purchased power costs for the PSA Year under the combination of base rates and the Forward Component become so large as to warrant recovery/refund, should the Commission deem such an adjustment to be appropriate.
 - b. The tracking of balances resulting from the application of the Transition Components, in order to provide a basis for the refund or recovery of any such balances.

Except for circumstances when the Commission approves new base rates, a PSA Year begins on February 1 and ends on the ensuing January 31. In the event that new base rates become effective on a date other than February 1, the Commission may, at its discretion, adjust any or all of the PSA components to reflect the new base rates.

On or before September 30 of each year, APS will submit a PSA Rate filing, which shall include a calculation of the three components of the proposed PSA Rate. This filing shall be accompanied by such supporting information as Staff determines to be required. APS will supplement this filing with Historical Component and Transition Component filings on or before December 31 in order to replace estimated balances with actual balances, as explained below.

a. Forward Component Description

The Forward Component is intended to refund or recover the difference between: (1) PSA Costs embedded in base rates and (2) the forecast PSA Costs over a PSA Year that begins on February 1 and ends on the ensuing January 31. APS will submit, on or before September 30 of each year, a forecast for the upcoming calendar year (January 1-December 31) of its PSA Costs. It will also submit a forecast of kWh sales for the same calendar year, and divide the forecast costs by the forecast sales to produce the cents/kWh unit rate required to collect those costs over those sales. The result of subtracting the Base PSA Costs from this unit rate shall be the Forward Component.

APS shall maintain and report monthly the balances in a Forward Component Tracking Account, which will record APS' over/under-recovery of its actual PSA Costs as compared to the Base PSA Costs recovered in revenue. The balance calculated as a result of these steps is then reduced

by the current month's collection of Forward Component revenue. This account will operate on a PSA Year basis (i.e.; February to January), and its balances will be used to administer this PSA's Historical Component, which is described immediately below.

b. Historical Component Description

The Historical Component in any current PSA Year is intended to refund or recover the balances accumulated in the Forward Component Tracking Account (described above) and Historical Component Tracking Account (described below) during the immediately preceding PSA Year. The sum of the projected Forward Component Tracking Account balance on January 31 of the following calendar year and the projected Historical Component Tracking Account balance on January 31 of the following calendar year is divided by the forecast kWh sales used to set the Forward Component for the coming PSA Year. That result comprises the proposed Historical Component for the coming PSA year.

APS shall maintain and report monthly the balances in a Historical Component Tracking Account, which will reflect monthly collections under the Historical Component and the amounts approved for use in calculating the Historical Component.

Each annual September 30 APS filing will include an accumulation of Forward Component Tracking Account balances and Historical Component Tracking Account balances for the preceding February through August and an estimate of the balances for September through January (the remaining five months of the current PSA Year). The APS filing shall use these balances to calculate a preliminary Historical Component for the coming PSA Year². On or before December 31, APS will submit a supplemental filing that recalculates the preliminary Historical Component. This recalculation shall replace estimated monthly balances with those actual monthly balances that have become available since the September 30 filing.

The September 30 filing's use of estimated balances for September through January (with supporting workpapers) is required to allow the PSA review process to begin in a way that will support its completion and a Commission decision, if necessary, prior to February 1. The December 31 updating will allow for the use of the most current balance information available prior to the time when a Commission decision, if necessary, is expected. In addition to the December 31 update filing, APS monthly filings (for the months of September through December) of Forward Component Tracking Account balance information and Historical Component Tracking Account balance information will include a recalculation (replacing estimated balances with actual balances as they become known) of the projected Historical Component unit rate required for the next PSA Year.³

The Historical Component Tracking Account will measure the changes each month in the Historical Component balance used to establish the current Historical Component as a result of collections under the Historical Component in effect. It will subtract each month's Historical

² For example, the September 30, 2008 filing would include actual balances for February through August of 2008 and estimated balances for September 2008 through January 2009.

³ This updating to replace estimated with actual information will allow for the Commission to use the latest available balance information in determining what Historical Component is appropriate to establish for the coming PSA Year.

Component collections from the Historical Component balance. The Historical Component Account will also include Applicable Interest on any balances. APS shall file the amounts and supporting calculations and workpapers for this account each month.

c. Transition Component Description

The Transition Component will be used as the method for incorporating any future, approved mid-year changes to the PSA rate. APS or Staff may request at any time a change in the PSA rate through an adjustment to the Transition Component to address a significant imbalance between anticipated collections and costs for the PSA Year under the Forward Component element of this PSA. After the review of such request, the Commission may provide for the refund or collection of such balance (through a change to the Transition Component Balance) over such period as the Commission determines appropriate through a unit rate (\$/kWh) imposed as part of the Transition Component. The Commission on its own motion may also change the PSA rate as described above.

Notwithstanding the preceding paragraph, APS may at any time during the PSA Year request to reduce the PSA through the Transition Component, which request shall become effective beginning with the first billing cycle of the month following the filing of such a request, provided APS files the request within the first 15 days of a month and Staff does not file opposition to the request.

A Transition Component Tracking Account will measure the changes each month in the Transition Component balance. APS, Staff, or the Commission on its own motion may request that the balance in any Transition Component Tracking Account at the end of the period set for recovery be included in the establishment of the Transition Component for the coming PSA Year.

The Transition Component Account will also include Applicable Interest as determined by the Commission. APS shall file the amounts and supporting calculations and workpapers for this account each month.

As it must do for the Historical Component filing, APS shall file on or before September 30 of each year an accumulation of Transition Component Tracking Account balances for the preceding February through August and an estimate of the balances for September through January (the remaining five months of the prior PSA Year). Those balances will form the basis for setting the preliminary Transition Component for the coming PSA Year. On or before December 31, APS will submit a supplemental filing to update the Transition Component calculation in the same manner as required for the Historical Component.

3. Calculation of the PSA Rate

The PSA rate is the sum of the three components; *i.e.*, Forward Component, Historical Component, and Transition Component. The PSA rate shall be applied to customer bills. Unless the Commission has otherwise acted on a new PSA rate by February 1, the proposed PSA rate (as amended by the updated December 31 filing) shall go into effect. However, the PSA rate may

not change from the prior year's PSA rate by more than plus or minus \$0.004 per kWh without an offsetting change in the Base Cost of Fuel and Purchased Power. The PSA rate shall be applicable to APS' retail electric rate schedules (with the exception of E-36 XL, AG-1, Direct Access service and any other rate that is exempt from the PSA) and is adjusted annually. The PSA Rate shall be applied to the customer's bill as a monthly kWh charge that is the same for all customer classes.

The PSA rate shall be reset on February 1 of each year, and shall be effective with the first February billing cycle unless suspended by the Commission. It is not prorated.

4. Filing and Procedural Deadlines

a. September 30 Filing

APS shall file the PSA rate with all Component calculations for the PSA year beginning on the next February 1, including all supporting data, with the Commission on or before September 30 of each year. That calculation shall use a forecast of kWh sales and of PSA Costs for the coming calendar year, with all inputs and assumptions being the most current available for the Forward Component. The filing will also include the Historical Component calculation for the year beginning on the next February 1, with all supporting data. That calculation shall use the same forecast of sales used for the Forward Component calculation. The Transition Component filing shall also include a proposed method for addressing the over or under recovery of any Transition Component balances that result from changes in the sales forecasts or recovery periods set or any additions to or subtractions from Transition Component balances reviewed or approved by the Commission since the last February 1 resetting of the new PSA.⁴

b. December 31 Filing

APS shall by December 31 update the September 30 filing. This update shall replace estimated Forward Component Tracking Account balances, the Historical Component Tracking Account balances, and the Transition Component Tracking Account balances with actual balances and with more current estimates for those months (December and January) for which actual data are not available. Unless the Commission has otherwise acted on the APS calculation by February 1, the PSA rate proposed by APS shall go into effect with the first February billing cycle.⁵

c. Additional Filings

APS shall also file with the Commission any additional information that the Staff determines it requires to verify the component calculations, account balances, and any other matter pertinent to the PSA.

⁴ This method assumes that the Commission defers the recovery of any approved Transition Component Balance changes until the next February 1 PSA resetting. The Commission may also, as part of the approval of any such Transition Component Balance change, make a PSA change effective on dates and across periods as it determines to be appropriate when it approves such a Transition Component Balance change.

⁵ No reference in this plan to effectiveness in the absence of Commission action shall be interpreted as precluding the normal application of the balance reconciliation provisions generally established for the PSA.

d. Review Process

The Commission Staff and interested parties shall have an opportunity to review the September 30 and December 31 forecast, balances, and supporting data on which the calculations of the three PSA components have been based. Any objections to the September 30 calculations shall be filed within 45 days of the APS filing. Any objections to the December 31 calculations shall be filed within 15 days of the APS filing.

5. Verification and Audit

The amounts charged through the PSA shall be subject to periodic audit to assure their completeness and accuracy and to assure that all fuel and purchased power costs were incurred reasonably and prudently. The Commission may, after notice and opportunity for hearing, make such adjustments to existing balances or to already recovered amounts as it finds necessary to correct any accounting or calculation errors or to address any costs found to be unreasonable or imprudent. Such adjustments, with appropriate interest, shall be recovered or refunded through the Transition Component.

6. Definitions

Applicable Interest – Interest is applied on the PSA balance annually at the following rates: any over-collection existing at the end of the PSA year will be credited an amount equal to interest at a rate equal to the Company's authorized Return on Equity ("ROE") or APS's then-existing short term borrowing rate, whichever is greater, and will be refunded to customers over the following 12 months; any under-collection existing at the end of the PSA Year will be debited an amount equal to interest at a rate equal to the Company's authorized ROE or APS's then-existing short term borrowing rate, whichever is less, and will be recovered from customers over the following 12 months.

Base Cost of Fuel and Purchased Power - An amount generally expressed as a rate per kWh, which reflects the fuel and purchased power cost embedded in the base rates as approved by the Commission in APS's most recent rate case. The Base Cost of Fuel and Purchased Power recovered in base revenue is the approved rate per kWh times the applicable sales volumes. Decision No. xxxx set the base cost at \$0.032071 per kWh effective on [insert date].

Base Net Margins on the Sale of Emission Allowances - An amount generally expressed as a rate per kWh, which reflects the net margins on sales of SO₂ emission allowances embedded in the base rates as approved by the Commission in APS's most recent rate case. The Base Net Margins on the Sale of Emission Allowances is set at (\$0.000001) per kWh effective on [insert date].

Base PSA Costs - A rate equal to the sum of Base Cost of Fuel and Purchased Power and the Base Net Margins on the Sale of Emission Allowances.

Forward Component - An amount generally expressed as a rate per kWh charge that is updated annually on February 1 of each year and effective with the first billing cycle in February. The Forward Component for the PSA Year will adjust for the difference between the forecast PSA

Costs generally expressed as a rate per kWh less the Base PSA Costs generally expressed as a rate per kWh embedded in APS's base rates. The result of this calculation will equal the Forward Component, generally expressed as a rate per kWh.

Forward Component Tracking Account - An account that records on a monthly basis APS's over/under-recovery of its actual PSA Costs as compared to the actual Base PSA Costs recovered in revenue and Forward Component revenue, plus Applicable Interest. The balance of this account as of the end of each PSA Year is, subject to periodic audit, reflected in the next Historical Component calculation. APS files the balances and supporting details underlying this Account with the Commission on a monthly basis.

Historical Component - An amount generally expressed as a rate per kWh charge that is updated annually on February 1 of each year and effective with the first billing cycle in February unless suspended by the Commission. The purpose of this charge is to provide for a true-up mechanism to reconcile any over or under-recovered amounts from the preceding PSA Year tracking account balances to be refunded/collected from customers in the coming year's PSA rate.

Historical Component Tracking Account - An account that records on a monthly basis the account balance to be collected via the Historical Component rate as compared to the actual Historical Component revenues; plus Applicable Interest; The balance of which at the close of the preceding PSA Year is, subject to periodic audit, then reflected in the next Historical Component calculation. APS files the balances and supporting details underlying this Account with the Commission on a monthly basis.

ISFSI - Costs associated with the Independent Spent Fuel Storage Installation that stores spent nuclear fuel.

Mark-to-Market Accounting - Recording the value of qualifying commodity contracts to reflect their current market value relative to their actual cost.

Native Load - Native load includes customer load in the APS control area for which APS has a generation service obligation and PacifiCorp Supplemental Sales.

Net Margins on the Sale of Emission Allowances - Revenues incurred from the sale of emission allowances net of the costs incurred to produce the excess allowances.

PacifiCorp Supplemental Sales - The PacifiCorp Supplemental Sales agreement is a long-term contract from 1990 which requires APS to offer a certain amount of energy to PacifiCorp each year. It is a component of the set of agreements that led to the sale of Cholla Unit 4 to PacifiCorp and the establishment of the seasonal diversity exchange with PacifiCorp.

Preference Power - Power allocated to APS wholesale customers by federal power agencies such as the Western Area Power Administration.

PSA - The Power Supply Adjustment mechanism approved by the Commission in Decision No. 69663, amended by the Commission in Decision No. 71448, and further amended by the

Commission in Decision No. xxxx, which is a combination of three rate components that track changes in the cost of obtaining power supplies based upon forward-looking estimates of PSA Costs that are eventually reconciled to actual costs experienced. This PSA allows for special Commission consideration of extreme volatility in costs or recovery by means of a mid-year rate correction, and provides for a reconciliation between actual and estimated costs of the last two months of estimated costs used in Historical Component calculations.

PSA Costs - The combination of System Book Fuel and Purchased Power Costs net of the System Book Off-System Sales Revenues as adjusted herein for Rate Schedule AG-1 plus the Net Margins on the Sales of Emission Allowances.

PSA Year - A consecutive 12-month period generally beginning each February 1.

Rate Schedule AG-1 - Experimental Alternative Generation Rate Schedule approved by the Commission in Decision No. XXXXX. Resale of capacity and energy displaced by Rate Schedule AG-1 shall be excluded from the PSA on a pro-rata basis, by dividing the amount of monthly metered sales to AG-1 customers by the net monthly total of off-system sales and multiplying that result by total off-system sales margins. The portion of capacity and energy sales margins that is not the result of displacement from Rate Schedule AG-1 will continue to be a credit to the PSA.

System Book Fuel and Purchased Power Costs - The costs recorded for the fuel and purchased power used by APS to serve both Native Load and off-system sales, less the costs associated with applicable special contracts, E-36 XL, AG-1, RCDAC-1, ISFSI, and Mark-to-Market Accounting adjustments. Wheeling costs are included; broker fees are included up to the level in the Base Cost of Fuel and Purchased Power authorized in Decision No.xxxx.

System Book Off-System Sales Revenue - The revenue recorded from sales made to non-Native Load customers, for the purpose of optimizing the APS system, using APS-owned or contracted generation and purchased power, less Mark-to-Market Accounting adjustments.

Traditional Sales-for-Resale - The portion of load from Native Load wholesale customers that is served by APS, excluding the load served with Preference Power.

Transition Component - An amount generally expressed as a rate per kWh charge to be applied when necessary to provide for significant changes between estimated and actual costs under the Forward Component.

Transition Component Tracking Account - An account that records on a monthly basis the account balance to be collected via the Transition Component as compared to the actual Transition Component revenues, plus applicable interest; the balance of which upon Commission consideration may then be reflected in the next Transition Component calculation. APS files the balances and supporting details underlying this Account with the Commission on a monthly basis.

Wheeling Costs (FERC Account 565, Transmission of Electricity by Others) - Amounts payable to others for the transmission of APS's electricity over transmission facilities owned by others.

7. Schedules

Samples of the following schedules are attached to this Plan of Administration

- Schedule 1 Power Supply Adjustment (PSA) Rate Calculation
- Schedule 2 PSA Forward Component Rate Calculation
- Schedule 3 PSA Year Forward Component Tracking Account
- Schedule 4 PSA Historical Component Rate Calculation
- Schedule 5 Historical Component Tracking Account
- Schedule 6 PSA Transition Component Rate Calculation
- Schedule 7 PSA Transition Tracking Account

8. Compliance Reports

APS shall provide monthly reports to Staff's Compliance Section and to the Residential Utility Consumer Office detailing all calculations related to the PSA. An APS Principal Officer, as listed in the Company's annual report filed with the Commission's Corporations Division, shall certify under oath that all information provided in the reports itemized below is true and accurate to the best of his or her information and belief. These monthly reports shall be due within 30 days of the end of the reporting period.

The publicly available reports will include at a minimum:

1. The PSA Rate Calculation (Schedule 1); Forward Component, Historical Component, and Transition Component Calculations (Schedules 2, 4, and 6); Annual Forward Component, Historical Component, and Transition Component Tracking Account Balances (Schedules 3, 5, and 7). Additional information will provide other relative inputs and outputs such as:
 - a. Total power and fuel costs.
 - b. Margins on the sale of excess emission allowances.
 - c. Off-system sales margins attributable to capacity freed up due to Rate Schedule AG-1.
 - d. Customer sales in both MWh and thousands of dollars by customer class.
 - e. Number of customers by customer class.
 - f. A detailed listing of all items excluded from the PSA calculations.
 - g. A detailed listing of any adjustments to the adjustor reports.
 - h. Total off-system sales revenues.
 - i. System losses in MW and MWh.
 - j. Monthly maximum retail demand in MW.
2. Identification of a contact person and phone number from APS for questions.

APS shall provide to Commission Staff monthly reports containing the information listed below. These reports shall be due within 30 days of the end of the reporting period. All of these additional reports will be provided confidentially.

A. Information for each generating unit shall include the following items:

1. Net generation, in MWh per month, and 12 months cumulatively.
2. Average heat rate, both monthly and 12-month average.
3. Equivalent forced-outage rate, both monthly and 12-month average.
4. Outage information for each month including, but not limited to, event type, start date and time, end date and time, and a description.
5. Total fuel costs per month.
6. The fuel cost per kWh per month.

B. Information on power purchases shall include the following items per seller (information on economy interchange purchases may be aggregated):

1. The quantity purchased in MWh.
2. The demand purchased in MW to the extent specified in the contract.
3. The total cost for demand to the extent specified in the contract.
4. The total cost of energy.

C. Information on off-system sales shall include the following items:

1. An itemization of off-system sales margins per buyer.
2. Details on negative off-system sales margins.

D. Fuel purchase information shall include the following items:

1. Natural gas interstate pipeline costs, itemized by pipeline and by individual cost components, such as reservation charge, usage, surcharges and fuel.
2. Natural gas commodity costs, categorized by short-term purchases (one month or less) and longer term purchases, including price per therm, total cost, supply basin, and volume by contract.

E. APS will also provide:

1. Monthly projections for the next 12-month period showing estimated (Over)/under-collected amounts.
2. A summary of unplanned outage costs by resource type.
3. A summary of the net margins on the sale of emission allowances.
4. The data necessary to arrive at the System and Off-System Book Fuel and Purchased Power cost reflected in the non-confidential filing.
5. The data necessary to arrive at the Native Load Energy Sales MWh reflected in the non-confidential filing.

Work papers and other documents that contain proprietary or confidential information will be provided to the Commission Staff under an appropriate confidentiality agreement. APS will keep fuel and purchased power invoices and contracts available for Commission review. The Commission has the right to review the prudence of fuel and power purchases and any

calculations associated with the PSA at any time. Any costs flowed through the PSA are subject to refund if those costs are found to be imprudently incurred.

9. Allowable Costs

a. Accounts

The allowable PSA costs include fuel and purchased power costs incurred to provide service to retail customers. And, the prudent direct costs of contracts used for hedging system fuel and purchased power will be recovered under the PSA. Additionally, the net margins on the sale of emission allowances will also be refunded or recovered through the PSA. The allowable cost components include the following Federal Energy Regulatory Commission ("FERC") accounts:

- 501 Fuel (Steam)
- 518 Fuel (Nuclear) less ISFSI regulatory amortization
- 547 Fuel (Other Production)
- 555 Purchased Power
- 565 Wheeling (Transmission of Electricity by Others)
- 411 O&M (Margins on the Sale of Emission Allowances)

Additionally, broker fees recorded in FERC account 557 are allowable up to the limit set in Decision No. xxxx.

