



PINNACLE WEST  
CAPITAL CORPORATION

## **4<sup>th</sup> Quarter and Full-Year 2011 Results**

# Forward-Looking Statements



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This presentation contains forward-looking statements based on current expectations, including statements regarding our 2012 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 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 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, 2011, 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.

# Amounts Attributable to Common Shareholders and Non-GAAP Financial Measures



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In this presentation, references to net income and earnings per share (EPS) refer to amounts attributable to common shareholders.

We present “regulated electricity gross margin” per diluted share of common stock. Regulated electricity gross margin refers to regulated electricity revenues less regulated electricity fuel and purchased power expenses. Regulated electricity gross margin is a “non-GAAP financial measure,” as defined in accordance with SEC rules. The appendix contains a reconciliation of this non-GAAP financial measure to the referenced revenue and expense line items on our Consolidated Statements of Income, which are the most directly comparable financial measures calculated and presented in accordance with generally accepted accounting principles in the United States of America (GAAP). We view regulated electricity gross margin as an important performance measure of the core profitability of our operations.

We refer to “on-going earnings” in this presentation, which is also a non-GAAP financial measure. We believe on-going earnings provide investors with a useful indicator of our results that is comparable among periods because it excludes the effects of unusual items that may occur on an irregular basis. Reconciliations of on-going earnings to our net income attributable to common shareholders are included in this presentation.

Investors should note that these non-GAAP financial measures may involve judgments by management, including whether an item is classified as an unusual item. These measures are key components of our internal financial reporting and are used by our management in analyzing the operations of our business. We believe that investors benefit from having access to the same financial measures that management uses.

# CFO Agenda

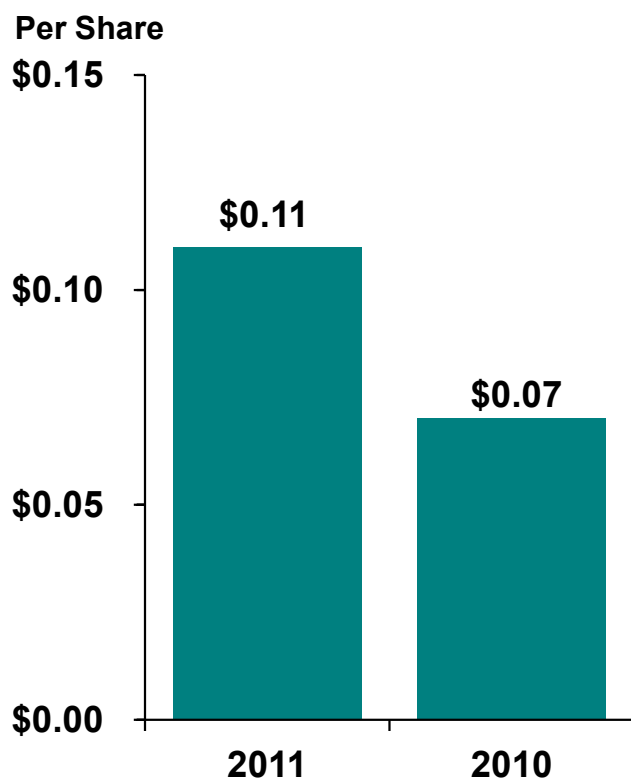
- **4<sup>th</sup> Quarter Results**
- **Full-Year 2011 Results**
- **Arizona Economic Outlook**
- **Liquidity and Financing Activities**

# Consolidated EPS Comparisons

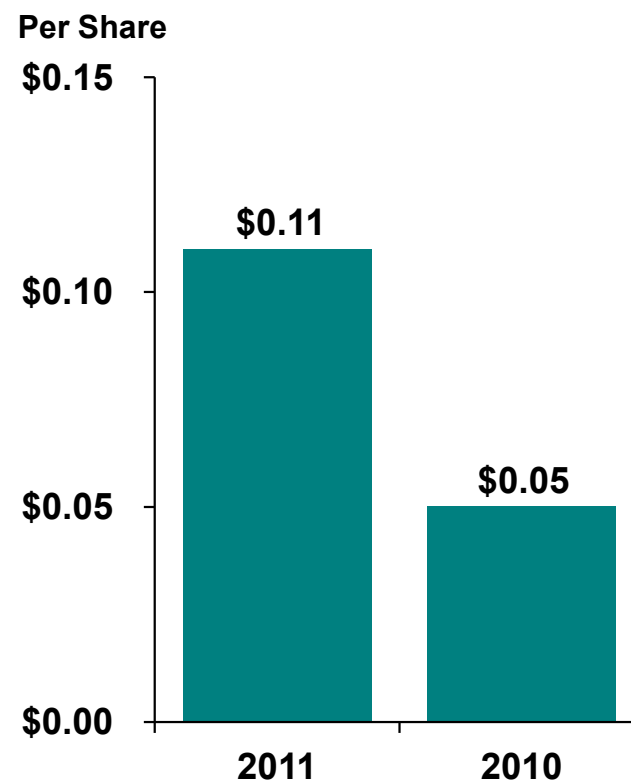
## 4<sup>th</sup> Quarter 2011 vs. 4<sup>th</sup> Quarter 2010



