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Part 2 of 2

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Company: PINNACLE WEST CAPITAL CORP
Form Type: U-3A-2 SEC File #: 069-00306
Description: FORM U-3A-2 OF PINNACLE WEST CAPITAL CORPORATION
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Adopted November 9, 1939 File No. 69-306

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.

FORM U-3A-2

STATEMENT BY HOLDING COMPANY
CLAIMING EXEMPTION UNDER RULE U-3A-2
FROM THE PROVISIONS OF THE
PUBLIC UTILITY HOLDING COMPANY ACT OF 1935

To Be Filed Annually Prior to March 1

Pinnacle West Capital Corporation

(Name of Company)

hereby files with the Securities and Exchange Commission, pursuant to Rule 2, its statement claiming exemption as a holding company from the provisions of the Public Utility Holding Company Act of 1935, and submits the following information:

1. NAME, STATE OF ORGANIZATION, LOCATION AND NATURE OF BUSINESS OF CLAIMANT AND EVERY SUBSIDIARY THEREOF, OTHER THAN ANY EXEMPT WHOLESALE GENERATOR (EWG) OR FOREIGN UTILITY COMPANY IN WHICH CLAIMANT DIRECTLY OR INDIRECTLY HOLDS AN INTEREST.

Pinnacle West Capital Corporation ("Claimant"), having been incorporated on February 20, 1985 under the laws of the State of Arizona, and having its principal executive offices at 400 East Van Buren, Suite 700, Phoenix, Arizona 85004, was organized principally to acquire and hold securities of other corporations for investment purposes. The following are the subsidiaries of the Claimant:

a. Arizona Public Service Company ("APS" or the "Company"), is engaged principally in serving electricity in the State of Arizona. Incorporated in 1920 under the laws of the State of Arizona and having its principal executive offices at 400 North Fifth Street, Phoenix, Arizona 85004, APS became a subsidiary of the Claimant pursuant to a corporate restructuring plan approved by the Company's shareholders on April 18, 1985.

(1) AXIOM Power Solutions, Inc. ("AXIOM") -- an Arizona corporation having been incorporated on October 29, 1996 and having its principal executive offices at 400 E. Van Buren, Phoenix, Arizona 85004, was organized primarily to sell security and energy management products and services. AXIOM is a wholly-owned subsidiary of APS.

(2) Bixco, Inc. ("Bixco") -- an Arizona corporation having been incorporated on June 4, 1971 and having its principal executive offices at 400 North Fifth Street, Phoenix, Arizona 85004, was organized primarily to conduct exploration activities for energy resources and other valuable minerals. Subsequent to the sale of its oil and natural gas properties in 1981, Bixco has been inactive. Bixco is a wholly-owned subsidiary of APS.

b. APS Energy Services Company, Inc. ("APSES") -- an Arizona corporation having been incorporated on November 6, 1998 and having its principal executive offices at 400 E. Van Buren, Phoenix, Arizona 85004, was organized primarily to sell energy, products and services. APSES is a wholly-owned subsidiary of the Claimant.

c. SunCor Development Company ("SunCor") - an Arizona corporation having been incorporated on June 30, 1965 and having its principal executive offices at 3838 North Central Avenue, Suite 1500,

Phoenix, Arizona 85012, is a wholly-owned subsidiary of Claimant engaged primarily in the owning, holding and development of real property.

(1) SunCor Golf, Inc. ("SunCor Golf") (previously named "SunCor Resort & Golf Management, Inc." and "SunCor Farms, Inc.") -- an Arizona corporation having been incorporated on December 31, 1986 and having its principal executive offices at 3838 North Central Avenue, Suite 1500, Phoenix, Arizona 85012, operates and manages golf, food and beverage for the Coral Canyon Golf Course, Sedona Golf Resort, SunRidge Canyon Golf Club, Sanctuary Golf Club at West World and Palm Valley Golf Club. SunCor Golf is a wholly-owned subsidiary of SunCor.

(2) Litchfield Park Service Company ("LPSCO") -- an Arizona corporation having been incorporated on September 21, 1954 and having its principal executive offices at 111 West Wigwam Boulevard, Suite B, Litchfield Park, Arizona 85340, is a regulated public utility engaged in providing water and sewer services to commercial and residential customers. LPSCO became a wholly-owned subsidiary of SunCor on December 31,1986.

(3) Golden Heritage Homes, Inc. ("Golden Heritage Homes") -- (previously named "SunCor Homes, Inc.", "LGR, Inc." and "WGP Realty, Inc.") an Arizona corporation having been incorporated on May 14, 1986 and having its principal executive offices at 7025 East Greenway Parkway, Suite 100, Scottsdale, Arizona 85254, builds and sells single family residential real property. Golden Heritage Homes is a wholly-owned subsidiary of SunCor.

(4) Golden Heritage Construction, Inc. ("GH Construction") -- an Arizona corporation having been incorporated on December 30, 1993 and having its principal executive offices at 3838 North Central Avenue, Suite 1500, Phoenix, Arizona 85012, was organized to serve as a general residential contractor. GH Construction became a wholly-owned subsidiary of Golden Heritage Homes, Inc. on January 1, 1996.

(5) SCM, Inc. ("SCM") -- an Arizona corporation having been incorporated on May 14, 1991 and having its principal executive offices at 3838 North Central Avenue, Suite 1500, Phoenix, Arizona 85012, was organized to participate in real

estate joint ventures and other real estate related activities. SCM is a wholly-owned subsidiary of SunCor.

(6) Golf de Mexico, S.A. DE C.V. ("Golf de Mexico") -- a Mexican variable capital corporation having been incorporated on February 8, 1992 in Tijuana, Baja California, Mexico, and having its principal executive offices at 3838 North Central Avenue, Suite 1500, Phoenix, Arizona 85012, was organized to operate and manage the Real del Mar Golf Course in Mexico. Golf de Mexico has been inactive since 1997.

(7) SunCor Realty & Management Company ("SunCor Realty") -- (previously named Russell Ranch Development Company) an Arizona corporation having been incorporated on April 1, 1994 and having its principal executive offices at 3838 North Central Avenue, Suite 1500, Phoenix, Arizona 85012 was organized to participate in real estate management and other real estate related activities. SunCor Realty is a wholly-owned subsidiary of SunCor.

(8) Palm Valley Golf Club, Inc. ("Palm Valley Golf") -- an Arizona corporation having been incorporated on January 23, 1996 and having its principal executive offices at 3838 North Central Avenue, Suite 1500, Phoenix, Arizona 85012, was organized to hold title to the Palm Valley Golf Course. Palm Valley Golf is a wholly-owned subsidiary of SunCor.

(9) Rancho Viejo de Santa Fe, Inc. ("Rancho Viejo") -- a New Mexico corporation having been incorporated on March 18, 1996 and having its principal executive offices at 1590-B Pacheco Street, Santa Fe, New Mexico 87505, was organized to engage in real estate development in New Mexico. Rancho Viego is a wholly-owned subsidiary of SunCor.

(10) Ranchland Utility Company ("Ranchland") -- a New Mexico corporation having been incorporated on September 5, 1997 and having its principal executive offices at 1590-B Pacheco Street, Santa Fe, New Mexico 87505 is a waste water utility. Ranchland is a wholly-owned subsidiary of Rancho Viejo.

d. El Dorado Investment Company -- an Arizona corporation having been incorporated on July 27, 1983 and having its principal executive offices at 400 East Van Buren, Suite 800, Phoenix, Arizona 85004, is a

wholly-owned subsidiary of Claimant engaged primarily in the acquisition and holding of stocks and securities of other companies for investment purposes.

e. Pinnacle West Energy Corporation ("PWEC") - an Arizona corporation having been incorporated on September 27, 1999, and having its principal executive offices at 400 North Fifth Street, Phoenix, Arizona 85004, was organized primarily for the development, production and sale of wholesale energy. PWEC is a wholly-owned subsidiary of the Claimant.

2. A BRIEF DESCRIPTION OF THE PROPERTIES OF CLAIMANT AND EACH OF ITS SUBSIDIARY PUBLIC UTILITY COMPANIES USED FOR THE GENERATION, TRANSMISSION AND DISTRIBUTION OF ELECTRIC ENERGY FOR SALE, OR FOR THE PRODUCTION, TRANSMISSION AND DISTRIBUTION OF NATURAL OR MANUFACTURED GAS, INDICATING THE LOCATION OF PRINCIPAL GENERATING PLANTS, TRANSMISSION LINES, PRODUCING FIELDS, GAS MANUFACTURING PLANTS AND ELECTRIC AND GAS DISTRIBUTION FACILITIES, INCLUDING ALL SUCH PROPERTIES WHICH ARE OUTSIDE THE STATE IN WHICH CLAIMANT AND ITS SUBSIDIARIES ARE ORGANIZED AND ALL TRANSMISSION OR PIPELINES WHICH DELIVER OR RECEIVE ELECTRIC ENERGY OR GAS AT THE BORDERS OF SUCH STATE.

Neither the Claimant nor any of its subsidiaries own property used for the production, transmission and distribution of natural or manufactured gas. APS, a "public utility company" as that term is defined in the Public Utility Holding Company Act of 1935, is the only one of Claimant's subsidiaries that owns property used for the generation, transmission and distribution of electric energy for sale.

Exhibit D attached hereto shows the location of APS' major generating plants (including those owned jointly with others), principal transmission lines (including those operated for others) and interconnections of transmission lines with out-of-state utilities at state lines. All of such facilities, except the Four Corners Generating Station ("Four Corners"), and all of APS' distribution facilities, are located within the State of Arizona. Four Corners is a mine-mouth power plant, located in the northwest corner of New Mexico, near the city of Farmington, approximately 40 miles east of the Arizona-New Mexico border.

APS' present generating facilities have an accredited capacity aggregating 3,987,300 kilowatts, comprised as follows:

Coal:	Capacity (kW)
Units 1, 2 and 3 at Four Corners, aggregating	560,000
15% owned Units 4 and 5 at Four Corners, representing	222,000
Units 1, 2, and 3 at the Cholla Plant, aggregating	615,000
14% owned Units 1, 2 and 3 at the Navajo Plant, representing	315,000
	1,712,000
Gas or Oil:	
Two steam units at Ocotillo and two steam units at Saguaro, aggregating	435,000(1)
Eleven combustion turbine units, aggregating	493,000
Three combined cycle units, aggregating	255,000
	1,183,000
Nuclear:	
29.1 % owned or leased Units 1, 2 and 3 at Palo Verde, representing	1,086,300
Hydro and Solar	6,000

(1) West Phoenix steam units (108,300 kw) are currently mothballed.

APS' transmission facilities consist of approximately 4,855 pole miles of overhead lines and approximately 20 miles of underground lines, all of which are located within the State of Arizona. APS' distribution facilities consist of approximately 11,681 pole miles of overhead lines and approximately 11,331 miles of underground lines, all of which are located within the State of Arizona.

3. THE FOLLOWING INFORMATION FOR THE LAST CALENDAR YEAR WITH RESPECT TO CLAIMANT AND EACH OF ITS SUBSIDIARY PUBLIC UTILITY COMPANIES:

(DATA IS NOT MAINTAINED IN A FORMAT IDENTIFYING THE STATE IN WHICH THE SALES AND PURCHASES ARE MADE OR THE AMOUNT OF THEIR ASSOCIATED REVENUES OR EXPENSES.)

a. NUMBER OF KWH OF ELECTRIC ENERGY SOLD (AT RETAIL OR WHOLESALE), AND MCF. OF NATURAL OR MANUFACTURED GAS DISTRIBUTED AT RETAIL.

44,531,881,000 kwh of electric energy sold at wholesale or retail

0 Mcf. of natural or manufactured gas distributed at wholesale or retail

b. NUMBER OF KWH OF ELECTRIC ENERGY AND MCF. OF NATURAL OR MANUFACTURED GAS DISTRIBUTED AT RETAIL OUTSIDE THE STATE IN WHICH EACH SUCH COMPANY IS ORGANIZED.

63,234,000 kwh of electric energy was distributed at retail outside Arizona

0 Mcf. of natural or manufactured gas distributed at retail outside Arizona

c. NUMBER OF KWH OF ELECTRIC ENERGY AND MCF. OF NATURAL OR MANUFACTURED GAS SOLD AT WHOLESALE OUTSIDE THE STATE IN WHICH EACH SUCH COMPANY IS ORGANIZED, OR AT THE STATE LINE.

1,663,868,000 kwh of electric energy was sold at wholesale outside Arizona or at state line (excluding power marketing activities).

2,444,508 Mcf. of natural or manufactured gas sold at wholesale outside Arizona or at state line (excluding power marketing activities).

d. NUMBER OF KWH OF ELECTRIC ENERGY AND MCF. OF NATURAL OR MANUFACTURED GAS PURCHASED OUTSIDE THE STATE IN WHICH EACH SUCH COMPANY IS ORGANIZED OR AT THE STATE LINE.

1,149,715,000 kwh of electric energy was purchased outside Arizona or at state line (excluding power marketing activities).

30,143,707 Mcf. of natural or manufactured gas purchased outside Arizona or at state line (excluding power marketing activities).

4. THE FOLLOWING INFORMATION FOR THE REPORTING PERIOD WITH RESPECT TO CLAIMANT AND EACH INTEREST IT HOLDS DIRECTLY OR INDIRECTLY IN AN EWG OR A FOREIGN UTILITY COMPANY, STATING MONETARY AMOUNTS IN UNITED STATES DOLLARS:

The Claimant holds no interest, direct or indirect, in an EWG or a foreign utility company.

a. NAME, LOCATION, BUSINESS ADDRESS AND DESCRIPTION OF THE FACILITIES USED BY THE EWG OR FOREIGN UTILITY COMPANY FOR THE GENERATION, TRANSMISSION AND DISTRIBUTION OF ELECTRIC ENERGY FOR SALE OR FOR THE DISTRIBUTION AT RETAIL OF NATURAL OR MANUFACTURED GAS.

Not applicable.

b. NAME OF EACH SYSTEM COMPANY THAT HOLDS AN INTEREST IN SUCH EWG OR FOREIGN UTILITY COMPANY; AND DESCRIPTION OF THE INTEREST HELD.

Not applicable.

c. TYPE AND AMOUNT OF CAPITAL INVESTED, DIRECTLY OR INDIRECTLY, BY THE HOLDING COMPANY CLAIMING EXEMPTION; ANY DIRECT OR INDIRECT GUARANTEE OF THE SECURITY OF THE EWG OR FOREIGN UTILITY COMPANY BY THE HOLDING COMPANY CLAIMING EXEMPTION; AND ANY DEBT OR OTHER FINANCIAL OBLIGATION FOR WHICH THERE IS RECOURSE, DIRECTLY OR INDIRECTLY, TO THE HOLDING COMPANY CLAIMING EXEMPTION OR ANOTHER SYSTEM COMPANY, OTHER THAN THE EWG OR FOREIGN UTILITY COMPANY.

Not applicable.

d. CAPITALIZATION AND EARNINGS OF THE EWG OR FOREIGN UTILITY COMPANY DURING THE REPORTING PERIOD.

Not applicable.

e. IDENTIFY ANY SERVICE, SALES OR CONSTRUCTION CONTRACT(S) BETWEEN THE EWG OR FOREIGN UTILITY COMPANY AND A SYSTEM COMPANY, AND DESCRIBE THE SERVICES TO BE RENDERED OR GOODS SOLD AND FEES OR REVENUES UNDER SUCH AGREEMENT(S).

Not applicable.

EXHIBIT A

A CONSOLIDATING STATEMENT OF INCOME AND SURPLUS OF THE CLAIMANT AND ITS SUBSIDIARY COMPANIES FOR THE LAST CALENDAR YEAR, TOGETHER WITH A CONSOLIDATING BALANCE SHEET OF CLAIMANT AND ITS SUBSIDIARY COMPANIES AS OF THE CLOSE OF SUCH CALENDAR YEAR.

Exhibit A hereto includes consolidating statements of income and consolidating balance sheets for the Claimant and the following of its subsidiaries: Arizona Public Service Company, SunCor Development Company, El Dorado Investment Company, APS Energy Services Company, Inc. and Pinnacle West Energy Corporation. Subsidiaries have been consolidated for financial reporting purposes in accordance with Statement of Financial Accounting Standards No. 94, Consolidation of All Majority-Owned Subsidiaries. Also included are consolidating statements of income and consolidating balance sheets for SunCor Development Company and its subsidiaries.

EXHIBIT B FINANCIAL DATA STATEMENT

IF, AT THE TIME A REPORT ON THIS FORM IS FILED, THE REGISTRANT IS REQUIRED TO SUBMIT THIS REPORT AND ANY AMENDMENTS THERETO ELECTRONICALLY VIA EDGAR, THE REGISTRANT SHALL FURNISH A FINANCIAL DATA SCHEDULE. THE SCHEDULE SHALL SET FORTH THE FINANCIAL AND OTHER DATA SPECIFIED BELOW THAT ARE APPLICABLE TO THE REGISTRANT ON A CONSOLIDATED BASIS.

1. TOTAL ASSETS.

2. TOTAL OPERATING REVENUES.

3. NET INCOME.

See Exhibit B hereto.

EXHIBIT C

AN ORGANIZATIONAL CHART SHOWING THE RELATIONSHIP OF EACH EWG OR FOREIGN UTILITY COMPANY TO ASSOCIATE COMPANIES IN THE HOLDING-COMPANY SYSTEM.

Not applicable.

EXHIBIT D

In accordance with Item 304 of Regulation S-T of the Securities Exchange Act of 1934, APS' Service Territory map contained as Exhibit D to this Form U-3A-2 is a map of the State of Arizona showing APS' service area, the location of its major power plants and principal transmission lines, and the location of transmission lines operated by APS for others. The major power plants shown on such map are the Navajo Generating Station located in Coconino County, Arizona; the Four Corners Power Plant located near Farmington, New Mexico; the Cholla Power Plant, located in Navajo County, Arizona; the Yucca Power Plant, located near Yuma, Arizona; and the Palo Verde Nuclear Generating Station, located about 55 miles west of Phoenix, Arizona (each of which plants is reflected on such map as being jointly owned with other utilities), as well as the Ocotillo Power Plant and West Phoenix Power Plant, each located near Phoenix, Arizona, and the Saguaro Power Plant, located near Tucson, Arizona. APS' major transmission lines shown on such map are reflected as running between the power plants named above and certain major cities in the State of Arizona. The transmission lines operated for others shown on such map are reflected as running from the Four Corners Plant through a portion of northern Arizona to the California border.

The above-named Claimant has caused this statement to be duly executed on its behalf by its authorized officer on this 28th day of February, 2001.

Pinnacle West Capital corporation

(Name of Claimant)

By Barbara M. Gomez

Barbara M. Gomez
Treasurer

[CORPORATE SEAL]

Attest:

Betsy A. Pregulman

Betsy A. Pregulman
Associate Secretary

Name, title and address of officer to whom notices and correspondence concerning this statement should be addressed:

Barbara M. Gomez	Treasurer
(Name)	(Title)

400 North Fifth Street, Station 9996, Phoenix, Arizona 85004

(Address)

PINNACLE WEST CAPITAL CORPORATION
EXHIBIT B
FINANCIAL DATA SCHEDULE
HOLDING COMPANY REPORT

12/31/00

The Claimant submits the following consolidated financial information:

1	Total Assets:	$ 7,149,151
2	Total Operating Revenues:	$ 3,690,175
3	Net Income:	$ 302,332

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATING BALANCE SHEET (unaudited)
December 31, 2000
(THOUSANDS OF DOLLARS)

	PWCC	APS	PWMT	SUNCOR	ELDO	PWE
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	$ 1,330	$ 2,609	$ 175	$ 5,149	$ 247	$ 73
Customer and other receivables - net	234,761	468,343	45,907	5,418	182	8,669
Accrued utility revenue		74,566				
Materials and supplies		71,966				
Fossil fuel		19,405				
Deferred income taxes		5,793				
Other current assets	6,692	55,920		34,439		2
Total current assets	242,783	698,602	46,082	45,006	429	8,744
INVESTMENTS AND OTHER ASSETS						
Real estate investments, net (cap interest) 1145.1				372,103		
Other assets	2,478,599	269,678		7,413	20,999	
Total investments and other	2,478,599	269,678		379,516	20,999	
PROPERTY, PLANT AND EQUIPMENT						
Plant in service		7,805,025				
Nuclear Fuel		47,389				
Construction work in progress		245,749	20			218,663
Total		8,098,163	20			218,663
Less accumulated depreciation and amortization		3,187,328				
Net Property, Plant and Equipment		4,910,835	20			218,663
DEFERRED DEBITS						
Deferred income taxes				26,920		
Regulatory asset for income taxes						
Regulatory assets		469,867				
Other deferred debits		50,733	192	10,464		1,140
Total deferred debits		520,600	192	37,384		1,140
TOTAL ASSETS	$2,721,382	$6,399,715	$ 46,294	$ 461,906	$ 21,428	$ 228,547

	ENERGY SERVICES	*ELIMINATIONS AND ADJUSTING ENTRIES* DEBIT	CREDIT	TOTAL
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$ 780			$ 10,363
Customer and other receivables - net	15,265		$ 264,723(b)	513,822
Accrued utility revenue				74,566
Materials and supplies				71,966
Fossil fuel				19,405
Deferred income taxes				5,793
Other current assets	945			97,998
Total current assets	16,990		264,723	793,913
INVESTMENTS AND OTHER ASSETS				
Real estate investments, net (cap interest) 1145.1		$ 4,849 (f)	5,629(e)	371,323
Other assets	2,199		2,460,639(a,f,h)	318,249
Total investments and other	2,199	4,849	2,466,268	689,572
PROPERTY, PLANT AND EQUIPMENT				
Plant in service	4,541			7,809,566
Nuclear Fuel				47,389
Construction work in progress	108			464,540
Total	4,649			8,321,495
Less accumulated depreciation and amortization	974			3,188,302
Net Property, Plant and Equipment	3,675			5,133,193
DEFERRED DEBITS				
Deferred income taxes			26,920(c)	
Regulatory asset for income taxes				
Regulatory assets				469,867
Other deferred debits		77(h)		62,606
Total deferred debits		77	26,920	532,473
TOTAL ASSETS	$ 22,864	$ 4,926	$2,757,911	$7,149,151

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATING BALANCE SHEET
December 31, 2000
(THOUSANDS OF DOLLARS)

	PWCC	APS	PWMT	SUNCOR	ELDO	PWE
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Accounts payable	$ 12,609	$ 267,999	$ 51,033	$ 15,211	$ 129	$ 13,372
Accrued taxes		106,515	(1,870)		3,228	
Accrued interest	2,647	39,488		819		
Short-term borrowings		82,100				
Current maturities of long-term debt	213,000	250,266		203		
Customer Deposits		24,498		1,691		
Other current liabilities	30,192	142,126		5,936	157	201,990
Total current liabilities	258,448	912,992	49,163	23,860	3,514	215,362
NON-CURRENT LIABILITIES						
Long-term debt less current maturities	25,000	1,806,908		123,175		
Total	25,000	1,806,908		123,175		
DEFERRED CREDITS AND OTHER						
Deferred income taxes	39,318	1,110,437			1,546	
Unamortized gain		68,636				
Other	15,902	380,974		6,686		
Total deferred credits	55,220	1,560,047		6,686	1,546	
COMMITMENTS AND CONTINGENCIES (NOTE)						
MINORITY INTERESTS:						
Non-Redeemable preferred stock of APS						
Redeemable preferred stock of APS						
Joint Ventures of SunCor				5,629		
COMMON STOCK EQUITY:						
Common stock	2,005,932	1,424,966		356,391	14,046	15,626
Accumulated deficit	376,782	694,802	(2,869)	(53,835)	2,322	(2,441)
Total	2,382,714	2,119,768	(2,869)	302,556	16,368	13,185
TOTAL LIABILITIES AND EQUITY	$2,721,382	$6,399,715	$ 46,294	$ 461,906	$ 21,428	$ 228,547

	ENERGY SERVICES	*ELIMINATIONS* DEBIT	*ELIMINATIONS* CREDIT	TOTAL
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Accounts payable	$ 15,472	$ 20 (I,p)		$ 375,805
Accrued taxes	12	18,659 (k)	$ 20 (i)	89,246
Accrued interest				42,954
Short-term borrowings	675	(m)		82,775
Current maturities of long-term debt				463,469
Customer Deposits				26,189
Other current liabilities		269,541 (b,g)		110,860
Total current liabilities	16,159	288,220	20	1,191,298
NON-CURRENT LIABILITIES				
Long-term debt less current maturities				1,955,083
Other liabilites				
Total				1,955,083
DEFERRED CREDITS AND OTHER				
Deferred income taxes			(8,261) (k,o)	1,143,040
Unamortized gain				68,636
Other			4,818 (g)	408,380
Total deferred credits			(3,443)	1,620,056
COMMITMENTS AND CONTINGENCIES (NOTE)				
MINORITY INTERESTS:				
Non-Redeemable preferred stock of APS				
Redeemable preferred stock of APS				
Joint Ventures of SunCor		5,629 (e)		
COMMON STOCK EQUITY:				
Common stock	29,060	2,313,190 (a)		1,532,831
Accumulated deficit	(22,355)		(142,523) (a)	849,883
Total	6,705	2,313,190	(142,523)	2,382,714
TOTAL LIABILITIES AND EQUITY	$ 22,864	$2,607,039	$ (145,946)	$7,149,151

ADJUSTING AND ELIMINATION ENTRIES
DECEMBER 31, 2000

(a)	Common stock	$2,313,190	
	Accumulated deficit		$ (142,523)
	Other investments		2,455,713

To eliminate PNW investment in subsidiaries

	Common Stock	Earnings/ Dividends	Total
APS	$1,898,067	$ 221,701	$2,119,768
Power Marketing		(2,869)	(2,869)
Pinnacle West Energy	15,626	(2,441)	13,185
Energy Services	29,060	(22,355)	6,705
SunCor	356,391	(53,835)	302,556
El Dorado	14,046	2,322	16,368
Total	$2,313,190	$ 142,523	$2,455,713

(b)	Other current liabilities	$ 264,723	
	Customer and other receivables - net		$ 264,723

To eliminate intercompany receivables/payables between all entities

	Intercompany Receivables	Intercompany Payables
Pinnacle West CC	$ 236,628	$ 236,628
APS	24,463	24,463
Pinnacle West Energy	1,086	1,086
Energy Services	488	488
Power Marketing	1,484	1,484
Palo Verde (50)	497	497
Four Corners (10)	47	47
Cholla (30)	30	30
Total	$ 264,723	$ 264,723

(e)	Minority interest	$ 5,629	
	Real estate investments - net		$ 5,629

To eliminate minority interest of SunCor JV partners

(f)	Real estate investments - net	$ 4,849	
	Other - assets		$ 4,849

To reclass PNW capitalized interest related to SunCor (1145.1)

(g)	Other current liabilities	$ 4,818	
	Other deferred credits		$ 4,818

To reclass PNW deferred comp to long-term (2085)

(h)	Other deferred debits	$ 77	
	Other - assets		$ 77

To relcass PNW unamortized debt to long-term (1130-1131)

ADJUSTING AND ELIMINATION ENTRIES
DECEMBER 31, 2000

(i)	Accounts payable		$ 20		
	Accrued taxes				$ 20
	To reclass PNW property tax (2002.1)				
(k)	Accrued taxes		$ 18,659		
	Other deferred debits				$ 18,659
	To reclass PNW accrued taxes (2090)				
(o)	Deferred income taxes-current portion		$ --		
	Deferred income taxes-noncurrent portion		26,920		
	Deferred income taxes				$ 26,920

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATING INCOME STATEMENT (unaudited)
FOR THE PERIODS ENDED DECEMBER 31,
(THOUSANDS OF DOLLARS)

	PNCC	APS	PWMT	SUNCOR	ELDO
OPERATING REVENUES:					
Electric		$ 3,480,252	$ 52,337		
Real Estate				$ 158,365	
Total	--	3,480,252	52,337	158,365	--
FUEL EXPENSES:					
Fuel for electric generation		333,265	--		
Purchased power		1,547,464	54,054		
Total	--	1,880,729	54,054	--	--
OPERATING EXPENSES:					
Utility operations and maintenance		430,696	3,016		
Real estate operations				134,279	
Depreciation and amortization	$ 266	388,660	6	4,657	--
Taxes other than income taxes		99,730	--		
Total	266	919,086	3,022	138,936	--
OPERATING INCOME	(266)	680,417	(4,739)	19,429	--
OTHER INCOME (DEDUCTIONS):					
Energy Services		--	--		
Interest on long-term debt	(11,472)	(134,431)	--	(10,672)	--
Other interest	(1,012)	(14,352)	--	--	--
Capitalized interest	31	10,894	--	6,202	--
Preferred stock dividend requirements		--	--		
Other, net	305,998	(10,637)	--	4,343	3,677
Total	293,545	(148,526)	--	(127)	3,677
Income from continuing operations b4 income taxes	293,279	531,911	(4,739)	19,302	3,677
Income Tax Expense (Benefit)	*(9,053)*	225,317	(1,870)	7,764	1,694
Income from continuing operations	302,332	306,594	(2,869)	11,538	1,983
Extraordinary charge	--	--			
discontinued operations	--				
Accounting change	--	--	--	--	--
NET INCOME (LOSS)	$ 302,332	$ 306,594	$ (2,869)	$ 11,538	$ 1,983

			ADJUSTMENTS & ELIMINATIONS		
	PWE	ENERGY SERVICES	DEBIT	CREDIT	TOTAL
OPERATING REVENUES:					
Electric		$ 24,859	$ 25,638(f)		$ 3,531,810
Real Estate					158,365
Total		24,859	25,638	--	3,690,175
FUEL EXPENSES:					
Fuel for electric generation					333,265
Purchased power		25,638		25,638(f)	1,601,518
Total		25,638	--	25,638	1,934,783
OPERATING EXPENSES:					
Utility operations and maintenance	2,441	14,656			450,809
Real estate operations			143(b)	--	134,422
Depreciation and amortization		821			394,410
Taxes other than income taxes			50(c)		99,780
Total	2,441	15,477	193	--	1,079,421
OPERATING INCOME	(2,441)	(16,256)	25,445	(25,638)	675,971
OTHER INCOME (DEDUCTIONS):					
Energy Services					
Interest on long-term debt				159(h)	(156,416)
Other interest	(4,487)	(24)		5,052(e,g)	(14,823)
Capitalized interest	4,487	24			21,638
Preferred stock dividend requirements					
Other, net		3,090	306,850(a,e,g,h)	193(b,c)	(186)
Total	--	3,090	306,850	5,404	(149,787)
Income from continuing operations b4 income taxes	(2,441)	(13,166)	281,405	(20,234)	526,184
Income Tax Expense (Benefit)					223,852
Income from continuing operations	(2,441)	(13,166)	281,405	(20,234)	302,332
Extraordinary charge					
discontinued operations					
Accounting change			--	--	
NET INCOME (LOSS)	$ (2,441)	$ (13,166)	$ 281,405	$ (20,234)	$ 302,332

ADJUSTING AND ELIMINATING ENTRIES
FOR THE PERIODS ENDED DECEMBER 31,

(a)	Other - net (Subs income)	$ 301,639	
	Retained Earnings		$ 301,639

To eliminate PWCC Equity in earnings from subsidiairies

	PWCC
APS	$ 306,594
PWMT	$ (2,869)
Pinnacle West Energy	(2,441)
Energy Services	(13,166)
SunCor	11,538
El Dorado	1,983
Total	$ 301,639

(b)	Real Estate Operations	$ 143	
	Interest Expense (PWCC) 5849.0097		$ 143

To reclass Capitalized Interest for SunCor Land Sales.

