



# DELIVERING SUPERIOR SHAREHOLDER VALUE

Investor and Analyst Meetings  
June 1 - 3, 2011

# FORWARD-LOOKING STATEMENTS

This presentation contains forward-looking statements based on current expectations, including statements regarding our 2011 earnings outlook. 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 you 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. 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 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 greenhouse gas emissions, renewable energy mandates, nuclear plant operation and energy efficiency standards; our ability to meet renewable energy requirements 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 burdensome provisions in our credit agreements and Arizona Corporation Commission orders. These and other factors are discussed in Risk Factors described in Item 1A of the Pinnacle West/APS Annual Report on Form 10-K for the fiscal year ended December 31, 2010, which you should review carefully before placing any reliance on our financial statements, disclosures or earnings outlook. Neither Pinnacle West nor APS assumes any obligation to update these statements, even if our internal estimates change, except as required by law.



# PINNACLE WEST: OUR VALUE PROPOSITION

Our commitment to investors:  
Deliver superior shareholder returns through...

## Superior Shareholder Returns



# PINNACLE WEST: OUR VALUE PROPOSITION

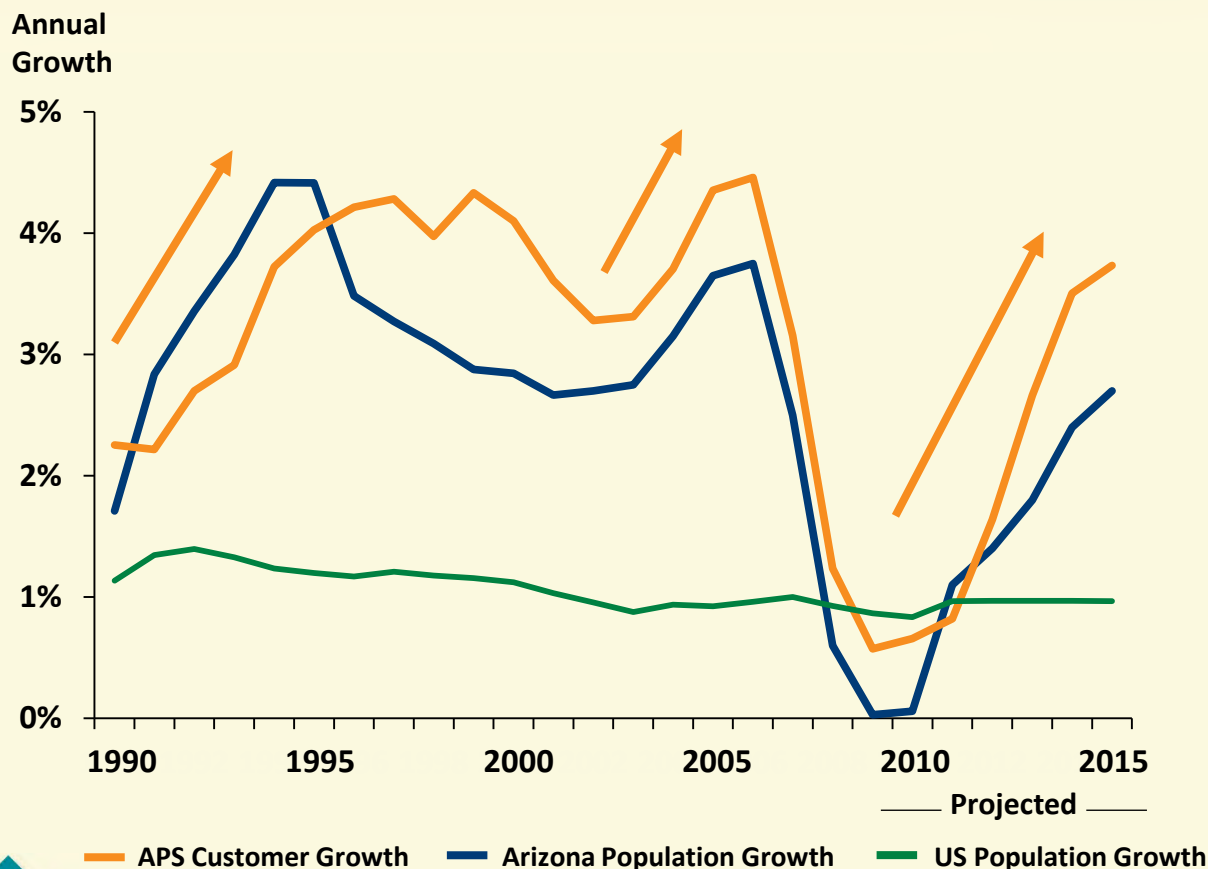
**Capitalizing on  
intrinsic growth**



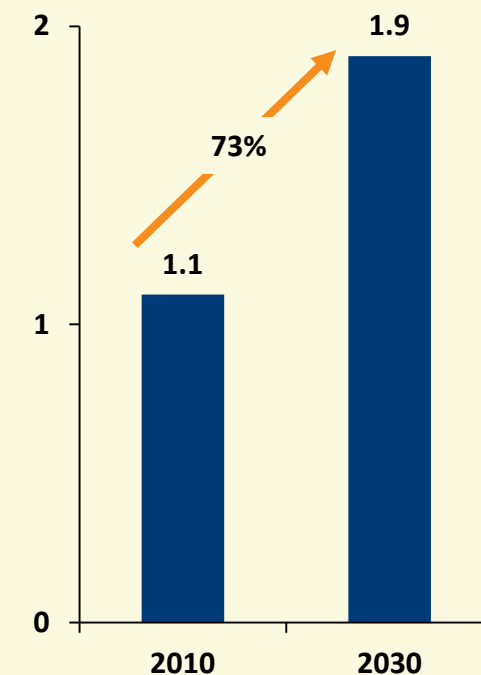
# POSITIVE LONG-TERM DEMOGRAPHICS

APS' customer growth generally outpaces U.S. and Arizona population growth.

## Superior Growth



## APS Customer Growth



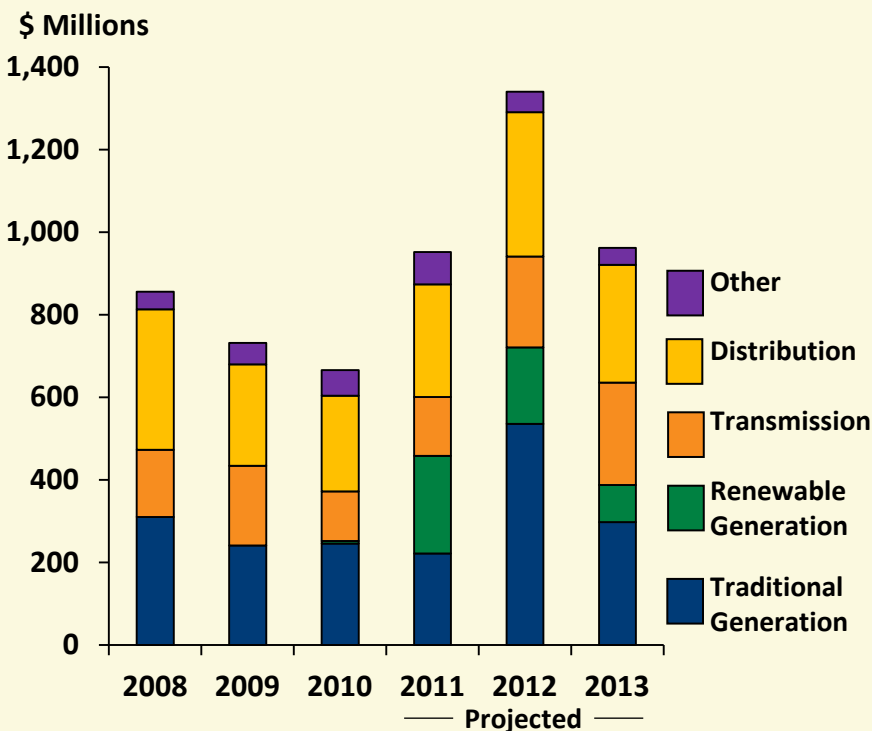
CAPITALIZING ON INTRINSIC GROWTH

# APS CAP EX DRIVES STRONG RATE BASE GROWTH

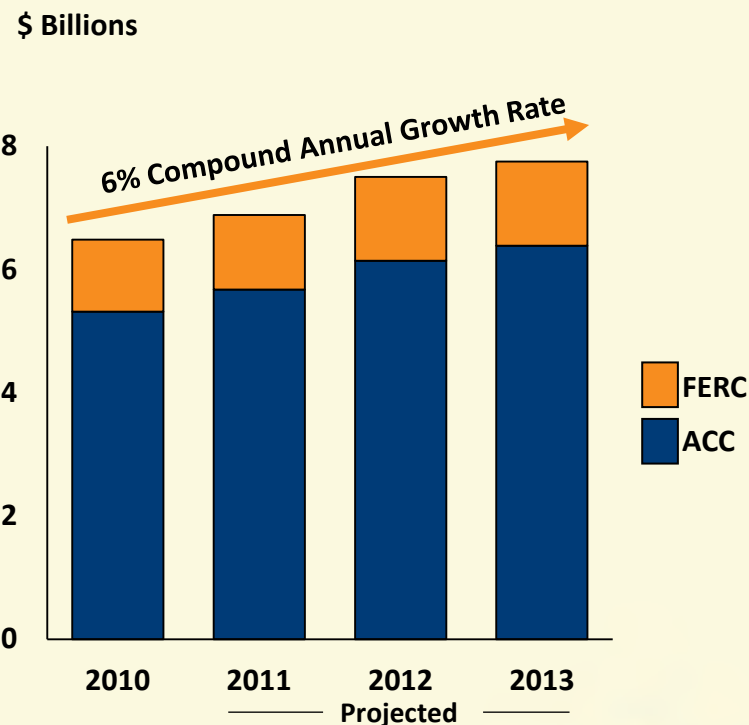
6

We reduced capital expenditures based on current economic conditions, yet still expect strong rate base growth.

## APS Capital Expenditures



## APS Rate Base



CAPITALIZING ON INTRINSIC GROWTH

# PINNACLE WEST: OUR VALUE PROPOSITION



**Maintaining operational  
excellence**



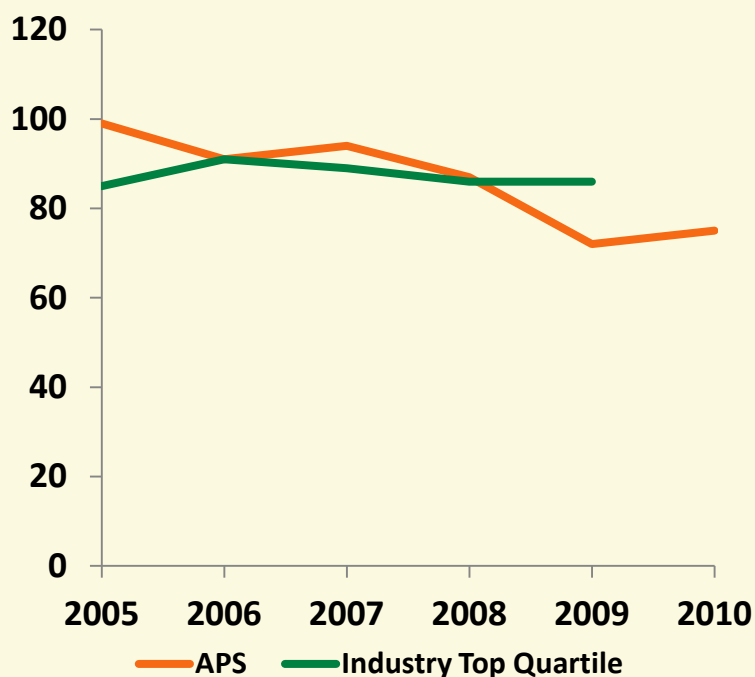
**PINNACLE WEST**  
CAPITAL CORPORATION

# CUSTOMER SATISFACTION ... A KEY PRIORITY

Our employees provide top-tier customer service.

