

# West Coast Utilities Seminar

December 13, 2007

PINNACLE WEST  
CAPITAL CORPORATION





# Forward Looking Statements

This presentation contains forward-looking statements based on current expectations, and neither Pinnacle West Capital Corporation (“Pinnacle West”) nor Arizona Public Service (“APS”) assumes any obligation to update these statements or make any further statements on any of these issues, except as required by applicable law. These forward-looking statements are often identified by words such as “estimate,” “predict,” “hope,” “may,” “believe,” “anticipate,” “plan,” “expect,” “require,” “intend,” “assume” and similar words. Because actual results may differ materially from expectations, we caution readers not to place undue reliance on these statements. A number of factors could cause future results to differ materially from historical results, or from results or outcomes currently expected or sought by Pinnacle West or APS. In addition to the Risk Factors described in Item 1A of the Pinnacle West/APS Form 10-K for the year ended December 31, 2006, these factors include, but are not limited to: state and federal regulatory and legislative decisions and actions, particularly those affecting our rates and our recovery of fuel and purchased power costs; the ongoing restructuring of the electric industry, including the introduction of retail electric competition in Arizona and decisions impacting wholesale competition; the outcome of regulatory, legislative and judicial proceedings, both current and future, relating to the restructuring and environmental matters (including those relating to climate change); market prices for electricity and natural gas; power plant performance and outages; transmission outages and constraints; weather variations affecting local and regional customer energy usage; customer growth and energy usage; regional economic and market conditions, including the results of litigation and other proceedings resulting from the California energy situation, volatile fuel and purchased power costs and the completion of generation and transmission construction in the region, which could affect customer growth and the cost of power supplies; the cost of debt and equity capital and access to capital markets; current credit ratings remaining in effect for any given period of time; our ability to compete successfully outside traditional regulated markets (including the wholesale market); the performance of our marketing and trading activities due to volatile market liquidity and any deteriorating counterparty credit and the use of derivative contracts in our business (including the interpretation of the subjective and complex accounting rules related to these contracts); changes in accounting principles generally accepted in the United States of America and the interpretation of those principles; the performance of the stock market and the changing interest rate environment, which affect the value of our nuclear decommissioning trust, pension, and other postretirement benefit plan assets, the amount of required contributions to Pinnacle West’s pension plan and contributions to APS’ nuclear decommissioning trust funds, as well as the reported costs of providing pension and other postretirement benefits; technological developments in the electric industry; the strength of the real estate market in SunCor’s market areas, which include Arizona, Idaho, New Mexico and Utah; and other uncertainties, all of which are difficult to predict and many of which are beyond the control of Pinnacle West and APS.



# Strategic Objectives

- **Focus on customer service excellence**
- **Maintain solid operating performance**
- **Manage costs and business risks**
- **Foster positive regulatory relations and achieve constructive outcomes**
- **Optimize real estate assets**
- **Create long-term shareholder value**

# Regulatory Overview







# **2007 ACC Rate Case Decision Key Components**

- **Updated base fuel rate to 2007 levels**
- **Improved timely recovery of fuel and purchased power costs**
- **Validated APS' fuel hedging and procurement programs**
- **Reflected APS' requested capital structure**
- **Implemented environmental improvement surcharge**
- **Began addressing who should pay for growth and challenges of regulatory lag**



# Power Supply Adjustor Revisions

Effective July 1, 2007

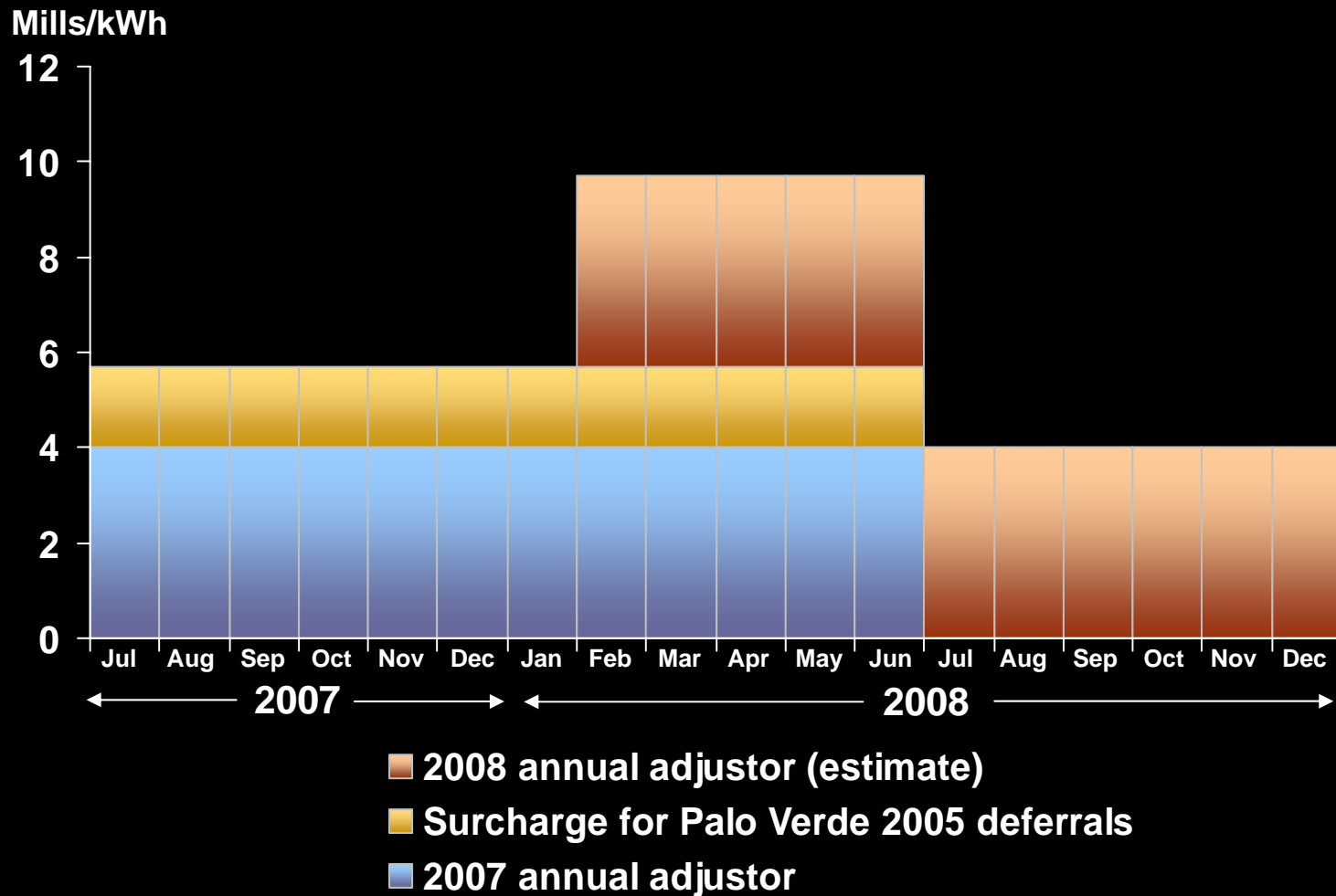
## Annual adjustor components

- Forward-looking estimate of fuel and purchased power costs
- True up to reconcile prior-year actual and estimated costs

4 mill/kWh annual cap on PSA rate changes

- Previously 4 mill/kWh lifetime cap

# PSA Annual Adjustors & Surcharge





# Who Should Pay for Growth?

## THE ARIZONA REPUBLIC

October 22, 2007

### **Fees for Service**

“Arizona Corporation Commission regulators are exploring ways to require property owners to pay for services traditionally provided for free, with the costs spread among ratepayers.

These include potential fees for new electric and natural gas customers.”

**“This freebie was costing ratepayers,” Commissioner Mayes said. “We are going to require growth to pay for itself. Right now, it is not.”**





# **APS Proposed Amendments to Line Extension Schedule**

- **ACC 2007 rate order required APS to file amendments to eliminate certain allowances for new or expanded service**
- **Shift burden of rising distribution infrastructure costs away from current customer base to growth**



# APS Proposed Amendments to Line Extension Schedule

- **APS proposed amendments**
  - Allow APS to collect costs related to line extensions on a current basis
    - ◆ Pretax costs estimated to be \$3,500 - \$5,000 per new meter set
  - Account for amounts collected as revenue
  - Grandfather certain line extension agreements
- **ACC Staff recommended order accepts APS' proposed amendments, except for accounting treatment**
  - Account for amounts collected as "contributions in aid of construction"



# **APS Proposed Amendments to Line Extension Schedule**

## ***Key Dates***

<b>October 24</b>	<b>APS proposed line extension schedule amendments filed</b>
<b>November 2</b>	<b>ACC Staff recommended order issued</b>
<b>November 16</b>	<b>ACC Staff recommended order updated to address “grandfathering”</b>
<b>November 16</b>	<b>APS exceptions to recommended order filed</b>
<b>Future</b>	<b>ACC open meeting to consider proposed amendments</b>



# FERC Rate Case Summary

- **\$37 million wholesale rate increase requested for transmission and ancillary services**
  - **\$30 million to be collected through retail rates**
- **Proposed formula-based rates with annual adjustment**
- **Rate base: \$847 million**
- **Capital structure: 47% debt, 53% equity**
- **Return on equity requested: 11.3%**



# FERC Rate Case Time Line

- Test year ended December 31, 2006
- Request filed July 10, 2007
- FERC rates to become effective March 1, 2008 (subject to refund)
- Retail adjustor implementation