(c)	Taxes other than income taxes	$ 50	
	Other - net		$ 50

To reclass PNW property taxes (650051)

(e)	Other, net (El Dorado interest income)	$ 542	
	Other interest		$ 542

To eliminate interest on ELD loan to PNW (650095)

(f)	Electricity Sales	$ 25,638	
	Purchased Power		$ 25,638

To eliminate sales from APS to APSES

NOTE: As of July APSES is purchasing all power from SRP, in the future they will resume purchasing power from APS and we will have to eliminate.

(g)	Interest Income - PNW	$ 4,510	
	Interest Expense - PWE		$ 4,510

To eliminate interest expense/income on loan from PNW to PWE

(h)	Interest Income - PNW	$ 159	
	Interest Expense - Suncor		$ 159

To eliminate interest expense/income on unpaid Suncor dividend

SUNCOR DEVELOPMENT COMPANY
CONSOLIDATED BALANCE SHEET (unaudited)
31-DEC-00

ACCOUNT DESCRIPTION	1000 SUNCOR	SCOTT D. LPSCO	LENA M. RANCHLAND	PAUL N. SASI	3500 SMLP
CURRENT ASSETS					
CASH AND SHORT TERM INVESTMENTS	5,402,595	897,193	395,400	300,904	260,662
ACCOUNTS RECEIVABLE	85,856	375,064	14,396	113,166	
INTERCOMPANY ACCOUNTS:					
SASI					
LPSCO	15,731				
CORAL CANYON	650,044				
SMLP	12,492				
PVGC					
CORAL CANYON GOLF					
CC DEVELOPMENT FROM CC GOLF COURSE					
WWOS	(92,907)				
GOLDEN HERITAGE - GENERAL 129	2,634,962				
SCM-GENERAL 129	6,881,947				
HOMEBUILDING I/C INTEREST 12904	5,748,529				
HOMEBUILDING CASH ADVANCES	5,184,808				
COMMERCIAL - GENERAL					
SUNRIDGE - DEVELOPMENT	103,351				
SUNRIDGE - GOLF	194,492				
SEDONA - DEVELOPMENT	29,014				
SEDONA - GOLF	134,069				
CLUB WEST	221,941				
WIGWAM RESORT	51,837				
HFS FINANCIAL SERVICES	7,966				
WESTWORLD DEVELOPMENT	450				
SANCTUARY GOLF	144,333				
INTEREST RECEIVABLE	350,634				
NOTES RECEIVABLE	102,032				
INVENTORIES					
PREPAID EXPENSES	22,211				
HOME INVENTORY GOLDEN HERITAGE	6,888				
HOME INVENTORY RANCHO VIEJO					
HOME INVENTORY CORAL CANYON					
TOTAL CURRENT ASSETS	27,893,276	1,272,257	409,797	414,070	260,662
LONG-TERM ASSETS					
DEVELOPMENT PROJECTS					
CORAL CANYON					
HIDDEN HILLS					
RANCHO VIEJO					
PALM VALLEY					
LITCHFIELD GREENS					
VILLAGE OF LITCHFIELD GREENS					
SCOTTSDALE MOUNTAIN					3,300,313
MARKETPLACE - AUTOPLEX					
TATUM RANCH	498,513				
TALAVI					
WIGWAM OUTLET STORES					
GOLDEN HERITAGE					
BILTMORE ESTATES					
BLACK CANYON COMMERCE PARK					
OTHER COMMERCIAL LAND					
EQUITY INVESTMENTS:					
EQUITY IN CTRPT ASSOC-LLP					
INVEST IN HAYDEN FERRY LAKESIDE					
INVEST IN KYRENE ASSOCIATES LLC					
INVEST IN PV APARTMENTS (I & II)					
INVESTMENT IN SUNRIDGE CANYON LLC	1,431,298				
INVESTMENT IN SEDONA GOLF LC	4,856,237				
INVEST IN TALAVI ASSOCIATES LLC					
INVESTMENT IN SANCTUARY GOLF	3,734,146				
INVESTMENT IN HFS MORTGAGE					
CONSOLIDATED ELIMINATING ENTITIES:					
INVEST IN KABUTO/SUNCOR JV	6,616,664				
INVEST IN SCOTTS MTN LTD PART	2,307,567				
INVEST IN GOLDEN HERITAGE	6,640,236				
GOLDEN HERITAGE DUE DILIGENCE					
INVESTMENT IN SCM	517,850				
INVESTMENT IN LPSCO	15,473,739				
INVESTMENT IN SASI					
INVESTMENT IN PALM VALLEY	151,156,985				
INVESTMENT IN PALM VALLEY GOLF	4,744,115				
INVESTMENT IN CLUB WEST G.C.	3,259,883				
PALM VALLEY GOLF CONTRIB. CAP	4,940,770				
INVESTMENT IN CORAL CANYON GOLF	(153,937)				
INVESTMENT IN RANCHO VIEJO	18,763,648				
INVESTMENT IN RANCHLAND UTILITY	(152,101)				
INVESTMENT IN HIDDEN HILLS	11,382,590				
INVESTMENT IN CORAL CANYON	26,874,578				
INVESTMENT IN FIDDLESTICKS-SCOTTS	(2,571,350)				
INVESTMENT IN FIDDLESTICKS-TEMPE	(404,512)				
INVESTMENT IN FUNTASTICKS	146,585				
INVESTMENT IN GENERAL COMM OPS	82,369,699				
INVESTMENT IN PV MARKETPLACE	3,473,608				
INVESTMENT IN DYSART/MCDOWELL	872,112				
INVESTMENT IN PV PAVILIONS	3,821,322				
INVESTMENT IN PV CROSSING	1,306,479				
INVESTMENT IN PALM VALLEY OFFICE PARK	247,225				
INVESTMENT IN AUTOPLEX	(148,809)				
INVESTMENT IN TALAVI	(221,422)				
INVESTMENT IN METROCENTER	281,411				
INVESTMENT IN RESTORATION PLACE	(178,047)				
INVESTMENT IN LITCHFIELD PARK OPS	168,239				
INVESTMENT IN LP PROF. PLAZA	6,876				
INVESTMENT IN WWOS LLC	(1,319,040)				
INVESTMENT IN APS PROPERTIES	422,040				
INVESTMENT IN BLACK CANYON CP	741,506				
COMMERCIAL PROPERTIES					

WWOS					
LONG-TERM NOTES RECEIVABLE	3,574,077				
SDC PHASE I LAND NOTE TO WWOS	962,496				
SDC PAYOFF OF WWOS RLC	10,000,000				
SDC LOAN TO LPSCO	300,000				
PROPERTY & EQUIPMENT, NET	770,821			36,696	
DEFERRED ASSETS	5,314,755	321,468	33,279		
DEFERRED INCOME TAXES	26,533,921				
WATER & SEWER UTILITY PROP, NET		22,254,148	1,149,961		
LPSCO RESTRICTED CASH FUNDS		2,394,649			
RANCHO VIEJO RESTRICTED CASH FUNDS					
SCOTTSDALE MOUNTAIN RESTRICTED CASH FUNDS					
DEPOSITS					
TOTAL LONG-TERM ASSETS	399,362,773	24,970,265	1,183,240	36,696	3,300,313
TOTAL ASSETS	427,256,049	26,242,522	1,593,036	450,766	3,560,975

ACCOUNT DESCRIPTION	LINDA H. PVGC	TONYA CLUB WEST	GAYE LYNN CC GOLF	LARRY W. GHH	5500 PV
CURRENT ASSETS					
CASH AND SHORT TERM INVESTMENTS	43,711	131,857	38,384	89,108	(597,619)
ACCOUNTS RECEIVABLE	30,741	11,879	12,927	708,060	(6,165)
INTERCOMPANY ACCOUNTS:					
SASI					
LPSCO					
CORAL CANYON					
SMLP					
PVGC	(4,940,770)				
CORAL CANYON GOLF			(54,809)		
CC DEVELOPMENT FROM CC GOLF COURSE					
WWOS					
GOLDEN HERITAGE - GENERAL 129				(1,202,697)	
SCM-GENERAL 129				(6,881,947)	
HOMEBUILDING I/C INTEREST 12904				(5,748,529)	
HOMEBUILDING CASH ADVANCES					
COMMERCIAL - GENERAL					
SUNRIDGE - DEVELOPMENT					
SUNRIDGE - GOLF					
SEDONA - DEVELOPMENT					
SEDONA - GOLF					
CLUB WEST					
WIGWAM RESORT					
HFS FINANCIAL SERVICES					
WESTWORLD DEVELOPMENT					
SANCTUARY GOLF					
INTEREST RECEIVABLE					
NOTES RECEIVABLE					
INVENTORIES	87,838	81,616	52,335		
PREPAID EXPENSES	42,756	7,315	200	24,342	
HOME INVENTORY GOLDEN HERITAGE				30,168,781	
HOME INVENTORY RANCHO VIEJO					
HOME INVENTORY CORAL CANYON					
TOTAL CURRENT ASSETS	(4,735,724)	232,667	49,036	17,157,117	(603,783)
LONG-TERM ASSETS					
DEVELOPMENT PROJECTS					
CORAL CANYON					
HIDDEN HILLS					
RANCHO VIEJO					
PALM VALLEY					153,033,673
LITCHFIELD GREENS					68,157
VILLAGE OF LITCHFIELD GREENS					
SCOTTSDALE MOUNTAIN					
MARKETPLACE - AUTOPLEX					
TATUM RANCH					
TALAVI					
WIGWAM OUTLET STORES					
GOLDEN HERITAGE					
BILTMORE ESTATES					
BLACK CANYON COMMERCE PARK					
OTHER COMMERCIAL LAND					
EQUITY INVESTMENTS:					
EQUITY IN CTRPT ASSOC-LLP					
INVEST IN HAYDEN FERRY LAKESIDE					
INVEST IN KYRENE ASSOCIATES LLC					
INVEST IN PV APARTMENTS (I & II)					275,488
INVESTMENT IN SUNRIDGE CANYON LLC					
INVESTMENT IN SEDONA GOLF LC					
INVEST IN TALAVI ASSOCIATES LLC					
INVESTMENT IN SANCTUARY GOLF					
INVESTMENT IN HFS MORTGAGE					
CONSOLIDATED ELIMINATING ENTITIES:					
INVEST IN KABUTO/SUNCOR JV					
INVEST IN SCOTTS MTN LTD PART					
INVEST IN GOLDEN HERITAGE					
GOLDEN HERITAGE DUE DILIGENCE					
INVESTMENT IN SCM					
INVESTMENT IN LPSCO					
INVESTMENT IN SASI					235,243
INVESTMENT IN PALM VALLEY					
INVESTMENT IN PALM VALLEY GOLF					
INVESTMENT IN CLUB WEST G.C.					
PALM VALLEY GOLF CONTRIB. CAP					
INVESTMENT IN CORAL CANYON GOLF					
INVESTMENT IN RANCHO VIEJO					
INVESTMENT IN RANCHLAND UTILITY					
INVESTMENT IN HIDDEN HILLS					
INVESTMENT IN CORAL CANYON					
INVESTMENT IN FIDDLESTICKS-SCOTTS					
INVESTMENT IN FIDDLESTICKS-TEMPE					
INVESTMENT IN FUNTASTICKS					
INVESTMENT IN GENERAL COMM OPS					
INVESTMENT IN PV MARKETPLACE					
INVESTMENT IN DYSART/MCDOWELL					
INVESTMENT IN PV PAVILIONS					
INVESTMENT IN PV CROSSING					

INVESTMENT IN PALM VALLEY OFFICE PARK					
INVESTMENT IN AUTOPLEX					
INVESTMENT IN TALAVI					
INVESTMENT IN METROCENTER					
INVESTMENT IN RESTORATION PLACE					
INVESTMENT IN LITCHFIELD PARK OPS					
INVESTMENT IN LP PROF. PLAZA					
INVESTMENT IN WWOS LLC					
INVESTMENT IN APS PROPERTIES					
INVESTMENT IN BLACK CANYON CP					
COMMERCIAL PROPERTIES	12,382,937	8,478,448	6,395,332		
WWOS					
LONG-TERM NOTES RECEIVABLE					498,808
SDC PHASE I LAND NOTE TO WWOS					
SDC PAYOFF OF WWOS RLC					
SDC LOAN TO LPSCO					
PROPERTY & EQUIPMENT, NET	397,125		288,460	867,751	290,466
DEFERRED ASSETS	149,715				144,112
DEFERRED INCOME TAXES					
WATER & SEWER UTILITY PROP, NET					
LPSCO RESTRICTED CASH FUNDS					
RANCHO VIEJO RESTRICTED CASH FUNDS					
SCOTTSDALE MOUNTAIN RESTRICTED CASH FUNDS					
DEPOSITS				62,330	
TOTAL LONG-TERM ASSETS	12,929,777	8,478,448	6,683,792	930,081	154,545,948
TOTAL ASSETS	8,194,053	8,711,115	6,732,828	18,087,198	153,942,164

ACCOUNT DESCRIPTION	5501 KABUTO JV	COMM.	3300 H HILLS	R. VIEJO JOYCE L.	3900 C. CANYON
CURRENT ASSETS					
CASH AND SHORT TERM INVESTMENTS	5,182	(928,950)	(101,122)	(312,157)	(475,687)
ACCOUNTS RECEIVABLE		598,897		200,169	500,275
INTERCOMPANY ACCOUNTS:					
SASI					
LPSCO					
CORAL CANYON					
SMLP					
PVGC					
CORAL CANYON GOLF					
CC DEVELOPMENT FROM CC GOLF COURSE					6,840,673
WWOS					
GOLDEN HERITAGE - GENERAL 129					
SCM-GENERAL 129					
HOMEBUILDING I/C INTEREST 12904					
HOMEBUILDING CASH ADVANCES					
COMMERCIAL - GENERAL					
SUNRIDGE - DEVELOPMENT					
SUNRIDGE - GOLF					
SEDONA - DEVELOPMENT					
SEDONA - GOLF					
CLUB WEST					
WIGWAM RESORT					
HFS FINANCIAL SERVICES					
WESTWORLD DEVELOPMENT					
SANCTUARY GOLF					
INTEREST RECEIVABLE					
NOTES RECEIVABLE					208,620
INVENTORIES		40,362			
PREPAID EXPENSES		11,324		450	115,455
HOME INVENTORY GOLDEN HERITAGE					
HOME INVENTORY RANCHO VIEJO				4,430,162	
HOME INVENTORY CORAL CANYON					2,449,435
TOTAL CURRENT ASSETS	5,182	(278,367)	(101,122)	4,318,624	9,638,771
LONG-TERM ASSETS					
DEVELOPMENT PROJECTS					
CORAL CANYON					17,678,943
HIDDEN HILLS			17,088,092		
RANCHO VIEJO				13,869,468	
PALM VALLEY		15,792,205			
LITCHFIELD GREENS					
VILLAGE OF LITCHFIELD GREENS	13,839,065				
SCOTTSDALE MOUNTAIN					
MARKETPLACE - AUTOPLEX		4,913,292			
TATUM RANCH					
TALAVI		782,548			
WIGWAM OUTLET STORES					
GOLDEN HERITAGE					
BILTMORE ESTATES					
BLACK CANYON COMMERCE PARK		1,474,224			
OTHER COMMERCIAL LAND		2,124,954			
EQUITY INVESTMENTS:					
EQUITY IN CTRPT ASSOC-LLP		22,080,662			
INVEST IN HAYDEN FERRY LAKESIDE		3,132,793			
INVEST IN KYRENE ASSOCIATES LLC					
INVEST IN PV APARTMENTS (I & II)					
INVESTMENT IN SUNRIDGE CANYON LLC					
INVESTMENT IN SEDONA GOLF LC					
INVEST IN TALAVI ASSOCIATES LLC		2,500,094			
INVESTMENT IN SANCTUARY GOLF					
INVESTMENT IN HFS MORTGAGE					
CONSOLIDATED ELIMINATING ENTITIES:					
INVEST IN KABUTO/SUNCOR JV					
INVEST IN SCOTTS MTN LTD PART					
INVEST IN GOLDEN HERITAGE					
GOLDEN HERITAGE DUE DILIGENCE					
INVESTMENT IN SCM					
INVESTMENT IN LPSCO					
INVESTMENT IN SASI					
INVESTMENT IN PALM VALLEY					
INVESTMENT IN PALM VALLEY GOLF					
INVESTMENT IN CLUB WEST G.C.					
PALM VALLEY GOLF CONTRIB. CAP					
INVESTMENT IN CORAL CANYON GOLF					
INVESTMENT IN RANCHO VIEJO					
INVESTMENT IN RANCHLAND UTILITY				1,109,212	

INVESTMENT IN HIDDEN HILLS					
INVESTMENT IN CORAL CANYON					
INVESTMENT IN FIDDLESTICKS-SCOTTS					
INVESTMENT IN FIDDLESTICKS-TEMPE					
INVESTMENT IN FUNTASTICKS					
INVESTMENT IN GENERAL COMM OPS					
INVESTMENT IN PV MARKETPLACE					
INVESTMENT IN DYSART/MCDOWELL					
INVESTMENT IN PV PAVILIONS					
INVESTMENT IN PV CROSSING					
INVESTMENT IN PALM VALLEY OFFICE PARK					
INVESTMENT IN AUTOPLEX					
INVESTMENT IN TALAVI					
INVESTMENT IN METROCENTER					
INVESTMENT IN RESTORATION PLACE					
INVESTMENT IN LITCHFIELD PARK OPS					
INVESTMENT IN LP PROF. PLAZA					
INVESTMENT IN WWOS LLC					
INVESTMENT IN APS PROPERTIES					
INVESTMENT IN BLACK CANYON CP					
COMMERCIAL PROPERTIES		34,090,144			
WWOS		13,806,739			
LONG-TERM NOTES RECEIVABLE					
SDC PHASE I LAND NOTE TO WWOS					
SDC PAYOFF OF WWOS RLC					
SDC LOAN TO LPSCO					
PROPERTY & EQUIPMENT, NET				168,808	519,401
DEFERRED ASSETS		1,441,156			1,989
DEFERRED INCOME TAXES					
WATER & SEWER UTILITY PROP, NET				264,261	
LPSCO RESTRICTED CASH FUNDS					
RANCHO VIEJO RESTRICTED CASH FUNDS				600,357	
SCOTTSDALE MOUNTAIN RESTRICTED CASH FUNDS					
DEPOSITS					
TOTAL LONG-TERM ASSETS	13,839,065	102,138,809	17,088,092	16,012,106	18,200,333
TOTAL ASSETS	13,844,247	101,860,441	16,986,970	20,330,730	27,839,104

CONSOLIDATING & ELIMINATING ENTRIES

ACCOUNT DESCRIPTION	REF	DEBIT	REF	CREDIT	CONSOLIDATED
CURRENT ASSETS					
CASH AND SHORT TERM INVESTMENTS					5,149,460.86
ACCOUNTS RECEIVABLE			Y	177,220	2,468,046.09
INTERCOMPANY ACCOUNTS:					
SASI					0.00
LPSCO			H	15,731	0.00
CORAL CANYON			X	650,044	0.00
SMLP			J	12,492	0.00
PVGC	N	4,940,770			0.00
CORAL CANYON GOLF	AA	54,809			0.00
CC DEVELOPMENT FROM CC GOLF COURSE			AA	6,840,673	0.00
WWOS	Q	92,907			0.00
GOLDEN HERITAGE - GENERAL 129	A	1,202,697	A	2,634,962	0.00
SCM-GENERAL 129		6,881,947	A	6,881,947	0.00
HOMEBUILDING I/C INTEREST 12904	C	5,748,529	C	5,748,529	0.00
HOMEBUILDING CASH ADVANCES			B	5,184,808	0.00
COMMERCIAL - GENERAL					0.00
SUNRIDGE - DEVELOPMENT					103,350.90
SUNRIDGE - GOLF					194,492.38
SEDONA - DEVELOPMENT					29,013.66
SEDONA - GOLF					134,068.70
CLUB WEST			Z	221,941	0.00
WIGWAM RESORT					51,837.48
HFS FINANCIAL SERVICES					7,965.90
WESTWORLD DEVELOPMENT					450.00
SANCTUARY GOLF					144,332.99
INTEREST RECEIVABLE			P	96,097	254,536.60
NOTES RECEIVABLE					310,652.44
INVENTORIES					262,150.82
PREPAID EXPENSES					224,052.95
HOME INVENTORY GOLDEN HERITAGE			E	3,101,379	27,074,290.21
HOME INVENTORY RANCHO VIEJO					4,430,162.42
HOME INVENTORY CORAL CANYON					2,449,435.00
					0.00
TOTAL CURRENT ASSETS		18,921,661		31,565,823	43,288,299.40
LONG-TERM ASSETS					
DEVELOPMENT PROJECTS					
CORAL CANYON					17,678,943.00
HIDDEN HILLS			T	4,474,530	12,613,561.57
RANCHO VIEJO					13,869,468.43
PALM VALLEY					168,825,877.83
LITCHFIELD GREENS					68,156.70
VILLAGE OF LITCHFIELD GREENS					13,839,064.56
SCOTTSDALE MOUNTAIN					3,300,312.71
MARKETPLACE - AUTOPLEX					4,913,291.55
TATUM RANCH					498,513.15
TALAVI					782,547.91
WIGWAM OUTLET STORES					0.00
GOLDEN HERITAGE					0.00
BILTMORE ESTATES					0.00
BLACK CANYON COMMERCE PARK					1,474,223.57
OTHER COMMERCIAL LAND					2,124,953.97
EQUITY INVESTMENTS:					0.00
EQUITY IN CTRPT ASSOC-LLP					22,080,661.88
INVEST IN HAYDEN FERRY LAKESIDE					3,132,792.60
INVEST IN KYRENE ASSOCIATES LLC					0.00
INVEST IN PV APARTMENTS (I & II)					275,488.32
INVESTMENT IN SUNRIDGE CANYON LLC					1,431,298.36
INVESTMENT IN SEDONA GOLF LC					4,856,237.26
INVEST IN TALAVI ASSOCIATES LLC					2,500,094.19
INVESTMENT IN SANCTUARY GOLF					3,734,146.32
INVESTMENT IN HFS MORTGAGE					0.00
CONSOLIDATED ELIMINATING ENTITIES:					0.00
INVEST IN KABUTO/SUNCOR JV			R	9,610,458	(2,993,794.72)

INVEST IN SCOTTS MTN LTD PART	I	20,413,693	I	22,727,157	(5,896.38)
INVEST IN GOLDEN HERITAGE		-	D	6,640,236	0.00
GOLDEN HERITAGE DUE DILIGENCE					0.00
INVESTMENT IN SCM			D	517,850	0.00
INVESTMENT IN LPSCO			F	15,087,805	385,934.07
INVESTMENT IN SASI	L	650,000	L	885,243	0.00
INVESTMENT IN PALM VALLEY		-	V	151,156,985	0.00
INVESTMENT IN PALM VALLEY GOLF	M	1,414,058	M	6,158,173	0.00
INVESTMENT IN CLUB WEST G.C.	Z	182,143	Z	3,442,026	0.00
PALM VALLEY GOLF CONTRIB. CAP			N	4,940,770	0.00
INVESTMENT IN CORAL CANYON GOLF	AA	208,746	AA	54,809	0.00
INVESTMENT IN RANCHO VIEJO			U	18,763,648	0.00
INVESTMENT IN RANCHLAND UTILITY	Y	152,101	Y	1,109,212	0.00
INVESTMENT IN HIDDEN HILLS			T	11,382,590	0.00
INVESTMENT IN CORAL CANYON	W	199,345	W	27,073,923	0.00
INVESTMENT IN FIDDLESTICKS-SCOTTS	S	4,393,865	S	1,822,515	0.00
INVESTMENT IN FIDDLESTICKS-TEMPE	S	1,708,971	S	1,304,459	0.00
INVESTMENT IN FUNTASTICKS	S	475,282	S	621,867	0.00
INVESTMENT IN GENERAL COMM OPS			S	82,369,699	0.00
INVESTMENT IN PV MARKETPLACE			S	3,473,608	0.00
INVESTMENT IN DYSART/MCDOWELL			S	872,112	0.00
INVESTMENT IN PV PAVILIONS			S	3,821,322	0.00
INVESTMENT IN PV CROSSING			S	1,306,479	0.00
INVESTMENT IN PALM VALLEY OFFICE PARK			S	247,225	0.00
INVESTMENT IN AUTOPLEX	S	148,809			0.00
INVESTMENT IN TALAVI	S	221,422			0.00
INVESTMENT IN METROCENTER			S	281,411	0.00
INVESTMENT IN RESTORATION PLACE	S	178,047			0.00
INVESTMENT IN LITCHFIELD PARK OPS			S	168,239	0.00
INVESTMENT IN LP PROF. PLAZA			S	6,876	0.00
INVESTMENT IN WWOS LLC	S	1,319,040			0.00
INVESTMENT IN APS PROPERTIES			S	422,040	0.00
INVESTMENT IN BLACK CANYON CP			S	741,506	0.00
COMMERCIAL PROPERTIES					61,346,861.38
WWOS					13,806,738.53
LONG-TERM NOTES RECEIVABLE					4,072,885.45
SDC PHASE I LAND NOTE TO WWOS			P	962,496	0.00
SDC PAYOFF OF WWOS RLC			P	10,000,000	0.00
SDC LOAN TO LPSCO			G	300,000	0.00
PROPERTY & EQUIPMENT, NET					3,339,527.65
DEFERRED ASSETS					7,406,474.15
DEFERRED INCOME TAXES					26,533,921.39
WATER & SEWER UTILITY PROP, NET					23,668,369.51
LPSCO RESTRICTED CASH FUNDS					2,394,648.90
RANCHO VIEJO RESTRICTED CASH FUNDS					600,356.97
SCOTTSDALE MOUNTAIN RESTRICTED CASH FUNDS					0.00
					0.00
DEPOSITS					62,330.00
TOTAL LONG-TERM ASSETS		31,665,522		392,747,268	418,617,990.78
TOTAL ASSETS		50,587,183		424,313,091	461,906,290.18

SUNCOR DEVELOPMENT COMPANY
CONSOLIDATED BALANCE SHEET
31-DEC-00

ACCOUNT DESCRIPTION	1000 SUNCOR	SCOTT D. LPSCO	LENA M. RANCHLAND	PAUL N. SASI	3500 SMLP
LIABILITIES:					
CURRENT LIABILITIES					
A/P & RETENTION	112,349	432,083	(43)	39,817	5,066
ACCRUED LIABILITIES	4,629,880	944,416	403	133,843	10,676
INTERCOMPANY ACCOUNTS:					
LPSCO - SDC		15,731			
SMLP - SDC					12,492
SCM-SDC CASH ADVANCES 267					
GH-SDC INTERCO CAPITAL 265					
WWOS-SDC					
CLUB WEST					
CORAL CANYON					
CC GOLF COURSE TO CC DEVELOPMENT					
RANCHLAND-RANCHO VIEJO			176,174		
INTEREST PAYABLE	818,757				
S/T NOTES PAYABLE					
$45 MILLION TERM LOAN					
$55 MILLION RLC					
TEXTRON LOAN - PVGC					
DEF PROFIT & UNEARNED REVENUE	3,101,379				
PWCC INTERCO PAYABLE	210,445				
APS LAND INTERCO PAYABLE					
CUSTOMER DEPOSITS				41,864	
	8,872,810	1,392,229	176,534	215,524	28,234
LONG-TERM LIABILITIES					
LONG-TERM NOTES PAYABLE					
WWOS OWES SDC PH I LAND NOTE					
WWOS RLC PAYOFF BY SDC					
CORPORATE TERM NOTE					
CORPORATE RLC	110,000,000				
LPSCO BONDS		5,215,000			
TEXTRON LOAN - PVGC					
LOAN - CLUB WEST					
PENSION LIABILITY - SUNCOR	5,415,169				
PENSION LIABILITY - WIGWAM RESORT	310,840				
OTHER ACCRUED LIABILITIES	102,085	432,965	113,584		
DEFERRED TAXES		17,613			
LONG-TERM CUSTOMER DEPOSITS		3,796,171	346,275		
CONTRIB PROPERTY AIA					
TOTAL L/T LIABILITIES	115,828,094	9,461,749	459,859	0	0
TOTAL LIABILITIES	124,700,904	10,853,978	636,393	215,524	28,234
MINORITY INTEREST					
SDC COMMON STOCK	1,022,000				
SDC ADDITIONAL PAID IN CAPITAL	355,368,522				
SDC EARNED SURPLUS-BEGINNING	(65,374,629)				
SDC EARNED SURPLUS-CURRENT	11,539,252				
SUBSIDIARY EARNINGS-CURRENT		365,082	(60,243)	(76,048)	45,973
SUBSIDIARY EQUITY:					
LPSCO		15,023,462			
SASI				311,291	
SMLP #3500					3,486,768
PVGC					
CLUB WEST					
HOMEBUILDING					
PALM VALLEY #5500					
KABUTO JV #3000					
COMMERCIAL PROPERTIES #2000					
HIDDEN HILLS #3300					
RANCHO VIEJO #6600					
RANCHLAND UTILITY			1,016,886		
CORAL CANYON #3900					
TOTAL EQUITY	302,555,145	15,388,544	956,643	235,243	3,532,741
TOTAL LIABS AND EQUITY	427,256,049	26,242,522	1,593,036	450,767	3,560,975

