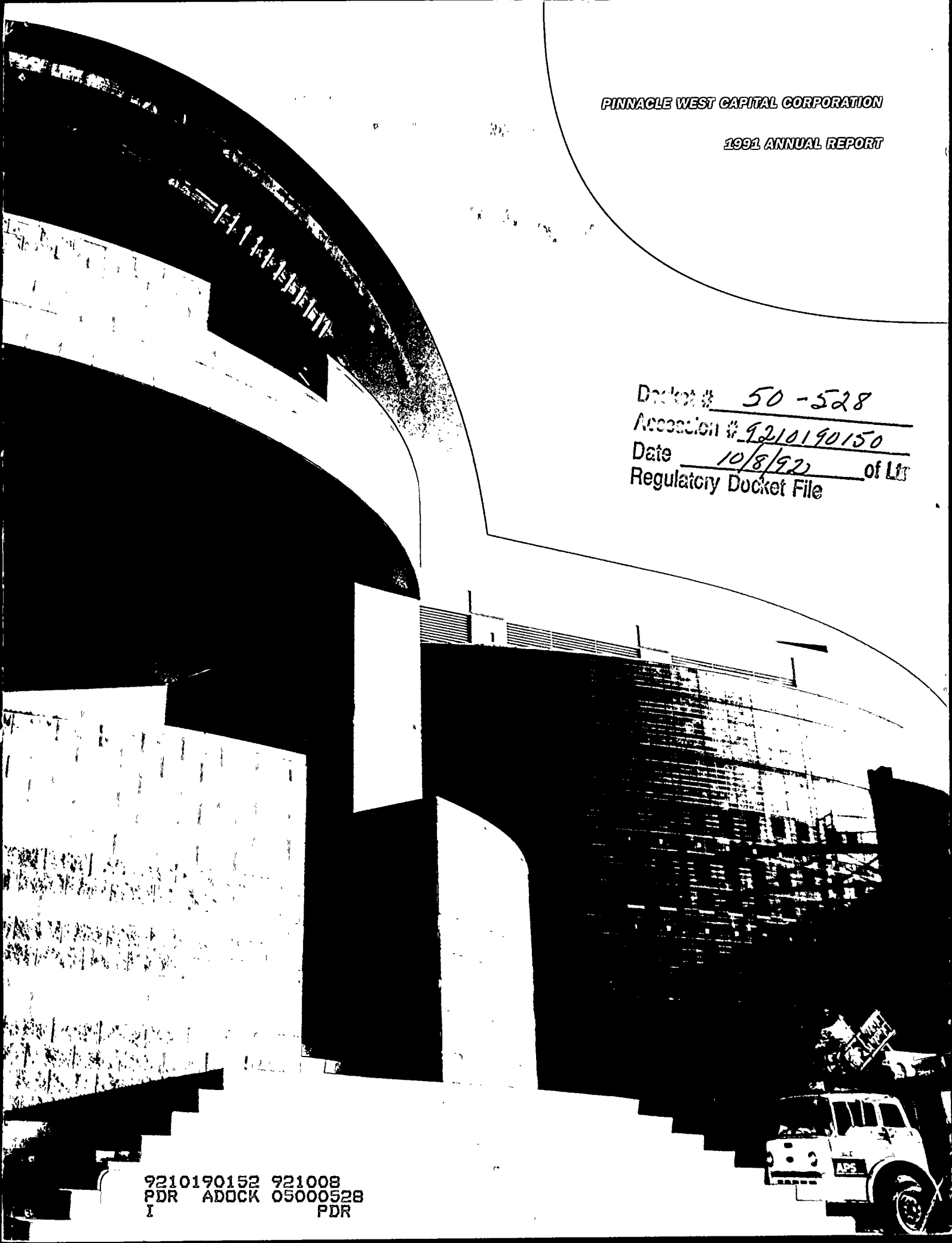
PINNACLE WEST CAPITAL CORPORATION

1991 ANNUAL REPORT



ABOUT THE COVER

The new home of the NBA Phoenix Suns nears completion in downtown Phoenix in the heart of the APS service territory. Opening this summer, the new arena will seat up to 20,000 and will be the venue for a wide variety of sports, cultural and civic activities. Pinnacle West's venture capital firm, El Dorado, has a 22 percent interest in the Phoenix Suns Partnership which includes the Phoenix Suns, other sports franchises and the management of the arena.

ABOUT THE COMPANY

Pinnacle West Capital Corporation, a Phoenix-based holding company, has consolidated assets of $6.5 billion. Pinnacle West's major subsidiary is Arizona Public Service Company, the state's largest electric utility serving approximately 1,695,000 people, or about 45 percent of the state's population. Pinnacle West's other two subsidiaries are: SunCor Development Company, a real estate firm developing more than 12,000 acres in the metropolitan Phoenix area; and El Dorado Investment Company, a venture capital firm with a diversified portfolio.

TABLE OF CONTENTS

FINANCIAL OVERVIEW

(Dollars in Thousands, Except Per Share Amounts)	1991	1990
Operating Income (Loss)	$ (167,249)	$ 455,529
Income (Loss) From Continuing Operations	$ (340,317)[1]	$ 70,208
Income From Discontinued Operations[2]	153,455	27,125
Net Income (Loss)	$ (186,862)	$ 97,333
Earnings (Loss) Per Average Common Share Outstanding		
Continuing operations	$ (3.91)	$ 0.81
Discontinued operations	1.76	0.31
Total	$ (2.15)	$ 1.12
Average Common Shares Outstanding	86,937,052	86,769,924
Book Value Per Share - Year End	$ 15.23	$ 17.40

(1) Includes approximately $407 million of write-offs and adjustments, net of income tax, related to Palo Verde. See Note 3 in Notes to Consolidated Financial Statements.

(2) Results of MeraBank, A Federal Savings Bank, and Malapai Resources Company, a uranium mining company, are classified as discontinued operations in the consolidated financial statements. See Note 2 in Notes to Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION YEAR AT A GLANCE

REGULATORY

- The Arizona Corporation Commission completed hearings on the APS rate request filed in 1990 and approved a rate settlement proposal, which included a 5.2 percent rate increase, $407 million of Palo Verde write-offs and adjustments, and other provisions.
- State regulators gave final approval to the asset, energy and transmission agreements with PacifiCorp.
- The company's nuclear operations received an improved assessment of performance from the Nuclear Regulatory Commission.
- APS officials helped forge an agreement with the Environmental Protection Agency and other groups related to sulphur dioxide emissions from a power plant near the Grand Canyon National Park.

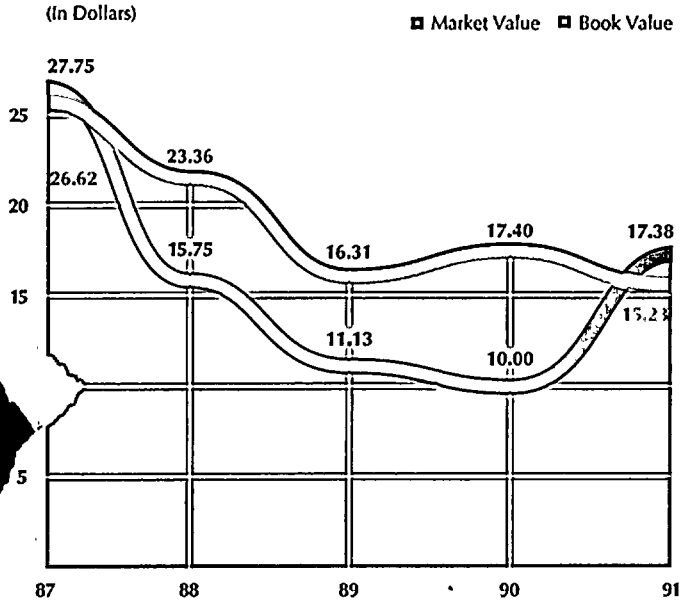
FINANCIAL

- Palo Verde write-offs caused a loss for 1991, but there was improvement throughout the year in underlying fundamentals of the company including lower fuel, operating and interest expenses.
- Pinnacle West prepaid $112 million of parent-company debt.
- As a result of a ruling from the Internal Revenue Service, Pinnacle West recorded a $153.5 million tax benefit in the fourth quarter related to a capital infusion made to MeraBank in 1990.
- Agencies raised their ratings on APS bonds, and Pinnacle West's stock price increased 74 percent during 1991.

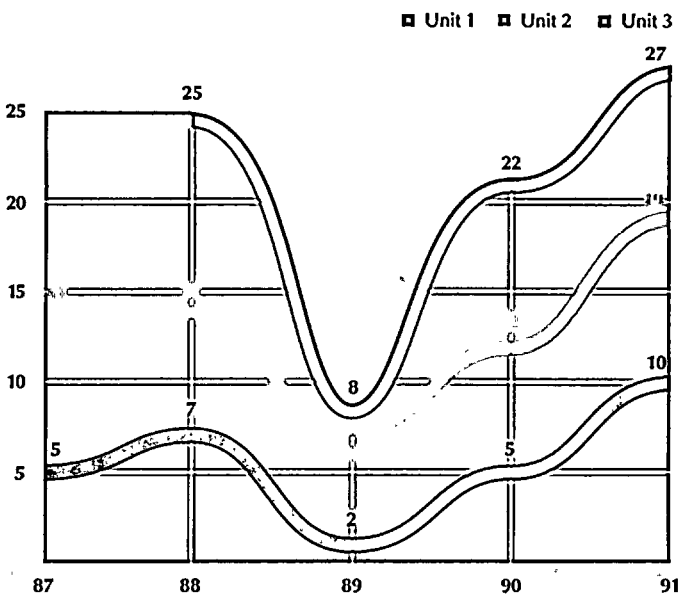
OPERATIONAL

- Coal-fired plants had their best year ever, posting an 89 percent average equivalent availability factor.
- The Palo Verde Nuclear Generating Station was the nation's top nuclear producer and set a company performance record.
- Customer growth at APS was 2.3 percent.
- APS drove down fuel, operating, maintenance and interest expenses; lowered construction expenditures; and generated cash flows to meet all its capital requirements internally.

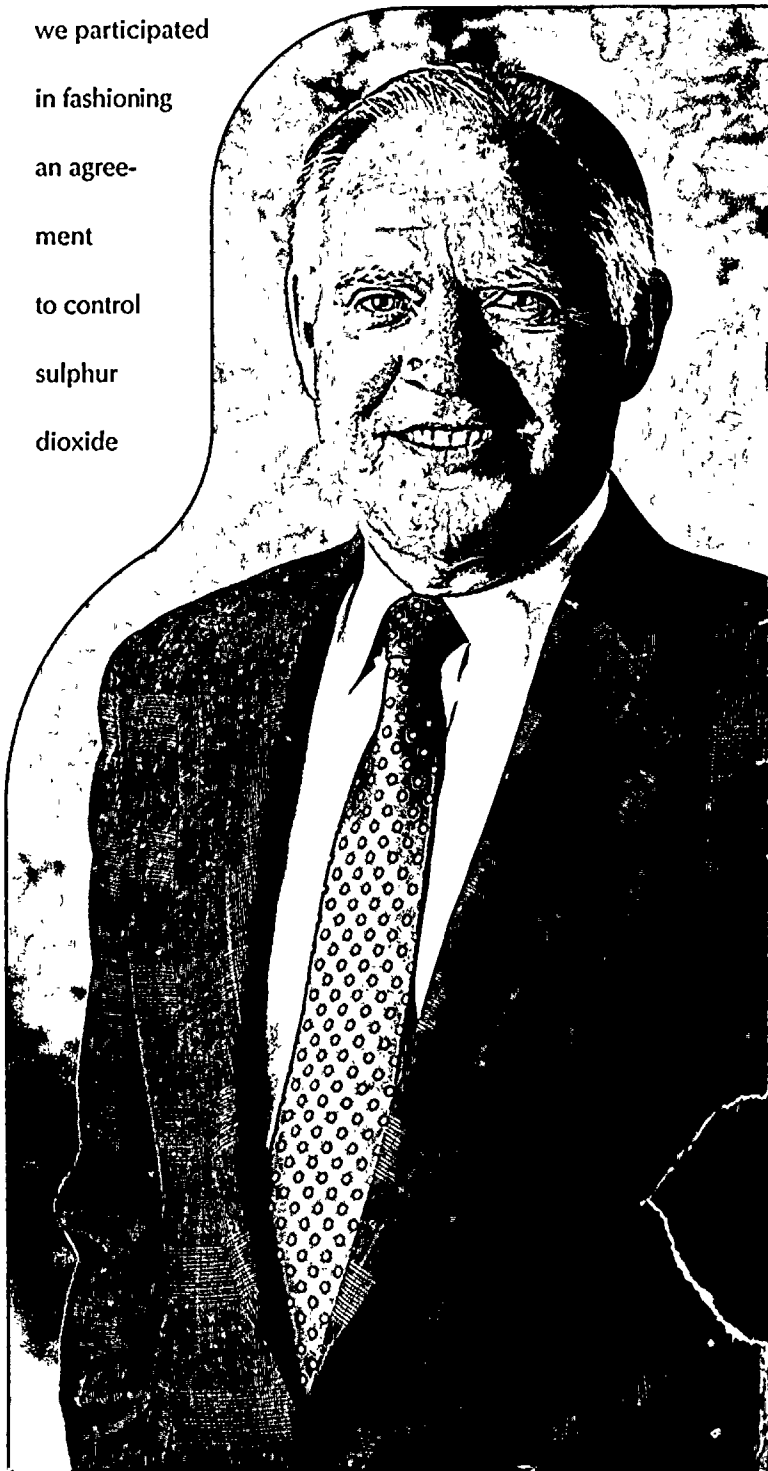
PINNACLE WEST CAPITAL CORPORATION BOOK VALUE AND MARKET VALUE PER SHARE AT YEAR END
(In Dollars)



PALO VERDE STATION GENERATION
(In Millions of Megawatt-hours - Cumulative)



TO OUR SHAREHOLDERS Despite recording losses for the year, we made significant progress in 1991 and provided our investors and customers with a clearer vision of the company's future. ▫ The opportunity to shape our own future is evident in the provisions of our rate case settlement, approved by state regulators in December. The settlement is as notable for its future implications as it is for its immediate impact. ▫ Immediate effects of the settlement were a 5.2 percent rate increase and Palo Verde after-tax write-offs and adjustments totalling $407 million. The settlement also resolved prudence issues related to the planning and construction of Palo Verde. ▫ For the future — following a two-year rate moratorium — the settlement provides ground rules to expedite the Commission's consideration of our next rate application within rate parameters expressed in terms of the average price to be charged by APS to its customers for a kilowatt-hour. These parameters both limit future rate increases and provide incentives to the company for operating efficiently. ▫ To succeed under these guidelines, we are continuing our efforts to drive down the real costs of producing our product and have made cost management the cornerstone of our strategic planning. ▫ Improving the company's relationships with regulatory agencies has been high on our agenda, and the nature of our 1991 rate case settlement indicates our relationship with the Arizona Corporation Commission is less adversarial. ▫ A significantly improved assessment of our nuclear operations issued in 1991 by the Nuclear Regulatory Commission indicates that this agency believes we are making real progress. NRC chairman Ivan Selin visited Palo Verde early this year and remarked that APS officials were "on the right track." ▫ Also on the regulatory front, we participated in fashioning an agreement to control sulphur dioxide



emissions from the Navajo Generating Station in northern Arizona, of which we are part owner. This agreement helped resolve issues with the Environmental Protection Agency and environmental groups related to visibility at Grand Canyon National Park. President Bush acknowledged the importance of this agreement and the company's role in September during a visit to the Canyon commemorating the 75th anniversary of the National Park Service. ◘ Another major event in 1991 that had immediate and long-term benefits was the completion of the PacifiCorp asset, energy and transmission agreements in July. Proceeds from this transaction helped APS reduce its debt, and the agreements contributed significantly to on-going cost containment efforts. Beyond these immediate effects are longer-term benefits stemming from the transmission provisions in the PacifiCorp deal. These transmission arrangements will allow the company greater participation in key markets for energy purchases and sales. In 1991 the new transmission paths resulting from the PacifiCorp agreements allowed us to make energy sales on the spot market to northwest utilities, and as we enter our high-demand summer, they will allow purchases of competitively priced energy from the north. This more diverse resource base will benefit the company, its customers and investors through this decade and beyond. The map on page five illustrates the emerging transmission reality for the company. ◘ Because of the

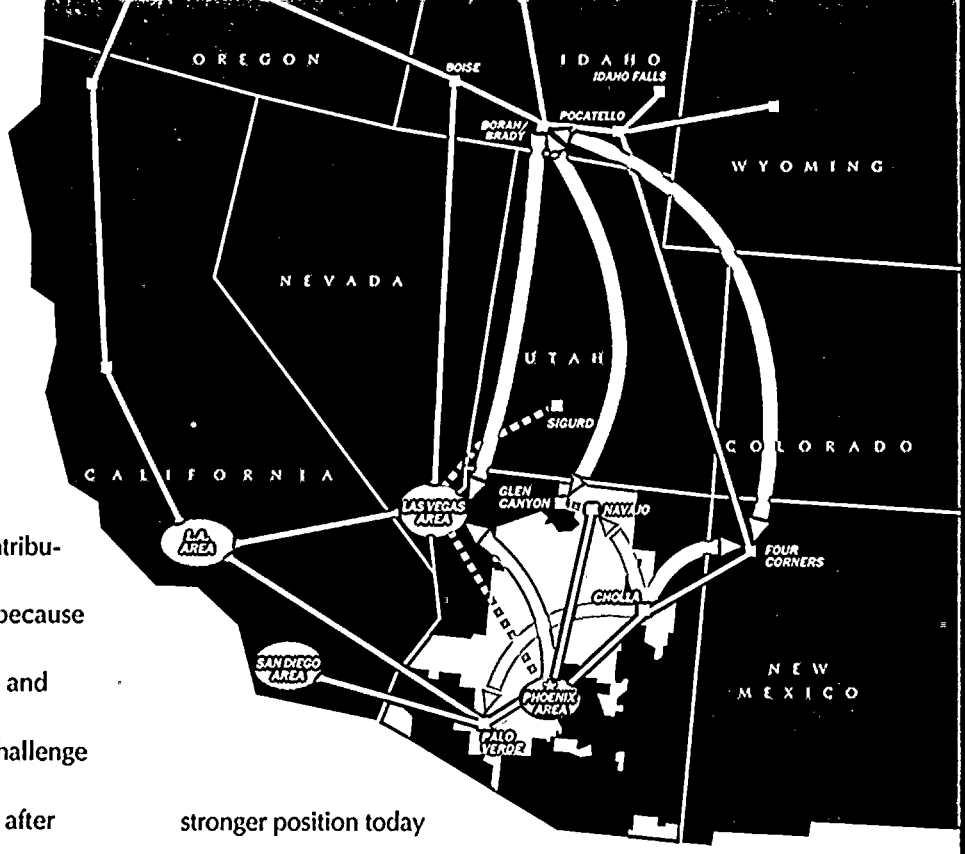
"In 1991 we made progress in restoring and enhancing the value of our shareholders' investment.... Relative to where we were a year ago, the company is today much more in control of its own destiny."