These accounts are subject to change if the Federal Energy Regulatory Commission alters its accounting requirements or definitions.

b. Directly Assignable Power Supply Costs Excluded

Decision No. 66567 provides APS the ability to recover reasonable and prudent costs associated with customers who have left APS standard offer service, including special contract rates, for a competitive generation supplier and then return to standard offer service. For administrative purposes, customers who were direct access customers since origination of service and request standard offer service would be considered to be returning customers. A direct assignment or special adjustment may be applied that recognizes the cost differential between the power purchases needed to accommodate the returning customer and the power supply cost component of the otherwise applicable standard offer service rate. This process is described in the Returning Customer Direct Access Charge rate schedule and associated Plan for Administration filed with the Commission.

In addition, if APS purchases power under specific terms on behalf of a standard offer special contract customer, the costs of that power may be directly assigned. In both cases, where specific power supply costs are identified and directly assigned to a large returning customer or standard offer special contract customer or group of customers, these costs will be excluded from the Adjustor Rate calculations. Schedule E-36 XL, and AG-1 customers are directly assigned power supply costs based on the APS system incremental cost at the time the customer is consuming power from the APS system so their power supply costs and kWh usage are excluded from the PSA.

ARIZONA PUBLIC SERVICE COMPANY
Schedule 1
Power Supply Adjustment (PSA) Rate Calculation
(\$/kWh)

Line No.	<u>PSA Rate Calculation</u>	Current February 1, XXXX	Proposed February 1, XXXX ¹	Increase/(Decrease)	
		\$ -	\$ -	\$/kWh	%
1	Forward Component Rate - FC (Schedule 2, L13)	\$ -	\$ -	N/A	N/A
2	Historical Component Rate - HC (Schedule 4, L5) ²	#.#####	\$ -	N/A	N/A
3	PSA Transition Component Rate (Schedule 6, L3) ³	\$ -	\$ -	N/A	N/A
4	PSA Rate (L1+ L2 + L3)	#.#####	\$ -	N/A	N/A

Notes:

¹ Proposed levels of the PSA rate components are provided in the September 30 filing and updated in the December 31 filing of each year.

² A Historical Component is a true up related to respective prior period PSA activity.

³ Provides for Mid-Period Corrections when necessary.

ARIZONA PUBLIC SERVICE COMPANY
Schedule 2
PSA Forward Component Rate Calculation
(\$ in thousands; Forward Component Rate in \$/kWh)

Line No.	PSA Forward Component Rate - Calculation	Current February 1, XXXX	Proposed February 1, XXXX ¹	\$ Values	% Increase/(Decrease)
1	Projected Fuel and Purchased Power Costs	\$ #,###,###	\$ -	N/A	N/A
2	Projected Off-System Sales Revenue	\$ #,###,###	-	N/A	N/A
3	PSA Adjustments to Fuel and Purchased Power Costs ²	\$ (#,###,###)	-	N/A	N/A
4	Net Fuel and Purchased Power Cost (L1 through L3)	\$ #,###,###	\$ -	N/A	N/A
5	Projected Net Margins on the Sale of Emission Allowances	-	-	N/A	N/A
6	Projected Billed Native Load Sales, excluding E-36XL, AG-1 (MWhs) ³	#,###,###	-	N/A	N/A
7	Projected Average Net Fuel Cost \$/kWh (L4 / L5)	\$ ######	\$ -	N/A	N/A
8	Projected Average Margin on Emission Allowances \$/kWh (L5 / L6)	\$ ######	\$ -	N/A	N/A
9	Total Projected Average PSA Cost \$/kWh (L7+L8)	\$ ######	\$ -	N/A	N/A
10	Authorized Base Cost of Fuel and Purchased Power Rate \$/kWh ⁴	\$ 0.032071	\$ -	N/A	N/A
11	Authorized Base Net Margins on the Sale of Emission Allowances Rate \$/kWh ⁵	\$ (0.000001)	\$ -	N/A	N/A
12	Total Authorized Base Cost \$/kWh	\$ 0.032070	\$ -	N/A	N/A
13	Forward Component Rate \$/kWh (L9 - L12)	\$ ######	\$ -	N/A	N/A

Notes:

¹ Proposed levels are provided in the September 30 filing and updated in the December 31 filing of each year.

² Includes costs associated with E-36XL, AG-1 and other direct assignment customers, ISFSI, and mark-to-market accounting adjustments.

³ The Projected Billed Native Load Sales of XXXXXX MWhs for the Current Rate represent forecast sales for XXXXX as of December 30th, XXXX. They exclude ED 3 and City of Williams wholesale contracts that are excluded from the Proposed sales and fuel costs.

⁴ Base Cost of Fuel and Purchased Power established in Decision No. _____.

Schedule presentation will appear to round up to 1000s and MWh; however, calculations are performed on an actual \$ and kWh basis with resultant Rates/kWh rounded up to \$0.000000/kWh.

ARIZONA PUBLIC SERVICE COMPANY

Schedule 3

XXXX PSA Year Forward Component Tracking Account - in Effect from February 1, XXXX to Jan 31, XXXX

(\$ in thousands; Forward Component Rate and Base Rate in \$/kWh)

Notes:

- (1) PSA Retail Energy Sales are the calendar month's MWh sales. XXXX PSA Year Cumulative Retail Energy Sales of XX,XXX MWhs under rate schedule E-36XL, AG-1 were excluded from the PSA Calculations.
- (2) Includes traditional sales for resale. PacifiCorp supplemental sales, and other non-ACC jurisdictional sales. ED 3 and City of Williams energy sales are excluded from the PSA Calculation.
- (3) Retail Billed Sales on Line 6 relate specifically to the Forward Component Collections. Due to billing adjustments and timing, this amount will differ from other components' Retail Billed Sales.
- (4) Renewables costs exclude \$X,XXX,XXX of XXXX PSA Year year-to-date costs that are currently being recovered through the RES rate schedule.
- (5) Includes native load and off-system fuel and purchased power costs less those costs associated with E-36XL, AG-1 and other direct assignment customers, amortization of previously deferred ISFSI, Four Comers Coal Reclamation, and mark-to-market accounting adjustments.
- (6) Includes off-system revenue less mark-to-market accounting adjustments.
- (7) Generally, Line 30 * Line 6 = Line 25; however, differences may occur due to billing adjustments.

Schedule presentation will appear to round up to \$000s; however, calculations are performed on an actual \$ and kWh basis with resultant Rates/kWh rounded up to \$0.000000/kWh

ARIZONA PUBLIC SERVICE COMPANY

Schedule 4

PSA Historical Component Rate Calculation
(\$ in thousands; Historical Component Rate in \$/kWh)

Line No.	PSA Historical Component Rate Calculation	Current February 1, XXXX	Proposed February 1, XXXX ¹	Increase/(Decrease)	
		\$,###	\$	\$ Values	%
1	Forward Component Tracking Account Balance (Schedule 3, L26 + L27)	\$,###	-	N/A	N/A
2	Historical Component Tracking Account Balance (Schedule 5, L9 + L10) ²	\$,###	-	N/A	N/A
3	Total Historical Amount to be (Refunded)/Collected Balance (L1+L2)	\$,###	\$	N/A	N/A
4	Projected Billed Retail Energy Sales without E-36 XL, AG-1 (MWh)	##,###,###	-	N/A	N/A
5	Applicable Historical Component Rate (L3 / L4)	##,####	\$	-	N/A

Notes:

¹ Proposed levels are provided in the September 30 filing and updated in the December 31 filing of each year.

² The Current Rate Projected Billed Retail Energy Sales are for February XXXX through January XXXX.

Schedule presentation will appear to round up to \$000s; however, calculations are performed on an actual \$ and kWh basis with resultant Rates/kWh rounded up to \$0.000000/kWh.

ARIZONA PUBLIC SERVICE COMPANY
Schedule 5
Historical Component Tracking Account in Effect Feb 1, XXXX through Jan. 31, XXXX
 (\$ in thousands Historical Component Rate in \$/kWh)

Line No.		XXXX												
		January	February	March	April	May	June	July	August	September	October	November	December	January
	Projected HC Tracking Account Balance at 1 Dec. 31, XXXX													
2	Projected FC Tracking Account Balance at Dec. 31, XXXX													
3	True-up from December - January Estimate (1)													
4	Prior Month's Ending Balance													
5	HC Adjusted Beginning Balance (L1+ L2 + L3 + L4)													
6	Applicable Historical Component Rate (\$/kWh)(2)													
7	Retail Billed Sales Excluding E-36XL, AG- Sales (MWhs)(3)													
8	Less Revenue from Applicable HC (L6 x L7)(4)													
9	HC Ending Balance (L5 - L8)	\$	—											
10	Annual Interest (Calculated only in January)													

Notes:

- (1) True-up is the result of using estimated revenue and deferral for December and January since the actual amount was not available at the time of prior period PSA filing.
- (2) Historical Component, Schedule 4, Line 5
- (3) Sales amounts are for energy billed each period.
- (4) Generally, Line 7 x Line 6 = Line 8; however, differences may occur due to billing adjustments.

Schedule presentation will appear to round up to \$000s and MWh: however, calculations are performed on an actual \$ and kWh basis with resultant Rates/kWh rounded up to \$0.000000/kWh.

ARIZONA PUBLIC SERVICE COMPANY
Schedule 6
PSA Transition Component Rate Calculation
(\$ in thousands; Transition Component Rate(s) in \$/kWh)

Line No.		Current February 1, XXXX ¹	Proposed February 1, XXXX ¹	Increase/(Decrease) \$ Values %
1	PSA Transition - Approved (Refundable)/Collection Amount ¹	N/A	N/A	N/A 0.00%
2	Projected Energy Sales without E-36XL, AG-1 (MWh) XXX, X, XX to XXX, X, XX	N/A	N/A	N/A 0.00%
3	PSA Transition Component (Refundable)/Collection Rate (L1 / L2)	N/A	N/A	N/A 0.00%

Notes:

¹ Commission Decision No. XXXXXXXXXXXX

Schedule presentation will appear to round up to \$000s and MWs; however, calculations are performed on an actual \$ and kWh basis with resultant Rates/kWh rounded up to \$0.00000/kWh.

ARIZONA PUBLIC SERVICE COMPANY
Schedule 7
PSA Transition Tracking Account in Effect XX 1, 20XX through XX 31, 20XX
 (\$ in thousands; Transition Component Rate in \$/kWh)

Line No.	20XX Data												20XX January
	January	February	March	April	May	June	July	August	September	October	November	December	
1 Transferred balance from FC Tracking Acct Per Decision No. XXXXX	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
2 Prior Month's Ending Balance	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
3 Transition Component TA Adjusted Beginning Balance (L1+ L2)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
4 Applicable Transition TA Component Rate (\$/kWh) (1)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
5 Retail Billed Sales Excluding E-36XL, AG-1 Sales (MWhs) (2)	—	—	—	—	—	—	—	—	—	—	—	—	—
6 Less Revenue from Applicable Transition Component (L4 x L5)(3)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
7 Ending Balance; (L3 - L6)	<u>\$ —</u>												

Notes:

- (1) Transition Component, Schedule 6, Line 3
- (2) Sales amounts are for energy billed each period.
- (3) Generally, Line 4 x Line 5 = Line 6; however, differences may occur due to billing adjustments.

Schedule presentation will appear to round up to \$000s and MWh; however, calculations are performed on an actual \$ and kWh basis with resultant Rates/kWh rounded up to \$0.000000/kWh .

ARIZONA PUBLIC SERVICE COMPANY
Schedule 8
Summary of Monthly Calculations
Mo YYYY
(\$ in thousands)

Line No.		XXXX Data												XXXX January
		January	February	March	April	May	June	July	August	September	October	November	December	
XXXX Forward Component Tracking Account														
1	Beginning Balance													
2	Transfers to XXXX Historical Component Tracking Account													
3	Post-Sharing (Over)/Under Collection													
4	Less Revenue from Applicable Forward Component Rate													
5	Annual Interest (Calculated only in January)													
6	Ending Balance (Line 1 + Line 2 + Line 3 - Line 4 + Line 5)													
XXXX Historical Component Tracking Account														
7	Beginning Balance													
8	Transfers from XXXX Forward Component Tracking Account													
9	Less Revenue from Applicable Historical Component Rate													
10	Annual Interest (Calculated only in January)													
11	Ending Balance (Line 7 + Line 8 - Line 9 + Line 10)													
12	Combined Balance ([Line 6 + Line 11])(1)													
13	Annual Interest Rate	#.###%												

Schedule presentation will appear to round up to \$000s and MWh; however, calculations are performed on an actual \$ and kWh basis with resultant Rates/kWh rounded up to \$0.000000/kWh.

ARIZONA PUBLIC SERVICE COMPANY
Schedule 9
YYYY Native Load Customer Counts, Sales and Revenue
Mo YYYY

Line No.	Class	January	February	March	April	May	June	July	August	September	October	November	December	Total(1)
Customers														
1	Residential													#DIV/0!
2	Commercial													#DIV/0!
3	Industrial													#DIV/0!
4	Irrigation													#DIV/0!
5	Sales for Resale(2)													#DIV/0!
6	Streetlights & Other Public Authority													#DIV/0!
7	Less E-36XL, AG-1, ED 3 and CoW (includes adj. to prior mth)													#DIV/0!
8	Total													#DIV/0!
Sales (MWh)														
9	Residential													—
10	Commercial													—
11	Industrial													—
12	Irrigation													—
13	Sales for Resale(2)													—
14	Streetlights & Other Public Authority													—
15	Less E-36XL, AG-1, ED 3 and CoW (includes adj. to prior mth)													—
16	Total													—
Revenue(\$000)														
17														\$ —
18	Commercial													\$ —
19	Industrial													\$ —
20	Irrigation													\$ —
21	Sales for Resale(2)													\$ —
22	Streetlights & Other Public Authority													\$ —
23	Less E-36XL, AG-1, ED 3 and CoW (includes adj. to prior mth)													\$ —
24	Total													\$ —
Est. System Losses and Peak														
25	Est. Native Load Sys. Losses (MWh)													
26	Est. Native Load Sys. Losses (MW)													
27	Est. Native Load Sys. Peak (MW)(3)													

(1) The Customers total is the average of the customer class' monthly totals.

(2) Includes traditional sales for resale, PacifiCorp supplemental sales, ED 3, City of Williams (CoW), and other non-ACC jurisdictional sales. Off-System Interchange customers, sales and revenue are excluded from Sales for Resale.

(3) The Preliminary Native Load System Peak totals will be updated each month.

Attachment D

**Renewable Energy Projects Transferred from the Renewable
Energy Surcharge (“RES”) to Base Rates**

Project Name	Project Description	In-Service Date
Paloma	17 MW photovoltaic utility-scale solar generating facility pursuant to AZ Sun Program approved in Decision No. 71502	September 2011
Hyder I	Phase I or 11 MW of a 16 MW photovoltaic utility-scale solar generating facility pursuant to AZ Sun Program approved in Decision No. 71502	October 2011
Hyder II	Phase II or 5 MW of a 16 MW photovoltaic utility-scale solar generating facility pursuant to AZ Sun Program approved in Decision No. 71502	March 2012
Cotton Center	17 MW photovoltaic utility-scale solar generating facility pursuant to AZ Sun Program approved in Decision No. 71502	October 2011
Schools & Government Program	0.7 MW of small solar systems on schools and government facilities pursuant to program approved in Decision No. 72174	As Built
Community Power Project - Flagstaff	1.35 MW of distributed renewable energy systems pursuant to the program approved in Decision No. 71646	As Built

ACC Jurisdiction of 15-Months of Solar Generation Post-Test Year Plant Additions:

Gross Utility Plant in Service	\$ 232.573M
Less: Accumulated Depreciation & Amortization	3.391M
Net Utility Plant in Service	229.182M
Less: Total Deductions	2.476M
Total Additions	-
Total Rate Base	\$ 226.706M

Attachment E

Settlement BSC for Residential Rates

kWh per Month	Total \$ Bill	BSC Standard	BSC Opt-Out	Delta	Total % Bill
Rate E-12 (Non-Time of Use)					
0-400	49.70	8.55	9.15	0.60	1.21%
401-800	96.55	8.55	9.75	1.20	1.24%
801-2000	252.37	8.55	11.30	2.75	1.09%
2001+	652.67	8.55	15.05	6.50	1.00%
Rate ET-1 & ET-2 (Time of Use)					
0-400	58.06	16.68	17.28	0.60	1.03%
401-800	97.07	16.68	17.88	1.20	1.24%
801-2000	214.07	16.68	19.43	2.75	1.28%
2001+	506.49	16.68	23.18	6.50	1.28%
Rate ECT-1R & ECT-2 (Time of Use with Demand Charge)					
0-400	71.12	16.68	17.28	0.60	0.84%
401-800	100.60	16.68	17.88	1.20	1.19%
801-2000	177.81	16.68	19.43	2.75	1.55%
2001+	337.05	16.68	23.18	6.50	1.93%

These Opt-Out BSCs will remain fixed throughout the four-year rate period and until new rates are set.



PLAN OF ADMINISTRATION
LOST FIXED COST RECOVERY

Attachment F
Page 1 of 10

**Lost Fixed Cost Recovery ("LFCR")
Plan of Administration**

Table of Contents

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3. LFCR Annual Incremental Cap	3
4. Filing and Procedural Deadlines	3
5. Compliance Reports.....	3

1. General Description

This document describes the plan of administration for the LFCR mechanism approved for Arizona Public Service Company ("APS" or "Company") by the Arizona Corporation Commission ("ACC") on [insert date] in Decision No. XXXXX. The LFCR mechanism provides for the recovery of lost fixed costs, as measured by revenue, associated with the amount of energy efficiency ("EE") savings and distributed generation ("DG") that is authorized by the Commission and determined to have occurred. Costs to be recovered through the LFCR include the portion of transmission costs included in base rates and a portion of distribution costs, other than what is already recovered by (1) the Basic Service Charge and (2) 50% of demand revenues associated with distribution and the base rate portion of transmission.

2. Definitions

Applicable Company Revenues – The amount of revenue generated by sales to retail customers, for all applicable rate schedules, less the amount of revenue attributable to sales to Opt-Out residential customers.

Current Period – The most recent adjustment year.

Demand Stability Factor – Fifty percent of distribution and transmission demand-based revenue produced by base rates.

DG Savings – The amount of MWh sales reduced by DG. APS shall use statistical verification, output profile, or meter data for DG systems until December 31, 2014. Beginning January 2015, APS shall only use meter data to calculate DG system savings. Each year, APS will use actual data through September and forecast data for the remainder of the calendar year to calculate the savings. The calculation of DG Savings will consist of the following by class:

1. Current Period: The annual energy production (MWh) produced by the cumulative total of DG installations since the effective date of APS's most recent general rate case.
2. Excluded MWh Production: The reduction of recoverable DG Savings calculated as follows: (1) for residential Opt-Out customers by either, dividing the number of Opt-Out residential customers by the total number of residential customers and multiplying that result by total residential DG Savings or using actual metered production, and (2) for commercial and industrial customers, by subtracting the amount of DG produced by customers on Excluded Rate Schedules.



**PLAN OF ADMINISTRATION
LOST FIXED COST RECOVERY**

Attachment F
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3. True-Up Prior Period: The reconciliation of APS's forecast data of DG sales reductions for the three months in the Prior Period to verified DG sales reductions in the Prior Period.

Distribution Revenue – The amount determined at the conclusion of a rate case by multiplying both residential and general service adjusted test year billing determinants (kW and kWh) by their approved delivery charges. Any demand (kW) based delivery revenue will be reduced by the Demand Stability Factor.

EE Programs – Any program approved in APS's annual implementation plan.