### *Net Income*



### *On-Going Earnings*



# Non-GAAP EPS Reconciliation

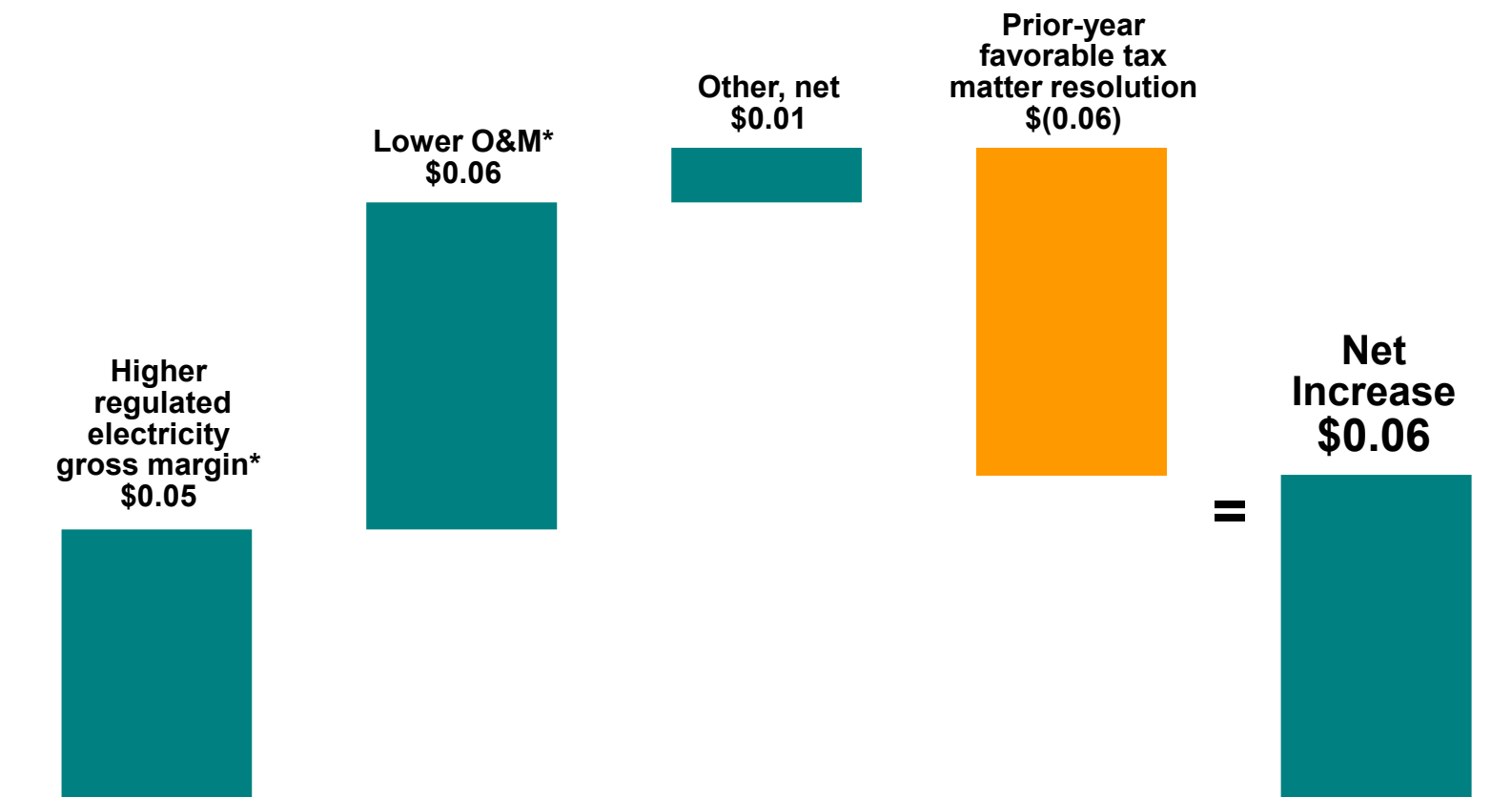
## 4<sup>th</sup> Quarter 2011 vs. 4<sup>th</sup> Quarter 2010



	<u>4<sup>th</sup> Qtr 2011</u>	<u>4<sup>th</sup> Qtr 2010</u>	<u>Change</u>
EPS as reported	\$ 0.11	\$ 0.07	\$ 0.04
Less adjustments:			
Discontinued energy services business	<u>-</u>	<u>(0.02)</u>	<u>0.02</u>
On-going EPS	<u>\$ 0.11</u>	<u>\$ 0.05</u>	<u>\$ 0.06</u>