RICHARD SNELL, CHAIRMAN

Palo Verde write-offs, Pinnacle West posted a loss for 1991, but throughout the year there was solid improvement in the underlying fundamentals of the company that should continue to drive our performance in 1992. These positive trends include reduced fuel, operating and interest expenses. ◘ We are encouraged that the investment community responded favorably to these improvements and to our rate settlement. Clearly, in 1991 we made progress in restoring and enhancing the value of our shareholders' investment. ◘ During the year, Pinnacle West completed $166 million of debt refinancing, and APS took advantage of the interest rate environment and proceeds from the PacifiCorp transaction to redeem or refinance high coupon debt. APS continued refinancing even more aggressively in early 1992. ◘ In 1991 Pinnacle West prepaid $112 million of parent-level debt, bringing our total prepayments to date to $377 million or about one-third of the peak amount which occurred in 1990. During the next two years, we anticipate that cash flows at the parent will support repaying approximately $250 million of additional parent-company debt. ◘ Management expects the future cash impact of a $153.5

million federal income tax benefit, along with a related state tax benefit, to help meet this debt repayment schedule. Much of the cash effect from the benefit, however, will occur in the mid-to-late 1990's. These particular tax benefits are the result of a ruling received from the Internal Revenue Service in January 1992 and relate to a capital infusion the company made two years ago as part of the final disposition of MeraBank. ¤ The 1991 improvements in fuel and operating costs were largely the result of the excellent performance of our nuclear and coal-fired power operations, both of which set individual company records and were among national industry leaders. Our operations had a strong year; nevertheless a considerable amount of management attention is now directed at improving upon this level of performance and, most importantly, guarding against the slightest complacency. ¤ During the past year, employees throughout the company responded well to difficult changes brought on by the 1990 corporate restructuring and a strategic plan which is intensely focused on results-oriented cost management and performance. The goal of that strategic plan at APS is industry leadership in an age of increasing energy choices. ¤ Our non-utility subsidiaries recorded a combined pre-tax loss of $16.2 million in 1991. This loss included some special provisions and should mitigate and eventually turn to profit as the venture capital portfolio at El Dorado matures and real estate activity at SunCor picks up. These subsidiaries are not a cash drain on the company and, between them, should start making a positive contribution to parent-company cash flow over the next two years. ¤ Maximizing the value of non-utility assets remains an important agenda item for Pinnacle West, and we will continue to build and capture that value. Our approach here remains conservative. ¤ To an extent, Arizona in 1991 mirrored some aspects of the troubled national economy, but the consensus forecast is for state population growth to remain around 2.5 percent or about twice the national average. Notably, single family housing permits in Maricopa County, which includes Phoenix, were up a strong 26 percent in 1991, providing a solid base for growth that is indicative of the strength we have come to expect in the APS service territory. ¤ In 1991 national energy legislation was proposed by the Administration and was introduced in both houses of Congress. Some form of enactment is expected this year. Our industry and the nation have a vital interest in

The map on the next page illustrates existing and planned rights and facilities including those resulting from the PacifiCorp agreements. The agreements provide access to the northwest energy market allowing the company to take advantage of seasonal diversity for energy sales, purchases and exchanges.



★ PINNACLE WEST HEADQUARTERS
APS/PACIFICORP EXISTING RIGHTS
APS/PACIFICORP PLANNED RIGHTS
TRANSMISSION FACILITIES PLANNED
APS EXISTING FACILITIES
FACILITIES OWNED BY OTHERS
APS SERVICE TERRITORY

the issues involved, including transmission access, disposal of spent nuclear fuel and the global climate. ◘ While we are proud of the contribution Palo Verde makes to improved air quality because it does not emit greenhouse gases, particulates and other pollutants, we are very cognizant of the challenge of long-term radioactive waste disposal. Only after resolution of this issue can other measures designed to promote the viability of the nuclear industry succeed. ◘ Transmission access is a complicated and controversial affair. Access by diverse generators of electricity to a transmission system someone else owns is one of several related issues. Already, negotiated transmission services between utilities are saving customers nationally between $15 and $20 billion per year. Any transmission access legislation should ensure such benefits continue while protecting the long-term interests of utilities and their customers and without unduly interfering with state and federal regulatory relationships. Whether by legislation or market forces, the energy environment of the future will be characterized by increased competition. We plan to succeed in that marketplace. ◘ During 1991, your company made substantial headway and is in a stronger position today with a clearer vision of what needs to be done. The theme for this year and beyond is execution, especially in the areas of cost management, debt reduction and operational excellence. This is an agenda that will continue to build shareholder value and keep us on track to restore a dividend on our common stock around the end of 1993. ◘ Relative to where we were a year ago, your company is now much more in control of its own destiny, a positive position that brings with it an inherent responsibility to perform. With the continued contribution and teamwork of employees throughout the company, I am confident of our ability to make further progress.

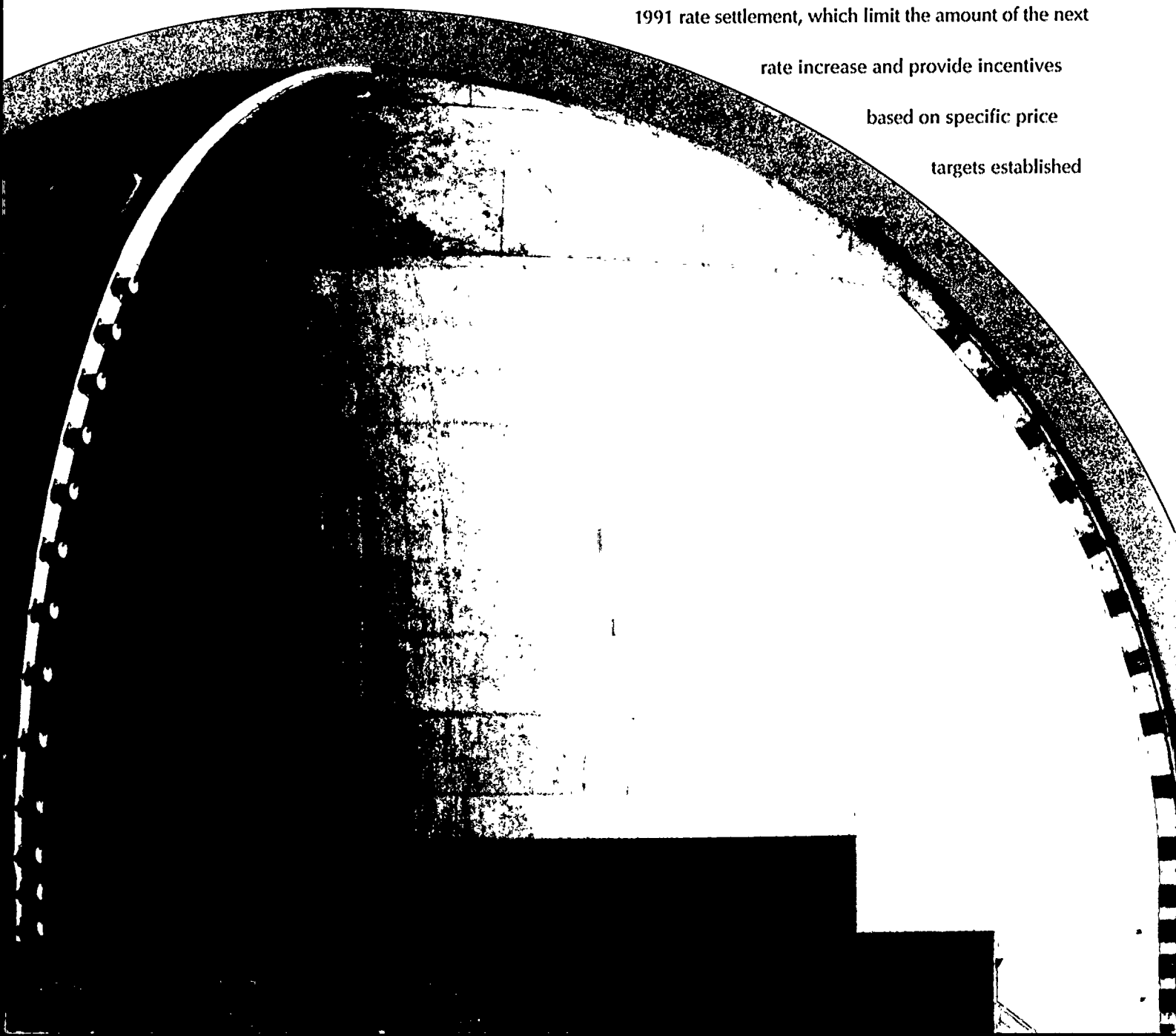
Sincerely,

R Snell

Richard Snell

Chairman & President

ARIZONA PUBLIC SERVICE COMPANY Pinnacle West's principal subsidiary began implementing a new strategic plan in 1991 designed to further a process of change that has been underway at the state's largest electric utility. ▫ To achieve a leadership position among investor-owned utilities in America, new company-wide performance goals were established in strategic areas including cost management, customer service, power plant performance, the environment, industrial and nuclear safety and corporate citizenship. ▫ As part of its strategic plan, APS continues to reshape its corporate culture to deal with the complexity of the new competitive energy environment. That process involves all employees from upper management to the front line in a commitment to reach targeted goals — especially those in critical areas such as cost management. ▫ The provisions of the 1991 rate settlement, which limit the amount of the next rate increase and provide incentives based on specific price targets established



It was a banner year for nuclear and coal-fired operations both of which set company performance records and were among national leaders in the industry. The Palo Verde triple-generator nuclear facility produced more power than any other nuclear facility in the country.

by management, underline the importance of the APS strategic plan which is focused on creating greater efficiencies. The strategic plan and its cost management goals were vital to the successful rate settlement with state regulators. In 1991 the entire APS organization worked diligently to improve profitability and cost competitiveness through the disciplined management of operating and capital programs. Progress was made.

▫ The company drove down fuel, operating, maintenance and interest expenses and construction expenditures during the year while adding almost 14,000 customers. It also embarked on an extensive refinancing plan to capture low interest rates in late 1991 and 1992 with initial annualized savings of $10-$12 million.

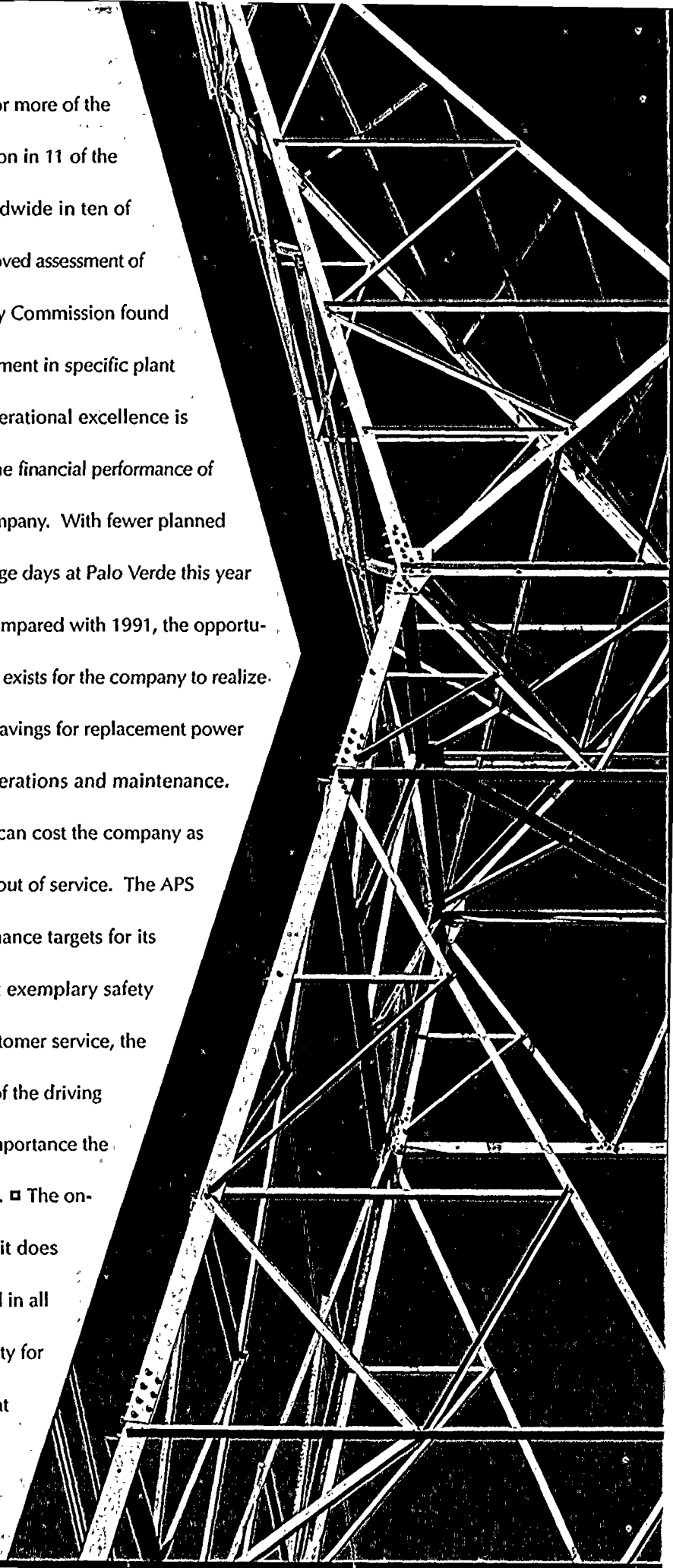
▫ APS generated cash flows to meet all of its 1991 capital requirements internally — its best performance in 20 years — and expects this trend to continue through 1994. The strengthening of cash flows results from operating and capital cost containment and is further supported through rate relief. The completed PacifiCorp long-term energy agreements contributed to this positive trend, providing monthly after-tax savings of approximately $2-$3 million due to lower operating and interest costs. ▫ Looking forward, future construction expenditures at APS over the next several years are primarily for updating and expanding transmission and distribution facilities, and current plans exclude any major baseload generating plants for the next ten years.

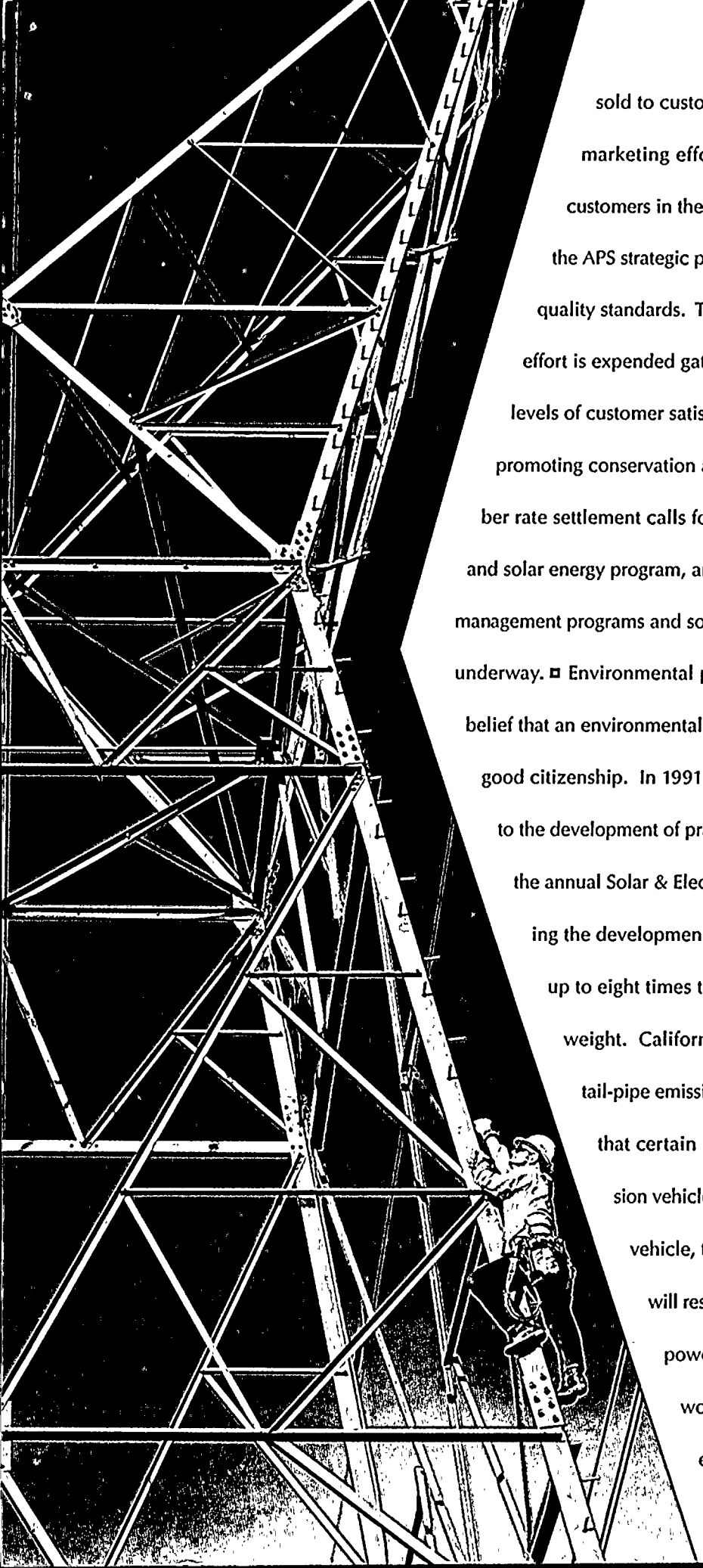
▫ The performance of APS power plants was a major contributor to improving financial results in 1991. More than 96 percent of the electricity generated by APS during the year came from the company's coal and nuclear units. The coal-fired plants achieved an equivalent availability factor of 89 percent for the year, and the average capacity factor for all the units at the Palo Verde Nuclear Generating Station was 75 percent. These performances were both company records and well above industry averages. The coal-fired operation at the Cholla plant was among the national industry leaders, achieving an impressive 95 percent equivalent availability factor.

