

FOR IMMEDIATE RELEASE

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**PINNACLE WEST REPORTS 2013 FOURTH-QUARTER
AND FULL-YEAR RESULTS**

- *Fourth-quarter results impacted by lower retail energy sales and milder-than-normal weather*
- *Full-year results benefit from superior operational performance and cost management*
- *2013 results in top half of earnings guidance range*

PHOENIX - Pinnacle West Capital Corporation (NYSE: PNW) today reported consolidated on-going earnings of \$24.3 million, or \$0.22 per diluted share of common stock, for the quarter ended December 31, 2013. This result compares with on-going earnings of \$26.9 million, or \$0.24 per share, in the same 2012 period. The Company's net income attributable to common shareholders for the 2013 fourth quarter was \$24.3 million, or \$0.22 per diluted share, compared with net income of \$22.6 million, or \$0.20 per share, for the same quarter a year ago.

For full-year 2013, Pinnacle West reported consolidated on-going earnings of \$406.1 million, or \$3.66 per diluted share, compared to \$387.4 million, or \$3.50 per share, a year ago. The Company's consolidated net income attributable to common shareholders for 2013 also was \$3.66 per diluted share, compared with \$3.45 per share in 2012.

"By managing our costs and focusing on operational excellence, our employees delivered solid full-year financial results for shareholders while also maintaining superior service for our 1.2 million customers," said Pinnacle West Chairman, President and Chief Executive Officer [Don Brandt](#). "We provided our customers with top-tier service reliability, maintained superior power plant performance, and once again ranked among the top 10 percent in the electric utility industry for overall customer satisfaction."

Brandt cited additional examples of the Company's recent achievements:

- About 400 megawatts (MW) of solar capacity was added to APS's system in 2013, the most the company has tallied in a single year, thus growing total solar resources to 755 MW.
- The purchase of Southern California Edison's ownership in Units 4 and 5 of the Four Corners Power Plant was completed, and the plant's older, less efficient Units 1, 2 and 3 were retired.

- Palo Verde Nuclear Generating Station achieved its 22nd consecutive year as the nation's largest power producer. And, for the ninth time, Palo Verde became the only U.S. generating facility to ever produce more than 30 million megawatt-hours in a year.
- The Company experienced its safest year ever as the number of recordable employee injuries decreased for the sixth straight year, besting 2012's prior record by 26 percent.
- Pinnacle West's total return to shareholders was 8.0 percent, and total shareholder value increased \$466 million in 2013.
- And, for the third time in as many years, Standard & Poor's Corporation (S&P) upgraded credit ratings for Pinnacle West and APS, up from BBB+ to A-, the companies' highest credit ratings since 1984. Additionally, Moody's upgraded APS's senior unsecured and corporate credit ratings to A3 and Pinnacle West's corporate credit rating to Baa1.

The fourth-quarter on-going results comparison was adversely impacted by the following major items:

- *Weather variations* decreased the quarterly results by \$0.05 per share compared to the 2012 fourth quarter. The decline was driven primarily by one of the coolest Octobers on record in the Phoenix-metro area, thereby reducing the number of residential cooling degree-days (a proxy for the effects of weather) by 84 percent compared to normal for the month of October.
- *Lower transmission revenue* reduced earnings by \$0.04 per share due to the timing of the FERC formula rate true-up.
- *A decrease in retail electricity sales* – excluding the effects of weather variations, but including effects of customer conservation, energy efficiency programs and distributed renewable generation – affected earnings by \$0.03 per share. Weather-normalized retail sales decreased 1.9 percent in the current-year fourth quarter compared with the corresponding 2012 period. The sales decrease was primarily related to changes in customer usage, partially offset by customer growth of 1.3 percent.

These factors were offset in part by the following positive factors:

- *Tax-related items* positively impacted earnings by \$0.04 per share.
- *Lower operating expenses* impacted earnings by \$0.02 per share compared with the prior-year quarter. The decrease largely was the result of lower employee benefit costs, partially offset by higher depreciation and amortization resulting from increased plant in service, as well as increased property taxes.

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

- *The Company's 2012 regulatory settlement*, which included a retail non-fuel base rate increase, improved earnings by \$0.02 per share, largely due to adjustment of the Lost Fixed Cost Recovery (LFCR) mechanism. The regulatory settlement became effective July 1, 2012.
- The net effect of other items increased earnings \$0.02 per share.