ACCOUNT DESCRIPTION	LINDA H. PVGC	TONYA CLUB WEST	GAYE LYNN CC GOLF	LARRY W. GHH	5500 PV
LIABILITIES:					
CURRENT LIABILITIES					
A/P & RETENTION	73,611	50,836	30,267	2,616,983	441,477
ACCRUED LIABILITIES	43,641	56,696	72,137	270,000	829,549
INTERCOMPANY ACCOUNTS:					
LPSCO - SDC					
SMLP - SDC					
SCM-SDC CASH ADVANCES 267				5,184,808	
GH-SDC INTERCO CAPITAL 265				1,432,265	
WWOS-SDC					
CLUB WEST		221,941			
CORAL CANYON					
CC GOLF COURSE TO CC DEVELOPMENT			6,840,673		
RANCHLAND-RANCHO VIEJO					
INTEREST PAYABLE					
S/T NOTES PAYABLE					
$45 MILLION TERM LOAN					
$55 MILLION RLC					
TEXTRON LOAN - PVGC					
DEF PROFIT & UNEARNED REVENUE					
PWCC INTERCO PAYABLE					
APS LAND INTERCO PAYABLE					
CUSTOMER DEPOSITS				1,425,056	
	117,253	329,473	6,943,077	10,929,112	1,271,026
LONG-TERM LIABILITIES					
LONG-TERM NOTES PAYABLE					
WWOS OWES SDC PH I LAND NOTE					
WWOS RLC PAYOFF BY SDC					
CORPORATE TERM NOTE					
CORPORATE RLC					
LPSCO BONDS					
TEXTRON LOAN - PVGC	3,332,685				
LOAN - CLUB WEST		4,830,474			
PENSION LIABILITY - SUNCOR					
PENSION LIABILITY - WIGWAM RESORT					
OTHER ACCRUED LIABILITIES					1,514,152
DEFERRED TAXES					
LONG-TERM CUSTOMER DEPOSITS					
CONTRIB PROPERTY AIA					

TOTAL L/T LIABILITIES	3,332,685	4,830,474	0	0	1,514,152
TOTAL LIABILITIES	3,449,938	5,159,946	6,943,077	10,929,112	2,785,178
MINORITY INTEREST					
SDC COMMON STOCK					
SDC ADDITIONAL PAID IN CAPITAL					
SDC EARNED SURPLUS-BEGINNING					
SDC EARNED SURPLUS-CURRENT					
SUBSIDIARY EARNINGS-CURRENT	(952,440)	(267,857)	(210,248)	4,279,761	18,413,384
SUBSIDIARY EQUITY:					
LPSCO					
SASI					
SMLP #3500					
PVGC	5,696,556				
CLUB WEST		3,819,026			
HOMEBUILDING				2,878,324	
PALM VALLEY #5500					132,743,601
KABUTO JV #3000					
COMMERCIAL PROPERTIES #2000					
HIDDEN HILLS #3300					
RANCHO VIEJO #6600					
RANCHLAND UTILITY					
CORAL CANYON #3900					
TOTAL EQUITY	4,744,115	3,551,169	(210,248)	7,158,086	151,156,985
TOTAL LIABS AND EQUITY	8,194,053	8,711,115	6,732,829	18,087,198	153,942,163

ACCOUNT DESCRIPTION	5501 KABUTO JV	COMM.	3300 H HILLS	R. VIEJO JOYCE L.	3900 C. CANYON
LIABILITIES:					
CURRENT LIABILITIES					
A/P & RETENTION	32,619	182,016	612,629	1,113,628	262,717
ACCRUED LIABILITIES	84,320	1,336,432	517,221	229,442	46,428
INTERCOMPANY ACCOUNTS:					
LPSCO - SDC					
SMLP - SDC					
SCM-SDC CASH ADVANCES 267					
GH-SDC INTERCO CAPITAL 265					
WWOS-SDC		(92,907)			
CLUB WEST					
CORAL CANYON					655,381
CC GOLF COURSE TO CC DEVELOPMENT					
RANCHLAND-RANCHO VIEJO					
INTEREST PAYABLE		96,097			
S/T NOTES PAYABLE					
$45 MILLION TERM LOAN					
$55 MILLION RLC					
TEXTRON LOAN - PVGC					
DEF PROFIT & UNEARNED REVENUE					
PWCC INTERCO PAYABLE					
APS LAND INTERCO PAYABLE					
CUSTOMER DEPOSITS				224,013	
	116,939	1,521,639	1,129,850	1,567,083	964,526
LONG-TERM LIABILITIES					
LONG-TERM NOTES PAYABLE					
WWOS OWES SDC PH I LAND NOTE		962,496			
WWOS RLC PAYOFF BY SDC		10,000,000			
CORPORATE TERM NOTE					
CORPORATE RLC					
LPSCO BONDS					
TEXTRON LOAN - PVGC					
LOAN - CLUB WEST					
PENSION LIABILITY - SUNCOR					
PENSION LIABILITY - WIGWAM RESORT					
OTHER ACCRUED LIABILITIES		363,450			
DEFERRED TAXES					
LONG-TERM CUSTOMER DEPOSITS					
CONTRIB PROPERTY AIA					
TOTAL L/T LIABILITIES	0	11,325,947	0	0	0
TOTAL LIABILITIES	116,939	12,847,586	1,129,850	1,567,083	964,526
MINORITY INTEREST					
SDC COMMON STOCK					
SDC ADDITIONAL PAID IN CAPITAL					
SDC EARNED SURPLUS-BEGINNING					
SDC EARNED SURPLUS-CURRENT					
SUBSIDIARY EARNINGS-CURRENT	(1,919)	4,796,651	1,396,891	2,607,778	(156,726)
SUBSIDIARY EQUITY:					
LPSCO					
SASI					
SMLP #3500					
PVGC					
CLUB WEST					
HOMEBUILDING					
PALM VALLEY #5500					
KABUTO JV #3000	13,729,227				
COMMERCIAL PROPERTIES #2000		84,216,204			
HIDDEN HILLS #3300			14,460,229		
RANCHO VIEJO #6600				16,155,869	
RANCHLAND UTILITY					
CORAL CANYON #3900					27,031,304
TOTAL EQUITY	13,727,308	89,012,855	15,857,120	18,763,647	26,874,578
TOTAL LIABS AND EQUITY	13,844,247	101,860,441	16,986,970	20,330,730	27,839,104

CONSOLIDATING & ELIMINATING ENTRIES

ACCOUNT DESCRIPTION	REF	DEBIT	REF	CREDIT	CONSOLIDATED
LIABILITIES:					
CURRENT LIABILITIES					
A/P & RETENTION					6,006,056.03
ACCRUED LIABILITIES					9,205,082.56
INTERCOMPANY ACCOUNTS:					0.00
LPSCO - SDC	H	15,731			0.00
SMLP - SDC	J	12,492			0.00
SCM-SDC CASH ADVANCES 267	B	5,184,808			0.00
GH-SDC INTERCO CAPITAL 265	A	1,432,265			0.00
WWOS-SDC			Q	92,907	0.00
CLUB WEST	Z	221,941			0.00
CORAL CANYON	X	655,381			0.00
CC GOLF COURSE TO CC DEVELOPMENT	AA	6,840,673			0.00
RANCHLAND-RANCHO VIEJO	Y	176,174			0.00
INTEREST PAYABLE	P	96,021			818,832.84
S/T NOTES PAYABLE					0.00
$45 MILLION TERM LOAN					0.00
$55 MILLION RLC					0.00
TEXTRON LOAN - PVGC					0.00
DEF PROFIT & UNEARNED REVENUE	E	3,101,379			0.00
PWCC INTERCO PAYABLE					210,445.06
APS LAND INTERCO PAYABLE					0.00

CUSTOMER DEPOSITS					1,690,933.37
		17,736,865		92,907	17,931,349.86
LONG-TERM LIABILITIES					
LONG-TERM NOTES PAYABLE					
WWOS OWES SDC PH I LAND NOTE	P	962,496			0.00
WWOS RLC PAYOFF BY SDC	P	10,000,000			0.00
CORPORATE TERM NOTE					0.00
CORPORATE RLC					110,000,000.00
LPSCO BONDS					5,215,000.00
TEXTRON LOAN - PVGC					3,332,685.27
LOAN - CLUB WEST					4,830,473.75
PENSION LIABILITY - SUNCOR					5,415,168.77
PENSION LIABILITY - WIGWAM RESORT					310,840.34
OTHER ACCRUED LIABILITIES					2,526,236.90
DEFERRED TAXES					17,613.00
LONG-TERM CUSTOMER DEPOSITS					4,142,445.64
CONTRIB PROPERTY AIA					0.00
TOTAL L/T LIABILITIES		10,962,496		0	135,790,463.67
TOTAL LIABILITIES		28,699,361		92,907	153,721,813.53
MINORITY INTEREST	I,Z	10,592,754	I,R,Z	16,222,086	5,629,331.34
SDC COMMON STOCK					1,022,000.00
SDC ADDITIONAL PAID IN CAPITAL					355,368,521.94
SDC EARNED SURPLUS-BEGINNING					(65,374,628.73)
SDC EARNED SURPLUS-CURRENT					11,539,252.10
SUBSIDIARY EARNINGS-CURRENT	D,F,I,S,U,V,T	31,905,521	L,M,R,Q,Y,Z,AA	1,725,482	0.00
SUBSIDIARY EQUITY:					
LPSCO	F,G	15,023,462			0.00
SASI	L	961,291	L	650,000	0.00
SMLP #3500	I	34,407,501	I	30,920,733	0.00
PVGC	M	6,158,173	M	461,618	0.00
CLUB WEST	Z	3,819,026			0.00
HOMEBUILDING	D	2,878,324			0.00
PALM VALLEY #5500	V	132,743,601			0.00
KABUTO JV #3000	R	13,729,227			(0.00)
COMMERCIAL PROPERTIES #2000	S	84,216,204			0.00
HIDDEN HILLS #3300	T	14,460,229			0.00
RANCHO VIEJO #6600	U	16,155,869			0.00
RANCHLAND UTILITY	Y	1,109,212	Y	92,325	0.00
CORAL CANYON #3900	W	27,073,924	W	42,620	(0.00)
TOTAL EQUITY		384,641,564		33,892,778	302,555,145.31
TOTAL LIABS AND EQUITY		423,933,680		50,207,770	461,906,290.18

SUNCOR DEVELOPMENT COMPANY
CONSOLIDATING INCOME STATEMENT
FOR THE YEAR ENDING DECEMBER 31, 2000 (UNAUDITED)

ACCOUNT DESCRIPTION		SUNCOR	LPSCO	RANCHLAND UTILITY	SCTS MTN
REVENUES					
	Home Sales				
	Land Sales	42,691,399			294,150
	Commercial Properties	8,757,862			
	Utility Sales		3,323,224	65,146	
	Management Fees	845,515			
TOTAL OPERATING REVENUES		52,294,776	3,323,224	65,146	294,150
OPERATING EXPENSES					
	Cost of Homes Sold				
	Cost of Land Sold	17,223,011			250,416
	Commercial Properties	7,886,356			
	Utility Expense		2,292,872	86,505	
	Land Project Costs	1,390,669			18,155
	General & Administrative	11,306,175			59,269
	Depreciation & Amortization	2,103,895	335,546	38,884	
TOTAL OPERATING EXPENSES		39,910,106	2,628,418	125,389	327,840
NET OPERATING INCOME/(LOSS)		12,384,670	694,806	(60,243)	(33,690)
OTHER INCOME AND GAINS					
	Equity in Joint Ventures	2,324,093			
	Interest Income	843,509	223,432		45,877
	Other	1,063,507	3,106		
TOTAL OTHER INCOME AND GAINS		4,231,109	226,537		45,877
INTEREST EXPENSE, NET					
	Interest Expense	8,968,228	307,700		1,780
	Less: Capitalized Interest	(6,201,668)			
TOTAL INTEREST EXPENSE, NET		2,766,560	307,700		1,780
	Minority Interest	(85,715)			575,693
INCOME BEFORE TAXES		13,934,934	613,643	(60,243)	(565,286)
	Income Taxes	7,515,478	248,562		
NET INCOME/(LOSS)		$ 6,419,456	$ 365,081	$ (60,243)	$ (565,286)

ACCOUNT DESCRIPTION		PVGC	GHH	WWOS	HIDDEN HILLS
REVENUES					
	Home Sales		62,417,638		
	Land Sales		540,000		4,975,000
	Commercial Properties	2,712,685		1,996,347	
	Utility Sales				
	Management Fees				
TOTAL OPERATING REVENUES		2,712,685	62,957,638	1,996,347	4,975,000
OPERATING EXPENSES					
	Cost of Homes Sold		52,467,030		
	Cost of Land Sold		400,379		4,060,531
	Commercial Properties	300,823		846,272	
	Utility Expense				
	Land Project Costs				268,745
	General & Administrative	2,403,103	5,449,460		128,731
	Depreciation & Amortization	575,122	552,175	774,396	
TOTAL OPERATING EXPENSES		3,279,048	58,869,044	1,620,668	4,458,007
NET OPERATING INCOME/(LOSS)		(566,363)	4,088,594	375,679	516,993
OTHER INCOME AND GAINS					
	Equity in Joint Ventures				
	Interest Income			6,244	8,350
	Other		207,146		
TOTAL OTHER INCOME AND GAINS			207,146	6,244	8,350
INTEREST EXPENSE, NET					
	Interest Expense	386,077		1,008,243	
	Less: Capitalized Interest				
TOTAL INTEREST EXPENSE, NET		386,077		1,008,243	
	Minority Interest				
INCOME BEFORE TAXES		(952,440)	4,295,740	(626,320)	525,343
	Income Taxes				
NET INCOME/(LOSS)		$ (952,440)	$ 4,295,740	$ (626,320)	$ 525,343

	ACCOUNT DESCRIPTION	CORAL CANYON	RANCHO VIEJO	CONSOLIDATED INCOME
REVENUES				
	Home Sales	5,438,779	21,822,719	89,679,136
	Land Sales	1,311,125	847,651	50,659,325
	Commercial Properties			13,466,894
	Utility Sales			3,388,370
	Management Fees			845,515
TOTAL OPERATING REVENUES		6,749,904	22,670,370	158,039,240
OPERATING EXPENSES				
	Cost of Homes Sold	4,429,026	17,345,849	74,241,905
	Cost of Land Sold	1,083,259	458,306	23,475,902
	Commercial Properties			9,033,451
	Utility Expense			2,379,377
	Land Project Costs	22,331	241,396	1,941,295
	General & Administrative	1,505,561	1,974,067	22,826,366
	Depreciation & Amortization	31,209	246,078	4,657,305
TOTAL OPERATING EXPENSES		7,071,386	20,265,696	138,555,601
NET OPERATING INCOME/(LOSS)		(321,482)	2,404,674	19,483,639
OTHER INCOME AND GAINS				
	Equity in Joint Ventures			2,324,093
	Interest Income	7,069	371	1,134,851
	Other	16,384	30,903	1,321,046
TOTAL OTHER INCOME AND GAINS		23,453	31,275	4,779,990
INTEREST EXPENSE, NET				
	Interest Expense			10,672,028
	Less: Capitalized Interest			(6,201,668)
TOTAL INTEREST EXPENSE, NET				4,470,360
	Minority Interest			489,978
INCOME BEFORE TAXES		(298,030)	2,435,949	19,303,291
	Income Taxes			7,764,040
NET INCOME/(LOSS)		$ (298,030)	$ 2,435,949	$ 11,539,251

SUNCOR DEVELOPMENT COMPANY
CONSOLIDATING BALANCE SHEET
DECEMBER 2000 CONSOLIDATING & ELIMINATING ENTRIES

			DEBIT	CREDIT
A.	SCM INTERCO A/P TO SDC		$6,881,947.37	
	SDC A/R FROM SCM			$6,881,947.37
	GH INTERCO CAPITAL FROM SDC - ACQUISITION		$1,432,265.22	
	GH INTERCO A/P TO SDC		$1,202,697.24	
	SDC A/R FROM GH			$2,634,962.43
B.	HOMEBUILDING CASH ADVANCES FROM SDC		$5,184,807.73	
	SDC CASH ADVANCES TO HOMEBUILDING			$5,184,807.73
C.	SCM INTERCO CAPPED INTEREST		$5,748,529.44	
	SDC INTERCO INTEREST A/R FROM SCM			$5,748,529.47
	ELIMINATE INTERCO RECEIVABLES/PAYABLES BETWEEN HOMEBUILDING AND SDC			
D.	HOMEBUILDING ACCUMULATED EARNINGS		$2,878,324.34	
	SDC INVESTMENT IN GH			$6,640,235.87
	SDC DUE DILIGENCE COSTS - GHH ACQUISITION			
	SDC INVESTMENT IN SCM			$ 517,849.94
	HOMEBUILDING CURRENT YEAR EARNINGS		$4,279,761.47	
	ELIMINATE SDC INVESTMENT IN GOLDEN HERITAGE & SCM			
E.	DEFERRED INTERCO PROFIT		$3,101,378.61	
	HOME INVENTORY			$3,101,378.61
	ELIMINATE DEFERRED PROFIT ON INTERCO LOT SALES TO HOMEBUILDING			
F.	LPSCO COMMON STOCK	X	78,200.00	
	LPSCO PAID IN CAPITAL		13,128,556.85	
	LPSCO EARNINGS - PRIOR		1,516,705.00	
	LPSCO EARNINGS - CURRENT YEAR		365,081.67	
	SDC INVESTMENT IN LPSCO - CONTRIB CAPITAL			13,206,756.86
	SDC INVESTMENT IN LPSCO - EARNINGS			1,881,048.20
	SDC DEFERRED TAXES DIFFERENTIAL			
	ELIMINATE SDC INVESTMENT IN LPSCO			
G.	LPSCO LONG-TERM NOTES PAYABLE	X	300,000.00	
	SDC LONG-TERM NOTES RECEIVABLE			300,000.00
	ELIMINATE LPSCO INTERCOMPANY NOTE WITH SDC			
H.	LPSCO ACCOUNTS PAYABLE		15,730.51	
	SDC ACCOUNTS RECEIVABLE			15,730.51
	ELIMINATE LPSCO INTERCOMPANY A/R WITH SDC			
I.	SMLP CONTRIBUTED CAPITAL - MINORITY INT	X		10,507,040.00
	SMLP CONTRIBUTED CAPITAL - SDC GP		490,147.01	
	SMLP DISTRIBUTED CAPITAL - SDC GP			13,483,361.00
	SMLP CONTRIBUTED CAPITAL - SDC LP		2,100,000.00	
	SMLP DISTRIBUTED CAPITAL - SDC LP			6,930,332.00
	SMLP EARNINGS - PRIOR		31,817,353.69	
	SMLP EARNINGS - CURRENT YEAR		45,973.27	
	MINORITY INTEREST CONTRIBUTED CAPITAL		10,507,040.00	
	MINORITY INTEREST - PRIOR (35%)			11,710,226.79
	MINORITY INTEREST - CURRENT YEAR (35%)			16,090.64
	SDC INVESTMENT IN SMLP - LP			2,100,000.00
	SDC DISTRIBUTIONS FROM SMLP - LP		6,955,259.26	
	SDC INVESTMENT IN SMLP - GP			490,147.01
	SDC DISTRIBUTIONS FROM SMLP - GP		13,458,433.74	
	SDC INVESTMENT IN SMLP - EARNINGS			20,137,009.52
	SDC LAND BASIS DIFFERENTIAL			
	ELIMINATE SDC INVESTMENT IN SMLP #3500			
J.	SMLP ACCOUNTS PAYABLE	X	12,491.79	
	SDC ACCOUNTS RECEIVABLE			12,491.79

SUNCOR DEVELOPMENT COMPANY
CONSOLIDATING BALANCE SHEET
DECEMBER 2000 CONSOLIDATING & ELIMINATING ENTRIES

			DEBIT	CREDIT
	ELIMINATE SMLP INTERCOMPANY A/R WITH SDC AND HOMEBUILDING (PREMIUMS)			
L.	SASI CONTRIBUTED CAPITAL	X	489,023.22	
	SASI CAPITAL DISTRIBUTIONS			650,000.00
	SASI EARNINGS - PRIOR YEARS		472,267.95	
	SASI EARNINGS - CURRENT YEAR			76,048.00
	PV INVESTMENT IN SASI - CONTRIB CAPITAL			489,023.22
	PV INVESTMENT IN SASI - DISTRIBUTIONS		650,000.00	
	PV INVESTMENT IN SASI - EARNINGS			396,219.95
	ELIMINATE PALM VALLEY INVESTMENT IN SASI			
M.	PVGC BOOKS - SDC CONTRIBUTED CAPITAL	X	6,158,173.14	
	PVGC EARNINGS - PRIOR YEARS			461,617.51
	PVGC EARNINGS - CURRENT			952,440.16
	SDC INVESTMENT IN PVGC - EARNINGS		1,414,057.67	
	SDC INVESTMENT IN PVGC - CONTRIB CAPITAL			6,158,173.14
	ELIMINATE SDC INVESTMENT IN PALM VALLEY GOLF			
N.	SDC CONTRIB. CAPITAL TO PVGC	X		4,940,770.42
	PVGC ACCOUNTS RECEIVABLE		4,940,770.42	
O.	INTENTIONALLY LEFT BLANK.			
P.	WWOS INTEREST PAYABLE - RLC	X	96,097.45	
	SDC INTEREST RECEIVABLE - PHASE 1 LAND			21,834.16
	SDC INTEREST RECEIVABLE - RLC			74,263.29
	WWOS NOTES PAYABLE - PHASE 1 LAND		962,496.44	
	SDC NOTES RECEIVABLE - PHASE 1 LAND			962,496.44
	WWOS NOTES PAYABLE - RLC	X	10,000,000.00	
	SDC NOTES RECEIVABLE - RLC			10,000,000.00
	ELIMINATE WWOS INTERCOMPANY NOTES AND INTEREST WITH SDC			
Q.	WWOS ACCOUNTS PAYABLE	X	92,906.63	
	SDC ACCOUNTS RECEIVABLE			92,906.63
	ELIMINATE WWOS INTERCOMPANY A/R WITH SDC			
R.	KABUTO CONTRIBUTED CAPITAL - SDC	X	9,610,458.25	
	KABUTO CONTRIBUTED CAPITAL - KABUTO		4,118,768.30	
	KABUTO CURRENT PERIOD EARNINGS			1,918.95
	MINORITY INTEREST			4,118,768.30
	SDC INVESTMENT IN KABUTO - CONTR CAPITAL			9,610,458.25
	SDC INVESTMENT IN KABUTO - EARNINGS		1,918.95	
	ELIMINATE SDC INVESTMENT IN KABUTO JV #3000			
S.	COMMERCIAL OPS CONTRIBUTED CAPITAL	X	74,021,688.26	
	COMMERCIAL EARNINGS - PRIOR		10,194,516.13	
	COMMERCIAL EARNINGS - CURRENT YEAR		4,796,650.73	
	SDC INVEST IN GEN COMMERCIAL OPS - EARNINGS			4,222,681.73
	SDC INVEST IN GEN COMMERCIAL OPS - CONT CAPITAL			75,133,507.87
	SDC INVEST IN HAYDEN FERRY LAKESIDE			3,013,509.35
	SDC INVESTMENT IN OUTER LIMITS - PURCHASE			1,822,514.94
	SDC INVESTMENT IN FIDDLE (SCOTTS) - CONT CAPITAL		3,761,778.75	
	SDC INVESTMENT IN FIDDLE (SCOTTS) - EARNINGS		632,086.48	
	SDC INVESTMENT IN FUNTASTICKS - CONT CAPITAL		475,281.57	
	SDC INVESTMENT IN FUNTASTICKS - EARNINGS			621,866.50
	SDC INVESTMENT IN FIDDLE (TEMPE) - CONT CAPITAL		1,708,971.07	
	SDC INVESTMENT IN FIDDLE (TEMPE) - EARNINGS			1,304,459.03
	SDC INVESTMENT IN APS PROPERTIES - EARNINGS			422,039.77
	SDC INVESTMENT IN BLACK CANYON CP - EARNINGS			741,505.80
	SDC INVESTMENT IN PV MARKETPLACE - EARNINGS			3,473,608.17
	SDC INVESTMENT IN PV PAVILIONS - EARNINGS			3,821,321.75

SUNCOR DEVELOPMENT COMPANY
CONSOLIDATING BALANCE SHEET
DECEMBER 2000 CONSOLIDATING & ELIMINATING ENTRIES

			DEBIT	CREDIT
	SDC INVESTMENT IN DYSART/MCDOWELL CENTER			872,111.61
	SDC INVESTMENT IN PV CROSSING			1,306,478.79
	SDC INVESTMENT IN PV OFFICE PARK			247,225.04
	SDC INVESTMENT IN METROCENTER			281,410.66
	SDC INVESTMENT IN RESTORATION PALACE		178,046.92	
	SDC INVESTMENT IN LITCHFIELD PARK OPS			168,239.27
	SDC INVESTMENT IN AUTOPLEX		148,809.37	
	SDC INVESTMENT IN TALAVI - EARNINGS		221,422.43	
	SDC INVESTMENT IN WWOS - EARNINGS		1,319,039.52	
	SDC INVESTMENT IN LP PROF. PLAZA - EARNINGS			6,875.56
	ELIMINATE SDC INVESTMENT IN COMMERCIAL OPERATIONS #2000			
T.	HIDDEN HILLS SDC CONTRIBUTED CAPITAL	X	9,898,479.18	
	GLAZ CONTRIBUTED CAPITAL, NET		4,474,530.28	
	GLAZ INVESTMENT IN HIDDEN HILLS - CONT CAPITAL			4,474,530.28
	HIDDEN HILLS EARNINGS - PRIOR		87,219.79	
	HIDDEN HILLS EARNINGS - CURRENT YEAR		1,396,891.01	
	SDC INVESTMENT IN HIDDEN HILLS - EARNINGS			1,484,110.80
	SDC INVESTMENT IN HIDDEN HILLS - CONT CAPITAL			9,898,478.90
	ELIMINATE SDC INVESTMENT IN HIDDEN HILLS JV #3300			
U.	SDC INVESTMENT IN RANCHO VIEJO - EARNINGS	X		3,936,793.89
	SDC INVESTMENT IN RANCHO VIEJO - CAPITAL			14,826,853.90
	RANCHO VIEJO CONTRIBUTED CAPITAL		14,826,853.90	
	RANCHO VIEJO EARNINGS - PRIOR		1,329,014.88	
	RANCHO VIEJO EARNINGS - CURRENT YEAR		2,607,778.40	
	ELIMINATE SDC INVESTMENT IN RANCHO VIEJO JV #6600			
V.	PV CONTRIBUTED CAPITAL	X	118,191,627.22	
	PV EARNINGS - PRIOR		14,551,973.51	
	PV EARNINGS - CURRENT YEAR		18,413,384.22	
	SDC INVESTMENT IN PALM VALLEY - EARNINGS			32,965,357.73
	SDC INVESTMENT IN PALM VALLEY - DEVELOP			118,191,627.22
	ELIMINATE SDC INVESTMENT IN PALM VALLEY #5500			
W.	CORAL CANYON CONTRIBUTED CAPITAL		27,073,924.12	
	CORAL CANYON - PRIOR			42,620.30
	CORAL CANYON - CURRENT YEAR			156,726.00
	SDC INVESTMENT IN CORAL CANYON - DEVELOP			27,073,923.10
	SDC INVESTMENT IN CORAL CANYON - EARNINGS		199,345.28	
X.	CORAL CANYON ACCOUNTS PAYABLE		655,380.98	
	CORAL CANYON INTERCOMPANY INVOICES			5,708.26
	SDC ACCOUNTS RECEIVABLE			650,044.04
	ELIMINATE SDC INVESTMENT IN CORAL CANYON #3900			
Y.	RANCHLAND - CURRENT YEAR			60,243.14
	RANCHLAND - PRIOR YEARS EARNINGS			92,325.37
	RANCHLAND - CONTRIBUTED CAPITAL		1,109,211.60	
	RANCHLAND - DUE TO/FROM RANCHO VIEJO		176,174.00	
	RANCHO INVESTMENT IN RANCHLAND UTILTY-CAPITAL			1,109,211.60
	SDC INVESTMENT IN RL UTILTY-EARNINGS PRIOR		92,325.37	
	SDC INVESTMENT IN RL UTILTY-EARNINGS CURRENT		59,775.62	
	RANCHO - DUE TO/FROM RANCHLAND UTILITIES			177,219.76
	ELIMINATE RANCHO INVESTMENT IN RANCHLAND UTILITY			
Z.	CLUB WEST - MINORITY INTEREST		377,000.00	
	CLUB WEST - SDC CONTRIBUTED CAPITAL		3,442,026.39	
	CLUB WEST - CURRENT YEAR EARNINGS			267,857.48
	CLUB WEST - PRIOR EARNINGS			
	CLUB WEST - INTERCOMPANY WITH SDC		221,941.29	
	MINORITY INTEREST-32%		85,714.39	
	SDC INVESTMENT - EARNINGS		182,143.09	
	SDC INVESTMENT - CAPITAL			3,442,026.39
	CWGC CONTRIBUTED CAPITAL - MINORITY INT			377,000.00
	SDC INTERCOMPANY WITH CLUB WEST			221,941.29

SUNCOR DEVELOPMENT COMPANY
CONSOLIDATING BALANCE SHEET
DECEMBER 2000 CONSOLIDATING & ELIMINATING ENTRIES

		DEBIT	CREDIT
	ELIMINATE SDC INVESTMENT IN CLUB WEST		
AA	CORAL CANYON GOLF - CURRENT YEAR EARNINGS		210,248.19
	CORAL CANYON GOLF COURSE - INTERCOMPANY WITH CORAL CANYON DEVELOPMENT	6,840,673.36	
	CORAL CANYON DEVELOPMENT - INTERCOMPANY WITH CORAL CANYON GOLF COURSE		6,840,673.00
		54,809.40	
			54,809.40
	SDC INVESTMENT EARNINGS	208,745.93	
	ELIMINATE SDC INVESTMENT IN CORAL CANYON GOLF CLUB		

Downloaded By: Shirley Nagy

Company: PINNACLE WEST CAPITAL CORP
Form Type: U-3A-2 SEC File #: 069-00306
Description: FORM U-3A-2
SEC File Date: 02/29/00

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Adopted November 9, 1939 File No. 69-306

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.