# On-Going EPS Variances

## 4<sup>th</sup> Quarter 2011 vs. 4<sup>th</sup> Quarter 2010



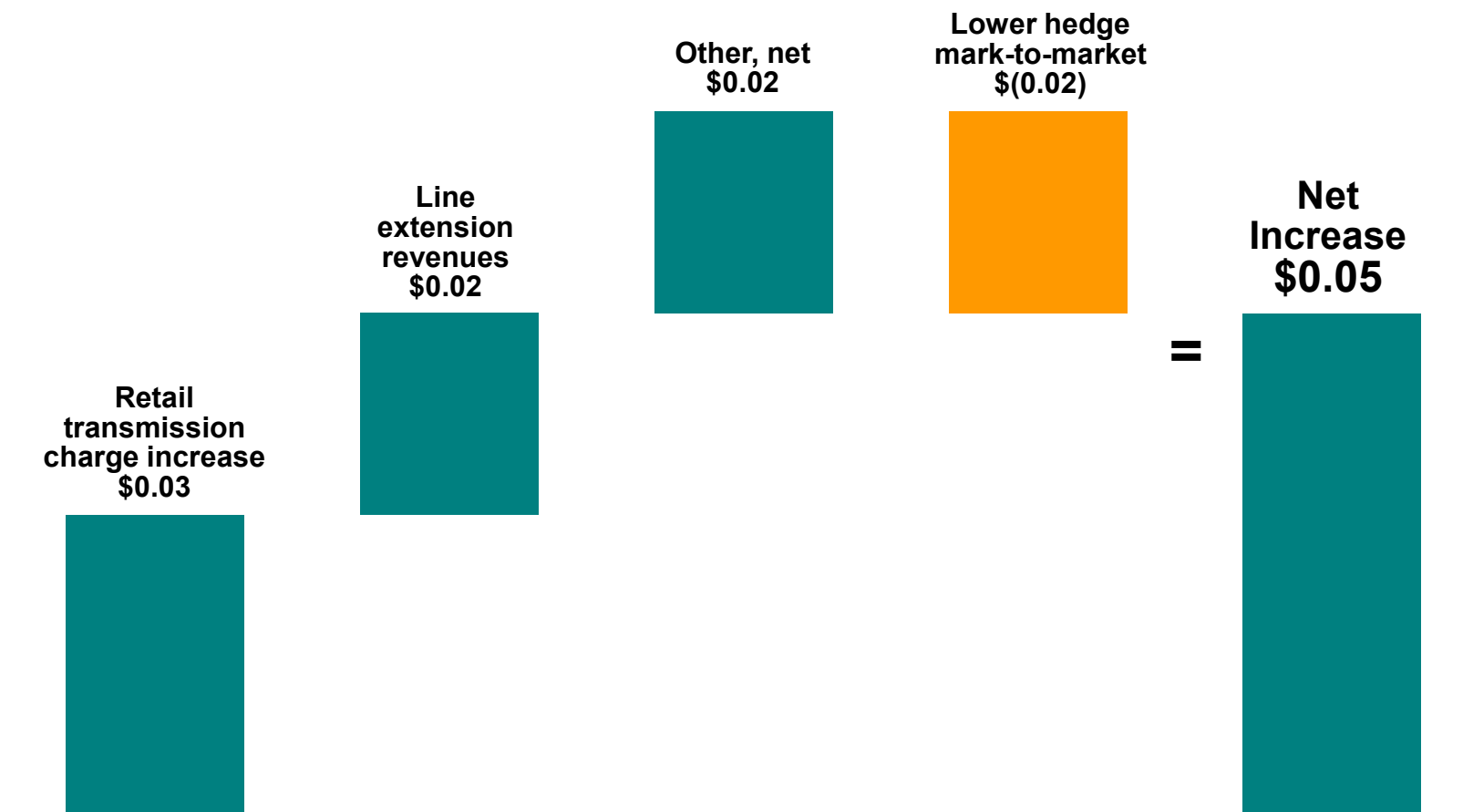
\* Excludes costs, and offsetting operating revenues, associated with renewable energy and energy efficiency programs. See non-GAAP reconciliation for regulated electricity gross margin in appendix.

# Regulated Electricity Gross Margin Drivers

## 4<sup>th</sup> Quarter 2011 vs. 4<sup>th</sup> Quarter 2010



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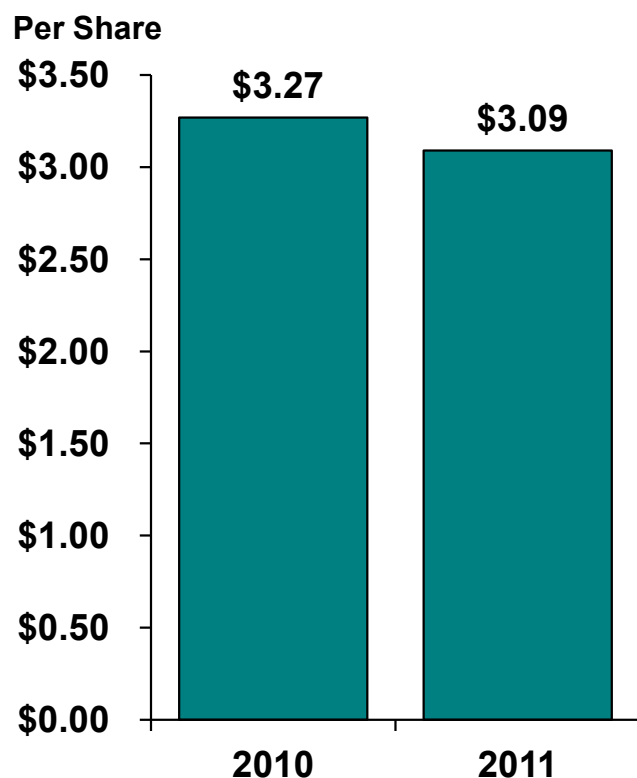


See non-GAAP reconciliation in appendix.