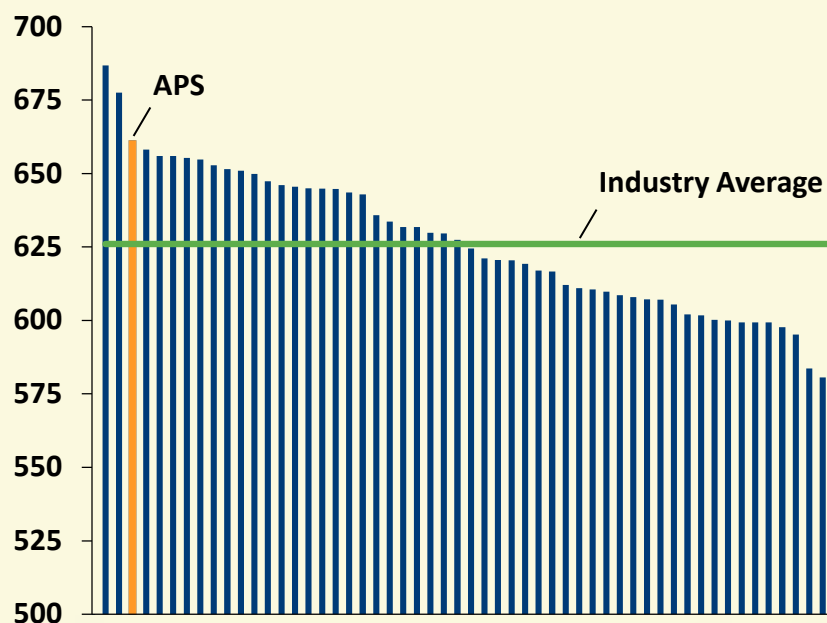
## Lowering Outage Time Per Customer

Average Outage  
Minutes/Year



## Outstanding Residential Customer Satisfaction Rating

Rating



2010 J.D. Power Residential Customer Survey



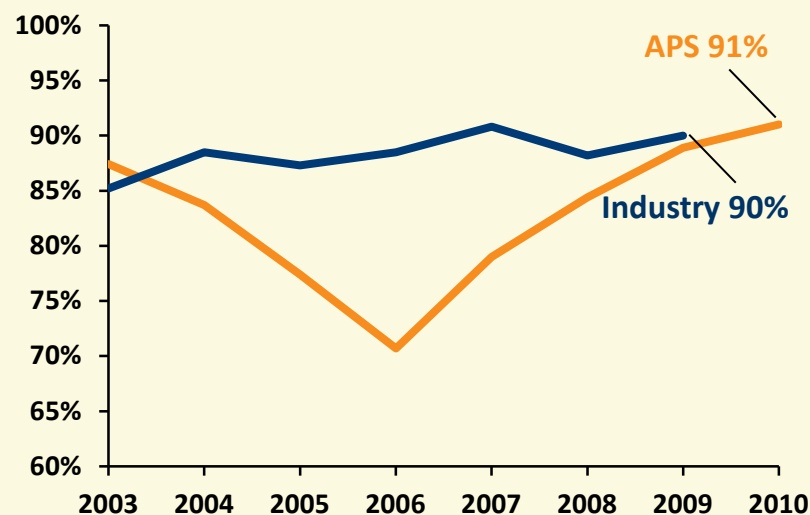
MAINTAINING OPERATIONAL EXCELLENCE



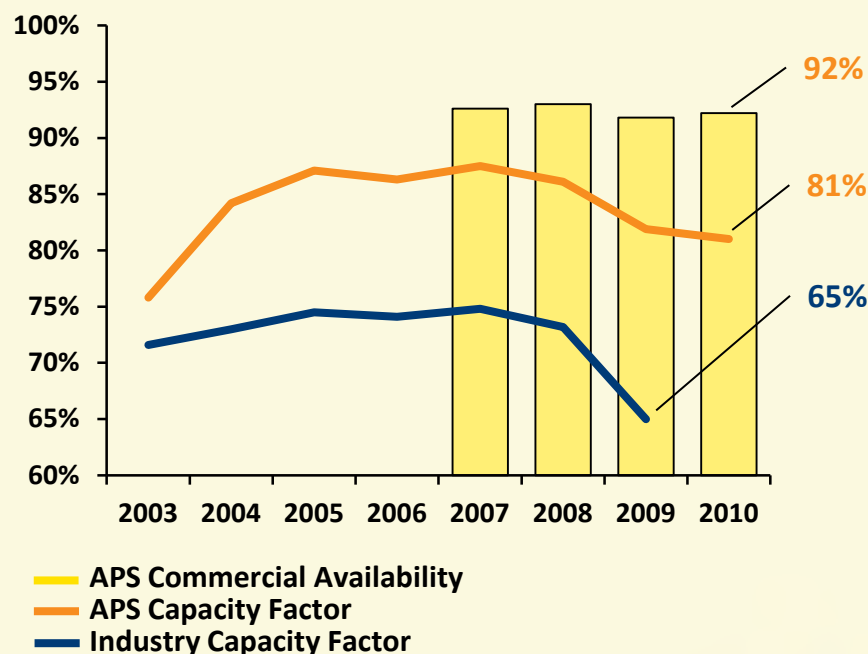
# SUPERIOR POWER PLANT PERFORMANCE

Our nuclear and coal plants are strong baseload resources.

## Nuclear Capacity Factors



## Coal Performance Metrics



MAINTAINING OPERATIONAL EXCELLENCE

# ENVIRONMENTAL, SUSTAINABILITY AND GOVERNANCE LEADERSHIP

10

We are recognized worldwide for our achievements.



**Dow Jones  
Sustainability Index**



**Ranked 15<sup>th</sup> Overall  
Highest for Any Utility**



**Ranked 294 of 1,000  
Companies Worldwide**



**Social Responsibility Index  
"Best in Class" Distinction**



**U.S. DOE/EPA Sustained  
Excellence Award**



**Global 100 Most Sustainable  
Corporations in World**



**Highest Rating (AAA) and  
Ranked #2 Electric Utility**



**Top 10 Utility  
Solar Ranking**



**Social Responsibility Reporting  
Highest Overall Score  
of U.S. Utilities**



MAINTAINING OPERATIONAL EXCELLENCE



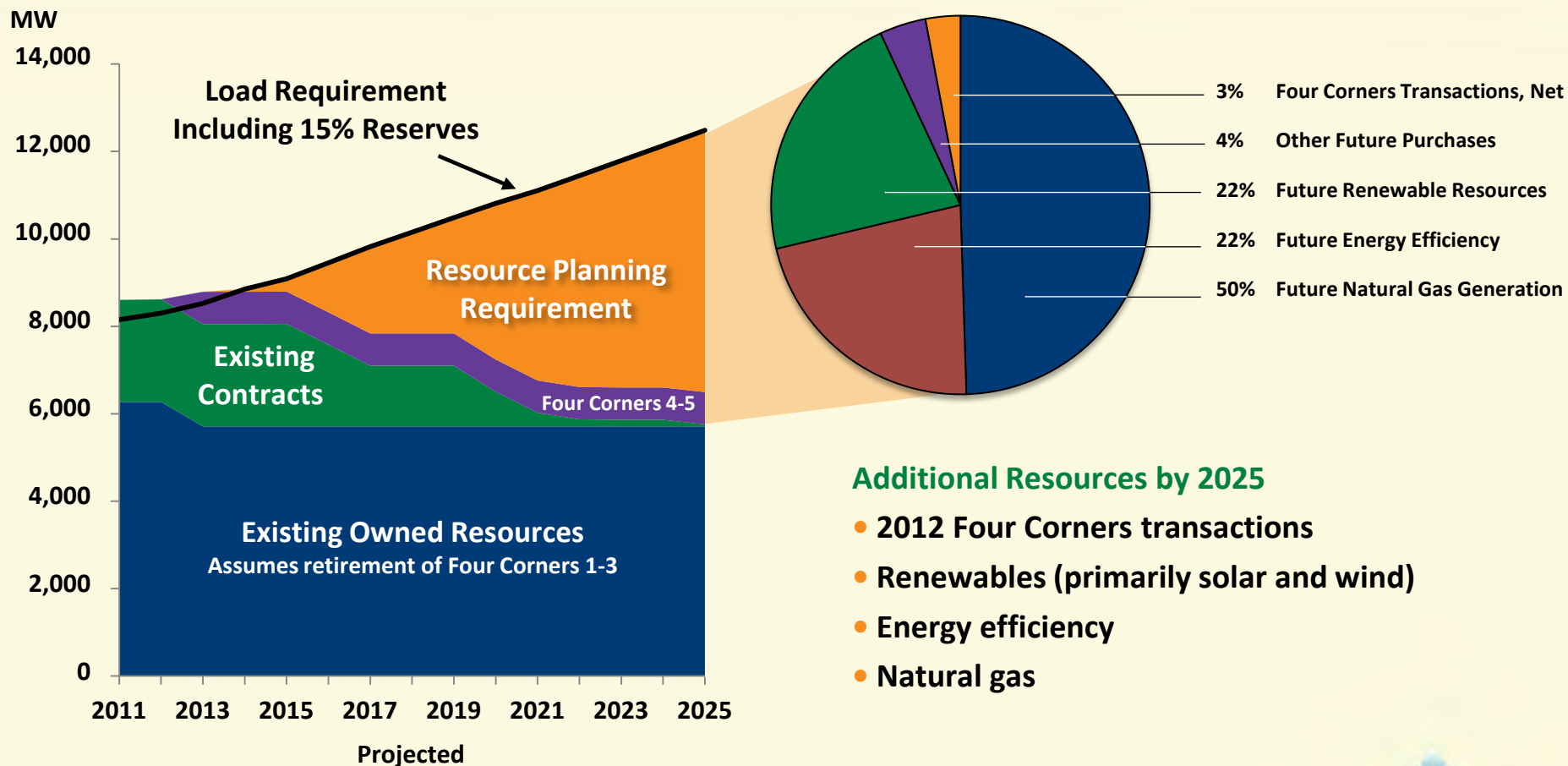
# PINNACLE WEST: OUR VALUE PROPOSITION



**Making compelling  
capital investments**

# RESOURCE PLANNING FOR RELIABILITY AND SUSTAINABILITY

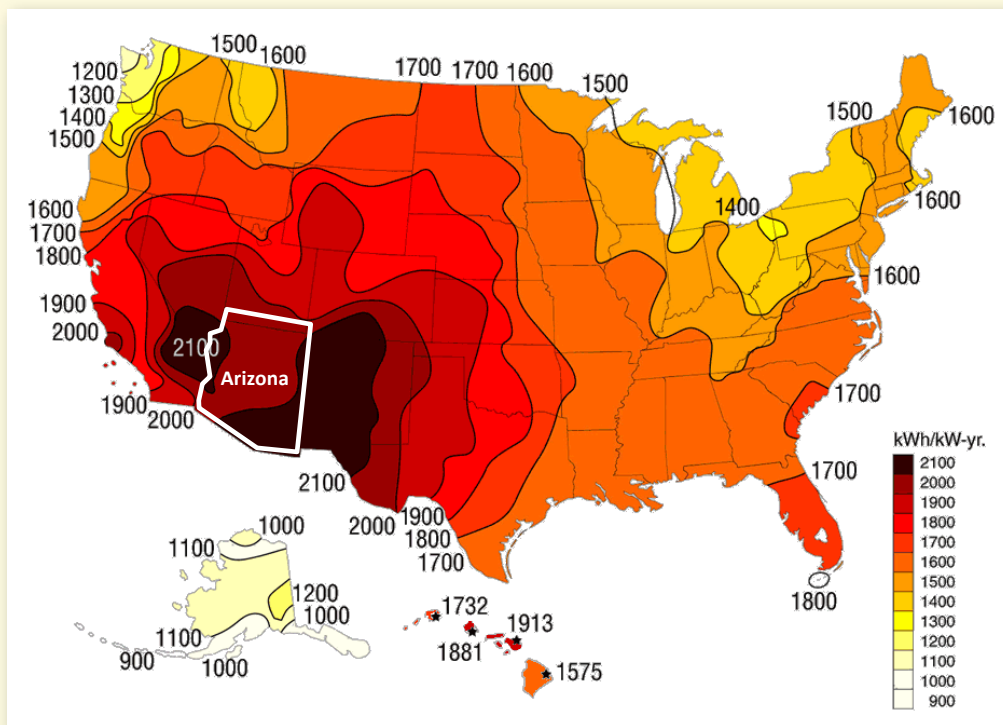
Through a balanced resource mix including renewable resources and energy efficiency programs, we will meet future load growth.