▫ Palo Verde was the top producing nuclear generating station in the nation last year, generating almost 26.7

million gross megawatt-hours of electricity. One or more of the Palo Verde units led the nation in nuclear generation in 11 of the 12 months in 1991, and were in the top ten worldwide in ten of those months. Early in 1991, a significantly improved assessment of Palo Verde performance by the Nuclear Regulatory Commission found that the progress was "indicative of greater involvement in specific plant activities by senior management." Continued operational excellence is vital to the financial performance of the company. With fewer planned outage days at Palo Verde this year compared with 1991, the opportunity exists for the company to realize cost savings for replacement power and operations and maintenance. Outages can cost the company as much as $100,000 for every day a nuclear unit is out of service. The APS strategic plan sets even more demanding performance targets for its operations in the years ahead while maintaining exemplary safety programs. ◘ Along with cost management and customer service, the company has established industrial safety as one of the driving forces for its business, a strong indication of the importance the company places on maintaining a safe work place. ◘ The ongoing strategic effort at APS to reshape the way it does business in a changing energy industry has resulted in all departments at APS accepting greater responsibility for driving down product costs and sharing a belief that their efforts can impact the price of kilowatt-hours

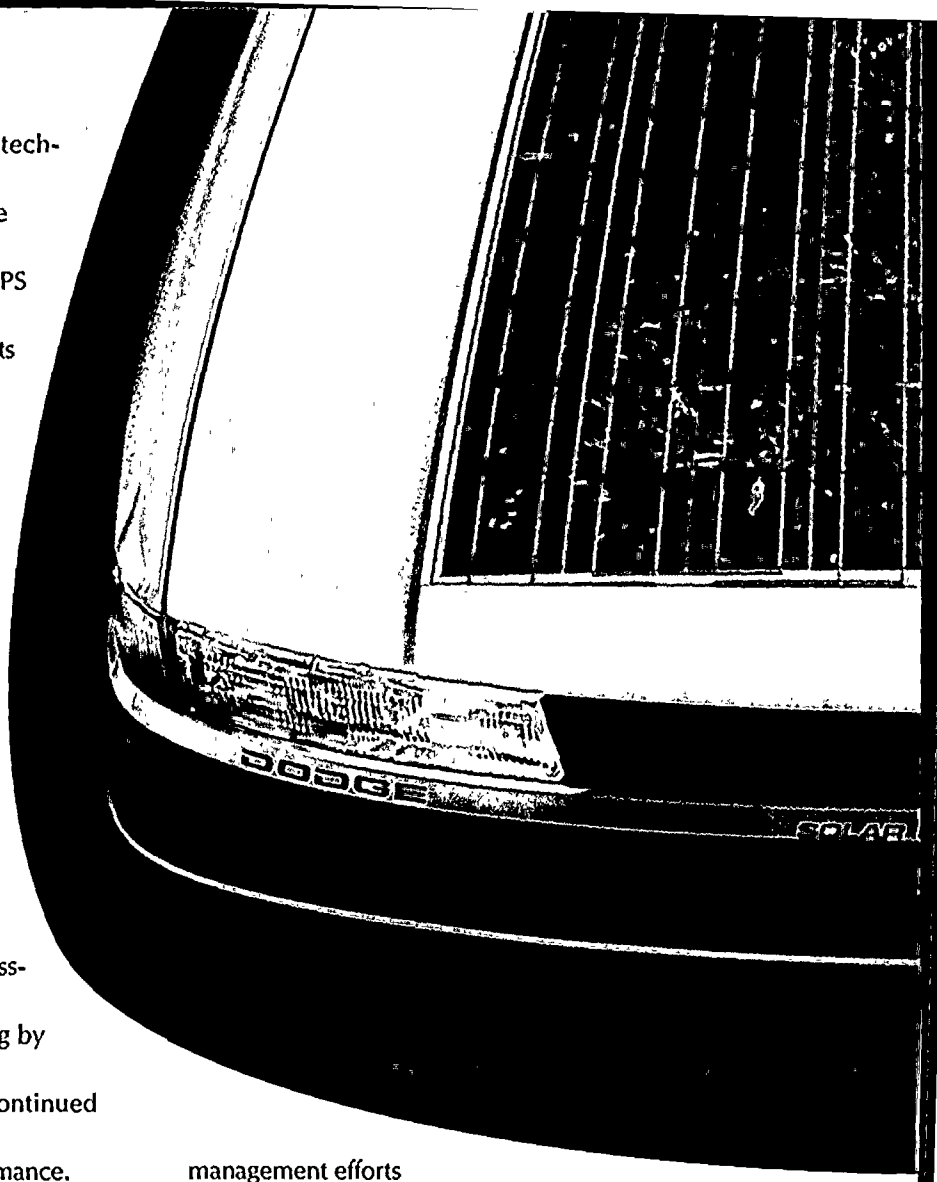
The energy market of the future will be characterized by increased competition. APS continues to reshape the way it does business in order to prosper in an age of increasing energy choices.



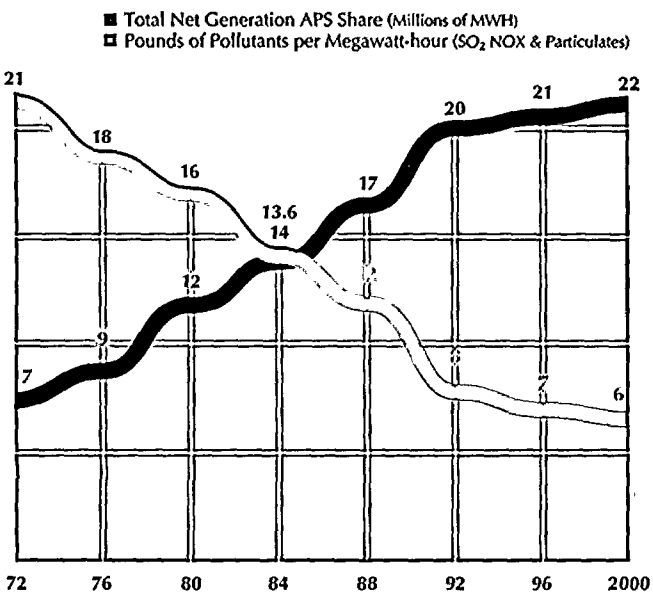


sold to customers. ▫ Customer service programs and the marketing effort at APS reflect a keen awareness that customers in the 1990's have a variety of energy choices, and the APS strategic plan establishes progressively higher service quality standards. To ensure that progress is made, considerable effort is expended gathering market information and measuring levels of customer satisfaction. ▫ Increasingly, APS is marketing and promoting conservation and efficiency. A provision in the December rate settlement calls for the establishment of an energy efficiency and solar energy program, and APS already has a variety of demand-side management programs and solar and photo-voltaic projects planned or underway. ▫ Environmental programs at APS exhibit the company's belief that an environmental commitment is both a good investment and good citizenship. In 1991 APS continued its 12-year commitment to the development of practical electric car technology. APS sponsors the annual Solar & Electric 500 auto race in Phoenix and is supporting the development of a new zinc-air battery, which carries up to eight times the energy of other batteries of comparable weight. California and other states are establishing new tail-pipe emission standards for the future, which mandate that certain percentages of new cars sold be zero-emission vehicles. Successful development of the electric vehicle, through the efforts of many interested parties, will result in an opportunity for utilities to sell electric power at off-peak periods when car batteries would be charged. Locally, because of APS's efforts, the opportunity exists to make Phoenix

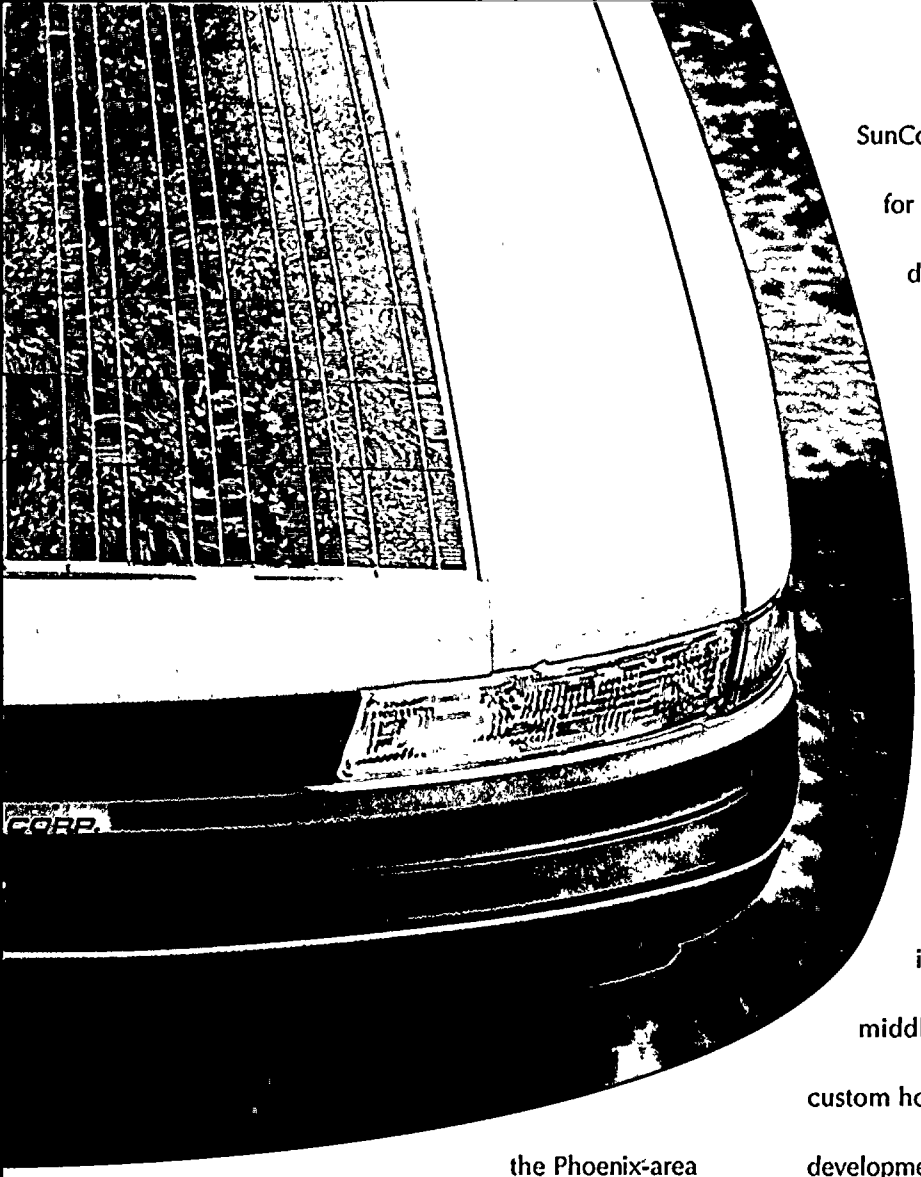
and Arizona a developmental center for this technology. ◘ On this page is a graph comparing the increase in total electric net generation from APS power plants with the decrease in total pollutants emitted per megawatt-hour from APS-owned power plants. This graph reflects the effect of Palo Verde coming on-line during the mid-1980's as well as significant improvements that are continuing to be made in lowering emissions at coal-fired plants. ◘ The performance of APS in 1991 follows a year in which more than 1,500 positions were eliminated at the company. During the past year, APS successfully responded to this significant restructuring by achieving greater productivity and making continued strides in service quality and operational performance. ◘ With the rate settlement in place and aggressive cost management efforts already underway as part of its strategic plan, APS has the opportunity to further strengthen its performance in 1992.



ARIZONA PUBLIC SERVICE COMPANY GENERATION AND EMISSIONS HISTORIC AND PROJECTED TRENDS



SUNCOR DEVELOPMENT COMPANY Pinnacle West's real estate subsidiary lists $420 million of assets on its books with no significant long-term debt, and is one of the major real estate firms in the Phoenix metropolitan area. ◘ During the past year, SunCor made real estate sales in a tough competitive market and completed activities at several of its master-planned communities allowing greater and more diverse inventory to come on-line in 1992 and beyond. ◘ The recovery speed of

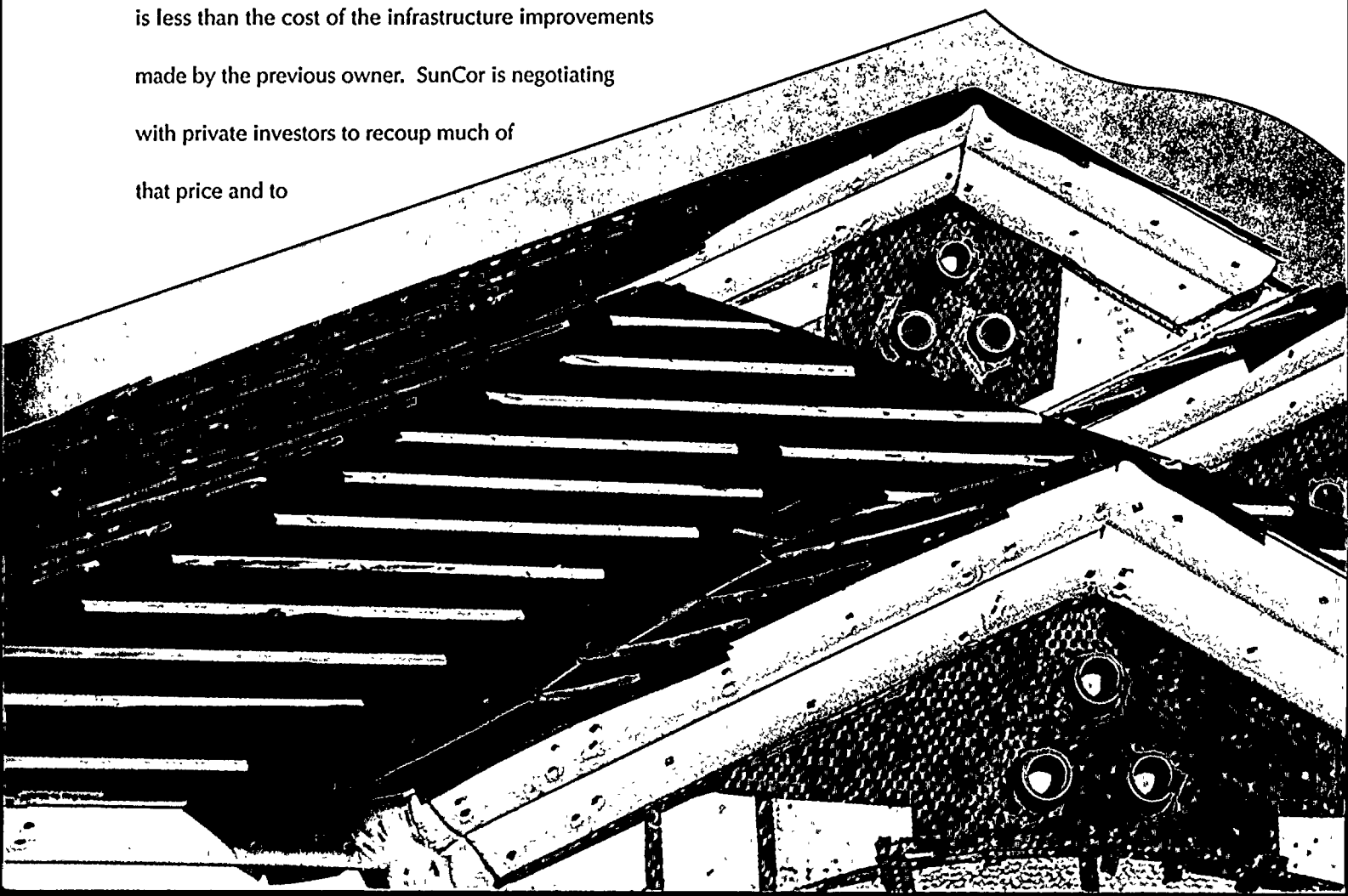


the Phoenix-area real estate market will affect SunCor's progress, but with housing permits and starts improving, SunCor is well positioned to take advantage of a continued recovery. ◘ SunCor's most significant asset is the 10,000-acre Litchfield master-planned community located approximately 16 miles west of downtown Phoenix, primarily in the city of Goodyear and adjacent to the five-star Wigwam Resort and Country Club. SunCor sold the Wigwam in 1990 for $70 million, but still manages the resort, allowing SunCor significant control of an anchor feature of the community. ◘ Within that master-planned community, SunCor has now received necessary zoning approval for approximately 4,000 acres, allowing major development activities to begin as the Arizona real estate market improves. One project, PebbleCreek, began construction in March 1992. PebbleCreek is a 2,200-acre, 6,000-home retirement community being developed by Robson Communities, which has successfully completed similar projects in Arizona. ◘ In addition to PebbleCreek, other elements of the master plan which are completed or underway include a community college, a high school and middle school, and the building and sale of custom homes. In 1992 a SunCor priority is to begin development of other projects within the master-planned community which will provide product to the first-home and first-move-up market. ◘ In the northeast Phoenix area, SunCor's 1,400-acre Tatum Ranch is the top-selling master-planned community in its market. Tatum Ranch has become a mature community with five

APS owns a fleet of 15 electric vehicles and is a national leader in electric vehicle research and development. APS is the title sponsor of the April Solar & Electric 500 in Phoenix –a showcase for alternative energy transportation.

active homebuilders and 450 homes built or under construction. ▫ SunCor's holdings also include MarketPlace, a 420-acre commercial and industrial development in Tempe, southeast of Phoenix. Adjacent to MarketPlace is an 80-acre auto park called Autoplex, designed by SunCor to meet the needs of new auto dealers and auto-related service companies. Five major auto dealerships have selected Autoplex as their home. ▫ West of Phoenix in Glendale, SunCor continues development of Talavi, a 135-acre business and industrial complex. ▫ In December 1991, SunCor purchased 1,400 acres of residential property in the foothills of northeast Scottsdale with zoning already approved. The $9 million purchase price is less than the cost of the infrastructure improvements made by the previous owner. SunCor is negotiating with private investors to recoup much of that price and to manage the project for a percentage of profit. The strategy is to attract financial partners and homebuilders, and to leverage on SunCor's management abilities, without making significant financial commitments to new projects. The most important goal is to enhance SunCor's financial resources, customer base and managerial strengths relative to its existing holdings.