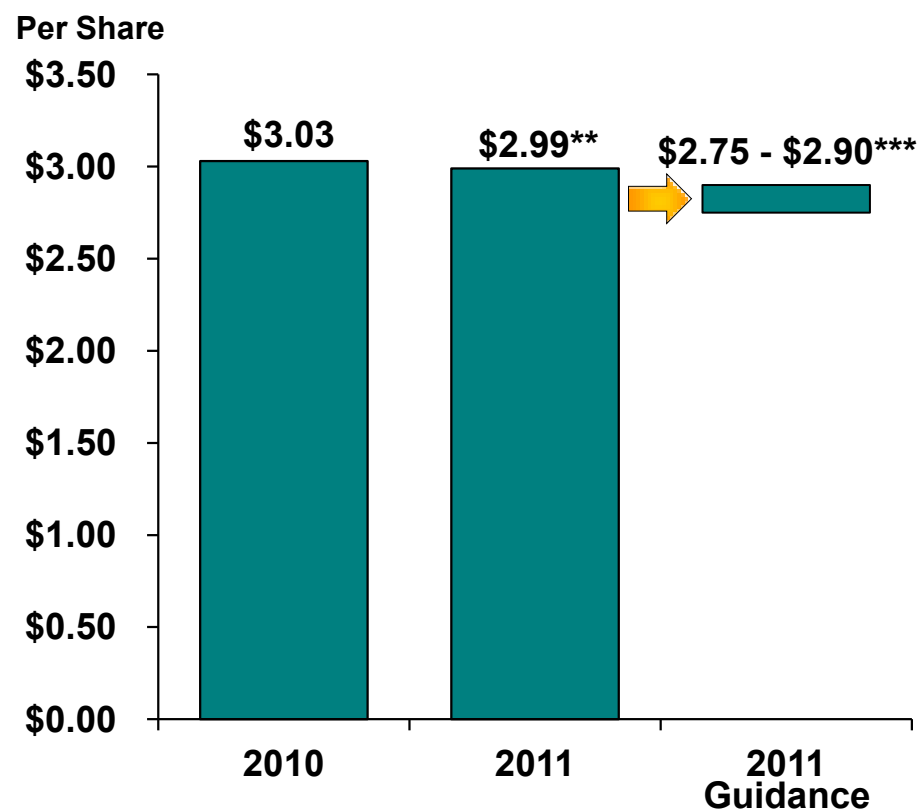
# Consolidated EPS Comparisons

## Full-Year 2011 vs. Full-Year 2010

### Net Income



### On-Going Earnings\*



\*See non-GAAP reconciliation in appendix.

\*\*Reflects 2011 reclassification of APS Energy Services as discontinued operations.

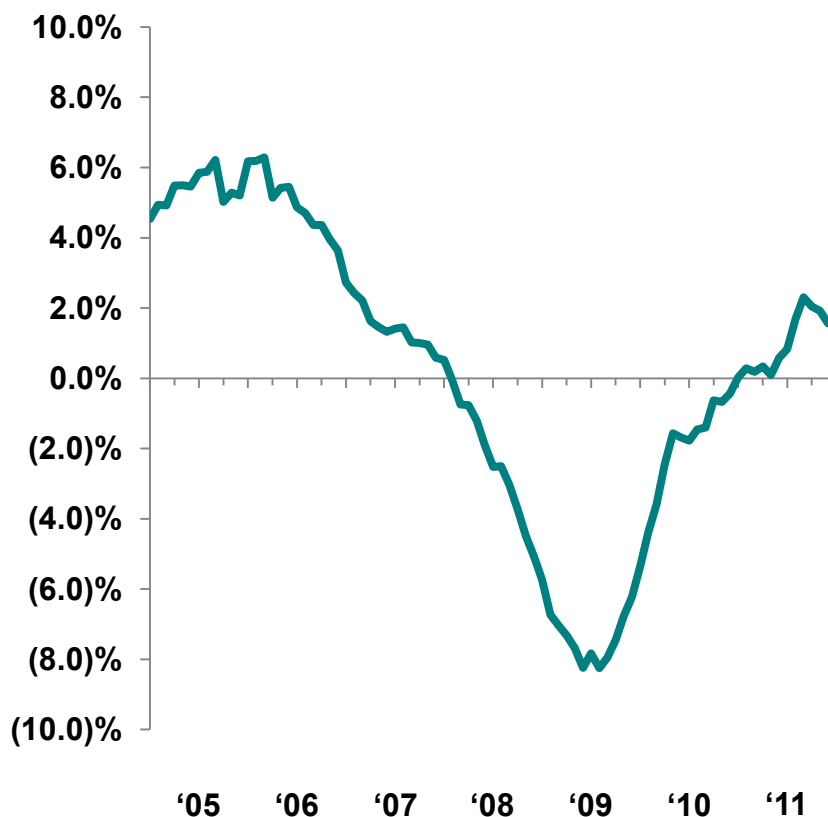
\*\*\*Guidance near top of range.

