



Earnings Release Kit Second Quarter 2013

This kit contains the following documents:

- Earnings release with comparative income statements
- Conference call slides
- Earnings variance explanations
- Quarterly statistics summary
- Comparative financial statements for PNW and APS

Copies of individual items are available on our website at www.pinnaclewest.com. For further analysis, quarterly statistics and other information for 2011-2012 are also available on our website.

FOR IMMEDIATE RELEASE**August 2, 2013**

Media Contact: Alan Bunnell, (602) 250-3376

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Analyst Contact: Paul Mountain, (602) 250-4952

Website: pinnaclewest.com**PINNACLE WEST REPORTS 2013 SECOND-QUARTER RESULTS**

- *2013 earnings guidance revised upward largely as a result of favorable weather*
- *Reliable service, operational excellence and disciplined cost management remain Company priorities*

PHOENIX – Pinnacle West Capital Corp. (NYSE: PNW) today reported consolidated on-going earnings of \$131.2 million, or \$1.18 per diluted share of common stock, for the quarter ended June 30, 2013. This result compares with on-going earnings of \$123.1 million or \$1.12 per share, in the same 2012 period.

The Company's net income attributable to common shareholders for the 2013 second quarter was \$131.2 million, or \$1.18 per diluted share, compared with net income of \$122.3 million, or \$1.11 per share, for the same quarter a year ago. On-going earnings exclude results of discontinued operations. A reconciliation of reported earnings to on-going earnings is provided at the end of this release.

"Beneficial weather variations compared with normal patterns were positive contributors to our second-quarter and year-to-date results," said [Pinnacle West](#) Chairman, President and Chief Executive Officer [Don Brandt](#). "As a result, we have revised our earnings guidance upward to reflect the weather's impact on our full-year financial projections.

"By executing our strategy, we are continuing to create value for customers and shareholders through operational excellence, disciplined cost management and sound capital investments that produce a reliable, sustainable energy future for Arizona."

The 2013 second-quarter on-going results comparison was positively impacted by the following factors:

- *The Company's 2012 regulatory settlement, which included a retail non-fuel base rate increase, improved earnings by \$0.18 per share. The settlement became effective July 1, 2012.*

- *Higher transmission revenues* augmented results by \$0.06 per share, primarily because of transmission rate changes implemented in 2012 and June 2013. These increases were largely due to increased investment in transmission infrastructure and related costs.

The positive quarter-over-quarter factors were partially offset by:

- *Higher fuel and purchased power costs, net of lower mark-to-market valuations*, reduced earnings by \$0.07 per share as a result of changes in regulatory treatment.
- *The effects of weather* – a combination of year-over-year variations in heating and cooling degree days (a measure of the effects of weather) and relative humidity – decreased the Company's results by \$0.05 per share compared with the same period a year ago. Even though 2013's second-quarter weather was hotter than normal, it was not nearly as hot as the same period last year. Weather positively impacted 2013 second-quarter results by \$0.09 per share, while weather positively impacted 2012's second-quarter earnings by \$0.14 per share compared with historically normal conditions.
- *Higher operations and maintenance expenses* impacted the bottom line by \$0.04 per share compared with the prior-year quarter. The higher expense primarily related to amortization of certain retirement benefits in 2013, compared with the regulatory deferral of such costs in 2012.

The O&M variance excludes costs associated with renewable energy, energy efficiency and similar regulatory programs, which are largely offset by comparable amounts of operating revenues.

[Arizona Public Service Co.](#) (APS), the Company's principal subsidiary, reported 2013 second-quarter net income attributable to common shareholder of \$133.9 million versus earnings of \$124.9 million in the similar 2012 period.

Financial Outlook

Pinnacle West expects its 2013 consolidated on-going earnings will be in the range of \$3.55 to \$3.70 per diluted share. Key factors and assumptions underlying this outlook are:

- Normal weather patterns for the remainder of the year;
- Weather-normalized retail electricity sales volumes about the same as the prior year, in part due to the effects of customer conservation and initiatives associated with energy efficiency and distributed renewable generation;
- Retail customer growth of about 1.5 percent;
- Total electricity gross margin (operating revenues, net of fuel and purchased power expenses, excluding retail rate adjustment mechanisms associated with renewable energy and energy efficiency programs) is expected to be in a range of about \$2.21 billion to \$2.26 billion, an increase from the previous range of about \$2.17 billion to \$2.22 billion;

- Anticipated operating expenses (operations and maintenance, excluding costs for Renewable Energy Standard and similar regulatory programs; depreciation and amortization; and taxes other than income taxes) of about \$1.37 billion to \$1.40 billion, which was previously estimated to be about \$1.34 billion to \$1.37 billion;
- Anticipated interest expense, net of allowances for borrowed and equity funds used for construction, has been reduced to a range of about \$160 million to \$170 million, down from the previous estimated range of about \$175 million to \$185 million; and
- An effective income tax rate of about 35 percent.

Longer term, the Company's goal is to achieve a consolidated earned return on average common equity of at least 9.5 percent annually in 2013 through 2015. Key factors and assumptions underlying the outlook can be found in the earnings presentation slides for the second-quarter 2013 on the Company's website at pinnaclewest.com/investors.

Conference Call and Web Cast

Pinnacle West invites interested parties to listen to the live webcast of management's conference call to discuss the Company's 2013 second-quarter results, as well as recent developments, at 12 noon (ET) today, Aug. 2. The webcast can be accessed at pinnaclewest.com/presentations and will be available for replay on the website for 30 days. To access the live conference call by telephone, dial (877) 407-8035 or (201) 689-8035 for international callers. A replay of the call also will be available until 11:59 p.m. (ET), Friday, Aug. 9, 2013, by calling (877) 660-6853 in the U.S. and Canada or (201) 612-7415 internationally and entering conference ID number 417155.

General Information

Pinnacle West Capital, an energy holding company based in Phoenix, has consolidated assets of about \$13.6 billion, more than 6,300 megawatts of generating capacity and about 6,600 employees in Arizona and New Mexico. Through its principal subsidiary, Arizona Public Service, the Company provides retail electricity service to more than 1.1 million Arizona homes and businesses. For more information about Pinnacle West, visit the Company's website at pinnaclewest.com.

Dollar amounts in this news release are after income taxes. Earnings per share amounts are based on average diluted common shares outstanding. For more information on Pinnacle West's operating statistics and earnings, please visit pinnaclewest.com/investors.

PINNACLE WEST CAPITAL CORPORATION
NON-GAAP FINANCIAL MEASURE RECONCILIATION
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS
(GAAP MEASURE) TO ON-GOING EARNINGS
(NON-GAAP FINANCIAL MEASURE)

	Three Months Ended June 30, 2013		Three Months Ended June 30, 2012	
	Dollars in Millions	Diluted EPS	Dollars in Millions	Diluted EPS
Net Income Attributable to Common Shareholders	\$ 131.2	\$ 1.18	\$ 122.3	\$ 1.11
Less: Income (loss) from discontinued operations	----	----	(0.8)	(0.01)
On-going Earnings	<u>\$ 131.2</u>	<u>\$ 1.18</u>	<u>\$ 123.1</u>	<u>\$ 1.12</u>

NON-GAAP FINANCIAL INFORMATION

In this press release, we refer to “on-going earnings.” On-going earnings is a “non-GAAP financial measure,” as defined in accordance with SEC rules. 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. Investors should note that these non-GAAP financial measures involve judgments by management, including whether an item is classified as an unusual item. We use on-going earnings, or similar concepts, to measure our performance internally in reports for management.

FORWARD-LOOKING STATEMENTS

This press release contains forward-looking statements based on our current expectations, including statements regarding our earnings guidance and financial outlook and goals. 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. These factors include, but are not limited to:

- our ability to manage capital expenditures and operations and maintenance 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;
- our ability to achieve timely and adequate rate recovery of our costs, including returns on debt and equity capital;

- regulatory and judicial decisions, developments and proceedings;
- new legislation or regulation including those relating to environmental requirements, nuclear plant operations and potential deregulation of retail electric markets;
- 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 Part 1, Item 1A of the Pinnacle West/APS Annual Report on Form 10-K for the fiscal year ended December 31, 2012, 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.