EE Savings – The amount of sales, expressed in MWh, reduced by EE as demonstrated by the Measurement, Evaluation, and Reporting ("MER") conducted for EE programs. EE Savings shall be pro-rated for the number of days that new base rates are in effect during the initial implementation of the LFCR. The calculation of EE Savings will consist of the following by class:

1. Cumulative Verified: The cumulative total MWh reduction as determined by the MER using the effective date of APS's most recent general rate case as a starting point.
2. Current Period: The annual EE related sales reductions (MWh). Each year, APS will use actual MER data through September and forecast data for the remainder of the year to calculate savings.
3. Excluded MWh reduction: The reduction of recoverable EE Savings calculated as follows: (1) for residential Opt-Out customers by, dividing the number of Opt-Out residential customers by the total number of residential customers and multiplying that result by Current Period Savings, and (2) for commercial and industrial customers, by subtracting the amount of EE Savings actually achieved by customers on Excluded Rate Schedules.
4. True-Up Prior Period: The reconciliation of APS's forecast data of EE sales reductions for the three months in the Prior Period to verified EE sales reductions in the Prior Period.

Excluded Rate Schedules – The LFCR mechanism shall not apply to large general service customers taking service under rate schedules E-32 L, E-32 L TOU, E-34, E-35 and E-36 XL, or to unmetered General Service customers under E-30 and lighting schedules.

LFCR Adjustment – An amount calculated by dividing Lost Fixed Cost Revenue by the Applicable Company Revenues. This adjustment percentage will be applied to all customer bills, excluding both those that have chosen to Opt-Out and those on Excluded Rate Schedules.

Lost Fixed Cost Rate – A rate determined at the conclusion of a rate case by taking the sum of allowed Distribution Revenue and base rate Transmission Revenue for each rate class and dividing each by their respective class adjusted test year kWh billing determinants.



PLAN OF ADMINISTRATION
LOST FIXED COST RECOVERY

Attachment F
Page 3 of 10

Lost Fixed Cost Revenue – The amount of fixed costs not recovered by the utility because of EE and DG during the period. This amount is calculated by multiplying the Lost Fixed Cost Rate by Recoverable MWh Savings, by rate class.

Opt-Out – The rate schedule choice for residential customers to opt out of the LFCR in the form of an optional BSC. The number of Opt-Out customers will be expressed as the annual average number of customers “Opting-Out” over the Current Period. The LFCR mechanism shall not be applied to residential customers who choose the Opt-Out provision. This rate will be made available to customers at the time of the first LFCR adjustment.

Prior Period – The 12 months preceding the Current Period.

Recoverable MWh Savings – The sum of EE Savings and DG Savings by rate class.

Total Fixed Revenue – The total of Transmission Revenue and Distribution Revenue by Class.

Transmission Revenue – The amount of revenue determined at the conclusion of a general rate case by multiplying both residential and general service adjusted test year billing determinants (kW and kWh) by the approved base rate transmission charge within their respective rate schedules. Any demand (kW) base rate Transmission Revenue will be reduced by the Demand Stability Factor.

3. LFCR Annual Incremental Cap

The LFCR Adjustment will be subject to an annual 1% year over year cap based on Applicable Company Revenues. If the annual LFCR Adjustment results in a surcharge and the annual incremental increase exceeds 1% of Applicable Company Revenues, any amount in excess of the 1% cap will be deferred for collection until the first future adjustment period in which including such costs would not cause the annual increase to exceed the 1% cap. The one-year Nominal Treasury Constant Maturities rate contained in the Federal Reserve Statistical Release H-15 or its successor publication will be applied annually to any deferred balance. The interest rate shall be adjusted annually and shall be that annual rate applicable to the first business day of the calendar year.

4. Filing and Procedural Deadlines

APS will file the calculated Annual LFCR Adjustment, including all Compliance Reports, with the Commission for the previous year by January 15th. The new LFCR Adjustment will not go into effect until approved by the Commission .

5. Compliance Reports

APS will provide comprehensive compliance reports to Staff and the Residential Utility Consumer Office. The information contained in the Compliance Reports will consist of the following schedules:

- Schedule 1: LFCR Annual Adjustment Percentage
- Schedule 2: LFCR Annual Incremental Cap Calculation
- Schedule 3: LFCR Calculation



**PLAN OF ADMINISTRATION
LOST FIXED COST RECOVERY**

Attachment F
Page 4 of 10

- Schedule 4: LFCR Test Year Rate Calculation
- Schedule 5: Distribution and Transmission Revenue Calculation – General Service
- Schedule 6: Distribution and Transmission Revenue Calculation – Residential

Schedules 1 through 6, attached hereto, will be submitted with APS's annual compliance filing.

Arizona Public Service Company
Lost Fixed Cost Recovery Mechanism
Schedule 1: LFCR Annual Adjustment Percentage
(\$000)

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Line No.	(A) Annual Percentage Adjustment	(B) Reference	(C) Total
1.	Total Lost Fixed Cost Revenue for Current Period	Schedule 2, Line 13 \$	-
2.	Applicable Company Revenues	Schedule 2, Line 1	-
3.	% Applied to Customer's Bills	(Line 1 / Line 2)	0.0000%

Note: For the Current Period, the full revenue per customer decoupling mechanism that was proposed in APS's June 1, 2011 rate application (including all customers and offering no residential Opt-Out alternative) would have resulted in a total revenue adjustment of \$X and average customer bill impact of Y%.

Arizona Public Service Company
Lost Fixed Cost Recovery Mechanism
Schedule 2: LFCR Annual Incremental Cap Calculation
($\$000$)

Attachment F
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Line No.	(A) LFCR Annual Incremental Cap Calculation	(B) Reference	(C) Totals
1.	Applicable Company Revenues	\$ -	-
2.	Allowed Cap %		1.00%
3.	Maximum Allowed Incremental Recovery (Line 1 * Line 2)	\$ -	-
4.	Total Lost Fixed Cost Revenue Schedule 3, Line 38, Column C	\$ -	-
5.	Total Deferred Balance from Previous Period Previous Filing, Schedule 2, Line	\$ -	-
6.	Annual Interest Rate 11, Column C		0.00%
7.	Interest Accrued on Deferred Balance (Line 5 * Line 6)	\$ -	-
8.	Total Lost Fixed Cost Revenue Current Period (Line 4 + Line 5 + Line 7)	\$ -	-
9.	Lost Fixed Cost Revenue from Prior Period Previous Filing, Schedule 2, Line	\$ -	-
10.	Total Incremental Lost Fixed Cost Revenue for Current Year (Line 8 - Line 9)	\$ -	-
11.	Amount in Excess of Cap to Defer (Line 10 - Line 3)	\$ -	-
12.	Incremental Period Adjustment as % [(Line 10 - Line 11) / Line 1]		0.00%
13.	Total Lost Fixed Cost Revenue for Current Period (Line 8 - Line 11)	\$ -	-

Arizona Public Service Company
Lost Fixed Cost Recovery Mechanism
Schedule 3: LFCR Calculation
($\$000$)

Attachment F
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Line No.	(A) Lost Fixed Cost Revenue Calculation	(B) Reference	(C) Totals	(D) Units
Residential				
Energy Efficiency Savings				
1.	Current Period		-	MWh
2.	% of Residential Customers on Opt-Out		0.0%	
3.	Excluded MWh reduction	(Line 1 * Line 2)	-	MWh
4.	Net - Current Period	(Line 1 - Line 3)	-	MWh
5.	Prior Period	Previous Filing, Schedule 3, Line 4, Column C	-	MWh
6.	Verified - Prior Period		-	MWh
7.	True-Up Prior Period	(Line 6 - Line 5)	-	MWh
8.	Cumulative Verified	(Previous Filing, Schedule 3, Line 8, Column C + Line 6)	-	MWh
9.	Total Recoverable EE Savings	(Line 4 + Line 7 + Line 8)	-	MWh
Distributed Generation Savings				
10.	Current Period		-	MWh
11.	Excluded MWh Production		-	MWh
12.	Net - Current Period	(Line 10 - Line 11)	-	MWh
13.	Prior Period	Previous Filing, Schedule 3, Line 12, Column C	-	MWh
14.	Verified - Prior Period		-	MWh
15.	True-Up Prior Period	(Line 14 - Line 13)	-	MWh
16.	Total Recoverable DG Savings	(Line 12 + Line 15)	-	MWh
17.	Total Recoverable MWh Savings	(Line 9 + Line 16)	-	MWh
18.	Residential - Lost Fixed Cost Rate	Schedule 4, Line 5, Column C	\$	\$/kWh
19.	Residential - Lost Fixed Cost Revenue	(Line 17 * Line 18)	\$	-
C&I				
Energy Efficiency Savings				
20.	Current Period		-	MWh
21.	Excluded MWh reduction		-	MWh
22.	Net - Current Period	(Line 20 - Line 21)	-	MWh
23.	Prior Period	Previous Filing, Schedule 3, Line 22, Column C	-	MWh
24.	Verified - Prior Period		-	MWh
25.	True-Up Prior Period	(Line 24 - Line 23)	-	MWh
26.	Cumulative Verified	(Previous Filing, Schedule 3, Line 26, Column C + Line 24)	-	MWh
27.	Total Recoverable EE Savings	(Line 22 + Line 25 + Line 26)	-	MWh
Distributed Generation Savings				
28.	Current Period		-	MWh
29.	MWh DG Savings from Rate Schedules Excluded from LFCR		-	MWh
30.	Net - Current Period	(Line 28 - Line 29)	-	MWh
31.	Prior Period	Previous Filing, Schedule 3, Line 30, Column C	-	MWh
32.	Verified - Prior Period		-	MWh
33.	True-Up Prior Period	(Line 32 - Line 31)	-	MWh
34.	Total Recoverable DG Savings	(Line 30 + Line 33)	-	MWh
35.	Total Recoverable MWh Savings	(Line 27 + Line 34)	-	MWh
36.	C&I - Lost Fixed Cost Rate	Schedule 4, Line 10, Column C	\$	\$/kWh
37.	C&I - Lost Fixed Cost Revenue	(Line 35 * Line 36)	\$	-
38.	Total Lost Fixed Cost Revenue	(Line 19 + Line 37)	\$	-

Arizona Public Service Company
 Lost Fixed Cost Recovery Mechanism
 Schedule 4: LFCR Test Year Rate Calculation
 (\$000)

Attachment F
 Page 8 of 10

Line No.	(A) Lost Fixed Cost Rate Calculation	(B) Reference	(C) Total
Residential Customers			
1.	Distribution Revenue	Schedule 6, Line 13, Column H	\$ -
2.	Transmission Revenue	Schedule 6, Line 13, Column I	\$ -
3.	Total Fixed Revenue	(Line 1 + Line 2)	\$ -
Schedule 6, Line 12, Column C /			
4.	MWh Billed	1,000	\$ -
5.	Lost Fixed Cost Rate	(Line 3 / Line 4)	\$ -
C & I Customers			
6.	Distribution Revenue	Schedule 5, Line 13, Column H	\$ -
7.	Transmission Revenue	Schedule 5, Line 13, Column I	\$ -
8.	Total Fixed Revenue	(Line 6 + Line 7)	\$ -
Schedule 5, Line 12, Column C /			
9.	MWh Billed	1,000	\$ -
10.	Lost Fixed Cost Rate	(Line 8 / Line 9)	\$ -

Arizona Public Service Company
Lost Fixed Cost Recovery Mechanism
Schedule 5: Distribution and Transmission Revenue Calculation
General Service

Line No.	(A) Rate Schedule	(B) Tariff Component	(C) Adjusted Test Year Billing Determinants	(D) Units	(E) Delivery Charge	(F) Transmission Charge	(G) Demand Stability Factor	(H) C*E*(1-G)	(I) C*F*(1-G)	(J) H+I
1.	General Service Rate									
1.	Schedule 1									
2.			kW	\$ — \$	—		50%\$	— \$	— \$	—
3.			kWh	\$ — \$	—		0%\$	— \$	— \$	—
4.	Sub Total		kW				\$	— \$	— \$	—
5.			kWh				\$	— \$	— \$	—
6.	General Service Rate									
6.	Schedule 2			—						
7.			kW	\$ — \$	—		50%\$	— \$	— \$	—
8.			kWh	\$ — \$	—		0%\$	— \$	— \$	—
9.	Sub Total		kW				\$	— \$	— \$	—
10.			kWh				\$	— \$	— \$	—
11.	Total kW		kW				\$	— \$	— \$	—
12.	Total kWh		kWh				\$	— \$	— \$	—
13.	Total						\$	— \$	— \$	—

Arizona Public Service Company
Lost Fixed Cost Recovery Mechanism
Schedule 6: Distribution and Transmission Revenue Calculation
Residential

(A) Line No.	(B) Rate Schedule	(C) Adjusted Test Year Billing Tariff Component	(D) Determinants	(E) Units	(F) Delivery Charge	(G) Transmission Demand Stability	(H) $C^*E^*(1-G)$	(I) $C^*F^*(1-G)$	(J) $H+I$
		Residential							
		Rate							
1.	Schedule 1								
2.		— kW	\$ — \$	—		50%\$	— \$	— \$	—
3.		— kWh	\$ — \$	—		0%\$	— \$	— \$	—
4.	Sub Total			— kW		\$	— \$	— \$	—
5.				— kWh		\$	— \$	— \$	—
		Residential							
		Rate							
6.	Schedule 2								
7.		— kW	\$ — \$	—		50%\$	— \$	— \$	—
8.		— kWh	\$ — \$	—		0%\$	— \$	— \$	—
9.	Subtotal			— kW		\$	— \$	— \$	—
10.				— kWh		\$	— \$	— \$	—
11.	Total kW			— kW		\$	— \$	— \$	—
12.	Total kWh			— kWh		\$	— \$	— \$	—
13.	Total					\$	— \$	— \$	—



**DEMAND SIDE MANAGEMENT ADJUSTMENT CHARGE
PLAN OF ADMINISTRATION
XXXX-XX-XX**

1. GENERAL DESCRIPTION:

This document describes the plan for administering the Demand Side Management Adjustment Charge ("DSMAC") approved for Arizona Public Service Company ("APS") by the Arizona Corporation Commission ("Commission") in Decision No. 67744, and later revised by the Commission in Decision Nos. 71448 and XXXXXX. The DSMAC provides for the recovery of Demand Side Management ("DSM") program costs, including energy efficiency and demand response programs, and energy efficiency performance incentives. The DSMAC is applied to Standard Offer or Direct Access customer's bills as a monthly kilowatt-hour charge (for Residential customers and General Service customers served in accordance with non-demand billed rate schedules) or kilowatt demand charge (for General Service customers served in accordance with demand billed rate schedules). The charge will be filed with the Commission annually when APS submits the Energy Efficiency Implementation Plan ("EEIP") for approval. This will occur July 15, 2009 for the 2010 program year, and on June 1st of all subsequent years. If approved by the Commission, the charge will be effective each year beginning with billing cycle 1 of the March revenue month and will not be prorated.

Recovery of all applicable programs costs and incentives will be allowed for all programs that have been approved by the Commission.

2. RATE SCHEDULE APPLICABILITY:

The DSMAC shall be applied monthly to every retail Standard Offer or Direct Access service.

3. ALLOWABLE COSTS:

The types of allowable costs are as follows:

A. Program Costs (PC)

Allowable expenses include, but are not limited to:

Program development, implementation, promotion, administrative and general, training and technical assistance, marketing and communications, evaluation costs, monitoring and metering costs, advertising, educational expenditures, customer incentives, research and development, data collection (such as end-use), tracking systems, self direction costs, measurement evaluation and research (MER), demonstration facilities and all other activities required to design and implement cost-effective DSM programs (energy efficiency and demand response) that are approved by the Commission in the EEIP. For those DSM programs that generate revenue, the revenue, if any, will be credited back to the DSMAC. Unrecovered fixed costs will not be recoverable through the DSMAC.

B. Performance Incentives (PI)

Represents a percentage share of the net economic benefits (benefits minus costs) from approved energy-efficiency programs based on a graduated scale that is capped at a percentage of EE PC.

Achievement Relative to the Energy Efficiency Standard	Performance Incentive as % of Energy Efficiency Net Benefits	Performance Incentive Capped at % of Energy Efficiency Program Costs
< 85%	0%	0%
85% to 95%	6%	12%
96% to 105%	7%	14%
>105%	8%	16%

4. DETERMINATION OF TRUE-UP:

The actual allowable cost recovered for approved DSM programs will be compared to the actual revenues received by the Company through the DSMAC. The True-Up (TU) will be based on the amount in the TU balancing account. This balance will include past period PC, PI and DSMAC revenue collection accruals as of April 30th of the filing year. Past period PC and PI are found on Schedule 2 of the DSMAC



**DEMAND SIDE MANAGEMENT ADJUSTMENT CHARGE
PLAN OF ADMINISTRATION
XXXX-XX-XX**

calculations. Past period DSMAC revenue is found in Schedule 1 of the DSMAC calculations. The TU balancing account computation will be provided annually in Schedule 3 of the DSMAC calculations.

In the event that PC or PI are more or less than DSMAC revenues collected as of the last billing cycle of February, the over or under collection will be subtracted from or added to the DSMAC calculation in the subsequent period. Any over collection will accrue interest charges. Under collections will not accrue interest.

Illustrative Table of Events

Date	Included Items
7/15/2009 DSMAC includes:	File 2010 EEIP with 2010 DSMAC 2010 forecast of PC and PI 2009 forecast of PC and PI TU balancing account as of the last billing cycle of February
3/1/2010	DSMAC start from 2010 EEIP
6/1/2010 DSMAC includes:	File 2011 EEIP with 2011 DSMAC 2011 forecast of PC and PI TU balancing account as of the last billing cycle of February
3/1/2011	DSMAC start from 2011 EEIP
6/1/2011 DSMAC includes:	File 2012 EEIP with 2012 DSMAC 2012 forecast of PC and PI TU balancing account as of the last billing cycle of February

5. DETERMINATION OF THE ADJUSTER CHARGE:

By July 15, 2009 and on June 1st of each subsequent year, APS will file a revised DSMAC with supporting documentation in the EEIP. The DSMAC will be calculated by projecting PC and PI for the upcoming year, adjusted by the over or under collection of previous periods. This calculation will be provided in the annual DSMAC calculation on Schedule 4.

The DSMAC for purposes of recovering PC and PI under the DSM Program will be developed based on the following formula:

$$\text{DSMAC} = \frac{\text{PC} + \text{PI} + \text{TU} + \text{I}}{\text{Sales}}$$

Where:

- PC = Program Costs as defined in section 3 forecast for the upcoming year.
PI = Performance Incentives as defined in section 3 forecast for the upcoming year.
TU = Any "true-up" balance as defined in section 4.
I = Interest associated on any over recovery of DSMAC costs for the prior period.
The interest rate is based on the one-year Nominal Treasury Maturities rate from the Federal Reserve H-15 or its successor publication. The interest rate shall be adjusted annually on the first business day of the calendar year.
Sales = Forecast energy (kWh) sales under applicable electric rate schedules during the Adjustor Period in which this adjustor will be effective.
Adjustor Period = The 12 month period beginning with the first billing cycle during March of the current year and ending with the last billing cycle of February of the next year.



**DEMAND SIDE MANAGEMENT ADJUSTMENT CHARGE
PLAN OF ADMINISTRATION
XXXX-XX-XX**

The DSMAC for General Service customers that are billed on demand will be calculated as a per kW charge. The DSMAC for General Service customers that are not billed on demand will be calculated as a per kWh charge. To calculate the per kW charge, the recoverable costs shall first be allocated to the General Service class based upon the number of kWh consumed by that class. The remainder of the recoverable costs allocated to the General Service class shall then be divided by the kW billing determinants for the demand billed customers in that class to determine the per kW DSMAC.

For residential billing purposes, the DSMAC and the Renewable Energy Surcharge ("RES") are combined and will appear on customer bills as the "Environmental Benefits Surcharge". For the billing of general service and other non-residential customers, the Company may, but is not required to, provide for such combined billing of the RES and DSMAC. In any event, each adjustor shall have separate rate schedules and will be kept separate in the Company's books, records, and reports to the Commission.