MAKING COMPELLING CAPITAL INVESTMENTS

# RENEWABLE ENERGY RISES WITH THE SUN

We are helping Arizona become the “Solar Capital of the World.”



**Germany and Japan are among countries with highest installed solar capacity, yet have solar conditions far inferior to Arizona**



MAKING COMPELLING CAPITAL INVESTMENTS



**PINNACLE WEST**  
CAPITAL CORPORATION

# AZ SUN PROGRAM PROVIDES EARNINGS GROWTH POTENTIAL

14

APS has contracted to date for 83% of the program.



- **100 MW photovoltaic solar plants to be owned by APS**
- **Up to \$500 million capital investment (\$384 million committed to date)**
- **In service 2011-2014**
- **Constructive rate recovery**

Announced Projects to Date	Capacity
Paloma	17 MW
Cotton Center	17 MW
Hyder	16 MW
Chino Valley	19 MW
Luke Air Force Base	14 MW



MAKING COMPELLING CAPITAL INVESTMENTS



**PINNACLE WEST**  
CAPITAL CORPORATION

# FOUR CORNERS POWER PLANT TRANSACTIONS

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Our proposal represents a balanced solution to new environmental regulations.

**Acquire Southern California Edison's 739 MW interest in Units 4 & 5 and shut down 560 MW Units 1 – 3**

- **Purchase price: \$294 million**
- **Acquisition target date: late 2012**
- **Estimated environmental compliance investment: \$300 million**
- **Finance with mix of debt and equity**
- **Arizona, California and other regulatory approvals required**

**Economic, environmental and social benefits**

**ACC Procedural Schedule**

- **May 31, 2011**      **Staff/Intervenor direct testimony**
- **June 22, 2011**      **APS rebuttal testimony**
- **July 14, 2011**      **Hearing to commence**

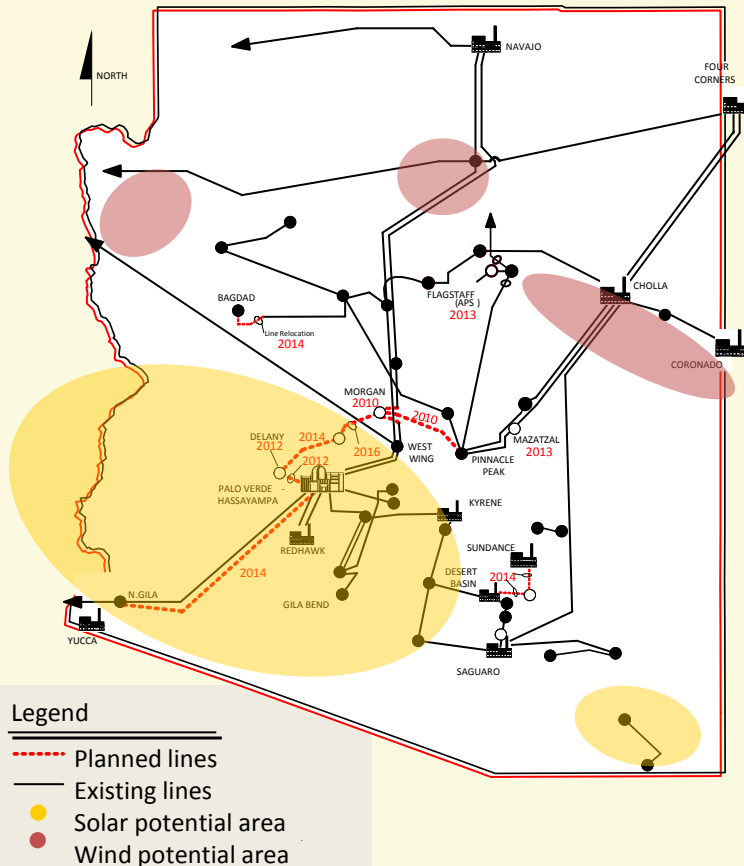


MAKING COMPELLING CAPITAL INVESTMENTS

**PINNACLE WEST**  
CAPITAL CORPORATION

# TRANSMISSION INVESTMENT ESSENTIAL

Strategic transmission is necessary to maintain reliability and deliver diversified resources to our customers.



- **10-Year Transmission Plan (115-kV and above)**
  - \$450 million of new transmission investment
  - 258 miles of new lines
  - Increases import capability by 6% to metro Phoenix and 39% to Yuma
- **Projects to deliver renewable energy approved by ACC**
- **Transmission investment diversifies regulatory risk**
  - Constructive regulatory treatment
  - FERC formula rates and retail adjustor



MAKING COMPELLING CAPITAL INVESTMENTS

# PINNACLE WEST: OUR VALUE PROPOSITION

**Improving our  
regulatory environment**



# ARIZONA CORPORATION COMMISSIONERS

The new composition provides opportunities for additional relationships and process efficiencies.

Terms Through January 2013



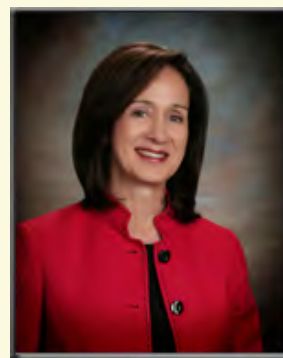
**Sandra Kennedy**  
(Dem)



**Paul Newman**  
(Dem)



**Bob Stump**  
(Rep)



**Brenda Burns**  
(Rep)



**Gary Pierce (Rep)\***  
Chairman

\* Term limited



IMPROVING OUR REGULATORY ENVIRONMENT



# 2011 RETAIL RATE CASE FILING BENEFITS

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The rate case provisions contain a number of benefits for customers and shareholders.

- **Provides financial support APS needs to achieve Arizona's energy goals**
- **Encourages progress toward sustainable energy future**
- **Supports renewable energy and energy efficiency**
- **Continues constructive regulatory framework established in 2009 regulatory settlement**
- **Promotes rate gradualism for customers**



IMPROVING OUR REGULATORY ENVIRONMENT



# 2011 RETAIL RATE CASE FILING KEY FINANCIAL COMPONENTS

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APS has requested a base rate increase to become effective July 1, 2012.

	<u>Annual Revenue Change</u>	
<b>Non-fuel base rate increase</b>	<b>\$ 194.1</b>	<b>6.6%</b>
<b>Amounts transferring from adjustment mechanism revenues</b>		
<b>Renewable Energy Surcharge revenues         related to AZ Sun and other solar projects</b>	<b>44.9</b>	
<b>Power Supply Adjustor revenues (refunds)</b>	<b><u>(143.5)</u></b>	
<b>Net base rate increase</b>	<b><u><u>\$ 95.5</u></u></b>	<b>3.3%</b>



IMPROVING OUR REGULATORY ENVIRONMENT



# 2011 RETAIL RATE CASE FILING

## KEY FINANCIAL ASSUMPTIONS

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Updated rate base, cost of capital and fuel prices underpin the rate request amounts.

<b>Rate base</b>	<b>\$5.7 billion</b>
<b>Return on equity</b>	<b>11%</b>
<b>Capital structure</b>	
<b>Long-term debt</b>	<b>46.1%</b>
<b>Common equity</b>	<b>53.9%</b>
<b>Base fuel rate (¢/kWh)</b>	<b>3.25</b>
<b>Projected fuel-price year for base fuel rate</b>	<b>2012</b>
<b>Test year ended December 31, 2010</b>	



# 2011 RETAIL RATE CASE FILING DETAILS OF REQUEST

22

Other key provisions continue constructive regulatory treatment and limit regulatory lag.

- **Post test-year plant additions through rate effective date**
  - **\$259 million AZ Sun projects**
  - **\$161 million other projects**
- **Revenue-per-customer decoupling mechanism**
- **Infrastructure tracker**
  - **New generation additions and generation efficiency projects**
  - **Environmental compliance investments**
- **100% Power Supply Adjustor**
- **Remaining portions of AZ Sun project to be recovered through RES until included in base rates (consistent with treatment for first 50 MW)**



IMPROVING OUR REGULATORY ENVIRONMENT



# APS LINE EXTENSION POLICY PROPOSAL

APS has requested line extension policy changes in a separate docket.

- **Restore sharing of extension costs between new customers and APS**
- **Implement 750-foot free footage allowance and other measures dependent upon customer class**
- **Accounting to revert to contributions in aid of construction or customer advances**
- **Policy change to be implemented concurrently with new base rates at conclusion of general retail rate case**
- **Application filed May 20, 2011**



# DECOUPLING MODEL

State regulators have approved a policy statement supporting a revenue-per-customer approach.

- **APS requested decoupling model consistent with policy statement for consideration in general rate case filing**
  - **Fixed-cost revenue per customer methodology**
- **Decoupling provides method to mitigate disincentives associated with energy efficiency and distributed generation by separating revenues from sales volumes**
- **Arizona Corporation Commission unanimously approved supportive decoupling policy statement, December 2010**
  - **Decoupling mechanism to be addressed by the commission on a utility-by-utility basis**



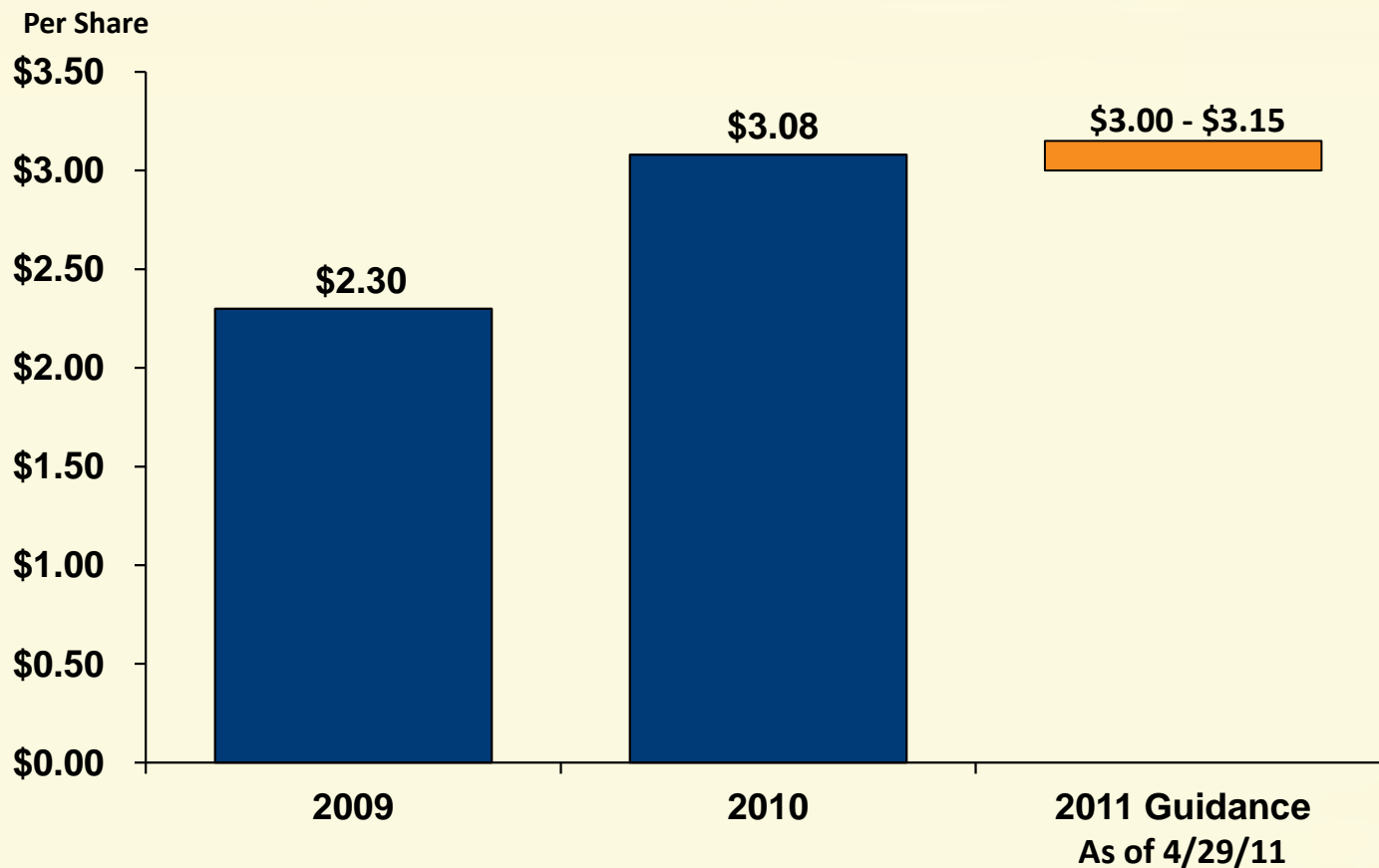
# PINNACLE WEST: OUR VALUE PROPOSITION



**Strengthening  
our financial profile**

# CONSOLIDATED ON-GOING EPS OUTLOOK

Our on-going earnings have improved.