APS, the Company's principal subsidiary, recorded 2013 fourth-quarter net income attributable to common shareholder of \$30.0 million versus net income of \$26.8 million for the comparable 2012 quarter. For 2013 as a whole, APS net income attributable to common shareholder was \$425.0 million compared with \$395.5 million for 2012.

Financial Outlook

For 2014, the Company continues to expect its on-going consolidated earnings will be in the range of \$3.60 to \$3.75 per diluted share. Longer-term, the Company's goal is to achieve a consolidated earned return on average common equity of at least 9.5 percent annually through 2015.

Key factors and assumptions underlying the 2014 outlook can be found in the fourth-quarter 2013 earnings presentation slides on the Company's website at pinnaclewest.com/investors.

Conference Call and Webcast

Pinnacle West invites interested parties to listen to the live webcast of management's conference call to discuss the Company's 2013 fourth-quarter and full-year results, as well as recent developments, at 11 a.m. (ET) today, February 21. 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, Feb. 28, 2014, by calling (877) 660-6853 in the U.S. and Canada or (201) 612-7415 internationally and entering conference ID number 13574456.

General Information

Pinnacle West Capital, an energy holding company based in Phoenix, has consolidated assets of about \$13.5 billion, nearly 6,400 megawatts of generating capacity and about 6,400 employees in Arizona and New Mexico. Through its principal subsidiary, [Arizona Public Service](#), the Company provides retail electricity service to nearly 1.2 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 December 31, 2013		Three Months Ended December 31, 2012	
	Dollars in Millions	Diluted EPS	Dollars in Millions	Diluted EPS
Net Income Attributable to Common Shareholders	\$ 24.3	\$ 0.22	\$ 22.6	\$ 0.20
Adjustments:				
Loss from Discontinued Operations	----	----	4.3	0.04
On-going Earnings	<u>\$ 24.3</u>	<u>\$ 0.22</u>	<u>\$ 26.9</u>	<u>\$ 0.24</u>

	Twelve Months Ended December 31, 2013		Twelve Months Ended December 31, 2012	
	Dollars in Millions	Diluted EPS	Dollars in Millions	Diluted EPS
Net Income Attributable to Common Shareholders	\$ 406.1	\$ 3.66	\$ 381.5	\$ 3.45
Adjustments:				
Loss from Discontinued Operations	----	----	5.9	0.05
On-going Earnings	<u>\$ 406.1</u>	<u>\$ 3.66</u>	<u>\$ 387.4</u>	<u>\$ 3.50</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;
- competition in retail and wholesale power markets;
- 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;
- fuel and water supply availability;
- our ability to achieve timely and adequate rate recovery of our costs, including returns on debt and equity capital;
- 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;
- current and future economic conditions in Arizona, particularly in real estate markets;
- the cost of debt and equity capital and the ability to access capital markets when required;
- environmental and other concerns surrounding coal-fired generation;
- volatile fuel and purchased power costs;
- the investment performance of the assets of our nuclear decommissioning trust, pension, and other postretirement benefit plans and the resulting impact on future funding requirements;
- the liquidity of wholesale power markets and the use of derivative contracts in our business;
- potential shortfalls in insurance coverage;
- new accounting requirements or new interpretations of existing requirements;
- generation, transmission and distribution facility and system conditions and operating costs;
- the ability to meet the anticipated future need for additional baseload generation and associated transmission facilities in our region;
- the willingness or ability of our counterparties, power plant participants and power plant land owners to meet contractual or other obligations or extend the rights for continued power plant operations;
- technological developments affecting the electric industry; and
- restrictions on dividends or other provisions in our credit agreements and ACC orders.

These and other factors are discussed in Risk Factors described in Part 1, Item 1A of the Pinnacle West/APS Annual Report on Form 10-K for the fiscal year ended December 31, 2013, 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
CONSOLIDATED STATEMENTS OF INCOME
(unaudited)
(dollars and shares in thousands, except per share amounts)