6. REVIEW PROCESS:

The proposed DSMAC for use during a specific Adjustor Period will be calculated as shown in Section 4. APS will file an updated adjustor charge each year with its EEIP. The first filing will be July 15, 2009, and June 1st each year thereafter. If approved by the Commission, changes in the DSMAC will go into effect on the first billing cycle of March in the Adjustor Period.

ATTACHMENT 1

ESTIMATED

Schedule 1
DSMAC REVENUE
Page 1 of 4

ARIZONA PUBLIC SERVICE COMPANY
DEMAND SIDE MANAGEMENT PROGRAM
JUNE 20XX FILING

(A)
True-Up Period
DSMAC Revenue for March 20XX -
No. February 20XX
1 Total

- 1 Recovery period is March 20XX-February 20XX for costs associated with the 20XX program year.

ATTACHMENT 1

ESTIMATED

ARIZONA PUBLIC SERVICE COMPANY
DEMAND SIDE MANAGEMENT PROGRAM
JUNE 20XX FILING

Line No.	Program	(A)	(B)
		True-Up Period 20XX ¹	Forecast Period 20XX ¹
1	Energy Efficiency (EE) Program Costs (PC)	\$ -	0
2	Performance Incentives (PI)	\$ -	0
3	Sub Total	\$ -	0
4	Demand Response (DR) PC	\$ -	0
5	Total	\$ -	-

- 1 Total 20XX EE and DR costs of \$100,XXX,XXX less \$10,000,000 recovered in base rates
2 Projected costs of 20XX implementation Plan less \$10,000,000 recovered in base rates.

ATTACHMENT 1

ESTIMATED

Schedule 3
DSMAC REVENUE
Page 3 of 4

ARIZONA PUBLIC SERVICE COMPANY
DEMAND SIDE MANAGEMENT PROGRAM
JUNE 20XX FILING

Line No.	Date Period	Cost, Collection and Interest	Reference	Amount
1	March 20XX -February 20XX	DSMAC Revenue - TU	Schedule 1, Line 1, Column A	\$ -
2	January 20XX - December 20XX	DSMAC Program Costs - TU	Schedule 2, Line 5, Column A	\$ -
3a		Sub Total	(Line 1 - Line 2)	\$ -
3b	Treasury constant maturities rate January 20XX ¹	Interest Rate		0.00%
4		Interest Amount	(Line 3a * 3b)	\$ -
5		Total TU Balance Account	(Line 3a + Line 4)	\$ -

¹ Interest is only applied to over-collections

ATTACHMENT 1

ESTIMATED

Schedule 4
DSMAC REVENUE
Page 4 of 4

ARIZONA PUBLIC SERVICE COMPANY
DEMAND SIDE MANAGEMENT PROGRAM
JUNE 20XX FILING

Line No.	DSMAC Calculations	Reference	Amount	Units
1	Program forecast costs for adjustor period in 20XX	Schedule 2, Line 5, Column B	\$ -	
2A	Recovery of True-Up Account (over) under collection	Schedule 3, Line 5	\$ -	
2B	Credit for Gains from Asset Sales (over) under collection	\$ -		
3	Total amount to be collected	(Line 1 + Line 2)	\$ -	Total Revenue Requirements
4	Forecast retail kWh sales for adjustor period		0 kWh	
5	Proposed kWh adjustor charge for adjustor period ¹	(Line 3 / Line 4)	\$ -	per kWh
6	Forecast General Service kWh sales for adjustor period ²		0 kWh	
7	Amount to be collected from General Service demand metered customers for adjustor period	(Line 5 * Line 6)	\$ -	
8	Forecast General Service demand billed customer kW		0 kW	
9	Proposed kW adjustor charge for forecast period ³	(Line 7 / Line 8)	\$ -	per kW

- 1 \$/kWh charge for all Residential customers and General Service customers with no demand charge
2 Forecast General Service kWh for customers with demand charges
3 \$/kW charge for General Service customers with demand charges



PLAN OF ADMINISTRATION
ENVIRONMENTAL IMPROVEMENT SURCHARGE

Attachment H
Page 1 of 5

**Environmental Improvement Surcharge
Plan of Administration**

Table of Contents

1. General Description.....	1
2. Definitions.....	1
3. Qualified FERC Accounts.....	2
4. Calculation of EIS Capital Carrying Costs	2
5. Calculation of EIS \$ per kWh rate	3
6. Filing and Procedural Deadlines	3

1. General Description

This document describes the plan for administering the Environmental Improvement Surcharge ("EIS") approved for the Arizona Public Service Company ("APS") by the Arizona Corporation Commission ("ACC" or "Commission") on [insert date] in Decision No. XXXXX. The EIS provides for the recovery of the capital carrying costs effect of actual environmental investments made by APS and not already recovered in base rates approved in Decision No. XXXXX or recovered through another Commission approved adjustment. The EIS will be calculated annually based on the EIS Qualified Investments closed to plant-in-service during the preceding calendar year.

2. Definitions

EIS Qualified Investments – Investments in Qualified Environmental Improvement Projects. Each EIS Qualified Investments must: (1) be classified in one or more of the FERC plant accounts as listed in Section 3 of this document, or any other successor FERC account, upon going into service, (2) be tracked by a specific project number.

Qualified Environmental Improvement Projects - Projects designed to comply with established environmental standards required by federal, state, tribal, or local laws and regulations. These standards and criteria for water, waste, and air include but are not limited to limits for carbon dioxide (CO₂), sulfur oxide (SO_x), nitrogen oxide (NO_x), particulate matter (PM), volatile organic compounds (VOC), and toxics such as mercury (Hg), coal ash management, and requirements under the clean and safe drinking water acts.

Total kWh Sales – The total prior calendar year energy (kWh) sales served under applicable ACC jurisdictional electric rate schedules, except Rate Schedules E-36 XL and AG-1, as reported in the Company's FERC Form No. 1.

Effective Date: XX/XX/XXXX
Page 1 of 3



PLAN OF ADMINISTRATION
ENVIRONMENTAL IMPROVEMENT SURCHARGE

Attachment H
Page 2 of 5

3. Qualified FERC Accounts

1. Steam Production

- FERC Account 310 – Land and Land Rights
- FERC Account 311 – Structures and Improvements
- FERC Account 312 – Boiler Plant Equipment
- FERC Account 313 – Engines and Engine-Driven Generators
- FERC Account 314 – Turbogenerator Units
- FERC Account 315 – Accessory Electric Equipment
- FERC Account 316 – Miscellaneous Power Plant Equipment

2. Nuclear Production

- FERC Account 320 – Land and Land Rights
- FERC Account 321 – Structures and Improvements
- FERC Account 322 – Reactor Plant Equipment
- FERC Account 323 – Turbogenerator Units
- FERC Account 324 – Accessory Electric Equipment
- FERC Account 325 – Miscellaneous Power Plant Equipment

3. Other Production

- FERC Account 340 – Land and Land Rights
- FERC Account 341 – Structures and Improvements
- FERC Account 342 – Fuel Holders, Products, and Accessories
- FERC Account 343 – Prime Movers
- FERC Account 344 – Generators
- FERC Account 345 – Accessory Electric Equipment
- FERC Account 346 – Miscellaneous Power Plant Equipment

Please note this list may expand to include other accounts approved by the ACC in the future.

4. Calculation of EIS Capital Carrying Costs

EIS capital carrying costs used in calculating the EIS \$ per kWh rate will include: (1) Return on EIS Qualified Investments based on the Company's Weighted Average Cost of Capital ("WACC") approved by the Commission in Decision No. XXXXX; (2) depreciation expense; (3) income taxes; (4) property taxes; (5) deferred income taxes and tax credits where appropriate; and (6) associated O&M. EIS Qualified Projects and the EIS capital carrying costs calculation will be submitted by the Company to the ACC in the form of Schedule 1 and Schedule 2 as attached to this document.

Effective Date: XX/XX/XXXX
Page 2 of 3



**PLAN OF ADMINISTRATION
ENVIRONMENTAL IMPROVEMENT SURCHARGE**

Attachment H
Page 3 of 5

5. Calculation of EIS \$ per kWh rate

The EIS rate to be applied to customers' bills will be calculated by dividing the total EIS Capital Carrying Costs by Total kWh Sales. The EIS rate will not exceed \$0.00016 per kWh. The initial EIS rate will be set to zero.

6. Filing and Procedural Deadlines

APS will file the calculated EIS rate including all supporting data, with the Commission for the previous year on or before February 1st. See Schedules 1 and 2, attached.

The Commission Staff and interested parties shall have the opportunity to review the EIS filing and supporting data in the adjustor calculation. Unless the Commission has otherwise acted or Staff has filed an objection by April 1st, the new EIS rate proposed by APS will go into effect with the first billing cycle in April (without proration) and will remain in effect for the following 12-month period.

Schedule 1: Qualified Investments for EIS
Electric Plant in Service for Calendar Year 20XX

Line No.	(A) Project Tracking Number	(B) Project Name	(C) Purpose	(D) In-Service Date	(E) Total Cost	(F) ACC Jurisdictional Total Cost
Environmental Improvement Projects						
1.	XXXXX	Project A	Project A Purpose Description	MM/YY	\$ -	\$ -
2.	XXXXX	Project B	Project B Purpose Description	MM/YY	\$ -	\$ -
3.	XXXXX	Project C	Project C Purpose Description	MM/YY	\$ -	\$ -
4.		Total			\$ -	\$ -

Schedule 2: Capital Carrying Costs and Adjustor Calculation
Plant in Service for Calendar Year 20XX
Billing Period 4/1/20XX-3/30/XX

Line No.	EIS Rate Calculation
Qualified Net Plant	
1.	Environmental Improvement Projects (Schedule 1 - Total Line Column F) \$ -
2.	Accumulated Depreciation \$ -
3.	Cumulative Deferred Tax/Tax Credits \$ -
4.	Qualified Net Plant (Line 1 - Line 2 - Line 3) \$ -
5.	Pre-tax Weighted Average Cost of Capital 0.00%
Capital Carrying Costs	
6.	Composite Return on EIS Net Plant (Line 4 * Line 5) \$ -
7.	Annual Depreciation of Plant in Service \$ -
8.	Applicable Property Tax \$ -
9.	Associated O&M Expense \$ -
10.	Total EIS Capital Carrying Costs (Line 6 + Line 7 + Line 8 + Line 9) \$ -
11.	Total Company Retail Sales (kWh) \$ -
12.	Calculated EIS Adjustment (\$/kWh) (Line 10 / Line 11) \$ -
13.	EIS Rate Cap (\$/kWh) \$ 0.00016
14.	EIS Rate (\$/kWh) (Lesser of Line 12 and Line 13) \$ -



Attachment I
Page 1 of 3

PLAN OF ADMINISTRATION
ADJUSTMENT SCHEDULE TCA-1
TRANSMISSION COST ADJUSTMENT

Transmission Cost Adjustment
Plan of Administration

Table of Contents

<i>1. General Description</i>	<i>I</i>
<i>2. Calculations</i>	<i>I</i>
<i>3. Filing and Procedural Deadlines</i>	<i>3</i>

1. General Description

The purpose of the Transmission Cost Adjustment (“TCA”) is to provide a mechanism to recover transmission costs associated with serving retail customers at the level approved by the Federal Energy Regulatory Commission (“FERC”) and at the same time as new transmission rates become effective for APS wholesale customers. APS shall file a notice with Docket Control that includes its revised TCA tariff, along with a copy of its FERC information filing of its annual update of transmission service rates pursuant to its Open Access Transmission Tariff (“OATT”). This notice shall be filed with the Commission at the same time that APS makes its FERC filing.

The TCA applies to Arizona Public Service Company’s (“Company”) Retail Electric Rate Schedules. For Standard Offer customers that are not demand billed, the TCA is applied to the bill as a monthly kWh charge. For Standard Offer customers that are demand billed, it is applied to the TCA as a kW charge. The charge and modifications to it will take effect in billing cycle 1 of the June revenue month without proration.

APS’s Network Integration Transmission Service (“NITS”) is calculated and filed annually with the FERC in accordance with APS’s formula rate. The formula rate calculation is specified within the Company’s OATT as filed and approved by the FERC.

2. Calculations

The calculated NITS Retail Transmission Rates are shown in Appendix A of the Company’s FERC Informational Filing of its Annual Update of transmission service. NITS rates as determined for the following classes:

Residential Service Customers

General Service Customers less than or equal to 20 kW not demand billed

General Service Customers over 20 kW and less than 3 MW demand billed

General Service Customers equal to and greater than 3 MW

Effective Date: XX/XX/XXXX
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**PLAN OF ADMINISTRATION
ADJUSTMENT SCHEDULE TCA-1
TRANSMISSION COST ADJUSTMENT**

Attachment I
Page 2 of 3

In addition to NITS, APS charges retail customers for other transmission services in accordance with its OATT. These additional ancillary services include:

- Schedule 1 – Scheduling, System Control and Dispatch Service
- Schedule 3 – Regulation and Frequency Response Service
- Schedule 4 – Energy Imbalance Service
- Schedule 5 – Operating Reserve-Spinning Reserve Service
- Schedule 6 – Operating Reserve – Supplemental Reserve Service

The total APS OATT rate is the sum of the rates for providing these services. The revenue requirement resulting from FERC APS OATT rate are collected by APS from its retail customers, partly in base rates and the remaining through the TCA rate. The table shown below is an illustrative example of the TCA calculation using the rates in effect as of December 20, 2011.

Line	Service Type	Residential	GS ≥ 20kW and < 3MW		
			\$/kWh	\$/kWh	\$/kW
		(A)	(B)	(C)	(D)
1.	NITS	0.008381	0.005864	2.108	2.036
2.	Scheduling	0.000069	0.000056	0.0208	0.0236
3.	Regulation & Frequency	0.000267	0.000217	0.0813	0.0919
4.	Spinning Reserve	0.000618	0.000502	0.1879	0.2124
5.	Operating Reserve	0.000078	0.000064	0.0238	0.0269
6.	Energy Imbalance	-	-	-	-
7.	Total	0.009413	0.006703	2.4218	2.3908
8.	Included In Retail Base Rates per OATT	0.005202	0.004239	1.5848	1.7758
9.	TCA (Line 7) - (Line 8)	0.004211	0.002464	0.837	0.615

APS's NITS rates shown on line 1 will change annually, where ancillary service charges shown on lines 2 through 6 will change only through a separate filing when made by the Company to FERC.

Effective Date: XX/XX/XXXX
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Attachment I
Page 3 of 3

**PLAN OF ADMINISTRATION
ADJUSTMENT SCHEDULE TCA-1
TRANSMISSION COST ADJUSTMENT**

3. Filing and Procedural Deadlines

APS will file the calculated TCA rates, including all supporting data, with the Commission each year no later than May 15th of each year.

The Commission Staff and interested parties shall have the opportunity to review APS's FERC Informational Filing of its Annual Update of transmission service rates pursuant to the APS OATT Attachment H-2, Formula Rate Implementation Protocols. The calculated NITS Retail Transmission Rates are shown in Appendix A of the Company's FERC filing. The new TCA rates proposed by APS will go into effect with the first billing cycle in June (without proration), unless Staff requests Commission review or otherwise ordered by the Commission, and will remain in effect for the following 12-month period.



EXPERIMENTAL RATE RIDER SCHEDULE AG-1
ALTERNATIVE GENERATION
GENERAL SERVICE

Attachment J
Page 1 of 5

AVAILABILITY

This experimental rate rider schedule is available in all territories served by the Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the sites served.

APPLICATION

This rate rider schedule is available for Standard Offer customers who have an Aggregated Peak Load of 10 MW or more and are served under Rate Schedules E-34, E-35, E32-L, or E-32 TOU L. An aggregated group may also include metered accounts that are served under Rate Schedules E-32 M or E-32 TOU M, if the accounts are located on the same premises and served under the same name as an otherwise eligible Customer.

Customers must have interval metering, Advanced Metering Infrastructure, or an alternative in place at all times of service under this schedule. If the Customer does not have such metering, the Company will install the metering equipment at no additional charge. However, the customer will be responsible for providing and paying for any communication requirements associated with the meter, such as a phone line.

All provisions of the customer's applicable rate schedule will apply in addition to this Schedule AG-1, except as modified herein. This rate rider schedule shall be available for four years from the effective date of Schedule AG-1, unless extended by the Commission. Total program participation shall be limited to 200 MW of customer load, 100 MW of which shall be initially reserved for Customers served under Rate Schedule E-32 L.

DEFINITIONS

Aggregated Peak Load: The sum of the maximum metered kW for each of the Customer's aggregated metered accounts over the previous 12 months, as determined by the Company and measured at the Customer's meter(s) at the time of application for service under this rate rider schedule.

Standard Generation Service: Power provided by the Company to a retail customer in conjunction with transmission and delivery services, at terms and prices according to a retail rate schedule other than Schedule AG-1.

Customer: A metered account or set of aggregated metered accounts that meet the eligibility requirements for service and enrollment as an aggregated load for service, under this rate rider schedule.

Generation Service Provider: A third party entity that provides wholesale power to the Company on behalf of a Customer. This entity must be legally capable of selling and delivering wholesale power to the Company.

Generation Service: Wholesale power delivered to APS by a Generation Service Provider.

Imbalance Energy: For each Generation Service Provider, Imbalance Energy will be calculated by the Company as the difference between the hourly delivered energy from the Generation Service Provider and the actual hourly metered load for each Customer for all Customers that have selected the Generation Service Provider under this rate rider schedule.

Imbalance Service: Calculating and managing the hourly deviations in energy supply for imbalance energy.

Total Load Requirements: The Customer's hourly load including losses from the point of delivery to the Company's transmission system to the Customer's sites for the duration of the contract.

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: David J. Rumolo
Title: Manager, Regulation and Pricing

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EXPERIMENTAL RATE RIDER SCHEDULE AG-1
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CUSTOMER ENROLLMENT

The Company shall establish an initial enrollment period during which Customers can apply for service under this rate rider schedule. If the applications for service are greater than the program maximum amount, then Customers shall be selected for enrollment through a lottery process as detailed in the program guidelines, which may be revised from time-to-time during the term of this rate rider schedule.

AGGREGATION

Eligible customers may be aggregated if they have the same corporate name, ownership, and identity. In addition, (1) an eligible franchisor customer may be aggregated with eligible franchisees or associated corporate accounts, and (2) eligible affiliate customers may be aggregated if they are under the same corporate ownership, even if they are operating under multiple trade names.

DESCRIPTION OF SERVICES AND OBLIGATIONS

The Customer shall apply for service under this rate rider schedule.

The Company shall conduct the enrollment process in accordance with the provisions of this rate rider schedule.

The Customer shall select a Generation Service Provider to provide Generation Service in accordance with the timeline specified in the program guidelines

The Company shall enter into a contract with the Generation Service Provider to receive delivery and title to the power on the Customer's behalf.

The Generation Service Provider shall provide to the Company on behalf of the Customer firm power sufficient to meet the Customer's Total Load Requirements for each of the specified metered accounts, and will attest in its contract with the Company that this condition is met. For the purposes of this rate schedule, "firm power" refers to generation resources identified in Western System Power Pool Schedule C or a reasonable equivalent as determined by the Company.

The Company shall provide transmission, delivery and network services to the Customer according to normal retail electric service.

The Company will settle with the Generation Service Provider for Imbalance Service and other relevant costs on a monthly basis according to the program guidelines.

The Generation Service Provider shall bill the Company the monthly billed amounts for each customer for Generation Service and Imbalance Service according to the program guidelines.

The Company shall bill the customer for the Generation Service Provider's charged amounts and remit the amounts to the Generation Service provider.

The customer will be responsible for paying for the cost of the power provided by the Generation Service Provider, as specified in the contract and this rate rider schedule.

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DELIVERY OF POWER TO THE COMPANY'S SYSTEM

Power provided by the Generation Service Provider must be firm power as defined above and delivered to the Company at the Palo Verde network delivery point, or other point of delivery as agreed to by the Company. The Generation Service Provider is responsible for the cost of transmission service to deliver the power to the Company's delivery point.