See key factors and assumptions in Appendix.

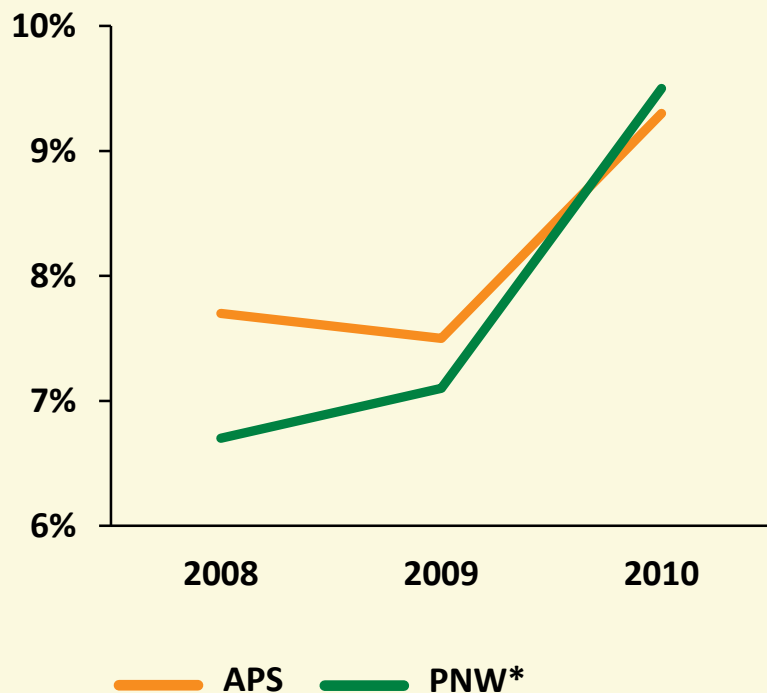


STRENGTHENING OUR FINANCIAL PROFILE

# ROE IMPROVEMENT: A MULTI-PRONGED APPROACH

Improving our earned return on equity is one of our top priorities.

## Earned ROEs



\* On-going earnings

## Key Initiatives

- Supportive electric utility rates
- Regulatory framework improvements
- Cost management initiatives
- Efficiency and effectiveness throughout organization



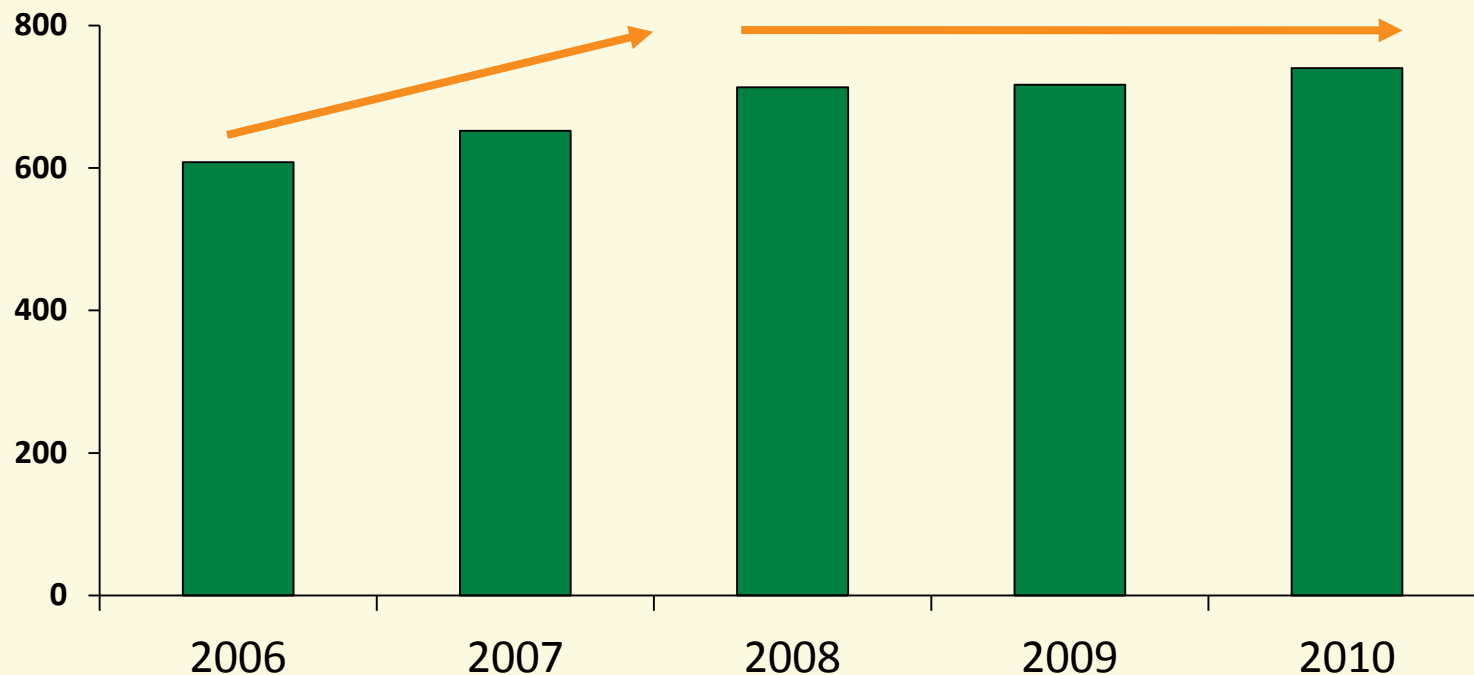
STRENGTHENING OUR FINANCIAL PROFILE

# APS OPERATIONS & MAINTENANCE EXPENSE TRENDS

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Our goal is to keep O&M growth in line with retail sales growth.

\$ Millions



Excludes RES and demand-side management costs



STRENGTHENING OUR FINANCIAL PROFILE

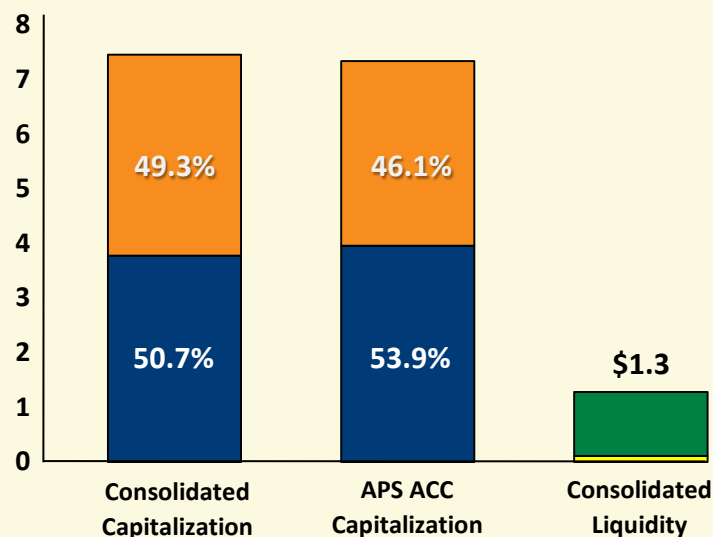
# AMPLE FINANCING ACCESS

Investment-grade credit ratings, capitalization and liquidity should provide adequate access to bank and capital markets.

## Capitalization & Liquidity

December 31, 2010

\$ Billions



■ Equity ■ Debt ■ Cash ■ Credit Facilities

\*Completed.

## 2011 - 2012 Major Financing Activities

**2011** \$500M APS revolver refinancing\*

**2011** \$175M PNW senior notes refinancing\*

**2011** \$400M APS senior notes refinancing

**2012** \$375M APS senior notes refinancing

**2012** APS new debt issuance

**2012** PNW equity issuance (at earliest)

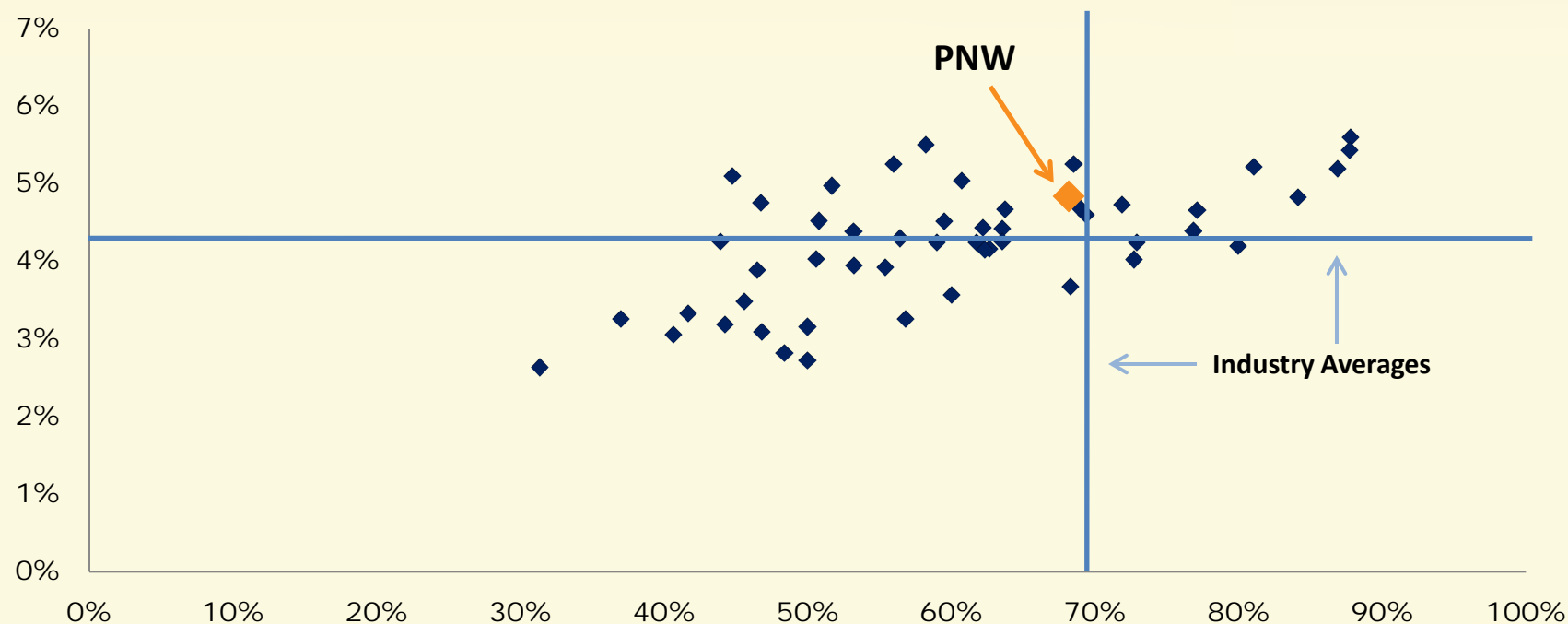


STRENGTHENING OUR FINANCIAL PROFILE

# TOP-TIER DIVIDEND YIELD

Pinnacle West's annual dividend is \$2.10 per share — providing a top-quartile yield with a near-average payout.