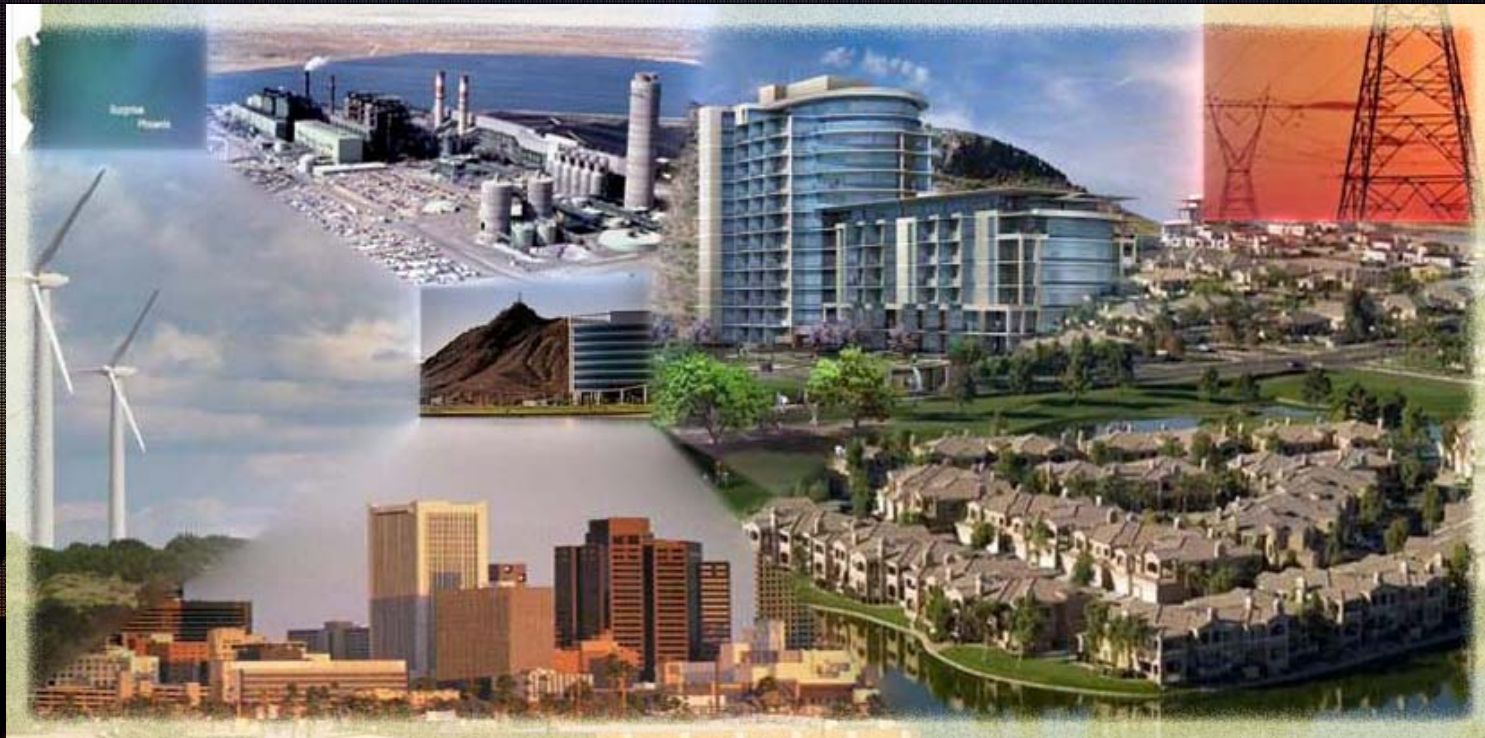




# Regulatory Initiatives

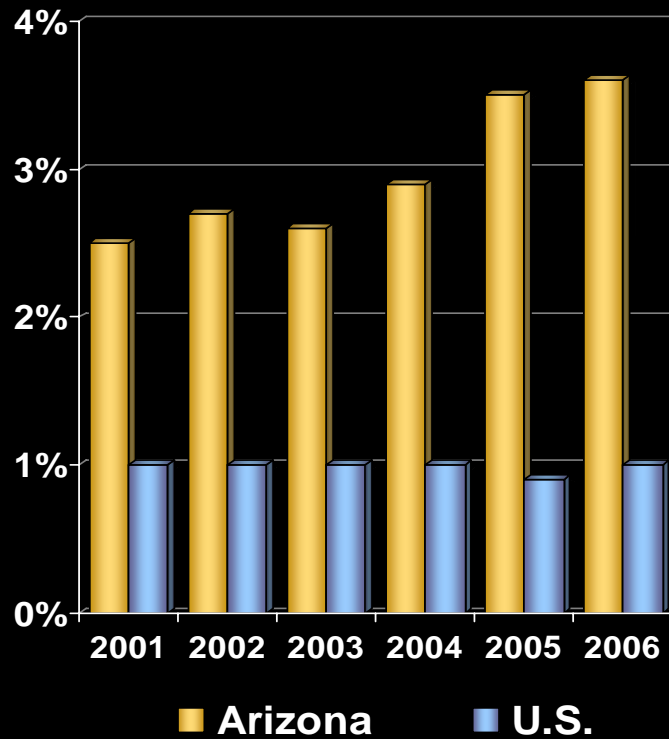
- **Promote interactive and cooperative regulatory process**
- **Respond to ACC request to have “growth pay for itself”**
- **Address resource planning and acquisition needs**
- **Expand renewable energy resources**
- **Enhance renewables and energy efficiency programs and encourage customer participation**
- **Address earnings attrition**