	THREE MONTHS ENDED DECEMBER 31,		Increase (Decrease)	
	2013	2012	Amount	Percent
Operating Revenues	\$ 699,762	\$ 693,122	\$ 6,640	1.0% B
Operating Expenses				
Fuel and purchased power	236,493	210,864	25,629	12.2% W
Operations and maintenance	238,854	237,141	1,713	0.7% W
Depreciation and amortization	98,298	103,268	(4,970)	4.8% B
Taxes other than income taxes	40,076	39,052	1,024	2.6% W
Other expenses	2,141	1,508	633	42.0% W
Total	<u>615,862</u>	<u>591,833</u>	<u>24,029</u>	4.1% W
Operating Income	<u>83,900</u>	<u>101,289</u>	<u>(17,389)</u>	17.2% W
Other Income (Deductions)				
Allowance for equity funds used during construction	6,883	6,797	86	1.3% B
Other income	317	249	68	27.3% B
Other expense	<u>(2,603)</u>	<u>(7,409)</u>	<u>4,806</u>	64.9% B
Total	<u>4,597</u>	<u>(363)</u>	<u>4,960</u>	1366.4% B
Interest Expense				
Interest charges	50,516	52,407	(1,891)	3.6% B
Allowance for borrowed funds used during construction	<u>(4,000)</u>	<u>(4,543)</u>	<u>543</u>	12.0% W
Total	<u>46,516</u>	<u>47,864</u>	<u>(1,348)</u>	2.8% B
Income From Continuing Operations Before Income Taxes	41,981	53,062	(11,081)	20.9% W
Income Taxes	<u>9,167</u>	<u>18,157</u>	<u>(8,990)</u>	49.5% B
Income From Continuing Operations	32,814	34,905	(2,091)	6.0% W
Loss From Discontinued Operations				
Net of Income Taxes	<u>-</u>	<u>(4,234)</u>	<u>4,234</u>	100.0% B
Net Income	32,814	30,671	2,143	7.0% B
Less: Net income attributable to noncontrolling interests	8,554	8,040	514	6.4% W
Net Income Attributable To Common Shareholders	<u>\$ 24,260</u>	<u>\$ 22,631</u>	<u>\$ 1,629</u>	7.2% B
Weighted-Average Common Shares Outstanding - Basic	110,130	109,693	437	0.4%
Weighted-Average Common Shares Outstanding - Diluted	110,936	110,776	160	0.1%
Earnings Per Weighted-Average Common Share Outstanding				
Income from continuing operations attributable to common shareholders - basic	\$ 0.22	\$ 0.24	\$ (0.02)	8.3% W
Net income attributable to common shareholders - basic	\$ 0.22	\$ 0.21	\$ 0.01	4.8% B
Income from continuing operations attributable to common shareholders - diluted	\$ 0.22	\$ 0.24	\$ (0.02)	8.3% W
Net income attributable to common shareholders - diluted	\$ 0.22	\$ 0.20	\$ 0.02	10.0% B
Amounts Attributable To Common Shareholders				
Income from continuing operations, net of tax	\$ 24,260	\$ 26,865	\$ (2,605)	9.7% W
Discontinued operations, net of tax	<u>-</u>	<u>(4,234)</u>	<u>4,234</u>	100.0% B
Net income attributable to common shareholders	<u>\$ 24,260</u>	<u>\$ 22,631</u>	<u>\$ 1,629</u>	7.2% B