SCHEDULING

The Company shall serve as the scheduling coordinator. The Generation Service Provider shall provide monthly schedules of hourly loads along with day-ahead hourly load deviations from the monthly schedule to the Company according to the program guidelines. Line losses, in the amount of 7%, from the point of delivery to the Customer's sites shall be either scheduled or financially settled.

IMBALANCE SERVICE

The Company will provide Imbalance Service according to the terms and provisions in the Company's Open Access Transmission Tariff, Schedule 4. Imbalance Energy will be based on the Generation Service Provider's portfolio of Customer loads.

POWER SUPPLY ADJUSTER AND HEDGE COST TRUE-UP

The customer will be subject to the power supply adjustment – historical component for the first twelve months of service under this rate rider schedule. The customer will also pay for the hedge cost associated with the customer's Standard Generation Service at the time the customer takes service under this rate rider schedule. For the purpose of this rate rider schedule, the Company will determine the applicable pro rata hedge cost based on the market price for hedge costs at the time the customer takes service under this rate rider schedule.

DEFAULT OF THE THIRD PARTY GENERATION PROVIDER

In the event that the Generation Service Provider is unable to meet its contractual obligations, the customer must notify the Company and select another Generation Service Provider within 60 days. Prior to execution of any new power contract, the Company shall provide the required power to the customer, which will be charged at the Dow Jones Electricity Palo Verde Hourly Index price for the power delivery date plus \$10 per MWh. In addition, all other provisions of this rate rider schedule will continue to apply.

If the Customer is unable to select another Generation Service Provider within sixty days, the customer will automatically return to Standard Generation Service, and be subject to the conditions below.

RETURN TO COMPANY'S STANDARD GENERATION SERVICE

Customer may return to the Company's Standard Generation Service under their applicable retail rate schedule without charge if: (1) they provide one year notice (or longer) to the Company; or (2) if this rate rider schedule is discontinued at the end of the 4 year experimental period; or (3) if the Commission terminates the program prior to the initial four year experimental period. Absent one of these three conditions, the Company will provide the customer with generation service at the market index rate provided in the Company's Open Access Transmission Tariff until the Company is reasonably able to integrate the customer back into their generation planning and provide power at the applicable retail rate schedule. This transition will be at the Company's determination but no longer than 1 year. The returning customer must remain with the Company's Standard Generation Service for at least 1 year.

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RATES

All provisions, charges and adjustments in the customer's applicable retail rate schedule will continue to apply except as follows:

1. The generation charges will not apply;
2. Adjustment Schedule PSA-1 will not apply, except that the Historical Component will apply for the first twelve months of service under this rate rider schedule;
3. Adjustment Schedule EIS will not apply; and
4. The applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric energy or service sold and/or the volume of energy generated or purchased for sale and/or sold hereunder shall be applied to the customer's bill.

Schedule AG-1 charges determined and billed by the Company include:

1. A monthly management fee of \$0.00060 per kWh applied to the customer's metered kWh;
2. A monthly reserve capacity charge applied to 15% of the customer's billed kW (on-peak for Rate Schedules E-35 and E-32 TOU L) at the Company's applicable cost-based rate filed at the Federal Energy Regulatory Commission and revised from time to time, which is currently \$6.985 per kW month;
3. An initial charge or credit for fuel hedging costs, as described herein;
4. Returning Customer charge, where applicable, as described herein;
5. Generation Service Provider Default charge, where applicable, as described herein.

Schedule AG-1 Generation Service and Imbalance Service charges billed by the Company include:

1. Generation Service charges shall be charged at a rate within the minimum and maximum limits as follows:
 - a. When the contract provides for pricing that reflects a specific index price, the minimum price will be the specified index minus 35% and the maximum price will be the specified index plus 35%. The determination that a contract is consistent with this provision will be based on the specified index price applicable on the date the contract is executed.
 - b. When the contract provides for a fixed price supply for the term of the contract, the minimum price will be the generation rate of the Customer's applicable retail rate schedule minus 35%, and the maximum price shall be the generation rate of the Customers applicable retail schedule plus 35%. If the Customer has more than one otherwise applicable retail rate schedule, the highest applicable retail rate schedule will be used for purposes of the consistency determination. The determination that a contract is consistent with this provision will be based on the Customer's otherwise applicable retail rate schedule in effect on the date the contract is executed.
 - c. Losses from the delivery point to the Customer's meters and any charges assessed by the Company on the Customer, including charges for transmission and distribution, Capacity Reservation Charge, the Management Fee, Imbalance Service charges, PSA balance and hedging costs, and Returning Customer Charges, shall not be included in the Generation Service charge for purposes of determining whether the contract is consistent with the minimum and maximum price provisions of this rate rider schedule.
2. Imbalance Service charges shall be charged at a rate greater than \$0.00 per kWh and less than or equal to the rate that the Company charges the Generation Service Provider for Imbalance Service as specified herein.

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CONTRACT TERM AND REQUIREMENTS

The term of the contract with the Generation Service Provider shall be for not less than one year and shall not exceed four years.

The Generation Service Provider and Customer will enter into a contract or contracts with the Company, stating the pertinent details of the transaction with the Generation Service Provider, including but not limited to the scheduling of power, location of delivery and other terms related to the Company's management of the generation resource.

CREDIT REQUIREMENTS

A Generation Service Provider or its parent company must have at least an investment grade credit rating or demonstrate creditworthiness in the form of either a 3rd-party guarantee from an investment grade rated company, surety bond, letter of credit, or cash in accordance with the Company's standard credit support rules

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**Arizona Public Service Company
Summary of Rate Design Provisions
Rate Case Settlement (Test Year 2010)**

Base Rate Increase

- Settlement base rates shall reflect an overall retail revenue increase of \$0.00 which is a 60.0 increase over test year revenues from base rates.
- This includes a general non-fuel increase of \$116,280,000, an additional non-fuel increase of \$36,807,000 from transferring revenue requirements for the Renewable Energy Standard ("RES") to base rates, and a decrease in fuel costs recovered through base rates of \$153,087,000.

Rate Spread

- The base rate impact for participating low-income customers will reflect a \$1,535,000 reduction to compensate for the expected impact of removing their exemption to the Power Supply Adjustor ("PSA") and Demand Side Management Adjustor Clause ("DSMAC").
- This reduction in base rate revenue will be recovered from all other rate classes, allocated proportional to each class' present revenue. Street Lighting and Dusk to Dawn Lighting rate classes are excluded from this allocation.
- The base rate impact for general service rate classes shall reflect a re-allocation of fuel costs within the general service revenue class, designed to better equalize the combined fuel impact on base rates and the PSA adjustor rate within the general service revenue class. This adjustment will not impact any other revenue class.

General Issues

- The unbundled transmission charge shall remain in base rates and not be transferred to the TCA adjustor rate.
- The System Benefit Charge will be set at \$0.002970 per kWh to reflect the cost of service, which includes the transfer of \$36,807,000 in revenue requirements associated with Renewable Energy projects (see Attachment D of the proposed Settlement Agreement) from the RES to base rates.
- APS shall prepare and file a rate plan as proposed by Staff to provide information on such issues as tiered conservation rates, time-of-use and other demand response rates, plans for cancelling rates, ideas for new rate offerings, and other relevant rate design issues. The timing of the plan will be revised in the Settlement. In addition, APS and Staff will identify current rate related compliance reports that can be consolidated into this rate plan.

Residential Rates

- Basic service charges shall be retained at their current rate levels.
- Unbundled delivery charges for all residential rates shall be set at class cost of service level.
- All other charges will be set to the level necessary to achieve the targeted base rate change for each rate class reflected in the Settlement Schedule H-2, attached to the Settlement Testimony of Charles A. Miessner.
- Time of use rates shall maintain a similar ratio of on-peak to off-peak prices as approved by the Commission in the last general rate case, Decision No. 71448.
- The existing optional Rate schedule ET-EV for off-peak charging of electric vehicles will be revised consistent with the revised time-of-use Rate Schedule ET-2.

**Arizona Public Service Company
Summary of Rate Design Provisions
Rate Case Settlement (Test Year 2010)**

- Rate schedule PTR-RES, which is a new optional peak-time rebate program will be offered as proposed by APS.

Low-Income Rates

- The existing low-income rates will be consolidated with the corresponding non-low-income rate schedules. The low-income discounts will be increased to hold customers harmless (on-average) from this provision.
- The low-income exemption from the PSA and the DSMAC will be cancelled. The low-income discounts will be increased to hold customers harmless (on-average) from this provision.
- The current low income discount tier structure will be retained; the discount levels will be increased as provided above.

General Service Rates

- Basic service charges shall be retained at their current rate levels.
- All other charges will be set to the level necessary to achieve the targeted base rate change for each rate class reflected in the Settlement Schedule H-2.
- Contract minimum charges (or minimum bill provisions) shall be eliminated for general service Rate Schedules E-32 XS, E-32 S, E-32 M, E-32TOU XS, E-32 TOU S and E-32 TOU M.
- Minimum bill provisions for Rate schedules E-32 L and E-32 TOU L will be revised to be more consistent with the corresponding provisions in extra-large general service Rate Schedules E-34 and E-35, including a "ratchet" provision for the determination of monthly billing kW.
- The bundled demand and energy charges for Rate Schedules E-32 L, E-34, and E-35 shall be revised from the levels provided in APS's Application in this matter to better reflect cost of service. Specifically, the demand charges shall be increased and the energy charges decreased from the initial proposed levels, but at a level that achieves the overall targeted revenue change for each of these rate classes.
- Rate Rider Schedule E-54 for seasonal use shall continue to be available for customers served under "parent" Rate Schedules E-32 L and E-32 TOU L, but cancelled for other rates.
- Rate Schedule E-30 for non-metered usage shall be revised to reflect the language clarification proposed by APS.
- The new optional Rate Schedule IRR, interruptible service for extra-large general service customers, shall be offered as proposed by APS.
- The new optional Experimental Rate Schedule AG-1, which offers a generation buy-through provision for a limited number of large and extra general service customers, shall be offered as developed by a collaborative group of interested parties, with concurrence by the parties to the Rate Settlement.

Classified Rates

- Charges will be set to the level necessary to achieve the targeted base rate change for each rate class reflected in the Settlement Schedule H-2.
- Rate Rider Schedule SC-5 (E-56R) for renewable partial requirement service shall be revised as proposed by APS.

**Arizona Public Service Company
Summary of Rate Design Provisions
Rate Case Settlement (Test Year 2010)**

- The new optional Rate Rider Schedule E-36 M for medium size station use customers shall be offered as proposed by APS, except that it will be subject to the PSA adjustor rate.
- Rate Schedules E-221 and E-221 8-T for water pumping service shall be revised as proposed by APS.
- E-20 (house of worship) shall be unfrozen for one year from the effective date of new rates in this matter.
- Area lighting rates shall be revised to reflect the new provisions as proposed by APS.
- GPS riders (green power) shall be revised to eliminate the exemption to adjustor rates.

Canceled Rates

- The following rates and rate options will be canceled because they are no longer necessary or appropriate given other proposed rate design charges, or because they have very low (or no) participation. Cancellations include: E-40 (wind machine), Solar -2 (off grid), Solar -3, Share the lights area lighting rates E-114, E-116, E-145, E-129, E-53 (sports field lighting), and E-221 TOW option (time-of-week pricing option for water pumping).

Service Schedules

- Service Schedule 1 shall be revised as proposed by APS
- The proposed optional Service Schedule 9 for economic development is withdrawn.

Plans of Administration

- The plans of administration for the PSA, DSMAC, Transmission Cost Adjustor ("TCA") and Environmental Improvement Surcharge ("EIS") will be revised to reflect the terms of the Settlement Agreement.
- A new Lost Fixed Cost Recovery ("LFCR") plan of administration will be developed to reflect the terms of the Settlement Agreement.
- The RES plan of administration will not be revised in this proceeding.

Settlement Rate Summary for Residential Rates

Bundled Rates	E-12 Proposed	Bundled Rates	ET-1 Proposed	ET-2 Proposed	Bundled Rates	ECT-1R Proposed	ECT-2 Proposed
BSC \$/day	\$ 0.285	BSC \$/day	\$ 0.556	\$ 0.556	BSC \$/day	\$ 0.556	\$ 0.556
Summer		Summer			Summer		
First 400 kWh	\$ 0.09687	On-Peak kWh	\$ 0.17892	\$ 0.24477	On-Peak kW	\$ 13.550	\$ 13.500
Next 400 kWh	\$ 0.13817	Off-Peak kWh	\$ 0.05770	\$ 0.06118			
Next 2200 kWh	\$ 0.16167	Winter			On-Peak kWh	\$ 0.07330	\$ 0.08867
Remaining kWh	\$ 0.17257	On-Peak kWh	\$ 0.14533	\$ 0.19847	Off-Peak kWh	\$ 0.04083	\$ 0.04417
Winter		Off-Peak kWh	\$ 0.05561	\$ 0.06116	Winter		
All kWh	\$ 0.09417				On-Peak kW	\$ 9.400	\$ 9.300
Unbundled Rates		Unbundled Rates			On-Peak kWh	\$ 0.05587	\$ 0.05747
Generation Charge		Generation Charge			Off-Peak kWh	\$ 0.03967	\$ 0.04107
Summer		Summer					
1st 400 kWh	\$ 0.06170	On-Peak kWh	\$ 0.14375	\$ 0.20960	Unbundled Rates		
Next 400 kWh	\$ 0.10300	Off-Peak kWh	\$ 0.02253	\$ 0.02601	Generation Charge		
Next 2200 kWh	\$ 0.12650	Winter			Summer		
Additional kWh	\$ 0.13740	On-Peak kWh	\$ 0.11016	\$ 0.16330	On-Peak kW	\$ 9.650	9.000
Winter		Off-Peak kWh	\$ 0.02044	\$ 0.02599	On-Peak kWh	\$ 0.04973	0.06650
All kWh	\$ 0.05900				Off-Peak kWh	\$ 0.01726	0.02200
Transmission Charge		Transmission Charge			Winter		
kWh	\$ 0.00520	kWh	\$ 0.00520	\$ 0.00520	On-Peak kW	\$ 7.100	6.900
Delivery Charge		Delivery Charge			On-Peak kWh	\$ 0.03070	0.03340
kWh	0.02700	kWh	\$ 0.02700	\$ 0.02700	Off-Peak kWh	\$ 0.01450	0.01700
System Benefits Charge		System Benefits Charge			Transmission Charge		
kWh	\$ 0.00297	kWh	\$ 0.00297	\$ 0.00297	kWh	\$ 0.00520	\$ 0.00520
BSC \$/day		BSC \$/day			Delivery Charge		
Customer Accounts	\$ 0.063	Customer Accounts	\$ 0.238	\$ 0.238	Summer		
Metering	\$ 0.090	Metering	\$ 0.186	\$ 0.186	On-Peak kW	3.900	4.500
Billing	\$ 0.070	Billing	\$ 0.070	\$ 0.070	On-Peak kWh	0.01540	0.01400
Meter Reading	\$ 0.062	Meter Reading	\$ 0.062	\$ 0.062	Winter		
BCS Total	\$ 0.285	BCS Total	\$ 0.556	\$ 0.556	On-Peak kW	2.300	2.400
					On-Peak kWh	0.01700	0.01590
					System Benefits Charge		
					kWh	\$ 0.00297	\$ 0.00297
					BSC \$/day		
					Customer Accounts	\$ 0.238	0.238
					Metering	\$ 0.186	0.186
					Billing	\$ 0.070	0.070
					Meter Reading	\$ 0.062	0.062
					BCS Total	\$ 0.556	0.556

Settlement Rate Summary for Residential Rates

Bundled Rates	ET-SP Proposed	Bundled Rates	ET-EV Proposed	kWh charge kWh discount	CPP-RES Proposed	kWh Rebate	PTR-RES Proposed
BSC \$/day	\$ 0.556	BSC \$/day	0.556		\$ 0.250000		\$ 0.25000
Summer Peak		Summer		\$ (0.012143)			
Super Peak kWh	\$ 0.46517	Super Off-Peak kWh	0.04195				
On-Peak kWh	\$ 0.24477	On-Peak kWh	0.24784				
Off-Peak kWh	\$ 0.05517	Off-Peak kWh	0.06460				
Summer		Winter					
On-Peak kWh	\$ 0.24477	Super Off-Peak kWh	0.04195				
Off-Peak kWh	\$ 0.05517	On-Peak kWh	0.20165				
Winter		Off-Peak kWh	0.06460				
On-Peak kWh	\$ 0.19847						
Off-Peak kWh	\$ 0.05517						
Unbundled Rates							
Generation Charge							
Summer Peak							
Super Peak kWh	0.43000						
On-Peak kWh	0.20960						
Off-Peak kWh	0.02000						
Summer							
On-Peak kWh	0.20960						
Off-Peak kWh	0.02000						
Winter							
On-Peak kWh	0.16330						
Off-Peak kWh	0.02000						
Transmission Charge							
kWh	\$ 0.00520						
Delivery Charge							
Super Peak							
kWh	0.02700						
Summer							
kWh	0.02700						
Winter							
kWh	0.02700						
System Benefits Charge							
Summer kWh	\$ 0.00297						
BCS \$/day							
Customer Accounts	0.238						
Metering	0.186						
Billing	0.070						
Meter Reading	0.062						
BCS Total	0.556						