# Market & Operations Update

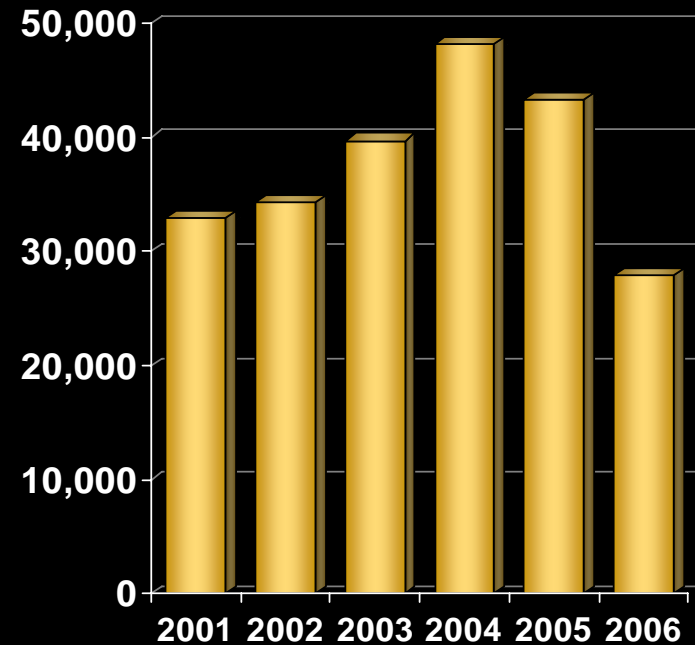


# Solid Fundamental Growth

*Arizona vs U.S.  
Population Growth*

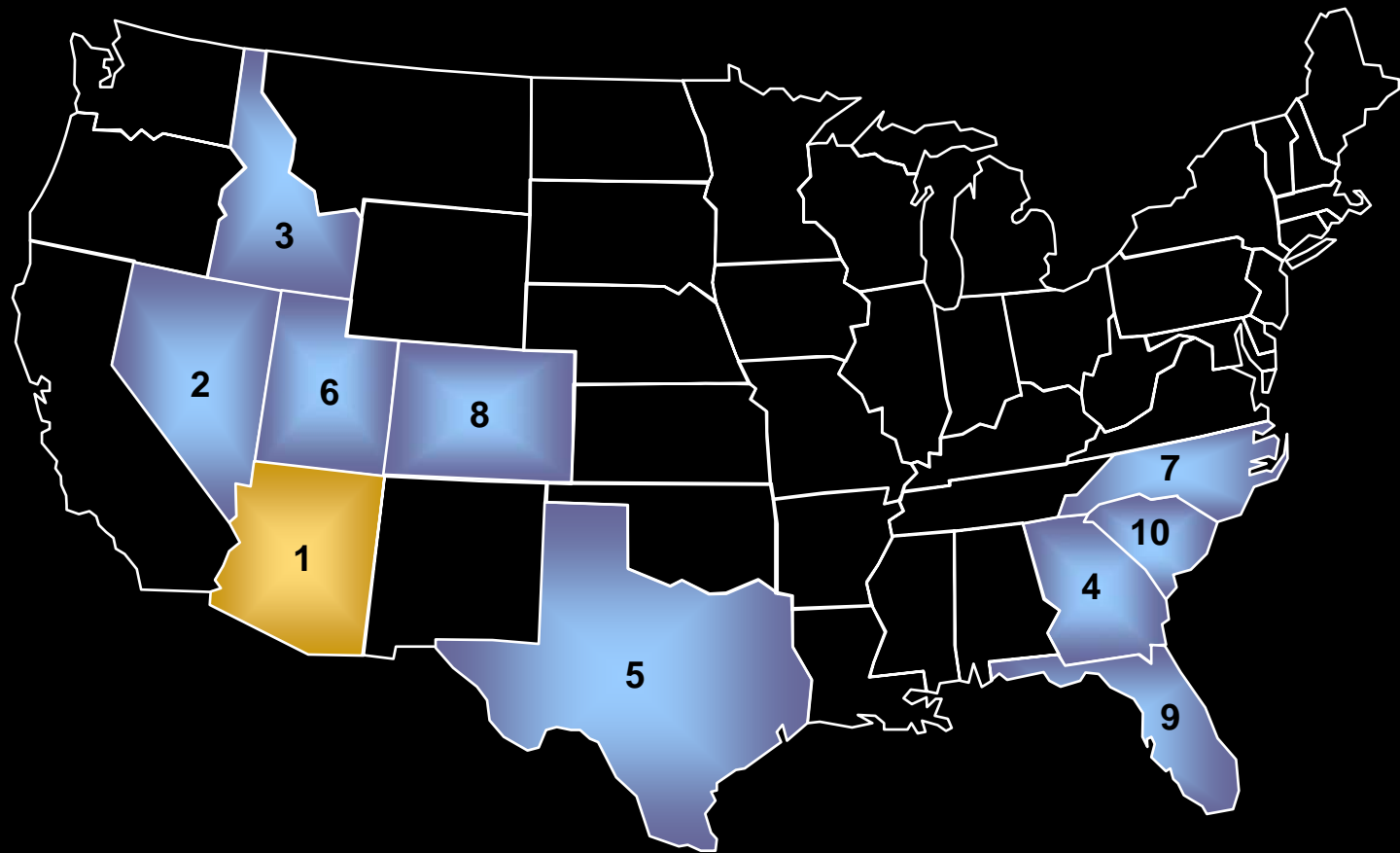


*Metro Phoenix  
Single-Family Building Permits*





# Arizona Leads U.S. in Population Growth



Annual percent change 2005 – 2006, U.S. Census Bureau



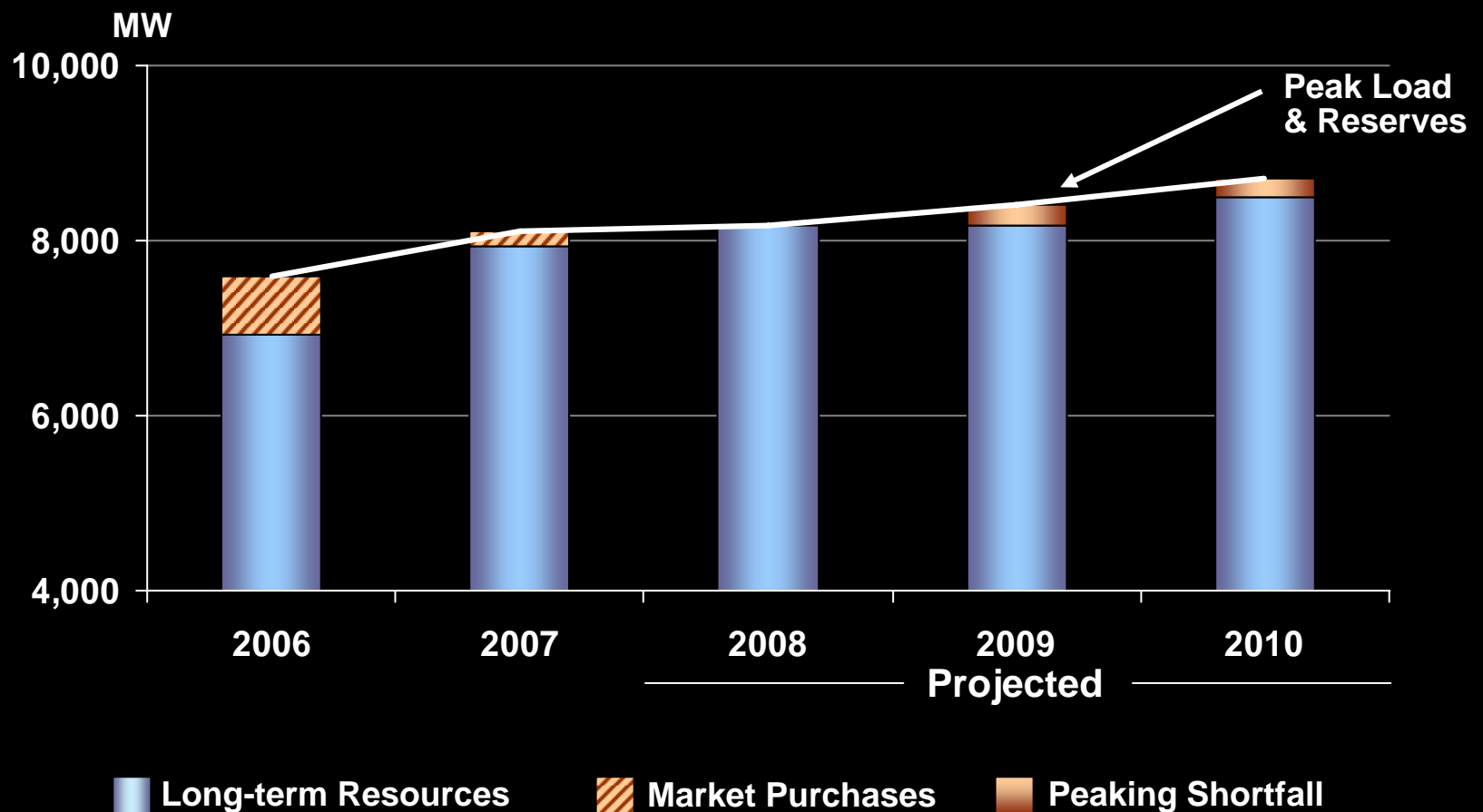
# Resources to Serve Market Growth

- Existing resources
- New resources
- Potential inter-regional transmission
- Integrated resource planning
  - System reliability
  - Cost to customers
  - Environmental impacts
  - Renewables and energy efficiency
  - Risks



# APS Resource Requirements for Native Load

*2006 - 2010 Average Annual Growth 3.5%*



# New Gas Resources

- **96 MW gas peaking asset**
  - Yuma CTs
  - Under construction
  - In service summer 2008
  
- **560 MW gas purchase power agreement**
  - 10-year term beginning June 2010
  - Summer product, expanding to 6 months as needed



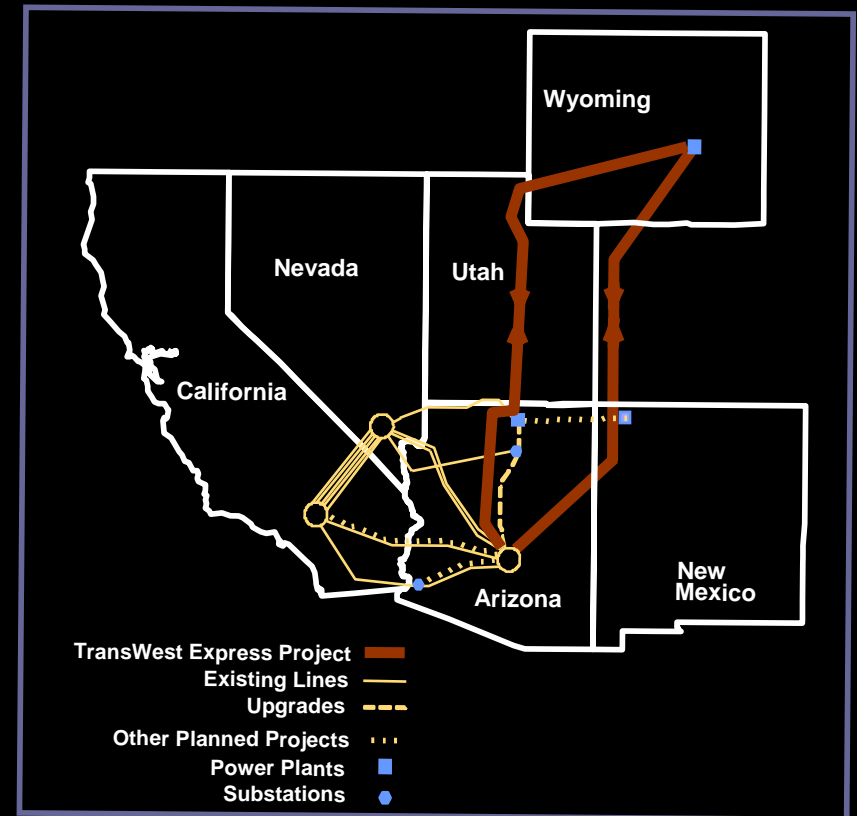


# Renewable Resource Requirements

- **Arizona Renewable Energy Standard (RES)**
- **Sets minimum renewable energy amounts**
  - 5% of energy for retail sales by 2015
  - 15% of energy for retail sales by 2025
- **Includes distributed energy component**
  - 30% of total by 2011

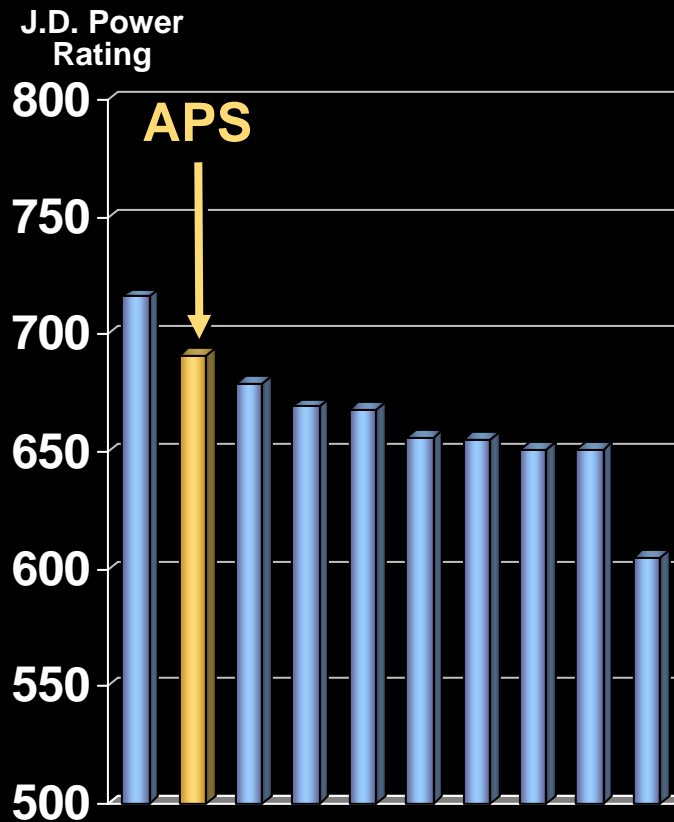
# Potential Inter-Regional Transmission

- Expand resources to meet rapid load growth
- Enhance resource portfolio reliability and economics
- Increase system import capability
- Improve fuel diversity
- Access renewable wind and clean coal resources