# Arizona Economic Indicators

## Employment & Consumer Spending

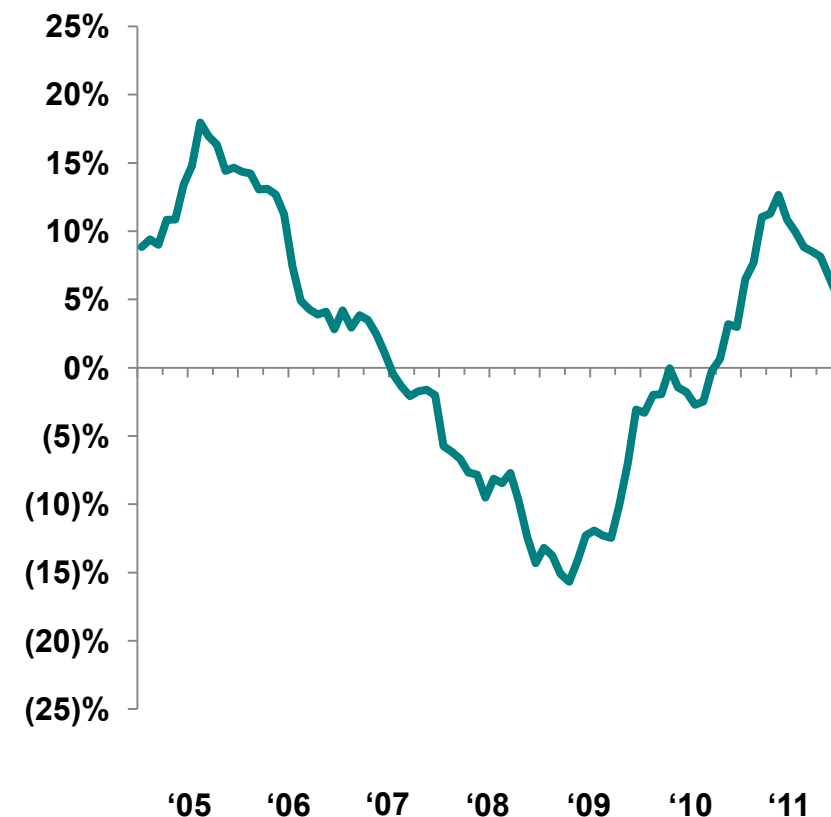
### *Non-Farm Job Growth*

Month-To-Month Change



### *Consumer Spending*

Year-Over-Year Change



# CEO Discussion Agenda

- **Arizona Regulatory Developments**
- **Renewables and Generation Investments**
- **Utility Operations Update**
- **Looking Ahead**

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# Appendix

# 2012 On-Going Earnings Key Drivers

- **Retail customer growth about 1%**
- **Weather-normalized retail electricity sales volume growth slightly negative taking into account effects of Company's energy efficiency initiatives**
- **Weather**
- **2009 regulatory settlement provisions, until 2012 retail rate decision goes into effect**
  - Pension and OPEB deferrals
  - Line extensions as revenues
  - Palo Verde depreciation reduction due to license extension
- **2012 retail rate settlement proposed to become effective July 1, 2012**
  - Retail base rate changes
  - Adjustment mechanism modifications
  - Potential property tax deferrals
- **Transmission rate increases**
- **AZ Sun Program**
- **Company-wide operating and capital cost management**
- **Interest rates**

# 2012 Proposed Retail Rate Case Settlement

## Key Benefits from Investor Perspective



***The proposed settlement contains 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**
  - **Demonstrates collaboration and cooperation among APS and numerous stakeholders**
  - **Allows decision approximately one year after filing**
- **Provides no base rate change for customers and promotes rate gradualism**

# 2012 Proposed Retail Rate Case Settlement

## Key Financial Proposals – Base Rate Changes



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***The proposed net base rate change would be zero, when implemented – an important benefit to customers.***

### Annualized Base Rate Revenue Changes (\$ millions)

Non-fuel base rate increase	\$ 116.3
Fuel-related base rate decrease	(153.1)
Revenues related to AZ Sun and other solar projects to be transferred from Renewable Energy Surcharge to base rates	<u>36.8</u>
Net base rate change	<u><u>\$ -0-</u></u>

# 2012 Proposed Retail Rate Case Settlement

## Key Proposals – Other than Base Rates



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***Other key proposals provide customers rate stability while continuing constructive regulatory treatment and limiting regulatory lag.***

- **Post test-year plant additions – 15 months' additions included in rate base**
- **Constructive new or modified adjustment mechanisms**
  - **Lost Fixed Cost Recovery (LFCR) rate mechanism to address ratemaking effects of energy efficiency and distributed renewable energy**
  - **Power Supply Adjustor (PSA) – 100% pass-through**
  - **Transmission Cost Adjustor (TCA) – streamlined for future rate changes**
  - **Environmental Improvement Surcharge (EIS) – recovery of certain carrying costs for government-mandated environmental capital expenditures**
- **Four Corners transaction – procedure to allow APS to request related rate adjustments, if transaction consummated**
- **Property tax expense deferrals for future tax rate changes**
- **Current PSA credit on customer bills to continue until February 1, 2013, rather than reset when base rate changes become effective July 1, 2012**
- **Next general rate case may be filed on or after May 31, 2015 for rates to become effective on or after July 1, 2016 (4-year stay-out)**