## Dividend Yield



Yield as of April 30, 2011

Payout 12 Months Ended December 31, 2010

## Dividend Payout

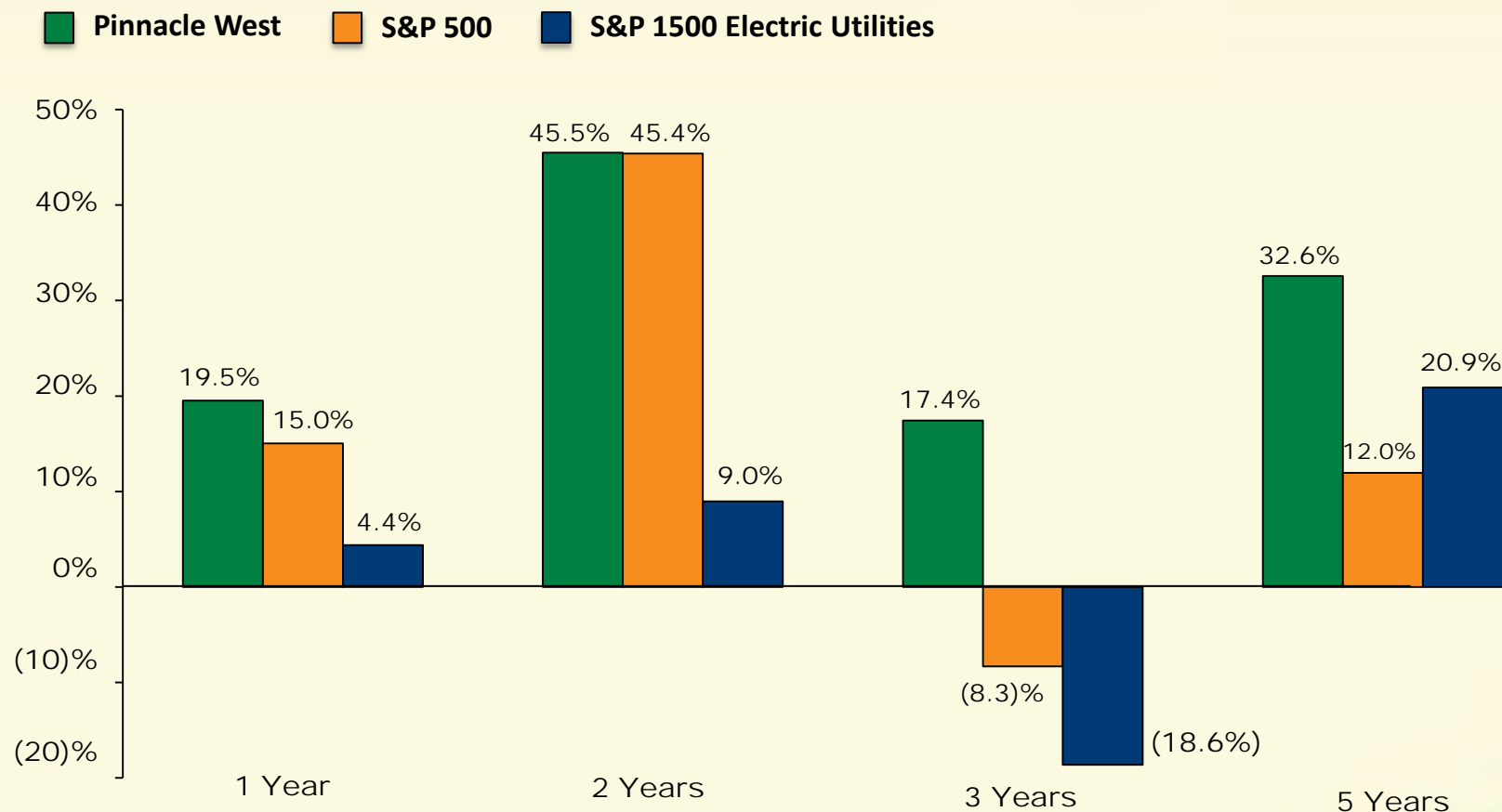


STRENGTHENING OUR FINANCIAL PROFILE



# SUPERIOR SHAREHOLDER RETURNS

Our total return to shareholders has outperformed our industry and the broad market over the past five years.



Periods ended December 31, 2010



STRENGTHENING OUR FINANCIAL PROFILE

# PINNACLE WEST: OUR VALUE PROPOSITION

Our commitment to investors...

Deliver Superior Shareholder Returns



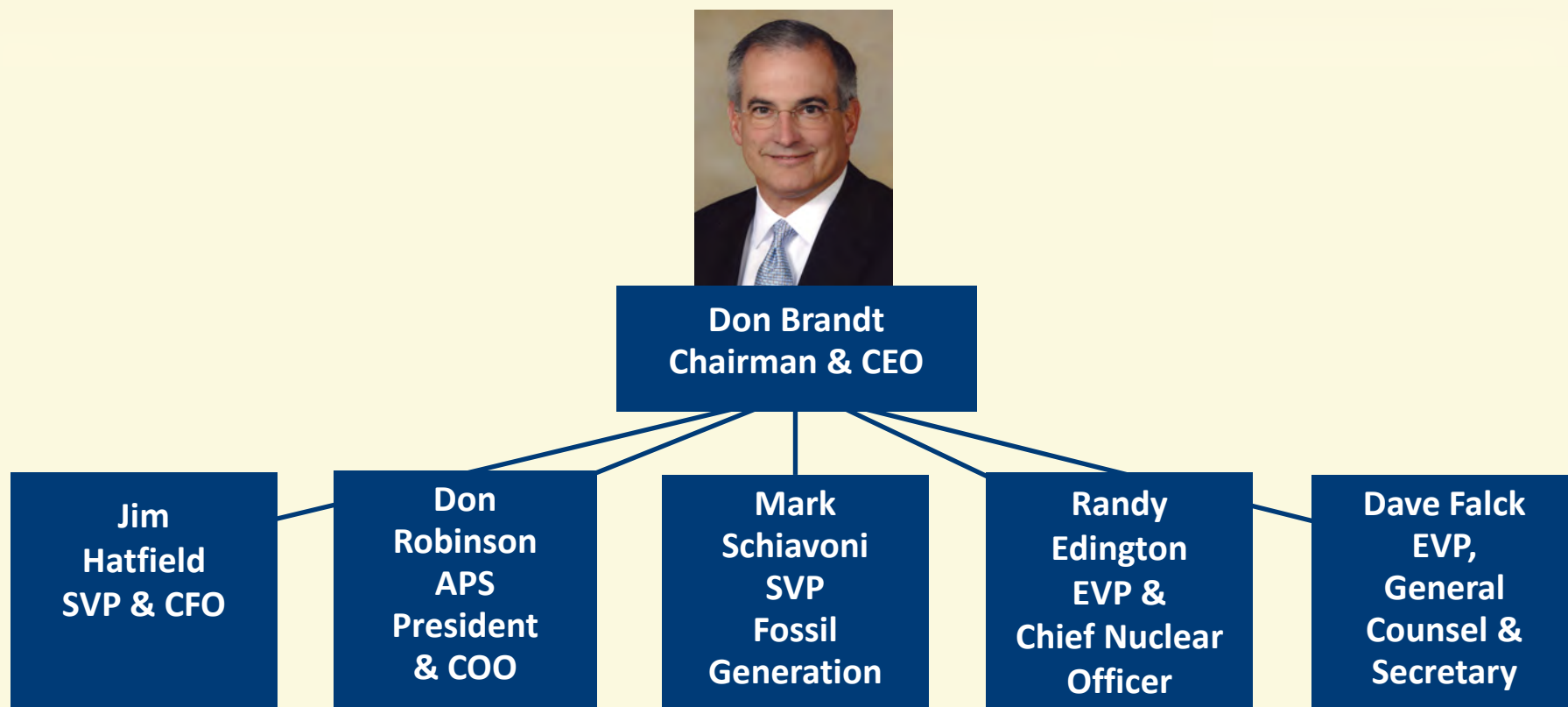
PINNACLE WEST  
CAPITAL CORPORATION



## APPENDIX

# A RESPECTED, VETERAN LEADERSHIP TEAM

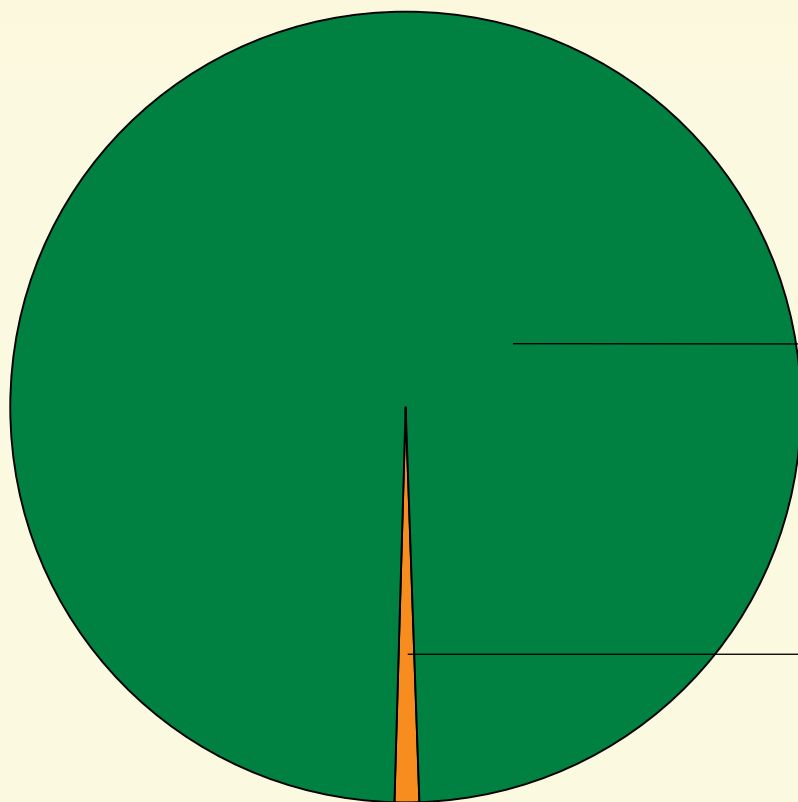
Our top executives have more than 130 combined years of creating shareholder value in the energy industry.



SUPERIOR SHAREHOLDER RETURNS

# PINNACLE WEST: WHO WE ARE

We are a vertically integrated, regulated electric utility.



**NYSE Ticker**

**PNW**

**Market Cap**

**\$5 Billion**

**Enterprise Value**

**\$8 Billion**

**Vertically Integrated  
Regulated Electric Utility  
\$12 Billion Assets**



**Non-Utility Subsidiaries  
\$56 Million Assets**

# FOCUSING ON CORE REGULATED ELECTRIC UTILITY BUSINESS

36

APS is Arizona's largest and longest-serving electric utility.