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

	THREE MONTHS ENDED		Increase (Decrease)	
	JUNE 30,		Amount	Percent
	2013	2012		
Operating Revenues	\$ 915,822	\$ 878,576	\$ 37,246	4.2% B
Operating Expenses				
Fuel and purchased power	277,584	264,723	12,861	4.9% W
Operations and maintenance	229,300	216,236	13,064	6.0% W
Depreciation and amortization	106,292	100,606	5,686	5.7% W
Taxes other than income taxes	40,814	41,289	(475)	1.2% B
Other expenses	2,020	1,233	787	63.8% W
Total	<u>656,010</u>	<u>624,087</u>	<u>31,923</u>	5.1% W
Operating Income	<u>259,812</u>	<u>254,489</u>	<u>5,323</u>	2.1% B
Other Income (Deductions)				
Allowance for equity funds used during construction	6,265	5,175	1,090	21.1% B
Other income	469	177	292	165.0% B
Other expense	(2,234)	(2,669)	435	16.3% B
Total	<u>4,500</u>	<u>2,683</u>	<u>1,817</u>	67.7% B
Interest Expense				
Interest charges	51,307	53,000	(1,693)	3.2% B
Allowance for borrowed funds used during construction	(3,636)	(3,447)	(189)	5.5% B
Total	<u>47,671</u>	<u>49,553</u>	<u>(1,882)</u>	3.8% B
Income From Continuing Operations Before Income Taxes	216,641	207,619	9,022	4.3% B
Income Taxes	<u>77,043</u>	<u>76,689</u>	<u>354</u>	0.5% W
Income From Continuing Operations	139,598	130,930	8,668	6.6% B
Loss From Discontinued Operations				
Net of Income Taxes	<u>-</u>	<u>(819)</u>	<u>819</u>	100.0% B
Net Income	139,598	130,111	9,487	7.3% B
Less: Net income attributable to noncontrolling interests	8,391	7,766	625	8.0% W
Net Income Attributable To Common Shareholders	<u>\$ 131,207</u>	<u>\$ 122,345</u>	<u>\$ 8,862</u>	7.2% B
Weighted-Average Common Shares Outstanding - Basic	109,962	109,491	471	0.4%
Weighted-Average Common Shares Outstanding - Diluted	110,932	110,359	573	0.5%
Earnings Per Weighted-Average Common Share Outstanding				
Income from continuing operations attributable to common shareholders - basic	\$ 1.19	\$ 1.12	\$ 0.07	6.3% B
Net income attributable to common shareholders - basic	\$ 1.19	\$ 1.12	\$ 0.07	6.3% B
Income from continuing operations attributable to common shareholders - diluted	\$ 1.18	\$ 1.12	\$ 0.06	5.4% B
Net income attributable to common shareholders - diluted	\$ 1.18	\$ 1.11	\$ 0.07	6.3% B
Amounts Attributable To Common Shareholders				
Income from continuing operations, net of tax	\$ 131,207	\$ 123,164	\$ 8,043	6.5% B
Discontinued operations, net of tax	-	(819)	819	100.0% B
Net income attributable to common shareholders	<u>\$ 131,207</u>	<u>\$ 122,345</u>	<u>\$ 8,862</u>	7.2% B

B -- Better
W -- Worse

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

	SIX MONTHS ENDED JUNE 30,		Increase (Decrease)	
	2013	2012	Amount	Percent
Operating Revenues	\$ 1,602,474	\$ 1,499,207	\$ 103,267	6.9% B
Operating Expenses				
Fuel and purchased power	508,263	481,032	27,231	5.7% W
Operations and maintenance	452,550	426,899	25,651	6.0% W
Depreciation and amortization	210,022	200,715	9,307	4.6% W
Taxes other than income taxes	80,835	83,764	(2,929)	3.5% B
Other expenses	4,069	4,301	(232)	5.4% B
Total	<u>1,255,739</u>	<u>1,196,711</u>	<u>59,028</u>	4.9% W
Operating Income	<u>346,735</u>	<u>302,496</u>	<u>44,239</u>	14.6% B
Other Income (Deductions)				
Allowance for equity funds used during construction	13,129	9,931	3,198	32.2% B
Other income	1,227	937	290	30.9% W
Other expense	(5,986)	(6,737)	751	11.1% B
Total	<u>8,370</u>	<u>4,131</u>	<u>4,239</u>	102.6% B
Interest Expense				
Interest charges	100,785	109,967	(9,182)	8.3% B
Allowance for borrowed funds used during construction	(7,626)	(6,598)	(1,028)	15.6% B
Total	<u>93,159</u>	<u>103,369</u>	<u>(10,210)</u>	9.9% B
Income From Continuing Operations Before Income Taxes	261,946	203,258	58,688	28.9% B
Income Taxes	<u>89,512</u>	<u>72,044</u>	<u>17,468</u>	24.2% W
Income From Continuing Operations	172,434	131,214	41,220	31.4% B
Loss From Discontinued Operations				
Net of Income Taxes	<u>-</u>	<u>(1,584)</u>	<u>1,584</u>	100.0% B
Net Income	172,434	129,630	42,804	33.0% B
Less: Net income attributable to noncontrolling interests	16,783	15,542	1,241	8.0% W
Net Income Attributable To Common Shareholders	<u>\$ 155,651</u>	<u>\$ 114,088</u>	<u>\$ 41,563</u>	36.4% B
Weighted-Average Common Shares Outstanding - Basic	109,898	109,395	503	0.5%
Weighted-Average Common Shares Outstanding - Diluted	110,843	110,183	660	0.6%
Earnings Per Weighted-Average Common Share Outstanding				
Income from continuing operations attributable to common shareholders - basic	\$ 1.42	\$ 1.06	\$ 0.36	34.0% B
Net income attributable to common shareholders - basic	\$ 1.42	\$ 1.04	\$ 0.38	36.5% B
Income from continuing operations attributable to common shareholders - diluted	\$ 1.40	\$ 1.05	\$ 0.35	33.3% B
Net income attributable to common shareholders - diluted	\$ 1.40	\$ 1.04	\$ 0.36	34.6% B
Amounts Attributable To Common Shareholders				
Income from continuing operations, net of tax	\$ 155,651	\$ 115,681	\$ 39,970	34.6% B
Discontinued operations, net of tax	-	(1,593)	1,593	100.0% B
Net income attributable to common shareholders	<u>\$ 155,651</u>	<u>\$ 114,088</u>	<u>\$ 41,563</u>	36.4% B

B -- Better
W -- Worse



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Forward-Looking Statements

This presentation contains forward-looking statements based on current expectations, including statements regarding our earnings guidance and financial outlook and goals. 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 manage capital expenditures and operations and maintenance 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; our ability to achieve timely and adequate rate recovery of our costs, including returns on debt and equity capital; regulatory and judicial decisions, developments and proceedings; new legislation or regulation, including those relating to environmental requirements, nuclear plant operations and potential deregulation of electric markets; 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 Part I, Item 1A of the Pinnacle West/APS Annual Report on Form 10-K for the fiscal year ended December 31, 2012, 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.

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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 “gross margin” per diluted share of common stock. Gross margin refers to operating revenues less fuel and purchased power expenses. 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 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.

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CEO Agenda

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- Regulatory Update
- Four Corners Transaction
- Operational Performance

Second Quarter 2013



CFO Agenda

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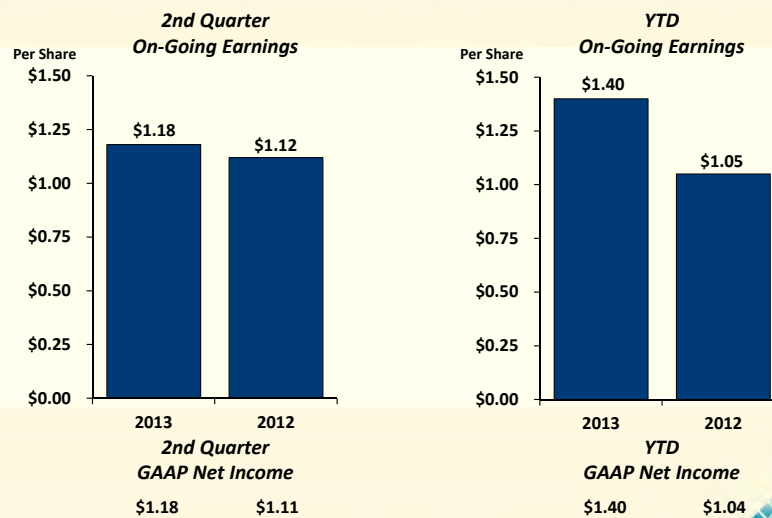
- 2nd Quarter Results
- Arizona Economic Outlook
- Credit Ratings and Financing
- Earnings Guidance and Financial Outlook

Second Quarter 2013



Consolidated EPS Comparisons 2013 vs. 2012

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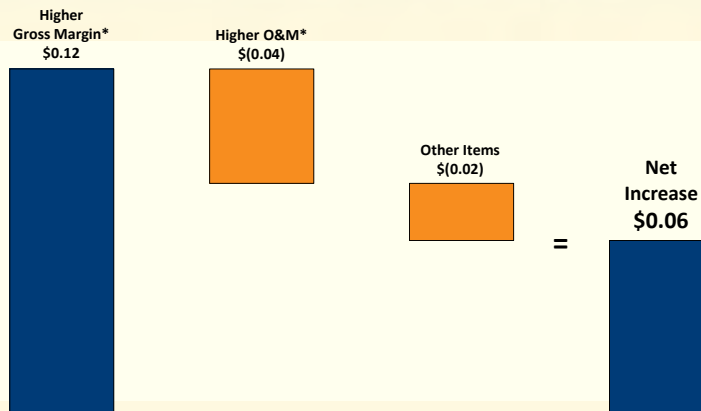


Second Quarter 2013



On-Going EPS Variances 2nd Quarter 2013 vs. 2nd Quarter 2012

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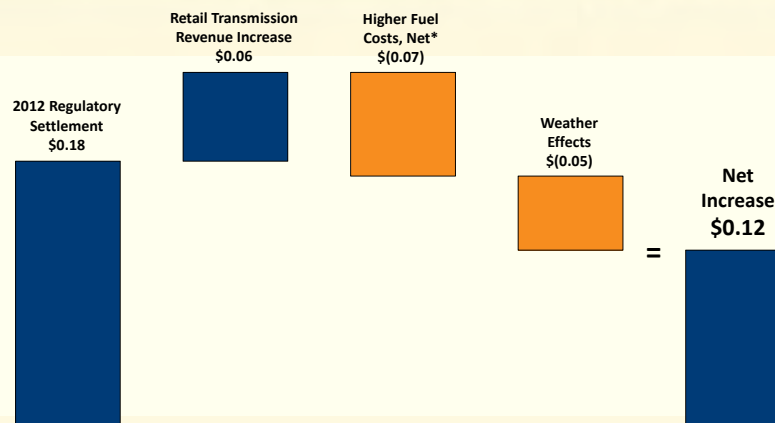
* Excludes costs, and offsetting operating revenues, associated with renewable energy (excluding AZ Sun), energy efficiency and similar regulatory programs. See non-GAAP reconciliation for gross margin in appendix.