# 2012 Proposed Retail Rate Case Settlement

## Key Financial Assumptions



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***Updated rate base, cost of capital and fuel prices underpin the proposed settlement amounts.***

Rate base	\$5.7 billion
Allowed return on equity	10%
Capital structure	
Long-term debt	46.1%
Common equity	53.9%
Base fuel rate (¢/kWh)	3.21¢
Projected fuel-price year for base fuel rate	2012
Test year ended December 31, 2010 adjusted for post-test year plant additions	

# 2012 Proposed Retail Rate Case Settlement

## Procedural Schedule Key Dates



***The provisions of the settlement are targeted to become effective July 1, 2012, as originally requested by APS.***

- Settlement agreement filed January 6
- Hearing conducted January 26 – February 3
- Post-hearing briefs due February 29 and March 14
- Decision requested to become effective July 1

# APS AZ Sun Program

- Up to 200 MW utility-scale photovoltaic solar plants to be owned by APS
- In service 2011 through 2015
- Constructive rate recovery through RES until included in base rates
- Commitments to date:
  - 83 MW with \$375 million estimated capital investment
  - Project summary

Name	Net Capacity	Actual or Target Operation Date
Paloma	17 MW	Sept. 2011
Cotton Center	17 MW	Oct. 2011
Hyder Phase 1	11 MW	Oct. 2011
Hyder Phase 2	5 MW	Feb. 2012
Chino Valley	19 MW	4Q 2012
Luke Air Force Base	14 MW	2013

- 50 MW in commercial operation to date
- Planning and procurement under way for additional projects

# Four Corners Power Plant Proposed Plan

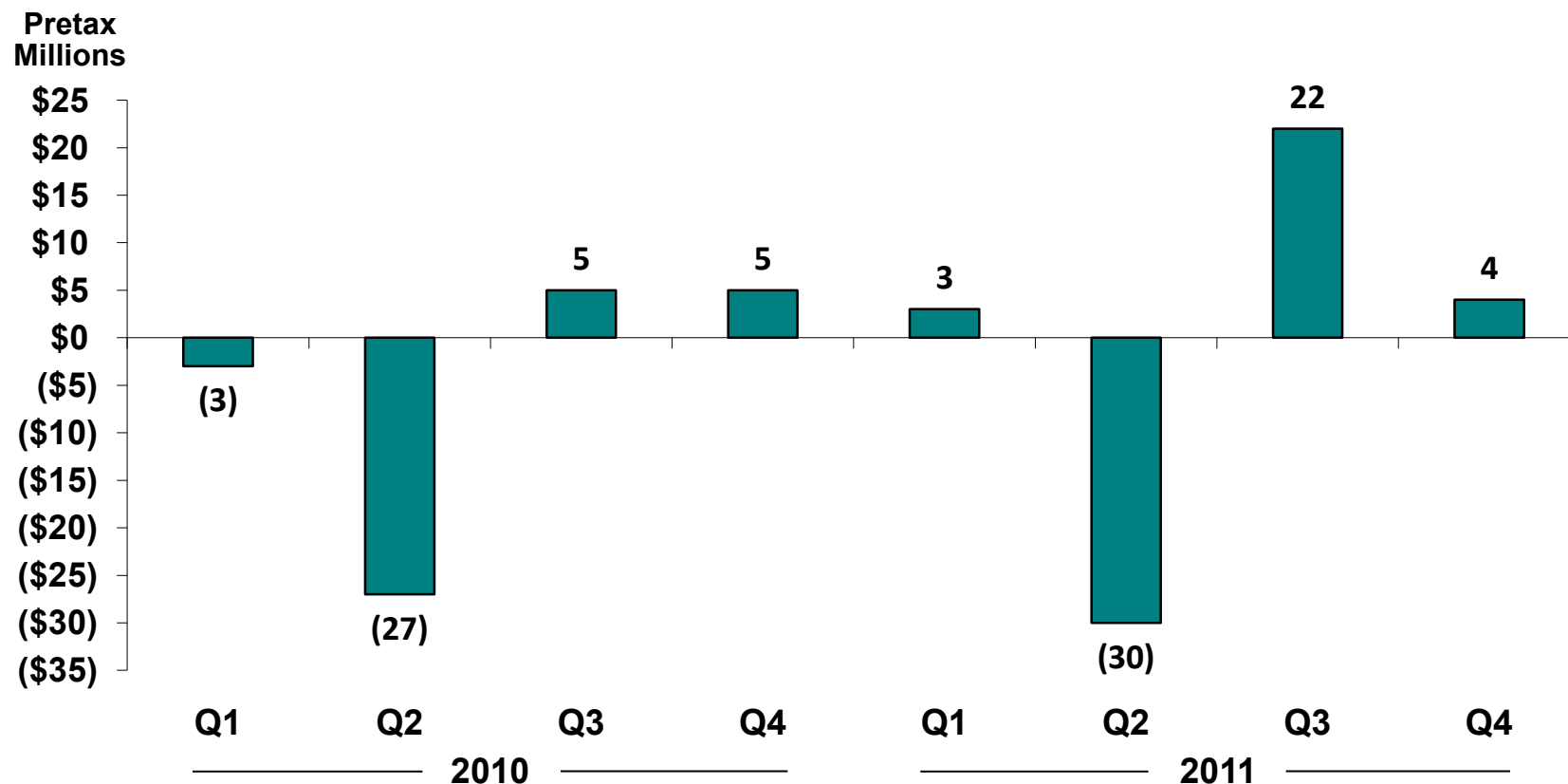


**Acquire Southern California Edison's 739 MW interest  
in Units 4 & 5 and shut down 560 MW Units 1 – 3**

- **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**
  - **Favorable California preliminary decision**