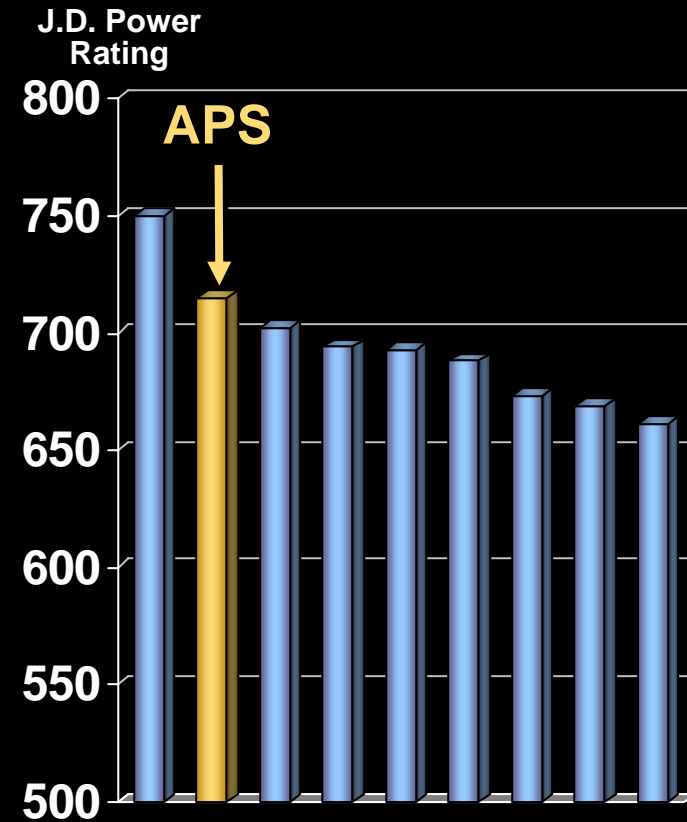


# APS 2<sup>nd</sup> in Customer Satisfaction Among Western Electric IOU's

## Residential



## Commercial

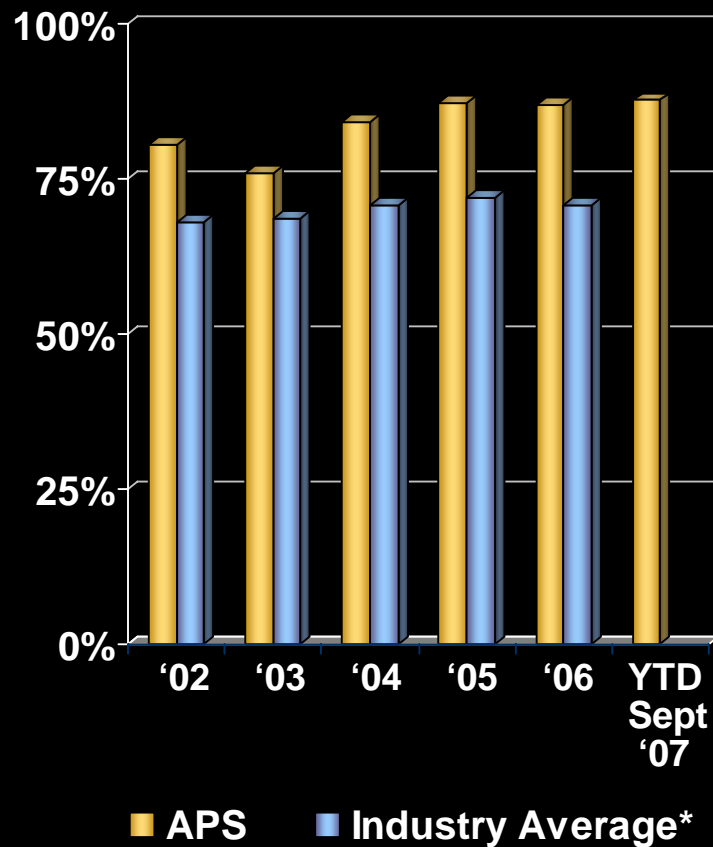


2007 J.D. Power Customer Satisfaction Surveys



# Top-Tier Coal Performance

## Capacity Factors



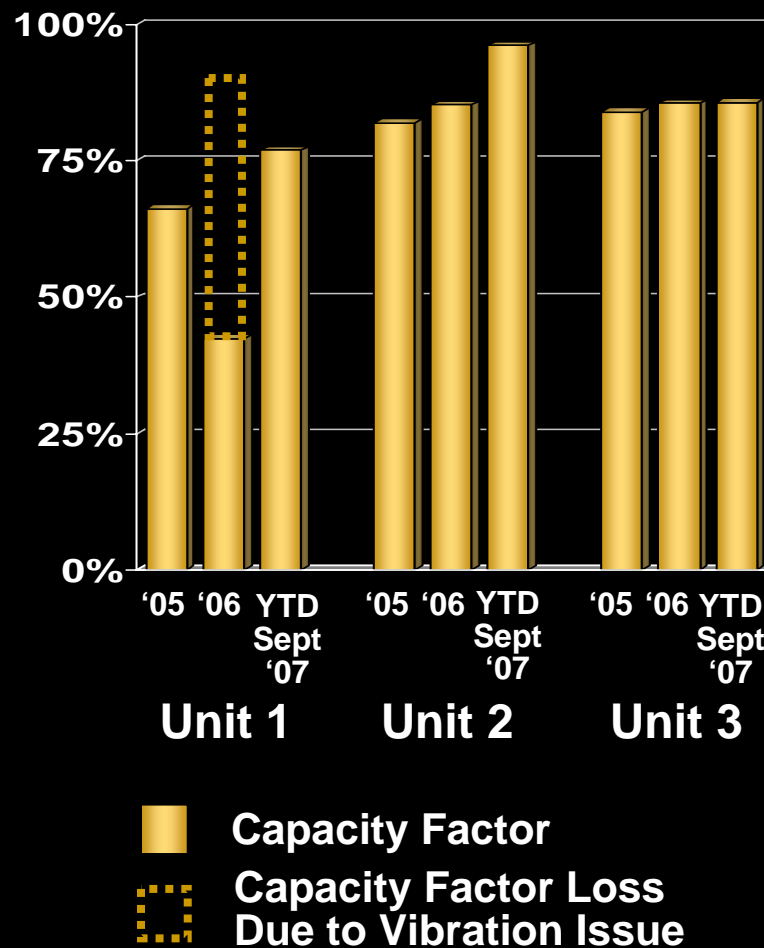
## 2006 Highlights

- Site record coal capacity factors for third straight year
- Four Corners
  - Set new production record 15.9+ million MWh
  - Capacity factor 87%
- Cholla
  - Set new production record 4.7+ million MWh
  - Capacity factor 87%

\* Latest available

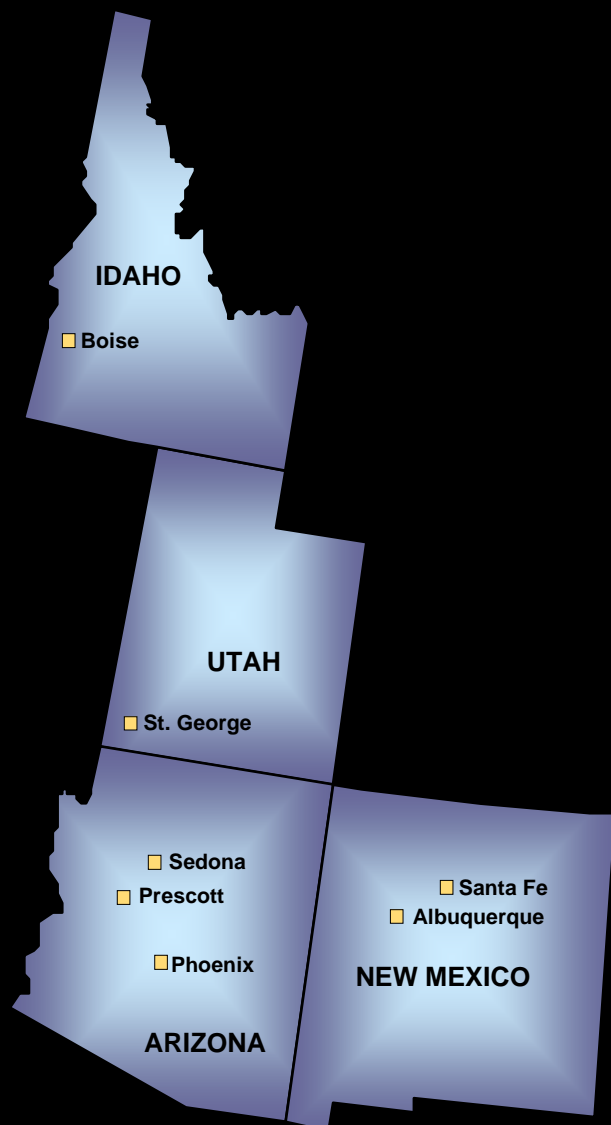
# Nuclear Challenges & Opportunities

*Capacity Factors*



- Top U.S. power producer past 14 years
- Unit 1 vibration issue resolved in 2006
- Goal to achieve site capacity factor around 90%
- Executive management changes in early 2007
  - Randy Edington, chief nuclear officer
- Performance improvement plan underway
- Strengthening regulatory relationships

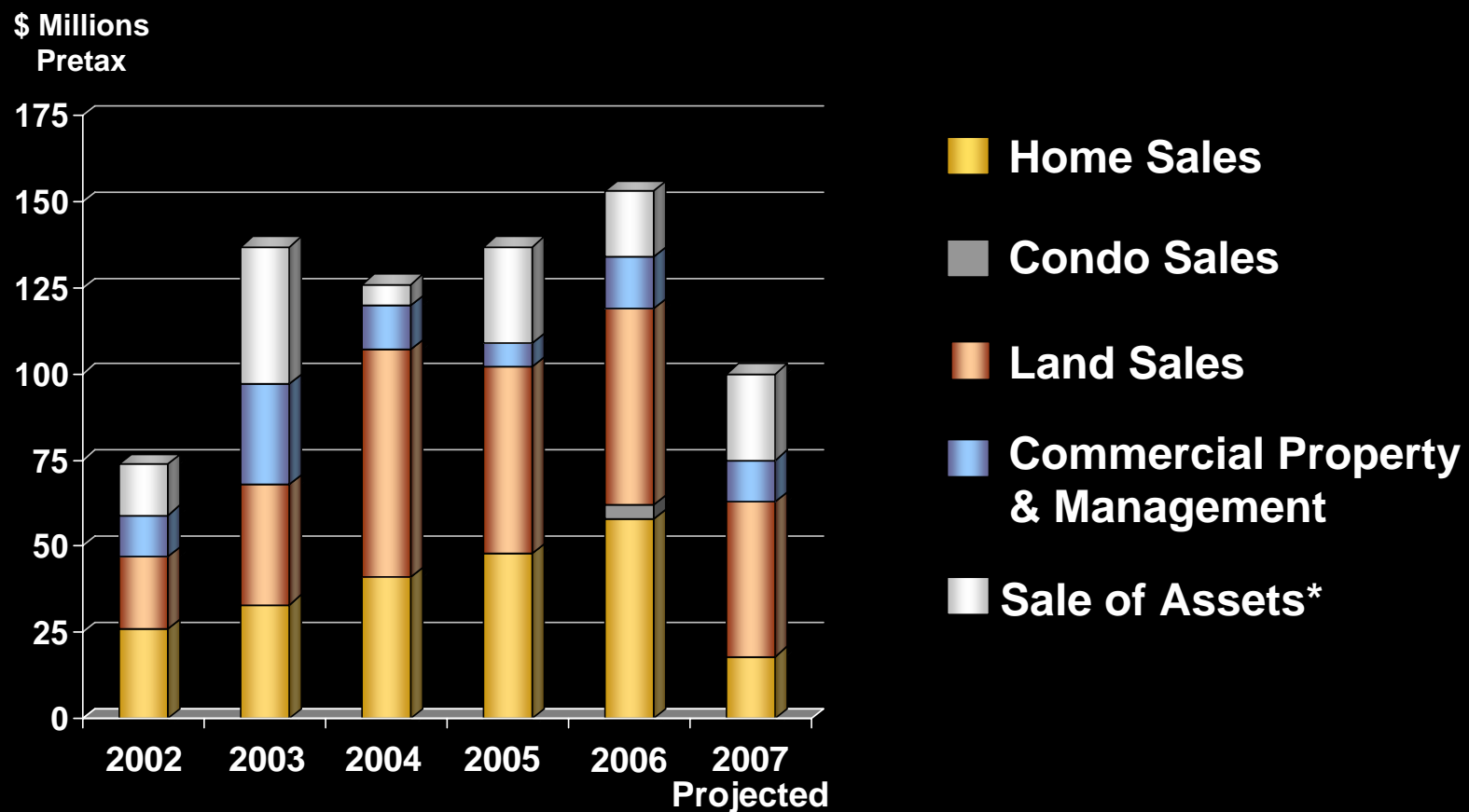
# SunCor Overview



- **Commercial and residential real estate developer in Western U.S.**
- **Total assets \$686 million**
- **Stockholder's equity \$291 million**
- **Diverse geographic and business mix**
  - **8 master-planned communities**
  - **6 major commercial projects**
  - **500,000 square feet of mixed-use urban infill**