Second Quarter 2013



Gross Margin EPS Drivers 2nd Quarter 2013 vs. 2nd Quarter 2012

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See non-GAAP reconciliation in appendix.

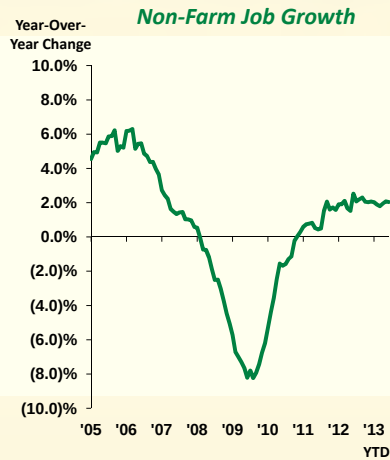
* Lower fuel and purchased power costs in 2012, net of off-system sales and mark-to-market.

Second Quarter 2013

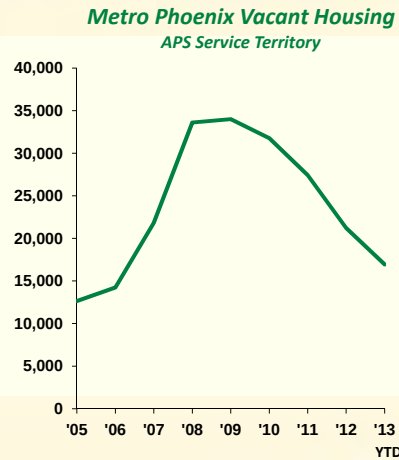


Arizona Economic Indicators Employment & Excess Housing

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Source: U.S. Bureau of Labor Statistics



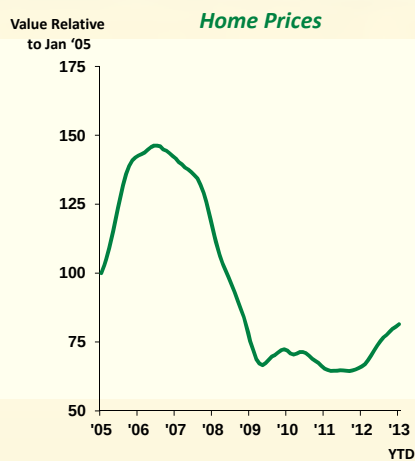
Source: APS

Second Quarter 2013

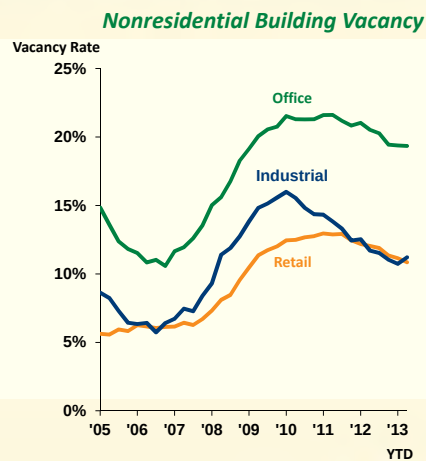


Arizona Economic Indicators Metro Phoenix Housing Prices & Nonresidential Vacancy

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Source: S&P/Case-Shiller Home Price Index
YTD through April 2013



Source: CoStar Group, Inc.

Second Quarter 2013



Investment-Grade Credit Ratings

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Corporate Credit Ratings

Moody's

S&P

Fitch*

Senior Unsecured

Moody's

S&P

Fitch*

Outlook

Moody's

S&P

Fitch*

APS	Parent
Baa1	Baa2
BBB+	BBB+
BBB+	BBB+
Baa1	-
BBB+	-
A-	-
Stable	Stable
Stable	Stable
Stable	Stable

*On May 17, 2013, Fitch Ratings upgraded APS's and Pinnacle West's corporate credit ratings from BBB to BBB+ and upgraded APS's senior unsecured rating from BBB+ to A-.

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

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2013 On-Going EPS Guidance As of August 2, 2013

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See key factors and assumptions in appendix.

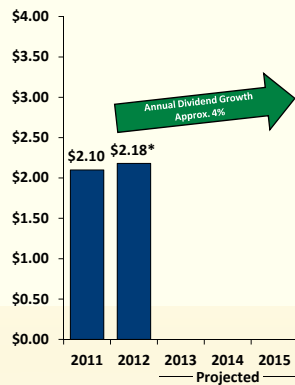
Second Quarter 2013



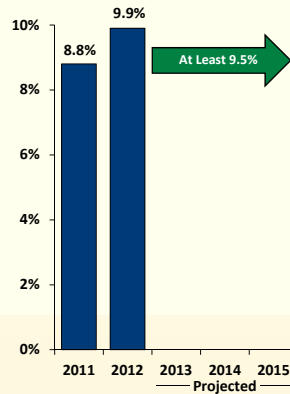
Consolidated Financial Outlook As of August 2, 2013

13

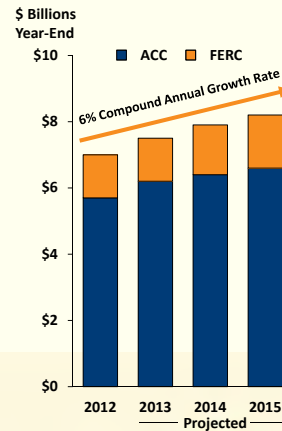
Dividend Growth Goal
Indicated Annual Dividend Rate at Year-End



Consolidated Earned ROE Goal



APS Rate Base Growth



* Future dividends subject to declaration at Board of Directors' discretion.

Second Quarter 2013



APPENDIX



2013 On-Going EPS Guidance

Key Factors & Assumptions as of August 2, 2013

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	Prior	Revised
Electricity gross margin* (operating revenues, net of fuel and purchase power expenses)	\$ 2.17 - \$2.22 billion	\$2.21 - \$2.26 billion
• Retail customer growth about 1.5%		
• Weather-normalized retail electricity sales volume about flat to prior year taking into account effects of customer conservation, energy efficiency and distributed renewable generation initiatives		
• Actual weather through June; normal weather patterns remainder of year		
Operating expenses* (operations and maintenance, depreciation and amortization, and taxes other than income taxes)	\$1.34 - \$1.37 billion	\$1.37 - \$1.40 billion
Interest expense , net of allowances for borrowed and equity funds used during construction	\$175 - \$185 million	\$160 - \$170 million
Net income attributable to non-controlling interests	\$30 - \$35 million	~\$35 million
Effective tax rate	35%	35%

* Excludes O&M of \$119 million, and offsetting revenues, associated with renewable energy and energy efficiency programs.

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2013 – 2015 Financial Outlook

Key Factors & Assumptions as of August 2, 2013

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Gross Margin – Customer Growth and Weather

Assumption	Impact
Retail customer growth	- Expected to average 2% annually (2013-2015) - Modestly improving Arizona and U.S. economic conditions
Weather-normalized retail electricity sales volume growth	Less than 1% after customer conservation and energy efficiency and distributed renewable generation initiatives
Weather	Actual weather through June 2013; normal weather patterns thereafter

Gross Margin – Related to 2012 Retail Rate Settlement

Assumption	Impact
AZ Sun Program	- Additions to flow through RES until next base rate case - First 50 MW of AZ Sun is recovered through base rates
Lost Fixed Cost Recovery (LFCR)	Assumed to offset 30-40% of revenues lost due to ACC-mandated energy efficiency and distributed renewable energy generation initiatives
Environmental Improvement Surcharge (EIS)	Assumed to recover up to \$5 million annually of carrying costs for government-mandated environmental capital expenditures
Power Supply Adjustor (PSA)	100% pass-through as of July 1, 2012
Transmission Cost Adjustor (TCA)	- TCA is filed each May and automatically goes into rates effective June 1 - Beginning July 1, 2012 under terms of the regulatory settlement, transmission revenue is accrued each month as it is earned
Four Corners Acquisition	Pending transaction closing

Potential property tax deferrals (2012 retail rate settlement) – Assume 60% of property tax increases relate to tax rates, therefore, will be eligible for deferrals (Deferral rates: 50% in 2013; 75% in 2014 and thereafter)