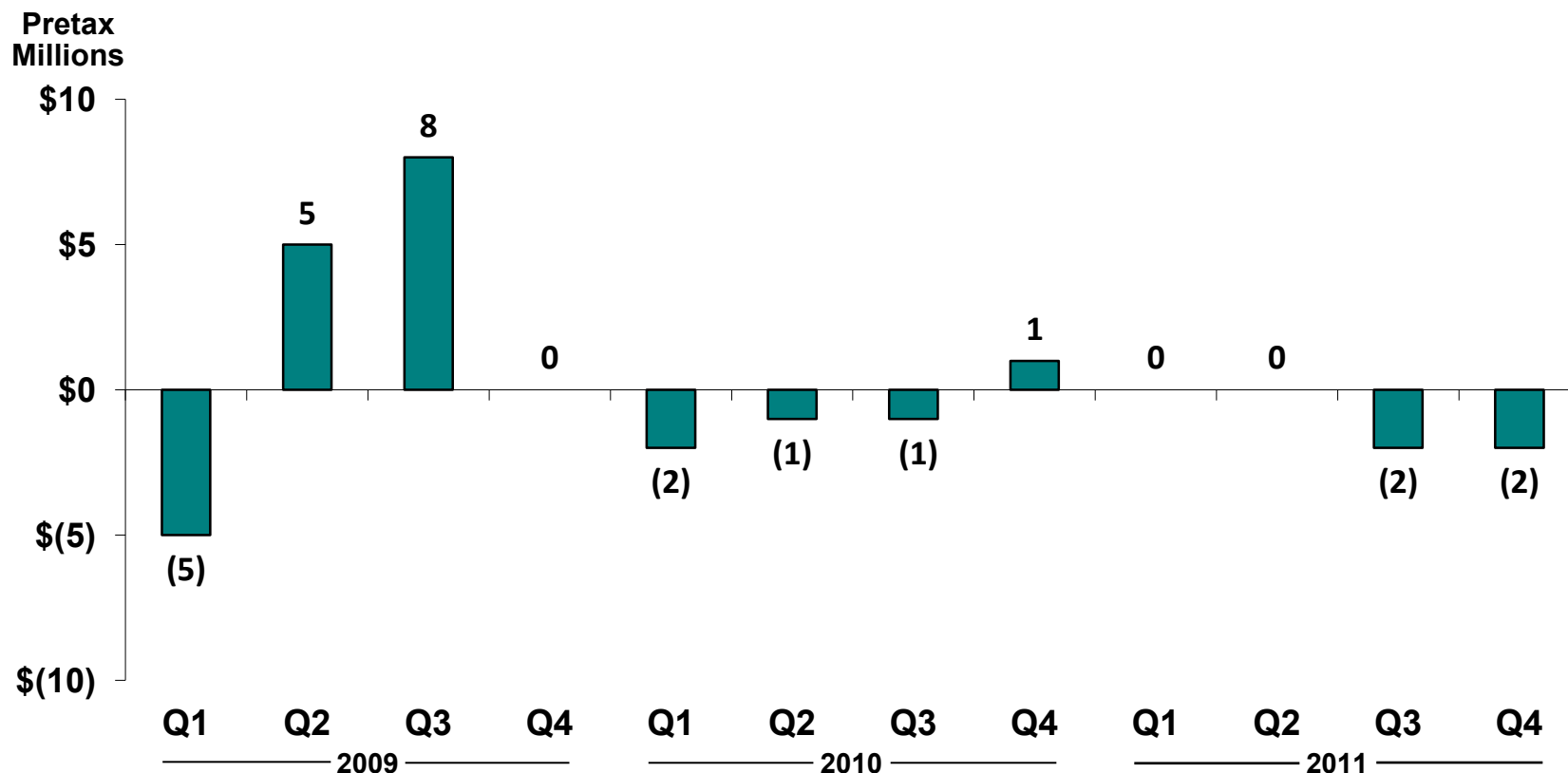
**Economic, environmental and social benefits**

# Gross Margin Effects of Weather Variances Versus Normal\*



\*All periods recalculated to conform to current presentation.