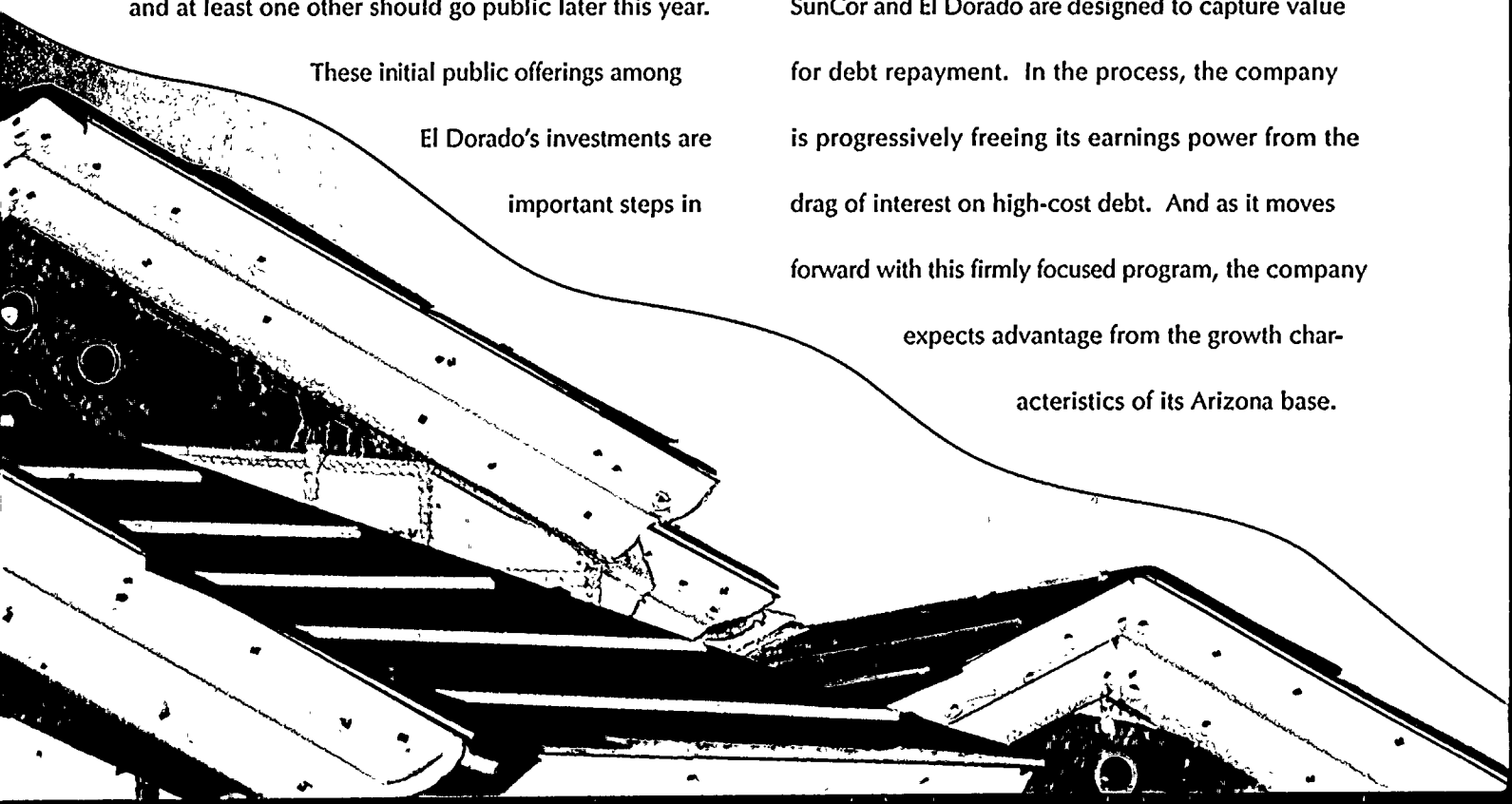
EL DORADO INVESTMENT COMPANY Pinnacle West's venture capital firm has $64 million invested in venture capital partnerships and direct investments. ▫ To mitigate risk, El Dorado's investment portfolio includes more than 80 companies in diverse industries such as health care, high technology, leasing, media/communications,



SunCor is developing 10,000 acres 16 miles west of downtown Phoenix called the Litchfield Master Plan. Underway or complete at the site are a 2,200-acre retirement community, a high school, a middle school, a community college and custom-built homes.

professional sports, agriculture and retail. ▫ For the last two years, El Dorado only has honored outstanding commitments, and current plans call for maximizing the value of its existing assets and providing long-term appreciation on Pinnacle West's invested capital. ▫ The maturity of investments in El Dorado's portfolio is such that positive cash flows can reasonably be expected to start within the next two years. ▫ Two of El Dorado's investments have successfully completed initial public offerings in 1992, and at least one other should go public later this year. These initial public offerings among El Dorado's investments are important steps in capturing their value for Pinnacle West. ▫ In 1991 El Dorado for the first time began realizing a cash return from its investment in the Phoenix Suns Partnership, owner of the NBA Phoenix Suns and holder of the master lease for the new Suns Arena in downtown Phoenix. ▫ In the years ahead, El Dorado will continue to maximize the value of current holdings while liquidating investments as soon and as advantageously as possible. There are no plans for new investments by El Dorado in the current planning period.

PINNACLE WEST CAPITAL CORPORATION is committed to debt repayment with a view to restoration of a dividend to its shareholders. The firming of the dividend which the company receives from APS, and in turn uses to prepay debt, was an important outcome of the rate case settlement. The activities at SunCor and El Dorado are designed to capture value for debt repayment. In the process, the company is progressively freeing its earnings power from the drag of interest on high-cost debt. And as it moves forward with this firmly focused program, the company expects advantage from the growth characteristics of its Arizona base.



SELECTED CONSOLIDATED FINANCIAL DATA

(Dollars in Thousands, Except Per Share Amounts)	1991	1990	1989	1988	1987
OPERATING RESULTS					
Operating Revenues					
Electric	$ 1,515,289	$ 1,508,325	$ 1,447,154	$ 1,442,023	$ 1,322,930
Provision for rate refund	(53,436)	--	--	--	--
Real estate	12,697	81,264	44,492	9,686	5,746
Income (loss) from continuing operations	$ (340,317)(1)	$ 70,208	$ 124,553	$ 152,678	$ 245,548
Income (loss) from discontinued operations - net of tax(2)	153,455	27,125	(675,968)	(148,487)	18,923
Cumulative effect of accounting change - net of tax	--	--	--	--	16,110
Net Income (Loss)	$ (186,862)	$ 97,333	$ (551,415)	$ 4,191	$ 280,581
COMMON STOCK DATA					
Book value per share - year end	$ 15.23	$ 17.40	$ 16.31	$ 23.46	$ 26.57
Earnings (Loss) Per Average Common Share Outstanding					
Continuing operations	$ (3.91)	$ 0.81	$ 1.44	$ 1.76	$ 2.93
Discontinued operations	1.76	0.31	(7.80)	(1.71)	0.23
Cumulative effect of accounting change	--	--	--	--	0.19
Total	$ (2.15)	$ 1.12	$ (6.36)	$ 0.05	$ 3.35
Dividends declared per share	$ --	$ --	$ .80(3)	$ 3.20(4)	$ 2.78
Common Shares Outstanding					
Year end	87,009,974	86,873,174	86,723,774	86,723,774	86,078,943
Average	86,937,052	86,769,924	86,720,747	86,621,872	83,675,436
TOTAL ASSETS	$ 6,482,701	$ 7,010,646	$ 7,019,511	$ 6,912,031	$ 6,874,632
LIABILITIES AND EQUITY					
Long-term debt less current maturities	$ 2,996,910	$ 3,218,168	$ 3,423,686	$ 2,840,932	$ 2,781,950
Other liabilities	1,764,550	1,919,519	1,808,911	1,654,793	1,415,354
	4,761,460	5,137,687	5,232,597	4,495,725	4,197,304
Minority Interests					
Non-redeemable preferred stock of APS	168,561	168,561	168,561	168,561	168,561
Redeemable preferred stock of APS	227,278	192,453	204,021	212,948	221,978
Common stock equity	1,325,402	1,511,945	1,414,332	2,034,797	2,286,789
	$ 6,482,701	$ 7,010,646	$ 7,019,511	$ 6,912,031	$ 6,874,632

(1) Includes approximately $407 million of write-offs and adjustments, net of income tax, related to Palo Verde. See Note 3 in Notes to Consolidated Financial Statements.

(2) Results of MeraBank, A Federal Savings Bank, and Malapai Resources Company, a uranium mining company, are classified as discontinued operations in the consolidated financial statements. See Note 2 in Notes to Consolidated Financial Statements.

(3) Dividends to shareholders of Pinnacle West Capital Corporation were suspended by the Board of Directors on October 18, 1989.

(4) Includes four quarterly dividends totalling $2.80 and the first quarter 1989 dividend of $0.40 declared in December 1988 and paid March 1, 1989.

(Dollars in Thousands)	1991	1990	1989	1988	1987
ELECTRIC OPERATING REVENUES					
Residential	$ 590,345	$ 579,556	$ 559,755	$ 545,082	$ 505,525
Commercial	585,952	571,806	521,665	501,666	467,643
Industrial	165,822	160,913	172,556	166,346	146,925
Irrigation	12,398	13,134	14,424	14,989	16,641
Other	138,182	146,740	112,613	114,180	88,630
Total	1,492,699	1,472,149	1,381,013	1,342,263	1,225,364
Transmission for others	7,871	9,321	14,117	17,187	14,254
Miscellaneous services	14,719	26,855	52,024	82,573	83,312
Electric operating revenues	1,515,289	1,508,325	1,447,154	1,442,023	1,322,930
Provision for rate refund	(53,436)	–	–	–	–
Net operating revenues	$ 1,461,853	$ 1,508,325	$ 1,447,154	$ 1,442,023	$ 1,322,930
ELECTRIC SALES (MWH)					
Residential	5,856,791	5,777,871	5,673,188	5,462,812	5,162,159
Commercial	6,726,350	6,567,728	6,025,634	5,659,527	5,456,084
Industrial	2,796,572	2,685,469	2,911,128	2,755,852	2,420,945
Irrigation	160,095	172,763	196,634	204,857	233,305
Other	71,650	69,929	69,587	62,149	124,972
Total retail	15,611,458	15,273,760	14,876,171	14,145,197	13,397,465
Sales for resale	4,375,027	4,502,380	2,612,380	3,615,699	2,006,847
Total sales	19,986,485	19,776,140	17,488,551	17,760,896	15,404,312
CUSTOMERS - END OF YEAR					
Residential	547,425	534,413	523,102	511,399	497,134
Commercial	68,118	67,129	67,734	66,570	65,360
Industrial	3,095	3,196	2,010	2,068	1,889
Irrigation	970	1,071	1,177	1,186	1,198
Other	751	749	753	747	775
Total retail	620,359	606,558	594,776	581,970	566,356
Sales for resale	43	47	44	33	28
Total customers	620,402	606,605	594,820	582,003	566,384

COMMON STOCK PRICE RANGES

Stock Symbol: PNW

1991	High	Low	Close	Dividend Per Share
1st Quarter	12 1/2	9 3/4	10 3/4	--
2nd Quarter	11 1/4	9 5/8	9 7/8	--
3rd Quarter	13 1/8	9 5/8	13 1/8	--
4th Quarter	17 7/8	12 3/8	17 3/8	--

1990	High	Low	Close	Dividend Per Share
1st Quarter	14 3/8	10 1/2	14 1/8	--
2nd Quarter	16 3/4	11 7/8	16 3/8	--
3rd Quarter	18 5/8	9 3/8	9 3/4	--
4th Quarter	12 1/8	9 1/2	10	--

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion relates to Pinnacle West Capital Corporation and its subsidiaries: Arizona Public Service Company, SunCor Development Company and El Dorado Investment Company. The discussion also relates to the discontinued operations of MeraBank, A Federal Savings Bank and of Malapai Resources Company.

OVERVIEW

For the past several years, Pinnacle West has been faced with many uncertainties. As of early 1992, many of the uncertainties had been resolved.

In 1989, a settlement was reached which resolved claims made by certain federal agencies with respect to MeraBank, resulting in a $450 million capital infusion by Pinnacle West into MeraBank and a net loss for the year of $551.4 million. Because of certain unresolved federal income tax issues, Pinnacle West could not record an income tax benefit related to the loss incurred from the MeraBank settlement. In January 1992, these tax issues were favorably resolved and Pinnacle West recorded a $153.5 million income tax benefit in its 1991 financial statements.

In 1990, APS applied for a rate increase from the Arizona Corporation Commission. Significant uncertainty existed as to APS' ability to recover all the costs associated with the construction and operation of Palo Verde through its electric rates. In December 1991, the ACC approved a settlement reached by APS with respect to the rate application. As part of the settlement, APS recorded write-offs and adjustments totalling $407 million after tax, including a disallowance of a portion of the costs incurred to build and operate Palo Verde.

Resolution of the APS rate application and MeraBank tax issues were the most significant determinants of Pinnacle West's 1991 operating results.

RATE CASE SETTLEMENT

In the rate case settlement, the ACC authorized an annual net revenue increase of $66.5 million or approximately 5.2%. In turn, APS wrote off $577.1 million of costs associated with Palo Verde and recorded a refund obligation of $53.4 million. The after tax impact of these adjustments reduced net income by $407 million. A discussion of the components of the disallowance follows.

PRUDENCE AUDIT

The ACC closed its prudence audit of Palo Verde and APS wrote off $142 million ($101.3 million after tax) of construction costs relating to Palo Verde Units 1, 2 and 3 and $13.3 million ($8.6 million after tax) of deferred costs relating to the prudence audit.

INTERIM OR TEMPORARY REVENUES

The ACC removed the interim and temporary designation on $385 million of revenues collected by APS from 1986 through 1991 that had been previously authorized for Palo Verde Units 1 and 2. APS recorded a refund obligation to customers of $53.4 million ($32.3 million after tax) related to the Palo Verde write-off discussed above. The refund obligation has been used to reduce the amount of annual rate increase granted rather than require specific customer refunds and will be reversed over thirty months beginning in December 1991.

EXCESS CAPACITY ISSUE

The ACC deemed a portion of Palo Verde Unit 3 to be excess capacity and, accordingly, did not recognize the related Unit 3 costs for ratemaking purposes. This action effectively disallows for thirty months a return on approximately $475 million of APS' investment in Unit 3. APS recognized a charge of $181.2 million ($109.5 million after tax), representing the present value of the lost cash flow and to that extent temporarily discounted the carrying value of Unit 3.

In accordance with generally accepted accounting principles, APS is recording, over the thirty-month period, accretion income on Unit 3 in the aggregate amount of the discount. APS recorded $5.3 million ($3.2 million after tax) of accretion income in 1991 and will record after tax accretion income of $40.7 million, $45.3 million and $20.3 million in 1992, 1993 and 1994, respectively.

In December 1991, APS stopped deferring Unit 3 costs and recorded a $240.6 million ($155.3 million after tax) write-off of Unit 3 cost deferrals due to a portion of Unit 3 being deemed excess capacity. At that time, APS began amortizing to expense and recovering in rates the remaining $320 million balance of the deferrals over a thirty-five year period as approved by the ACC.

FUTURE RETAIL RATE INCREASE

APS agreed not to file a new rate application before December 1993 and the ACC agreed to expedite the processing of that rate application. APS and the ACC also agreed on an average unit sales price ceiling of 9.585 cents per kilowatt-hour in this future rate application, which was based on APS meeting certain cost targets established by its management. APS' current average unit sales price is approximately 9 cents per kilowatt-hour. The ceiling may be adjusted for the effects of significant changes in laws, regulatory requirements or APS' cost of equity capital. Management believes that the unit sales price ceiling will not adversely impact APS' future earnings.