FORM U-3A-2

STATEMENT BY HOLDING COMPANY
CLAIMING EXEMPTION UNDER RULE U-3A-2
FROM THE PROVISIONS OF THE
PUBLIC UTILITY HOLDING COMPANY ACT OF 1935

To Be Filed Annually Prior to March 1

Pinnacle West Capital Corporation

(Name of Company)

hereby files with the Securities and Exchange Commission, pursuant to Rule 2, its statement claiming exemption as a holding company from the provisions of the Public Utility Holding Company Act of 1935, and submits the following information:

1. NAME, STATE OF ORGANIZATION, LOCATION AND NATURE OF BUSINESS OF CLAIMANT AND EVERY SUBSIDIARY THEREOF, OTHER THAN ANY EXEMPT WHOLESALE GENERATOR (EWG) OR FOREIGN UTILITY COMPANY IN WHICH CLAIMANT DIRECTLY OR INDIRECTLY HOLDS AN INTEREST.

Pinnacle West Capital Corporation ("Claimant"), having been incorporated on February 20, 1985 under the laws of the State of Arizona, and having its principal executive offices at 400 East Van Buren, Suite 700, Phoenix, Arizona 85004, was organized principally to acquire and hold securities of other corporations for investment purposes. The following are the subsidiaries of the Claimant:

a. Arizona Public Service Company ("APS" or the "Company"), is engaged principally in serving electricity in the State of Arizona. Incorporated in 1920 under the laws of the State of Arizona and having its principal executive offices at 400 North Fifth Street, Phoenix, Arizona 85004, APS became a subsidiary of the Claimant pursuant to a corporate restructuring plan approved by the Company's shareholders on April 18, 1985.

(1) AXIOM Power Solutions, Inc. ("AXIOM") -- an Arizona corporation having been incorporated on October 29, 1996 and having its principal executive offices at 400 E. Van Buren, Phoenix, Arizona 85004, was organized primarily to sell security and energy management products and services. AXIOM is a wholly-owned subsidiary of APS.

(2) Bixco, Inc. ("Bixco") -- an Arizona corporation having been incorporated on June 4, 1971 and having its principal executive offices at 400 North Fifth Street, Phoenix, Arizona 85004, was organized primarily to conduct exploration activities for energy resources and other valuable minerals. Subsequent to the sale of its oil and natural gas properties in 1981, Bixco has been inactive. Bixco is a wholly-owned subsidiary of APS.

b. APS Energy Services Company, Inc. ("APSES") -- an Arizona corporation having been incorporated on November 6, 1998 and having its principal executive offices at 400 E. Van Buren, Phoenix, Arizona 85004, was organized primarily to sell energy, products and services. APSES is a wholly-owned subsidiary of the Claimant.

c. SunCor Development Company ("SunCor") - an Arizona corporation having been incorporated on June 30, 1965 and having its

principal executive offices at 3838 North Central Avenue, Suite 1500, Phoenix, Arizona 85012, is a wholly-owned subsidiary of Claimant engaged primarily in the owning, holding and development of real property.

(1) SunCor Resort & Golf Management, Inc. ("Resort & Golf Management") (previously named "SunCor Resort Management, Inc." and "SunCor Farms, Inc.") -- an Arizona corporation having been incorporated on December 31, 1986 and having its principal executive offices at 3838 North Central Avenue, Suite 1500, Phoenix, Arizona 85012, operates and manages hotel, golf, food and beverage for the Wigwam Resort and Country Club, Sedona Golf Resort, SunRidge Canyon Golf Club, Sanctuary Gold Club at West World and Palm Valley Golf Club. Resort & Golf Management is a wholly-owned subsidiary of SunCor.

(2) Litchfield Park Service Company ("LPSCO") -- an Arizona corporation having been incorporated on September 21, 1954 and having its principal executive offices at 111 West Wigwam Boulevard, Suite B, Litchfield Park, Arizona 85340, is a regulated public utility engaged in providing water and sewer services to commercial and residential customers. LPSCO became a wholly-owned subsidiary of SunCor on December 31,1986.

(3) Golden Heritage Homes, Inc. ("Golden Heritage Homes") -- (previously named "SunCor Homes, Inc.", "LGR, Inc." and "WGP Realty, Inc.") an Arizona corporation having been incorporated on May 14, 1986 and having its principal executive offices at 7025 East Greenway Parkway, Suite 100, Scottsdale, Arizona 85254, was organized to provide brokerage and realty services in the sale of commercial and residential real property. Golden Heritage Homes is a wholly-owned subsidiary of SunCor.

(i) Golden Heritage Construction, Inc. ("GH Construction") -- an Arizona corporation having been incorporated on December 30, 1993 and having its principal executive offices at 3838 North Central Avenue, Suite 1500, Phoenix, Arizona 85012, was organized to serve as a general residential contractor. GH Construction became a wholly-owned

subsidiary of Golden Heritage Homes, Inc. on January 1, 1996.

(4) SCM, Inc. ("SCM") -- an Arizona corporation having been incorporated on May 14, 1991 and having its principal executive offices at 3838 North Central Avenue, Suite 1500, Phoenix, Arizona 85012, was organized to participate in real estate joint ventures and other real estate related activities. SCM is a wholly-owned subsidiary of SunCor.

(5) Golf de Mexico, S.A. DE C.V. ("Golf de Mexico") -- a Mexican variable capital corporation having been incorporated on February 8, 1992 in Tijuana, Baja California, Mexico, and having its principal executive offices at 3838 North Central Avenue, Suite 1500, Phoenix, Arizona 85012, was organized to operate and manage the Real del Mar Golf Course in Mexico. Golf de Mexico has been inactive since 1997.

(6) SunCor Realty & Management Company ("SunCor Realty") -- (previously named Russell Ranch Development Company) an Arizona corporation having been incorporated on April 1, 1994 and having its principal executive offices at 3838 North Central Avenue, Suite 1500, Phoenix, Arizona 85012 was organized to participate in real estate management and other real estate related activities. SunCor Realty is a wholly-owned subsidiary of SunCor.

(7) Palm Valley Golf Club, Inc. ("Palm Valley Golf") -- an Arizona corporation having been incorporated on January 23, 1996 and having its principal executive offices at 3838 North Central Avenue, Suite 1500, Phoenix, Arizona 85012, was organized to hold title to the Palm Valley Golf Course. Palm Valley Golf is a wholly-owned subsidiary of SunCor.

(8) Rancho Viejo de Santa Fe, Inc. ("Rancho Viejo") -- a New Mexico corporation having been incorporated on March 18, 1996 and having its principal executive offices at 1590-B Pacheco Street, Santa Fe, New Mexico 87505, was organized to engage in real estate development in New Mexico. Rancho Viego is a wholly-owned subsidiary of SunCor.

(9) Ranchland Utility Company ("Ranchland") -- a New Mexico corporation having been incorporated on September 5, 1997 and having its principal executive offices at 1590-B Pacheco Street, Santa Fe, New Mexico 87505 is a waste water utility. Ranchland is a wholly-owned subsidiary of Rancho Viejo.

d. El Dorado Investment Company -- an Arizona corporation having been incorporated on July 27, 1983 and having its principal executive offices at 400 East Van Buren, Suite 800, Phoenix, Arizona 85004, is a wholly-owned subsidiary of Claimant engaged primarily in the acquisition and holding of stocks and securities of other companies for investment purposes.

e. Pinnacle West Energy Corporation ("PWEC") - an Arizona corporation having been incorporated on September 27, 1999, and having its principal executive offices at 400 North Fifth Street, Phoenix, Arizona 85004, was organized primarily for the development, production and sale of wholesale energy. PWEC is a wholly-owned subsidiary of the Claimant.

2. A BRIEF DESCRIPTION OF THE PROPERTIES OF CLAIMANT AND EACH OF ITS SUBSIDIARY PUBLIC UTILITY COMPANIES USED FOR THE GENERATION, TRANSMISSION AND DISTRIBUTION OF ELECTRIC ENERGY FOR SALE, OR FOR THE PRODUCTION, TRANSMISSION AND DISTRIBUTION OF NATURAL OR MANUFACTURED GAS, INDICATING THE LOCATION OF PRINCIPAL GENERATING PLANTS, TRANSMISSION LINES, PRODUCING FIELDS, GAS MANUFACTURING PLANTS AND ELECTRIC AND GAS DISTRIBUTION FACILITIES, INCLUDING ALL SUCH PROPERTIES WHICH ARE OUTSIDE THE STATE IN WHICH CLAIMANT AND ITS SUBSIDIARIES ARE ORGANIZED AND ALL TRANSMISSION OR PIPELINES WHICH DELIVER OR RECEIVE ELECTRIC ENERGY OR GAS AT THE BORDERS OF SUCH STATE.

Neither the Claimant nor any of its subsidiaries own property used for the production, transmission and distribution of natural or manufactured gas. APS, a "public utility company" as that term is defined in the Public Utility Holding Company Act of 1935, is the only one of Claimant's subsidiaries that owns property used for the generation, transmission and distribution of electric energy for sale.

Exhibit D attached hereto shows the location of APS' major generating plants (including those owned jointly with others), principal transmission lines (including those operated for others) and interconnections of transmission lines with out-of-state utilities at state lines. All of such facilities, except the Four Corners Generating Station ("Four Corners"), and all of APS' distribution facilities, are located within the State of Arizona. Four Corners is a mine-mouth power plant, located in the northwest corner of New Mexico, near the city of Farmington, approximately 40 miles east of the Arizona-New Mexico border.

APS' present generating facilities have an accredited capacity aggregating 3,986,900 kilowatts, comprised as follows:

	Capacity (kW)
Coal:	
Units 1, 2 and 3 at Four Corners, aggregating	560,000
15% owned Units 4 and 5 at Four Corners, representing	222,000
Units 1, 2, and 3 at the Cholla Plant, aggregating	615,000
14% owned Units 1, 2 and 3 at the Navajo Plant, representing	315,000
	1,712,000
Gas or Oil:	
Two steam units at Ocotillo and two steam units at Saguaro, aggregating	435,000(1)
Eleven combustion turbine units, aggregating	493,000
Three combined cycle units, aggregating	255,000
	1,183,000
Nuclear:	
29.1 % owned or leased Units 1, 2 and 3 at Palo Verde, representing	1,086,300
Other	5,600

(1) West Phoenix steam units (108,300 kw) are currently mothballed.

APS' transmission facilities consist of approximately 5,273 pole miles of overhead lines and approximately 23 miles of underground lines, all of which are located within the State of Arizona. APS' distribution facilities consist of approximately 11,541 pole miles of overhead lines and approximately 10,711 miles of underground lines, all of which are located within the State of Arizona.

3. THE FOLLOWING INFORMATION FOR THE LAST CALENDAR YEAR WITH RESPECT TO CLAIMANT AND EACH OF ITS SUBSIDIARY PUBLIC UTILITY COMPANIES:

(DATA IS NOT MAINTAINED IN A FORMAT IDENTIFYING THE STATE IN WHICH THE SALES AND PURCHASES ARE MADE OR THE AMOUNT OF THEIR ASSOCIATED REVENUES OR EXPENSES.)

a. NUMBER OF KWH OF ELECTRIC ENERGY SOLD (AT RETAIL OR WHOLESALE), AND MCF. OF NATURAL OR MANUFACTURED GAS DISTRIBUTED AT RETAIL.

36,768,404,000 kwh of electric energy sold at wholesale or retail

0 Mcf. of natural or manufactured gas distributed at wholesale or retail

b. NUMBER OF KWH OF ELECTRIC ENERGY AND MCF. OF NATURAL OR MANUFACTURED GAS DISTRIBUTED AT RETAIL OUTSIDE THE STATE IN WHICH EACH SUCH COMPANY IS ORGANIZED.

73,792,000 kwh of electric energy was distributed at retail outside Arizona

0 Mcf. of natural or manufactured gas distributed at retail outside Arizona

c. NUMBER OF KWH OF ELECTRIC ENERGY AND MCF. OF NATURAL OR MANUFACTURED GAS SOLD AT WHOLESALE OUTSIDE THE STATE IN WHICH EACH SUCH COMPANY IS ORGANIZED, OR AT THE STATE LINE.

964,100 kwh of electric energy was sold at wholesale outside Arizona or at state line (excluding power marketing activities).

0 Mcf. of natural or manufactured gas sold at wholesale outside Arizona or at state line (excluding power marketing activities).

d. NUMBER OF KWH OF ELECTRIC ENERGY AND MCF. OF NATURAL OR MANUFACTURED GAS PURCHASED OUTSIDE THE STATE IN WHICH EACH SUCH COMPANY IS ORGANIZED OR AT THE STATE LINE.

1,337,740,000 kwh of electric energy was purchased outside Arizona or at state line (excluding power marketing activities).

23,829,168 Mcf. of natural or manufactured gas purchased outside Arizona or at state line (excluding power marketing activities).

4. THE FOLLOWING INFORMATION FOR THE REPORTING PERIOD WITH RESPECT TO CLAIMANT AND EACH INTEREST IT HOLDS DIRECTLY OR INDIRECTLY IN AN EWG OR A FOREIGN UTILITY COMPANY, STATING MONETARY AMOUNTS IN UNITED STATES DOLLARS:

The Claimant holds no interest, direct or indirect, in an EWG or a foreign utility company.

a. NAME, LOCATION, BUSINESS ADDRESS AND DESCRIPTION OF THE FACILITIES USED BY THE EWG OR FOREIGN UTILITY COMPANY FOR THE GENERATION, TRANSMISSION AND DISTRIBUTION OF ELECTRIC ENERGY FOR SALE OR FOR THE DISTRIBUTION AT RETAIL OF NATURAL OR MANUFACTURED GAS.

Not applicable.

b. NAME OF EACH SYSTEM COMPANY THAT HOLDS AN INTEREST IN SUCH EWG OR FOREIGN UTILITY COMPANY; AND DESCRIPTION OF THE INTEREST HELD.

Not applicable.

c. TYPE AND AMOUNT OF CAPITAL INVESTED, DIRECTLY OR INDIRECTLY, BY THE HOLDING COMPANY CLAIMING EXEMPTION; ANY DIRECT OR INDIRECT GUARANTEE

OF THE SECURITY OF THE EWG OR FOREIGN UTILITY COMPANY BY THE HOLDING COMPANY CLAIMING EXEMPTION; AND ANY DEBT OR OTHER FINANCIAL OBLIGATION FOR WHICH THERE IS RECOURSE, DIRECTLY OR INDIRECTLY, TO THE HOLDING COMPANY CLAIMING EXEMPTION OR ANOTHER SYSTEM COMPANY, OTHER THAN THE EWG OR FOREIGN UTILITY COMPANY.

Not applicable.

d. CAPITALIZATION AND EARNINGS OF THE EWG OR FOREIGN UTILITY COMPANY DURING THE REPORTING PERIOD.

Not applicable.

e. IDENTIFY ANY SERVICE, SALES OR CONSTRUCTION CONTRACT(S) BETWEEN THE EWG OR FOREIGN UTILITY COMPANY AND A SYSTEM COMPANY, AND DESCRIBE THE SERVICES TO BE RENDERED OR GOODS SOLD AND FEES OR REVENUES UNDER SUCH AGREEMENT(S).

Not applicable.

EXHIBIT A

A CONSOLIDATING STATEMENT OF INCOME AND SURPLUS OF THE CLAIMANT AND ITS SUBSIDIARY COMPANIES FOR THE LAST CALENDAR YEAR, TOGETHER WITH A CONSOLIDATING BALANCE SHEET OF CLAIMANT AND ITS SUBSIDIARY COMPANIES AS OF THE CLOSE OF SUCH CALENDAR YEAR.

Exhibit A hereto includes consolidating statements of income and consolidating balance sheets for the Claimant and the following of its subsidiaries: Arizona Public Service Company, SunCor Development Company, El Dorado Investment Company, and APS Energy Services Company, Inc. Subsidiaries have been consolidated for financial reporting purposes in accordance with Statement of Financial Accounting Standards No. 94, Consolidation of All Majority-Owned Subsidiaries. Also included are consolidating statements of income and consolidating balance sheets for SunCor Development Company and its subsidiaries.

EXHIBIT B FINANCIAL DATA STATEMENT

IF, AT THE TIME A REPORT ON THIS FORM IS FILED, THE REGISTRANT IS REQUIRED TO SUBMIT THIS REPORT AND ANY AMENDMENTS THERETO ELECTRONICALLY VIA EDGAR, THE REGISTRANT SHALL FURNISH A FINANCIAL DATA SCHEDULE. THE SCHEDULE SHALL SET FORTH THE FINANCIAL AND OTHER DATA SPECIFIED BELOW THAT ARE APPLICABLE TO THE REGISTRANT ON A CONSOLIDATED BASIS.

1. TOTAL ASSETS.

2. TOTAL OPERATING REVENUES.

3. NET INCOME.

See Exhibit B hereto.

EXHIBIT C

AN ORGANIZATIONAL CHART SHOWING THE RELATIONSHIP OF EACH EWG OR FOREIGN UTILITY COMPANY TO ASSOCIATE COMPANIES IN THE HOLDING-COMPANY SYSTEM.

Not applicable.

EXHIBIT D

In accordance with Item 304 of Regulation S-T of the Securities Exchange Act of 1934, APS' Service Territory map contained as Exhibit D to this Form U-3A-2 is a map of the State of Arizona showing APS' service area, the location of its major power plants and principal transmission lines, and the location of transmission lines operated by APS for others. The major power plants shown on such map are the Navajo Generating Station located in Coconino County, Arizona; the Four Corners Power Plant located near Farmington, New Mexico; the Cholla Power Plant, located in Navajo County, Arizona; the Yucca Power Plant, located near Yuma, Arizona; and the Palo Verde Nuclear Generating Station, located about 55 miles west of Phoenix, Arizona (each of which plants is reflected on such map as being jointly owned with other utilities), as well as the Ocotillo Power Plant and West Phoenix Power Plant, each located near Phoenix, Arizona, and the Saguaro Power Plant, located near Tucson, Arizona. APS' major transmission lines shown on such map are reflected as running between the power plants named above and certain major cities in the State of Arizona. The transmission lines operated for others shown on such map are reflected as running from the Four Corners Plant through a portion of northern Arizona to the California border.

The above-named Claimant has caused this statement to be duly executed on its behalf by its authorized officer on this 29th day of February, 2000.

Pinnacle West Capital corporation

(Name of Claimant)

By Barbara M. Gomez

Barbara M. Gomez
Treasurer

[CORPORATE SEAL]

Attest:

Suzanne Debes

Suzanne Debes
Associate Secretary

Name, title and address of officer to whom notices and correspondence concerning this statement should be addressed:

Barbara M. Gomez	Treasurer
(Name)	(Title)

400 North Fifth Street, Station 9996, Phoenix, Arizona 85004

(Address)

PINNACLE WEST CAPITAL CORPORATION
EXHIBIT B
FINANCIAL DATA SCHEDULE
HOLDING COMPANY REPORT
12/31/99

The Claimant submits the following consolidated financial information:

1	Total Assets:	$6,608,506,000
2	Total Operating Revenues:	$2,423,353,000
3	Net Income:	$ 167,887,000

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATING BALANCE SHEET (UNAUDITED)
DECEMBER 31, 1999
(THOUSANDS OF DOLLARS)

	PWCC	APS	SUNCOR	ELDO
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$ 2,057	$ 7,477	$ 7,900	$ 2,863
Customer and other receivables - net	496	235,851	7,277	2,746
Accrued utility revenue		72,919		
Materials and supplies		69,977		
Fossil fuel		21,869		
Deferred income taxes	0	8,163	8,000	0
Other current assets	290	30,885	30,119	0
Total current assets	2,843	447,141	53,295	5,609
INVESTMENTS AND OTHER ASSETS				
Real estate investments, net (cap interest) 1145.1			343,747	
Other assets	2,349,257	208,457	9,020	31,006
Total investments and other	2,349,257	208,457	352,767	31,006
PROPERTY, PLANT AND EQUIPMENT				
plant in service		7,545,575		
Nuclear Fuel		49,114		
Construction work in progress	20,273	184,763		
Total	20,273	7,779,452		
Less accumulated depreciation and amortization		3,026,041		
Net Property, Plant and Equipment	20,273	4,753,411		
DEFERRED DEBITS				
Deferred income taxes			25,257	
Regulatory assets		613,729		
Other deferred debits	1,009	94,886	10,826	0
Total deferred debits	1,009	708,615	36,083	0
TOTAL ASSETS	$2,373,382	$6,117,624	$ 442,145	$ 36,615

	ENERGY SERVICES	*ELIMINATIONS AND ADJUSTING ENTRIES* DEBIT	CREDIT	TOTAL
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$ 408			$ 20,705
Customer and other receivables - net	133	--(n)	1,904 (b,d,l,p,q)	244,599
Accrued utility revenue				72,919
Materials and supplies				69,977
Fossil fuel				21,869
Deferred income taxes			8,000 (o)	8,163
Other current assets			731 (c)	60,562
Total current assets	541	0	10,635	498,794
INVESTMENTS AND OTHER ASSETS				
Real estate investments, net (cap interest) 1145.1		5,450(f)	4,904 (e)	344,293
Other assets			2,330,282 (a,f,h,m,n)	267,458
Total investments and other	0	5,450	2,335,186	611,751
PROPERTY, PLANT AND EQUIPMENT				
plant in service	739			7,546,314
Nuclear Fuel				49,114
Construction work in progress	4,245			209,281
Total	4,984			7,804,709
Less accumulated depreciation and amortization	153			3,026,194
Net Property, Plant and Equipment	4,831			4,778,515
DEFERRED DEBITS				
Deferred income taxes			25,257 (o)	--
Regulatory assets				613,729
Other deferred debits		5(h)	1,009 (j)	105,717
Total deferred debits	0	5	26,266	719,446
TOTAL ASSETS	$ 5,372	$ 5,455	$2,372,087	$6,608,506

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATING BALANCE SHEET
December 31, 1999
(THOUSANDS OF DOLLARS)

	PWCC	APS	SUNCOR	ELDO
LIABIITIES AND EQUITY				
CURRENT LIABILITIES				
Accounts payable	$ 2,409	$ 170,663	$ 11,200	$ 88
Accrued taxes		62,858		8
Accrued interest	277	32,299	677	
Dividend payable	--	--		
Short-term borrowings	--	--		
Commerical paper, net	--	38,300		
Current maturities of long-term debt		114,711	87	
Deferred fuel				
Customer Deposits		24,682	1,416	
Other current liabilities	3,839	26,248	1,292	361
Total current liabilities	6,525	469,761	14,672	457
NON-CURRENT LIABILITIES				
Long-term debt less current maturities	106,000	1,997,400	102,652	
Total	106,000	1,997,400	102,652	--
DEFERRED CREDITS AND OTHER				
Deferred income taxes	38,865	1,178,085		7,774
Deferred investment tax credit 2123.1		4,839		
Unamortized gain-sale of utility plant		73,212		
Other deferred credits	16,259	411,154	8,901	
Total deferred credits	55,124	1,667,290	8,901	7,774
COMMITMENTS AND CONTINGENCIES (NOTE)				
MINORITY INTERESTS:				
Joint Ventures of SunCor			4,904	
COMMON STOCK EQUITY:				
Common stock	2,010,550	1,424,966	376,391	28,046
Accumulated deficit	195,183	$58,207	(65,375)	338
Total	2,205,733	1,983,173	311,016	28,384
TOTAL LIABILITIES AND EQUITY	$2,373,382	$6,117,624	$ 442,145	$ 36,615

	ENERGY SERVICES	*ELIMINATIONS* DEBIT		CREDIT		TOTAL
LIABIITIES AND EQUITY						
CURRENT LIABILITIES						
Accounts payable	$ 3,118	$ 954	(l,p)			$ 186,524
Accrued taxes		(7,612)	(k)	32	(k,i)	70,510
Accrued interest						33,253
Dividend payable			(d)			0
Short-term borrowings			(m)			0
Commerical paper, net						38,300
Current maturities of long-term debt						114,798
Deferred fuel						0
Customer Deposits						26,098
Other current liabiilities		5,733	(b,c,g,l,q)			26,007
Total current liabilities	3,118	(925)		32		495,490
NON-CURRENT LIABILITIES						
Long-term debt less current maturities						2,206,052
Total		--		--		2,206,052
DEFERRED CREDITS AND OTHER						
Deferred income taxes			(k)	(40,869)	(k,o)	1,183,855
Deferred investment tax credit 2123.1		1,009	(j)			3,830
Unamortized gain-sale of utility plant						73,212
Other deferred credits				4,020	(g)	440,334
Total deferred credits		1,009		(36,849)		1,701,231
COMMITMENTS AND CONTINGENCIES (NOTE)						
MINORITY INTERESTS:						
Joint Ventures of SunCor		4,904	(e)			0
COMMON STOCK EQUITY:						
Common stock	11,444	2,313,948	(a)			1,537,449
Accumulated deficit	(9,190)			(10,879)	(a)	668,284
Total	2,254	2,313,948		(10,879)		2,205,733
TOTAL LIABILITIES AND EQUITY	$ 5,372	$2,318,936		$ (47,696)		$6,608,506

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATED BALANCE SHEET
ELIMINATING AND ADJUSTING ENTRIES

(a)	Common stock		$2,313,948	
	Accumulated deficit		$ 10,879	
	Other investments			2,324,827

To eliminate PNW investment in subsidiaries

	Common Stock	Earnings/ Dividends	Total
APS	$1,898,067	$ 85,106	$1,983,173
Energy Services	11,444	(9,190)	$ 2,254
SunCor	376,391	(65,375)	311,016
El Dorado	28,046	338	28,384
Total	$2,313,948	$ 10,879	$2,324,827

(b)	Other current liabilities		$ 496	
	Customer and other receivables - net			$ 496

To eliminate intercompany receivables/payables

	A/R PNW	A/P Subs Books
APS	$ 189	$ 189
Energy Services	212	212
SunCor	29	29
El Dorado	66	66
Total	$ 496	$ 496

(c)	Other current liabilities		$ 731	
	Other current assets			$ 731

To eliminate PNW payable to APS

(e)	Minority interest		$ 4,904	
	Real estate investments - net			$ 4,904

To eliminate minority interest of SunCor JV partners

(f)	Real estate investments - net		$ 5,450	
	Other - assets			$ 5,450

To reclass PNW capitalized interest related to SunCor

(g)	Other current liabilities	$	4,020		
	Other deferred credits			$	4,020
	To reclass PNW deferred comp to long-term				
(h)	Other deferred debits	$	5		
	Other - assets			$	5
	To relcass PNW unamortized debt to long-term				
(i)	Accounts payable	$	32		
	Accrued taxes			$	32
	To relcass PNW property tax				
(j)	Deferred investment tax credit	$	1,009		
	Other deferred debits			$	1,009
	To relcass PNW ITC from Deferred taxes to Deferred ITC				
(k)	Accrued taxes	$	(11,825)		
	Other deferred debits			$	(11,825)
	To relcass PNW accrued taxes				
(o)	Deferred income taxes-current portion	$	8,000		
	Deferred income taxes-noncurrent portion		25,257		
	Deferred income taxes			$	33,257
(p)	Energy Services due to APS	$	922		
	APS due from Energy Services			$	922
(q)	Other current liabilities	$	486		
	Other receivables			$	486

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATING INCOME STATEMENT (UNAUDITED)
FOR THE PERIOD ENDED DECEMBER 31, 1999
(THOUSANDS OF DOLLARS)

	PWCC	APS	SUNCOR	ELDO
OPERATING REVENUES:				
Electric		$2,292,798		
Real Estate			130,169	
Total	--	2,292,798	130,169	--
FUEL EXPENSES:				
Fuel for electric generation		243,849		
Purchased power		551,645		
Total	--	795,494	--	--
OPERATING EXPENSES:				
Utility operations and maintenance		437,729		
Real estate operations			118,805	
Depreciation and amortization	266	382,057	3,092	--
Taxes other than income taxes		96,579		
Total	266	916,365	121,897	--
OPERATING INCOME	(266)	580,939	8,272	--
OTHER INCOME (DEDUCTIONS):				
Interest on long-term debt	(5,661)	(132,676)	(8,058)	--
Other interest	(517)	(15,595)	--	--
Capitalized interest	240	6,679	4,745	
Preferred stock dividend requirements		(1,016)		
Other, net	132,814	(11,537)	5,185	19,257
Total	126,876	(154,145)	1,872	19,257
Income from continuing operations b4 income taxes	126,610	426,794	10,144	19,257
Income Tax Expense (Benefit)	(3,277)	159,488	4,080	7,774
Income from continuing operations	129,887	267,306	6,064	11,483
Extraordinary charge	--	(139,885)		
discontinued operations	38,000			
NET INCOME (LOSS)	167,887	127,421	6,064	11,483

	ENERGY SERVICES	ADJUSTMENTS & ELIMINATIONS DEBIT	CREDIT	TOTAL
OPERATING REVENUES:				
Electric	386	$ -- (f)		2,293,184
Real Estate				130,169
Total	386	--	--	2,423,353
FUEL EXPENSES:				
Fuel for electric generation				243,849
Purchased power	615		-- (f)	552,260
Total	615	--	--	796,109
OPERATING EXPENSES:				
Utility operations and maintenance	9,048			446,777
Real estate operations		711 (b)	-- (d)	119,516
Depreciation and amortization	153			385,568
Taxes other than income taxes		27 (c,d)		96,606
Total	9,201	738	--	1,048,467
OPERATING INCOME	(9,430)	(738)	--	578,777
OTHER INCOME (DEDUCTIONS):				
Interest on long-term debt				(146,395)
Other interest			126 (e)	(15,986)
Capitalized interest				11,664
Preferred stock dividend requirements				(1,016)
Other, net	239	135,903 (a,e)	738 (b,c)	10,793
Total	239	135,903	864	(140,940)
Income from continuing operations b4 income taxes	(9,191)	136,641	864	437,837
Income Tax Expense (Benefit)				168,065
Income from continuing operations	(9,191)	136,641	864	269,772
Extraordinary charge				(139,885)
discontinued operations				38,000
NET INCOME (LOSS)	(9,191)	136,641	864	167,887

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATING INCOME STATEMENT
ELIMINATING ENTRIES

(a)	Other - net (Subs income)	$135,777	
	Retained Earnings		$135,777

To eliminate PWCC Equity in earnings from subsidiairies

	PWCC
APS	$127,421
APS Extraordinary Chg	0
Energy Services	(9,191)
SunCor	6,064
El Dorado	11,483
Total	$135,777

(b)	Real Estate Operations	$ 711	
	Interest Expense (PWCC)		$ 711

To reclass Capitalized Interest for SunCor Land Sales.