## Service Territory

- 1.1 million customer accounts
- 34,646 square miles

## Customer Growth

- 1.7% average annual growth expected 2011-2013
- 3-4% historical average — well above industry average

## Resources

- 6,293 MW owned/leased capacity
- 2,454 MW contracted conventional resources
- 605 MW contracted renewables

**2010 Peak Demand – 6,936 MW**



# 2011 ON-GOING EPS GUIDANCE

## Key Factors and Assumptions as of April 29, 2011.

- Electricity gross margin (operating revenues,\* net of fuel and purchased power expense) about \$2.05 billion to \$2.10 billion;
  - Retail customer growth about 1 percent;
  - Weather-normalized retail electricity sales volume growth about 1 percent taking into account effects of the Company's energy efficiency initiatives;
  - Normal weather for year;
- Operating expenses (operations and maintenance,\* depreciation and amortization; and taxes other than income taxes) about \$1.32 billion to \$1.35 billion;
- Interest expense, net of allowances for borrowed and equity funds used during construction, about \$200 million to \$210 million;
- Net income attributable to noncontrolling interests about \$20 million to \$25 million;
- Effective tax rate about 34 percent;
- Full-year effect of 2010 equity issuance; and
- APS earnings to contribute substantially all of consolidated earnings.

\* Excludes approximately \$149 million of O&M, and offsetting operating revenues, associated with renewable energy, demand-side management and similar regulatory programs, as well as \$28 million pretax related to settlement of prior-period Four Corners transmission rights-of-way.



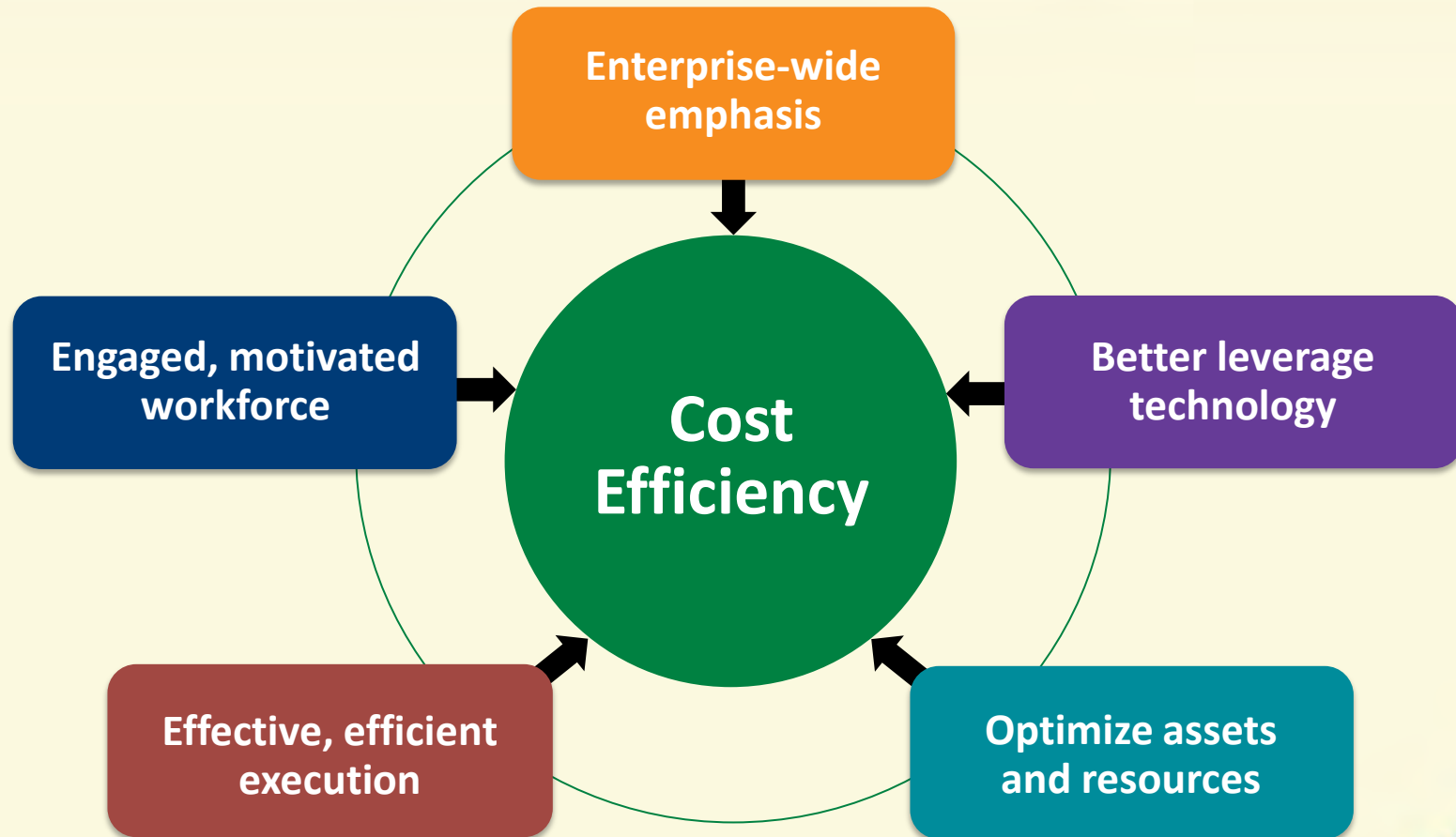
STRENGTHENING OUR FINANCIAL PROFILE



# COST EFFICIENCY SUPPORTS FUTURE RESULTS

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Our cost management and efficiency efforts will improve financial results beyond those achievable solely through regulatory decisions.



STRENGTHENING OUR FINANCIAL PROFILE

# CREDIT RATINGS

APS has investment-grade credit ratings.

	APS	Parent
<b>Senior Unsecured</b>		
Moody's	Baa2	Baa3*
S&P	BBB-	BB+*
Fitch	BBB	-
<b>Outlook</b>		
Moody's	Stable	Stable
S&P	Positive	Positive
Fitch	Stable	Stable

\*Preliminary

We are disclosing these ratings to enhance understanding of our sources of liquidity and the effects of our ratings on our costs of funds.

STRENGTHENING OUR FINANCIAL PROFILE



# S&P CREDIT METRICS

Our key credit metrics have been improving.

	2006	2007	2008	2009	2010
<b>APS</b>					
FFO / Debt	17.5%	17.2%	22.1%	22.8%	22.3%
FFO / Interest	4.2x	4.1x	5.1x	4.8x	4.6x
Debt / Capitalization	56.6%	55.2%	57.4%	56.8%	53.0%
<b>Pinnacle West</b>					
FFO / Debt	16.3%	15.7%	18.0%	18.4%	22.5%
FFO / Interest	3.8x	3.7x	4.3x	4.0x	4.6x
Debt / Capitalization	57.0%	57.0%	59.4%	59.8%	55.1%

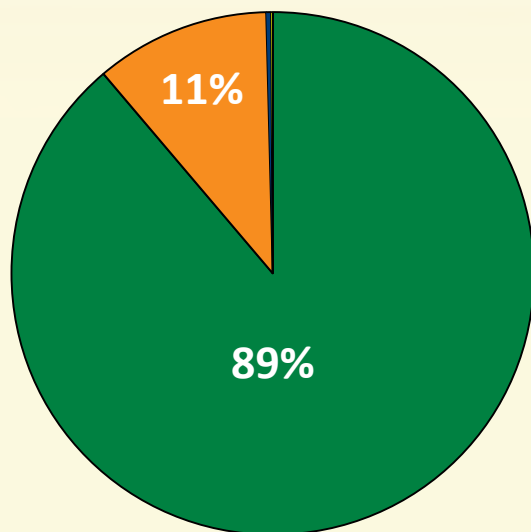


STRENGTHENING OUR FINANCIAL PROFILE

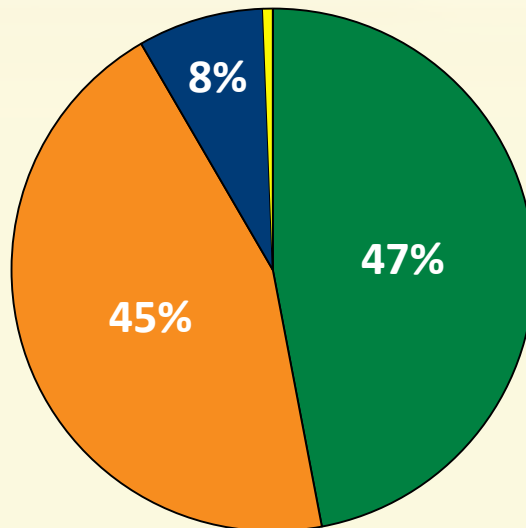
# 2010 RETAIL CUSTOMER, SALES AND REVENUE MIXES

41

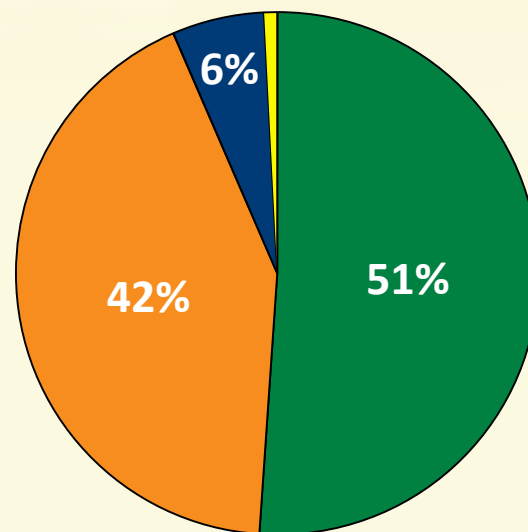
Our business mix is attractive due to favorable climate and other conditions in our market area.



**Customers**  
**Year-End**  
**1.1 Million**



**Retail Sales**  
**27,709 GWh**



**Operating Revenues**  
**\$2.9 Billion**



Residential



Commercial



Industrial



Other



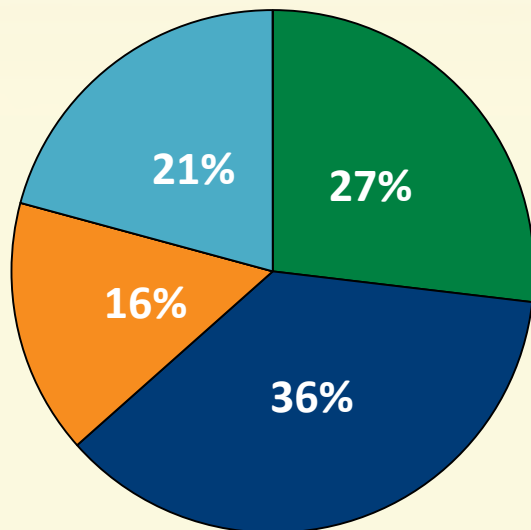
MAINTAINING OPERATIONAL EXCELLENCE



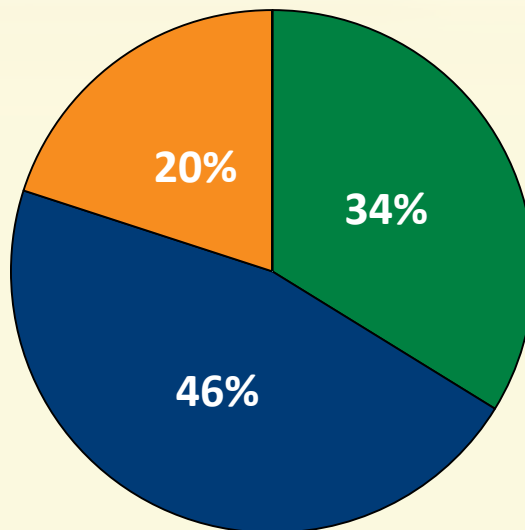
# 2010 APS GENERATION AND ENERGY FUEL MIXES

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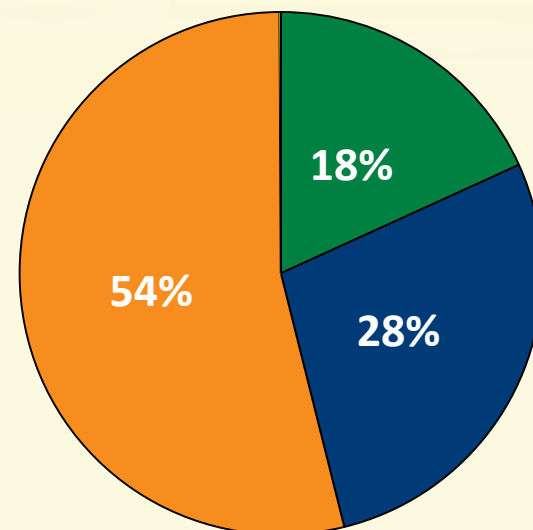
Our balanced resource mix provides our customers reliability and manages price volatility.