DIVIDEND PAYMENTS

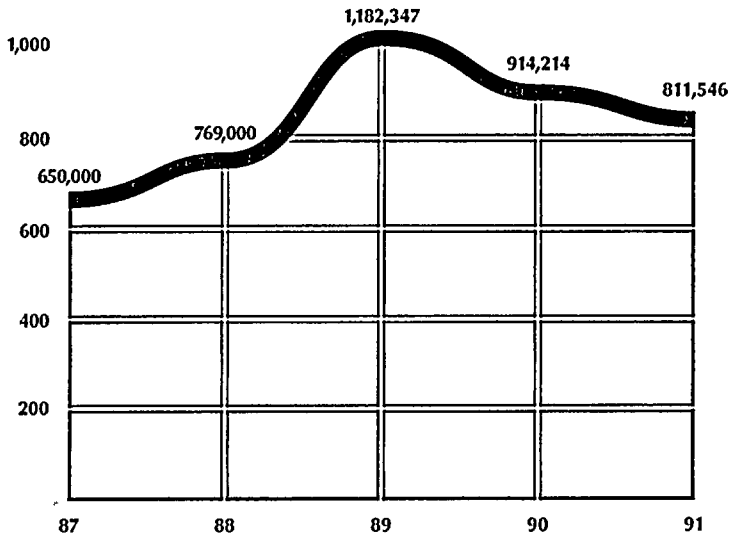
APS agreed to limit its annual common stock dividends to Pinnacle West to $170 million through December 1993.

TAX BENEFITS

In January 1992, the Internal Revenue Service issued a ruling which allows Pinnacle West to deduct, for federal income tax purposes, its remaining investment in MeraBank which includes the $450 million capital infusion into MeraBank made in 1990 as part of the settlement reached with federal regulators. The settlement released Pinnacle West from its purported obligations under the capital maintenance stipulation relating to MeraBank.

As a result of the IRS ruling, Pinnacle West recorded income from discontinued operations in 1991 of $153.5 million representing a federal net operating loss carryforward. The cash benefits, to be realized through lower future Pinnacle West income tax payments, are expected to be fully realized within the fifteen-year federal carryforward period prescribed by the tax code. An additional $25 million of income tax benefits would be realized assuming sufficient state taxable income during the state carryforward period which ends in 1995.

PINNACLE WEST CAPITAL CORPORATION NON-UTILITY DEBT AT YEAR END
(Thousands of Dollars)



LIQUIDITY AND CAPITAL RESOURCES

PINNACLE WEST AND NON-UTILITY SUBSIDIARIES

During the past three years, Pinnacle West's primary cash needs were for the repayment of principal and interest on its outstanding debt and for the funding of its own operating expenses. Dividends from APS have been Pinnacle West's primary source of cash. For the foreseeable future, Pinnacle West's sources and uses of cash are expected to remain relatively unchanged.

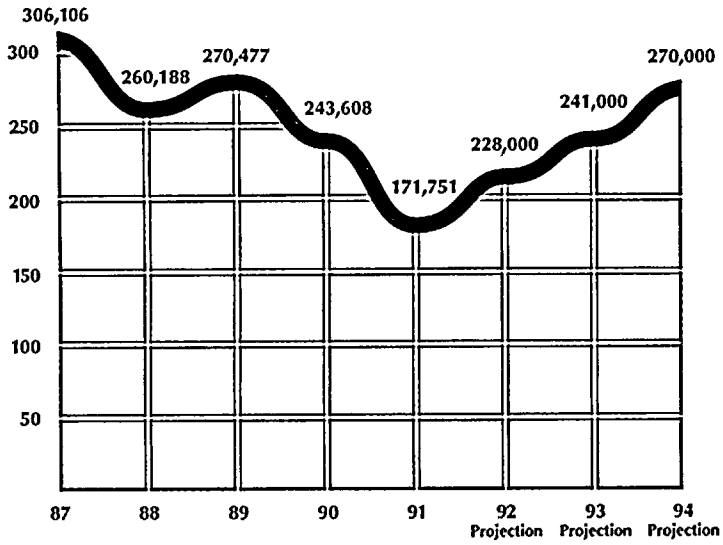
Because of reduced earnings at APS, its quarterly common stock dividend to Pinnacle West was reduced by its Board of Directors to $42.5 million ($170 million annually) beginning in the third quarter of 1990. As part of the settlement agreement reached with the ACC in 1991, APS agreed to limit its dividend to this level through December 1993. Management believes that this limitation will not impact Pinnacle West's ability to meet its cash requirements.

Because of deteriorating operating results, the Board of Directors of Pinnacle West suspended its quarterly common stock dividend in 1989. Management does not expect Pinnacle West to reinstate a common stock dividend before the end of 1993.

During 1990, Pinnacle West prepaid approximately $265 million of its long-term debt. Prepayments totalled approximately $112 million in 1991. Pinnacle West has no required principal repayments until 1994. Management expects, however, to generate cash flows during 1992 and 1993 to support repayment of approximately $250 million of Pinnacle West's debt.

During 1991, Pinnacle West issued $166 million of debt to refinance the promissory note delivered to MeraBank as part of the 1989 settlement agreement. Interest rates and repayment terms under the new debt agreements are more favorable than those of the MeraBank note.

ARIZONA PUBLIC SERVICE CO. CONSTRUCTION EXPENDITURES
(Thousands of Dollars)



In April 1990, SunCor sold the Wigwam Resort and Country Club and certain other properties for $70 million in cash. The proceeds were used to retire $29.5 million of SunCor's long-term debt, with the remainder to be used by SunCor to fund its future operations. SunCor also entered into a five-year hotel management contract with the buyer which has in the past and may in the future require cash contributions from SunCor.

In September 1990, Pinnacle West sold Malapai for $38 million in cash. The proceeds from the sale were used to prepay Pinnacle West's long-term debt in that year.

During 1991, Pinnacle West's non-utility subsidiaries financed all of their operations through internally generated funds. Management expects that these subsidiaries will internally fund their own operations for the foreseeable future.

APS

APS' liquidity is affected primarily by construction expenditures and the repayment of long-term debt and preferred stock obligations. The capital resources available to meet these requirements include funds provided by operations and external financing.

Present construction plans exclude any major baseload generating plants for the next ten years. In general, most of the construction expenditures are for updating and expanding transmission and distribution capabilities. Anticipated construction expenditures are $228 million, $241 million and $270 million for 1992, 1993 and 1994, respectively. These amounts include nuclear fuel expenditures, but omit capitalized property taxes and capitalized interest costs.

In 1991, APS used internally generated funds, after the payment of dividends, to finance all of its capital expenditures. In 1990 and 1989, this rate was 54% and 39%, respectively. This upward trend was primarily the result of reduced construction expenditures and lower common stock dividend payments. APS estimates that it will finance all of its capital expenditures with internally generated funds, after the payment of dividends, in the 1992-1994 period.

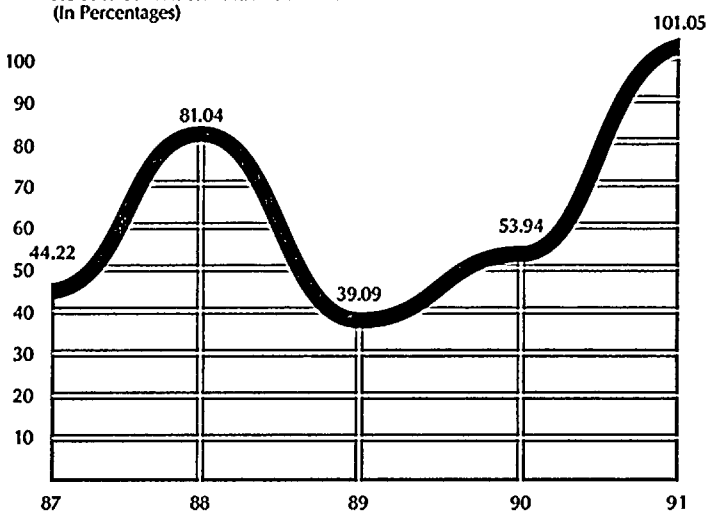
In July 1991, APS sold Unit 4 of the Cholla Power Plant to PacifiCorp for approximately $230 million. The resulting after tax gain of approximately $20 million was deferred and is being amortized as a reduction to operations expense over a four-year period in accordance with an ACC order. The transaction also provides for transmission access and electrical energy sales and exchanges between APS and PacifiCorp.

During 1991, APS redeemed or repurchased approximately $330 million of its first mortgage bonds and preferred stock, of which $183 million was required. Refunding obligations for preferred stock and long-term debt, a capitalized lease obligation and certain anticipated early redemptions are expected to total up to $1 billion (of which $179 million is required), $110 million and $97 million for the years 1992, 1993 and 1994, respectively. As of March 27, 1992, APS had completed $571 million of its 1992 program.

Although its plans are subject to change, the 1992 program involves the issuance of approximately $750 million of long-term debt, substantially all of which will be used to redeem or retire first mortgage bonds. APS also intends to issue $25 million of preferred stock which will be used to retire other preferred stock.

Provisions in the APS mortgage bond indenture and articles of incorporation restrict APS from issuing additional first mortgage bonds or preferred stock unless certain coverage ratios are met. These ratios have at times limited APS' ability to issue preferred stock. Because of the effects of the write-offs recorded by APS in connection with the rate case settlement, APS will be able to meet the required coverage ratios for the issuance of first mortgage bonds and preferred stock only until March 31, 1992. Although APS estimates that it will not be able to meet the required coverage ratios between April 1, 1992 and January 1, 1993, it may nevertheless issue limited amounts of first mortgage bonds for refunding and other purposes and shares of preferred stock for redeeming or retiring other preferred stock.

ARIZONA PUBLIC SERVICE CO. NET CASH FLOW, AFTER DIVIDENDS, AS A % OF CAPITAL EXPENDITURES
(In Percentages)



As a result, APS expects that it will be able to conduct its 1992 program with internally generated funds and external financings.

The ACC has authority over APS with respect to the issuance of long-term debt and equity securities. Existing ACC orders allow APS to have up to $2.6 billion in long-term debt and approximately $501 million of preferred stock outstanding at any one time. Management does not expect these ACC orders to limit APS' ability to meet its capital requirements.

At December 31, 1991, APS had credit commitments from various banks totalling approximately $372 million which were available either to support the issuance of commercial paper or to be used for bank borrowings. There were no outstanding balances at year end.

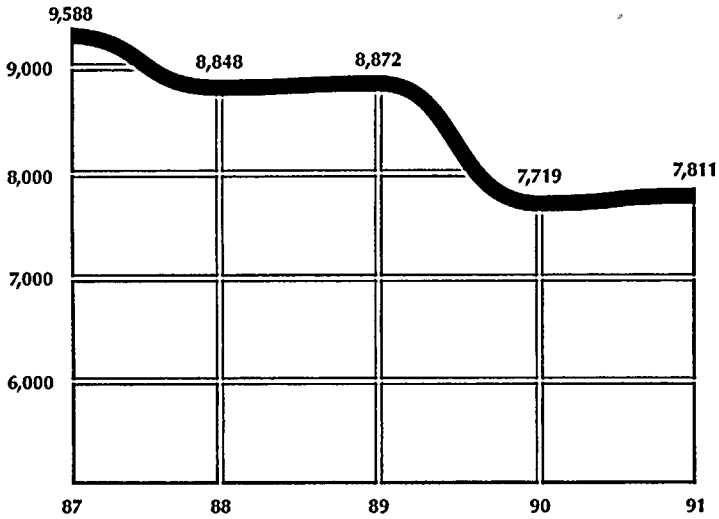
APS owns or leases a 29.1% interest in Palo Verde and owns a 15% interest in Four Corners Units 4 and 5. El Paso Electric Company owns or leases a 15.8% interest in Palo Verde and owns a 7% interest in Four Corners Units 4 and 5. In January 1992, EPEC filed a voluntary petition to reorganize under Chapter 11 of the U.S. Bankruptcy Code. Each Palo Verde and Four Corners participant is required to fund its proportionate share of specified costs relating to the power plants. APS estimates EPEC's total monthly share of these costs to be approximately $10 million. If a participant fails to meet its payment obligations, each non-defaulting participant pays its proportionate share of the payments owed by the defaulting participant. On February 13, 1992, the bankruptcy court approved a stipulation between EPEC and APS, as the operating agent of Palo Verde, pursuant to which EPEC agreed to pay its proportionate share of all Palo Verde invoices delivered to EPEC after February 6, 1992. EPEC agreed to make these payments until an order, if any, is entered by the bankruptcy court, authorizing or directing EPEC's rejection of the participation agreement governing the relations among the Palo Verde participants. Management cannot currently predict the probability or effects of rejection of the participation agreement. The stipulation also specifies that approximately $9.2 million of EPEC's Palo Verde payment obligations invoiced prior to February 7, 1992 are to be considered pre-petition general unsecured claims of the other Palo Verde participants.

The Clean Air Act Amendments of 1990 will be implemented through regulations to be developed during the next decade by the EPA and state and local environmental authorities. While it cannot precisely predict the impact of those regulations on its operations, based on information currently available, management does not expect APS' costs relating to the implementation of the amendments to have a material impact on Pinnacle West's financial statements.

RESULTS OF OPERATIONS

Pinnacle West reported a loss from continuing operations of $340.3 million in 1991, compared to income of $70.2 million and $124.6 million in 1990 and 1989, respectively. The decrease in 1991 was primarily the result of $407 million of write-offs and adjustments made in connection with APS' rate case settlement with the ACC. The decrease in 1990 was primarily caused by the expiration of a layoff power sales agreement covering Cholla Unit 4, APS' organizational restructuring, increased property taxes and higher interest costs because of increased debt resulting from the MeraBank settlement. Pinnacle West's net loss in 1991 was $186.9 million compared to net income of $97.3 in 1990 and a net loss of $551.4 in 1989.

PINNACLE WEST CAPITAL CORPORATION EMPLOYEES AT YEAR END



CONTINUING OPERATIONS

Operating revenues for the three years ended December 31, 1991 were as follows:

(Thousands of Dollars)	YEAR ENDED DECEMBER 31, 1991	1990	1989
Electric	$ 1,515,289	$ 1,508,325	$ 1,447,154
Provision for rate refund	(53,436)	–	–
Real estate	12,697	81,264	44,492
	$ 1,474,550	$ 1,589,589	$ 1,491,646

Electric operating revenues reflect changes in the volume of units sold and include the effects of rate increases on prices of units sold. An analysis of the changes from the prior year in electric operating revenues, excluding the effects of the refund provision, follows:

(Thousands of Dollars)	CHANGES DURING YEAR ENDED DECEMBER 31, 1991	1990
Volume variance	$ 23,823	$ 79,492
Price variance	(6,380)	20,735
Change in other operating revenue(1)	(10,479)	(39,056)
Total	$ 6,964	$ 61,171

(1) Includes revenues for miscellaneous services and transmission for others.

The volume-related increase in 1991 was largely due to customer growth in residential and business customer classes and increased sales per business customer, partially offset by the effects of milder weather. In 1990, the volume-related increase was due to increased resale sales, customer growth in residential and business customer classes and increased sales per business customer. The price-related revenue increases and decreases reflect the timing and amount of the 1991 base rate changes, the discontinuation of APS' fuel adjustment mechanism and the effect of weather and seasonal rates on annual average revenue per kilowatt-hour. The decrease in all three years in other operating revenues was primarily due to the expiration of a layoff agreement for capacity sold from Cholla Unit 4. A termination settlement received in 1989 from one wholesale customer added to the 1990 decrease.

Fuel expenses decreased in 1991 due to lower average fuel costs resulting from increased nuclear generation. Fuel expenses increased in 1990 due to increased generation, largely offset by lower average fuel costs resulting from increased nuclear generation. Fuel expenses in 1989 included the costs of increased fossil generation resulting from extended unscheduled outages at all three Palo Verde units during that year.

Increases in purchased power in 1991, primarily due to purchases from PacifiCorp, were nearly offset by a decrease in other interchange purchases. Decreases in purchased power in 1990 were primarily due to increased nuclear generation. During 1989, APS incurred substantial replacement power costs as a result of the extended Palo Verde outages.

Utility operations and maintenance in 1991 includes increased overhaul costs at fossil plants and higher legal costs resulting from environmental and other matters. Included in 1990 is approximately $25 million for the cost of an organizational restructuring and special early retirement program.

Real estate revenues increased in 1990 primarily as a result of the sale of the Wigwam. Real estate revenues in 1991 and 1989 primarily reflect sales of developed and undeveloped land.

In 1989 SunCor established an accounting reserve of $9 million on its real estate projects to reflect diminished expectations as to the net realizable value of the projects. No such reserves were recorded in 1990 or 1991.

Interest on long-term debt increased in 1990 primarily because of new Pinnacle West debt related to the Mera-Bank settlement. A decrease in interest expense occurred in 1991 as both Pinnacle West and APS continued to repay debt or refinance existing debt at lower rates.

During 1991, Pinnacle West established reserves for excess facilities owned or leased for company occupancy which are being disposed of and legal costs estimated to be incurred in connection with ongoing litigation. APS wrote off costs associated with a proposed generating unit that it no longer intends to build. These factors contributed to increased expenses in the other - net line in the consolidated statements of income.

DISCONTINUED OPERATIONS

Income from discontinued operations of $153.5 million in 1991 resulted from tax benefits recorded in connection with the MeraBank settlement as discussed earlier. Income from discontinued operations of $27.1 million in 1990 primarily represents tax benefits arising from 1990 operating losses at both MeraBank and Malapai. The 1989 loss of $676 million reflects the $450 million MeraBank settlement as well as 1989 operating losses and disposal costs for both MeraBank and Malapai.