(c)	Taxes other than income taxes	$ 27	
	Other - net		$ 27

To reclass PNW property taxes

(e)	Other, net (El Dorado interest income)	$ 126	
	Other interest		$ 126

To eliminate interest on ELD loan to PNW

SUNCOR DEVELOPMENT COMPANY
CONSOLIDATED BALANCE SHEET (UNAUDITED)
FOR THE MONTH ENDED DECEMBER 31, 1999

ACCOUNT DESCRIPTION	1000 SUNCOR	SCOTT D. LPSCO	ANDY D. RANCHLAND	TERRY O. SASI	3500 SMLP	LINDA H. PVGC
CURRENT ASSETS						
CASH AND SHORT TERM INVESTMENTS	6,814,271	1,551,346	287,653	317,208	1,495,236	(16,650)
ACCOUNTS RECEIVABLE	409,109	1,591,526	2,922	94,972	303,750	38,691
INTERCOMPANY ACCOUNTS:						
SASI						
LPSCO	36,630					
SMLP	20,006					
PVGC						3,566,740
WWOS	(147,949)					
GOLDEN HERITAGE - GENERAL 129	1,164,402					
SCM-GENERAL 129	5,386,541					
HOMEBUILDING I/C INTEREST 12904	4,259,103					
HOMEBUILDING CASH ADVANCES	13,617,899					
COMMERCIAL - GENERAL						
SUNRIDGE - DEVELOPMENT	10,985					
SUNRIDGE - GOLF	183,387					
SEDONA - DEVELOPMENT	123,201					
SEDONA - GOLF	131,247					
WIGWAM RESORT	304,244					
HFS FINANCIAL SERVICES	4,712					
SANCTUARY GOLF	116,967					
INTEREST RECEIVABLE	358,026					
NOTES RECEIVABLE	3,242,262					
INVENTORIES						77,335
PREPAID EXPENSES	16,718					86,017
HOME INVENTORY	6,888					
DEFERRED INCOME TAXES	8,000,000					
TOTAL CURRENT ASSETS	44,058,649	3,142,872	290,575	412,180	1,798,986	3,752,133
LONG-TERM ASSETS						
DEVELOPMENT PROJECTS						
CORAL CANYON						
HIDDEN HILLS						
RANCHO VIEJO						
PALM VALLEY						
LITCHFIELD GREENS						
VILLAGE OF LITCHFIELD GREENS						
SCOTTSDALE MOUNTAIN					2,990,878	
MARKETPLACE - AUTOPLEX						
TATUM RANCH	2,296,981					
TALAVI						
WIGWAM OUTLET STORES						
GOLDEN HERITAGE LAND						
BILTMORE ESTATES						
BLACK CANYON COMMERCE PARK						
OTHER COMMERCIAL LAND						
EQUITY INVESTMENTS:						
EQUITY IN CTRPT ASSOC-LLP						
INVEST IN KYRENE ASSOCIATES LLC						
INVEST IN PV APARTMENTS (I & II)						
INVESTMENT IN SUNRIDGE CANYON LLC	4,733,057					
INVESTMENT IN SEDONA GOLF LC	4,532,343					
INVESTMENT IN PLUMCOR REALTY LLC						
INVEST IN TALAVI ASSOCIATES LLC						
INVESTMENT IN WESTWORLD GOLF	2,462,925					
INVESTMENT IN HFS MORTGAGE						
CONSOLIDATED ELIMINATING ENTITIES:						
INVEST IN KABUTO/SUNCOR JV	5,989,478					
INVESTMENT IN WIGWAM OUTLET LLC						
INVEST IN SCOTTS MTN LTD PART	3,661,279					
INVEST IN GOLDEN HERITAGE	2,360,474					
GOLDEN HERITAGE DUE DILIGENCE						
INVESTMENT IN SCM	517,850					
INVESTMENT IN LPSCO	12,370,410					
INVESTMENT IN SASI						
INVESTMENT IN PALM VALLEY	167,320,786					
INVESTMENT IN PALM VALLEY GOLF	5,696,556					
PALM VALLEY GOLF CONTRIB. CAP	(3,566,740)					
INVESTMENT IN RANCHO VIEJO	14,150,291					
INVESTMENT IN RANCHLAND UTILITY	(92,139)					
INVESTMENT IN HIDDEN HILLS	8,831,359					
INVESTMENT IN CORAL CANYON	9,935,792					

ACCOUNT DESCRIPTION	LARRY W. HOMES	5500 PV	WWOS	5501 KABUTO JV	COMM.	3300 H HILLS
CURRENT ASSETS						
CASH AND SHORT TERM INVESTMENTS	318,818	(528,388)	89,489	(26,250)	(537,677)	(504,712)
ACCOUNTS RECEIVABLE	173,037		109,951		253,504	
INTERCOMPANY ACCOUNTS:						
SASI						
LPSCO						
SMLP						
PVGC						
WWOS					372,210	
GOLDEN HERITAGE - GENERAL 129	270,788					
SCM-GENERAL 129	(5,386,541)					
HOMEBUILDING I/C INTEREST 12904	(4,259,103)					
HOMEBUILDING CASH ADVANCES						
COMMERCIAL - GENERAL						
SUNRIDGE - DEVELOPMENT						
SUNRIDGE - GOLF						
SEDONA - DEVELOPMENT						
SEDONA - GOLF						

WIGWAM RESORT						
HFS FINANCIAL SERVICES						
SANCTUARY GOLF						
INTEREST RECEIVABLE						
NOTES RECEIVABLE					141,519	
INVENTORIES					53,128	
PREPAID EXPENSES	31,826	85				
HOME INVENTORY	28,380,385					
DEFERRED INCOME TAXES						
TOTAL CURRENT ASSETS	19,529,209	(528,304)	199,441	(26,250)	282,684	(504,712)
LONG-TERM ASSETS						
DEVELOPMENT PROJECTS						
CORAL CANYON						
HIDDEN HILLS						10,617,585
RANCHO VIEJO						
PALM VALLEY		168,160,448			15,488,115	
LITCHFIELD GREENS		216,402				
VILLAGE OF LITCHFIELD GREENS				12,865,293		
SCOTTSDALE MOUNTAIN						
MARKETPLACE - AUTOPLEX					7,056,083	
TATUM RANCH						
TALAVI					2,317,465	
WIGWAM OUTLET STORES			15,215,844			
GOLDEN HERITAGE LAND	1,417,382					
BILTMORE ESTATES						
BLACK CANYON COMMERCE PARK					2,370,320	
OTHER COMMERCIAL LAND					2,851,358	
EQUITY INVESTMENTS:						
EQUITY IN CTRPT ASSOC-LLP					22,699,776	
INVEST IN KYRENE ASSOCIATES LLC					(89,199)	
INVEST IN PV APARTMENTS (I & II)		623,373				
INVESTMENT IN SUNRIDGE CANYON LLC						
INVESTMENT IN SEDONA GOLF LC						
INVESTMENT IN PLUMCOR REALTY LLC						
INVEST IN TALAVI ASSOCIATES LLC					2,428,130	
INVESTMENT IN WESTWORLD GOLF						
INVESTMENT IN HFS MORTGAGE						
CONSOLIDATED ELIMINATING ENTITIES:						
INVEST IN KABUTO/SUNCOR JV						
INVESTMENT IN WIGWAM OUTLET LLC					3,127,396	
INVEST IN SCOTTS MTN LTD PART						
INVEST IN GOLDEN HERITAGE						
GOLDEN HERITAGE DUE DILIGENCE						
INVESTMENT IN SCM						
INVESTMENT IN LPSCO						
INVESTMENT IN SASI		311,290				
INVESTMENT IN PALM VALLEY						
INVESTMENT IN PALM VALLEY GOLF						
PALM VALLEY GOLF CONTRIB. CAP						
INVESTMENT IN RANCHO VIEJO						
INVESTMENT IN RANCHLAND UTILITY						
INVESTMENT IN HIDDEN HILLS						
INVESTMENT IN CORAL CANYON						

			CONSOLIDATING & ELIMINATING ENTRIES			
ACCOUNT DESCRIPTION	ANDY D. R. VIEJO	3900 C. CANYON	REF	DEBIT	REF	CREDIT
CURRENT ASSETS						
CASH AND SHORT TERM INVESTMENTS	(73,037)	(1,287,140)				
ACCOUNTS RECEIVABLE	258,811				J,Q,X	484,456
INTERCOMPANY ACCOUNTS:						
SASI						
LPSCO					H	36,630
SMLP					J	20,006
PVGC					N	3,566,740
WWOS			Q,O	147,949	Q,O	372,210
GOLDEN HERITAGE - GENERAL 129					A	1,435,189
SCM-GENERAL 129			A	5,386,541	A	5,386,541
HOMEBUILDING I/C INTEREST 12904			C	4,259,103	C	4,259,103
HOMEBUILDING CASH ADVANCES					B	13,617,899
COMMERCIAL - GENERAL						
SUNRIDGE - DEVELOPMENT						
SUNRIDGE - GOLF						
SEDONA - DEVELOPMENT						
SEDONA - GOLF						
WIGWAM RESORT						
HFS FINANCIAL SERVICES						
SANCTUARY GOLF						
INTEREST RECEIVABLE					P	91,841
NOTES RECEIVABLE						
INVENTORIES						
PREPAID EXPENSES		47,961				
HOME INVENTORY	2,825,908	339,614			E	1,750,166
DEFERRED INCOME TAXES						
TOTAL CURRENT ASSETS	3,011,682	(899,565)		9,793,593		31,020,780
LONG-TERM ASSETS						
DEVELOPMENT PROJECTS						
CORAL CANYON		11,316,475				
HIDDEN HILLS					T	6,687,713
RANCHO VIEJO	10,626,364					
PALM VALLEY						
LITCHFIELD GREENS						
VILLAGE OF LITCHFIELD GREENS						
SCOTTSDALE MOUNTAIN						
MARKETPLACE - AUTOPLEX						
TATUM RANCH						
TALAVI						
WIGWAM OUTLET STORES						
GOLDEN HERITAGE LAND						
BILTMORE ESTATES						
BLACK CANYON COMMERCE PARK						
OTHER COMMERCIAL LAND						
EQUITY INVESTMENTS:						
EQUITY IN CTRPT ASSOC-LLP						
INVEST IN KYRENE ASSOCIATES LLC						
INVEST IN PV APARTMENTS (I & II)						
INVESTMENT IN SUNRIDGE CANYON LLC						

INVESTMENT IN SEDONA GOLF LC					
INVESTMENT IN PLUMCOR REALTY LLC					
INVEST IN TALAVI ASSOCIATES LLC					
INVESTMENT IN WESTWORLD GOLF					
INVESTMENT IN HFS MORTGAGE					
CONSOLIDATED ELIMINATING ENTITIES:					
INVEST IN KABUTO/SUNCOR JV				R	8,987,210
INVESTMENT IN WIGWAM OUTLET LLC		O	20,243,786	O	24,295,125
INVEST IN SCOTTS MTN LTD PART		I	19,595,019	I	23,271,427
INVEST IN GOLDEN HERITAGE			-	D	2,360,474
GOLDEN HERITAGE DUE DILIGENCE					
INVESTMENT IN SCM				D	517,850
INVESTMENT IN LPSCO				F	12,233,823
INVESTMENT IN SASI		L	650,000	L	961,290
INVESTMENT IN PALM VALLEY			-	V	167,320,786
INVESTMENT IN PALM VALLEY GOLF		M	461,618	M	6,158,173
PALM VALLEY GOLF CONTRIB. CAP		N	3,566,740		
INVESTMENT IN RANCHO VIEJO		U	0	U	14,150,291
INVESTMENT IN RANCHLAND UTILITY	1,063,044	X	92,236	X	1,062,944
INVESTMENT IN HIDDEN HILLS		T	0	T	8,831,359
INVESTMENT IN CORAL CANYON		W	42,620	W	9,978,412

ACCOUNT DESCRIPTION	CONSOLIDATED
CURRENT ASSETS	
CASH AND SHORT TERM INVESTMENTS	7,900,166.81
ACCOUNTS RECEIVABLE	2,751,817.08
INTERCOMPANY ACCOUNTS:	
SASI	0.00
LPSCO	0.00
SMLP	0.00
PVGC	0.00
WWOS	0.00
GOLDEN HERITAGE - GENERAL 129	0.00
SCM-GENERAL 129	0.00
HOMEBUILDING I/C INTEREST 12904	0.00
HOMEBUILDING CASH ADVANCES	0.00
COMMERCIAL - GENERAL	0.00
SUNRIDGE - DEVELOPMENT	10,985.35
SUNRIDGE - GOLF	183,387.29
SEDONA - DEVELOPMENT	123,200.67
SEDONA - GOLF	131,247.08
WIGWAM RESORT	304,243.52
HFS FINANCIAL SERVICES	4,712.37
SANCTUARY GOLF	116,966.90
INTEREST RECEIVABLE	266,185.50
NOTES RECEIVABLE	3,383,781.12
INVENTORIES	130,463.35
PREPAID EXPENSES	182,606.47
HOME INVENTORY	29,802,628.36
DEFERRED INCOME TAXES	8,000,000.00
TOTAL CURRENT ASSETS	53,292,391.87
LONG-TERM ASSETS	
DEVELOPMENT PROJECTS	
CORAL CANYON	11,316,475.00
HIDDEN HILLS	3,929,872.00
RANCHO VIEJO	10,626,364.30
PALM VALLEY	183,648,562.82
LITCHFIELD GREENS	216,401.50
VILLAGE OF LITCHFIELD GREENS	12,865,293.32
SCOTTSDALE MOUNTAIN	2,990,878.00
MARKETPLACE - AUTOPLEX	7,056,082.50
TATUM RANCH	2,296,981.30
TALAVI	2,317,464.93
WIGWAM OUTLET STORES	15,215,844.02
GOLDEN HERITAGE LAND	1,417,382.32
BILTMORE ESTATES	0.00
BLACK CANYON COMMERCE PARK	2,370,319.68
OTHER COMMERCIAL LAND	2,851,358.19
EQUITY INVESTMENTS:	
EQUITY IN CTRPT ASSOC-LLP	22,699,776.23
INVEST IN KYRENE ASSOCIATES LLC	(89,199.41)
INVEST IN PV APARTMENTS (I & II)	623,372.96
INVESTMENT IN SUNRIDGE CANYON LLC	4,733,057.28
INVESTMENT IN SEDONA GOLF LC	4,532,343.08
INVESTMENT IN PLUMCOR REALTY LLC	0.00
INVEST IN TALAVI ASSOCIATES LLC	2,428,130.22
INVESTMENT IN WESTWORLD GOLF	2,462,925.00
INVESTMENT IN HFS MORTGAGE	0.00
CONSOLIDATED ELIMINATING ENTITIES:	0.00
INVEST IN KABUTO/SUNCOR JV	(2,997,731.29)
INVESTMENT IN WIGWAM OUTLET LLC	(923,943.20)
INVEST IN SCOTTS MTN LTD PART	(15,128.48)
INVEST IN GOLDEN HERITAGE	0.00
GOLDEN HERITAGE DUE DILIGENCE	0.00
INVESTMENT IN SCM	0.00
INVESTMENT IN LPSCO	136,586.22
INVESTMENT IN SASI	0.00
INVESTMENT IN PALM VALLEY	0.00
INVESTMENT IN PALM VALLEY GOLF	0.00
PALM VALLEY GOLF CONTRIB. CAP	0.00
INVESTMENT IN RANCHO VIEJO	0.00
INVESTMENT IN RANCHLAND UTILITY	196.46
INVESTMENT IN HIDDEN HILLS	0.00
INVESTMENT IN CORAL CANYON	0.00

ACCOUNT DESCRIPTION	SUNCOR	SCOTT D. LPSCO	ANDY D. RANCHLAND	TERRY O. SASI	SMLP	LINDA H. PVGC
PROJECT 2000:						
INVESTMENT IN FIDDLESTICKS-SCOTTS	(1,557,881)					
INVESTMENT IN FIDDLESTICKS-TEMPE	596,193					
INVESTMENT IN FUNTASTICKS	1,213,707					
INVESTMENT IN GENERAL COMM OPS	78,582,545					
INVESTMENT IN PV MARKETPLACE	2,307,137					
INVESTMENT IN DYSART/MCDOWELL	872,316					
INVESTMENT IN PV PAVILIONS	2,694,953					

INVESTMENT IN PV CROSSING	150,310					
INVESTMENT IN PALM VALLEY OFFICE PARK	(8,156)					
INVESTMENT IN AUTOPLEX	(203,224)					
INVESTMENT IN TALAVI	(182,886)					
INVESTMENT IN METROCENTER	281,411					
INVESTMENT IN RESTORATION PLACE	(82,105)					
INVESTMENT IN LITCHFIELD PARK OP	121,246					
INVESTMENT IN LP PROF. PLAZA	(643)					
INVESTMENT IN WWOS LLC	(397,454)					
INVESTMENT IN APS PROPERTIES	113,667					
INVESTMENT IN BLACK CANYON CP	(8,126)					
COMMERCIAL PROPERTIES						5,163,154
LONG-TERM NOTES RECEIVABLE	5,687,701					
SDC PHASE I LAND NOTE TO WWOS	1,059,207					
SDC PAYOFF OF WWOS RLC	10,000,000					
SDC LOAN TO LPSCO	300,000					
PROPERTY & EQUIPMENT, NET	773,367			36,696		143,980
DEFERRED ASSETS	3,329,080	366,079	44,008		93,923	175,051
DEFERRED INCOME TAXES	25,120,119					
WATER & SEWER UTILITY PROP, NET		13,921,090	1,134,035			
LPSCO RESTRICTED CASH FUNDS		3,800,491				
DEPOSITS						
TOTAL LONG-TERM ASSETS	371,963,183	18,087,660	1,178,043	36,696	3,084,801	5,482,185
TOTAL ASSETS	416,021,832	21,230,532	1,468,618	448,876	4,883,787	9,234,318
LIABILITIES:						
CURRENT LIABILITIES						
A/P & RETENTION	119,490	237,174	0	29,787	68,109	56,165
ACCRUED LIABILITIES	2,561,017	400,672	101	147	49,404	77,263
INTERCOMPANY ACCOUNTS:						
LPSCO - SDC		36,630				
SMLP - SDC					20,006	
SCM-SDC CASH ADVANCES 267						
GH-SDC INTERCO CAPITAL 265						
WWOS-COM						
WWOS-SDC						
RANCHLAND-RANCHO VIEJO			176,174			
INTEREST PAYABLE	676,610					
S/T NOTES PAYABLE						
$45 MILLION TERM LOAN	3,208,144					
$55 MILLION RLC						
GOLDEN HERITAGE (PEW)						
TEXTRON LOAN - PVGC						
DEF PROFIT & UNEARNED REVENUE	2,318,943			37,193	0	
PWCC INTERCO PAYABLE	635,090					
APS LAND INTERCO PAYABLE						
CUSTOMER DEPOSITS						
TOTAL CURRENT LIABILITIES	9,519,295	674,476	176,275	67,127	137,519	133,428
LONG-TERM LIABILITIES						
LONG-TERM NOTES PAYABLE						
WWOS OWES SDC PH I LAND NOTE						
WWOS RLC PAYOFF BY SDC						
CORPORATE TERM NOTE	38,791,856					
CORPORATE RLC	52,000,000					
LPSCO BONDS		5,335,000				
TEXTRON LOAN - PVGC						3,404,335
OTHER ACCRUED LIABILITIES	4,694,788	1,177,095	0	70,459		
DEFERRED TAXES		17,613	113,584			
LONG-TERM CUSTOMER DEPOSITS		1,492,524	208,050			
CONTRIB PROPERTY AIA						
TOTAL L/T LIABILITIES	95,486,644	8,022,232	321,634	70,459	0	3,404,335
TOTAL LIABILITIES	105,005,939	8,696,708	497,909	137,586	137,519	3,537,763

ACCOUNT DESCRIPTION	LARRY W. HOMES	PV	WWOS	KABUTO JV	COMM.	H HILLS
INVESTMENT IN FIDDLESTICKS-SCOTTS						
INVESTMENT IN FIDDLESTICKS-TEMPE						
INVESTMENT IN FUNTASTICKS						
INVESTMENT IN GENERAL COMM OPS						
INVESTMENT IN PV MARKETPLACE						
INVESTMENT IN DYSART/MCDOWELL						
INVESTMENT IN PV PAVILIONS						
INVESTMENT IN PV CROSSING						
INVESTMENT IN PALM VALLEY OFFICE PARK						
INVESTMENT IN AUTOPLEX						
INVESTMENT IN TALAVI						
INVESTMENT IN METROCENTER						
INVESTMENT IN RESTORATION PLACE						
INVESTMENT IN LITCHFIELD PARK OP						
INVESTMENT IN LP PROF. PLAZA						
INVESTMENT IN WWOS LLC						
INVESTMENT IN APS PROPERTIES						
INVESTMENT IN BLACK CANYON CP						
COMMERCIAL PROPERTIES					27,158,053	
LONG-TERM NOTES RECEIVABLE		498,808				
SDC PHASE I LAND NOTE TO WWOS						
SDC PAYOFF OF WWOS RLC						
SDC LOAN TO LPSCO						
PROPERTY & EQUIPMENT, NET	1,206,867	164,299	77,893			
DEFERRED ASSETS		162,500	75,852		850,452	5,603,404
DEFERRED INCOME TAXES						
WATER & SEWER UTILITY PROP, NET						
LPSCO RESTRICTED CASH FUNDS						
DEPOSITS	123,830					
TOTAL LONG-TERM ASSETS	2,748,079	170,137,119	15,369,589	12,865,293	86,257,949	16,220,989
TOTAL ASSETS	22,277,288	169,608,815	15,569,029	12,939,044	86,540,632	15,716,277
LIABILITIES:						
CURRENT LIABILITIES						
A/P & RETENTION	2,560,070	1,047,497	568,172		516,891	117,872
ACCRUED LIABILITIES	272,800	172,490		17,299	1,001,464	79,333

INTERCOMPANY ACCOUNTS:						
LPSCO - SDC						
SMLP - SDC						
SCM-SDC CASH ADVANCES 267	13,617,456					
GH-SDC INTERCO CAPITAL 265	1,432,265					
WWOS-COM			372,210			
WWOS-SDC			(147,949)			
RANCHLAND-RANCHO VIEJO						
INTEREST PAYABLE			91,841			
S/T NOTES PAYABLE						
$45 MILLION TERM LOAN						
$55 MILLION RLC						
GOLDEN HERITAGE (PEW)						
TEXTRON LOAN - PVGC						
DEF PROFIT & UNEARNED REVENUE		50,000				
PWCC INTERCO PAYABLE						
APS LAND INTERCO PAYABLE						
CUSTOMER DEPOSITS	1,416,373					
TOTAL CURRENT LIABILITIES	19,398,964	1,269,987	884,273	17,299	1,518,354	197,205
LONG-TERM LIABILITIES						
LONG-TERM NOTES PAYABLE						
WWOS OWES SDC PH I LAND NOTE			1,059,207			
WWOS RLC PAYOFF BY SDC			10,000,000			
CORPORATE TERM NOTE						
CORPORATE RLC						
LPSCO BONDS						
TEXTRON LOAN - PVGC						
OTHER ACCRUED LIABILITIES		1,018,042	29,833		78,792	
DEFERRED TAXES						
LONG-TERM CUSTOMER DEPOSITS						
CONTRIB PROPERTY AIA						
TOTAL L/T LIABILITIES	0	1,018,042	11,089,039	0	78,792	0
TOTAL LIABILITIES	19,398,964	2,288,029	11,973,313	17,299	1,597,147	197,205

ACCOUNT DESCRIPTION	ANDY D. R. VIEJO	C. CANYON	REF		DEBIT	REF	CREDIT
INVESTMENT IN FIDDLESTICKS-SCOTTS				S	3,380,396	S	1,822,515
INVESTMENT IN FIDDLESTICKS-TEMPE				S	316,640	S	912,833
INVESTMENT IN FUNTASTICKS						S	1,213,707
INVESTMENT IN GENERAL COMM OPS					0	S	78,582,545
INVESTMENT IN PV MARKETPLACE						S	2,307,137
INVESTMENT IN DYSART/MCDOWELL						S	872,316
INVESTMENT IN PV PAVILIONS						S	2,694,953
INVESTMENT IN PV CROSSING					0	S	150,310
INVESTMENT IN PALM VALLEY OFFICE PARK				S	8,156		
INVESTMENT IN AUTOPLEX				S	203,224		
INVESTMENT IN TALAVI				S	182,886		
INVESTMENT IN METROCENTER						S	281,411
INVESTMENT IN RESTORATION PLACE				S	82,105		
INVESTMENT IN LITCHFIELD PARK OP						S	121,246
INVESTMENT IN LP PROF. PLAZA				S	643		0
INVESTMENT IN WWOS LLC				S	397,454		0
INVESTMENT IN APS PROPERTIES					0	S	113,667
INVESTMENT IN BLACK CANYON CP				S	8,126		0
COMMERCIAL PROPERTIES							
LONG-TERM NOTES RECEIVABLE							
SDC PHASE I LAND NOTE TO WWOS						P	1,059,207
SDC PAYOFF OF WWOS RLC						P	10,000,000
SDC LOAN TO LPSCO						G	300,000
PROPERTY & EQUIPMENT, NET	387,982	41,756					
DEFERRED ASSETS							
DEFERRED INCOME TAXES							
WATER & SEWER UTILITY PROP, NET							
LPSCO RESTRICTED CASH FUNDS							
DEPOSITS		1,989					
TOTAL LONG-TERM ASSETS	12,077,391	11,360,220			49,231,649		387,248,724
TOTAL ASSETS	15,089,073	10,460,655			59,025,242		418,269,504
LIABILITIES:							
CURRENT LIABILITIES							
A/P & RETENTION	189,928	496,863	J,K,Q		312,809		
ACCRUED LIABILITIES	744,870	28,000					
INTERCOMPANY ACCOUNTS:							
LPSCO - SDC				H	36,630		
SMLP - SDC				J	20,006		
SCM-SDC CASH ADVANCES 267				B	13,617,456		
GH-SDC INTERCO CAPITAL 265				A	1,432,265		
WWOS-COM				O	372,210		
WWOS-SDC				Q	0	Q	147,949
RANCHLAND-RANCHO VIEJO				X	176,174		0
INTEREST PAYABLE				P	91,841		
S/T NOTES PAYABLE							
$45 MILLION TERM LOAN							
$55 MILLION RLC							
GOLDEN HERITAGE (PEW)							
TEXTRON LOAN - PVGC						*	59,956
DEF PROFIT & UNEARNED REVENUE				E	1,750,166		
PWCC INTERCO PAYABLE							
APS LAND INTERCO PAYABLE							
CUSTOMER DEPOSITS							
TOTAL CURRENT LIABILITIES	934,798	524,863		0	17,809,557	0	207,905
LONG-TERM LIABILITIES							
LONG-TERM NOTES PAYABLE							
WWOS OWES SDC PH I LAND NOTE				P	1,059,207		
WWOS RLC PAYOFF BY SDC				P	10,000,000		
CORPORATE TERM NOTE							
CORPORATE RLC							
LPSCO BONDS							
TEXTRON LOAN - PVGC				*	59,956		
OTHER ACCRUED LIABILITIES							
DEFERRED TAXES							

LONG-TERM CUSTOMER DEPOSITS					
CONTRIB PROPERTY AIA					
TOTAL L/T LIABILITIES	0	0		11,119,163	0
TOTAL LIABILITIES	934,798	524,863		28,928,720	207,905