Settlement Rate Summary for General Service Rates

	E-30 Proposed	Bundled Rates	E-32 XS Proposed	Bundled Rates	E-32 S Proposed	E-32 M Proposed
Bundled Rates		BSC \$/day		BSC \$/day		
Summer		Self-Contained	\$ 0.672	Self-Contained	\$ 0.672	\$ 0.672
BSC \$/day	\$ 0.311	Instrument-Rated	\$ 1.324	Instrument-Rated	\$ 1.324	\$ 1.324
Energy Charge	\$ 0.14455	Primary Voltage	\$ 3.415	Primary Voltage	\$ 3.415	\$ 3.415
Winter		Transmission Voltage	\$ 26.163	Transmission Voltage	\$ 26.163	\$ 26.163
BSC \$/day	\$ 0.311					
Energy Charge	\$ 0.12984	Energy Charge		Demand Charge		
		Summer		1st 100 kW (Secondary)	\$ 9.828	\$ 10.235
		KWh (1st 5000 / mo.) (Secondary)	\$ 0.13537	Over 100 kW (Secondary)	\$ 5.214	\$ 5.385
		KWh (over 5000 / mo.) (Secondary)	\$ 0.07427	1st 100 kW (Primary)	\$ 9.116	\$ 9.488
BSC \$/day	\$ 0.243	kWh (1st 5000 / mo.) (Primary)	\$ 0.13209	Over kW (Primary)	\$ 4.502	\$ 4.695
Billing	\$ 0.068	kWh (over 5000 / mo.) (Primary)	\$ 0.07100	1st 100 kW (Transmission)	\$ 7.101	\$ 7.368
Systems Benefits	\$ 0.00297	Winter		Over kW (Transmission)	\$ 2.487	\$ 2.519
Transmission	\$ 0.00424	kWh (1st 5000 / mo.) (Secondary)	\$ 0.11769			
Delivery	\$ 0.05032	kWh (over 5000/ mo.) (Secondary)	\$ 0.05658	Energy Charge		
Generation kWh	\$ 0.08702	kWh (1st 5000 / mo.) (Primary)	\$ 0.11438	Summer		
Winter		kWh (over 5000 / mo.) (Primary)	\$ 0.05329	1st 200 kWh/kW	\$ 0.10337	\$ 0.09884
BSC \$/day	\$ 0.243			over 200 kWh/kW	\$ 0.06257	\$ 0.06091
Billing	\$ 0.068	Unbundled Rates				
Systems Benefits	\$ 0.00297	Generation Charge		Winter		
Transmission	\$ 0.00424	Summer		1st 200 kWh/kW	\$ 0.08718	\$ 0.08378
Delivery	\$ 0.05032	kWh (1st 5000 / mo.)	\$ 0.08641	over 200 kWh/kW	\$ 0.04638	\$ 0.04586
Generation kWh	\$ 0.07231	kWh (over 5000/ mo.)	\$ 0.05396	Unbundled Rates		
		Winter		Generation Charge		
		kWh (1st 5000 / mo.)	\$ 0.06880	Summer		
		kWh (over 5000 / mo.)	\$ 0.03634	1st 200 kWh/kW	\$ 0.09617	\$ 0.08938
				over 200 kWh/kW	\$ 0.05537	\$ 0.05145
		System Benefits Charge		Winter		
		kWh	\$ 0.00297	1st 200 kWh/kW	\$ 0.07998	\$ 0.07432
				over 200 kWh/kW	\$ 0.03918	\$ 0.03640
		Transmission Charge				
		kWh	\$ 0.00424	System Benefits Charge		
				kWh	\$ 0.00297	\$ 0.00297
		Delivery Charge				
		Summer		Transmission Charge		
		Delivery (1st 5000 kWh per mo.) (Secondary)	\$ 0.04175	kW	\$ 1.585	\$ 1.585
		Delivery (over 5000 kWh per mo.) (Secondary)	\$ 0.01310			
		Delivery (1st 5000 kWh per mo.) (Primary)	\$ 0.03847	Delivery Charge		
		Delivery (over 5000 kWh per mo.) (Primary)	\$ 0.00983	Delivery 1st 100 kW (Secondary)	\$ 8.243	\$ 8.650
		Winter		Delivery All Addl kW (Secondary)	\$ 3.629	\$ 3.800
		Delivery (1st 5000 kWh per mo.) (Secondary)	\$ 0.04168			
		Delivery (over 5000 kWh per mo.) (Secondary)	\$ 0.01303	Delivery 1st 100 kW (primary)	\$ 7.531	\$ 7.903
		Delivery (1st 5000 kWh per mo.) (Primary)	\$ 0.03837	Delivery All Addl kW (Primary)	\$ 2.917	\$ 3.110
		Delivery (over 5000 kWh per mo.) (Primary)	\$ 0.00974	Delivery 1st 100 kW (Transmission)	\$ 5.516	\$ 5.783
		BSC \$/day		Delivery All Addl kW (Transmission)	\$ 0.902	\$ 0.934
		BSC Self-Contained	\$ 0.126			
		BSC Instrument-Rated	\$ 0.126	Delivery - All kWh		0.00423
		BSC Primary Voltage	\$ 0.126			0.00649
		BSC Transmission Voltage	\$ 0.126	BSC \$/day		
				BSC Self-Contained	\$ 0.126	\$ 0.126
				BSC Instrument-Rated	\$ 0.126	\$ 0.126
		Revenue Cycle \$/day		BSC Primary Voltage	\$ 0.126	\$ 0.126
		Metering Self-Contained	\$ 0.403	BSC Transmission Voltage	\$ 0.126	\$ 0.126
		Metering Instrument-Rated	\$ 1.055			
		Metering Primary	\$ 3.146			
		Metering (Transmission)	\$ 25.894	Revenue Cycle \$/day		
		Billing	\$ 0.075	Metering Self-Contained	\$ 0.403	\$ 0.403
		Meter Reading	\$ 0.068	Metering Instrument-Rated	\$ 1.055	\$ 1.055
				Metering Primary	\$ 3.146	\$ 3.146
				Metering (Transmission)	\$ 25.894	\$ 25.894
				Billing	\$ 0.075	\$ 0.075
				Meter Reading	\$ 0.068	\$ 0.068

Settlement Rate Summary for General Service Rates

Bundled Rates	E-32 L Proposed	Bundled Rates	E-32 XS TOU Proposed
BSC \$/day		BSC \$/day	
Self-Contained	\$ 1.068	Self-Contained	\$ 0.710
Instrument-Rated	\$ 1.627	Instrument-Rated	\$ 1.324
Primary Voltage	\$ 3.419	Primary Voltage	\$ 3.415
Transmission Voltage	\$ 22.915	Transmission Voltage	\$ 26.163
Demand Charge		Energy Charge - Summer	
1st 100 kW (Secondary)	\$ 21.149	Secondary Service	
Over 100 kW (Secondary)	\$ 14.267	On Peak kWh (1st 5000 / mo.)	\$ 0.17033
1st 100 kW (Primary)	\$ 19.091	All additional kWh	\$ 0.08564
Over kW (Primary)	\$ 13.209	OffPeak kWh (1st 5000 / mo.)	\$ 0.12686
1st 100 kW (Transmission)	\$ 14.284	All additional kWh	\$ 0.04755
Over kW (Transmission)	\$ 9.105	Primary Service	
		On Peak kWh (1st 5000 / mo.)	\$ 0.16698
		All additional kWh	\$ 0.08150
		Off Peak kWh (1st 5000 / mo.)	\$ 0.12350
		All additional kWh	\$ 0.04420
Energy Charge		Energy Charge - Winter	
Summer		Secondary Service	
kWh	\$ 0.05517	On Pk kWh (1st 5000 / mo.)	\$ 0.15310
		All additional kWh	\$ 0.06837
Winter		Off Peak kWh (1st 5000 / mo.)	\$ 0.10959
kWh	\$ 0.03804	All additional kWh	\$ 0.03496
Unbundled Rates		Primary Service	
Generation Charge		On Peak kWh (1st 5000/ mo.)	\$ 0.14974
Summer		All additional kWh	\$ 0.06423
kWh	\$ 0.05209	Off Peak kWh (1st 5000/ mo.)	\$ 0.10624
		All additional kWh	\$ 0.03160
Winter			
kWh	\$ 0.03496		
kW	\$ 4.496		
System Benefits Charge		Unbundled Rates	
		Basic Service Charge	\$ 0.126
kWh	\$ 0.00297	Self Contained (per day)	\$ 0.441
		Instrument-Rated	\$ 1.055
Transmission Charge		Primary Voltage	\$ 3.146
		Transmission Voltage	\$ 25.894
kW	\$ 1.585	Meter Reading	\$ 0.068
		Billing	\$ 0.075
Delivery Charge			
Delivery 1st 100 kW (Secondary)	\$ 15.068		
Delivery All Addl kW (Secondary)	\$ 8.186	System Benefits Charge	
		kWh	\$ 0.00297
Delivery 1st 100 kW (Primary)	\$ 13.010		
Delivery All Addl kW (Primary)	\$ 7.128	Transmission Charge	
		kWh	\$ 0.00424
Delivery 1st 100 kW (Transmission)	\$ 8.203		
Delivery All Addl kW (Transmission)	\$ 3.024	Delivery Charge	
		Secondary Service	
Delivery - All kWh	\$ 0.00011	Delivery On Peak (1st 5000 kWh per mo.)	\$ 0.05065
		Delivery all additional kWh	\$ 0.01316
		Delivery Off Peak (1st 5000 kWh per mo.)	\$ 0.04174
BSC \$/day		Delivery all additional kWh	\$ 0.00962
BSC Self-Contained	\$ 0.601	Delivery all additional kWh	\$ 0.00962
BSC Instrument-Rated	\$ 0.601	Primary	
BSC Primary Voltage	\$ 0.601	Delivery On Peak (1st 5000 kWh per mo.)	\$ 0.04730
BSC Transmission Voltage	\$ 0.601	Delivery all additional kWh	\$ 0.00902
		Delivery Off Peak (1st 5000 kWh per mo.)	\$ 0.03838
		Delivery all additional kWh	\$ 0.00627
Revenue Cycle \$/day			
Metering (self-contained)	\$ 0.345	Winter	
Metering (instrument-rated)	\$ 0.904	Secondary	
Metering (primary)	\$ 2.696	Delivery On Peak (1st 5000 kWh per mo.)	\$ 0.05057
Metering (transmission)	\$ 22.192	Delivery all additional kWh	\$ 0.01304
Billing	\$ 0.064	Delivery Off Peak (1st 5000 kWh per mo.)	\$ 0.04164
Meter Reading	\$ 0.058	Delivery all additional kWh	\$ 0.00954
		Primary	
		Delivery On Peak (1st 5000 kWh per mo.)	\$ 0.04721
		Delivery all additional kWh	\$ 0.00890
		Delivery Off Peak (1st 5000 kWh per mo.)	\$ 0.03829
		Delivery all additional kWh	\$ 0.00618

Generation Charge**Summer**

On Peak (1st 5000 kWh per mo.)	\$ 0.11247
On Peak all additional kWh	\$ 0.06527
Off Peak (1st 5000 kWh per mo.)	\$ 0.07791
Off Peak all additional kWh	\$ 0.03072

Winter

On Peak (1st 5000 kWh per mo.)	\$ 0.09532
On Peak all additional kWh	\$ 0.04812
Off Peak (1st 5000 kWh per mo.)	\$ 0.06074
Off Peak all additional kWh	\$ 0.01821

Settlement Rate Summary for General Service Rates

Bundled Rates	E-32 S TOU Proposed	E-32 M TOU Proposed	E-32 L TOU Proposed	Bundled Rates	E-34 Proposed
BSC \$/day				BSC \$/day	
Self-Contained	\$ 0.710	\$ 0.710	\$ 0.710	Self-Contained	\$ 1.135
Instrument-Rated	\$ 1.324	\$ 1.324	\$ 1.324	Instrument-Rated	\$ 1.776
Primary Voltage	\$ 3.415	\$ 3.415	\$ 3.415	Primary Voltage	\$ 3.828
Transmission Voltage	\$ 26.163	\$ 26.163	\$ 26.163	Transmission Voltage	\$ 26.161
Demand Charge				Demand Charge	
Secondary Service				Secondary Service	\$ 19.930
On Peak 1st 100 kW	\$ 14.303	\$ 15.166	\$ 14.915	Primary Service	\$ 18.649
On Peak all additional kW	\$ 9.713	\$ 10.013	\$ 9.784	Transmission Service	\$ 12.278
Off Peak 1st 100 kW	\$ 5.484	\$ 5.897	\$ 5.814	Primary Substation - Military Base	\$ 13.392
Off Peak all additional kW	\$ 3.054	\$ 3.168	\$ 3.097		
Primary Service				Energy Charge	\$ 0.03665
On Peak 1st 100 kW	\$ 13.845	\$ 14.651	\$ 14.402		
On Peak all additional kW	\$ 9.645	\$ 9.936	\$ 9.708	Unbundled Rates	
Off Peak 1st 100 kW	\$ 4.909	\$ 5.251	\$ 5.170	BSC \$/day	\$ 0.601
Off Peak all additional kW	\$ 2.975	\$ 3.079	\$ 3.008		
Transmission Service				Metering per day	
On Peak 1st 100 kW	\$ 12.208	\$ 13.730	\$ 13.486	Self-Contained	\$ 0.395
On Peak all additional kW	\$ 9.038	\$ 9.619	\$ 8.601	Instrument-Rated	\$ 1.036
Off Peak 1st 100 kW	\$ 4.042	\$ 4.522	\$ 4.444	Primary Voltage	\$ 3.088
Off Peak all additional kW	\$ 2.837	\$ 2.959	\$ 2.888	Transmission Voltage	\$ 25.421
				Meter Reading	\$ 0.066
				Billing	\$ 0.073
Energy Charge - Summer					
On Peak kWh	\$ 0.07367	\$ 0.06566	\$ 0.06555	System Benefits Charge	
Off Peak kWh	\$ 0.05873	\$ 0.05432	\$ 0.05359	kWh	\$ 0.00297
Energy Charge - Winter					
On Peak kWh	\$ 0.05665	\$ 0.05275	\$ 0.05193	Transmission Charge	
Off Peak kWh	\$ 0.04170	\$ 0.04142	\$ 0.03997	kW	\$ 1.776
Unbundled Rates					
Basic Service Charge	\$ 0.126	\$ 0.126	\$ 0.126	Delivery Charge	
Self-Contained	\$ 0.441	\$ 0.441	\$ 0.441	Secondary Service	\$ 8.027
Instrument-Rated	\$ 1.055	\$ 1.055	\$ 1.055	Primary Service	\$ 6.746
Primary Voltage	\$ 3.146	\$ 3.146	\$ 3.146	Transmission Service	\$ 0.375
Transmission Voltage	\$ 25.894	\$ 25.894	\$ 25.894	Primary Substation - Military Base	\$ 1.489
Meter Reading	\$ 0.068	\$ 0.068	\$ 0.068		
Billing	\$ 0.075	\$ 0.075	\$ 0.075	Generation Charge	
				kW	\$ 10.127
				kWh	\$ 0.03368
System Benefits Charge					
kWh	\$ 0.00297	\$ 0.00297	\$ 0.00297		
Transmission Charge					
kW	\$ 1.585	\$ 1.585	\$ 1.585		
Delivery Charge					
Secondary Service					
On Peak 1st 100 kW	\$ 5.775	\$ 8.318	\$ 7.776		
On Peak all additional kW	\$ 1.185	\$ 3.165	\$ 2.645		
Off Peak 1st 100 kW	\$ 2.842	\$ 3.894	\$ 3.701		
Off Peak all additional kW	\$ 0.412	\$ 1.165	\$ 0.984		
per kWh	\$ —	\$ 0.00910	\$ 0.00607		
Primary					
On Peak 1st 100 kW	\$ 5.317	\$ 7.803	\$ 7.263		
On Peak all additional kW	\$ 1.117	\$ 3.088	\$ 2.569		
Off Peak 1st 100 kW	\$ 2.267	\$ 3.248	\$ 3.057		
Off Peak all additional kW	\$ 0.333	\$ 1.076	\$ 0.895		
per kWh	\$ —	\$ 0.00910	\$ 0.00607		
Transmission					
On Peak 1st 100 kW	\$ 3.680	\$ 6.882	\$ 6.347		
On Peak all additional kW	\$ 0.510	\$ 2.771	\$ 1.462		
Off Peak 1st 100 kW	\$ 1.400	\$ 2.519	\$ 2.331		
Off Peak all additional kW	\$ 0.195	\$ 0.956	\$ 0.775		
per kWh	\$ —	\$ 0.00910	\$ 0.00607		
Generation Charge					
Summer					
On Peak kW	\$ 6.943	\$ 5.263	\$ 5.554		
Off Peak kW	\$ 2.642	\$ 2.003	\$ 2.113		
On Peak kWh	\$ 0.07070	\$ 0.05359	\$ 0.05651		
Off Peak kWh	\$ 0.05576	\$ 0.04225	\$ 0.04455		
Winter					
On Peak kW	\$ 6.943	\$ 5.263	\$ 5.554		
Off Peak kW	\$ 2.642	\$ 2.003	\$ 2.113		
On Peak kWh	\$ 0.05368	\$ 0.04068	\$ 0.04289		
Off Peak kWh	\$ 0.03873	\$ 0.02935	\$ 0.03093		

Settlement Rate Summary for General Service Rates

Bundled Rates	E-35 Proposed	Minimum 12-Month Charge	\$ 603.49	E-54	1 Yr Agreement	Interruptible Rate Ride (IRR) Proposed	
					Option 1	30 Minute (\$/kW-Yr) \$ 7.975	
BSC \$/day					(4 hrs)	30 Minute (\$/kWh) \$ 0.09969	
Self-Contained	\$ 1.183					2 Hour (\$/kW-Yr) \$ 7.178	
Instrument-Rated	\$ 1.795					2 Hour (\$/kWh) \$ 0.08972	
Primary Voltage	\$ 3.881					30 Minute (\$/kW-Yr) \$ 5.995	
Transmission Voltage	\$ 26.574					30 Minute (\$/kWh) \$ 0.07493	
Demand Charge					Option 2	2 Hour (\$/kW-Yr) \$ 5.395	
Secondary Service					(8 hrs)	2 Hour (\$/kWh) \$ 0.06745	
On-Peak	\$ 16.768						
Off-Peak	\$ 3.064						
Primary Service						5 Yr Agreement	
On-Peak	\$ 15.792					Option 1	30 Minute (\$/kW-Yr) \$ 9.882
Off-Peak	\$ 2.966					(4 hrs)	30 Minute (\$/kWh) \$ 0.12353
Transmission Service							2 Hour (\$/kW-Yr) \$ 8.894
On-Peak	\$ 10.755						2 Hour (\$/kWh) \$ 0.11117
Off-Peak	\$ 2.462						30 Minute (\$/kW-Yr) \$ 7.428
Primary Substation - Military Base						Option 2	30 Minute (\$/kWh) \$ 0.09285
On-Peak	\$ 12.108					(8 hrs)	2 Hour (\$/kW-Yr) \$ 6.685
Off-Peak	\$ 2.597						2 Hour (\$/kWh) \$ 0.08356
Energy Charge							
On-Peak	\$ 0.04076						
Off-Peak	\$ 0.03219						
Unbundled Rates							
BSC \$/day	\$ 0.601						
Revenue Cycle Service Charges							
Self-Contained	\$ 0.440						
Instrument-Rated	\$ 1.052						
Primary Voltage	\$ 3.138						
Transmission Voltage	\$ 25.831						
Meter Reading	\$ 0.068						
Billing	\$ 0.074						
System Benefits Charge							
kWh	\$ 0.00297						
Transmission Charge							
On-Peak kW	\$ 1.776						
Delivery Charge							
Secondary Service							
On-Peak	\$ 6.461						
Off-Peak	\$ 0.646						
Primary Service							
On-Peak	\$ 5.485						
Off-Peak	\$ 0.548						
Transmission Service							
On-Peak	\$ 0.448						
Off-Peak	\$ 0.044						
Primary Substation - Military Base							
On-Peak	\$ 1.801						
Off-Peak	\$ 0.179						
Generation Charge							
On-Peak kW	\$ 8.531						
Off-Peak kW	\$ 2.418						
On-Peak kWh	\$ 0.03779						
Off-Peak kWh	\$ 0.02922						

Settlement Rate Summary for Classified Rates

	<u>E-20 Proposed</u>	<u>E-36 M Proposed</u>	<u>E-36 XL Proposed</u>
Bundled Rates			
Summer			
BSC \$/day	\$ 1.065	Unbundled Basic Service Charge: For E-32 M and E-32L	BSC
On-peak Demand	\$ 2.391	Self-Contained Meters	\$ 6.912 monthly
Excess Demand	\$ 1.196	Instrument-Rated Meters	\$ 3.605 \$/kW
On-peak kWh	\$ 0.14457	Primary Voltage Meters	\$ 3.423 \$/kW
Off-peak kWh	\$ 0.07014		\$ 0.035 \$/kW
Winter			
BSC \$/day	\$ 1.065	Revenue Cycle Service Charges: Metering:	Power Supply
On-peak Demand	\$ 2.156	E-32 XS	Uplift Charge
Excess Demand	\$ 1.078	Self-Contained Meters	\$ 0.00057 kWh
On-peak kWh	\$ 0.12719	Instrument-Rated Meters	(plus hourly pricing proxy)
Off-peak kWh	\$ 0.06294	Primary Voltage Meters:	
		Meter Reading	
		Billing	
		E-32 L	
		Self-Contained Meters	\$ 0.345 per day, or
		Instrument-Rated Meters	\$ 0.904 per day, or
		Primary Voltage Meters	\$ 2.696 per day, or
		Transmission	\$ 22.192 per day
		Meter Reading	\$ 0.058 per day
		Billing	\$ 0.064 per day