# Quarterly Mark-to-Market on Hedge Contracts\*

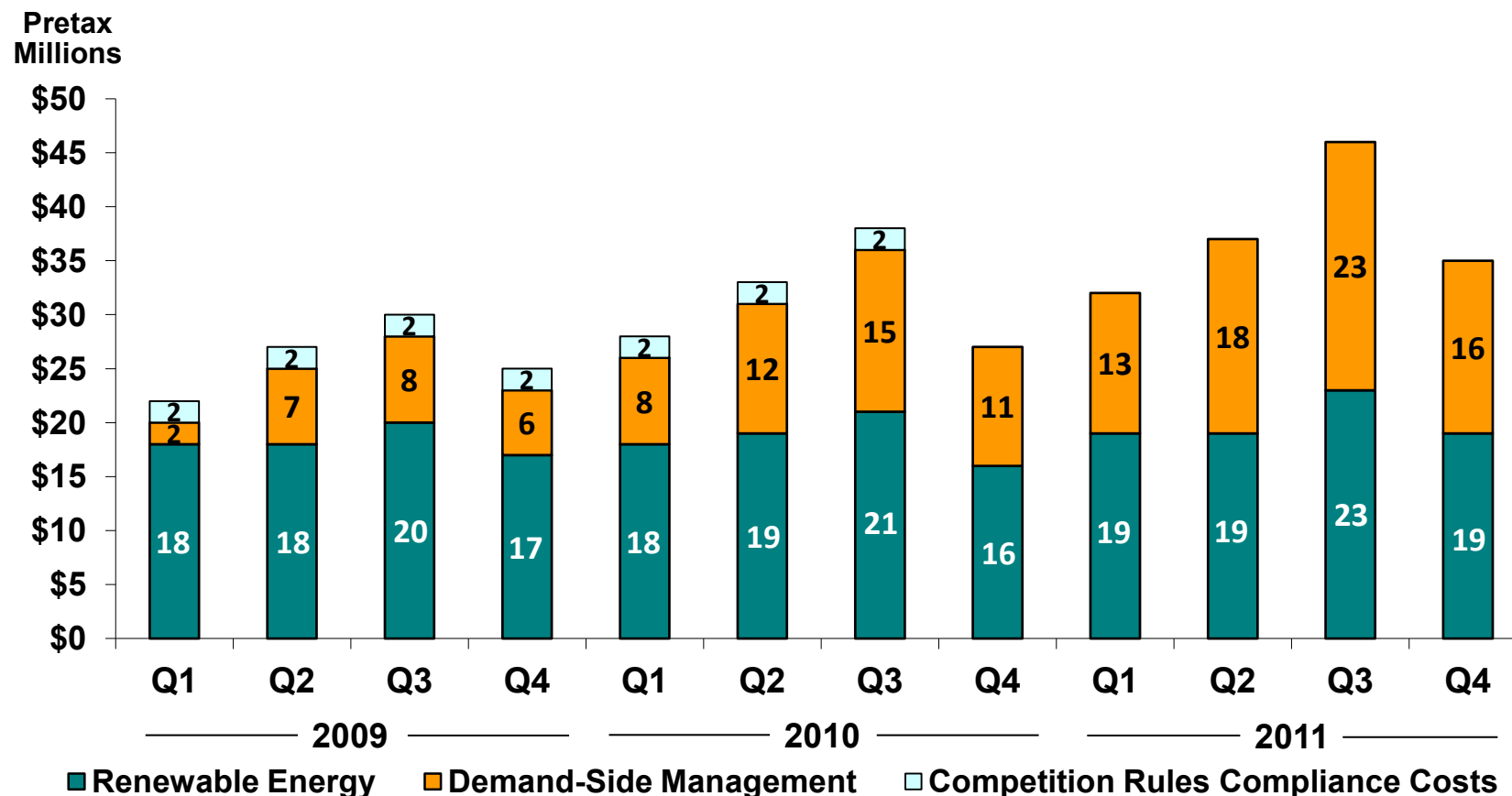


\* Related to APS 10% share under Power Supply Adjustor (PSA), net of related deferrals.

# Renewable Energy, Demand-Side Management and Similar Regulatory Expenses\*



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\* O&M expenses related to Renewable Energy Standard and similar regulatory programs are offset by comparable revenue amounts.

# Non-GAAP Measure Reconciliation

## Regulated Electricity Gross Margin



	Three Months Ended		EPS Change
	December 31, 2011	2010	
\$ millions, pretax, except per share amounts			
Regulated electricity revenue*	\$ 667	\$ 654	
Regulated electricity fuel and purchased power expenses*	(216)	(226)	
Regulated electricity gross margin	451	428	\$ 0.13
Less:			
RES, DSM and similar regulatory surcharge revenue**	(43)	(29)	(0.08)
Regulated electricity gross margin - adjusted	\$ 408	\$ 399	\$ 0.05

\* Line items from Consolidated Statements of Income.

\*\*RES, Renewable Energy Standard; DSM, Demand-Side Management.

# Non-GAAP EPS Reconciliation

## Full Year 2011 Versus Full Year 2010



	Year Ended December 31,		Change
	2011	2010	
EPS as reported	\$ 3.09	\$ 3.27	\$ (0.18)
Less adjustments:			
Discontinued real estate operations	0.01	0.05	(0.04)
Discontinued energy services business	(0.11)	(0.29)	0.18
On-going EPS	<u>\$ 2.99</u>	<u>\$ 3.03</u>	<u>\$ (0.04)</u>