ACCOUNT DESCRIPTION	CONSOLIDATED
INVESTMENT IN FIDDLESTICKS-SCOTTS	0.00
INVESTMENT IN FIDDLESTICKS-TEMPE	0.00
INVESTMENT IN FUNTASTICKS	0.00
INVESTMENT IN GENERAL COMM OPS	0.00
INVESTMENT IN PV MARKETPLACE	0.00
INVESTMENT IN DYSART/MCDOWELL	0.00
INVESTMENT IN PV PAVILIONS	0.00
INVESTMENT IN PV CROSSING	0.00
INVESTMENT IN PALM VALLEY OFFICE PARK	0.00
INVESTMENT IN AUTOPLEX	0.00
INVESTMENT IN TALAVI	0.00
INVESTMENT IN METROCENTER	0.00
INVESTMENT IN RESTORATION PLACE	0.00
INVESTMENT IN LITCHFIELD PARK OP	0.00
INVESTMENT IN LP PROF. PLAZA	0.00
INVESTMENT IN WWOS LLC	0.00
INVESTMENT IN APS PROPERTIES	0.00
INVESTMENT IN BLACK CANYON CP	0.00
COMMERCIAL PROPERTIES	32,321,206.48
LONG-TERM NOTES RECEIVABLE	6,186,508.60
SDC PHASE I LAND NOTE TO WWOS	0.00
SDC PAYOFF OF WWOS RLC	0.00
SDC LOAN TO LPSCO	0.00
PROPERTY & EQUIPMENT, NET	2,832,839.84
DEFERRED ASSETS	10,700,349.77
DEFERRED INCOME TAXES	25,120,118.87
WATER & SEWER UTILITY PROP, NET	15,055,125.04
LPSCO RESTRICTED CASH FUNDS	3,800,490.75
DEPOSITS	125,819.26
TOTAL LONG-TERM ASSETS	388,852,123.56
TOTAL ASSETS	442,144,515.43
LIABILITIES:	
CURRENT LIABILITIES	
A/P & RETENTION	5,795,209.16
ACCRUED LIABILITIES	5,404,859.61
INTERCOMPANY ACCOUNTS:	0.00
LPSCO - SDC	0.00
SMLP - SDC	0.00
SCM-SDC CASH ADVANCES 267	0.00
GH-SDC INTERCO CAPITAL 265	(0.00)
WWOS-COM	0.00
WWOS-SDC	0.00
RANCHLAND-RANCHO VIEJO	0.00
INTEREST PAYABLE	676,610.21
S/T NOTES PAYABLE	
$45 MILLION TERM LOAN	3,208,144.14
$55 MILLION RLC	0.00
GOLDEN HERITAGE (PEW)	0.00
TEXTRON LOAN - PVGC	59,955.93
DEF PROFIT & UNEARNED REVENUE	655,970.05
PWCC INTERCO PAYABLE	635,090.27
APS LAND INTERCO PAYABLE	0.00
CUSTOMER DEPOSITS	1,416,372.50
TOTAL CURRENT LIABILITIES	17,852,211.87
LONG-TERM LIABILITIES	
LONG-TERM NOTES PAYABLE	
WWOS OWES SDC PH I LAND NOTE	0.00
WWOS RLC PAYOFF BY SDC	0.00
CORPORATE TERM NOTE	38,791,855.86
CORPORATE RLC	52,000,000.00
LPSCO BONDS	5,335,000.00
TEXTRON LOAN - PVGC	3,344,379.10
OTHER ACCRUED LIABILITIES	7,069,009.45
DEFERRED TAXES	131,196.96
LONG-TERM CUSTOMER DEPOSITS	1,700,574.20
CONTRIB PROPERTY AIA	0.00
TOTAL L/T LIABILITIES	108,372,015.57
TOTAL LIABILITIES	126,224,227.44

ACCOUNT DESCRIPTION	SUNCOR	SCOTT D. LPSCO	ANDY D. RANCHLAND	TERRY O. SASI	SMLP	LINDA H. PVGC
MINORITY INTEREST						
SDC COMMON STOCK	1,022,000					
SDC ADDITIONAL PAID IN CAPITAL	375,368,522					
SDC EARNED SURPLUS-BEGINNING	(71,438,657)					
SDC EARNED SURPLUS-CURRENT	6,064,028					
SUBSIDIARY EARNINGS-CURRENT		820,619	(92,236)	(62,491)	3,495,918	(534,796)
SUBSIDIARY EQUITY:						
LPSCO		11,713,205				
SASI				373,781		
SMLP #3500					1,250,349	
PVGC						6,231,352
HOMEBUILDING						
PALM VALLEY #5500						
WWOS #4400						
KABUTO JV #3000						
COMMERCIAL PROPERTIES #2000						
HIDDEN HILLS #3300						
RANCHO VIEJO #6600						
RANCHLAND UTILITY			1,062,944			

ACCOUNT DESCRIPTION	CORAL CANYON #3900					
TOTAL EQUITY	311,015,893	12,533,823	970,709	311,290	4,746,268	5,696,556
TOTAL LIABS AND EQUITY	416,021,832	21,230,531	1,468,618	448,876	4,883,787	9,234,318

ACCOUNT DESCRIPTION	LARRY W. HOMES	PV	WWOS	KABUTO JV	COMM.	H HILLS
MINORITY INTEREST						
SDC COMMON STOCK						
SDC ADDITIONAL PAID IN CAPITAL						
SDC EARNED SURPLUS-BEGINNING						
SDC EARNED SURPLUS-CURRENT						
SUBSIDIARY EARNINGS-CURRENT	1,198,047	4,926,636	(455,622)		6,553,333	90,290
SUBSIDIARY EQUITY:						
LPSCO						
SASI						
SMLP #3500						
PVGC						
HOMEBUILDING	1,680,277					
PALM VALLEY #5500		162,394,150				
WWOS #4400			4,051,339			
KABUTO JV #3000				12,821,745		
COMMERCIAL PROPERTIES #2000					78,390,152	
HIDDEN HILLS #3300						15,428,782
RANCHO VIEJO #6600						
RANCHLAND UTILITY						
CORAL CANYON #3900						
TOTAL EQUITY	2,878,324	167,320,786	3,595,717	12,821,745	84,943,486	15,519,072
TOTAL LIABS AND EQUITY	22,277,288	169,608,815	15,569,029	12,839,044	86,540,632	15,716,277

ACCOUNT DESCRIPTION	ANDY D. R. VIEJO	C. CANYON	REF		DEBIT	REF	CREDIT
MINORITY INTEREST				I	10,066,214	I,R	14,970,609
SDC COMMON STOCK							
SDC ADDITIONAL PAID IN CAPITAL							
SDC EARNED SURPLUS-BEGINNING							
SDC EARNED SURPLUS-CURRENT							
SUBSIDIARY EARNINGS-CURRENT	1,414,717	(42,620)	D,I,M,O,S,U,V,W,T		18,499,560	F,L,T,X	1,187,765
SUBSIDIARY EQUITY:							
LPSCO				F,G	11,713,205		
SASI				L	1,023,781	L	650,000
SMLP #3500				I	30,911,582	I	29,661,233
PVGC				M	6,231,352		0
HOMEBUILDING				D	1,680,277		0
PALM VALLEY #5500				V	162,394,150		
WWOS #4400				O	24,295,125	O	20,243,786
KABUTO JV #3000				R	12,821,745		
COMMERCIAL PROPERTIES #2000				S	78,390,152		0
HIDDEN HILLS #3300				T	15,431,852	T	3,070
RANCHO VIEJO #6600	12,739,558			U	12,825,260	U	85,702
RANCHLAND UTILITY				X	1,062,944	X	0
CORAL CANYON #3900		9,978,412		W	9,978,412	W	0
TOTAL EQUITY	14,154,275	9,935,792			387,259,398		51,831,555
TOTAL LIABS AND EQUITY	15,089,073	10,460,655			426,254,331		67,010,069

ACCOUNT DESCRIPTION	CONSOLIDATED
MINORITY INTEREST	4,904,395.09
SDC COMMON STOCK	1,022,000.00
SDC ADDITIONAL PAID IN CAPITAL	375,368,521.94
SDC EARNED SURPLUS-BEGINNING	(71,438,656.87)
SDC EARNED SURPLUS-CURRENT	6,064,028.14
SUBSIDIARY EARNINGS-CURRENT	(0.00)
SUBSIDIARY EQUITY:	
LPSCO	0.00
SASI	0.00
SMLP #3500	0.00
PVGC	0.00
HOMEBUILDING	0.00
PALM VALLEY #5500	0.00
WWOS #4400	0.00
KABUTO JV #3000	0.00
COMMERCIAL PROPERTIES #2000	0.00
HIDDEN HILLS #3300	0.00
RANCHO VIEJO #6600	0.00
RANCHLAND UTILITY	0.00
CORAL CANYON #3900	0.00
TOTAL EQUITY	311,015,893.21
TOTAL LIABS AND EQUITY	442,144,515.74

SUNCOR DEVELOPMENT COMPANY
CONSOLIDATING BALANCE SHEET
DECEMBER 1999 CONSOLIDATING AND ELIMINATING ENTRIES

	DEBIT	CREDIT
A. SCM INTERCO A/P TO SDC	$5,386,541.01	
SDC A/R FROM SCM		$5,386,541.01
GH INTERCO CAPITAL FROM SDC - ACQUISITION	$1,432,265.22	
GH INTERCO A/P TO SDC		$270,787.72
SDC A/R FROM GH		$1,164,401.51
B. HOMEBUILDING CASH ADVANCES FROM SDC	$13,617,456.15	
SDC CASH ADVANCES TO HOMEBUILDING		$13,617,898.62
C. SCM INTERCO CAPPED INTEREST	$4,259,103.31	$0.00
SDC INTERCO INTEREST A/R FROM SCM		$4,259,103.32
ELIMINATE INTERCO RECEIVABLES/PAYABLES BETWEEN HOMEBUILDING AND SDC		
D. HOMEBUILDING ACCUMULATED EARNINGS	$1,680,277.20	
SDC INVESTMENT IN GH		$2,360,474.40
SDC DUE DILIGENCE COSTS - GHH ACQUISITION		
SDC INVESTMENT IN SCM		$517,849.94
HOMEBUILDING CURRENT YEAR EARNINGS	$1,198,047.14	
ELIMINATE SDC INVESTMENT IN GOLDEN HERITAGE & SCM		
E. DEFERRED INTERCO PROFIT	$1,750,166.26	
HOME INVENTORY		$1,750,166.26
ELIMINATE DEFERRED PROFIT ON INTERCO LOT SALES TO HOMEBUILDING		
F. LPSCO COMMON STOCK	$78,200.00	
LPSCO PAID IN CAPITAL	$10,638,917.85	
LPSCO EARNINGS - PRIOR	$696,086.70	
LPSCO INCOME TAXES		
LPSCO EARNINGS - CURRENT YEAR	$820,618.80	
SDC INVESTMENT IN LPSCO - CONTRIB CAPITAL		$10,717,117.86
SDC INVESTMENT IN LPSCO - EARNINGS		$1,516,705.49
SDC DEFERRED TAXES DIFFERENTIAL		$0.00
ELIMINATE SDC INVESTMENT IN LPSCO		
G. LPSCO LONG-TERM NOTES PAYABLE	$300,000.00	
SDC LONG-TERM NOTES RECEIVABLE		$300,000.00
ELIMINATE LPSCO INTERCOMPANY NOTE WITH SDC		
H. LPSCO ACCOUNTS PAYABLE	$36,630.11	
SDC ACCOUNTS RECEIVABLE		$36,630.11
ELIMINATE LPSCO INTERCOMPANY A/R WITH SDC		
I. SMLP CONTRIBUTED CAPITAL - MINORITY INT		$10,066,214.00
SMLP CONTRIBUTED CAPITAL - SDC GP	$490,147.01	
SMLP DISTRIBUTED CAPITAL - SDC GP		$12,853,612.00
SMLP CONTRIBUTED CAPITAL - SDC LP	$2,100,000.00	
SMLP DISTRIBUTED CAPITAL - SDC LP		$6,741,407.00
SMLP EARNINGS - PRIOR	$28,321,435.40	
SMLP EARNINGS - CURRENT YEAR	$3,495,918.29	
MINORITY INTEREST CONTRIBUTED CAPITAL	$10,066,214.00	
MINORITY INTEREST - PRIOR (35%)		$9,912,502.39
MINORITY INTEREST - CURRENT YEAR (35%)		$1,223,571.40
SDC INVESTMENT IN SMLP - LP		$2,100,000.00
SDC DISTRIBUTIONS FROM SMLP - LP	$6,743,407.00	
SDC INVESTMENT IN SMLP - GP		$490,147.01
SDC DISTRIBUTIONS FROM SMLP - GP	$12,851,612.00	
SDC INVESTMENT IN SMLP - EARNINGS		$20,681,279.90
SDC LAND BASIS DIFFERENTIAL		
ELIMINATE SDC INVESTMENT IN SMLP #3500		
J. SMLP ACCOUNTS PAYABLE	$20,005.97	

	SDC ACCOUNTS RECEIVABLE		$20,005.97
	GH ACCOUNTS PAYABLE	$303,750.00	
	SMLP ACCOUNTS RECEIVABLE		$303,750.00
	ELIMINATE SMLP INTERCOMPANY A/R WITH SDC AND HOMEBUILDING (PREMIUMS)		
L.	SASI CONTRIBUTED CAPITAL	$489,023.22	
	SASI CAPITAL DISTRIBUTIONS		$650,000.00
	SASI EARNINGS - PRIOR	$534,757.95	
	SASI EARNINGS - CURRENT YEAR		$62,491.00
	PV INVESTMENT IN SASI - CONTRIB CAPITAL		$489,023.22
	PV INVESTMENT IN SASI - DISTRIBUTIONS	$650,000.00	
	PV INVESTMENT IN SASI - EARNINGS		$472,266.95
	ELIMINATE PALM VALLEY INVESTMENT IN SASI		
M.	PVGC CONTRIBUTED CAPITAL	$6,158,173.14	
	PVGC EARNINGS - PRIOR	$73,178.79	
	PVGC EARNINGS - CURRENT YEAR		$534,796.30
	SDC INVESTMENT IN PVGC - EARNINGS	$461,617.51	
	SDC INVESTMENT IN PVGC - CONTRIB CAPITAL		$6,158,173.14
	ELIMINATE SDC INVESTMENT IN PALM VALLEY GOLF		
N.	SDC CONTRIB. CAPITAL TO PVGC	$3,566,739.66	
	PVGC ACCOUNTS RECEIVABLE		$3,566,739.66
	ELIMINATE PALM VALLEY GOLF INTERCOMPANY A/R WITH SDC		
O.	WWOS CONTRIBUTED CAPITAL - PHASE 1	$9,500,000.00	
	WWOS CONTRIBUTED CAPITAL - PHASE 2	$13,408,869.75	
	WWOS CONTRIBUTED WORKING CAPITAL	$1,386,255.25	
	WWOS EARNINGS - PRIOR		$2,023,394.41
	WWOS EARNINGS - CURRENT YEAR		$455,622.46
	WWOS CAPITAL DISTRIBUTIONS - PHASE 1		$9,500,000.00
	WWOS CAPITAL DISTRIBUTIONS - PHASE 2		$4,967,126.16
	WWOS PREFERRED RETURN - PHASE 1		$287,567.78
	WWOS PREFERRED RETURN - PHASE 2		$3,465,697.50
	SDC INVESTMENT IN WWOS - PHASE 1		$9,500,000.00
	SDC INVESTMENT IN WWOS - PHASE 2		$13,408,869.75
	SDC INVESTMENT IN WWOS -CONTRIBUTED CAPITAL		$1,386,255.25
	SDC INVESTMENT IN WWOS - EARNINGS	$2,023,394.41	
	SDC DISTRIBUTIONS FROM WWOS - PHASE 1	$9,500,000.00	
	SDC DISTRIBUTIONS FROM WWOS - PHASE 2	$4,967,126.16	
	SDC PREFERRED RETURN - PHASE 1	$287,567.78	
	SDC PREFERRED RETURN - PHASE 2	$3,465,697.50	
	SDC BASIS DIFFERENTIAL PH I BUILDINGS		
	SDC BASIS DIFFERENTIAL LAND		
	SDC 1994 CAPPED INTEREST ON WWOS		
	SDC 1995 DEVELOPMENT FEES		
	WWOS I/C A/P - COMMERCIAL	$372,209.61	
	COMMERCIAL I/C A/R - WWOS		$372,209.61
	ELIMINATE SDC COMMERCIAL INVESTMENT IN WIGWAM OUTLET STORES #4400		
P.	WWOS INTEREST PAYABLE - PHASE 1 LAND	$24,028.03	
	WWOS INTEREST PAYABLE - RLC	$67,812.50	
	SDC INTEREST RECEIVABLE - PHASE 1 LAND		$24,028.03
	SDC INTEREST RECEIVABLE - RLC		$67,812.50
	WWOS NOTES PAYABLE - PHASE 1 LAND	$1,059,206.67	
	SDC NOTES RECEIVABLE - PHASE 1 LAND		$1,059,206.67
	WWOS NOTES PAYABLE - RLC	$10,000,000.00	
	SDC NOTES RECEIVABLE - RLC		$10,000,000.00
	ELIMINATE WWOS INTERCOMPANY NOTES AND INTEREST WITH SDC		
Q.	WWOS ACCOUNTS PAYABLE	$147,948.78	
	SDC ACCOUNTS RECEIVABLE		$147,948.78
	WWOS MANAGEMENT FEE PAYABLE	$4,532.05	
	SDC COMMERCIAL A/R		$4,532.05
	ELIMINATE WWOS INTERCOMPANY A/R WITH SDC		
R.	KABUTO CONTRIBUTED CAPITAL - SDC	$8,987,209.60	
	KABUTO CONTRIBUTED CAPITAL - KABUTO	$3,834,535.30	
	MINORITY INTEREST		$3,834,535.30
	SDC INVESTMENT IN KABUTO - CONTR CAPITAL		$6,098,494.79
	BALANCING PLUG		$2,888,714.81
	SDC BASIS DIFFERENTIAL IN LAND		
	SDC DEVELOPMENT COSTS		
	ELIMINATE SDC INVESTMENT IN KABUTO JV #3000		
S.	COMMERCIAL OPS CONTRIBUTED CAPITAL	$74,293,346.97	
	COMMERCIAL EARNINGS - PRIOR	$4,096,805.16	
	COMMERCIAL EARNINGS - CURRENT YEAR	$6,553,333.43	
	SDC INVEST IN GEN COMMERCIAL OPS - EARNINGS		$3,711,897.29
	SDC INVEST IN GEN COMMERCIAL OPS - CONT CAPITAL		$74,870,647.30

	SDC INVESTMENT IN OUTER LIMITS - PURCHASE		$1,822,514.94
	SDC INVESTMENT IN FIDDLE (SCOTTS) - CONT CAPITAL	$2,856,749.32	
	SDC INVESTMENT IN FIDDLE (SCOTTS) - EARNINGS	$523,646.70	
	SDC INVESTMENT IN FUNTASTICKS - CONT CAPITAL		$779,466.39
	SDC INVESTMENT IN FUNTASTICKS - EARNINGS		$434,240.58
	SDC INVESTMENT IN FIDDLE (TEMPE) - CONT CAPITAL	$316,639.78	
	SDC INVESTMENT IN FIDDLE (TEMPE) - EARNINGS		$912,832.69
	SDC INVESTMENT IN APS PROPERTIES - EARNINGS		$113,667.31
	SDC INVESTMENT IN BLACK CANYON CP - EARNINGS	$8,126.09	
	SDC INVESTMENT IN PV MARKETPLACE - EARNINGS		$2,307,137.27
	SDC INVESTMENT IN PV PAVILIONS - EARNINGS		$2,694,953.30
	SDC INVESTMENT IN DYSART/MCDOWELL CENTER		$872,316.24
	SDC INVESTMENT IN PV CROSSING - EARNINGS		$150,309.61
	SDC INVESTMENT IN PV OFFICE PARK - EARNINGS	$8,156.32	
	SDC INVESTMENT IN METROCENTER - EARNINGS		$281,410.66
	SDC INVESTMENT IN REST PLACE - EARNINGS	$82,105.37	
	SDC INVESTMENT IN LITCHFIELD OTHER - EARNINGS		$121,246.12
	SDC INVESTMENT IN AUTOPLEX - EARNINGS	$203,224.40	
	SDC INVESTMENT IN TALAVI - EARNINGS	$182,886.06	
	SDC INVESTMENT IN WWOS - EARNINGS	$397,454.46	
	SDC INVESTMENT IN LP PROF. PLAZA - EARNINGS	$643.44	
	ELIMINATE SDC INVESTMENT IN COMMERCIAL OPERATIONS #2000		
T.	HIDDEN HILLS CONTRIBUTED CAPITAL	$8,744,139.11	
	GLAZ CONTRIBUTED CAPITAL, NET	$6,687,713.00	
	GLAZ INVESTMENT IN HIDDEN HILLS - CONT CAPITAL		$6,687,713.00
	HIDDEN HILLS EARNINGS - PRIOR		$3,069.71
	HIDDEN HILLS EARNINGS - CURRENT YEAR	$90,289.50	
	SDC INVESTMENT IN HIDDEN HILLS - EARNINGS		$87,219.79
	SDC INVESTMENT IN HIDDEN HILLS - CONT CAPITAL		$8,744,139.11
	ELIMINATE SDC INVESTMENT IN HIDDEN HILLS JV #3300		
U.	SDC INVESTMENT IN RANCHO VIEJO - EARNINGS		$1,329,015.08
	SDC INVESTMENT IN RANCHO VIEJO - CAPITAL		$12,821,275.56
	RANCHO VIEJO CONTRIBUTED CAPITAL	$12,825,259.78	
	RANCHO VIEJO EARNINGS - PRIOR		$85,701.63
	RANCHO VIEJO EARNINGS - CURRENT YEAR	$1,414,716.71	
	ELIMINATE SDC INVESTMENT IN RANCHO VIEJO JV #6600		
V.	PV CONTRIBUTED CAPITAL	$152,768,812.48	
	PV EARNINGS - PRIOR	$9,625,337.53	
	PV EARNINGS - CURRENT YEAR	$4,926,635.98	
	SDC INVESTMENT IN PALM VALLEY - EARNINGS		$14,551,973.51
	SDC INVESTMENT IN PALM VALLEY - DEVELOP		$152,768,812.48
	ELIMINATE SDC INVESTMENT IN PALM VALLEY #5500		
W.	CORAL CANYON CONTRIBUTED CAPITAL	$9,978,412.11	
	CORAL CANYON - CURRENT YEAR		$42,619.70
	SDC INVESTMENT IN CORAL CANYON - DEVELOP		$9,978,412.11
	SDC INVESTMENT IN CORAL CANYON - EARNINGS	$42,619.70	
	ELIMINATE SDC INVESTMENT IN CORAL CANYON #3900		
X.	RANCHLAND - CURRENT YEAR		$92,235.67
	RANCHLAND - CONTRIBUTED CAPITAL	$1,062,944.39	
	RANCHLAND - DUE TO/FROM RANCHO VIEJO	$176,174.00	
	RANCHO INVESTMENT IN RANCHLAND UTILTY-CAPITAL		$1,062,944.39
	RANCHO INVESTMENT IN RANCHLAND UTILTY-EARNINGS	$92,235.67	
	RANCHO - DUE TO/FROM RANCHLAND UTILITIES		$176,174.00
	ELIMINATE RANCHO INVESTMENT IN RANCHLAND UTILITY		

SunCor Development Company
Consolidating Income Statement
For the Year Ending December 31, 1999 (Unaudited)

Account Description	SUNCOR	LPSCO	RANCHLAND UTILITY	SCTS MTN	PVGC	GHH
Revenues						
Home Sales	--	--	--	--	--	64,830,130
Land Sales	30,146,383	--	--	7,104,128	--	--
Commercial Properties	5,801,571	--	--	--	1,978,755	--
Utility Sales	--	2,853,412	7,692	--	--	--
Management Fees	1,540,937	--	--	--	--	--
Total Operating Revenues	37,488,891	2,853,412	7,692	7,104,128	1,978,755	64,830,130
Operating Expenses						
Cost of Homes Sold	(0)	--	--	--	--	54,969,177
Cost of Land Sold	18,807,702	--	--	3,442,629	--	--
Commercial Properties	5,561,964	--	--	--	193,879	--
Utility Expense	--	1,785,921	99,915	--	--	--
Land Project Costs	2,329,986	--	--	98,223	--	--
General & Administrative	10,118,243	--	--	89,814	1,783,238	5,449,460
Depreciation & Amortization	1,111,951	276,637	--	--	198,536	647,984
Total Operating Expenses	37,929,845	2,062,558	99,915	3,630,666	2,175,653	61,066,621
Net Operating Income/(Loss)	(440,954)	790,854	(92,223)	3,473,462	(196,898)	3,763,509
Other Income and Gains						
Equity in Joint Ventures	4,854,693	--	--	--	--	--
Interest Income	695,311	123,893	--	22,457	--	--
Other	--	--	--	--	--	(483,855)
Total Other Income and Gains	5,550,004	123,893	--	22,457	--	(483,855)
Interest Expense, Net						
Interest Expense	6,509,298	202,569	--	--	337,898	--
Less: Capitalized Interest	(4,745,280)	--	--	--	--	--
Total Interest Expense, Net	1,764,018	202,569	--	--	337,898	--
Minority Interest	1,018,365	--	--	--	--	--
Income before Taxes	2,326,667	712,178	(92,223)	3,495,918	(534,796)	3,279,654
Income Taxes	4,188,321	(108,441)	--	--	--	--
NET INCOME/(LOSS)	$ (1,861,653)	$ 820,619	$ (92,223)	$ 3,495,918	$ (534,796)	$ 3,279,654

Account Description	WWOS	HIDDEN HILLS	CORAL CANYON	RANCHO VIEJO	CONSOLIDATED INCOME
Revenues					
Home Sales	--	--	--	12,756,318	77,586,447
Land Sales	675,000	260,000	--	121,000	38,306,511
Commercial Properties	1,996,347	--	--	--	9,776,673
Utility Sales	--	--	--	--	2,861,104
Management Fees	--	--	--	--	1,540,937
Total Operating Revenues	2,671,347	260,000	--	12,877,318	130,071,672
Operating Expenses					
Cost of Homes Sold	--	--	--	9,925,940	64,895,117
Cost of Land Sold	284,427	169,711	--	88,226	22,792,694
Commercial Properties	1,066,148	--	--	--	6,821,991
Utility Expense	--	--	--	--	1,885,835
Land Project Costs	--	--	--	543,823	2,972,032
General & Administrative	--	--	42,620	838,239	18,321,614
Depreciation & Amortization	774,396	--	--	82,902	3,092,406
Total Operating Expenses	2,124,971	169,711	42,620	11,479,130	120,781,689
Net Operating Income/(Loss)	546,377	90,290	(42,620)	1,398,188	9,289,983
Other Income and Gains					
Equity in Joint Ventures	--	--	--	--	4,854,690
Interest Income	6,244	--	--	829	848,734
Other	--	--	--	15,700	(518,406)
Total Other Income and Gains	6,244	--	--	16,529	5,185,018
Interest Expense, Net					
Interest Expense	1,008,243	--	--	--	8,058,008
Less: Capitalized Interest	--	--	--	--	(4,745,280)
Total Interest Expense, Net	1,008,243	--	--	--	3,312,728
Minority Interest	--	--	--	--	1,018,365
Income before Taxes	(455,622)	90,290	(42,620)	1,414,717	10,143,908
Income Taxes	--	--	--	--	4,079,880
NET INCOME/(LOSS)	$ (455,622)	$ 90,290	$ (42,620)	$ 1,414,717	$ 6,064,028

1. NAME, STATE OF ORGANIZATION, LOCATION AND NATURE OF BUSINESS OF CLAIMANT AND EVERY SUBSIDIARY THEREOF, OTHER THAN ANY EXEMPT WHOLESALE GENERATOR (EWG) OR FOREIGN UTILITY COMPANY IN WHICH CLAIMANT DIRECTLY OR INDIRECTLY HOLDS AN INTEREST.

Pinnacle West Capital Corporation ("Claimant"), having been incorporated on February 20, 1985 under the laws of the State of Arizona, and having its principal executive offices at 400 East Van Buren, Suite 700, Phoenix, Arizona 85004, was organized principally to acquire and hold securities of other corporations for investment purposes. Claimant currently holds stock in the following subsidiaries:

a. Arizona Public Service Company ("APS" or the "Company"), is engaged principally in serving electricity in the State of Arizona. Incorporated in 1920 under the laws of the State of Arizona and having its principal executive offices at 400 North Fifth Street, Phoenix, Arizona 85004, APS became a subsidiary of the Claimant pursuant to a corporate restructuring plan approved by the Company's shareholders on April 18, 1985.

(1) AXIOM Power Solutions, Inc. ("AXIOM") -- an Arizona corporation having been incorporated on October 29, 1996 and having its principal executive offices at 400 E. Van Buren, Phoenix, Arizona 85004, was organized primarily to sell security and energy management products and services. AXIOM is a wholly-owned subsidiary of APS.

(2) Bixco, Inc. ("Bixco") -- an Arizona corporation having been incorporated on June 4, 1971 and having its principal executive offices at 400 North Fifth Street, Phoenix, Arizona 85004, was organized primarily to conduct exploration activities for energy resources and other valuable minerals. Subsequent to the sale of its oil and natural gas properties in 1981, Bixco has been inactive. Bixco is a wholly-owned subsidiary of APS.

(3) APS Energy Services Company, Inc. ("APSES") -- an Arizona Corporation having been incorporated on November 6, 1998 and having its principal executive offices at 400 E. Van Buren, Phoenix, Arizona 85004, was organized primarily to sell energy, products and services. APSES is a wholly-owned subsidiary of APS.

b. SunCor Development Company ("SunCor") - an Arizona corporation having been incorporated on June 30, 1965 and having its

principal executive offices at 3838 North Central Avenue, Suite 1500, Phoenix, Arizona 85012, is a wholly-owned subsidiary of Claimant engaged primarily in the owning, holding and development of real property.

(1) SunCor Resort & Golf Management, Inc. ("Resort & Golf Management") (previously named "SunCor Resort Management, Inc." and "SunCor Farms, Inc.") -- an Arizona corporation having been incorporated on December 31, 1986 and having its principal executive offices at 3838 North Central Avenue' Suite 1500, Phoenix, Arizona 85012, operates and manages hotel, golf, food and beverage for the Wigwam Resort and Country Club, Sedona Golf Resort, SunRidge Canyon Golf Club, and Palm Valley Golf Club. Resort & Golf Management is a wholly-owned subsidiary of SunCor.