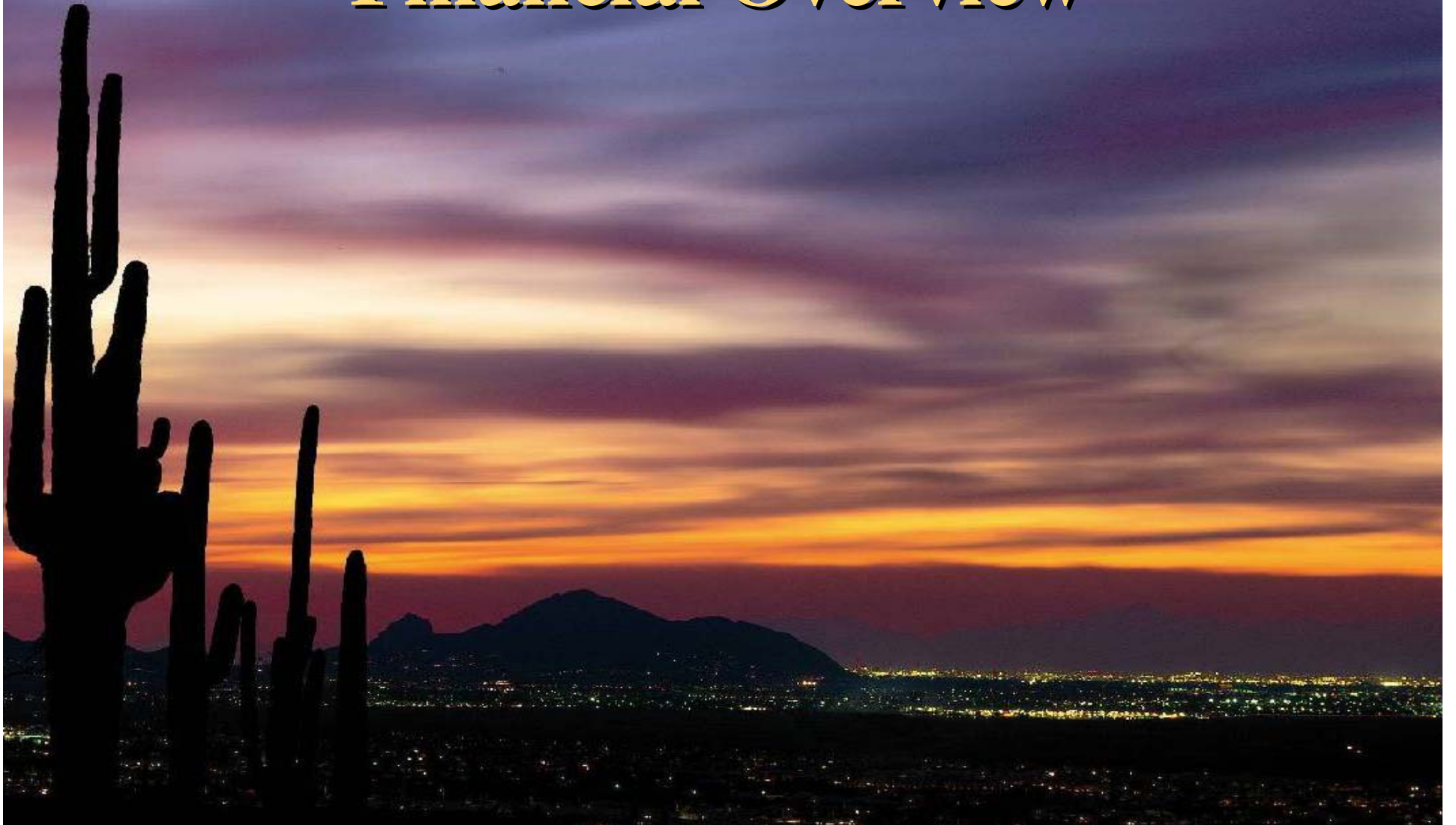
As of September 30, 2007

# SunCor Gross Margin Contribution by Business Line



\* Includes discontinued operations

# Financial Overview





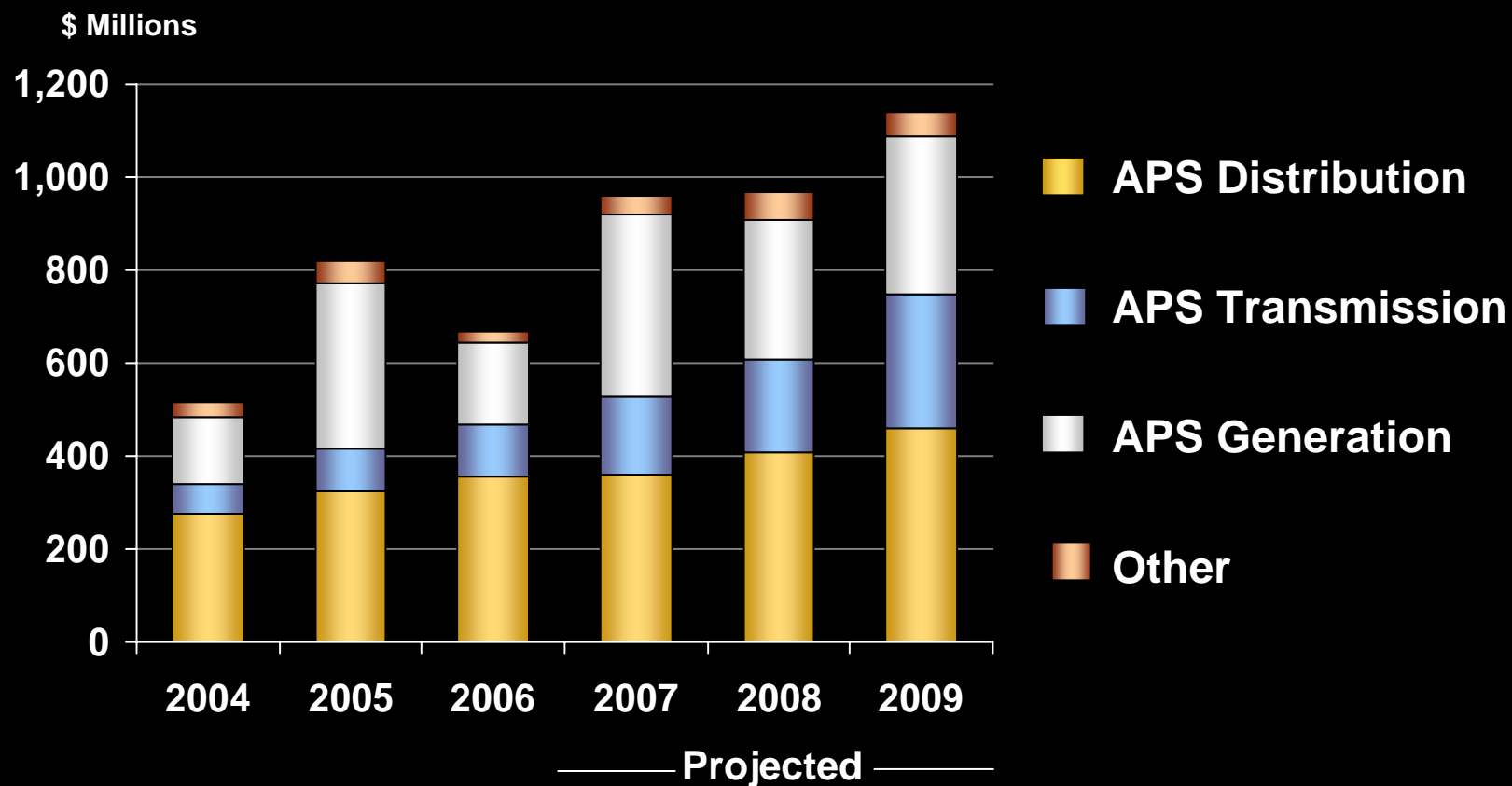


# **2007 Earnings Guidance**

## **As of October 25, 2007**

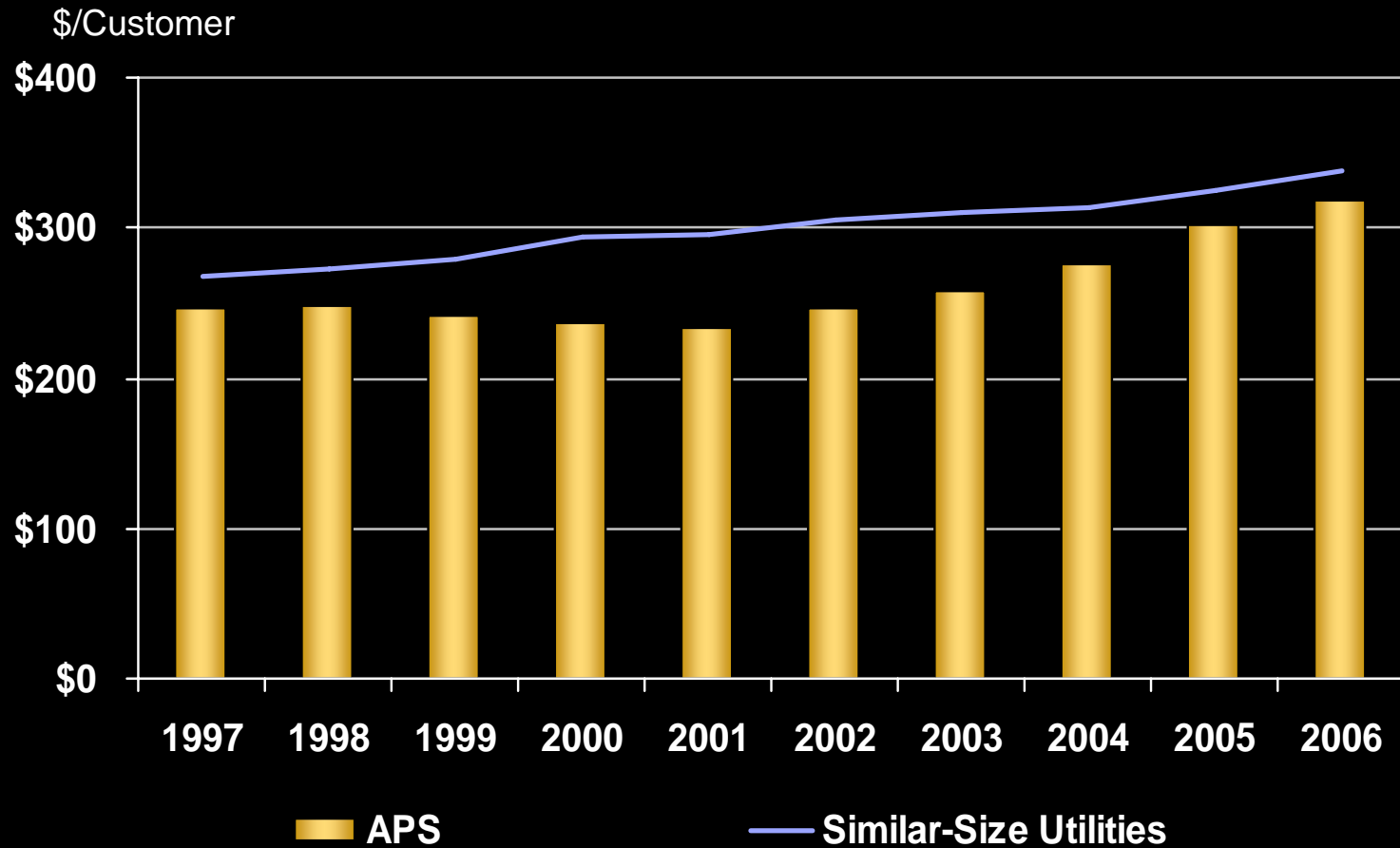
- **Consolidated earnings expected to be within reasonable range around \$2.90 per share**
  - **APS earnings approximately \$2.70 per share (8.25% ROE)**
  - **SunCor earnings approximately \$20 million**
- **Major EPS differences from July 2007 guidance**
  - **Hotter than normal Q3 2007 weather** **\$ 0.14**
  - **Tax benefits related to prior years resolved in 2007** **\$ 0.13**
  - **Reduced SunCor expectations** **\$(0.10)**
  - **Miscellaneous items, net** **\$ 0.18**