**Energy  
Fuel Mix**  
33,781 GWh



**Generation  
Fuel Mix**  
26,828 GWh



**Generation  
Capacity Mix**  
6,293 MW

 Nuclear  Coal  Gas & Oil  Purchased Power



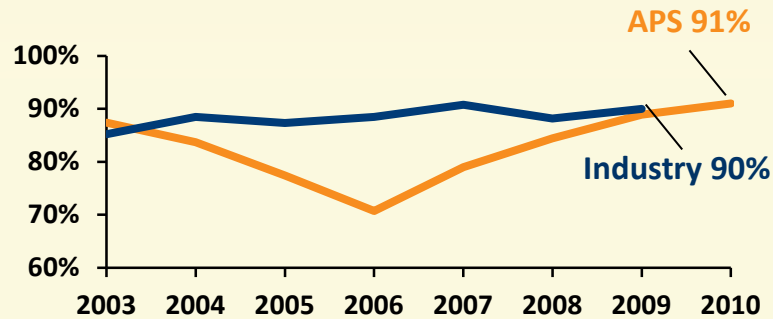
MAINTAINING OPERATIONAL EXCELLENCE



# SUPERIOR POWER PLANT PERFORMANCE

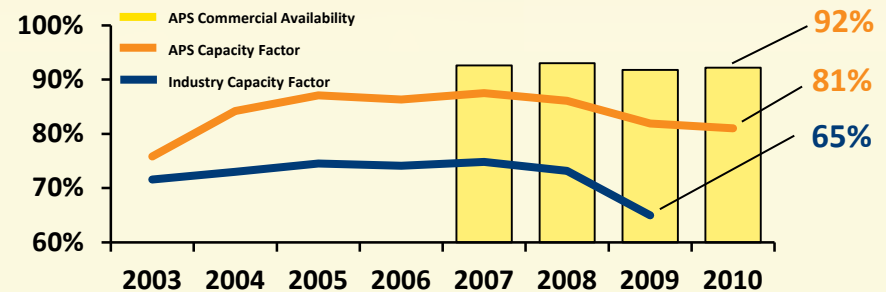
Our nuclear and coal plants are strong baseload resources.

## Nuclear Capacity Factors



- Returned to superior performance
- 3,938 MW total managed capacity
- 1,146 MW total APS share
- 2014 goals:
  - Consistent site capacity factor greater than 90%
  - Operating costs excluding fuel less than \$0.02/kWh
  - Top-quartile safety
- 20-year license extension approved by U.S. Nuclear Regulatory Commission

## Coal Performance Metrics



- Consistent solid performance
- 2,747 MW total managed capacity
- 1,753 MW APS share
- Highly experienced management
- Fleet operating strategy
- New commercial availability metric measures plant reliability during high-demand periods and market responsiveness



MAINTAINING OPERATIONAL EXCELLENCE

# A WELL-BALANCED GENERATION PORTFOLIO

Fuel / Plant	Location	Units	Dispatch	Commercial Ops. Date	Operator	Ownership Interest <sup>1</sup>	Net Capacity (MW)
<b>Nuclear</b>							
Palo Verde	Wintersburg, AZ	1-3	Base	1986 - 1989	APS	29.1%	1,146
<b>Total Nuclear</b>							<b>1,146</b>
<b>Coal</b>							
Cholla	Joseph City, AZ	1-3	Base	1962 - 1980	APS	100	647
Four Corners	Farmington, NM	1-3	Base	1963 - 1964	APS	100	560
Four Corners	Farmington, NM	4,5	Base	1969 - 1970	APS	15	231
Navajo	Page, AZ	1-3	Base	1974 - 1976	SRP	14	315
<b>Total Coal</b>							<b>1,753</b>
<b>Gas/Oil - Combined Cycle</b>							
Redhawk	Arlington, AZ	1,2	Intermediate	2002	APS	100	984
West Phoenix	Phoenix, AZ	1-5	Intermediate	1976 - 2003	APS	100	887
<b>Total Gas/Oil - Combined Cycle</b>							<b>1,871</b>
<b>Gas/Oil - Steam Turbines</b>							
Ocotillo	Tempe, AZ	1,2	Peaking	1960	APS	100	220
Saguaro	Red Rock, AZ	1,2	Peaking	1954 - 1955	APS	100	210
<b>Total Gas/Oil - Steam Turbines</b>							<b>430</b>
<b>Gas/Oil - Combustion Turbines</b>							
Sundance	Casa Grande, AZ	10	Peaking	2002	APS	100	420
Yucca	Yuma, AZ	6	Peaking	1971 - 2008	APS	100	243
Saguaro	Red Rock, AZ	1-3	Peaking	1972 - 2002	APS	100	189
West Phoenix	Phoenix, AZ	1,2	Peaking	1972 - 1973	APS	100	110
Ocotillo	Tempe, AZ	1,2	Peaking	1972 - 1973	APS	100	110
Douglas	Douglas, AZ	1	Peaking	1972	APS	100	16
<b>Total Gas/Oil - Combustion Turbines</b>							<b>1,088</b>
<b>Solar</b>							
Solar	Multiple State-wide Facilities	--	As Available	1996 - 2006	APS	100	5
<b>Total Solar</b>							<b>5</b>
<b>Total Generation Capacity</b>							<b>6,293</b>

As of December 31, 2010

<sup>1</sup>Includes leased generating plants.

MAKING COMPELLING CAPITAL INVESTMENTS



# RENEWABLE PURCHASE POWER CONTRACTS

Fuel / Contract	Location	Original Developer	Status <sup>1</sup>	PPA Signed	Commercial Operation Date	Term (years)	Capacity Net (MW)
<b>Solar</b>							
Solana	Gila Bend, AZ	Abengoa	UC	Feb-2008	2013	30	250
Ajo	Ajo, AZ	Recurrent	UC	Jan-2010	2011	25	5
Prescott	Prescott, AZ	SunEdison	UC	Feb-2010	2011	30	10
Solar 1	Tonopah, AZ	Not Disclosed	AD	Jan-2011	2012	30	15
<b>Total Solar</b>							<b>280</b>
<b>Wind</b>							
Aragonne Mesa	Santa Rosa, NM	Babcock & Brown	IO	Dec-2005	Dec-2006	20	90
High Lonesome	Mountainair, NM	Foresight / EME	IO	Feb-2008	Jul-2009	30	100
Perrin Ranch Wind	Williams, AZ	NextEra Energy	AD	Jul-2010	2011	25	99
<b>Total Wind</b>							<b>289</b>
<b>Geothermal</b>							
CE Turbo	Imperial County, CA	CalEnergy	IO	Jan-2006	Jan-2006	23	10
<b>Total Geothermal</b>							<b>10</b>
<b>Biomass</b>							
Snowflake	Snowflake, AZ	Snowflake White Mtn. Power	IO	Aug-2006	Jun-2008	15	10
Snowflake	Snowflake, AZ	Snowflake White Mtn. Power	IO	Aug-2010	Jun-2008	1	10
<b>Total Biomass</b>							<b>20</b>
<b>Biogas</b>							
Glendale Landfill	Glendale, AZ	Glendale Energy LLC	IO	Jul-2008	Jan-2010	20	3
Landfill 1	Surprise, AZ	Not Disclosed	AD	Dec-2010	2012	20	3
<b>Total Biogas</b>							<b>6</b>
<b>Total Renewable Contracted Capacity</b>							<b>605</b>

As of April 30, 2011

<sup>1</sup> AD = Advanced Development; UC= Under Construction; IO = In Operation



MAKING COMPELLING CAPITAL INVESTMENTS



# FOUR CORNERS POWER PLANT FACTS & FIGURES

46

	Common	Unit 1	Unit 2	Unit 3	Unit 4	Unit 5
<b>Commercial Operation Date</b>		1963	1963	1964	1969	1970
<b>Original Cost (\$M)</b>	\$37		\$369		\$166	
<b>Net Book Value at 12/31/10 (\$M)</b>	\$20		\$125		\$63	
<b>Current Depreciation Ends</b>	2031	Mid-2016	Mid-2016	Mid-2016	2031	2031
<b>Current Expiration Dates</b>						
Site Lease			July 6, 2016			
BHP Coal Agreement			July 6, 2016			
Certain Related Rights-of-Way			July 6, 2016			
<b>Total Employees (549) (75% Native Americans)</b>	48 Common + 75 Matrix		193		233	
<b>Capacity (MW)</b>		170	170	220	770	770
<b>Ownership Percentages</b>						
Arizona Public Service		100%	100%	100%	15%	15%
Southern California Edison		-	-	-	48%	48%
Public Service Company of New Mexico		-	-	-	13%	13%
Salt River Project		-	-	-	10%	10%
El Paso Electric		-	-	-	7%	7%
Tucson Electric Power		-	-	-	7%	7%
<b>Heat Rate (Btu/kWh)</b>		10,816	11,051	10,614	9,443	10,035



MAKING COMPELLING CAPITAL INVESTMENTS



# ARIZONA'S RENEWABLE RESOURCE AND ENERGY EFFICIENCY STANDARDS

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We are committed to aggressive renewable and energy efficiency standards.

## Renewable Energy (RES) Minimum Requirements

**Portion of retail sales to be supplied by renewable resources**

- **5% by 2015**
- **15% by 2025**

**Distributed energy component**

- **30% of total requirement by 2012**

**APS committed to approximately double 2015 requirement**

- **Pursuant to 2009 regulatory settlement**

## Energy Efficiency Requirements

**Increasing annually 2011-2020**

**Cumulative energy savings as a percent of retail sales**

- **3% by 2012**
- **9.5% by 2015**
- **22% by 2020**



MAKING COMPELLING CAPITAL INVESTMENTS



# AZ SUN PROGRAM SUMMARY

APS is investing up to \$500 million to own 100 MW of solar generation by year-end 2014.

Name	Location	Capacity	Developer	Target COD*
Paloma	Gila Bend, AZ	17 MW	First Solar	2011
Cotton Center	Gila Bend, AZ	17 MW	Solon	2011
Hyder Phase 1	Hyder, AZ	11 MW	SunEdison	2011
Hyder Phase 2	Hyder, AZ	5 MW	SunEdison	2012
Chino Valley	Chino Valley, AZ	19 MW	SunEdison	2012
Luke Air Force Base	Glendale, AZ	14 MW	SunPower	2012/2013
Total Announced To Date		83 MW		
To Be Announced		17 MW		
Program Total		100 MW		

As of February 16, 2011

\* Commercial Operation Date



MAKING COMPELLING CAPITAL INVESTMENTS



# SOLANA: A "SUNNY PLACE"

Solana will provide about one-third of APS' renewable energy target of 10% by 2015.