Second Quarter 2013



Regulatory Calendar List of Selected Dockets

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	Docket #
2012 Retail Rate Settlement (including Four Corners rate recovery)	E-01345A-11-0224
Retail Electric Competition*	E-00000W-13-0135
Energy Efficiency and Integrated Resource Planning*	E-00000XX-13-0214
2014 Renewable Energy Standard Implementation Plan	E-01345A-13-0140
Net Metering	E-01345A-13-0248

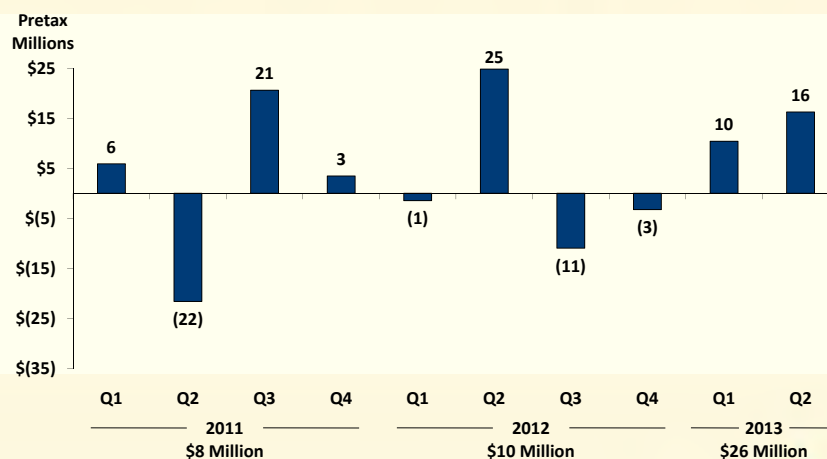
* Generic docket

Second Quarter 2013



Gross Margin Effects of Weather Variances vs. Normal

18



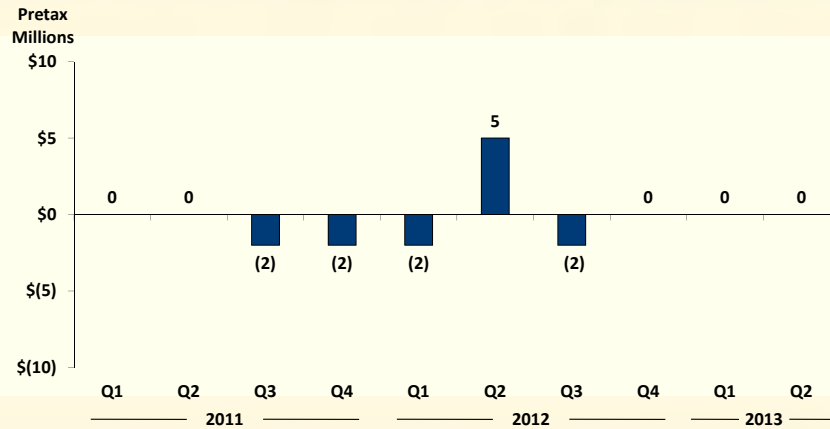
All periods recalculated to conform to current 10-year rolling average.

Second Quarter 2013



Quarterly Mark-to-Market on Hedge Contracts*

19



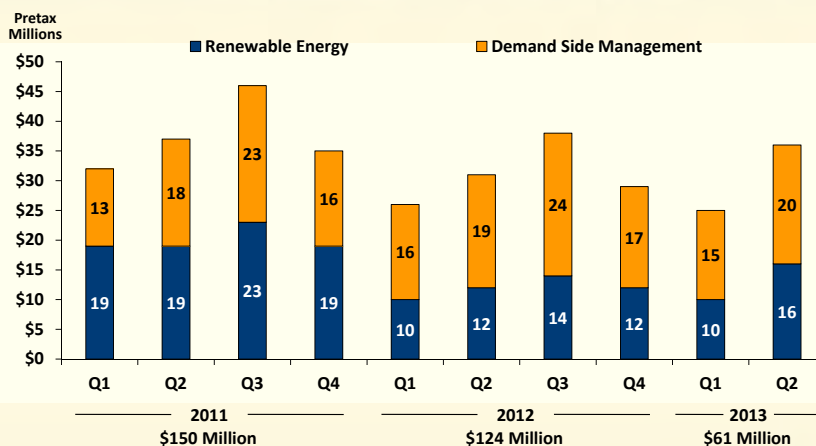
* Related to APS 10% share under Power Supply Adjustor (PSA), net of related deferrals, effective through June 30, 2012.

Second Quarter 2013



Renewable Energy, Demand Side Management and Similar Regulatory Expenses*

20



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

Second Quarter 2013



Non-GAAP EPS Reconciliation 2nd Quarter 2013 vs. 2nd Quarter 2012

21

	2nd Qtr 2013	2nd Qtr 2012	Change
EPS as reported	\$ 1.18	\$ 1.11	\$ 0.07
Adjustments:			
Loss from discontinued operations	-	0.01	(0.01)
On-going EPS	<u>\$ 1.18</u>	<u>\$ 1.12</u>	<u>\$ 0.06</u>

Second Quarter 2013



Non-GAAP Measure Reconciliation Gross Margin

22

	Three Months Ended June 30,		EPS Change
\$ millions pretax, except per share amounts	2013	2012	
Operating revenues*	\$ 916	\$ 879	
Fuel and purchased power expenses*	(278)	(265)	
Gross margin	638	614	\$ 0.13
Adjustments:			
Renewable energy (excluding AZ Sun), energy efficiency and similar regulatory programs	(30)	(29)	(0.01)
Gross margin – adjusted	<u>\$ 608</u>	<u>\$ 585</u>	<u>\$ 0.12</u>

* Line items from Consolidated Statements of Income

Second Quarter 2013



Pinnacle West Capital Corporation
Earnings Variance Explanations
For Three-Month and Six-Month Periods Ended June 30, 2013 and 2012

The following earnings variance explanations were excerpted from the Pinnacle West Capital Corporation (“Pinnacle West”)/Arizona Public Service Company (“APS”) Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2013 (the “June 2013 Form 10-Q”). We suggest that this discussion be read in connection with the Pinnacle West/APS Annual Report on Form 10-K for the fiscal year ended December 31, 2012 and the June 2013 Form 10-Q. Additional operating and financial statistics and a glossary of terms are available on our website (www.pinnaclewest.com).

RESULTS OF OPERATIONS

Pinnacle West’s only reportable business segment is our regulated electricity segment, which consists of traditional regulated retail and wholesale electricity businesses (primarily retail and wholesale sales supplied to traditional cost-based rate regulation (“Native Load”) customers) and related activities and includes electricity generation, transmission and distribution.

Operating Results

Three-month period ended June 30, 2013 compared with three-month period ended June 30, 2012 Our consolidated net income attributable to common shareholders for the three months ended June 30, 2013 was \$131 million, compared with net income of \$122 million for the prior-year period. The results reflect an increase of approximately \$8 million for the regulated electricity segment primarily due to increases related to the retail regulatory settlement effective July 1, 2012 (see Note 3) and higher retail transmission revenues. These positive factors were partially offset by higher fuel and purchased power costs, net of related deferrals; the effects of weather; higher operations and maintenance expenses; and higher depreciation and amortization expenses.

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

	Three Months Ended June 30,		Net Change
	2013	2012	
	(dollars in millions)		
Regulated Electricity Segment:			
Operating revenues less fuel and purchased power expenses	\$ 637	\$ 613	\$ 24
Operations and maintenance	(229)	(216)	(13)
Depreciation and amortization	(106)	(101)	(5)
Taxes other than income taxes	(41)	(41)	--
Other income (expenses), net	3	3	--
Interest charges, net of allowance for borrowed funds used during construction	(48)	(50)	2
Income taxes	(77)	(77)	--
Less income related to noncontrolling interests (Note 6)	(8)	(8)	--
Regulated electricity segment net income	131	123	8
Loss from Discontinued Operations			
Attributable to Common Shareholders (a)	--	(1)	1
Net Income Attributable to Common Shareholders	\$ 131	\$ 122	\$ 9

(a) Includes activities related to SunCor.

Operating revenues less fuel and purchased power expenses Regulated electricity segment operating revenues less fuel and purchased power expenses were \$24 million higher for the three months ended June 30, 2013 compared with the prior-year period. The following table summarizes the major components of this change:

	Increase (Decrease)		
	Operating	Fuel and purchased power expenses	Net change
	revenues		
	(dollars in millions)		
Impacts of retail regulatory settlement effective July 1, 2012	\$ 34	\$ 2	\$ 32
Higher retail transmission revenues	10	--	10
Higher demand-side management, renewable energy and similar regulatory surcharges	9	3	6
Effects of weather	(12)	(3)	(9)
Higher fuel and purchased power costs, net of related deferrals and off-system sales	1	14	(13)
Miscellaneous items, net	(5)	(3)	(2)
Total	<u>\$ 37</u>	<u>\$ 13</u>	<u>\$ 24</u>

Operations and maintenance Operations and maintenance expenses increased \$13 million for the three months ended June 30, 2013 compared with the prior-year period primarily because of:

- An increase of \$7 million related to amortization of certain pension and other postretirement benefit costs in 2013 compared with regulatory deferral of such costs in 2012;
- An increase of \$5 million related to costs for demand-side management, renewable energy and similar regulatory programs, which were largely offset in operating revenues; and
- An increase of \$1 million related to other miscellaneous factors.