# Significant Capital Investment to Support Growth



Excluding SunCor

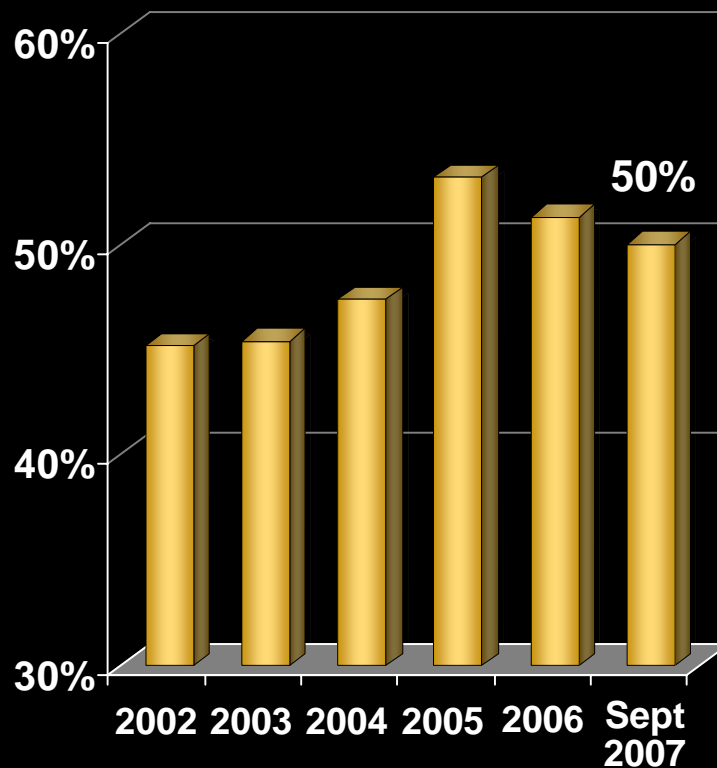
# Controlling O&M Costs



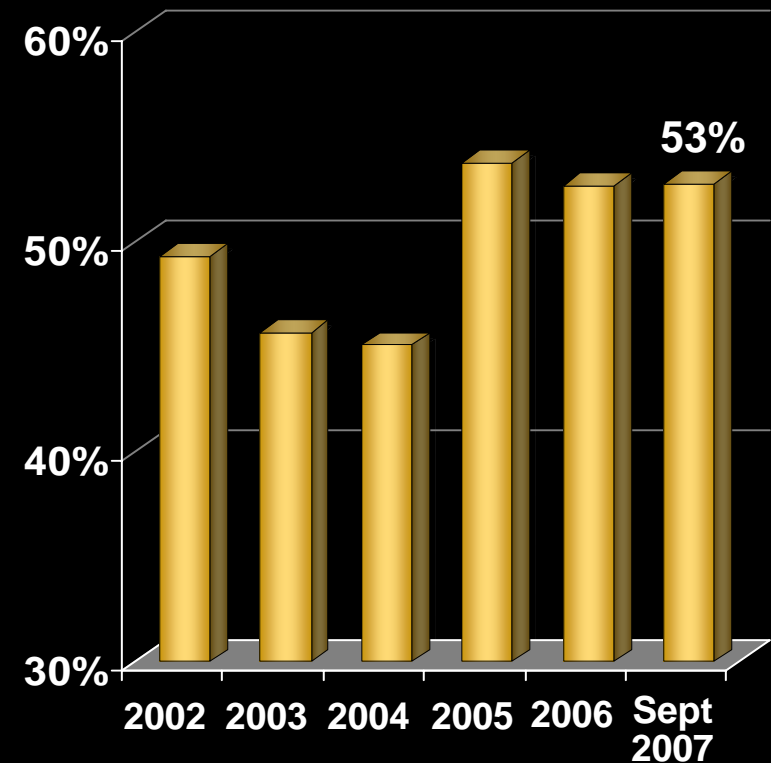
Excluding generation costs

# Solid Equity Ratios to Support Growth

*Consolidated*



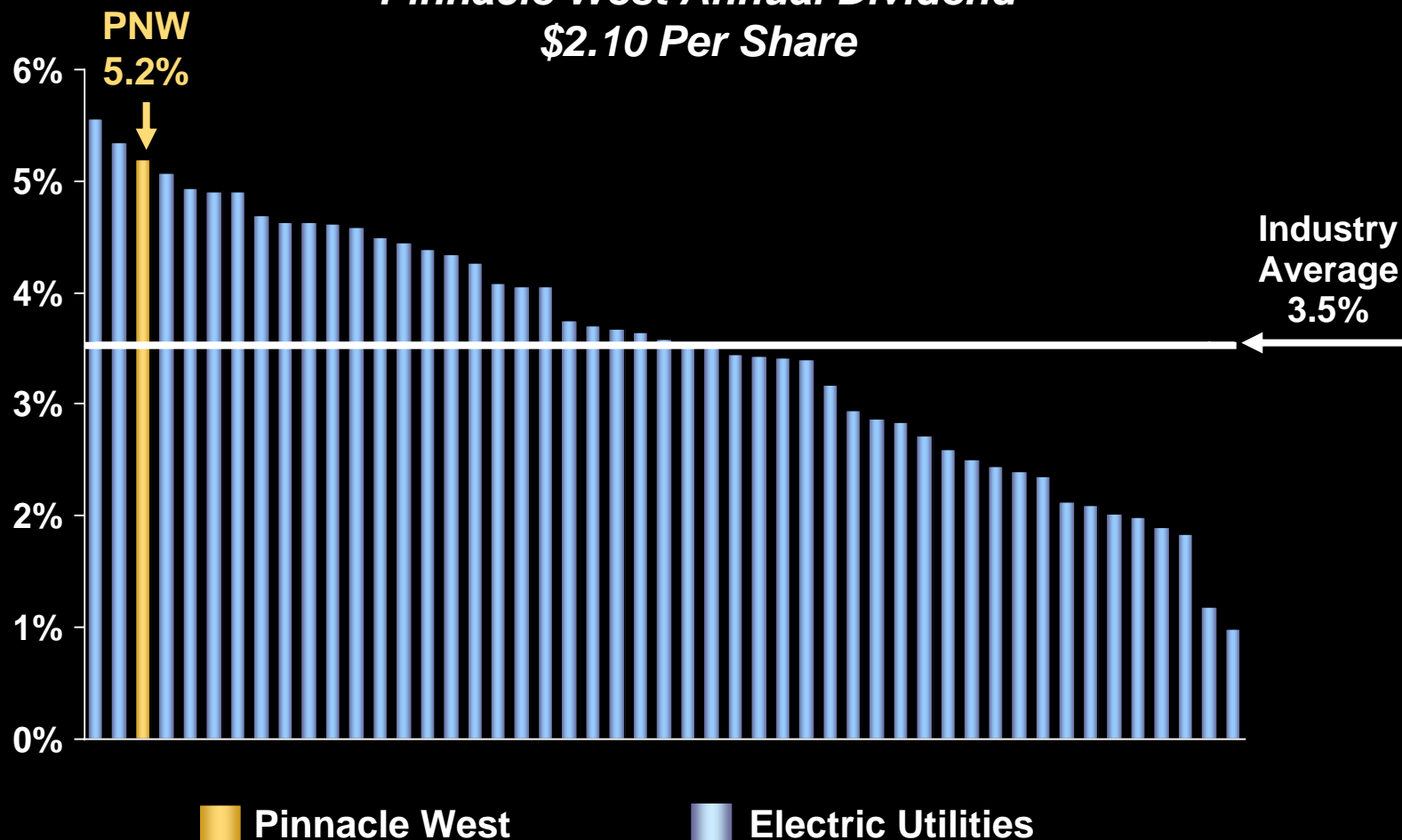
*APS*



Excluding off-balance sheet adjustments

# U.S. Electric Utilities Dividend Yields

*Pinnacle West Annual Dividend  
\$2.10 Per Share*

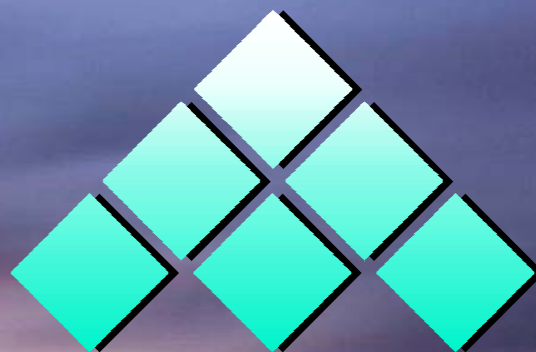


As of October 31, 2007



# Summary

- **Focus on customer service excellence**
- **Maintain solid operating performance**
- **Manage costs and business risks**
- **Foster positive regulatory relations and achieve constructive outcomes**
- **Optimize real estate assets**
- **Create long-term shareholder value**



PINNACLE WEST  
CAPITAL CORPORATION



# Appendix





# Current Credit Ratings Profile

	S&P	Moody's	Fitch
<b><i>Pinnacle West (Parent)</i></b>			
Senior Unsecured Debt*	BB+	Baa3	N/A
Commercial Paper	A3	P3	F3
Outlook	Stable	Negative	Stable
<b><i>APS</i></b>			
Senior Unsecured Debt	BBB-	Baa2	BBB
Commercial Paper	A3	P2	F2
Outlook	Stable	Negative	Stable

\* Preliminary



# Liquidity Resources

## ***APS***

- \$400 million revolver through December 2010
- \$500 million revolver through September 2011
- Short-term borrowing \$150 million as of September 30, 2007
- Next long-term debt maturity 2011

## ***Pinnacle West (parent)***

- \$300 million revolver through December 2010
- Short-term borrowing \$116 million as of September 30, 2007
- Next long-term debt maturity 2011



# Arizona Corporation Commissioners

<u>Commissioner</u>	<u>Party Affiliation</u>	<u>Commissioner Since</u>	<u>Term Expires</u>
Mike Gleason, Chairman	Republican	Jan. 2003	Jan. 2009
Jeff Hatch-Miller	Republican	Jan. 2003	Jan. 2009
Kristin Mayes	Republican	Oct. 2003	Jan. 2011
William Mundell	Republican	June 1999	Jan. 2009
Gary Pierce	Republican	Jan. 2007	Jan. 2011




# APS Retail Rate Case

## Summary of Request and Final Order

	<u>APS Rate Request</u>	<u>ACC Final Order</u>
Annual base rate increase (decrease)		
Fuel-related	\$ 315M	\$ 315M
Non-fuel	<u>120M</u>	<u>7M</u>
Total	<u>\$ 435M</u>	<u>\$ 322M</u>
Percent increase	20.4%	15.1%
Base fuel rate per kWh	3.25¢	3.25¢
Return on equity	11.5%	10.75%
Capital structure		
Long-term debt	45%	45%
Common equity	55%	55%
Rate base	\$4.46B	\$4.40B