Settlement Rate Summary for Classified Rates

Company Owned Fixture Type	E-47 Proposed	Customer Owned Lamp Type	E-47 Proposed	Company Owned Pole Type	E-47 Proposed
9500 HPS ACORN	\$ 27.06	9500 HPS ACORN	\$ 9.22	Anchor Flush, Round, 1X, 12ft	\$ 12.17
16,000 HPS ACORN	\$ 30.04	16,000 HPS ACORN	\$ 11.65	Anchor Flush, Round, 1X, 22ft	\$ 13.70
9500 HPS ARCHITECTURAL	\$ 15.38	9500 HPS ARCHITECTURAL	\$ 7.34	Anchor Flush, Round, 1X, 25ft	\$ 14.82
16,000 HPS ARCHITECTURAL	\$ 17.96	16,000 HPS ARCHITECTURAL	\$ 9.82	Anchor Flush, Round, 1X, 30ft	\$ 17.03
30,000 HPS ARCHITECTURAL	\$ 21.31	30,000 HPS ARCHITECTURAL	\$ 12.60	Anchor Flush, Round, 1X, 32ft	\$ 17.89
50,000 HPS ARCHITECTURAL	\$ 26.29	50,000 HPS ARCHITECTURAL	\$ 18.13	Anchor Flush, Round, 2X, 12ft	\$ 12.98
14,000 MH ARCHITECTURAL	\$ 21.51	14,000 MH ARCHITECTURAL	\$ 11.79	Anchor Flush, Round, 2X, 22ft	\$ 14.91
21,000 MH ARCHITECTURAL	\$ 24.42	21,000 MH ARCHITECTURAL	\$ 14.54	Anchor Flush, Round, 2X, 25ft	\$ 15.55
36,000 MH ARCHITECTURAL	\$ 30.54	36,000 MH ARCHITECTURAL	\$ 20.00	Anchor Flush, Round, 2X, 30ft	\$ 18.07
8,000 LPS ARCHITECTURAL	\$ 22.35	8,000 LPS ARCHITECTURAL	\$ 9.82	Anchor Flush, Round, 2X, 32ft	\$ 19.28
13500 LPS ARCHITECTURAL	\$ 26.36	13500 LPS ARCHITECTURAL	\$ 11.84	Anchor Flush, Square, 5", 13ft	\$ 13.95
22,500 LPS ARCHITECTURAL	\$ 30.11	22,500 LPS ARCHITECTURAL	\$ 14.45	Anchor Flush, Square, 5", 15ft	\$ 12.47
33,000 LPS ARCHITECTURAL	\$ 36.22	33,000 LPS ARCHITECTURAL	\$ 17.02	Anchor Flush, Square, 5", 23ft	\$ 14.79
5800 HPS COBRA/ROADWAY	\$ 8.73	5800 HPS COBRA/ROADWAY	\$ 5.16	Anchor Flush, Square, 5", 25ft	\$ 16.26
9500 HPS COBRA/ROADWAY	\$ 10.28	9500 HPS COBRA/ROADWAY	\$ 6.32	Anchor Flush, Square, 5", 28ft	\$ 18.05
16,000 HPS COBRA/ROADWAY	\$ 12.87	16,000 HPS COBRA/ROADWAY	\$ 8.82	Anchor Flush, Square, 5", 32ft	\$ 17.95
30,000 HPS COBRA/ROADWAY	\$ 15.52	30,000 HPS COBRA/ROADWAY	\$ 11.46	Anchor Flush, Concrete, 12ft	\$ 41.58
50,000 HPS COBRA/ROADWAY	\$ 21.06	50,000 HPS COBRA/ROADWAY	\$ 16.37	Anchor Flush, Fiberglass, 12ft	\$ 35.21
14,000 MH COBRA/ROADWAY	\$ 14.97	14,000 MH COBRA/ROADWAY	\$ 10.20	Anchor Flush, Dec Transit Ped, 4", 16ft	\$ 34.33
21,000 MH COBRA/ROADWAY	\$ 17.49	21,000 MH COBRA/ROADWAY	\$ 12.69	Anchor Flush, Dec Transit, 6", 30ft	\$ 66.28
36,000 MH COBRA/ROADWAY	\$ 23.03	36,000 MH COBRA/ROADWAY	\$ 17.63	Anchor Pedstl, Round, 1X, 12ft	\$ 11.71
8,000 FL COBRA/ROADWAY	\$ 17.20	8,000 FL COBRA/ROADWAY	\$ 5.04	Anchor Pedstl, Round, 1X, 22ft	\$ 13.24
9500 HPS DECORATIVE TRANSIT	\$ 37.09	9500 HPS DECORATIVE TRANSIT	\$ 11.11	Anchor Pedstl, Round, 1X, 25ft	\$ 14.35
16,000 HPS DECORATIVE TRANSIT	\$ 36.88	16,000 HPS DECORATIVE TRANSIT	\$ 6.31	Anchor Pedstl, Round, 1X, 30ft	\$ 16.58
30,000 HPS DECORATIVE TRANSIT	\$ 42.46	30,000 HPS DECORATIVE TRANSIT	\$ 16.02	Anchor Pedstl, Round, 1X, 32ft	\$ 17.41
30,000 HPS FLOOD	\$ 20.61	30,000 HPS FLOOD	\$ 12.81	Anchor Pedstl, Round, 2X, 12ft	\$ 12.51
50,000 HPS FLOOD	\$ 25.56	50,000 HPS FLOOD	\$ 17.77	Anchor Pedstl, Round, 2X, 22ft	\$ 13.97
21,000 MH FLOOD	\$ 22.00	21,000 MH FLOOD	\$ 13.53	Anchor Pedstl, Round, 2X, 25ft	\$ 15.08
36,000 MH FLOOD	\$ 26.82	36,000 MH FLOOD	\$ 18.35	Anchor Pedstl, Round, 2X, 30ft	\$ 17.61
8,000 FL COLONIAL GRAY POST TOP	\$ 18.54	8,000 FL COLONIAL GRAY POST TOP	\$ 5.23	Anchor Pedstl, Round, 2X, 32ft	\$ 18.81
9500 HPS COLONIAL GRAY POST TOP	\$ 10.60	9500 HPS COLONIAL GRAY POST TOP	\$ 6.65	Anchor Pedstl, Round, 3 Bolt, 32ft	\$ 21.62
9500 HPS COLONIAL BLACK POST TOP	\$ 12.21	9500 HPS COLONIAL BLACK POST TOP	\$ 6.88	Anchor Pedstl, Square, 5", 13ft	\$ 13.50
9500 HPS DECORATIVE POST TOP	\$ 32.47	9500 HPS DECORATIVE POST TOP	\$ 10.24	Anchor Pedstl, Square, 5", 15ft	\$ 13.80
4,000 INC FROZEN	\$ 9.78	4,000 INC FROZEN	\$ 5.47	Anchor Pedstl, Square, 5", 23ft	\$ 14.32
7,000 MV FROZEN	\$ 12.67	7,000 MV FROZEN	\$ 7.27	Anchor Pedstl, Square, 5", 25ft	\$ 15.80
20,000 MV FROZEN	\$ 24.92	20,000 MV FROZEN	\$ 14.12	Anchor Pedstl, Square, 5", 28ft	\$ 17.56
BRACKETS FROZEN	\$ 1.72	BRACKETS FROZEN	\$ —	Anchor Pedstl, Square, 5", 32ft	\$ 18.23
Trip Charge per Lamp	\$ 100.00	Trip Charge per Lamp	\$ 100.00	Direct Bury, Round, 19ft	\$ 18.42
				Direct Bury, Round, 30ft	\$ 14.38
				Direct Bury, Round, 38ft	\$ 17.55
				Direct Bury, Self-Support, 40ft	\$ 21.62
				Direct Bury, Stepped, 49ft	\$ 64.99
				Direct Bury, Square, 4", 34ft	\$ 15.87
				Direct Bury, Square, 5", 20ft	\$ 15.07
				Direct Bury, Square, 5", 30ft	\$ 15.71
				Direct Bury, Square, 5" 38ft	\$ 17.05
				Decorative Transit 41-6	\$ 20.47
				Deecorative Transit 47	\$ 25.50
				Direct Bury, Steel Dist Pole, 35ft	\$ 23.54
				Post Top, Dec Transit, 16ft	\$ 35.07
				Post Top, Gray Steel/Fiberglass, 23ft	\$ 12.16
				Post Top, Black Steel, 23ft	\$ 13.41
				FROZEN, Wood Poles, 30ft	\$ 8.95
				FROZEN, Wood Poles, 35ft	\$ 8.95
				FROZEN, Wood Poles, 40ft	\$ 12.73
				Flush, 4ft	\$ 9.91
				Flush, 6ft	\$ 11.82
				Pedestal, 8ft	\$ 13.54
				Pedestal, 32' round steel pole, 4ft 6"	\$ 9.39
				1. 100' OH, UG if conduit by customer	\$ 3.50
				2. HPS not accessible by bucket	\$ 2.80
				3. MH not accessible by bucket	\$ 6.04

Settlement Rate Summary for Classified Rates

	E-56 Proposed	Company Owned Lamp Type	E-58 Proposed	Customer Owned Lamp Type	E-58 Proposed	
Back-up Power						
Rate Schedule E-34 Customer	\$ 0.590	Per kW day	9500 HPS ACORN 16,000 HPS ACORN	\$ 27.06 \$ 30.04	9500 HPS ACORN 16,000 HPS ACORN	\$ 9.22 \$ 11.65
Rate Schedule E-32 L Customer	\$ 0.120	per kW day	9500 HPS ARCHITECTURAL 16,000 HPS ARCHITECTURAL	\$ 15.38 \$ 17.96	9500 HPS ARCHITECTURAL 16,000 HPS ARCHITECTURAL	\$ 7.34 \$ 9.82
Excess Power Charges			30,000 HPS ARCHITECTURAL 50,000 HPS ARCHITECTURAL	\$ 21.31 \$ 26.29	30,000 HPS ARCHITECTURAL 50,000 HPS ARCHITECTURAL	\$ 12.60 \$ 18.13
Secondary Service:	\$ 54.802	per kW	14,000 MH ARCHITECTURAL	\$ 21.51	14,000 MH ARCHITECTURAL	\$ 11.79
Primary Service:	\$ 52.019	per kW	21,000 MH ARCHITECTURAL	\$ 24.42	21,000 MH ARCHITECTURAL	\$ 14.54
Transmission Service:	\$ 38.187	per kW	36,000 MH ARCHITECTURAL 8,000 LPS ARCHITECTURAL	\$ 30.54 \$ 22.35	36,000 MH ARCHITECTURAL 8,000 LPS ARCHITECTURAL	\$ 20.00 \$ 9.82
			13500 LPS ARCHITECTURAL 22,500 LPS ARCHITECTURAL	\$ 26.36 \$ 30.11	13500 LPS ARCHITECTURAL 22,500 LPS ARCHITECTURAL	\$ 11.84 \$ 14.45
			33,000 LPS ARCHITECTURAL	\$ 36.22	33,000 LPS ARCHITECTURAL	\$ 17.02
			5800 HPS COBRA/ROADWAY 9500 HPS COBRA/ROADWAY	\$ 8.73 \$ 10.28	5800 HPS COBRA/ROADWAY 9500 HPS COBRA/ROADWAY	\$ 5.16 \$ 6.32
			16,000 HPS COBRA/ROADWAY 30,000 HPS COBRA/ROADWAY	\$ 12.87 \$ 15.52	16,000 HPS COBRA/ROADWAY 30,000 HPS COBRA/ROADWAY	\$ 8.82 \$ 11.46
			50,000 HPS COBRA/ROADWAY 14,000 MH COBRA/ROADWAY	\$ 21.06 \$ 14.97	50,000 HPS COBRA/ROADWAY 14,000 MH COBRA/ROADWAY	\$ 16.37 \$ 10.20
			21,000 MH COBRA/ROADWAY 36,000 MH COBRA/ROADWAY	\$ 17.49 \$ 23.03	21,000 MH COBRA/ROADWAY 36,000 MH COBRA/ROADWAY	\$ 12.69 \$ 17.63
			8,000 FL COBRA/ROADWAY 9500 HPS DECORATIVE TRANSIT	\$ 17.20 \$ 37.09	8,000 FL COBRA/ROADWAY 9500 HPS DECORATIVE TRANSIT	\$ 5.04 \$ 11.11
			16,000 HPS DECORATIVE TRANSIT 30,000 HPS DECORATIVE TRANSIT	\$ 36.88 \$ 42.46	16,000 HPS DECORATIVE TRANSIT 30,000 HPS DECORATIVE TRANSIT	\$ 12.41 \$ 16.02
			30,000 HPS FLOOD 50,000 HPS FLOOD	\$ 20.61 \$ 25.56	30,000 HPS FLOOD 50,000 HPS FLOOD	\$ 12.81 \$ 17.77
			21,000 MH FLOOD 36,000 MH FLOOD	\$ 22.00 \$ 26.82	21,000 MH FLOOD 36,000 MH FLOOD	\$ 13.53 \$ 18.35
			8,000 FL COLONIAL GRAY POST TOP 9500 HPS COLONIAL GRAY POST TOP	\$ 18.54 \$ 10.60	8,000 FL COLONIAL GRAY POST TOP 9500 HPS COLONIAL GRAY POST TOP	\$ 5.23 \$ 6.65
			9500 HPS COLONIAL BLACK POST TOP 9500 HPS DECORATIVE POST TOP	\$ 12.21 \$ 32.47	9500 HPS COLONIAL BLACK POST TOP 9500 HPS DECORATIVE POST TOP	\$ 6.88 \$ 10.24
			4,000 INC FROZEN 7,000 MV FROZEN	\$ 9.78 \$ 12.67	4,000 INC FROZEN 7,000 MV FROZEN	\$ 5.47 \$ 7.27
			11,000 MV FROZEN 20,000 MV FROZEN	\$ 15.87 \$ 24.92	11,000 MV FROZEN 20,000 MV FROZEN	\$ 9.68 \$ 14.12
		Trip Charge per Lamp		\$ 100.00	Trip Charge per Lamp	\$ 100.00

Settlement Rate Summary for Classified Rates

Company Owned Pole Type	E-58 Proposed	Customer Owned Pole Type	E-58 Proposed	E-59	Proposed Service	Transmission Proposed
Anchor Flush, Round, 1X, 12ft	\$ 12.17	Anchor Flush, Round, 1X, 12ft	\$ 1.68		Charge Per Lamp	Charge Per kWh
Anchor Flush, Round, 1X, 22ft	\$ 13.70	Anchor Flush, Round, 1X, 22ft	\$ 1.88	TYPE	\$ 2.79	\$ 0.06088
Anchor Flush, Round, 1X, 25ft	\$ 14.82	Anchor Flush, Round, 1X, 25ft	\$ 2.05	1000 INC	\$ 2.79	\$ 0.06088
Anchor Flush, Round, 1X, 30ft	\$ 17.03	Anchor Flush, Round, 1X, 30ft	\$ 2.34	11000 MV	\$ 2.79	\$ 0.06088
Anchor Flush, Round, 1X, 32ft	\$ 17.89	Anchor Flush, Round, 1X, 32ft	\$ 2.37	13500L LPS ARCH	\$ 2.79	\$ 0.06088
Anchor Flush, Round, 2X, 12ft	\$ 12.98	Anchor Flush, Round, 2X, 12ft	\$ 1.79	14000L MH ARCH	\$ 2.79	\$ 0.06088
Anchor Flush, Round, 2X, 22ft	\$ 14.91	Anchor Flush, Round, 2X, 22ft	\$ 2.06	14000L MH ROADWAY	\$ 2.79	\$ 0.06088
Anchor Flush, Round, 2X, 25ft	\$ 15.55	Anchor Flush, Round, 2X, 25ft	\$ 2.14	16000L ACORN	\$ 2.79	\$ 0.06088
Anchor Flush, Round, 2X, 30ft	\$ 18.07	Anchor Flush, Round, 2X, 30ft	\$ 2.49	16000L HPS ARCH	\$ 2.79	\$ 0.06088
Anchor Flush, Round, 2X, 32ft	\$ 19.28	Anchor Flush, Round, 2X, 32ft	\$ 2.66	16000L HPS ROADWAY	\$ 2.79	\$ 0.06088
Anchor Flush, Square, 5", 13ft	\$ 13.95	Anchor Flush, Square, 5", 13ft	\$ 1.92	16000 HPS DECORATIVE TRANSIT	\$ 2.79	\$ 0.06088
Anchor Flush, Square, 5", 15ft	\$ 12.47	Anchor Flush, Square, 5", 15ft	\$ 1.72	20000L MV	\$ 2.79	\$ 0.06088
Anchor Flush, Square, 5", 23ft	\$ 14.79	Anchor Flush, Square, 5", 23ft	\$ 2.03	21000L MH ARCH	\$ 2.79	\$ 0.06088
Anchor Flush, Square, 5", 25ft	\$ 16.26	Anchor Flush, Square, 5", 25ft	\$ 2.23	21000L MH FLOOD	\$ 2.79	\$ 0.06088
Anchor Flush, Square, 5", 28ft	\$ 18.05	Anchor Flush, Square, 5", 28ft	\$ 2.48	21000L MH ROADWAY	\$ 2.79	\$ 0.06088
Anchor Flush, Square, 5", 32ft	\$ 17.95	Anchor Flush, Square, 5", 32ft	\$ 2.47	22500L LPS ARCH	\$ 2.79	\$ 0.06088
Anchor Flush, Concrete, 12ft	\$ 41.58	Anchor Flush, Concrete, 12ft	\$ 5.73	2500 INC	\$ 2.79	\$ 0.06088
Anchor Flush, Fiberglass, 12ft	\$ 35.21	Anchor Flush, Fiberglass, 12ft	\$ 4.85	30000L HPS ARCH	\$ 2.79	\$ 0.06088
Anchor Flush, Dec Transit Ped, 4", 16ft	\$ 34.33	Anchor Flush, Dec Transit Ped, 4", 16ft	\$ 4.73	30000L HPS FLOOD	\$ 2.79	\$ 0.06088
Anchor Flush, Dec Transit, 6", 30ft	\$ 66.28	Anchor Flush, Dec Transit, 6", 30ft	\$ 9.13	30000L HPS ROADWAY	\$ 2.79	\$ 0.06088
Anchor Pedstl, Round, 1X, 12ft	\$ 11.71	Anchor Pedstl, Round, 1X, 12ft	\$ 1.61	33000L LPS ARCH	\$ 2.79	\$ 0.06088
Anchor Pedstl, Round, 1X, 22ft	\$ 13.24	Anchor Pedstl, Round, 1X, 22ft	\$ 1.82	36000L MH ARCH	\$ 2.79	\$ 0.06088
Anchor Pedstl, Round, 1X, 25ft	\$ 14.35	Anchor Pedstl, Round, 1X, 25ft	\$ 1.98	36000L MH FLOOD	\$ 2.79	\$ 0.06088
Anchor Pedstl, Round, 1X, 30ft	\$ 16.58	Anchor Pedstl, Round, 1X, 30ft	\$ 2.29	36000L MH ROADWAY	\$ 2.79	\$ 0.06088
Anchor Pedstl, Round, 1X, 32ft	\$ 17.41	Anchor Pedstl, Round, 1X, 32ft	\$ 2.40	40000 INC	\$ 2.79	\$ 0.06088
Anchor Pedstl, Round, 2X, 12ft	\$ 12.51	Anchor Pedstl, Round, 2X, 12ft	\$ 1.72	50000L HPS ARCH	\$ 2.79	\$ 0.06088
Anchor Pedstl, Round, 2X, 22ft	\$ 13.97	Anchor Pedstl, Round, 2X, 22ft	\$ 1.92	50000L HPS FLOOD	\$ 2.79	\$ 0.06088
Anchor Pedstl, Round, 2X, 25ft	\$ 15.08	Anchor Pedstl, Round, 2X, 25ft	\$ 2.07	50000L HPS ROADWAY	\$ 2.79	\$ 0.06088
Anchor Pedstl, Round, 2X, 30ft	\$ 17.61	Anchor Pedstl, Round, 2X, 30ft	\$ 2.42	5800 HPS ROADWAY	\$ 2.79	\$ 0.06088
Anchor Pedstl, Round, 2X, 32ft	\$ 18.81	Anchor Pedstl, Round, 2X, 32ft	\$ 2.59	6000 INC	\$ 2.79	\$ 0.06088
Anchor Pedstl, Round, 3 Bolt, 32ft	\$ 21.62	Anchor Pedstl, Round, 3 Bolt, 32ft	\$ 2.97	7000 MV	\$ 2.79	\$ 0.06088
Anchor Pedstl, Square, 5", 13ft	\$ 13.50	Anchor Pedstl, Square, 5", 13ft	\$ 1.86	8000L LPS ARCH	\$ 2.79	\$ 0.06088
Anchor Pedstl, Square, 5", 15ft	\$ 13.80	Anchor Pedstl, Square, 5", 15ft	\$ 1.89	9500L HPS ACORN	\$ 2.79	\$ 0.06088
Anchor Pedstl, Square, 5", 23ft	\$ 14.32	Anchor Pedstl, Square, 5", 23ft	\$ 1.98	9500L HPS ARCH	\$ 2.79	\$ 0.06088
Anchor Pedstl, Square, 5", 25ft	\$ 15.80	Anchor Pedstl, Square, 5", 25ft	\$ 2.19	9500L HPS COBRA/ROADWAY	\$ 2.79	\$ 0.06088
Anchor Pedstl, Square, 5", 28ft	\$ 17.56	Anchor Pedstl, Square, 5", 28ft	\$ 2.42	9500L HPS POST TOP BLACK	\$ 2.79	\$ 0.06088
Anchor Pedstl, Square, 5", 32ft	\$ 18.23	Anchor Pedstl, Square, 5", 32ft	\$ 2.50	9500L HPS POST TOP GRAY	\$ 2.79	\$ 0.06088
Direct Bury, Round, 19ft	\$ 18.42	Direct Bury, Round, 19ft	\$ 2.54	2300 LED COBRA	\$ 2.79	\$ 0.06088
Direct Bury, Round, 30ft	\$ 14.38	Direct Bury, Round, 30ft	\$ 2.66			
Direct Bury, Round, 38ft	\$ 17.55	Direct Bury, Round, 38ft	\$ 2.73	Trip Charge per Lamp	\$ 100.00	
Direct Bury, Self-Support, 40ft	\$ 21.62	Direct Bury, Self-Support, 40ft	\$ 3.42			
Direct Bury, Stepped, 49ft	\$ 64.99	Direct Bury, Stepped, 49ft	\$ 8.96			
Direct Bury, Square, 4", 34ft	\$ 15.87	Direct Bury, Square, 4", 34ft	\$ 2.75			
Direct Bury, Square, 5", 20ft	\$ 15.07	Direct Bury, Square, 5", 20ft	\$ 2.49			
Direct Bury, Square, 5" 30ft	\$ 15.71	Direct Bury, Square, 5" 30ft	\$ 2.59			
Direct Bury, Square, 5" 38ft	\$ 17.05	Direct Bury, Square, 5" 38ft	\$ 2.96			
Decorative Transit 41-6	\$ 20.47	Decorative Transit 41-6	\$ 3.01			
Decorative Transit 47	\$ 25.50	Decorative Transit 47	\$ 3.75			
Direct Bury, Steel Dist Pole, 35ft	\$ 23.54	Direct Bury, Steel Dist Pole, 35ft	\$ 3.10			
Post Top, Dec Transit, 16ft	\$ 35.07	Post Top, Dec Transit, 16ft	\$ 4.82			
Post Top, Gray Steel/Fiberglass, 23ft	\$ 12.16	Post Top, Gray Steel/Fiberglass, 23ft	\$ 2.00			
Post Top, Black Steel, 23ft	\$ 13.41	Post Top, Black Steel, 23ft	\$ 2.21			
FROZEN, Wood Poles, 30ft	\$ 8.95	FROZEN, Wood Poles, 30ft	\$ 1.55			
FROZEN, Wood Poles, 35ft	\$ 8.95	FROZEN, Wood Poles, 35ft	\$ 1.48			
Existing distribution pole	\$ 1.48	Existing distribution pole	\$ —			
Flush, 4ft	\$ 9.91	Flush, 4ft	\$ 1.36			
Flush, 6ft	\$ 11.82	Flush, 6ft	\$ 2.05			
Pedestal, 8ft	\$ 13.54	Pedestal, 8ft	\$ 2.36			
Pedestal, 32' round steel pole, 4ft 6"	\$ 9.39	Pedestal, 32' round steel pole, 4ft 6"	\$ 1.63			