- **250-MW 30-year PPA for all output (~900 GWh/year)**
- **Concentrating solar trough facility 70 miles southwest of Phoenix**
- **Expected to be first major stored-heat plant in U.S. on targeted 2013 commercial operation date**
- **Near existing transmission lines**
- **Thermal storage capability with summer on-peak capacity factor +90%**
- **To be built, owned and operated by Abengoa Solar**
- **DOE loan guarantee financing finalized**



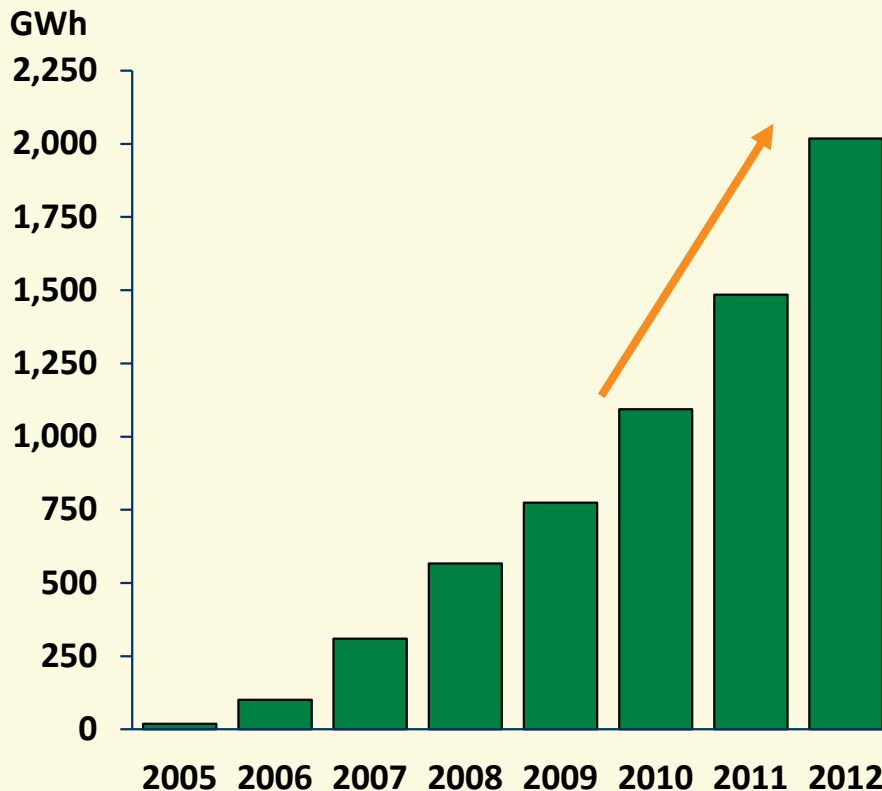
MAKING COMPELLING CAPITAL INVESTMENTS

# APS ENERGY EFFICIENCY INITIATIVES INCREASING

50

APS plans to double customers' energy efficiency savings from 2010 through 2012.

## Cumulative Annual Energy Savings Associated with EE/DSM Programs



- Program costs currently recovered through retail DSM adjustor
- Decoupling or other financial mechanism to be proposed in 2011 base rate case
- Under retail regulatory settlement, APS to achieve additional retail sales savings of 3.75% in 2010-2012
- Arizona energy efficiency rules require cumulative savings of 22% of retail sales by 2020



MAINTAINING OPERATIONAL EXCELLENCE

# IMPROVING REGULATORY FRAMEWORK

Opportunities exist to continue regulatory dialogue, cooperatively addressing shareholder and stakeholder interests.

## On-going APS meetings with stakeholders

### Progress on generic issues

- Approvals by ACC in 2010
  - Decoupling policy statement
  - Resource planning rules
  - Energy efficiency rules
  - Renewable transmission action plan
- Other generic dockets underway
  - Rate case process streamlining
  - Line extensions

### 2011 general retail rate case filing



# PROGRESSIVE REGULATORY SETTLEMENT POSITIONS APS WELL THROUGH 2012

52

APS' 2009 regulatory settlement contains a number of investor benefits.

- **Strengthens APS' earned ROE and financial condition**
- **Supports common dividend**
- **Demonstrates increased cooperation among APS, ACC Staff, residential consumer advocate (RUCO) and other intervenors**
- **Allows opportunity to help shape Arizona's energy future outside continual rate cases**
- **Provides earnings support until next base rate case**
  - **Estimated pretax earnings benefits:**  
**\$165 million, 2010; \$180 million, 2011; and \$254 million, 2012**
- **Establishes expedited process for future base rate cases**
- **Allows next rate case filing on or after June 1, 2011, for rate changes effective on or after July 1, 2012**



IMPROVING OUR REGULATORY ENVIRONMENT



# 2009 REGULATORY SETTLEMENT SUMMARY

The settlement provisions include earnings support until APS' next rate case decision.

## Estimated Pretax Earnings Benefits

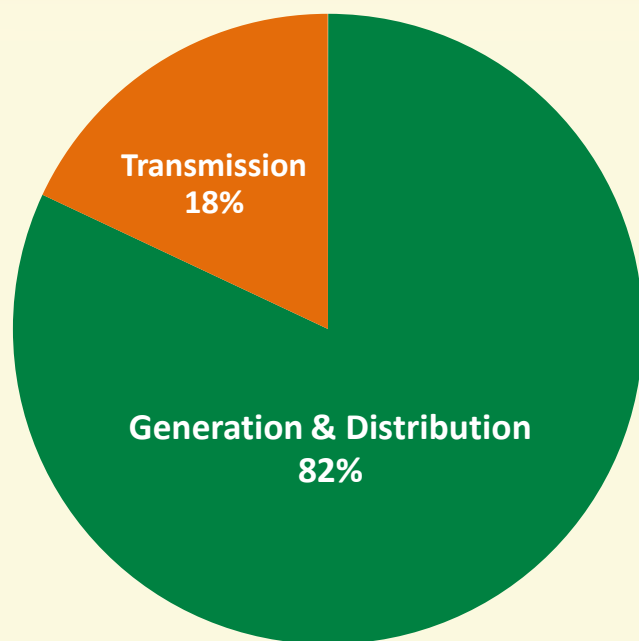
\$ Millions

	2010	2011	2012
<b>Settlement agreement terms</b>			
Base rate increase	\$ 207	\$ 207	\$ 207
Line extensions treated as revenue	23	25	49
Pension and OPEB deferrals	—	13	29
Palo Verde depreciation reduction	—	—	34
<b>Subtotals</b>	<b>230</b>	<b>245</b>	<b>319</b>
<b>Less interim base rate surcharge that ended upon general rate case implementation</b>	<b>(65)</b>	<b>(65)</b>	<b>(65)</b>
<b>Total</b>	<b>\$ 165</b>	<b>\$ 180</b>	<b>\$ 254</b>



# OUR REGULATORY MIX

The bulk of APS' revenues comes from a regulated retail rate base and a meaningful transmission business.



**\$6.8 Billion Total Approved Rate Base**

## Most Recent Rate Decisions

	ACC	FERC
Rates Effective Date	1/1/2010	6/1/2011
Test Year Ended	12/31/2007*	12/31/2010
Rate Base	\$5.6 B	\$1.2 B
Equity Layer	54%	54%
Allowed ROE	11.00%	10.75%

\* Adjusted to include post test-year plant in service through June 30, 2009



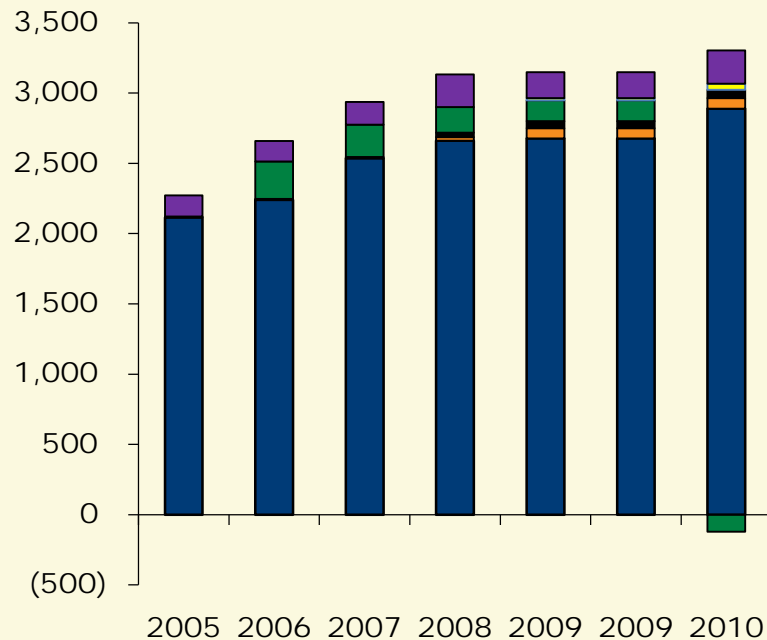
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# APS REVENUES BY RECOVERY MECHANISM

Supportive regulatory treatment through adjustment mechanisms supplements base rates.

## Regulated Electricity Revenue by Recovery Mechanism

\$ Millions



	Test Year	
	Historical	Forecast
Base Rates	✓	
RES		✓
TCA	✓	✓
PSA	✓	✓
DSM	✓	✓
Other	✓	



IMPROVING OUR REGULATORY ENVIRONMENT

# CONSTRUCTIVE TRANSMISSION RATE REGULATION

56

We have achieved transmission rate treatment with annual adjustments.

- FERC Formula Rates adopted in 2008
- Adjusted annually with 10.75% allowed ROE
- Based on FERC Form 1 and certain projections
- Retail portion flows through ACC Transmission Cost Adjustor (TCA)
- Recent transmission revenue changes

	Annual Revenue	Rate Effective Dates	Annual Revenue	Rate Effective Dates	Annual Revenue	Rate Effective Dates
Retail Portion (TCA)	\$ 38 M	7/1/2011*	\$(10) M	8/1/2010	\$ 21 M	8/1/2009
Wholesale Portion	\$ 6 M	6/1/2011	\$ (2) M	6/1/2010	\$ 2 M	6/1/2009
Total Increase (Decrease)	\$ 44 M		\$(12) M		\$ 23 M	
Equity Ratio	54%		51%		55%	
Rate Base	\$1.2 B		\$1.1 B		\$1.1 B	
Test Year	2010		2009		2008	

\* Requested



IMPROVING OUR REGULATORY ENVIRONMENT



# SIGNIFICANT REGULATORY PROGRESS SINCE 2005

57

We have achieved a more supportive regulatory structure and improvements in cost recovery timing.

Mechanism	Adopted/ Last Adjusted	Description
Power Supply Adjustor ("PSA")	April 2005 / February 2011	<ul style="list-style-type: none"> <li>Recovers 90% of variance between actual fuel and purchased power costs and base fuel rate</li> <li>Includes forward-looking, historical and transition components</li> </ul>
Renewable Energy Surcharge ("RES")	May 2008 / January 2011	<ul style="list-style-type: none"> <li>Recovers costs related to renewable initiatives</li> <li>Collects projected dollars to meet RES targets</li> <li>Provides incentives to customers to install distributed renewable energy</li> </ul>
Demand-Side Management Adjustment Clause ("DSMAC")	April 2005 / March 2011	<ul style="list-style-type: none"> <li>Recovers costs related to energy efficiency and DSM programs above \$10 million in base rates</li> <li>Provides performance incentive to APS for net benefits achieved</li> <li>Provides rebates and other incentives to participating customers</li> </ul>
Environmental Improvement Surcharge ("EIS")	July 2007 / July 2007	<ul style="list-style-type: none"> <li>Recovers retroactively costs related to environmental upgrades not fully recovered through base rates</li> <li>Allows for cost recovery of ACC-approved projects</li> </ul>
Retail Line Extension Fees	February 2008 / January 2010	<ul style="list-style-type: none"> <li>"Pay as you go" mechanism collects dollars spent for new distribution construction at beginning of project</li> <li>Better protects existing customers by allocating cost of expansion to developers</li> </ul>
Transmission Cost Adjustor ("TCA")	April 2005 / July 2011*	<ul style="list-style-type: none"> <li>Recovers FERC-approved transmission costs related to retail customers</li> <li>Resets annually as result of FERC Formula Rate process (see below)</li> </ul>
FERC Formula Rates	2008 / June 2011	<ul style="list-style-type: none"> <li>Recovers transmission costs based on historical costs per FERC Form 1 and certain projected data</li> <li>Resets annually</li> </ul>

\* Requested



IMPROVING OUR REGULATORY ENVIRONMENT