(2) Litchfield Park Service Company ("LPSCO") -- an Arizona corporation having been incorporated on September 21, 1954 and having its principal executive offices at 501 East Plaza Circle, Suite B, Litchfield Park, Arizona 85340, is a regulated public utility engaged in providing water and sewer services to commercial and residential customers. LPSCO became a wholly-owned subsidiary of SunCor on December 31,1986.

(3) Golden Heritage Homes, Inc.. ("Golden Heritage Homes") -- (previously named "SunCor Homes, Inc.", "LGR, Inc." and "WGP Realty, Inc.") an Arizona corporation having been incorporated on May 14, 1986 and having its principal executive offices at 3838 North Central Avenue, Suite 1500, Phoenix, Arizona 85012, was organized to provide brokerage and realty services in the sale of commercial and residential real property. Golden Heritage Homes is a wholly-owned subsidiary of SunCor.

(i) Golden Heritage Construction, Inc. ("GH Construction") -- an Arizona corporation having been incorporated on December 30, 1993 and having its principal executive offices at 3838 North Central Avenue, Suite 1500, Phoenix, Arizona 85012, was organized to serve as a general residential contractor. GH Construction became a wholly-owned

subsidiary of Golden Heritage Homes, Inc. on January 1, 1996.

(4) SCM, Inc. ("SCM") -- an Arizona corporation having been incorporated on May 14, 1991 and having its principal executive offices at 3838 North Central Avenue, Suite 1500, Phoenix, Arizona 85012, was organized to participate in real estate joint ventures and other real estate related activities. SCM is a wholly-owned subsidiary of SunCor.

(5) Golf de Mexico, S.A. DE C.V. ("Golf de Mexico") -- a Mexican variable capital corporation having been incorporated on February 8, 1992 in Tijuana, Baja California, Mexico, and having its principal executive offices at 3838 North Central Avenue, Suite 1500, Phoenix, Arizona 85012, was organized to operate and manage the Real del Mar Golf Course in Mexico. Golf de Mexico has been inactive.

(6) SunCor Realty & Management Company ("SunCor Realty") -- (previously named Russell Ranch Development Company) an Arizona corporation having been incorporated on April 1, 1994 and having its principal executive offices at 3838 North Central Avenue, Suite 1500, Phoenix, Arizona 85012 was organized to participate in real estate management and other real estate related activities. SunCor Realty is a wholly-owned subsidiary of SunCor.

(7) Palm Valley Golf Club, Inc. ("Palm Valley Golf") -- an Arizona corporation having been incorporated on January 23, 1996 and having its principal executive offices at 3838 North Central Avenue, Suite 1500, Phoenix, Arizona 85012, was organized to hold title to the Palm Valley Golf Course. Palm Valley Golf is a wholly-owned subsidiary of SunCor.

(8) Rancho Viejo de Santa Fe, Inc. ("Rancho Viejo") -- a New Mexico corporation having been incorporated on March 18, 1996 and having its principal executive offices at 1590-B Pacheco Street, Santa Fe, New Mexico 87505, was organized to engage in real estate development in New Mexico. Rancho Viego is a wholly-owned subsidiary of SunCor.

(9) Ranchland Utility Company ("Ranchland") -- a New Mexico corporation having been incorporated on September 5, 1997 and having its principal executive offices at 1590-B Pacheco Street, Santa Fe, New Mexico 87505 is a waste water utility. Ranchland is a wholly-owned subsidiary of Rancho Viejo.

c. El Dorado Investment Company -- an Arizona corporation having been incorporated on July 27, 1983 and having its principal executive offices at 400 East Van Buren, Suite 800, Phoenix, Arizona 85004, is a wholly-owned subsidiary of Claimant engaged primarily in the acquisition and holding of stocks and securities of other companies for investment purposes.

2. A BRIEF DESCRIPTION OF THE PROPERTIES OF CLAIMANT AND EACH OF ITS SUBSIDIARY PUBLIC UTILITY COMPANIES USED FOR THE GENERATION, TRANSMISSION AND DISTRIBUTION OF ELECTRIC ENERGY FOR SALE, OR FOR THE PRODUCTION, TRANSMISSION AND DISTRIBUTION OF NATURAL OR MANUFACTURED GAS, INDICATING THE LOCATION OF PRINCIPAL GENERATING PLANTS, TRANSMISSION LINES, PRODUCING FIELDS, GAS MANUFACTURING PLANTS AND ELECTRIC AND GAS DISTRIBUTION FACILITIES, INCLUDING ALL SUCH PROPERTIES WHICH ARE OUTSIDE THE STATE IN WHICH CLAIMANT AND ITS SUBSIDIARIES ARE ORGANIZED AND ALL TRANSMISSION OR PIPELINES WHICH DELIVER OR RECEIVE ELECTRIC ENERGY OR GAS AT THE BORDERS OF SUCH STATE.

Neither the Claimant nor any of its subsidiaries own property used for the production, transmission and distribution of natural or manufactured gas. APS, a "public utility company" as that term is defined in the Public Utility Holding Company Act of 1935, is the only one of Claimant's subsidiaries that owns property used for the generation, transmission and distribution of electric energy for sale.

Exhibit D attached hereto shows the location of APS' major generating plants (including those owned jointly with others), principal transmission lines (including those operated for others) and interconnections of transmission lines with out-of-state utilities at state lines. All of such facilities, except the Four Corners Generating Station ("Four Corners"), and all of APS' distribution facilities, are located within the State of Arizona. Four Corners is a mine-mouth power plant, located in the northwest corner of New Mexico, near the city of Farmington, approximately 40 miles east of the Arizona-New Mexico border.

APS' present generating facilities have an accredited capacity aggregating 3,986,900 kilowatts, comprised as follows:

	CAPACITY (kW)
Coal:	
Units 1, 2 and 3 at Four Corners, aggregating	560,000
15% owned Units 4 and 5 at Four Corners, representing	222,000
Units 1, 2, and 3 at the Cholla Plant, aggregating	615,000
14% owned Units 1, 2 and 3 at the Navajo Plant, representing	315,000
	1,712,000
Gas or Oil:	
Two steam units at Ocotillo, two steam units at Saguaro and one steam unit at Yucca, aggregating	435,000(1)
Eleven combustion turbine units, aggregating	493,000
Three combined cycle units, aggregating	255,000
	1,183,000
Nuclear:	
29.1 % owned or leased Units 1, 2 and 3 at Palo Verde, representing	1,086,300
Other	5,600

(1) West Phoenix steam units (108,300 kw) are currently mothballed.

APS' transmission facilities consist of approximately 5,268 pole miles of overhead lines and approximately 23 miles of underground lines, all of which are located within the State of Arizona. APS' distribution facilities consist of approximately 11,444 pole miles of overhead lines and approximately 10,110 miles of underground lines, all of which are located within the State of Arizona.

3. THE FOLLOWING INFORMATION FOR THE LAST CALENDAR YEAR WITH RESPECT TO CLAIMANT AND EACH OF ITS SUBSIDIARY PUBLIC UTILITY COMPANIES (DATA IS NOT CURRENTLY MAINTAINED IN A FORMAT IDENTIFYING THE STATE IN WHICH THE SALES AND PURCHASES ARE MADE OR THE AMOUNT OF THEIR ASSOCIATED REVENUES OR EXPENSES.):

a. NUMBER OF KWH OF ELECTRIC ENERGY SOLD (AT RETAIL OR WHOLESALE), AND MCF. OF NATURAL OR MANUFACTURED GAS DISTRIBUTED AT RETAIL.

CLAIMANT	APS
None	30,780,474,000 kwh of electric energy sold at wholesale or retail
	0 Mcf. of natural or manufactured gas distributed at wholesale or retail

b. NUMBER OF KWH OF ELECTRIC ENERGY AND MCF. OF NATURAL OR MANUFACTURED GAS DISTRIBUTED AT RETAIL OUTSIDE THE STATE IN WHICH EACH SUCH COMPANY IS ORGANIZED.

CLAIMANT	APS
None	62,591,000 kwh of electric energy was distributed at retail outside Arizona.
	0 Mcf. of natural or manufactured gas distributed at retail outside Arizona

c. NUMBER OF KWH OF ELECTRIC ENERGY AND MCF. OF NATURAL OR MANUFACTURED GAS SOLD AT WHOLESALE OUTSIDE THE STATE IN WHICH EACH SUCH COMPANY IS ORGANIZED, OR AT THE STATE LINE.

CLAIMANT	APS
None	976,200 kwh of electric energy was sold at wholesale (to meet wholesale native load) outside Arizona or at state line. Data on wholesale non-native load is not currently maintained in this format. 0 Mcf. of natural or manufactured gas sold at wholesale (to meet wholesale native load) outside Arizona or at state line.

d. NUMBER OF KWH OF ELECTRIC ENERGY AND MCF. OF NATURAL OR MANUFACTURED GAS PURCHASED OUTSIDE THE STATE IN WHICH EACH SUCH COMPANY IS ORGANIZED OR AT THE STATE LINE.

CLAIMANT	APS
None	0 kwh of electric energy was purchased outside Arizona or at state line. Data is not currently maintained in this format. 19,380,577 Mcf. of natural or manufactured gas (used for generation) purchased outside Arizona or at state line.

4. THE FOLLOWING INFORMATION FOR THE REPORTING PERIOD WITH RESPECT TO CLAIMANT AND EACH INTEREST IT HOLDS DIRECTLY OR INDIRECTLY IN AN EWG OR A FOREIGN UTILITY COMPANY, STATING MONETARY AMOUNTS IN UNITED STATES DOLLARS:

The Claimant holds no interest, direct or indirect, in an EWG or a foreign utility company.

a. NAME, LOCATION, BUSINESS ADDRESS AND DESCRIPTION OF THE FACILITIES USED BY THE EWG OR FOREIGN UTILITY COMPANY FOR THE GENERATION, TRANSMISSION AND DISTRIBUTION OF ELECTRIC ENERGY FOR SALE OR FOR THE DISTRIBUTION AT RETAIL OF NATURAL OR MANUFACTURED GAS.

Not applicable.

b. NAME OF EACH SYSTEM COMPANY THAT HOLDS AN INTEREST IN SUCH EWG OR FOREIGN UTILITY COMPANY; AND DESCRIPTION OF THE INTEREST HELD.

Not applicable.

c. TYPE AND AMOUNT OF CAPITAL INVESTED, DIRECTLY OR INDIRECTLY, BY THE HOLDING COMPANY CLAIMING EXEMPTION; ANY DIRECT OR INDIRECT GUARANTEE OF THE SECURITY OF THE EWG OR FOREIGN UTILITY COMPANY BY THE HOLDING COMPANY CLAIMING EXEMPTION; AND ANY DEBT OR OTHER FINANCIAL OBLIGATION FOR WHICH THERE IS RECOURSE, DIRECTLY OR INDIRECTLY, TO THE HOLDING COMPANY CLAIMING EXEMPTION OR ANOTHER SYSTEM COMPANY, OTHER THAN THE EWG OR FOREIGN UTILITY COMPANY.

Not applicable.

d. CAPITALIZATION AND EARNINGS OF THE EWG OR FOREIGN UTILITY COMPANY DURING THE REPORTING PERIOD.

Not applicable.

e. IDENTIFY ANY SERVICE, SALES OR CONSTRUCTION CONTRACT(S) BETWEEN THE EWG OR FOREIGN UTILITY COMPANY AND A SYSTEM COMPANY, AND DESCRIBE THE SERVICES TO BE RENDERED OR GOODS SOLD AND FEES OR REVENUES UNDER SUCH AGREEMENT(S).

Not applicable.

EXHIBIT A

A CONSOLIDATING STATEMENT OF INCOME AND SURPLUS OF THE CLAIMANT AND ITS SUBSIDIARY COMPANIES FOR THE LAST CALENDAR YEAR, TOGETHER WITH A CONSOLIDATING BALANCE SHEET OF CLAIMANT AND ITS SUBSIDIARY COMPANIES AS OF THE CLOSE OF SUCH CALENDAR YEAR.

Exhibit A hereto includes consolidating statements of income and consolidating balance sheets for the Claimant and the following of its subsidiaries: Arizona Public Service Company, SunCor Development Company and El Dorado Investment Company. Subsidiaries have been consolidated for financial reporting purposes in accordance with Statement of Financial Accounting Standards No. 94, CONSOLIDATION OF ALL MAJORITY-OWNED SUBSIDIARIES. Also included are consolidating statements of income and consolidating balance sheets for SunCor Development Company and its subsidiaries.

EXHIBIT B FINANCIAL DATA STATEMENT

If, at the time a report on this form is filed, the registrant is required to submit this report and any amendments thereto electronically via EDGAR, the registrant shall furnish a Financial Data Schedule. The Schedule shall set forth the financial and other data specified below that are applicable to the registrant on a consolidated basis.

1. Total Assets.

2. Total Operating Revenues.

3. Net Income.

See Exhibit B hereto.

EXHIBIT C

An organizational chart showing the relationship of each EWG or foreign utility company to associate companies in the holding-company system.

Not applicable.

EXHIBIT D

In accordance with Item 304 of Regulation S-T of the Securities Exchange Act of 1934, APS' Service Territory map contained as Exhibit D to this Form U-3A-2 is a map of the State of Arizona showing APS' service area, the location of its major power plants and principal transmission lines, and the location of transmission lines operated by APS for others. The major power plants shown on such map are the Navajo Generating Station located in Coconino County, Arizona; the Four Corners Power Plant located near Farmington, New Mexico; the Cholla Power Plant, located in Navajo County, Arizona; the Yucca Power Plant, located near Yuma, Arizona; and the Palo Verde Nuclear Generating Station, located about 55 miles west of Phoenix, Arizona (each of which plants is reflected on such map as being jointly owned with other utilities), as well as the Ocotillo Power Plant and West Phoenix Power Plant, each located near Phoenix, Arizona, and the Saguaro Power Plant, located near Tucson, Arizona. APS' major transmission lines shown on such map are reflected as running between the power plants named above and certain major cities in the State of Arizona. The transmission lines operated for others shown on such map are reflected as running from the Four Corners Plant through a portion of northern Arizona to the California border.

The above-named Claimant has caused this statement to be duly executed on its behalf by its authorized officer on this 1st day of March, 1999.

PINNACLE WEST CAPITAL CORPORATION
(Name of Claimant)

By Michael V. Palmeri

Michael V. Palmeri
Treasurer

[CORPORATE SEAL]

Attest:

Suzanne Debes

Suzanne Debes
Associate Secretary

Name, title and address of officer to whom notices and correspondence concerning this statement should be addressed:

MICHAEL V. PALMERI (Name) TREASURER (Title)

400 EAST VAN BUREN, SUITE 700, PHOENIX, ARIZONA 85004
(Address)

EXHIBIT B Financial Data Schedule

The Claimant submits the following consolidated financial information:

1.	Total Assets:	$6,824,546,000
2.	Total Operating Revenues:	$2,130,586,000
3	Net Income:	$242,892,000

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATING BALANCE SHEET (UNAUDITED)
December 31, 1998
(THOUSANDS OF DOLLARS)

	PWCC	APS	SUNCOR	ELDO	*ELIMINATIONS AND ADJUSTING ENTRIES* DEBIT	CREDIT	TOTAL
ASSET							
CURRENT ASSETS							
Cash and cash equivalents	$ 8,833	$ 5,558	$ 4,332	$ 1,815	$ --	$ --	$ 20,538
Customer and other receivables - net	1,679	227,487	5,400	1,000	--(n)	1,690(b)	233,876
Accrued utility revenue		67,740					67,740
Materials and supplies		69,074					69,074
Fossil fuel		13,978					13,978
Deferred income taxes	--	3,999	3,975	--		3,975(o)	3,999
Other current assets	619	26,695	21,287	33		1,040(c)	47,594
Total current assets	11,131	414,531	34,994	2,848	--	6,705	456,799
INVESTMENTS AND OTHER ASSETS							
Real estate investments net (cap interest)			330,622		6,161(f)	5,762(e)	331,021
Other assets	2,333,482	183,549	9,018	24,295		2,313,782(a,f,h)	236,562
Total investments and other	2,333,482	183,549	339,640	24,295	6,161	2,319,544	567,583
UTILITY PLANT							
Electric plant in service and held for future use		7,265,604					7,265,604
Less accumulated depreciation and amortization		2,814,762					2,814,762
Total Utility Plant		4,450,842					4,450,842
Nuclear Fuel, net of amortizaton		51,078					51,078
Construction work in progress		228,643					228,643
Net Utility Plant		4,730,563					4,730,563
DEFERRED DEBITS							
Deferred income taxes			33,228			33,228(o)	--
Regulatory asset for income taxes		400,795					400,795
Rate synchronization cost deferrals		303,660					303,660
Other deferred debits	5,120	360,201	4,937	--	8(h)	5,120(j)	365,146
Total deferred debits	5,120	1,064,656	38,165	--	8	38,348	1,069,601
TOTAL ASSETS	$2,349,733	$6,393,299	$412,799	$ 27,143	$ 6,169	$2,364,597	$6,824,546

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATING BALANCE SHEET (UNAUDITED)
December 31, 1998
(THOUSANDS OF DOLLARS)

LIABILITIES AND EQUITY							
CURRENT LIABILITIES							
Accounts payable	$ 1,785	$ 145,139	$ 8,847	$ 34	$ 5(i)		$ 155,800
Accrued taxes		59,827	--	8		2,685(l,k)	62,520
Accrued interest	199	31,218	449	--			31,866
Dividend payable	--	--			--(d)		--
Short-term borrowings	--	--			--(m)		--
Commerical paper, net	--	178,830					178,830
Current maturities of long-term debt		154,378	3,667				158,045
Customer Deposits		26,815	1,695				28,510
Other current liabilities	3,311	16,755	629	195	6,258(b,c,g)		14,632
Total current liabilities	5,295	612,962	15,287	237	6,263	2,685	630,203
NON-CURRENT LIABILITIES							
Long-term debt less current maturities	92,000	1,886,540	80,421				2,058,961
DEFERRED CREDITS AND OTHER							
Deferred income taxes	71,412	1,312,007			39,883(k,o)		1,343,536
Deferred investment tax credit		32,465			5,120(j)		27,345
Unamortized gain-sale of utility plant		77,787					77,787
Other deferred credits	17,675	400,542	6,377			3,528(g)	428,122
Total deferred credits	89,087	1,822,801	6,377	--	45,003	3,528	1,876,790
COMMITMENTS AND CONTINGENCIES (NOTE)							
MINORITY INTERESTS:							
Non-Redeemable preferred stock of APS		85,840					85,840
Redeemable preferred stock of APS		9,401					9,401
Joint Ventures of SunCor			5,762		5,762(e)		--
COMMON STOCK EQUITY:							
Common stock	2,023,744	1,373,787	376,391	38,046	2,261,325(a)		1,550,643
Accumulated deficit	139,607	601,968	(71,439)	(11,140)	46,288(a)		612,708
Total	2,163,351	1,975,755	304,952	26,906	2,307,613		2,163,351
TOTAL LIABILITIES AND EQUITY	$2,349,733	$6,393,299	$ 412,799	$ 27,143	$2,364,641	$ 6,213	$6,824,546

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATING BALANCE SHEET
ELIMINATING AND ADJUSTING ENTRIES

		DEBITS	CREDITS
(a)	Common stock	$2,261,325	
	Accumulated earnings	46,288	
	Other investments		$2,307,613

To eliminate PNW investment in subsidiaries

	Common Stock	Earnings/ Dividends	Total
APS	$1,846,888	$ 128,867	$1,975,755
SunCor	376,391	(71,439)	304,952
El Dorado	38,046	(11,140)	26,906
Total	$2,261,325	$ 46,288	$2,307,613

(b)	Other current liabilities	$ 1,690	
	Customer and other receivables - net		1,690

To eliminate intercompany receivables/payables

	A/R PNW	A/P Subs Books
APS	$1,276	$1,276
SunCor	225	225
El Dorado	189	189
Total	$1,690	$1,690

(c)	Other current liabilities	$1,040	
	Other current assets		$1,040

To eliminate PNW payable to APS

(d)	Dividends Payable	--	
	Customer and other receivable - net		--

To eliminate APS Dividend to PNW

(e)	Minority interest	$5,762	
	Real estate investments - net		$5,762

To eliminate minority interest of SunCor JV partners

(f)	Real estate investments - net	$6,161	
	Other - assets		$6,161

To reclass PNW capitalized interest related to SunCor

(g)	Other current liabilities	$3,528	
	Other deferred credits		$3,528

To reclass PNW deferred comp to long-term

(h)	Other deferred debits	$8	
	Other - assets		$8

To reclass PNW unamortized debt to long-term

(i)	Accounts payable	$5	
	Accrued taxes		$5

To reclass PNW property tax

(j)	Deferred investment tax credit	$5,120	
	Other deferred debits		$5,120

To reclass PNW ITC from Deferred taxes to Deferred ITC

(k)	Other deferred debits	$2,680	
	Accrued taxes		$2,680

To reclass PNW accrued taxes

(o)	Deferred income taxes-current portion		$3,975
	Deferred income taxes-noncurrent portion		33,228
	Deferred income taxes	$37,203	

To eliminate Suncor deferred tax asset and PNW deferred tax liability.

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATING INCOME STATEMENT (UNAUDITED)
FOR THE PERIODS ENDED DECEMBER 31, 1998
(THOUSANDS OF DOLLARS)

	PWCC	APS	SUNCOR	ELDO	ADJUSTMENTS & ELIMINATIONS DEBIT	ADJUSTMENTS & ELIMINATIONS CREDIT	TOTAL
OPERATING REVENUES:							
Electric	$ --	$2,006,398	$ --	$ --	$ --	$ --	$2,006,398
Real Estate			124,188				124,188
Total	--	2,006,398	124,188	--	--	--	2,130,586
FUEL EXPENSES:							
Fuel for electric generation		231,967					231,967
Purchased power		305,534					305,534
Total	--	537,501	--	--	--	--	537,501
OPERATING EXPENSES:							
Utility operations and maintenance		414,041					414,041
Real estate operations			116,216		731(b)	1,616(d)	115,331
Depreciation and amortization	209	376,574	2,896	--			379,679
Taxes other than income taxes		115,264			1,642(c,d)		116,906
Total	209	905,879	119,112	--	2,373	1,616	1,025,957
OPERATING INCOME	(209)	563,018	5,076	--	(2,373)	(1,616)	567,128
OTHER INCOME (DEDUCTIONS):							
Interest on long-term debt	(9,874)	(137,214)	(6,648)	--			(153,736)
Other interest	(673)	(15,061)	--	--		325(e)	(15,409)
Capitalized interest		16,263	2,333				18,596
Preferred stock dividend requirements		(9,703)					(9,703)
Other, net	292,897	(12,303)	6,758	7,616	295,116(a,e)	757(b,c)	609
Total	282,350	(158,018)	2,443	7,616	295,116	1,082	(159,643)
INCOME BEFORE INCOME TAXES	282,141	405,000	7,519	7,616	297,489	(534)	407,485
Income Tax Expense (Benefit)	39,249	159,456	(37,200)	3,088			164,593
NET INCOME (LOSS)	$242,892	$ 245,544	$ 44,719	$ 4,528	$ 297,489	$ (534)	$ 242,892

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATING INCOME STATEMENT
ELIMINATING ENTRIES

(a)	Other - net (Subs income)		$ 294,791		
	Retained Earnings				$ 294,791
	To eliminate PWCC Equity in earnings from subsidiaries				
		PWCC			
	APS	$245,544			
	SunCor	44,719			
	El Dorado	4,528			
	Total	$294,791			
(b)	Real Estate Operations		$ 731		
	Interest Expense (PWCC)				$ 731
	To reclass Capitalized Interest for SunCor Land Sales				
(c)	Taxes other than income taxes		$ 26		
	Other - net				$ 26
	To reclass PNW property taxes				
(d)	Taxes other than income taxes		$ 1,616		
	Real estate operations				$ 1,616
	To reclass SunCor property taxes				
(e)	Other, net (El Dorado interest income)		$ 325		
	Other interest				$ 325
	To eliminate interest on ELD loan to PNW				

SUNCOR DEVELOPMENT COMPANY
CONSOLIDATED BALANCE SHEET (UNAUDITED)
FOR THE MONTH ENDED DECEMBER 31, 1998

	ACCOUNT DESCRIPTION	SUNCOR CORPORATE	LPSCO	SASI	SMLP	PVGC
ASSETS:						
	CURRENT ASSETS					
	CASH AND SHORT TERM INVESTMENTS	$ 1,019,737	$430,710	$ 395,991	$ 575,390	$ (1,126)
1	ACCOUNTS RECEIVABLE	266,375	141,342	66,609	1,224,420	20,757
	INTERCOMPANY ACCOUNTS:					
1	SASI	0				
1	LPSCO	21,391				
1	SMLP	27,761				
1	PVGC	0				4,060,675
1	WWOS	48,503				
1	GOLDEN HERITAGE - GENERAL	767,728				
1	SCM-GENERAL	4,981,309				
1	HOMEBUILDING I/C INTEREST	2,592,637				
1	HOMEBUILDING CASH ADVANCES	12,778,208				
	COMMERCIAL - GENERAL	0				
1	SUNRIDGE - DEVELOPMENT	38,671				
1	SUNRIDGE - GOLF	218,991				
1	SEDONA - DEVELOPMENT	43,125				
1	SEDONA - GOLF	152,365				
1	WIGWAM RESORT	179,892				
1	INTEREST RECEIVABLE	371,731				
	NOTES RECEIVABLE	2,174,874			0	
2	INVENTORIES					63,252
2	PREPAID EXPENSES	115,158	4,664			46,108
	HOME INVENTORY	6,888				
	DEFERRED INCOME TAX	3,974,512				
	TOTAL CURRENT ASSETS	29,779,855	576,716	462,600	1,799,810	4,189,667

	ACCOUNT DESCRIPTION	HOMES	PV	WWOS	RABUTO JV	COMM.
ASSETS:						
	CURRENT ASSETS					
	CASH AND SHORT TERM INVESTMENTS	$ 926,993	$1,300,540	$ 193,117	$ 174	$ (416,346)
1	ACCOUNTS RECEIVABLE	269,382		173,920		428,734
	INTERCOMPANY ACCOUNTS:					
1	SASI					
1	LPSCO					
1	SMLP					
1	PVGC					
1	WWOS					
1	GOLDEN HERITAGE - GENERAL	667,368				
1	SCM-GENERAL	(4,981,309)				
1	HOMEBUILDING I/C INTEREST	(2,592,637)				
1	HOMEBUILDING CASH ADVANCES					
	COMMERCIAL - GENERAL					
1	SUNRIDGE - DEVELOPMENT					
1	SUNRIDGE - GOLF					
1	SEDONA - DEVELOPMENT					
1	SEDONA - GOLF					
1	WIGWAM RESORT					
1	INTEREST RECEIVABLE		10,407			16,325
	NOTES RECEIVABLE					12,120
2	INVENTORIES					36,162
2	PREPAID EXPENSES		1,014			11,850
	HOME INVENTORY	23,553,307				
	DEFERRED INCOME TAX					
	TOTAL CURRENT ASSETS	17,843,105	1,311,961	367,037	174	88,845

	ACCOUNT DESCRIPTION	H HILLS	R VIEJO	C. CANYON	REF	ELIMINATIONS DEBIT	REF	CREDIT
ASSETS:								
	CURRENT ASSETS							
	CASH AND SHORT TERM INVESTMENTS	$ 1,892	$ (96,606)	$ 1,445		$ --		$ --
1	ACCOUNTS RECEIVABLE						J,Q	315,272
	INTERCOMPANY ACCOUNTS:							
1	SASI							0
1	LPSCO						H	21,391
1	SMLP				J		0 J	27,761
1	PVGC						M	4,060,675
1	WWOS				Q		0 Q	48,503
1	GOLDEN HERITAGE - GENERAL						A	1,432,265
1	SCM-GENERAL				A	4,981,309	A	4,981,309
1	HOMEBUILDING I/C INTEREST				C	2,592,637	C	2,592,637
1	HOMEBUILDING CASH ADVANCES						B	12,777,915
	COMMERCIAL - GENERAL							
1	SUNRIDGE - DEVELOPMENT							
1	SUNRIDGE - GOLF							
1	SEDONA - DEVELOPMENT							
1	SEDONA - GOLF							
1	WIGWAM RESORT							
1	INTEREST RECEIVABLE						P	97,398
	NOTES RECEIVABLE		0					
2	INVENTORIES			12,480				
2	PREPAID EXPENSES			1,839				
	HOME INVENTORY						E	2,565,923
	DEFERRED INCOME TAX							
	TOTAL CURRENT ASSETS	1,892	(96,606)	15,763		7,573,946		28,921,050

	ACCOUNT DESCRIPTION	CONSOLIDATED
ASSETS:		
	CURRENT ASSETS	
	CASH AND SHORT TERM INVESTMENTS	$ 4,331,912
1	ACCOUNTS RECEIVABLE	2,276,268
	INTERCOMPANY ACCOUNTS:	
1	SASI	0
1	LPSCO	0
1	SMLP	0
1	PVGC	0
1	WWOS	0
1	GOLDEN HERITAGE - GENERAL	2,831
1	SCM-GENERAL	0
1	HOMEBUILDING I/C INTEREST	0
1	HOMEBUILDING CASH ADVANCES	292
	COMMERCIAL - GENERAL	0
1	SUNRIDGE - DEVELOPMENT	38,671
1	SUNRIDGE - GOLF	218,991
1	SEDONA - DEVELOPMENT	43,125
1	SEDONA - GOLF	152,365
1	WIGWAM RESORT	179,892
1	INTEREST RECEIVABLE	301,065
	NOTES RECEIVABLE	2,186,994
2	INVENTORIES	111,894
2	PREPAID EXPENSES	180,632
	HOME INVENTORY	20,994,272
	DEFERRED INCOME TAX	3,974,512
	TOTAL CURRENT ASSETS	34,993,716