ACCOUNTING ISSUES

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions.* This statement will require accrual of postretirement benefits, such as health care benefits, during the years an employee provides services. This is a significant change from the current policy of recognizing the costs of these benefits as they are paid. Pinnacle West and APS plan to adopt the standard in 1993. Based on a preliminary actuarial review of the current benefit plans, the accumulated benefit obligation at December 31, 1992, is expected to be approximately $200 million. Based on current estimates, the adoption of the standard will result in an increase in annual postretirement benefit expense of approximately $12 million before income taxes. APS intends to seek regulatory approval for the recovery of its portion of these costs.

In February 1992, the FASB issued SFAS No. 109, *Accounting for Income Taxes.* This statement requires that the liability method be used in calculating deferred income taxes. Management plans to adopt the new statement in 1993 and does not expect it to have a material effect on net income.

EFFECTS OF INFLATION

APS is subject to rate regulation and income tax laws that are based on the recovery of historical cost. Therefore, inflation creates an economic loss because APS is recovering its cost of investments in dollars that have less purchasing power. While the rate of inflation has been relatively low in recent years, inflation continues to have an adverse effect on APS, and therefore on Pinnacle West, due to the large investment in long-lived utility plant. Conventional accounting for historical cost does not recognize this economic loss nor the partially offsetting gain that arises through financing facilities with fixed-money obligations, such as long-term debt and preferred stock. Any recognition of inflation on the future results of operations by Pinnacle West and APS cannot be predicted precisely, since it will depend largely on the timing of rate decisions and the extent to which those decisions are based on current costs of providing electric service.

REPORT OF MANAGEMENT AND INDEPENDENT AUDITORS' REPORT

REPORT OF MANAGEMENT

The primary responsibility for the integrity of the company's financial information rests with management. Accordingly, management has prepared the accompanying financial statements and related information in this annual report. Such information was prepared in accordance with generally accepted accounting principles appropriate in the circumstances, based on management's best estimates and judgments and giving due consideration to materiality. These financial statements have been audited by independent auditors and their report is included herein.

In recognition of its responsibility for the financial statements, management maintains and relies upon systems of internal accounting controls. These systems are designed to provide reasonable assurance that assets are safeguarded and that transactions are executed in accordance with management's authorization and properly recorded to permit preparation of reliable financial statements. A limiting factor inherent in all systems of internal accounting control is that the cost of the system should not exceed the benefits to be derived. Management believes that the company's system provides the appropriate balance between such costs and benefits.

Periodically the internal accounting control system is reviewed by both the company's internal auditors and its independent auditors to test for compliance. Reports issued by the internal auditors are released to management, and such reports, or summaries thereof, are transmitted to the Audit Committee of the Board of Directors and the independent auditors on a timely basis. Internal audit work papers are readily available for inspection by the independent auditors.

The Audit Committee, composed solely of outside directors, meets periodically with management, internal auditors and independent auditors to review the work of each and ensure that each is properly discharging its responsibilities. The internal auditors and independent auditors have free access to the Audit Committee, without management present, to discuss the results of their audit work, their evaluations of the adequacy of internal controls and the quality of financial reporting.

The company maintains high standards when selecting, training and developing personnel, with a view toward maintaining strong, effective internal accounting controls and unbiased, uniform reporting standards. Management believes that the company's policies and procedures provide reasonable assurance that operations are conducted in conformity with the law and with management's commitment to a high standard of business conduct.

R Snell

Richard Snell
Chairman & President

Henry Sargent

Henry B. Sargent
Executive Vice President
& Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

Pinnacle West Capital Corporation:

We have audited the accompanying consolidated balance sheets of Pinnacle West Capital Corporation and its subsidiaries as of December 31, 1991 and 1990 and the related consolidated statements of income and retained earnings and cash flows for each of the three years in the period ended December 31, 1991. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Pinnacle West Capital Corporation and its subsidiaries at December 31, 1991 and 1990 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1991 in conformity with generally accepted accounting principles.

Deloitte & Touche

Deloitte & Touche
Phoenix, Arizona
February 18, 1992

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

(Dollars in Thousands, Except Per Share Amounts)	YEAR ENDED DECEMBER 31, 1991	1990	1989
Operating Revenues			
Electric	$ 1,515,289	$ 1,508,325	$ 1,447,154
Provision for rate refund (Note 3)	(53,436)	–	–
Real estate	12,697	81,264	44,492
Total	1,474,550	1,589,589	1,491,646
Fuel Expenses			
Fuel for electric generation	223,983	242,676	235,854
Purchased power	49,788	46,372	65,125
Deferred fuel	–	–	(31,901)
Total	273,771	289,048	269,078
Operating Expenses			
Utility operations and maintenance	401,736	408,347	372,624
Real estate operations	25,482	88,321	46,894
Depreciation and amortization	219,010	213,891	206,839
Provision for real estate losses	–	–	9,000
Taxes other than income taxes (Note 11)	215,541	198,832	175,485
Palo Verde cost deferral (Notes 1 and 3)	(70,886)	(64,379)	(68,989)
Disallowed Palo Verde costs (Note 3)	577,145	–	–
Total	1,368,028	845,012	741,853
Operating Income (Loss)	(167,249)	455,529	480,715
Other Income (Deductions)			
Allowance for equity funds used during construction (Note 1)	3,902	4,042	5,954
Palo Verde cost deferral (Notes 1 and 3)	63,068	71,404	72,861
Palo Verde accretion income (Note 3)	5,306	–	–
Interest on long-term debt	(316,282)	(338,521)	(242,459)
Other interest	(16,447)	(19,054)	(39,007)
Allowance for borrowed funds used during construction (Note 1)	6,636	8,705	10,454
Preferred stock dividend requirements of APS	(33,404)	(31,060)	(32,302)
Other - net	(31,463)	(3,148)	(14,549)
Total	(318,684)	(307,632)	(239,048)
Income (Loss) From Continuing Operations Before Income Taxes	(485,933)	147,897	241,667
Income Tax Expense (Benefit) (Note 4)	(145,616)	77,689	117,114
Income (Loss) From Continuing Operations	(340,317)	70,208	124,553
Income (Loss) From Discontinued Operations (Note 2)	153,455	27,125	(675,968)
Net Income (Loss)	(186,862)	97,333	(551,415)
Retained Earnings (Deficit) at Beginning of Year	(134,625)	(231,958)	388,861
Common stock dividends	–	–	(69,404)
Accumulated Deficit at End of Year	$ (321,487)	$ (134,625)	$ (231,958)
Average Common Shares Outstanding	86,937,052	86,769,924	86,720,747
Earnings (Loss) Per Average Common Share Outstanding			
Continuing operations	$ (3.91)	$ 0.81	$ 1.44
Discontinued operations	1.76	0.31	(7.80)
Total	$ (2.15)	$ 1.12	$ (6.36)
Dividends Declared Per Share	$ –	$ –	$ 0.80

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

(Thousands of Dollars)	DECEMBER 31, 1991	1990
ASSETS		
Current Assets		
Cash and cash equivalents	$ 173,715	$ 59,358
Customer and other receivables - net	125,819	143,825
Accrued utility revenues (Note 1)	44,462	45,466
Materials and supplies (at average cost)	107,225	101,440
Fossil fuel (at average cost)	30,515	27,810
Other current assets	10,042	9,564
Total current assets	491,778	387,463
Investments and Other Assets		
Real estate investments - net	389,176	364,592
Other assets	148,798	173,057
Total investments and other assets	537,974	537,649
Utility Plant		
Electric plant in service, including nuclear fuel	6,212,249	6,587,422
Construction work in progress	197,643	209,266
Total utility plant	6,409,892	6,796,688
Less accumulated depreciation and amortization	1,922,768	1,670,227
Net utility plant	4,487,124	5,126,461
Deferred Debits		
Deferred income taxes	335,062	216,891
Palo Verde Unit 3 cost deferral (Notes 1 and 3)	320,070	428,340
Palo Verde Unit 2 cost deferral (Note 1)	190,123	196,186
Other deferred debits	120,570	117,656
Total deferred debits	965,825	959,073
Total Assets	$ 6,482,701	$ 7,010,646

See Notes to Consolidated Financial Statements.

(Thousands of Dollars)	DECEMBER 31, 1991	1990
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	$ 104,686	$ 87,637
Accrued taxes	71,732	90,634
Accrued interest	75,172	78,760
Short-term borrowings	--	159,000
Current maturities of long-term debt (Note 7)	299,550	173,366
Other current liabilities	90,448	33,648
Total current liabilities	641,588	623,045
Non-Current Liabilities		
Long-term debt less current maturities (Note 7)	2,996,910	3,218,168
Other liabilities	10,334	4,903
Total non-current liabilities	3,007,244	3,223,071
Deferred Credits and Other		
Deferred income taxes	729,588	895,451
Deferred investment tax credit	138,933	152,612
Unamortized gain - sale of utility plant	126,669	115,240
Other deferred credits	117,438	128,268
Total deferred credits	1,112,628	1,291,571
Commitments and Contingencies (Note 13)		
Minority Interests		
Non-redeemable preferred stock of APS (Note 8)	168,561	168,561
Redeemable preferred stock of APS (Note 8)	227,278	192,453
Common Stock Equity		
Common stock, no par value; authorized 150,000,000 shares; issued and outstanding 87,009,974 in 1991 and 86,873,174 in 1990	1,646,889	1,646,570
Accumulated deficit	(321,487)	(134,625)
Total common stock equity	1,325,402	1,511,945
Total Liabilities and Equity	$ 6,482,701	$ 7,010,646

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands of Dollars)	YEAR ENDED DECEMBER 31, 1991	1990	1989
CASH FLOWS FROM OPERATING ACTIVITIES (Note 1)			
Income (loss) from continuing operations	$ (340,317)	$ 70,208	$ 124,553
Items not requiring cash			
Depreciation and amortization	268,153	262,613	225,483
Deferred income taxes - net	(128,863)	107,411	108,100
Revaluation of real estate investments	--	--	9,000
Palo Verde cost deferral	(133,954)	(135,783)	(141,850)
Provision for rate refund - net	52,057	--	--
Disallowed Palo Verde costs	577,145	--	--
Palo Verde accretion income	(5,306)	--	--
Other - net	(4,235)	13,994	(38,680)
Changes in current assets and liabilities			
Accounts receivable - net	18,006	(15,854)	(5,012)
Accrued utility revenues	1,004	(3,048)	(1,394)
Materials, supplies and fossil fuel	(8,490)	(15,318)	(8,968)
Other current assets	(478)	5,500	(4,699)
Accounts payable	18,866	(9,305)	15,459
Accrued taxes	(18,902)	46,398	54,618
Accrued interest	(3,588)	11,203	8,128
Other current liabilities	3,364	(10,833)	8,243
Other - net	4,407	(2,589)	9,162
Net Cash Flow Provided By Operating Activities	298,869	324,597	362,143
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(182,687)	(259,280)	(300,347)
Allowance for equity funds used during construction	3,902	4,042	5,954
Sale of property (Note 3)	233,875	73,248	8,745
Investments in real estate properties	(10,806)	4,576	(30,336)
Other - net	(2,630)	(9,930)	(22,541)
Net cash provided by discontinued operations	--	38,000	4,300
Net Cash Flow Provided By (Used For) Investing Activities	41,654	(149,344)	(334,225)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of long-term debt	485,844	642,665	98,625
Issuance of preferred stock	49,375	--	--
Short-term debt - net	(159,000)	(81,000)	179,110
Dividends paid on common stock	--	--	(104,065)
Repayment of long-term debt	(593,252)	(797,194)	(74,028)
Repayment of preferred stock	(15,175)	(11,568)	(8,927)
Other - net	6,042	1,639	--
Net Cash Flow Provided By (Used For) Financing Activities	(226,166)	(245,458)	90,715
Net Cash Flow	114,357	(70,205)	118,633
Cash and Cash Equivalents at Beginning of Year	59,358	129,563	10,930
Cash and Cash Equivalents at End of Year	$ 173,715	$ 59,358	$ 129,563

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. CONSOLIDATION

The consolidated financial statements include the accounts of Pinnacle West Capital Corporation and its subsidiaries: Arizona Public Service Company, an electric utility; SunCor Development Company, a real estate development company; and El Dorado Investment Company, a venture capital firm. The consolidated financial statements have been restated to reflect the operating results and costs of disposal of MeraBank, A Federal Savings Bank, and of Malapai Resources Company, a uranium mining company, as discontinued operations (see Note 2). Certain prior year balances have been reclassified to conform to the 1991 presentation.

B. UTILITY PLANT AND DEPRECIATION

Utility plant represents the buildings, equipment and other facilities used to provide electric service. The cost of utility plant includes labor, material, contract services and other related items and an allowance for funds used during construction. The cost of retired depreciable utility plant, plus removal costs less salvage realized, is charged to accumulated depreciation.

Depreciation on utility property is provided on a straight-line basis. The applicable rates for 1989 through 1991 ranged from 0.68% to 15.00%. Depreciation and amortization of non-utility property and equipment are provided over the estimated useful lives of the related assets, ranging from 3 to 33 years.

C. REVENUES

Electric operating revenues are recognized on the accrual basis and include estimated amounts for service rendered but unbilled at the end of each accounting period.

D. ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION

AFUDC represents the cost of debt and equity funds used to finance construction of utility plant. Plant construction costs, including AFUDC, are recovered in authorized rates through depreciation when completed projects are placed into commercial operation. AFUDC does not represent current cash earnings.

AFUDC has been calculated using composite rates of 10.15% for 1991, 10.00% for 1990 and 10.50% for 1989. APS compounds AFUDC semi-annually and ceases to accrue AFUDC when construction work is completed and the property is placed in service.

E. INCOME TAXES

Pinnacle West and its subsidiaries file a consolidated U.S. income tax return. Consolidated income taxes are allocated among subsidiaries as if separate income tax returns were filed. The difference, if any, between such amounts and consolidated income tax expense is allocated to Pinnacle West.

F. REACQUIRED DEBT COSTS

APS amortizes gains and losses on reacquired debt over the remaining life of the original debt, consistent with ratemaking.

G. NUCLEAR FUEL AND DECOMMISSIONING COSTS

Nuclear fuel is charged to fuel expense using the unit of production method under which the number of units of thermal energy produced in the current period is related to the total thermal units expected to be produced over the life of the fuel.

The estimated cost of decommissioning APS' 29.1% share of the Palo Verde Nuclear Generating Station and completely removing all facilities is approximately $1.4 billion ($221 million in 1989 dollars) and will be incurred over a thirteen-year period beginning in 2023. This cost is charged to expense over the respective unit's operating license term and included in the accumulated depreciation balance.

APS deposits the latest ACC approved annual decommissioning provision ($6.5 million approved in December 1991; $5.7 million approved for prior years) into external trust accounts. The trusts are included in investments and other assets in the consolidated balance sheets and totalled $24.3 million at December 31, 1991.

H. STATEMENTS OF CASH FLOWS

Temporary cash investments and marketable securities are considered to be cash equivalents for purposes of the Consolidated Statements of Cash Flows. During 1991, 1990 and 1989 Pinnacle West and its subsidiaries paid interest, net of amounts capitalized, of $305.4 million, $301.9 million and $255.2 million, respectively. Income taxes paid were $19.7 million, $0.2 million and $7.3 million, respectively, and dividends paid on preferred stock of APS were $33.1 million, $32.1 million and $31.8 million, respectively.

I. PALO VERDE COST DEFERRALS

As authorized by the ACC, APS capitalized operating costs (excluding fuel) and financing costs for Palo Verde Units 2 and 3 from each unit's commercial operation date until the

date that the units were included in a rate order. The deferrals are being amortized and recovered through rates over thirty-five year periods.

2. DISCONTINUED OPERATIONS

In 1989, a settlement was reached which resolved claims made by certain federal agencies with respect to MeraBank, resulting in a $450 million capital infusion by Pinnacle West into MeraBank. The settlement released Pinnacle West from its purported obligations under the capital maintenance stipulation relating to MeraBank. Because of certain unresolved federal income tax issues, Pinnacle West could not record an income tax benefit related to the loss incurred as a result of the settlement. In January 1992, the Internal Revenue Service issued a ruling which allows Pinnacle West to deduct, for federal income tax purposes, its remaining investment in MeraBank which includes the capital infusion. As a result, Pinnacle West recorded income from discontinued operations in 1991 of $153.5 million representing a federal net operating loss carryforward.

Pinnacle West recorded $22.2 million income from discontinued operations in 1990 representing income tax benefits relating to a portion of MeraBank's 1990 operating loss allocable to Pinnacle West. A loss of $639.3 million from discontinued operations was recorded in 1989 representing the $450 million capital infusion, MeraBank's 1989 operating loss, costs incurred to dispose of MeraBank and certain income tax benefits.

In September 1990, Pinnacle West sold Malapai for $38 million in cash. Income from discontinued operations of $4.9 million was recorded in 1990 representing the reconciliation of costs incurred to reserves established in 1989 plus certain income tax benefits. A loss from discontinued operations of $36.6 million was recorded in 1989 representing Malapai's 1989 operating loss, disposal costs and income tax benefits.

3. REGULATORY MATTERS

RATE CASE SETTLEMENT

In December 1991, the ACC approved a settlement reached by APS in the retail rate case that had been pending before the ACC since January 1990. The ACC authorized an annual net revenue increase of $66.5 million or approximately 5.2%. In turn, APS wrote off $577.1 million of costs associated with Palo Verde and recorded a refund obligation of $53.4 million. The after tax impact of these adjustments reduced net income by $407 million. A discussion of the components of the disallowance follows.