Settlement Rate Summary for Classified Rates

E-67 Proposed		E-221 Proposed		Bundled Rates BSC \$/day		Bundled Rates BSC \$/day		GS-SCHOOLS M Proposed	GS-SCHOOLS L Proposed
\$/kWh	\$ 0.05193	E-221		kW	\$ 0.588	Self-Contained	\$ 0.672	\$ 1.068	
				kWh Block 1	\$ 2.357	Instrument-Rated	\$ 1.324	\$ 1.627	
				kWh Block 2	\$ 0.11228	Primary Voltage	\$ 3.415	\$ 3.419	
				kWh Block 3	\$ 0.07633	Transmission Voltage	\$ 26.163	\$ 22.915	
		Minimum		BSC \$/day	\$ 0.558	Demand Charge			
				kW	\$ 2.357	1st 100 kW(Secondary)	\$ 9.612	\$ 9.311	
						Over 100 kW (Secondary)	\$ 5.113	\$ 4.954	
		E-221-8T		BSC \$/day	\$ 0.964				
				On-Peak kW	\$ 5.608	1st 100 kW (Primary)	\$ 8.919	\$ 8.636	
				Off-Peak kW	\$ 3.351	Over kW (Primary)	\$ 4.419	\$ 4.282	
				On-Peak kWh	\$ 0.09205				
						1st 100 kW (Transmission)	\$ 6.953	\$ 6.736	
				Off-Peak kWh	\$ 0.04952	Over kW (Transmission)	\$ 2.454	\$ 2.377	
		Minimum		BSC \$/day	\$ 0.964	Energy Charge			
				kW	\$ 3.351	Summer Peak (Jun-Aug)			
						On-Pk kWh	\$ 0.17343	\$ 0.15355	
						Should-Pk kWh	\$ 0.12847	\$ 0.11374	
						Off-Pk kWh	\$ 0.06487	\$ 0.06285	
						Summer Shoulder (May, Sep & Oct)			
						On-Pk kWh	\$ 0.14977	\$ 0.13260	
						Should-Pk kWh	\$ 0.11095	\$ 0.09821	
						Off-Pk kWh	\$ 0.05602	\$ 0.05428	
						Winter (Nov-Apr)			
						On-Pk kWh	\$ 0.11607	\$ 0.10276	
						Should-Pk kWh	\$ 0.08599	\$ 0.07612	
						Off-Pk kWh	\$ 0.04342	\$ 0.04206	

Settlement Rate Summary for Classified Rates

Community Power - Flagstaff (CMPW-01)		Rural School Solar Program (RSSP)	E-56 R	Contract 12
Solar Charge \$/kWh	Solar Charge \$/kWh		SC-S renamed	Proposed
Applicable Rate Schedules	Applicable Rate Schedules		Charges are per special contract	
E-12	\$ 0.111242	E-32 S, E-32 M, E-32 L	\$ 0.09293	Per Delivery Point \$ 16.44
ET-2	\$ 0.13480	E-32TOU S, E-32TOU M, E-32TOU L	\$ 0.05855	\$/kWh \$ 0.08479
E-32 S, E-32 M, E-32 L	\$ 0.09293	GS-SCHOOLS M, GS-SCHOOLS L	\$ 0.07158	
E-32TOU S, E-32TOU M, E-32TOU L	\$ 0.05855			

Settlement Rate Summary for Low Income Discounts

E-3 Discount	Proposed
block1 (0-400 kWh)	65.0%
block2 (400-800 kWh)	45.0%
block3 (800-1200 kWh)	26.0%
block4 (over 1200 kWh) \$/bill	31.75
E-4 Discount	
block1 (0-800 kWh)	65.0%
block2 (800-1400 kWh)	45.0%
block3 (1400-2000 kWh)	26.0%
block4 (over 2000 kWh) \$/bill	\$ 60.00

PINNACLE WEST CAPITAL CORPORATION
RATIO OF EARNINGS TO FIXED CHARGES
(dollars in thousands)

	Twelve Months Ended December 31,				
	2011	2010	2009	2008	2007
Earnings:					
Income from continuing operations attributable to common shareholders	\$ 328,110	\$ 324,688	\$ 236,839	\$ 259,871	\$ 286,512
Income taxes	183,604	160,869	138,551	95,231	144,673
Fixed charges	246,462	248,664	241,807	224,760	213,801
Total earnings	\$ 758,176	\$ 734,221	\$ 617,197	\$ 579,862	\$ 644,986
Fixed Charges:					
Interest expense	\$ 241,995	\$ 244,174	\$ 237,766	\$ 220,223	\$ 209,624
Estimated interest portion of annual rents	4,467	4,490	4,041	4,537	4,177
Total fixed charges	\$ 246,462	\$ 248,664	\$ 241,807	\$ 224,760	\$ 213,801
Ratio of Earnings to Fixed Charges (rounded down)	3.07	2.95	2.55	2.57	3.01

ARIZONA PUBLIC SERVICE COMPANY
RATIO OF EARNINGS TO FIXED CHARGES
(dollars in thousands)

	Twelve Months Ended December 31,				
	2011	2010	2009	2008	2007
Earnings:					
Income from continuing operations attributable to common shareholders	\$ 336,249	\$ 335,663	\$ 251,225	\$ 262,344	\$ 283,940
Income taxes	192,542	170,465	152,574	107,261	151,157
Fixed charges	238,286	234,184	227,274	206,896	195,144
Total earnings	\$ 767,077	\$ 740,312	\$ 631,073	\$ 576,501	\$ 630,241
Fixed Charges:					
Interest charges	\$ 229,326	\$ 225,269	\$ 218,969	\$ 197,964	\$ 186,702
Amortization of debt discount	4,616	4,559	4,675	4,702	4,639
Estimated interest portion of annual rents	4,344	4,356	3,630	4,230	3,803
Total fixed charges	\$ 238,286	\$ 234,184	\$ 227,274	\$ 206,896	\$ 195,144
Ratio of Earnings to Fixed Charges (rounded down)	3.21	3.16	2.77	2.78	3.22

PINNACLE WEST CAPITAL CORPORATION
RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED
STOCK DIVIDEND REQUIREMENTS
(dollars in thousands)

	Twelve Months Ended December 31,				
	2011	2010	2009	2008	2007
Earnings:					
Income from continuing operations attributable to common shareholders	\$ 328,110	\$ 324,688	\$ 236,839	\$ 259,871	\$ 286,512
Income taxes	183,604	160,869	138,551	95,231	144,673
Fixed charges	246,462	248,664	241,807	224,760	213,801
Total earnings	\$ 758,176	\$ 734,221	\$ 617,197	\$ 579,862	\$ 644,986
Fixed Charges:					
Interest expense	\$ 241,995	\$ 244,174	\$ 237,766	\$ 220,223	\$ 209,624
Estimated interest portion of annual rents	4,467	4,490	4,041	4,537	4,177
Total fixed charges	\$ 246,462	\$ 248,664	\$ 241,807	\$ 224,760	\$ 213,801
Preferred Stock Dividend Requirements:					
Income before income taxes attributable to common shareholders	\$ 511,714	\$ 485,557	\$ 375,390	\$ 355,102	\$ 431,185
Net income from continuing operations attributable to common shareholders	328,110	324,688	236,839	259,871	286,512
Ratio of income before income taxes to net income	1.56	1.50	1.59	1.37	1.50
Preferred stock dividends	—	—	—	—	—
Preferred stock dividend requirements — ratio (above) times preferred stock dividends	\$ —	\$ —	\$ —	\$ —	\$ —
Fixed Charges and Preferred Stock Dividend Requirements:					
Fixed charges	\$ 246,462	\$ 248,664	\$ 241,807	\$ 224,760	\$ 213,801
Preferred stock dividend requirements	—	—	—	—	—
Total	\$ 246,462	\$ 248,664	\$ 241,807	\$ 224,760	\$ 213,801
Ratio of Earnings to Fixed Charges (rounded down)	<u>3.07</u>	<u>2.95</u>	<u>2.55</u>	<u>2.57</u>	<u>3.01</u>

PNW has the following subsidiaries: 1) Arizona Public Service Company

- 2) APS Energy Services Company, Inc. (sold on 8/19/11)
- 3) El Dorado Investment Company
- 4) Pinnacle West Energy Corporation (merged into PWCC 8/1/06)
- 5) SunCor Development Company
- 6) APSES Holdings, Inc.
- APS Energy L.P. (dissolved 9/29/06)
- 7) Pinnacle West Marketing & Trading Co., LLC

Pinnacle West Energy affiliates:

- 1) GenWest, LLC } now under PWCC
- 2) APACS Holdings, LLC } now under PWCC

Arizona Public Service Company has the following subsidiaries/affiliates:

- 1) APS Foundation, Inc.
- 2) Axiom Power Solutions, Inc.
- 3) BIXCO, Inc.
- 4) PWE NEWCO, Inc.
- 5) Powertree Carbon Co., LLC

APS Energy Services Company had the following affiliates:

- 1) Apex Power LLC (dissolved 8/10/10)
- 2) Northwind Phoenix LLC (a Delaware LLC/subsidiary of APSES) (sold 6/22/10)
- 3) Tucson District Energy, LLC (an Arizona LLC/subsidiary of Northwind Phx LLC) (sold 6/22/10)
- 4) Crest Power, LLC (dissolved 8/10/10)

El Dorado has or has had the following investments / affiliates:

- 1) Acoustic Locating Services, LLC (dissolved in 2009)
- 2) Aegis Technologies, Inc. (dissolved in 2009)
- 3) Arizona Business Accelerator (dissolved in 2008)
- 4) Arizona Professional Baseball Ltd Partnership
- 5) Dominion Fund II (dissolved as of 12/31/02)
- 6) El Dorado Ventures / El Dorado Ventures II (dissolved as of 12/31/02)
- 7) El Dorado Ventures III (dissolving)
- 8) Gateway Data Sciences Corp. (dissolved as of 12/31/02)
- 9) NAC Holding Inc./ NAC International Inc. (all stock sold on 11/18/04 to USEC, Inc)
- 10) NxtPhase Corporation (sold in 2009)
- 11) Phoenix Downtown Theater LLC
- 12) Phoenix Suns Ltd Partnership (sold on 6/30/04)
- 13) PowerOneData, Inc. (sold in 2008)
- 14) Serveron Corporation (sold in 2007)
- 15) Underground Imaging Technologies (Vermeer Manufacturing Company)
- 16) SoftSwitching Technologies
- 17) Zolo Technologies

SunCor has the following subsidiaries and other related entities:

- | | |
|--|---|
| 1. Centrepoint Associates, LLC (Kimco) | 17. SDC Prescott Valley, LLC |
| 2. Club West Golf Course, LLC | 18. SDC Yavapai, LLC |
| 3. Coral Canyon HD, LLC (SITLA) | 19. Sedona Golf Resort LC (Sedona Assoc. LP) |
| 4. Golf de Mexico, S.A. de C.V. | 20. StoneRidge Commercial, LLC |
| 5. Hayden Ferry Lakeside, LLC | 21. StoneRidge — Prescott Valley LLC
StoneRidge Golf Course, LLC |
| Lakeside Residential Communities, LLC | 22. SunCor Homes, Inc. (fka Golden Heritage Homes, Inc.)
SunCor Construction AZ, Inc
Golden Heritage Construction Nevada, LLC |
| BV at Hayden Ferry Lakeside, LLC | 23. SunCor Financial, LLC |
| Edgewater at Hayden Ferry Lakeside, LLC | 24. SunCor Construction, Inc. |
| Waterford at Hayden Ferry Lakeside, LLC | 25. SunCor Golf, Inc.
Westworld Golf Course, LLC |
| Hayden Ferry Lakeside II, LLC | 26. SunCor Idaho, Inc.
Avimor, LLC
SunCor Realty & Management Idaho, LLC |
| Hayden Ferry Lakeside III, LLC | 27. SunCor New Mexico, Inc.
SunCor Albuquerque, LLC
SunCor Construction NM, LLC |
| 6. Hidden Hills of Scottsdale, LLC | 28. SunCor Realty & Management Company |
| 7. Highland Water Company, Inc. | 29. SunCor Utah, Inc. |
| 8. Kabuto SunCor JV (Kabuto Int'l Corp.) | 30. SunRidge Canyon, LLC
Talavi Associates, LLC (WLD Partners) |
| 9. Marina Heights, LLC | |
| 10. Palm Valley 303 Building 1, LLC | |
| 11. Palm Valley Golf Club, Inc. | |
| 12. Palm Valley Professional Plaza, LLC | |
| 13. Rancho Viejo de Santa Fe, Inc. | |
| 14. Riverside Distribution Center, LLC (Ryan Buckeye, LLC) | |
| 15. Scottsdale Mountain Limited Partnership | |
| 16. SDC Prescott, LLC | |

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-158779 and 333-175195 on Form S-3; and in Registration Statement Nos. 333-143432, 333-91786, and 333-157151 on Form S-8 of our report dated February 24, 2012, relating to the consolidated financial statements and financial statement schedules of Pinnacle West Capital Corporation, and the effectiveness of Pinnacle West Capital Corporation's internal control over financial reporting, appearing in this Annual Report on Form 10-K of Pinnacle West Capital Corporation for the year ended December 31, 2011.

/s/ Deloitte & Touche LLP

Phoenix, Arizona
February 24, 2012

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-158779-01 on Form S-3; and in Registration Statement Nos. 333-46161 and 333-158774 on Form S-8 of our report dated February 24, 2012, relating to the consolidated financial statements and financial statement schedule of Arizona Public Service Company, and the effectiveness of Arizona Public Service Company's internal control over financial reporting, appearing in this Annual Report on Form 10-K of Arizona Public Service Company for the year ended December 31, 2011.

/s/ Deloitte & Touche LLP

Phoenix, Arizona
February 24, 2012

CERTIFICATION

I, Donald E. Brandt, certify that:

1. I have reviewed this Annual Report on Form 10-K of Pinnacle West Capital Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2012.

/s/ Donald E. Brandt

Donald E. Brandt
Chairman, President and
Chief Executive Officer

CERTIFICATION

I, James R. Hatfield, certify that:

1. I have reviewed this Annual Report on Form 10-K of Pinnacle West Capital Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2012.

/s/ James R. Hatfield

James R. Hatfield
Senior Vice President and
Chief Financial Officer

CERTIFICATION

I, Donald E. Brandt, certify that:

1. I have reviewed this Annual Report on Form 10-K of Arizona Public Service Company;
 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
 4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2012.

/s/ Donald E. Brandt

Donald E. Brandt
Chairman and Chief Executive Officer

CERTIFICATION

I, James R. Hatfield, certify that:

1. I have reviewed this Annual Report on Form 10-K of Arizona Public Service Company;
 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
 4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2012.

/s/ James R. Hatfield

James R. Hatfield
Senior Vice President and
Chief Financial Officer

**CERTIFICATION
OF
CHIEF EXECUTIVE OFFICER
AND
CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Donald E. Brandt, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of Pinnacle West Capital Corporation for the fiscal year ended December 31, 2011 fully complies with the requirements of Section 13 (a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Pinnacle West Capital Corporation.

Date: February 24, 2012.

/s/ Donald E. Brandt
Donald E. Brandt
Chairman, President and
Chief Executive Officer

I, James R. Hatfield, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of Pinnacle West Capital Corporation for the fiscal year ended December 31, 2011 fully complies with the requirements of Section 13 (a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Pinnacle West Capital Corporation.

Date: February 24, 2012.

/s/ James R. Hatfield
James R. Hatfield
Senior Vice President and
Chief Financial Officer

**CERTIFICATION
OF
CHIEF EXECUTIVE OFFICER
AND
CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Donald E. Brandt, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of Arizona Public Service Company for the fiscal year ended December 31, 2011 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Arizona Public Service Company.

Date: February 24, 2012.

/s/ Donald E. Brandt

Donald E. Brandt
Chairman and Chief Executive Officer

I, James R. Hatfield, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of Arizona Public Service Company for the fiscal year ended December 31, 2011 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Arizona Public Service Company.

Date: February 24, 2012.

/s/ James R. Hatfield

James R. Hatfield
Senior Vice President and
Chief Financial Officer