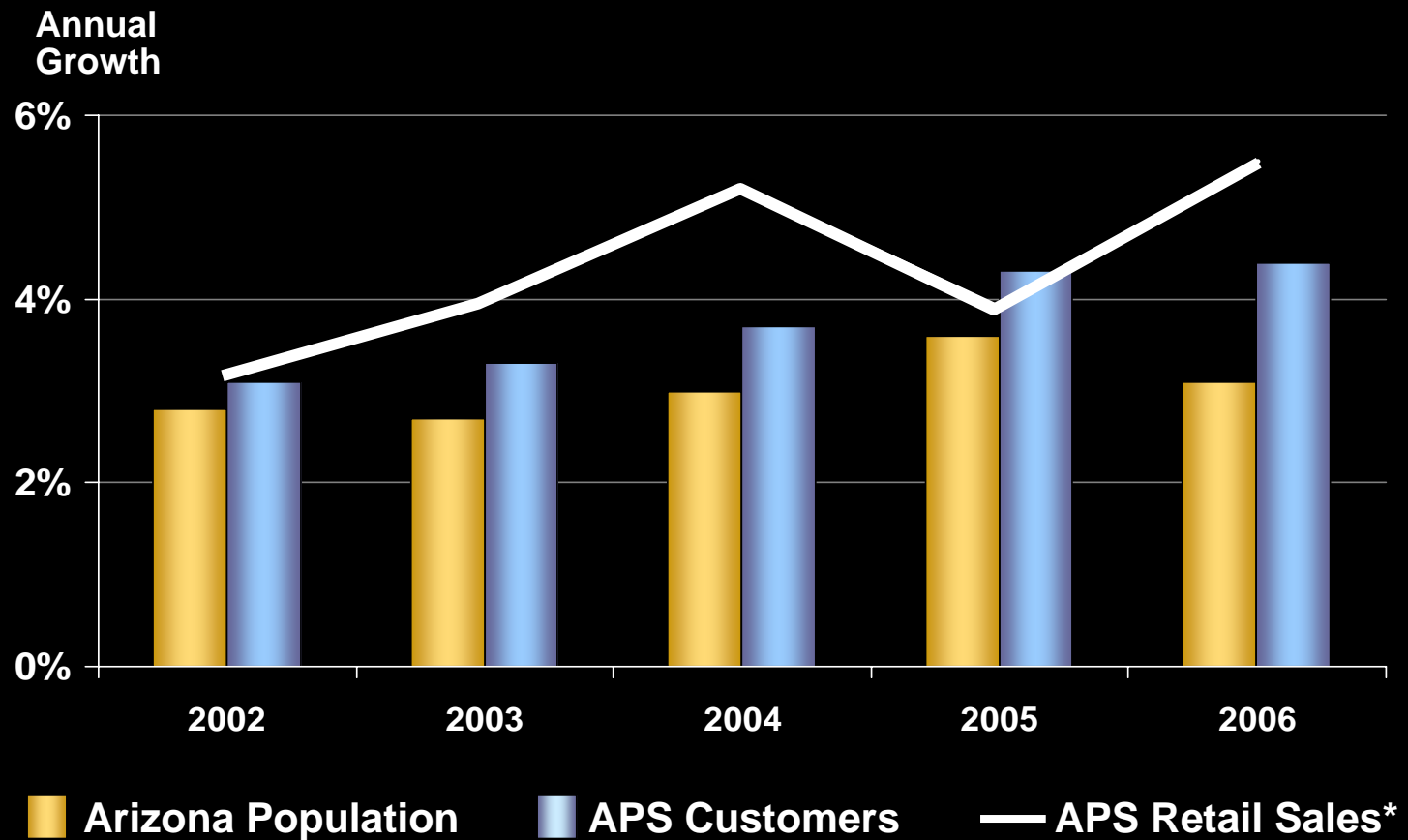
# APS Retail Service Territory



 APS Retail Service Territory



# Economic Growth Underpins Retail Sales Growth

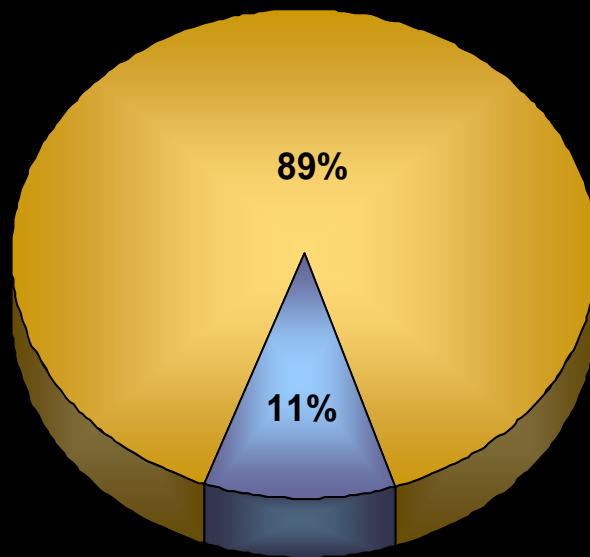


\* Weather normalized

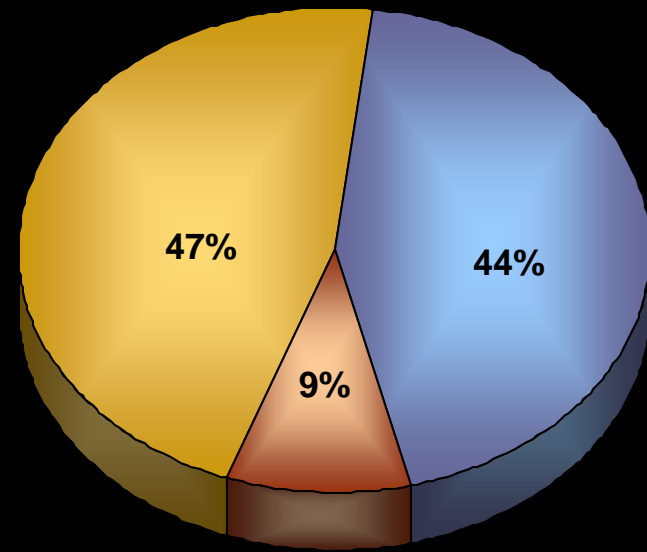


# APS 2006 Retail Customer and Sales Mix

*1.1 Million Customers*



*27,970 GWh Sales*



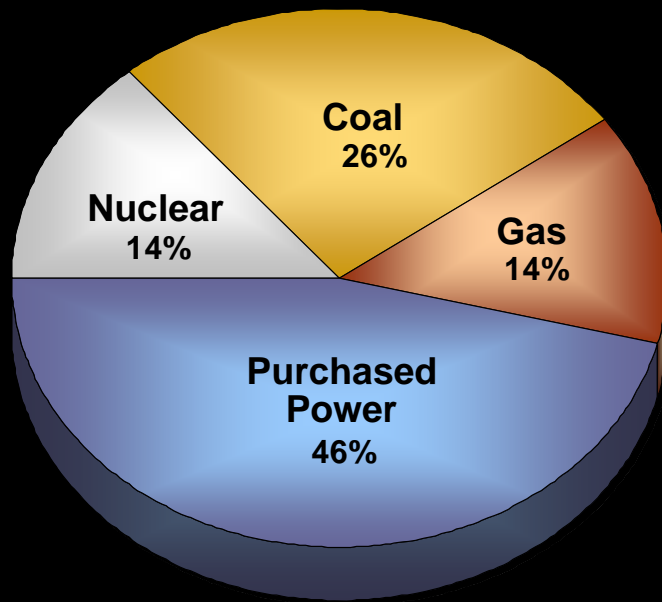
■ Residential

■ Commercial

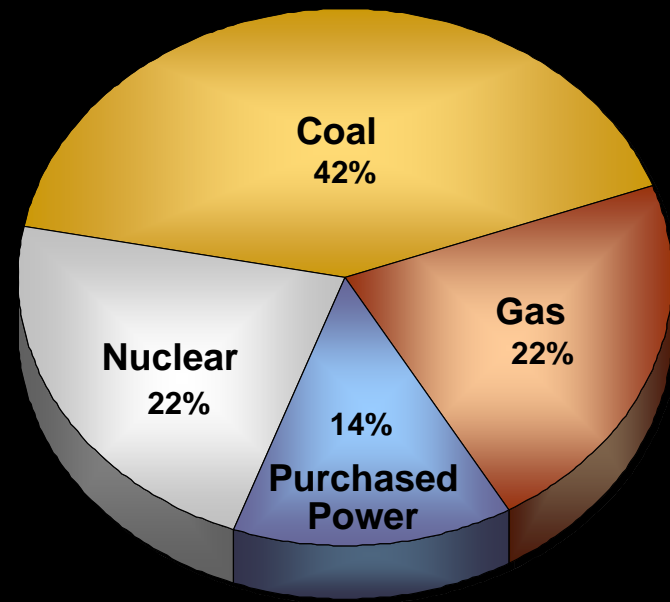
■ Industrial

# 2006 Energy Fuel Mix

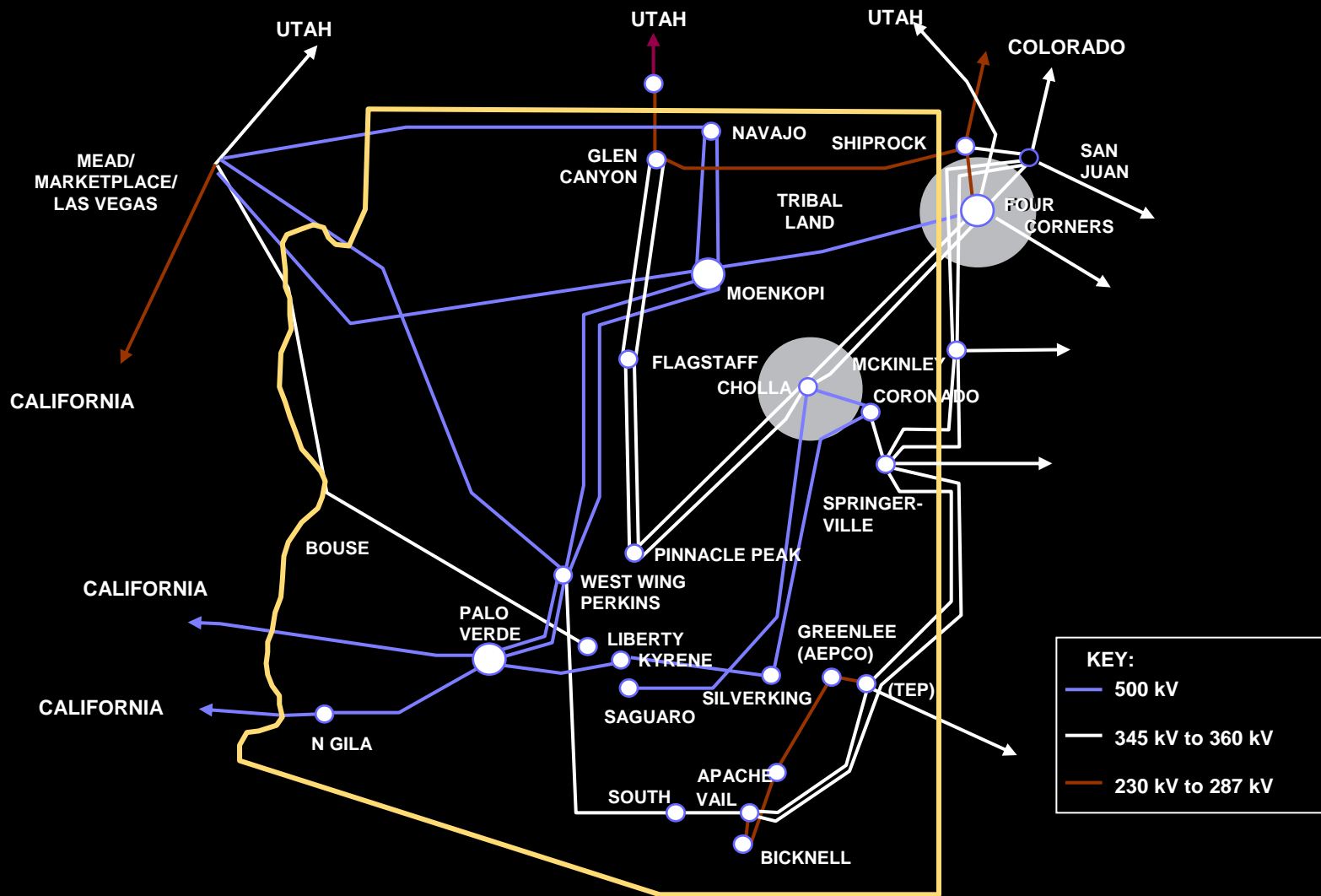
*Consolidated*



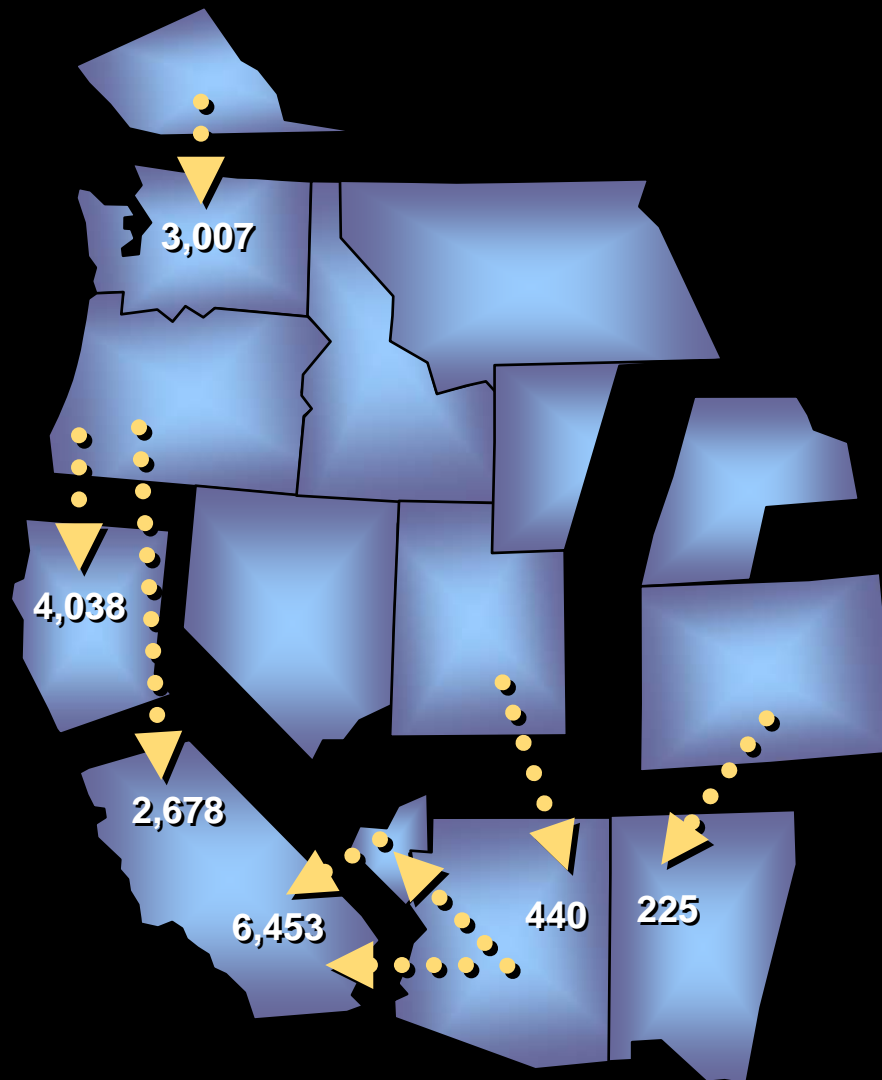
*Native Load*



# Arizona Transmission System



# WECC Available Transmission Capability

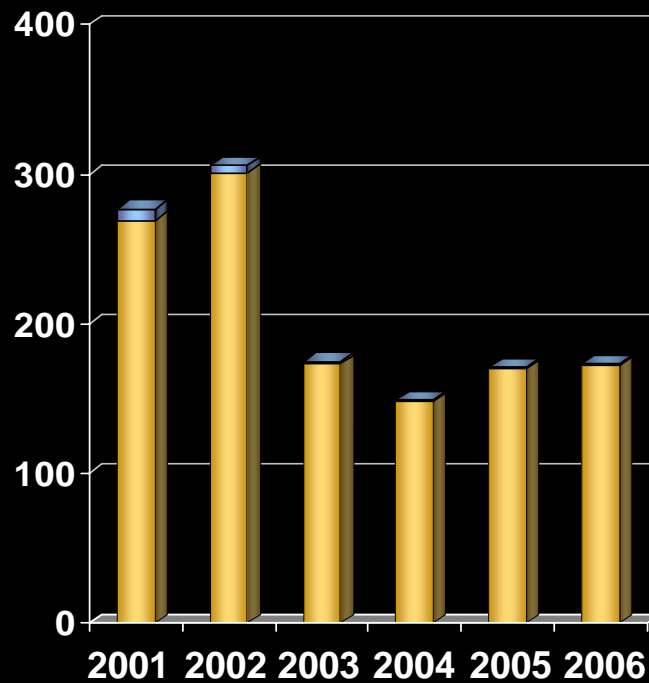


Summer 2007 estimates (MW)

# SunCor Project Diversity by Type

## *Legacy Properties*

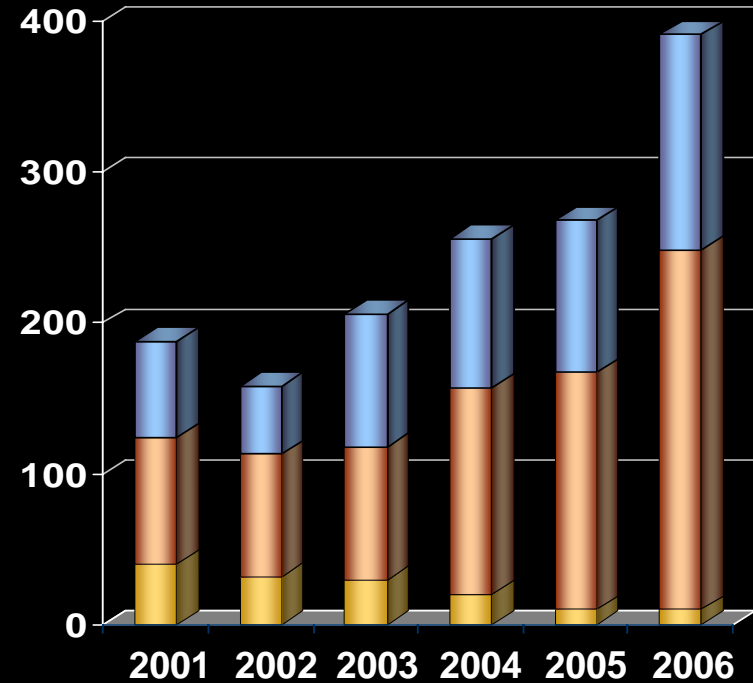
\$ Millions



Master Planned  
Owned

## *Post-1990 Properties*

\$ Millions

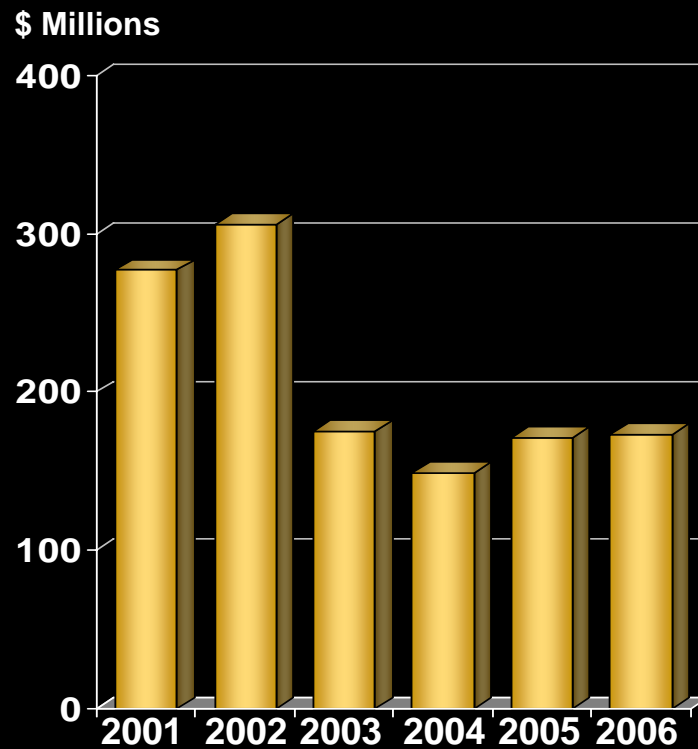


Master Planned  
Ventures with Landowners

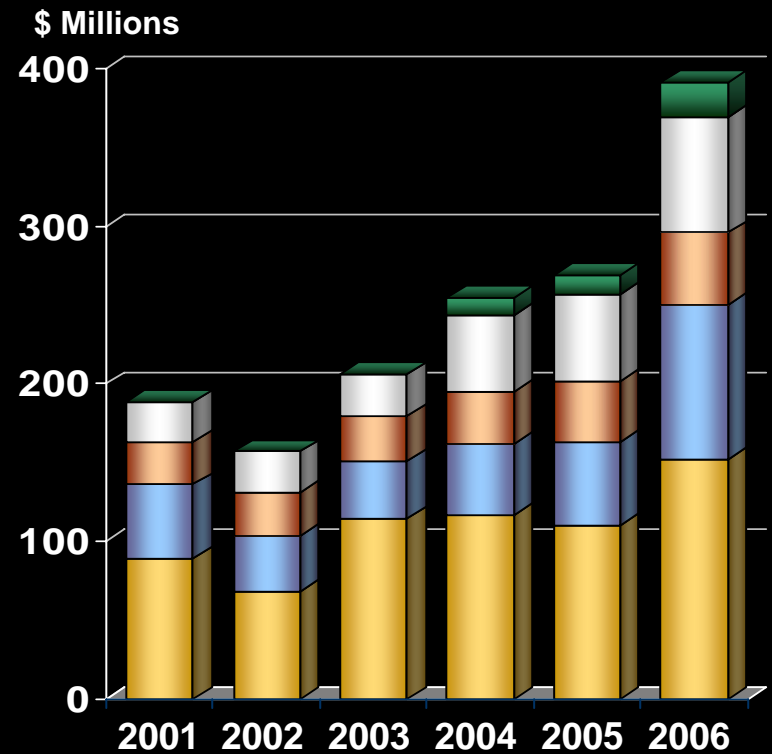
Commercial & Other






# SunCor Geographic Project Diversity

*Legacy Properties*



*Post-1990 Properties*



 Metro Phoenix  Northern Arizona  Utah  New Mexico  Idaho





# SunCor Project Summaries

## Master-Planned Communities

	Year Acquired	Original Acreage	12/31/06 Acreage