Depreciation and amortization Depreciation and amortization expenses were \$5 million higher for the three months ended June 30, 2013 compared with the prior-year period primarily because of increased plant in service.

Six-month period ended June 30, 2013 compared with six-month period ended June 30, 2012 Our consolidated net income attributable to common shareholders for the six months ended June 30, 2013 was \$156 million, compared with net income of \$114 million for the prior-year period. The results reflect an increase of approximately \$39 million for the regulated electricity segment primarily due to increases related to the retail regulatory settlement effective July 1, 2012 (see Note 3); higher retail transmission revenues; higher retail sales due to customer growth and changes in customer usage patterns and related pricing; and lower net interest charges due to lower debt balances and lower interest rates in the current-year period. These positive factors were partially offset by higher operations and maintenance expenses; higher fuel and purchased power costs, net of related deferrals; and higher depreciation and amortization expenses.

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

	Six Months Ended June 30,		Net Change
	2013	2012	
	(dollars in millions)		
Regulated Electricity Segment:			
Operating revenues less fuel and purchased power expenses	\$ 1,093	\$ 1,017	\$ 76
Operations and maintenance	(453)	(427)	(26)
Depreciation and amortization	(210)	(201)	(9)
Taxes other than income taxes	(81)	(84)	3
Other income (expenses), net	7	4	3
Interest charges, net of allowance for borrowed funds used during construction	(93)	(103)	10
Income taxes	(90)	(73)	(17)
Less income related to noncontrolling interests (Note 6)	(17)	(16)	(1)
Regulated electricity segment net income	156	117	39
All other	--	(1)	1
Income from Continuing Operations Attributable to Common Shareholders	156	116	40
Loss from Discontinued Operations Attributable to Common Shareholders (a)	--	(2)	2
Net Income Attributable to Common Shareholders	\$ 156	\$ 114	\$ 42

(a) Includes activities related to SunCor.

Operating revenues less fuel and purchased power expenses Regulated electricity segment operating revenues less fuel and purchased power expenses were \$76 million higher for the

six months ended June 30, 2013 compared with the prior-year period. The following table summarizes the major components of this change:

	Increase (Decrease)		
	Operating	Fuel and	
	revenues	purchased	
		power	Net change
		expenses	
	(dollars in millions)		
Impacts of retail regulatory settlement effective July 1, 2012	\$ 59	\$ 3	\$ 56
Higher retail transmission revenues	21	--	21
Higher demand-side management, renewable energy and similar regulatory surcharges	14	4	10
Higher retail sales due to customer growth and changes in customer usage patterns and related pricing	13	3	10
Effects of weather	7	4	3
Higher fuel and purchased power costs, net of related deferrals and off-system sales	(4)	17	(21)
Miscellaneous items, net	(7)	(4)	(3)
Total	<u>\$ 103</u>	<u>\$ 27</u>	<u>\$ 76</u>

Operations and maintenance Operations and maintenance expenses increased \$26 million for the six months ended June 30, 2013 compared with the prior-year period primarily because of:

- An increase of \$18 million related to amortization of certain pension and other postretirement benefit costs in 2013 compared with regulatory deferral of such costs in 2012;
- An increase of \$7 million in information technology costs;
- An increase of \$4 million related to costs for demand-side management, renewable energy and similar regulatory programs, which were largely offset in operating revenues; and
- A decrease of \$3 million related to other miscellaneous factors.

Depreciation and amortization Depreciation and amortization expenses were \$9 million higher for the six months ended June 30, 2013 compared with the prior-year period primarily because of increased plant in service.

Interest charges, net of allowance for borrowed funds used during construction Interest charges, net of allowance for borrowed funds used during construction, decreased \$10 million for the

six months ended June 30, 2013 compared with the prior-year period primarily because of lower debt balances and lower interest rates in the current period.

Income taxes Income taxes were \$17 million higher for the six months ended June 30, 2013 compared with the prior-year period primarily due to higher pretax income in the current period.

Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Periods Ended June 30, 2013 and 2012

List of Contents

This file contains financial and operating statistics for the three-month and six-month periods ended June 30, 2013 and 2012.

The same statistics by quarter for 2011 and 2012 are available on the Pinnacle West website in PDF and Excel format.

Please see the Glossary of Terms on the Pinnacle West website for definitions of terms used in this summary.

Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Periods Ended June 30, 2013 and 2012

Line	3 Months Ended June 30,			6 Months Ended June 30,		
	2013	2012	Incr (Decr)	2013	2012	Incr (Decr)
EARNINGS CONTRIBUTION BY SUBSIDIARY						
(Dollars in Millions)						
1 Arizona Public Service	\$ 142	\$ 133	\$ 9	\$ 177	\$ 136	\$ 41
2 El Dorado	-	-	-	(1)	-	(1)
3 Parent Company	(3)	(2)	(1)	(4)	(5)	1
4 Income From Continuing Operations	139	131	8	172	131	41
Income (Loss) From Discontinued Operations - Net of Tax						
5 SunCor	-	-	-	-	(1)	1
6 Other	-	(1)	1	-	-	-
7 Total	-	(1)	1	-	(1)	1
8 Net Income	139	130	9	172	130	42
9 Less: Net Income (Loss) Attributable to Noncontrolling Interests	8	8	-	16	16	-
10 Net Income Attributable to Common Shareholders	<u>\$ 131</u>	<u>\$ 122</u>	<u>\$ 9</u>	<u>\$ 156</u>	<u>\$ 114</u>	<u>\$ 42</u>
EARNINGS PER SHARE BY SUBSIDIARY - DILUTED						
11 Arizona Public Service	\$ 1.28	\$ 1.20	\$ 0.08	\$ 1.59	\$ 1.24	\$ 0.35
12 El Dorado	-	-	-	(0.01)	-	(0.01)
13 Parent Company	(0.02)	(0.01)	(0.01)	(0.03)	(0.05)	0.02
14 Income From Continuing Operations	1.26	1.19	0.07	1.55	1.19	0.36
Income (Loss) From Discontinued Operations - Net of Tax						
15 SunCor	-	-	-	-	(0.01)	0.01
16 Other	-	(0.01)	0.01	-	-	-
17 Total	-	(0.01)	0.01	-	(0.01)	0.01
18 Net Income	1.26	1.18	0.08	1.55	1.18	0.37
19 Less: Net Income (Loss) Attributable to Noncontrolling Interests	0.08	0.07	0.01	0.15	0.14	0.01
20 Net Income Attributable to Common Shareholders	<u>\$ 1.18</u>	<u>\$ 1.11</u>	<u>\$ 0.07</u>	<u>\$ 1.40</u>	<u>\$ 1.04</u>	<u>\$ 0.36</u>
21 BOOK VALUE PER SHARE	\$ 36.66	\$ 34.49	\$ 2.17	\$ 36.66	\$ 34.49	\$ 2.17
COMMON SHARES OUTSTANDING (Thousands)						
22 Average - Diluted	110,932	110,359	573	110,843	110,183	660
23 End of Period	109,993	109,540	453	109,993	109,540	453

Pinnacle West Capital Corporation

Quarterly Consolidated Statistical Summary
Periods Ended June 30, 2013 and 2012

Line	3 Months Ended June 30,			6 Months Ended June 30,		
	2013	2012	Incr (Decr)	2013	2012	Incr (Decr)
ELECTRIC OPERATING REVENUES						
(Dollars in Millions)						
Retail						
24 Residential	\$ 444	\$ 418	\$ 26	\$ 752	\$ 691	\$ 61
25 Business	420	401	19	749	693	56
26 Total retail	864	819	45	1,501	1,384	117
Wholesale revenue on delivered electricity						
27 Traditional contracts	15	22	(7)	26	34	(8)
28 Off-system sales	17	16	1	39	36	3
29 Native load hedge liquidation	3	-	3	4	-	4
30 Transmission for others	8	7	1	15	13	2
31 Other miscellaneous services	8	14	(6)	16	31	(15)
32 Total wholesale	51	59	(8)	100	114	(14)
33 Total electric operating revenue	915	878	37	1,601	1,498	103
ELECTRIC SALES (GWH)						
Retail sales						
34 Residential	3,344	3,333	11	6,074	5,886	188
35 Business	3,877	3,923	(46)	7,148	7,112	36
36 Total retail	7,221	7,256	(35)	13,222	12,998	224
Wholesale electricity delivered						
37 Traditional contracts	213	334	(121)	343	497	(154)
38 Off-system sales	537	651	(114)	1,354	1,518	(164)
39 Retail load hedge management	20	50	(30)	19	80	(61)
40 Total wholesale	770	1,035	(265)	1,716	2,095	(379)
41 Total electric sales	7,991	8,291	(300)	14,938	15,093	(155)

Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Periods Ended June 30, 2013 and 2012