Prudence Audit

The ACC closed its prudence audit of Palo Verde and APS wrote off $142 million ($101.3 million after tax) of construction costs relating to Palo Verde Units 1, 2 and 3 and $13.3 million ($8.6 million after tax) of deferred costs relating to the prudence audit.

Interim or Temporary Revenues

The ACC removed the interim and temporary designation on $385 million of revenues collected by APS from 1986 through 1991 that had been previously authorized for Palo Verde Units 1 and 2. APS recorded a refund obligation to customers of $53.4 million ($32.3 million after tax) related to the Palo Verde write-off discussed above. The refund obligation has been used to reduce the amount of annual rate increase granted rather than require specific customer refunds and will be reversed over thirty months beginning in December 1991.

Excess Capacity Issue

The ACC deemed a portion of Palo Verde Unit 3 to be excess capacity and, accordingly, did not recognize the related Unit 3 costs for ratemaking purposes. This action effectively disallows for thirty months a return on approximately $475 million of APS' investment in Unit 3. APS recognized a charge of $181.2 million ($109.5 million after tax), representing the present value of the lost cash flow and to that extent temporarily discounted the carrying value of Unit 3.

In accordance with generally accepted accounting principles, APS is recording, over the thirty-month period, accretion income on Unit 3 in the aggregate amount of the discount. APS recorded $5.3 million ($3.2 million after tax) of accretion income in 1991 and will record after tax accretion income of $40.7 million, $45.3 million and $20.3 million in 1992, 1993 and 1994, respectively.

In December 1991, APS stopped deferring Unit 3 costs and recorded a $240.6 million ($155.3 million after tax) write-off of Unit 3 cost deferrals due to a portion of Unit 3 being deemed excess capacity. At that time, APS began amortizing to expense and recovering in rates the remaining $320 million balance of the deferrals over a thirty-five year period as approved by the ACC.

Future Retail Rate Increase

APS agreed not to file a new rate application before December 1993 and the ACC agreed to expedite the processing of that rate application. APS and the ACC also agreed on an average unit sales price ceiling of 9.585 cents per kilowatt-hour in this future rate application, which was based on APS meeting certain cost targets established by its management. APS' current average unit sales price is

approximately 9 cents per kilowatt-hour. The ceiling may be adjusted for the effects of significant changes in laws, regulatory requirements or APS' cost of equity capital. Management believes that the unit sales price ceiling will not adversely impact APS' future earnings.

Dividend Payments

APS agreed to limit its annual common stock dividends to Pinnacle West to $170 million through December 1993.

SALE OF CHOLLA 4

In July 1991, APS sold Unit 4 of the Cholla Power Plant to PacifiCorp for approximately $230 million. The resulting after tax gain of approximately $20 million was deferred and is being amortized as a reduction to operations expense over a four-year period in accordance with an ACC order. The transaction also provides for transmission access and electrical energy sales and exchanges between APS and PacifiCorp.

4. INCOME TAX EXPENSE

The components of income tax expense from continuing operations for each of the three years in the period ended December 31, 1991, are as follows:

	YEAR ENDED DECEMBER 31,		
(Thousands of Dollars)	1991	1990	1989
Current			
Federal	$ 2,500	$ –	$ (19,779)
State	–	–	–
Total current	2,500	–	(19,779)
Deferred			
Depreciation - net	58,310	56,665	74,521
Palo Verde cost deferral	47,527	40,472	46,728
Loss provisions	(1,663)	(1,008)	(5,406)
Capitalized interest	(2,154)	2,152	6,889
Employee severance plan	4,801	(4,801)	–
Disallowed Palo Verde costs	(213,394)	–	–
Refund obligation	(21,273)	–	–
Investment tax credit - net	(9,275)	(10,996)	2,312
Taxes, pension costs and other - net	(10,995)	(4,795)	11,849
Total deferred	(148,116)	77,689	136,893
Total	$ (145,616)	$ 77,689	$ 117,114

The differences between income tax expense and the amount obtained by multiplying income from continuing operations before income taxes by the statutory federal income tax rate for each of the three years in the period ended December 31, 1991, are as follows:

	YEAR ENDED DECEMBER 31,		
(Thousands of Dollars)	1991	1990	1989
Federal income tax expense (benefit) at statutory rate	$ (165,217)	$ 50,285	$ 82,167
Increases (reductions) in tax expense resulting from:			
Tax under book depreciation	21,814	18,444	16,481
Allowance for funds used during construction	(1,326)	(1,374)	(2,024)
Palo Verde cost deferral	(4,063)	(4,281)	(4,114)
Disallowed Palo Verde costs	22,236	–	–
Preferred stock dividends of APS	11,357	10,560	10,983
Investment tax credit amortization	(9,275)	(11,337)	1,525
State income tax - net of federal income tax benefit	(16,307)	13,445	21,544
Other	(4,835)	1,947	(9,448)
Income tax expense (benefit)	$ (145,616)	$ 77,689	$ 117,114

Deferred income taxes are provided for substantially all timing differences arising from the recognition of revenues and expenses in different periods for tax and financial reporting purposes. Prior to October 1983, APS reflected the tax effects of certain timing differences in income currently in accordance with an ACC order. At December 31, 1991, APS had flowed through to income approximately $140 million of income tax benefits arising from timing differences for which deferred taxes had not been provided.

At December 31, 1991, Pinnacle West had federal net operating loss carryforwards of approximately $600 million which may be used through 2005. For financial reporting purposes, the tax benefit of the operating losses has been recognized primarily as an offset to deferred tax liabilities. State NOL carryforwards of approximately $500 million, which may be used through 1995, have not been recognized for financial reporting purposes.

In February 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes.* SFAS No. 109

requires that the liability method be used in calculating deferred income taxes. Adjustments to balances of accumulated deferred income taxes will be made to record income tax rate changes, allowance for funds used during construction, investment tax credits and other temporary differences not previously deferred. It is expected that the additional deferred income tax assets and liabilities will be offset primarily by regulatory assets and liabilities representing the expected future revenue requirement impact of these adjustments. Management plans to adopt the new statement in 1993 and does not expect it to have a material effect on net income.

See Note 2 for tax benefits recorded in connection with discontinued operations.

5. LEASES

In 1986, APS entered into sale and leaseback transactions under which it sold approximately 42% of its share of Palo Verde Unit 2. The gain of approximately $140,220,000 has been deferred and is being amortized to expense over the original lease term. The leases are being accounted for as operating leases and require semi-annual payments of approximately $22,061,000 through December 1996, $23,605,000 through June 1997 and $26,963,000 through December 2015. Options to renew the leases for two additional years and to purchase the property at fair market value at the end of the lease terms are also included. Lease expense for 1991, 1990 and 1989 was $45,633,000, $45,458,000 and $45,458,000, respectively.

APS has a capital lease on a combined cycle plant which it sold and leased back. The lease requires semi-annual payments of $2,582,000 through June 2001, and includes renewal and purchase options based on fair market value. This plant is included in plant in service at its original cost of $54,405,000; accumulated depreciation at December 31, 1991, was $33,866,000.

In addition, Pinnacle West and its subsidiaries lease certain land, buildings, equipment and miscellaneous other items through operating rental agreements with varying terms, provisions and expiration dates. Rent expense for 1991, 1990 and 1989 was approximately $28,185,000, $17,720,000 and $9,881,000, respectively. Annual future minimum rental commitments, excluding the Palo Verde and combined cycle leases, through 1996 are as follows: 1992, $26,236,000; 1993, $25,600,000; 1994, $24,056,000; 1995, $18,325,000; and 1996, $15,343,000. Total rental commitments after 1996 are estimated at $189 million.

6. LINES OF CREDIT

APS had committed lines of credit with various banks of $302 million at December 31, 1991 and 1990. The commitment fees were 0.1875% per annum in both years. Outstanding borrowings were $0 at December 31, 1991 and $100 million at December 31, 1990. There were no significant compensating balances as of December 31, 1991 or 1990.

Pinnacle West had a liquidity facility of $75 million at December 31, 1991 and $100 million at December 31, 1990. The facility is available for payments of principal and interest on Pinnacle West's outstanding debt with a maximum of $20 million for principal payments. Any borrowings on this facility will be secured by the APS common stock owned by Pinnacle West and will bear interest, at Pinnacle West's option, at rates based on the prime rate or rates based on LIBOR. Additionally, Pinnacle West pays a 0.3125% commitment fee on the facility when no borrowings are outstanding or from 0.25% to 0.375% on the unused portion in a period when borrowings are outstanding. There were no borrowings outstanding under the liquidity facility at December 31, 1991 or 1990.

By Arizona statute, APS' short-term borrowings cannot exceed 7% of its total capitalization without the consent of the ACC.

7. LONG-TERM DEBT

In January 1990, Pinnacle West restructured the majority of its long-term debt. Pinnacle West granted the affected lenders a security interest in the outstanding common stock of APS and agreed not to incur new debt except to reduce, refinance or prepay existing debt. Pinnacle West's ability to pay dividends is dependent upon the satisfaction of specified interest coverage ratios. Any investments by Pinnacle West in its subsidiaries, excluding APS, are generally restricted to $15 million in the aggregate until the lenders are fully repaid. Any new investments by Pinnacle West are generally restricted to $20 million in the aggregate until the lenders are fully repaid and may not be made until Pinnacle West is able to meet the dividend test. Pinnacle West must maintain certain interest coverage ratios and meet certain funded debt tests. Additionally, Pinnacle West would be required to use the net cash proceeds from the sale of all or substantially all of SunCor or El Dorado or from the sale of substantially all of those subsidiaries' assets to repay debt. The following table presents long-term debt outstanding as of December 31, 1991 and 1990.

(Thousands of Dollars)	Maturity Dates	Interest Rates	YEAR ENDED DECEMBER 31, 1991	1990
APS				
First mortgage bonds	1991-2021	4.4%-13.25%	$ 1,844,917	$ 1,748,891
Pollution control indebtedness	2009-2015	Adjustable (a)	424,330	424,330
Bank term loans	1992	LIBOR plus .25% (b)	36,000	72,000
Debentures	1992	12.50%	70,000	75,000
Revolving credit	1993	LIBOR plus .30% to .45%(c)	75,000	120,000
Capitalized lease obligation	1991-2001	7.48%	34,666	37,098
			2,484,913	2,477,319
PINNACLE WEST				
Bank term loans	1993-1997	(d)	185,327	216,326
Debentures	1994-2002	10.0%-11.61% (e)	529,839	534,107
Notes payable	1997-2002	(f)	96,381	163,782
			811,547	914,215
Total long-term debt			3,296,460	3,391,534
Less current maturities			299,550	173,366
Total long-term debt less current maturities			$ 2,996,910	$ 3,218,168

(a) The interest rates at year end varied from 4.90% to 7.25% for 1991 and from 6.00% to 8.25% for 1990.

(b) The weighted average interest rates on outstanding borrowings at year end for 1991 and 1990 were 6.52% and 8.34%, respectively.

(c) The weighted average interest rates on outstanding borrowings at year end for 1991 and 1990 were 6.82% and 8.63%, respectively.

(d) Includes $15 million at December 31, 1991 used to refinance a portion of the promissory note delivered to MeraBank as part of the settlement agreement. The original balance of this loan was $70 million. The weighted average interest rate was 8.47% during 1991.

The 1990 balance includes $46 million outstanding under a bank credit agreement with a weighted average interest rate of 7.95% during 1991.

The remainder in both years is composed of term loans with fixed rates of 8.83% to 10.56%.

(e) Includes $310,411,000 of senior secured debentures at December 31, 1991 and 1990 which are due in 2000 and bear interest at 11.61% per annum. These debentures are redeemable at the option of Pinnacle West, on or after March 22, 1993, pursuant to a U.S. Treasury make whole formula.

Also includes $75 million in 1991 and 1990 of subordinated debentures convertible into Pinnacle West's common stock prior to October 22, 2002, at a conversion price of $34.25. The debentures are subject to redemption at Pinnacle West's option at a price equal to 102%, declining by one percent per annum to par after October 27, 1993.

The balance of $144,428,000 in 1991 and $148,696,000 in 1990 represents 10.42% senior debentures of which $69,428,000 is due in 1994 with the remainder due in 1995. Under the terms of the 1990 debt restructuring, management estimates that the weighted average interest rate on this debt will increase to 10.75% in December 1992.

(f) The 1991 balance represents a 10.5% note due in 1997 issued to complete the refinancing of the promissory note delivered to MeraBank in 1990 as part of the settlement agreement.

The 1990 balance represents the 12% promissory note delivered to MeraBank.

Aggregate annual payments due on total long-term debt and for sinking fund requirements through 1996 are as follows: 1992, $299,550,000; 1993, $97,217,000; 1994, $77,285,000; 1995, $83,088,000 and 1996, $329,937,000. See Note 8 for redemptions and sinking fund requirements of redeemable preferred stock of APS.

Substantially all utility plant, other than nuclear fuel and transportation equipment, is subject to the lien of the first mortgage bonds. The first mortgage bond indenture includes provisions which would restrict the payment of dividends on APS common stock under certain conditions which did not exist at December 31, 1991.

Pinnacle West and its subsidiaries incurred interest of $334,655,000, $364,580,000 and $309,159,000 in 1991, 1990 and 1989 of which $1,194,000, $6,999,000 and $34,088,000 was capitalized in each year, respectively.

In January 1992, APS issued $150,000,000 of 7.125% first mortgage bonds due January 15, 1997 and $175,000,000 of 8.75% first mortgage bonds due January 15, 2024.

8. PREFERRED STOCK OF APS

Non-redeemable preferred stock is not redeemable except at the option of APS. Redeemable preferred stock is redeemable through sinking fund obligations in addition to being callable by APS. The balances at December 31, 1991 and 1990, of preferred stock of APS are shown below:

	Number of Shares			Par Value			
		Outstanding at December 31,			Outstanding at December 31, (Thousands of Dollars)		
	Authorized	1991	1990	Per Share	1991	1990	Call Price Per Share (a)
NON-REDEEMABLE							
$1.10 preferred	160,000	155,945	155,945	$ 25.00	$ 3,898	$ 3,898	$ 27.50
$2.50 preferred	105,000	103,254	103,254	50.00	5,163	5,163	51.00
$2.36 preferred	120,000	40,000	40,000	50.00	2,000	2,000	51.00
$4.35 preferred	150,000	75,000	75,000	100.00	7,500	7,500	102.00
Serial preferred	1,000,000						
$2.40 Series A		240,000	240,000	50.00	12,000	12,000	50.50
$2.625 Series C		240,000	240,000	50.00	12,000	12,000	51.00
$2.275 Series D		200,000	200,000	50.00	10,000	10,000	50.50
$3.25 Series E		320,000	320,000	50.00	16,000	16,000	51.00
Serial preferred	4,000,000(b)						
$8.32 Series J		500,000	500,000	100.00	50,000	50,000	(c)
Adjustable rate Series Q		500,000	500,000	100.00	50,000	50,000	(d)
Serial preferred	10,000,000	–	–	25.00	–	–	
Total		2,374,199	2,374,199		$ 168,561	$ 168,561	
REDEEMABLE							
Serial preferred							
$10.00 Series H		8,677	24,677	$ 100.00	$ 868	$ 2,468	(e)
$8.80 Series K		191,825	232,100	100.00	19,182	23,210	(f)
$12.90 Series N		213,280	238,255	100.00	21,328	23,825	(g)
$11.50 Series R		359,000	429,500	100.00	35,900	42,950	(h)
$8.48 Series S		500,000	500,000	100.00	50,000	50,000	(i)
$8.50 Series T		500,000	500,000	100.00	50,000	50,000	
$10.00 Series U		500,000	--	100.00	50,000	--	
Total		2,272,782	1,924,532		$ 227,278	$ 192,453	

(a) Plus accrued dividends as of December 31, 1991.

(b) Covers both outstanding redeemable preferred shares and non-redeemable shares.

(c) At $103.00 through August 31, 1992 and at $101.00 thereafter.

(d) Bears dividends at a rate, adjusted on a quarterly basis, 2% below the rate borne by certain United States Treasury securities, but in no event less than 6% or greater than 12% per annum. Redeemable at $103.00 through February 28, 1993, and at $100.00 thereafter.

(e) Redeemable at $103.96 through September 1, 1992, declining by $0.36 per year to par after September 1, 2002.

(f) Redeemable at $103.00 through February 28, 1994 and at $101.00 thereafter.

(g) Redeemable after June 1, 1992 at $106.11, declining by $0.68 per year to par after June 1, 2001.

(h) Redeemable after June 1, 1994 at $105.45, declining each year by a predetermined amount to par after June 1, 2003.

(i) Not redeemable prior to June 1, 1992, with the proceeds of borrowed funds or stock issues having a lower cost of money than this Series' dividend rate. Otherwise, redeemable at $108.48 per share through June 1, 1992, at $104.24 through June 1, 1993, at $102.12 through June 1, 1994 and at par thereafter.

If there were to be any arrearage in dividends on any of its preferred stock or in the sinking fund requirements applicable to any of its redeemable preferred stock, APS could not pay dividends on its common stock or acquire any shares thereof for consideration. The combined aggregate amounts of redemption requirements for the above issues each year through 1996 are as follows: $7,363,000 in 1992; $18,273,000 in 1993; $68,273,000 in 1994; $18,273,000 in 1995 and $18,273,000 in 1996.