Palm Valley (Phoenix, AZ)	1987	11,300	2,700
Rancho Viejo Phase I (Santa Fe, NM)*	1996	2,500	1,500
Coral Canyon (St. George, UT)*	1998	2,500	750
StoneRidge (Northern AZ)*	2001	1,840	1,100
Avimor (Boise, ID)*	2003	12,500	12,500
Prescott Lakes (Northern AZ)*	2004	175	175
Campbell Ranch (Albuquerque, NM)*	2006	2,600	2,600
Yavapai Ranch (Northern AZ)*	2006	25,000	25,000

\* Venture with landowner



# **SunCor Project Summaries**

## **Major Commercial Communities**

	<b>Year Acquired</b>	<b>Original Acreage</b>	<b>12/31/06 Acreage</b>
<b>Talavi</b>	<b>1987</b>	<b>140</b>	<b>7</b>
<b>Alameda Crossing (Palm Valley)</b>	<b>1987</b>	<b>21</b>	<b>17</b>
<b>Palm Valley Office Park Phase 3</b>	<b>1987</b>	<b>4</b>	<b>4</b>
<b>Centrepont</b>	<b>1989</b>	<b>80</b>	<b>3</b>
<b>Hayden Ferry Lakeside Office &amp; Condos</b>	<b>2000</b>	<b>17</b>	<b>15</b>
<b>Rio West Business Park</b>	<b>2004</b>	<b>25</b>	<b>10</b>

# Social Responsibility Awards



**Innovest**  
STRATEGIC VALUE ADVISORS



**CORPORATE KNIGHTS**



- Innovest's highest rating (AAA) and ranked #2 electric utility
- Dow Jones Sustainability Index
- Global 100 Most Sustainable Corporations in World by Corporate Knights
- Storebrand's Social Responsibility Index "best in class" distinction
- EPA Climate Protection Award