Line	3 Months Ended June 30,			6 Months Ended June 30,		
	2013	2012	Incr (Decr)	2013	2012	Incr (Decr)
AVERAGE ELECTRIC CUSTOMERS						
Retail customers						
42 Residential	1,015,649	1,001,323	14,326	1,018,733	1,004,452	14,281
43 Business	127,993	127,209	784	127,944	126,921	1,023
44 Total retail	1,143,642	1,128,532	15,110	1,146,677	1,131,373	15,304
45 Wholesale customers	51	48	3	52	47	5
46 Total customers	1,143,693	1,128,580	15,113	1,146,729	1,131,420	15,309
47 Customer growth (% over prior year)	1.3%	0.9%	0.4%	1.4%	0.9%	0.5%
RETAIL SALES (GWH) - WEATHER NORMALIZED						
48 Residential	3,207	3,111	96	5,788	5,674	114
49 Business	3,820	3,849	(29)	7,044	7,055	(11)
50 Total	7,027	6,960	67	12,832	12,729	103
51 Retail sales (GWH) (% over prior year)	1.0%			0.8%		
RETAIL USAGE (KWh/Average Customer)						
52 Residential	3,292	3,328	(36)	5,962	5,860	102
53 Business	30,287	30,836	(549)	55,866	56,033	(167)
	33,579	34,164		61,828	61,893	
RETAIL USAGE - WEATHER NORMALIZED (KWh/Average Customer)						
54 Residential	3,158	3,107	51	5,681	5,649	32
55 Business	29,844	30,255	(411)	55,059	55,588	(529)
ELECTRICITY DEMAND (MW)						
56 Native load peak demand	6,931	6,750	181	6,931	6,750	181
WEATHER INDICATORS - RESIDENTIAL Actual						
57 Cooling degree-days	580	568	12	580	568	12
58 Heating degree-days	1	9	(8)	614	426	188
59 Average humidity	14%	15%	(1)%	14%	15%	(1)%
10-Year Averages						
60 Cooling degree-days	480	480	-	480	480	-
61 Heating degree-days	10	10	-	506	506	-
62 Average humidity	15%	15%	-	15%	15%	-

Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Periods Ended June 30, 2013 and 2012

Line	3 Months Ended June 30,			6 Months Ended June 30,		
	2013	2012	Incr (Decr)	2013	2012	Incr (Decr)
ENERGY SOURCES (GWH)						
Generation production						
63 Nuclear	2,246	2,336	(90)	4,702	4,696	6
64 Coal	2,903	2,376	527	5,656	4,948	708
65 Gas, oil and other	1,261	2,180	(919)	2,511	3,424	(913)
66 Total generation production	6,410	6,892	(482)	12,869	13,068	(199)
Purchased power						
67 Firm load	1,903	1,688	215	2,595	2,857	(262)
68 Marketing and trading	115	100	15	228	170	58
69 Total purchased power	2,018	1,788	230	2,823	3,027	(204)
70 Total energy sources	8,428	8,680	(252)	15,692	16,095	(403)
POWER PLANT PERFORMANCE						
Capacity Factors						
71 Nuclear	90%	93%	(3)%	94%	94%	-
72 Coal	77%	62%	15%	74%	65%	9%
73 Gas, oil and other	17%	29%	(12)%	17%	23%	(6)%
74 System average	46%	50%	(4)%	46%	47%	(1)%
ECONOMIC INDICATORS						
Building Permits						
75 Housing Permits - Metro Phoenix (a)	4,710	3,302	1,408	7,986	6,170	1,816
Arizona Job Growth (b)						
76 Payroll job growth (% over prior year)	1.9%	2.0%	(0.1)%	1.8%	2.0%	(0.2)%
77 Unemployment rate (% , seasonally adjusted)	7.9%	8.4%	(0.5)%	7.9%	8.4%	(0.5)%

Sources:

- (a) U.S. Census Bureau
(b) Arizona Department of Economic Security

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

	Three Months Ended June 30,	
	2013	2012
OPERATING REVENUES	\$ 915,822	\$ 878,576
OPERATING EXPENSES		
Fuel and purchased power	277,584	264,723
Operations and maintenance	229,300	216,236
Depreciation and amortization	106,292	100,606
Taxes other than income taxes	40,814	41,289
Other expenses	2,020	1,233
Total	656,010	624,087
OPERATING INCOME	259,812	254,489
OTHER INCOME (DEDUCTIONS)		
Allowance for equity funds used during construction	6,265	5,175
Other income (Note 10)	469	177
Other expense (Note 10)	(2,234)	(2,669)
Total	4,500	2,683
INTEREST EXPENSE		
Interest charges	51,307	53,000
Allowance for borrowed funds used during construction	(3,636)	(3,447)
Total	47,671	49,553
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	216,641	207,619
INCOME TAXES	77,043	76,689
INCOME FROM CONTINUING OPERATIONS	139,598	130,930
LOSS FROM DISCONTINUED OPERATIONS		
Net of income tax benefit of \$535	--	(819)
NET INCOME	139,598	130,111
Less: Net income attributable to noncontrolling interests (Note 6)	8,391	7,766
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ 131,207	\$ 122,345
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING – BASIC	109,962	109,491
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING – DILUTED	110,932	110,359
EARNINGS PER WEIGHTED-AVERAGE COMMON SHARE OUTSTANDING		
Income from continuing operations attributable to common shareholders – basic	\$ 1.19	\$ 1.12
Net income attributable to common shareholders – basic	1.19	1.12
Income from continuing operations attributable to common shareholders – diluted	1.18	1.12
Net income attributable to common shareholders – diluted	1.18	1.11
DIVIDENDS DECLARED PER SHARE	\$ 1.09	\$ 1.05
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS:		
Income from continuing operations, net of tax	\$ 131,207	\$ 123,164
Discontinued operations, net of tax	--	(819)
Net income attributable to common shareholders	\$ 131,207	\$ 122,345

See Notes to Pinnacle West's Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)
(dollars in thousands)

	Three Months Ended June 30,	
	2013	2012
NET INCOME	\$ 139,598	\$ 130,111
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX		
Derivative instruments:		
Net unrealized gain (loss), net of tax benefit (expense) of \$105 and \$(1,781)	(160)	2,728
Reclassification of net realized loss, net of tax benefit of \$2,824 and \$9,090	4,322	13,925
Pension and other postretirement benefits activity, net of tax benefit (expense) of \$449 and \$(526)	(688)	806
Total other comprehensive income	3,474	17,459
COMPREHENSIVE INCOME	143,072	147,570
Less: Comprehensive income attributable to noncontrolling interests	8,391	7,766
COMPREHENSIVE INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ 134,681	\$ 139,804

See Notes to Pinnacle West's Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2013	2012
OPERATING REVENUES	\$ 1,602,474	\$ 1,499,207
OPERATING EXPENSES		
Fuel and purchased power	508,263	481,032
Operations and maintenance	452,550	426,899
Depreciation and amortization	210,022	200,715
Taxes other than income taxes	80,835	83,764
Other expenses	4,069	4,301
Total	1,255,739	1,196,711
OPERATING INCOME	346,735	302,496
OTHER INCOME (DEDUCTIONS)		
Allowance for equity funds used during construction	13,129	9,931
Other income (Note 10)	1,227	937
Other expense (Note 10)	(5,986)	(6,737)
Total	8,370	4,131
INTEREST EXPENSE		
Interest charges	100,785	109,967
Allowance for borrowed funds used during construction	(7,626)	(6,598)
Total	93,159	103,369
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	261,946	203,258
INCOME TAXES	89,512	72,044
INCOME FROM CONTINUING OPERATIONS	172,434	131,214
LOSS FROM DISCONTINUED OPERATIONS		
Net of income tax benefit of \$1,040	--	(1,584)
NET INCOME	172,434	129,630
Less: Net income attributable to noncontrolling interests (Note 6)	16,783	15,542
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ 155,651	\$ 114,088
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING – BASIC	109,898	109,395
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING – DILUTED	110,843	110,183
EARNINGS PER WEIGHTED-AVERAGE COMMON SHARE OUTSTANDING		
Income from continuing operations attributable to common shareholders – basic	\$ 1.42	\$ 1.06
Net income attributable to common shareholders – basic	1.42	1.04
Income from continuing operations attributable to common shareholders – diluted	1.40	1.05
Net income attributable to common shareholders – diluted	1.40	1.04
DIVIDENDS DECLARED PER SHARE	\$ 1.09	\$ 1.575
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS:		
Income from continuing operations, net of tax	\$ 155,651	\$ 115,681
Discontinued operations, net of tax	--	(1,593)
Net income attributable to common shareholders	\$ 155,651	\$ 114,088

See Notes to Pinnacle West's Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)
(dollars in thousands)

	Six Months Ended June 30,	
	2013	2012
NET INCOME	\$ 172,434	\$ 129,630
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX		
Derivative instruments:		
Net unrealized loss, net of tax benefit of \$67 and \$14,770	(102)	(22,624)
Reclassification of net realized loss, net of tax benefit of \$6,124 and \$14,818	9,375	22,697
Pension and other postretirement benefits activity, net of tax (expense) of \$(182) and \$(1,157)	278	1,772
Total other comprehensive income	9,551	1,845
COMPREHENSIVE INCOME	181,985	131,475
Less: Comprehensive income attributable to noncontrolling interests	16,783	15,542
COMPREHENSIVE INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ 165,202	\$ 115,933