B -- Better
W -- Worse

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

	TWELVE MONTHS ENDED DECEMBER 31,		Increase (Decrease)	
	2013	2012	Amount	Percent
Operating Revenues	\$ 3,454,628	\$ 3,301,804	\$ 152,824	4.6% B
Operating Expenses				
Fuel and purchased power	1,095,709	994,790	100,919	10.1% W
Operations and maintenance	924,727	884,769	39,958	4.5% W
Depreciation and amortization	415,708	404,336	11,372	2.8% W
Taxes other than income taxes	164,167	159,323	4,844	3.0% W
Other expenses	7,994	6,831	1,163	17.0% W
Total	<u>2,608,305</u>	<u>2,450,049</u>	<u>158,256</u>	6.5% W
Operating Income	<u>846,323</u>	<u>851,755</u>	<u>(5,432)</u>	0.6% W
Other Income (Deductions)				
Allowance for equity funds used during construction	25,581	22,436	3,145	14.0% B
Other income	1,704	1,606	98	6.1% B
Other expense	<u>(16,024)</u>	<u>(19,842)</u>	<u>3,818</u>	19.2% B
Total	<u>11,261</u>	<u>4,200</u>	<u>7,061</u>	168.1% B
Interest Expense				
Interest charges	201,888	214,616	(12,728)	5.9% B
Allowance for borrowed funds used during construction	<u>(14,861)</u>	<u>(14,971)</u>	<u>110</u>	0.7% W
Total	<u>187,027</u>	<u>199,645</u>	<u>(12,618)</u>	6.3% B
Income From Continuing Operations Before Income Taxes	670,557	656,310	14,247	2.2% B
Income Taxes	<u>230,591</u>	<u>237,317</u>	<u>(6,726)</u>	2.8% B
Income From Continuing Operations	439,966	418,993	20,973	5.0% B
Loss From Discontinued Operations				
Net of Income Taxes	<u>-</u>	<u>(5,829)</u>	<u>5,829</u>	100.0% B
Net Income	439,966	413,164	26,802	6.5% B
Less: Net income attributable to noncontrolling interests	33,892	31,622	2,270	7.2% W
Net Income Attributable To Common Shareholders	<u>\$ 406,074</u>	<u>\$ 381,542</u>	<u>\$ 24,532</u>	6.4% B
Weighted-Average Common Shares Outstanding - Basic	109,984	109,510	474	0.4%
Weighted-Average Common Shares Outstanding - Diluted	110,806	110,527	279	0.3%
Earnings Per Weighted-Average Common Share Outstanding				
Income from continuing operations attributable to common shareholders - basic	\$ 3.69	\$ 3.54	\$ 0.15	4.2% B
Net income attributable to common shareholders - basic	\$ 3.69	\$ 3.48	\$ 0.21	6.0% B
Income from continuing operations attributable to common shareholders - diluted	\$ 3.66	\$ 3.50	\$ 0.16	4.6% B
Net income attributable to common shareholders - diluted	\$ 3.66	\$ 3.45	\$ 0.21	6.1% B
Amounts Attributable To Common Shareholders				
Income from continuing operations, net of tax	\$ 406,074	\$ 387,380	\$ 18,694	4.8% B
Discontinued operations, net of tax	<u>-</u>	<u>(5,838)</u>	<u>5,838</u>	100.0% B
Net income attributable to common shareholders	<u>\$ 406,074</u>	<u>\$ 381,542</u>	<u>\$ 24,532</u>	6.4% B

B -- Better
W -- Worse

**Pinnacle West Capital Corporation
Earnings Variance Explanations**

For the Three-Month and Twelve-Month Periods Ended December 31, 2013 and 2012

The following discussion includes the earnings variance explanations for Pinnacle West Capital Corporation (“Pinnacle West”) for the three months and twelve months ended December 31, 2013 and 2012. 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, 2013. 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 electric service to Native Load customers) and related activities and includes electricity generation, transmission and distribution.

Operating Results – Three-month period ended December 31, 2013 compared with three-month period ended December 31, 2012.

Our consolidated net income attributable to common shareholders for the three months ended December 31, 2013 was \$24 million, compared with net income of \$23 million for the prior-year period. The regulated electricity segment results were comparable to the prior-year period. The results reflect decreases related to the effects of weather; lower retail transmission revenues; and lower retail sales as a result of changes in customer usage related to energy efficiency, customer conservation and distributed generation, partially offset by customer growth. These negative factors were partially offset by lower operations and maintenance expenses related to lower employee benefit costs.

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

	Three Months Ended December 31,		Net Change
	2013	2012	
	(dollars in millions)		
Regulated Electricity Segment:			
Operating revenues less fuel and purchased power expenses	\$ 462	\$ 476	\$ (14)
Operations and maintenance	(239)	(237)	(2)
Depreciation and amortization	(98)	(103)	5
Taxes other than income taxes	(40)	(39)	(1)
Other income (expenses), net	4	(1)	5
Interest charges, net of allowance for borrowed funds used during construction	(47)	(48)	1
Income taxes	(9)	(16)	7
Less income related to noncontrolling interests (Note 19)	(9)	(8)	(1)
Regulated electricity segment net income	24	24	--
All other	--	3	(3)
Income from Continuing Operations			
Attributable to Common Shareholders	24	27	(3)
Loss from Discontinued Operations			
Attributable to Common Shareholders (a)	--	(4)	4
Net Income Attributable to Common Shareholders	\$ 24	\$ 23	\$ 1

(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 \$14 million lower for the three months ended December 31, 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)		
Effects of weather	\$ (12)	\$ (3)	\$ (9)
Lower retail transmission revenues	(7)	--	(7)
Lower retail sales due to changes in customer usage, partially offset by customer growth	(10)	(4)	(6)
Higher fuel and purchased power costs, net of related deferrals and off-system sales	29	30	(1)
Higher demand-side management, renewable energy and similar regulatory surcharges	9	2	7
Miscellaneous items, net	3	1	2
Total	<u>\$ 12</u>	<u>\$ 26</u>	<u>\$ (14)</u>

Operations and maintenance. Operations and maintenance expenses increased \$2 million for the three months ended December 31, 2013 compared with the prior-year period primarily because of:

- An increase of \$9 million related to the closure of Four Corners Units 1, 2, and 3 deferred for regulatory recovery in depreciation;
- An increase of \$5 million related to technical analysis, consulting, advertising and communication costs;
- An increase of \$3 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 \$15 million related to lower employee benefit costs.