Redeemable preferred stock transactions of APS during each of the three years in the period ended December 31, 1991, are as follows (dollars in thousands):

	Number of Shares	Par Value Amount
Balance, December 31, 1988	2,129,477	$ 212,948
Retirements		
$10.00 Series H	(16,000)	(1,600)
$8.80 Series K	(21,464)	(2,147)
$12.90 Series N	(51,800)	(5,180)
Balance, December 31, 1989	2,040,213	204,021
Retirements		
$10.00 Series H	(16,000)	(1,600)
$8.80 Series K	(1,036)	(104)
$12.90 Series N	(28,145)	(2,814)
$11.50 Series R	(70,500)	(7,050)
Balance, December 31, 1990	1,924,532	192,453
Issuance		
$10.00 Series U	500,000	50,000
Retirements		
$10.00 Series H	(16,000)	(1,600)
$8.80 Series K	(40,275)	(4,027)
$12.90 Series N	(24,975)	(2,498)
$11.50 Series R	(70,500)	(7,050)
Balance, December 31, 1991	2,272,782	$ 227,278

9. COMMON STOCK

Pinnacle West's common stock issued during each of the three years in the period ended December 31, 1991, is as follows (dollars in thousands):

	Common Stock	
	Number of Shares	Amount*
Balance, December 31, 1988	86,723,774	$1,645,936
Common Stock Issued	--	354
Balance, December 31, 1989	86,723,774	1,646,290
Common Stock Issued	149,400	280
Balance, December 31, 1990	86,873,174	1,646,570
Common Stock Issued	136,800	319
Balance, December 31, 1991	87,009,974	$ 1,646,889

* Including premiums and expenses of preferred stock issues of APS.

The Pinnacle West Stock Purchase and Dividend Reinvestment Plan provides that any participant may purchase shares of Pinnacle West common stock directly from Pinnacle West.

Both Pinnacle West and APS have employee savings plans under which contributions by participating employees and contributions by employers could involve the issuance of new shares of Pinnacle West common stock. Contributions made by Pinnacle West and APS to their respective employee retirement plans may also involve one or more such issuances of common stock.

Under the Pinnacle West Capital Corporation Stock Option and Incentive Plan, non-qualified (NQSO) and incentive (ISO) stock options and restricted stock awards may be granted to officers and key employees of Pinnacle West and subsidiaries up to an aggregate of 3 million shares of Pinnacle West common stock. The plan also provides for the granting of stock appreciation rights, performance shares, dividend equivalents or any combination thereof. Another plan provides for the granting of NQSOs to Pinnacle West's directors up to an aggregate of 500,000 shares of stock. As of December 31, 1991, approximately 279,000 restricted shares, 1,739,000 NQSOs, 10,000 ISOs and 29,000 dividend equivalents were outstanding under the plans.

10. PENSION PLAN AND OTHER BENEFITS

Pinnacle West and its subsidiaries have defined benefit pension plans covering substantially all employees. Benefits are based on years of service and compensation utilizing a final average pay formula. The plans are funded on a current basis to the extent deductible under existing tax regulations. Pension cost, including administrative cost, for 1991, 1990 and 1989 was approximately $10,913,000, $14,932,000 and $3,825,000, respectively, of which approximately $5,262,000, $7,893,000 and $1,823,000, respectively, was charged to expense; the remainder was either capitalized as a component of construction cost or billed to participants of jointly-owned facilities. Plan assets consist primarily of domestic and international common stocks and bonds and real estate.

In 1990, APS implemented a voluntary work force reduction plan. As part of this plan, APS offered a special early retirement program to employees who met certain eligibility requirements. APS also offered an enhanced severance plan to selected employees. The total additional pension cost recorded for these programs was $8,232,000, of which $5,152,000 was charged to pension expense. The remainder was billed to participants of jointly-owned facilities.

Net periodic pension cost is determined using the projected unit credit actuarial cost method. Excluding the costs of the early retirement program and the enhanced severance plan, the components of pension cost are as follows:

(Thousands of Dollars)	1991	1990	1989
Service cost - benefits earned during the period	$ 14,831	$ 16,345	$ 13,106
Interest cost on projected benefit obligation	31,216	30,054	25,074
Return on plan assets	(65,262)	9,512	(61,617)
Net amortization and deferral	28,924	(50,973)	24,443
Net consolidated periodic pension cost	$ 9,709	$ 4,938	$ 1,006

The discount rate used in determining the actuarial present value of the projected benefit obligation was 8.25% in 1991 and 8.5% in 1990. The rate of increase in future compensation levels used was 5.5% in 1991 and 6.0%-6.5% in 1990. The expected long-term rate of return on assets used was 10.00% in 1991 and 10.44% in 1990.

The following table sets forth the plans' funded status and amounts recognized in the accompanying consolidated balance sheets:

(Thousands of Dollars)	1991	1990
Plan assets at fair value	$ 391,218	$ 351,572
Actuarial present value of benefit obligation, including vested benefits of $279,734 and $230,192 in 1991 and 1990, respectively	299,021	256,420
Effect of projected future compensation increases	104,584	110,347
Projected benefit obligation	403,605	366,767
Plan assets less than projected benefit obligation	(12,387)	(15,195)
Unrecognized net loss from past experience different from that assumed	10,901	25,617
Unrecognized prior service cost	16,726	17,754
Unrecognized net asset at January 1, 1986 being recognized over 20.2 years	(45,825)	(49,052)
Accrued pension liability	$ (30,585)	$ (20,876)

In addition to providing pension benefits, Pinnacle West and its subsidiaries provide certain health care and life insurance benefits for active and retired employees. All benefits are provided through a combination of insurance policies and self-insured plans. The cost of providing those benefits for both active and retired employees amounted to $28,625,000, $29,425,000 and $25,393,000 of which $13,197,000, $13,692,000 and $11,233,000 was charged to expense in 1991, 1990 and 1989, respectively. Remaining amounts were either capitalized as a component of construction costs or billed to participants of jointly-owned facilities. At December 31, 1991, Pinnacle West and its subsidiaries were providing these benefits to 7,062 active employees and 1,620 retirees.

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions.* This statement will require accrual of postretirement benefits, such as health care benefits, during the years an employee provides services. This is a significant change from the current policy of recognizing the costs of these benefits as they are paid. Pinnacle West and APS plan to adopt the standard in 1993. Based on a preliminary actuarial review of the current benefit plans, the accumulated benefit obligation at December 31, 1992 is expected to be approximately $200 million. Based on current estimates, the adoption of the standard will result in an increase in annual postretirement benefit expense of approximately $12 million before income taxes. APS intends to seek regulatory approval for the recovery of its portion of these costs.

11. SUPPLEMENTAL INCOME STATEMENT INFORMATION

Other taxes charged to operations during each of the three years in the period ended December 31, 1991, are as follows:

(Thousands of Dollars)	1991	1990	1989
Ad valorem	$ 121,936	$ 113,452	$ 93,597
Sales	80,815	74,015	70,866
Other	12,790	11,365	11,022
Total other taxes	$ 215,541	$ 198,832	$ 175,485

22. JOINTLY OWNED FACILITIES

At December 31, 1991, APS owns interests in the following jointly-owned electric generating and transmission facilities. APS' share of related operating and maintenance expenses is included in utility operations and maintenance.

	Percent owned by APS	Plant in Service	Accumulated Depreciation	Construction Work in Progress
GENERATING FACILITIES				
Palo Verde Nuclear Generating Station - Units 1 & 3	29.1%	$ 1,786,003	$ 255,477	$ 32,642
Palo Verde Nuclear Generating Station - Unit 2 (See Note 5)	17.0%	524,222	90,910	16,150
Four Corners Steam Generating Plant - Units 4 and 5	15.0%	139,867	38,804	187
Navajo Steam Generating Plant - Units 1, 2 and 3	14.0%	130,680	62,028	8,139
TRANSMISSION FACILITIES				
ANPP 500 KV System	35.8%(a)	62,437	10,729	585
Navajo Southern System	31.4%(a)	28,093	14,296	--
Palo Verde-Yuma 500 KV System	23.9%(a)	11,282	2,361	--

(a) Weighted average of interests.

23. COMMITMENTS AND CONTINGENCIES

LITIGATION

Pinnacle West and its subsidiaries are parties to various claims, legal actions and complaints rising out of the normal course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the financial position of Pinnacle West.

Various lawsuits have been filed against Pinnacle West and against present and former directors of Pinnacle West and MeraBank, many of whom look to Pinnacle West and its insurance carriers for indemnification of defense costs and damages. The lawsuits are seeking damages resulting from alleged deficiencies in Pinnacle West's public communication and financial reporting between April 1987 and October 1988, from Pinnacle West's acquisition and divestiture of MeraBank and from the responses by Pinnacle West and its directors to the various buyout offers of PacifiCorp. Class action certification has been granted in one of these cases. Pinnacle West strongly denies any wrongdoing and intends to vigorously defend its position. In the opinion of management, the ultimate resolution of these actions will not have a material adverse effect on Pinnacle West's financial position.

CONSTRUCTION PROGRAM

APS has made commitments for 1992 construction expenditures which have been estimated at $228 million.

FUEL AND PURCHASED POWER COMMITMENTS

APS is a party to various fuel and purchased power contracts with terms expiring from 1992 through 2020 that include required purchase provisions. APS estimates that the amount of fuel and purchased power that it is required to purchase pursuant to such provisions during 1992 totals approximately $131 million. However, this amount may vary significantly pursuant to certain provisions in such contracts which permit APS to decrease its required purchases under certain events and circumstances.

NUCLEAR INSURANCE

The Palo Verde participants have insurance for public liability resulting from nuclear energy hazards to the full limit of liability under federal law. This potential liability is covered by primary liability insurance provided by commercial insurance carriers in the amount of $200 million and the balance by an industry-wide retrospective assessment program. The maximum assessment per reactor under the retrospective rating program for each nuclear incident is approximately $66 million, subject to an annual limit of $10 million per incident. Based upon APS' 29.1% interest in the three Palo Verde units, APS' maximum potential assessment per incident is approximately $58 million, with an annual payment limitation of $8.73 million.

The Palo Verde participants maintain "all risk" (including nuclear hazards) insurance for nuclear damage to, and decontamination of, property at Palo Verde in the aggregate amount of $2.515 billion, a substantial portion of which must first be applied to stabilization and decontamination. APS has also secured insurance against portions of any increased cost of generation or purchased power resulting from the accidental outage of any of the three units if the outage exceeds 21 weeks.

24. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Consolidated quarterly financial information for 1991 and 1990 is as follows:

(Thousands of Dollars, Except Per Share Amounts)

	1991			
QUARTER ENDED	March 31	June 30	September 30	December 31
Operating Revenues				
Electric	$ 330,646	$ 358,245	$ 471,384	$ 355,014
Provision for rate refund	–	–	–	(53,436)
Real estate	1,676	4,227	3,352	3,442
Operating income (loss) (a)	$ 88,318	$ 104,680	$ 206,960	$ (567,207)
Income (loss) from continuing operations	$ 5,504	$ 13,795	$ 77,452	$ (437,068)(b)
Income from discontinued operations	–	–	–	153,455 (c)
Net income (loss)	$ 5,504	$ 13,795	$ 77,452	$ (283,613)
Earnings (loss) per average share of common stock				
Continuing operations	$ 0.06	$ 0.16	$ 0.89	$ (5.02)
Discontinued operations	–	–	–	1.76
Total	$ 0.06	$ 0.16	$ 0.89	$ (3.26)
Cash dividends declared per share	$ –	$ –	$ –	$ –

	1990			
QUARTER ENDED	March 31	June 30	September 30	December 31
Operating Revenues				
Electric	$ 342,590	$ 353,802	$ 472,271	$ 339,662
Real estate	5,889	64,575(d)	2,320	8,480
Operating income (a)	$ 99,900	$ 84,284	$ 178,647	$ 92,698
Income (loss) from continuing operations	$ 13,076	$ 2,128	$ 55,472	$ (468)
Income from discontinued operations	–	–	1,476	25,649
Net income	$ 13,076	$ 2,128	$ 56,948	$ 25,181
Earnings per average share of common stock				
Continuing operations	$ 0.15	$ 0.02	$ 0.64	$ –
Discontinued operations	–	–	0.02	0.29
Total	$ 0.15	$ 0.02	$ 0.66	$ 0.29
Cash dividends declared per share	$ –	$ –	$ –	$ –

(a) APS' operations are subject to seasonal fluctuations primarily as a result of weather conditions. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year.

(b) Includes approximately $407 million of write-offs and adjustments, net of income tax, related to Palo Verde. See Note 3.

(c) Represents a federal income tax benefit resulting from an Internal Revenue Service ruling received January 29, 1992 related to the disposal of MeraBank. See Note 2.

(d) On April 4, 1990, SunCor sold the Wigwam Resort and Country Club and certain other properties for $70 million in cash.

PINNACLE WEST CAPITAL CORPORATION BOARD OF DIRECTORS

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Douglas J. Wall
Of Counsel to the Law Firm of Mangum, Wall, Stoops & Warden

Donald N. Soldwedel
Chairman of the Board, Western Newspapers, Inc.

Bill Jamieson, Jr.
Deacon, Episcopal Diocese of Arizona & Butler Professor, School of Theology at Claremont

Maurice R. Tanner
Chairman of the Board, The Tanner Companies (Construction & Materials)

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Chairman & President

Henry B. Sargent
Executive Vice President & Chief Financial Officer

Martha O. Hesse
President, Hesse Gas Company & Dolan Energy Corporation (Marketing of Natural Gas and Other Fuels; Energy Investment)

O. Mark De Michele
President & Chief Executive Officer, APS

John R. Norton III
Chairman & Chief Executive Officer, J.R. Norton Company (Agricultural Production)

OFFICERS

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Chairman & President

Henry B. Sargent
Executive Vice President & Chief Financial Officer

Michael S. Ash
Corporate Counsel

Arlyn J. Larson
Vice President of Corporate Planning & Development

Nancy E. Newquist
Treasurer

Kevin S. Steele
Vice President & Controller

Faye Widenmann
Vice President of Corporate Relations & Administration & Secretary

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Chairman of the Board

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President & Chief Executive Officer

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Executive Vice President, Nuclear

Walter F. Ekstrom
Executive Vice President, Engineering, Operations & Construction

Jaron B. Norberg
Executive Vice President & Chief Financial Officer

Shirley A. Richard
Executive Vice President, Customer Service, Marketing & Corporate Relations

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Vice President, Customer Service

Armando B. Flores
Vice President, Human Resources

James M. Levine
Vice President, Nuclear Production

Richard W. MacLean
Vice President, Environmental, Health & Safety

William J. Post
Vice President, Finance & Rates

E.C. Simpson
Vice President, Nuclear Engineering & Construction

William J. Hemelt
Treasurer & Assistant Secretary

Nancy C. Loftin
Secretary & Corporate Counsel

SUNCOR

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Chairman of the Board

John C. Ogden
President & Chief Executive Officer

Henry B. Sargent
Executive Vice President

Geoffrey L. Appleyard
Vice President Finance

Duane Black
Vice President Construction - Development

Anthony Camberlango
Vice President Marketing - Acquisition

Steven Gervais
Vice President & General Counsel

Peggy E. Kirch
Vice President Commercial Development

EL DORADO

Richard Snell
Chairman of the Board

Henry B. Sargent
President & Chief Executive Officer

Gregory S. Anderson
Vice President & General Manager

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SHAREHOLDER INFORMATION

STOCKLISTING

Ticker symbol: PNW on New York Stock Exchange and Pacific Stock Exchange
Newspaper financial listings: PinWst

ANNUAL MEETING OF SHAREHOLDERS

Wednesday, May 20, 1992
10:00 a.m.
Regency Ballroom
Hyatt Regency Phoenix
122 North Second Street
Phoenix, Arizona

TRANSFER AGENTS

COMMON AND APS PREFERRED STOCK
Pinnacle West Capital Corporation
Stock Transfer Department
P.O. Box 52134
Phoenix, Arizona 85072-2134
Telephone: (602) 379-2519

PINNACLE WEST COMMON STOCK ONLY
The First National Bank of Boston
Shareholder Services
Mail Stop 04-02-09
P.O. Box 644
Boston, Massachusetts 02102
(617) 575-2900

REGISTRARS

PINNACLE WEST COMMON STOCK ONLY
The Valley National Bank of Arizona
P.O. Box 71 (A804)
Phoenix, Arizona 85001
Telephone (602) 221-2614

The First National Bank of Boston
Shareholder Services
Mail Stop 04-02-09
P.O. Box 644
Boston, Massachusetts 02102
Telephone (617) 575-2900

APS PREFERRED STOCK
Pinnacle West Capital Corporation
Stock Transfer Department
P.O. Box 52134
Phoenix, Arizona 85072-2134
Telephone (602) 379-2519

CORRESPONDENCE REGARDING CORPORATE ISSUES

Please write to the Corporate Relations Department.

SHAREHOLDER ACCOUNT AND ADMINISTRATIVE INFORMATION

Shareholders may call or write to the Shareholder Services Department regarding:

- Stock transfer and name-change requirements
- Notices of lost or destroyed stock certificates
- Address changes
- Taxpayer identification number (Social Security number) submission or changes
- Duplicate 1099 forms and W-9 tax certification forms
- Other shareholder account information

Shareholder Services telephone number (toll-free): 1-800-457-2983

INVESTOR RELATIONS CONTACT

Rebecca L. Hickman
Manager, Investor Relations
Telephone: (602) 379-2568
Fax: (602) 379-2571

FORM 10-K

Pinnacle West's Annual Report to the Securities and Exchange Commission on Form 10-K will be available after April 1, 1992 to shareholders upon written request, without charge. Write: Office of the Secretary.

STATISTICAL REPORT

A detailed Statistical Report for Financial Analysis for 1986-1991 will be available in April upon request. Write: Investor Relations Department.

CORPORATE HEADQUARTERS

Street address:
400 East Van Buren Street
Phoenix, Arizona 85004

Mailing address:
P.O. Box 52132
Phoenix, Arizona 85072-2132

Main telephone number: (602) 379-2500

SHAREHOLDERS ASSOCIATION

Pinnacle West stockholders may join the Pinnacle West Shareholders Association. If interested, send your name and address to:
Shareholders Association
P.O. Box 34805
Phoenix, Arizona 85067

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