See Notes to Pinnacle West's Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)
(dollars in thousands)

	June 30, 2013	December 31, 2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 27,803	\$ 26,202
Customer and other receivables	345,581	277,225
Accrued unbilled revenues	163,608	94,845
Allowance for doubtful accounts	(2,821)	(3,340)
Materials and supplies (at average cost)	220,025	218,096
Fossil fuel (at average cost)	33,407	31,334
Deferred income taxes	105,146	152,191
Income tax receivable (Note 5)	2,317	2,423
Assets from risk management activities (Note 7)	22,575	25,699
Deferred fuel and purchased power regulatory asset (Note 3)	26,526	72,692
Other regulatory assets (Note 3)	79,405	71,257
Other current assets	42,717	37,102
Total current assets	<u>1,066,289</u>	<u>1,005,726</u>
INVESTMENTS AND OTHER ASSETS		
Assets from risk management activities (Note 7)	31,918	35,891
Nuclear decommissioning trust (Note 13)	595,231	570,625
Other assets	64,304	62,694
Total investments and other assets	<u>691,453</u>	<u>669,210</u>
PROPERTY, PLANT AND EQUIPMENT		
Plant in service and held for future use	14,503,810	14,346,367
Accumulated depreciation and amortization	(5,022,729)	(4,929,613)
Net	<u>9,481,081</u>	<u>9,416,754</u>
Construction work in progress	545,231	565,716
Palo Verde sale leaseback, net of accumulated depreciation (Note 6)	127,060	128,995
Intangible assets, net of accumulated amortization	162,715	162,150
Nuclear fuel, net of accumulated amortization	156,252	122,778
Total property, plant and equipment	<u>10,472,339</u>	<u>10,396,393</u>
DEFERRED DEBITS		
Regulatory assets (Note 3)	1,120,366	1,099,900
Income tax receivable (Note 5)	71,274	70,389
Other	140,973	137,997
Total deferred debits	<u>1,332,613</u>	<u>1,308,286</u>
TOTAL ASSETS	<u><u>\$ 13,562,694</u></u>	<u><u>\$ 13,379,615</u></u>

See Notes to Pinnacle West's Condensed Consolidated Financial Statements.

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

	June 30, 2013	December 31, 2012
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 287,368	\$ 221,312
Accrued taxes (Note 5)	129,865	124,939
Accrued interest	49,199	49,380
Common dividends payable	59,946	59,789
Short-term borrowings	30,100	92,175
Current maturities of long-term debt (Note 2)	599,131	122,828
Customer deposits	78,795	79,689
Liabilities from risk management activities (Note 7)	67,855	73,741
Regulatory liabilities (Note 3)	80,763	88,116
Other current liabilities	154,196	171,573
Total current liabilities	<u>1,537,218</u>	<u>1,083,542</u>
LONG-TERM DEBT LESS CURRENT MATURITIES (Note 2)		
Long-term debt less current maturities	2,782,758	3,160,219
Palo Verde sale leaseback lessor notes less current maturities (Note 6)	37,414	38,869
Total long-term debt less current maturities	<u>2,820,172</u>	<u>3,199,088</u>
DEFERRED CREDITS AND OTHER		
Deferred income taxes	2,175,865	2,151,371
Regulatory liabilities (Note 3)	790,788	759,201
Liability for asset retirements	362,619	357,097
Liabilities for pension and other postretirement benefits (Note 4)	1,013,976	1,058,755
Deferred investment tax credit	119,979	99,819
Liabilities from risk management activities (Note 7)	85,474	85,264
Customer advances	108,335	109,359
Coal mine reclamation	115,145	118,860
Unrecognized tax benefits (Note 5)	72,629	71,135
Other	191,259	183,835
Total deferred credits and other	<u>5,036,069</u>	<u>4,994,696</u>
COMMITMENTS AND CONTINGENCIES (SEE NOTES)		
EQUITY (Note 8)		
Common stock, no par value	2,486,871	2,466,923
Treasury stock	(10,117)	(4,211)
Total common stock	<u>2,476,754</u>	<u>2,462,712</u>
Retained earnings	<u>1,659,868</u>	<u>1,624,102</u>
Accumulated other comprehensive loss:		
Pension and other postretirement benefits	(64,138)	(64,416)
Derivative instruments	(40,319)	(49,592)
Total accumulated other comprehensive loss	<u>(104,457)</u>	<u>(114,008)</u>
Total shareholders' equity	4,032,165	3,972,806
Noncontrolling interests (Note 6)	137,070	129,483
Total equity	<u>4,169,235</u>	<u>4,102,289</u>
TOTAL LIABILITIES AND EQUITY	<u><u>\$ 13,562,694</u></u>	<u><u>\$ 13,379,615</u></u>

See Notes to Pinnacle West's Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(dollars in thousands)

	Six Months Ended June 30,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 172,434	\$ 129,630
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization including nuclear fuel	249,482	239,743
Deferred fuel and purchased power	36,183	82,261
Deferred fuel and purchased power amortization	10,921	(54,388)
Allowance for equity funds used during construction	(13,129)	(9,931)
Deferred income taxes	68,526	61,109
Deferred investment tax credit	20,159	5,033
Change in derivative instruments fair value	349	(2,618)
Changes in current assets and liabilities:		
Customer and other receivables	(79,408)	(21,424)
Accrued unbilled revenues	(68,763)	(43,211)
Materials, supplies and fossil fuel	(4,002)	(21,012)
Other current assets	(14,439)	(9,407)
Accounts payable	85,563	9,199
Accrued taxes and income tax receivable – net	5,032	19,775
Other current liabilities	(26,098)	807
Change in margin and collateral accounts – assets	(1,111)	124
Change in margin and collateral accounts – liabilities	14,600	69,602
Change in other long-term assets	(23,796)	(1,692)
Change in other long-term liabilities	21,753	5,035
Net cash flow provided by operating activities	<u>454,256</u>	<u>458,635</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(376,601)	(424,775)
Contributions in aid of construction	21,236	25,800
Allowance for borrowed funds used during construction	(7,626)	(6,598)
Proceeds from nuclear decommissioning trust sales	253,996	211,138
Investment in nuclear decommissioning trust	(262,621)	(219,762)
Other	(262)	(525)
Net cash flow used for investing activities	<u>(371,878)</u>	<u>(414,722)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of long-term debt	136,307	351,081
Repayment of long-term debt	(40,127)	(421,451)
Short-term borrowings and payments – net	(62,075)	109,000
Dividends paid on common stock	(116,231)	(111,297)
Common stock equity issuance	9,751	8,869
Distributions to noncontrolling interests	(9,197)	(2,630)
Other	795	160
Net cash flow used for financing activities	<u>(80,777)</u>	<u>(66,268)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,601	(22,355)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>26,202</u>	<u>33,583</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>\$ 27,803</u></u>	<u><u>\$ 11,228</u></u>

See Notes to Pinnacle West's Condensed Consolidated Financial Statements.

ARIZONA PUBLIC SERVICE COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited)
(dollars in thousands)

	Three Months Ended June 30,	
	2013	2012
ELECTRIC OPERATING REVENUES	\$ 915,065	\$ 877,587
OPERATING EXPENSES		
Fuel and purchased power	277,584	264,723
Operations and maintenance	224,950	213,746
Depreciation and amortization	106,268	100,583
Income taxes	81,952	80,696
Taxes other than income taxes	40,583	41,018
Total	731,337	700,766
OPERATING INCOME	183,728	176,821
OTHER INCOME (DEDUCTIONS)		
Income taxes	3,100	2,030
Allowance for equity funds used during construction	6,265	5,175
Other income (Note S-2)	948	1,018
Other expense (Note S-2)	(4,844)	(3,993)
Total	5,469	4,230
INTEREST EXPENSE		
Interest on long-term debt	47,543	48,838
Interest on short-term borrowings	1,968	1,914
Debt discount, premium and expense	982	1,052
Allowance for borrowed funds used during construction	(3,636)	(3,447)
Total	46,857	48,357
NET INCOME	142,340	132,694
Less: Net income attributable to noncontrolling interests (Note 6)	8,391	7,766
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDER	\$ 133,949	\$ 124,928

See Notes to Pinnacle West's Condensed Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Condensed Consolidated Financial Statements.

ARIZONA PUBLIC SERVICE COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)
(dollars in thousands)

	Three Months Ended June 30,	
	2013	2012
NET INCOME	\$ 142,340	\$ 132,694
OTHER COMPREHENSIVE INCOME, NET OF TAX		
Derivative instruments:		
Net unrealized gain (loss), net of tax benefit (expense) of \$105 and \$(1,781)	(160)	2,727
Reclassification of net realized loss, net of tax benefit of \$2,824 and \$9,092	4,322	13,922
Pension and other postretirement benefits activity, net of tax benefit (expense) of \$399 and \$(305)	(611)	468
Total other comprehensive income	3,551	17,117
COMPREHENSIVE INCOME	145,891	149,811
Less: Comprehensive income attributable to noncontrolling interests	8,391	7,766
COMPREHENSIVE INCOME ATTRIBUTABLE TO COMMON SHAREHOLDER	\$ 137,500	\$ 142,045

See Notes to Pinnacle West's Condensed Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Condensed Consolidated Financial Statements.