Depreciation and amortization. Depreciation and amortization expenses were \$5 million lower for the three months ended December 31, 2013 compared with the prior-year period primarily because of the regulatory deferral of operating expenses associated with the closure of Four Corners Units 1, 2, and 3, partially offset by increased plant in service.

Income taxes. Income taxes were \$7 million lower for the three months ended December 31, 2013 compared with the prior-year period primarily due to lower pretax income and a lower effective tax rate in the current period.

Operating Results – 2013 compared with 2012.

Our consolidated net income attributable to common shareholders for the year ended December 31, 2013 was \$406 million, compared with net income of \$382 million for the prior year. The results reflect an increase of approximately \$21 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; 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; lower retail sales as a result of changes in customer usage related to energy efficiency, customer conservation and distributed generation, partially offset by customer growth; and higher depreciation and amortization expenses.

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

	Year Ended December 31,		Net Change
	2013	2012	
	(dollars in millions)		
Regulated Electricity Segment:			
Operating revenues less fuel and purchased power expenses	\$ 2,356	\$ 2,299	\$ 57
Operations and maintenance	(925)	(885)	(40)
Depreciation and amortization	(416)	(404)	(12)
Taxes other than income taxes	(164)	(159)	(5)
Other income (expenses), net	11	6	5
Interest charges, net of allowance for borrowed funds used during construction	(187)	(200)	13
Income taxes	(232)	(237)	5
Less income related to noncontrolling interests (Note 19)	(34)	(32)	(2)
Regulated electricity segment net income	409	388	21
All other	(3)	--	(3)
Income from Continuing Operations Attributable to Common Shareholders	406	388	18
Loss from Discontinued Operations Attributable to Common Shareholders (a)	--	(6)	6
Net Income Attributable to Common Shareholders	\$ 406	\$ 382	\$ 24

(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 \$57 million higher for the year ended December 31, 2013 compared with the prior year. 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	\$ 64	\$ 6	\$ 58
Higher demand-side management, renewable energy and similar regulatory surcharges	34	7	27
Higher retail transmission revenues	11	--	11
Lower retail sales due to changes in customer usage patterns and related pricing, partially offset by customer growth	(17)	(4)	(13)
Higher fuel and purchased power costs, net of related deferrals and off-system sales	74	95	(21)
Miscellaneous items, net	(8)	(3)	(5)
Total	<u>\$ 158</u>	<u>\$ 101</u>	<u>\$ 57</u>

Operations and maintenance. Operations and maintenance expenses increased \$40 million for the year ended December 31, 2013 compared with the prior year primarily because of:

- An increase of \$14 million related to technical analysis, consulting, advertising and communications costs;
- An increase of \$13 million related to costs for demand-side management, renewable energy and similar regulatory programs, which were largely offset in operating revenues;
- An increase of \$9 million related to the closure of Four Corners Units 1, 2, and 3, deferred for regulatory recovery in depreciation;
- An increase of \$6 million in energy delivery and customer service costs;
- An increase of \$6 million in information technology costs;
- A decrease of \$6 million in generation costs primarily related to lower fossil generation outage costs and lower nuclear generation costs; and
- A decrease of \$2 million related to other miscellaneous factors.

Depreciation and amortization. Depreciation and amortization expenses were \$12 million higher for the year ended December 31, 2013 compared with the prior year, primarily because of increased plant in service, partially offset by the regulatory deferral of operating expenses associated with the closure of Four Corners Units 1, 2, and 3.

Interest charges, net of allowance for borrowed funds used during construction. Interest charges, net of allowance for borrowed funds used during construction, decreased \$13 million for the year ended December 31, 2013 compared with the prior year, primarily because of lower debt balances and lower interest rates in the current year.

Income taxes. Income taxes were \$5 million lower for the year ended December 31, 2013 compared with the prior year primarily due to a lower effective tax rate in the current period, partially offset by the effects of higher pretax income in the current year.