ARIZONA PUBLIC SERVICE COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited)
(dollars in thousands)

	Six Months Ended June 30,	
	2013	2012
ELECTRIC OPERATING REVENUES	\$ 1,600,892	\$ 1,497,835
OPERATING EXPENSES		
Fuel and purchased power	508,263	481,032
Operations and maintenance	445,702	422,193
Depreciation and amortization	209,974	200,668
Income taxes	98,012	79,882
Taxes other than income taxes	80,351	83,244
Total	1,342,302	1,267,019
OPERATING INCOME	258,590	230,816
OTHER INCOME (DEDUCTIONS)		
Income taxes	5,432	3,736
Allowance for equity funds used during construction	13,129	9,931
Other income (Note S-2)	2,291	1,528
Other expense (Note S-2)	(11,140)	(8,617)
Total	9,712	6,578
INTEREST EXPENSE		
Interest on long-term debt	93,764	101,575
Interest on short-term borrowings	3,397	3,949
Debt discount, premium and expense	1,993	2,112
Allowance for borrowed funds used during construction	(7,626)	(6,598)
Total	91,528	101,038
NET INCOME	176,774	136,356
Less: Net income attributable to noncontrolling interests (Note 6)	16,783	15,533
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDER	\$ 159,991	\$ 120,823

See Notes to Pinnacle West's Condensed Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Condensed Consolidated Financial Statements.

ARIZONA PUBLIC SERVICE COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)
(dollars in thousands)

	Six Months Ended June 30,	
	2013	2012
NET INCOME	\$ 176,774	\$ 136,356
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX		
Derivative instruments:		
Net unrealized loss, net of tax benefit of \$67 and \$14,773	(102)	(22,621)
Reclassification of net realized loss, net of tax benefit of \$6,124 and \$14,820	9,374	22,694
Pension and other postretirement benefits activity, net of tax (expense) of \$(177) and \$(841)	271	1,289
Total other comprehensive income	9,543	1,362
COMPREHENSIVE INCOME	186,317	137,718
Less: Comprehensive income attributable to noncontrolling interests	16,783	15,533
COMPREHENSIVE INCOME ATTRIBUTABLE TO COMMON SHAREHOLDER	\$ 169,534	\$ 122,185

See Notes to Pinnacle West's Condensed Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Condensed Consolidated Financial Statements.

ARIZONA PUBLIC SERVICE COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)
(dollars in thousands)

	June 30, 2013	December 31, 2012
ASSETS		
PROPERTY, PLANT AND EQUIPMENT		
Plant in service and held for future use	\$ 14,499,944	\$ 14,342,501
Accumulated depreciation and amortization	(5,019,059)	(4,925,990)
Net	9,480,885	9,416,511
Construction work in progress	545,231	565,716
Palo Verde sale leaseback, net of accumulated depreciation (Note 6)	127,060	128,995
Intangible assets, net of accumulated amortization	162,560	161,995
Nuclear fuel, net of accumulated amortization	156,252	122,778
Total property, plant and equipment	10,471,988	10,395,995
INVESTMENTS AND OTHER ASSETS		
Nuclear decommissioning trust (Note 13)	595,231	570,625
Assets from risk management activities (Note 7)	31,918	35,891
Other assets	31,912	31,650
Total investments and other assets	659,061	638,166
CURRENT ASSETS		
Cash and cash equivalents	5,956	3,499
Customer and other receivables	344,617	274,815
Accrued unbilled revenues	163,608	94,845
Allowance for doubtful accounts	(2,821)	(3,340)
Materials and supplies (at average cost)	220,025	218,096
Fossil fuel (at average cost)	33,407	31,334
Deferred fuel and purchased power regulatory asset (Note 3)	26,526	72,692
Other regulatory assets (Note 3)	79,405	71,257
Deferred income taxes	86,219	74,420
Assets from risk management activities (Note 7)	22,575	25,699
Other current assets	42,320	37,666
Total current assets	1,021,837	900,983
DEFERRED DEBITS		
Regulatory assets (Note 3)	1,120,366	1,099,900
Unamortized debt issue costs	22,718	22,492
Income tax receivable (Note 5)	71,669	70,784
Other	117,123	114,222
Total deferred debits	1,331,876	1,307,398
TOTAL ASSETS	\$ 13,484,762	\$ 13,242,542

See Notes to Pinnacle West's Condensed Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Condensed Consolidated Financial Statements.

ARIZONA PUBLIC SERVICE COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)
(dollars in thousands)

	June 30, 2013	December 31, 2012
LIABILITIES AND EQUITY		
CAPITALIZATION		
Common stock	\$ 178,162	\$ 178,162
Additional paid-in capital	2,379,696	2,379,696
Retained earnings	1,664,420	1,624,237
Accumulated other comprehensive loss:		
Pension and other postretirement benefits	(39,232)	(39,503)
Derivative instruments	(40,320)	(49,592)
Total shareholder equity	4,142,726	4,093,000
Noncontrolling interests (Note 6)	137,070	129,483
Total equity (Note S-1)	4,279,796	4,222,483
Long-term debt less current maturities (Note 2)	2,657,758	3,035,219
Palo Verde sale leaseback lessor notes less current maturities (Note 6)	37,414	38,869
Total capitalization	6,974,968	7,296,571
CURRENT LIABILITIES		
Short-term borrowings	30,100	92,175
Current maturities of long-term debt (Note 2)	599,131	122,828
Accounts payable	282,408	215,577
Accrued taxes (Note 5)	129,003	116,700
Accrued interest	48,993	49,135
Common dividends payable	59,900	59,800
Customer deposits	78,795	79,689
Liabilities from risk management activities (Note 7)	67,855	73,741
Regulatory liabilities (Note 3)	80,763	88,116
Other current liabilities	125,501	145,326
Total current liabilities	1,502,449	1,043,087
DEFERRED CREDITS AND OTHER		
Deferred income taxes	2,215,730	2,133,976
Regulatory liabilities (Note 3)	790,788	759,201
Liability for asset retirements	362,619	357,097
Liabilities for pension and other postretirement benefits (Note 4)	974,877	1,017,556
Deferred investment tax credit	119,979	99,819
Liabilities from risk management activities (Note 7)	85,474	85,264
Customer advances	108,335	109,359
Coal mine reclamation	115,145	118,860
Unrecognized tax benefits (Note 5)	72,423	70,932
Other	161,975	150,820
Total deferred credits and other	5,007,345	4,902,884
COMMITMENTS AND CONTINGENCIES (SEE NOTES)		
TOTAL LIABILITIES AND EQUITY	\$ 13,484,762	\$ 13,242,542

See Notes to Pinnacle West's Condensed Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Condensed Consolidated Financial Statements.

ARIZONA PUBLIC SERVICE COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(dollars in thousands)

	Six Months Ended June 30,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 176,774	\$ 136,356
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization including nuclear fuel	249,434	239,696
Deferred fuel and purchased power	36,183	82,261
Deferred fuel and purchased power amortization	10,921	(54,388)
Allowance for equity funds used during construction	(13,129)	(9,931)
Deferred income taxes	66,947	64,639
Deferred investment tax credit	20,159	5,033
Change in derivative instruments fair value	349	(2,618)
Changes in current assets and liabilities:		
Customer and other receivables	(80,854)	(23,015)
Accrued unbilled revenues	(68,763)	(43,211)
Materials, supplies and fossil fuel	(4,002)	(21,012)
Other current assets	(14,067)	(9,797)
Accounts payable	86,338	9,406
Accrued taxes and income taxes receivable – net	12,892	23,759
Other current liabilities	(28,506)	(3,095)
Change in margin and collateral accounts – assets	(1,111)	124
Change in margin and collateral accounts – liabilities	14,600	69,602
Change in other long-term assets	(21,658)	(2,456)
Change in other long-term liabilities	26,628	5,180
Net cash flow provided by operating activities	<u>469,135</u>	<u>466,533</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(376,601)	(424,775)
Contributions in aid of construction	21,236	25,800
Allowance for borrowed funds used during construction	(7,626)	(6,598)
Proceeds from nuclear decommissioning trust sales	253,996	211,138
Investment in nuclear decommissioning trust	(262,621)	(219,762)
Other	(270)	(525)
Net cash flow used for investing activities	<u>(371,886)</u>	<u>(414,722)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of long-term debt	136,307	351,081
Short-term borrowings – net	(62,075)	109,000
Repayment of long-term debt	(40,127)	(421,451)
Dividends paid on common stock	(119,700)	(104,900)
Noncontrolling interests	(9,197)	(2,630)
Net cash flow used for financing activities	<u>(94,792)</u>	<u>(68,900)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,457	(17,089)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,499	19,873
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>\$ 5,956</u></u>	<u><u>\$ 2,784</u></u>
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest, net of amounts capitalized	\$ 89,676	\$ 92,473
Significant non-cash investing and financing activities:		
Accrued capital expenditures	\$ 8,904	\$ 14,745

See Notes to Pinnacle West's Condensed Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Condensed Consolidated Financial Statements.