	ACCOUNT DESCRIPTION	SUNCOR CORPORATE	LPSCO	SASI	SMLP	PVGC
	LONG-TERM ASSETS					
	DEVELOPMENT PROJECTS					
	CORAL CANYON					
	HIDDEN HILLS					
	RANCHO VIEJO					
	PALM VALLEY					
	LITCHFIELD GREENS					
	VILLAGE OF LITCHFIELD GREENS					
	SCOTTSDALE MOUNTAIN				5,597,906	
	MARKETPLACE - AUTOPLEX					
	TATUM RANCH	7,011,475				
	TALAVI					
	WIGWAM OUTLET STORES					
	GOLDEN HERITAGE LAND					
	BILTMORE ESTATES	0				
	OTHER COMMERCIAL LAND					
	EQUITY INVESTMENTS:					
	EQUITY IN CTRPT ASSOC-LLP					
	INVEST IN KYRENE ASSOCIATES LLC					
	INVEST IN PV APARTMENTS (I & II)					
	INVESTMENT IN SUNRIDGE CANYON LLC	9,652,389				
	INVESTMENT IN SEDONA GOLF LC	3,589,437				
	INVESTMENT IN PLUMCOR REALTY LLC					
	INVEST IN TALAVI ASSOCIATES LLC					
	INVESTMENT IN WESTWORLD GOLF	782,907				
	CONSOLIDATED ELIMINATING ENTITIES:					
	INVEST IN KABUTO/SUNCOR JV	5,882,342				
	INVESTMENT IN WIGWAM OUTLET LLC					
	INVEST IN SCOTTS MTN LTD PART	5,245,299				
	INVEST IN GOLDEN HERITAGE	1,154,335				
	GOLDEN HERITAGE DUE DILIGENCE	0				
	INVESTMENT IN SCM	525,943				
5	INVESTMENT IN LPSCO	12,173,458				
	INVESTMENT IN SASI	0				
	INVESTMENT IN PALM VALLEY	167,221,252				
	INVESTMENT IN PALM VALLEY GOLF	6,231,352				
	PALM VALLEY GOLF CONTRIB. CAP	(4,060,675)				
	INVESTMENT IN RANCHO VIEJO	8,674,183				
	INVESTMENT IN HIDDEN HILLS	1,170,838				
	INVESTMENT IN CORAL CANYON	481,241				
	PROJECT 2000:					
	INVESTMENT IN FIDDLESTICKS-SCOTTS	(603,562)				
	INVESTMENT IN FIDDLESTICKS-TEMPE	1,623,517				
	INVESTMENT IN FUNTASTICKS	2,334,403				
	INVESTMENT IN GENERAL COMM OPS	79,255,821				
	INVESTMENT IN PV MARKETPLACE	1,406,129				
	INVESTMENT IN PV PAVILIONS	899,849				
	INVESTMENT IN PV CROSSING	311,587				
	INVESTMENT IN AUTOPLEX	(574,137)				
	INVESTMENT IN TALAVI	(139,299)				
	INVESTMENT IN METROCENTER	253,727				
	INVESTMENT IN RESTORATION PLACE	(65,725)				
	INVESTMENT IN LITCHFIELD PARK OPS	73,203				
	INVESTMENT IN LP PROF. PLAZA	(18,428)				
	INVESTMENT IN WWOS LLC	(11,397)				
	INVESTMENT IN APS PROPERTIES	(126,084)				
	COMMERCIAL PROPERTIES					5,294,782
	LONG-TERM NOTES RECEIVABLE	5,964,889				
	SDC PHASE I LAND NOTE TO WWOS	1,304,153				
	SDC PAYOFF OF WWOS RLC	10,000,000				
	SDC LOAN TO LPSCO	300,000				
	PROPERTY & EQUIPMENT, NET	785,336		36,696		142,635
3	DEFERRED ASSETS	2,696,758	1,195,557			202,691
	DEFERRED INCOME TAXES	33,225,488				
	WATER & SEWER UTILITY PROP, NET		13,503,454			
3	DEPOSITS					
	TOTAL LONG-TERM ASSETS	364,632,003	14,699,011	36,696	5,597,906	5,640,108
	TOTAL ASSETS	$394,411,858	$ 15,275,727	$ 499,296	$ 7,397,716	$ 9,829,775

	ACCOUNT DESCRIPTION	HOMES	PV	WWOS	KABUTO JV	COMM.
	LONG-TERM ASSETS					
	DEVELOPMENT PROJECTS					
	CORAL CANYON					
	HIDDEN HILLS					
	RANCHO VIEJO					
	PALM VALLEY		164,717,178			16,567,774
	LITCHFIELD GREENS		943,106			
	VILLAGE OF LITCHFIELD GREENS				12,705,211	
	SCOTTSDALE MOUNTAIN					
	MARKETPLACE - AUTOPLEX					12,962,803
	TATUM RANCH					
	TALAVI					2,414,265
	WIGWAM OUTLET STORES			16,232,891		
	GOLDEN HERITAGE LAND	1,393,876				
	BILTMORE ESTATES					
	OTHER COMMERCIAL LAND					3,500,641
	EQUITY INVESTMENTS:					
	EQUITY IN CTRPT ASSOC-LLP					23,472,509
	INVEST IN KYRENE ASSOCIATES LLC					1,440,528
	INVEST IN PV APARTMENTS (I & II)		936,291			
	INVESTMENT IN SUNRIDGE CANYON LLC					
	INVESTMENT IN SEDONA GOLF LC					
	INVESTMENT IN PLUMCOR REALTY LLC					120,000
	INVEST IN TALAVI ASSOCIATES LLC					2,842,332
	INVESTMENT IN WESTWORLD GOLF					
	CONSOLIDATED ELIMINATING ENTITIES:					
	INVEST IN KABUTO/SUNCOR JV					
	INVESTMENT IN WIGWAM OUTLET LLC					3,807,232
	INVEST IN SCOTTS MTN LTD PART					
	INVEST IN GOLDEN HERITAGE					
	GOLDEN HERITAGE DUE DILIGENCE					
	INVESTMENT IN SCM					
5	INVESTMENT IN LPSCO		373,781			

	INVESTMENT IN SASI							
	INVESTMENT IN PALM VALLEY							
	INVESTMENT IN PALM VALLEY GOLF							
	PALM VALLEY GOLF CONTRIB. CAP							
	INVESTMENT IN RANCHO VIEJO							
	INVESTMENT IN HIDDEN HILLS							
	INVESTMENT IN CORAL CANYON							
	PROJECT 2000:							
	INVESTMENT IN FIDDLESTICKS-SCOTTS							
	INVESTMENT IN FIDDLESTICKS-TEMPE							
	INVESTMENT IN FUNTASTICKS							
	INVESTMENT IN GENERAL COMM OPS							
	INVESTMENT IN PV MARKETPLACE							
	INVESTMENT IN PV PAVILIONS							
	INVESTMENT IN PV CROSSING							
	INVESTMENT IN AUTOPLEX							
	INVESTMENT IN TALAVI							
	INVESTMENT IN METROCENTER							
	INVESTMENT IN RESTORATION PLACE							
	INVESTMENT IN LITCHFIELD PARK OPS							
	INVESTMENT IN LP PROF. PLAZA							
	INVESTMENT IN WWOS LLC							
	INVESTMENT IN APS PROPERTIES							
	COMMERCIAL PROPERTIES							18,007,355
	LONG-TERM NOTES RECEIVABLE		187,817					265,654
	SDC PHASE I LAND NOTE TO WWOS							
	SDC PAYOFF OF WWOS RLC							
	SDC LOAN TO LPSCO							
	PROPERTY & EQUIPMENT, NET	1,388,591	99,108	71,783				
3	DEFERRED ASSETS		169,620	157,599				441,233
	DEFERRED INCOME TAXES							
	WATER & SEWER UTILITY PROP, NET							
3	DEPOSITS	72,915						
	TOTAL LONG-TERM ASSETS	2,855,382	167,426,901	16,462,273	12,705,211			85,842,327
	TOTAL ASSETS	20,698,487	$ 168,738,862	$ 16,829,310	$ 12,705,385			$ 85,931,172

					ELIMINATIONS			
	ACCOUNT DESCRIPTION	H HILLS	R VIEJO	C. CANYON	REF	DEBIT	REF	CREDIT
	LONG-TERM ASSETS							
	DEVELOPMENT PROJECTS							
	CORAL CANYON			465,261				
	HIDDEN HILLS	1,199,790						
	RANCHO VIEJO		9,258,472					
	PALM VALLEY							
	LITCHFIELD GREENS							
	VILLAGE OF LITCHFIELD GREENS							
	SCOTTSDALE MOUNTAIN							
	MARKETPLACE - AUTOPLEX							
	TATUM RANCH							
	TALAVI							
	WIGWAM OUTLET STORES							
	GOLDEN HERITAGE LAND							
	BILTMORE ESTATES							
	OTHER COMMERCIAL LAND							
	EQUITY INVESTMENTS:							
	EQUITY IN CTRPT ASSOC-LLP							
	INVEST IN KYRENE ASSOCIATES LLC							
	INVEST IN PV APARTMENTS (I & II)							
	INVESTMENT IN SUNRIDGE CANYON LLC							
	INVESTMENT IN SEDONA GOLF LC							
	INVESTMENT IN PLUMCOR REALTY LLC							
	INVEST IN TALAVI ASSOCIATES LLC							
	INVESTMENT IN WESTWORLD GOLF							
	CONSOLIDATED ELIMINATING ENTITIES:							
	INVEST IN KABUTO/SUNCOR JV						R	8,853,122
	INVESTMENT IN WIGWAM OUTLET LLC				O	18,539,382	O	23,340,125
	INVEST IN SCOTTS MTN LTD PART				I	15,730,119	I	20,999,080
	INVEST IN GOLDEN HERITAGE					0	D	1,154,335
	GOLDEN HERITAGE DUE DILIGENCE							
	INVESTMENT IN SCM						D	525,943
5	INVESTMENT IN LPSCO						F	11,925,668
	INVESTMENT IN SASI				L	650,000	L	1,023,781
	INVESTMENT IN PALM VALLEY					0	V	167,221,252
	INVESTMENT IN PALM VALLEY GOLF						M	6,231,352
	PALM VALLEY GOLF CONTRIB. CAP				N	4,060,675		
	INVESTMENT IN RANCHO VIEJO				U	85,702	U	8,759,885
	INVESTMENT IN HIDDEN HILLS				T	3,070	T	1,173,907
	INVESTMENT IN CORAL CANYON						W	481,241
	PROJECT 2000:							
	INVESTMENT IN FIDDLESTICKS-SCOTTS				S	2,426,077	S	1,822,515
	INVESTMENT IN FIDDLESTICKS-TEMPE						S	1,623,517
	INVESTMENT IN FUNTASTICKS						S	2,334,403
	INVESTMENT IN GENERAL COMM OPS				S	0	S	79,255,821
	INVESTMENT IN PV MARKETPLACE						S	1,406,129
	INVESTMENT IN PV PAVILIONS						S	899,849
	INVESTMENT IN PV CROSSING				S	0	S	311,587
	INVESTMENT IN AUTOPLEX				S	574,137		
	INVESTMENT IN TALAVI				S	139,299		
	INVESTMENT IN METROCENTER						S	253,727
	INVESTMENT IN RESTORATION PLACE				S	65,725		
	INVESTMENT IN LITCHFIELD PARK OPS						S	73,203
	INVESTMENT IN LP PROF. PLAZA				S	18,428	S	0
	INVESTMENT IN WWOS LLC				S	11,397	S	0
	INVESTMENT IN APS PROPERTIES				S	126,084	S	
	COMMERCIAL PROPERTIES							
	LONG-TERM NOTES RECEIVABLE							
	SDC PHASE I LAND NOTE TO WWOS						P	1,304,153
	SDC PAYOFF OF WWOS RLC						P	10,000,000
	SDC LOAN TO LPSCO						G	300,000
	PROPERTY & EQUIPMENT, NET		70,633	5,264				
3	DEFERRED ASSETS	0						
	DEFERRED INCOME TAXES							
	WATER & SEWER UTILITY PROP, NET							
3	DEPOSITS			150				
	TOTAL LONG-TERM ASSETS	1,199,790	9,329,105	470,675		42,430,095		351,274,594
	TOTAL ASSETS	$ 1,201,682	$ 9,232,499	$ 486,439		$ 50,004,040		$ 380,195,645

	ACCOUNT DESCRIPTION	CONSOLIDATED
	LONG-TERM ASSETS	
	DEVELOPMENT PROJECTS	
	CORAL CANYON	
	HIDDEN HILLS	465,261
	RANCHO VIEJO	1,199,790
	PALM VALLEY	9,258,472
	LITCHFIELD GREENS	181,284,952
	VILLAGE OF LITCHFIELD GREENS	943,106
	SCOTTSDALE MOUNTAIN	12,705,211
	MARKETPLACE - AUTOPLEX	5,597,906
	TATUM RANCH	12,962,803
	TALAVI	7,011,475
	WIGWAM OUTLET STORES	2,414,265
	GOLDEN HERITAGE LAND	16,232,891
	BILTMORE ESTATES	1,393,876
	OTHER COMMERCIAL LAND	0
	EQUITY INVESTMENTS:	3,500,641
	EQUITY IN CTRPT ASSOC-LLP	0
	INVEST IN KYRENE ASSOCIATES LLC	23,472,509
	INVEST IN PV APARTMENTS (I & II)	1,440,528
	INVESTMENT IN SUNRIDGE CANYON LLC	936,291
	INVESTMENT IN SEDONA GOLF LC	9,652,389
	INVESTMENT IN PLUMCOR REALTY LLC	3,589,437
	INVEST IN TALAVI ASSOCIATES LLC	120,000
	INVESTMENT IN WESTWORLD GOLF	2,842,332
	CONSOLIDATED ELIMINATING ENTITIES:	782,907
	INVEST IN KABUTO/SUNCOR JV	0
	INVESTMENT IN WIGWAM OUTLET LLC	(2,970,780)
	INVEST IN SCOTTS MTN LTD PART	(993,511)
	INVEST IN GOLDEN HERITAGE	(23,662)
	GOLDEN HERITAGE DUE DILIGENCE	0
	INVESTMENT IN SCM	0
5	INVESTMENT IN LPSCO	0
	INVESTMENT IN SASI	247,790
	INVESTMENT IN PALM VALLEY	0
	INVESTMENT IN PALM VALLEY GOLF	0
	PALM VALLEY GOLF CONTRIB. CAP	0
	INVESTMENT IN RANCHO VIEJO	0
	INVESTMENT IN HIDDEN HILLS	0
	INVESTMENT IN CORAL CANYON	0
	PROJECT 2000:	0
	INVESTMENT IN FIDDLESTICKS-SCOTTS	
	INVESTMENT IN FIDDLESTICKS-TEMPE	0
	INVESTMENT IN FUNTASTICKS	0
	INVESTMENT IN GENERAL COMM OPS	0
	INVESTMENT IN PV MARKETPLACE	0
	INVESTMENT IN PV PAVILIONS	0
	INVESTMENT IN PV CROSSING	0
	INVESTMENT IN AUTOPLEX	0
	INVESTMENT IN TALAVI	0
	INVESTMENT IN METROCENTER	0
	INVESTMENT IN RESTORATION PLACE	0
	INVESTMENT IN LITCHFIELD PARK OPS	0
	INVESTMENT IN LP PROF. PLAZA	0
	INVESTMENT IN WWOS LLC	0
	INVESTMENT IN APS PROPERTIES	0
	COMMERCIAL PROPERTIES	0
	LONG-TERM NOTES RECEIVABLE	23,302,137
	SDC PHASE I LAND NOTE TO WWOS	6,418,360
	SDC PAYOFF OF WWOS RLC	0
	SDC LOAN TO LPSCO	0
	PROPERTY & EQUIPMENT, NET	0
3	DEFERRED ASSETS	2,600,045
	DEFERRED INCOME TAXES	4,863,457
	WATER & SEWER UTILITY PROP, NET	33,225,488
3	DEPOSITS	13,503,454
		73,065
	TOTAL LONG-TERM ASSETS	378,052,887
	TOTAL ASSETS	$ 413,046,603

	ACCOUNT DESCRIPTION	SUNCOR CORPORATE	LPSCO	SASI	SMLP	PVGC
	LIABILITIES:					
	CURRENT LIABILITIES					
4	A/P & RETENTION	$ 198,218	$ 193,109	$ 19,428	$ 69,484	$ 35,838
4	ACCRUED LIABILITIES	2,083,844	226,417	38,726	104,121	73,731
	INTERCOMPANY ACCOUNTS:					
4	LPSCO - SDC		21,391			
4	SMLP - SDC				27,761	
4	SCM-SDC CASH ADVANCES 267					
4	GH-SDC INTERCO CAPITAL 265					
4	WWOS-SDC					
	INTEREST PAYABLE	443,916				
	S/T NOTES PAYABLE					
	$45 MILLION TERM LOAN	3,208,144				
	$55 MILLION RLC					
	GOLDEN HERITAGE (PEW)					
	TEXTRON LOAN - PVGC					
	DEF PROFIT & UNEARNED REVENUE	2,661,923		18,569	0	
	PWCC INTERCO PAYABLE	358,870				
	APS LAND INTERCO PAYABLE					
	CUSTOMER DEPOSITS					
	TOTAL CURRENT LIABILITIES	8,954,915	440,917	76,723	201,366	109,569
	LONG-TERM LIABILITIES					
	LONG-TERM NOTES PAYABLE					
	WWOS OWES SDC PH I LAND NOTE					
	WWOS RLC PAYOFF BY SDC					
	CORPORATE TERM NOTE	38,853,019				
	CORPORATE RLC	38,138,836				
	LPSCO OWES SDC		300,000			
	TEXTRON LOAN - PVGC					3,488,854
5	OTHER ACCRUED LIABILITIES	3,513,221	889,149	48,792		
5	DEFERRED TAXES		216,617			
5	LONG-TERM CUSTOMER DEPOSITS		586,162			
5	CONTRIB PROPERTY AIA		916,642			
	TOTAL L/T LIABILITIES	80,505,077	2,908,570	48,792	0	3,488,854
	TOTAL LIABILITIES	89,459,992	3,349,487	125,515	201,366	3,598,423
	MINORITY INTEREST					

	ACCOUNT DESCRIPTION	HOMES	PV	WWOS	KABUTO JV	COMM.
	LIABILITIES:					
	CURRENT LIABILITIES					
4	A/P & RETENTION	$ 2,714,754	$ 1,036,745	$ 578,516	$	$ 202,637
4	ACCRUED LIABILITIES	(5,282)	159,457		17,728	820,338
	INTERCOMPANY ACCOUNTS:					
4	LPSCO - SDC					
4	SMLP - SDC					
4	SCM-SDC CASH ADVANCES 267	12,777,915				
4	GH-SDC INTERCO CAPITAL 265	1,432,265				
4	WWOS-SDC			48,503		
	INTEREST PAYABLE	5,371		97,397		
	S/T NOTES PAYABLE					
	$45 MILLION TERM LOAN					
	$55 MILLION RLC					
	GOLDEN HERITAGE (PEW)	398,595				
	TEXTRON LOAN - PVGC					
	DEF PROFIT & UNEARNED REVENUE		97,416			58,449
	PWCC INTERCO PAYABLE					
	APS LAND INTERCO PAYABLE					(0)
	CUSTOMER DEPOSITS	1,694,749				
	TOTAL CURRENT LIABILITIES	19,018,368	1,293,618	724,417	17,728	1,081,424
	LONG-TERM LIABILITIES					
	LONG-TERM NOTES PAYABLE					
	WWOS OWES SDC PH I LAND NOTE			1,304,153		
	WWOS RLC PAYOFF BY SDC			10,000,000		
	CORPORATE TERM NOTE					
	CORPORATE RLC					
	LPSCO OWES SDC					
	TEXTRON LOAN - PVGC					
5	OTHER ACCRUED LIABILITIES		224,212			230,145
5	DEFERRED TAXES					
5	LONG-TERM CUSTOMER DEPOSITS					
5	CONTRIB PROPERTY AIA					
	TOTAL L/T LIABILITIES	0	224,212	11,304,153	0	230,145
	TOTAL LIABILITIES	19,018,368	1,517,830	12,028,570	17,728	1,311,568
	MINORITY INTEREST					

	ACCOUNT DESCRIPTION	H HILLS	R VIEJO	C. CANYON	ELIMINATIONS REF	ELIMINATIONS DEBIT	ELIMINATIONS REF	ELIMINATIONS CREDIT
	LIABILITIES:							
	CURRENT LIABILITIES							
4	A/P & RETENTION	$ 1,200	$ 350,326	$ 5,197 J,K,Q		$ 315,272		$ --
4	ACCRUED LIABILITIES	29,837	207,991					
	INTERCOMPANY ACCOUNTS:							
4	LPSCO - SDC				H	21,391		
4	SMLP - SDC				J	27,761		0
4	SCM-SDC CASH ADVANCES 267				B	12,777,915		0
4	GH-SDC INTERCO CAPITAL 265				A	1,432,265		0
4	WWOS-SDC				Q	48,503		0
	INTEREST PAYABLE				P	97,398		
	S/T NOTES PAYABLE							
	$45 MILLION TERM LOAN							
	$55 MILLION RLC							
	GOLDEN HERITAGE (PEW)							0

	TEXTRON LOAN - PVGC							*	59,956
	DEF PROFIT & UNEARNED REVENUE				E	2,565,923			
	PWCC INTERCO PAYABLE								
	APS LAND INTERCO PAYABLE								
	CUSTOMER DEPOSITS								
	TOTAL CURRENT LIABILITIES	31,037	558,317	5,197	0	17,286,430	0		59,956
	LONG-TERM LIABILITIES								
	LONG-TERM NOTES PAYABLE								
	WWOS OWES SDC PH I LAND NOTE				P	1,304,153			
	WWOS RLC PAYOFF BY SDC				P	10,000,000			
	CORPORATE TERM NOTE								
	CORPORATE RLC								
	LPSCO OWES SDC				G	300,000			
	TEXTRON LOAN - PVGC				*	59,956			
5	OTHER ACCRUED LIABILITIES								
5	DEFERRED TAXES								
5	LONG-TERM CUSTOMER DEPOSITS								
5	CONTRIB PROPERTY AIA								
	TOTAL L/T LIABILITIES	0	0	0		11,664,109			0
	TOTAL LIABILITIES	31,037	558,317	5,197		28,950,539			59,956
	MINORITY INTEREST				I	7,985,114	I,R		13,747,038

	ACCOUNT DESCRIPTION	CONSOLIDATED
	LIABILITIES:	
	CURRENT LIABILITIES	
4	A/P & RETENTION	$ 5,090,181
4	ACCRUED LIABILITIES	3,756,908
	INTERCOMPANY ACCOUNTS:	
4	LPSCO - SDC	0
4	SMLP - SDC	0
4	SCM-SDC CASH ADVANCES 267	0
4	GH-SDC INTERCO CAPITAL 265	0
4	WWOS-SDC	0
	INTEREST PAYABLE	449,286
	S/T NOTES PAYABLE	
	$45 MILLION TERM LOAN	3,208,144
	$55 MILLION RLC	0
	GOLDEN HERITAGE (PEW)	398,595
	TEXTRON LOAN - PVGC	59,956
	DEF PROFIT & UNEARNED REVENUE	270,434
	PWCC INTERCO PAYABLE	358,870
	APS LAND INTERCO PAYABLE	(0)
	CUSTOMER DEPOSITS	1,694,749
	TOTAL CURRENT LIABILITIES	15,287,123
	LONG-TERM LIABILITIES	
	LONG-TERM NOTES PAYABLE	
	WWOS OWES SDC PH I LAND NOTE	0
	WWOS RLC PAYOFF BY SDC	0
	CORPORATE TERM NOTE	38,853,019
	CORPORATE RLC	38,138,836
	LPSCO OWES SDC	0
	TEXTRON LOAN - PVGC	3,428,898
5	OTHER ACCRUED LIABILITIES	4,905,519
5	DEFERRED TAXES	216,617
5	LONG-TERM CUSTOMER DEPOSITS	586,162
5	CONTRIB PROPERTY AIA	916,642
	TOTAL L/T LIABILITIES	87,045,693
	TOTAL LIABILITIES	102,332,816
	MINORITY INTEREST	5,761,924

ACCOUNT DESCRIPTION	SUNCOR CORPORATE	LPSCO	SASI	SMLP	PVGC
EQUITY:					
SDC COMMON STOCK	1,022,000				
SDC ADDITIONAL PAID IN CAPITAL	375,368,522				
SDC EARNED SURPLUS-BEGINNING	(116,158,648)				
SDC EARNED SURPLUS-CURRENT	44,719,992				
SUBSIDIARY EARNINGS-CURRENT		30,780	159,366	4,759,433	(127,903)
SUBSIDIARY EQUITY:					
LPSCO		11,895,460			
SASI			214,415		
SMLP #3500				2,436,916	
PVGC					6,359,255
HOMEBUILDING					
PALM VALLEY #5500					
WWOS #4400					
KABUTO JV #3000					
COMMERCIAL PROPERTIES #2000					
HIDDEN HILLS #3300					
RANCHO VIEJO #6600					
CORAL CANYON #3900					
TOTAL EQUITY	304,951,866	11,926,240	373,781	7,196,349	6,231,352
TOTAL LIABS AND EQUITY	$394,411,858	$ 15,275,727	$ 499,296	$ 7,397,716	$ 9,829,775

ACCOUNT DESCRIPTION	HOMES	PV	WWOS	KABUTO JV	COMM.
EQUITY:					
SDC COMMON STOCK					
SDC ADDITIONAL PAID IN CAPITAL					
SDC EARNED SURPLUS-BEGINNING					
SDC EARNED SURPLUS-CURRENT					
SUBSIDIARY EARNINGS-CURRENT	1,046,001	6,128,499	(90,343)	0	3,604,982
SUBSIDIARY EQUITY:					
LPSCO					
SASI					
SMLP #3500					
PVGC					
HOMEBUILDING	634,276				
PALM VALLEY #5500		161,092,534			
WWOS #4400			4,891,083		
KABUTO JV #3000				12,687,657	
COMMERCIAL PROPERTIES #2000					81,014,621
HIDDEN HILLS #3300					
RANCHO VIEJO #6600					
CORAL CANYON #3900					
TOTAL EQUITY	1,680,277	167,221,032	4,800,740	12,687,657	84,619,603
TOTAL LIABS AND EQUITY	$ 20,698,645	$ 168,738,862	$ 16,829,310	$ 12,705,385	$ 85,931,172

ACCOUNT DESCRIPTION	H HILLS	R VIEJO	C. CANYON	ELIMINATIONS REF	DEBIT	REF	CREDIT
EQUITY:							
SDC COMMON STOCK							
SDC ADDITIONAL PAID IN CAPITAL							
SDC EARNED SURPLUS-BEGINNING							
SDC EARNED SURPLUS-CURRENT							
SUBSIDIARY EARNINGS-CURRENT	(1,502)	(61,761)		F,L,I,S,V	15,729,061	O,T,U,M	281,505
SUBSIDIARY EQUITY:							
LPSCO				F	11,895,460		
SASI				L	864,415	L	650,000
SMLP #3500				I	26,152,149	I	23,715,233
PVGC				M	6,359,255		0
HOMEBUILDING				D	634,276		0
PALM VALLEY #5500				V	161,092,534		
WWOS #4400				O	23,860,125	O	18,969,042
KABUTO JV #3000				R	12,687,657		
COMMERCIAL PROPERTIES #2000				S	81,014,621		0
HIDDEN HILLS #3300	1,172,147			T	1,173,714	T	1,567
RANCHO VIEJO #6600		8,735,943		U	9,759,885	U	23,942
CORAL CANYON #3900			481,241	W	481,241		
TOTAL EQUITY	1,170,645	8,674,182	481,241		350,704,393		43,641,289
TOTAL LIABS AND EQUITY	$ 1,201,682	$ 9,232,499	$ 486,439		$387,640,045		$ 57,448,282

ACCOUNT DESCRIPTION	CONSOLIDATED
EQUITY:	
SDC COMMON STOCK	1,022,000
SDC ADDITIONAL PAID IN CAPITAL	375,368,522
SDC EARNED SURPLUS-BEGINNING	(116,158,648)
SDC EARNED SURPLUS-CURRENT	44,719,992
SUBSIDIARY EARNINGS-CURRENT	(3)
SUBSIDIARY EQUITY:	
LPSCO	0
SASI	0
SMLP #3500	0
PVGC	0
HOMEBUILDING	0
PALM VALLEY #5500	0
WWOS #4400	0
KABUTO JV #3000	0
COMMERCIAL PROPERTIES #2000	0
HIDDEN HILLS #3300	(0)
RANCHO VIEJO #6600	0
CORAL CANYON #3900	0
TOTAL EQUITY	304,951,863
TOTAL LIABS AND EQUITY	$ 413,046,603

SUNCOR DEVELOPMENT COMPANY
CONSOLIDATING BALANCE SHEET
DECEMBER 1998 CONSOLIDATING AND ELIMINATING ENTRIES

	DEBIT	CREDIT
A. SCM INTERCO A/P TO SDC	$ 4,981,309	
SDC A/R FROM SCM		$ 4,981,309
GH INTERCO CAPITAL FROM SDC - ACQUISITION	$ 1,432,265	
GH INTERCO A/P TO SDC		$ 664,537
SDC A/R FROM GH		$ 767,728
B. HOMEBUILDING CASH ADVANCES FROM SDC	$12,777,915	
SDC CASH ADVANCES TO HOMEBUILDING		$12,777,915
C. SCM INTERCO CAPPED INTEREST	$ 2,592,637	
SDC INTERCO INTEREST A/R FROM SCM		$ 2,592,637
ELIMINATE INTERCO RECEIVABLES/PAYABLES BETWEEN HOMEBUILDING AND SDC		
D. HOMEBUILDING ACCUMULATED EARNINGS	$ 634,276	
SDC INVESTMENT IN GH		$ 1,154,335
SDC INVESTMENT IN SCM		$ 525,943
HOMEBUILDING CURRENT YEAR EARNINGS	$ 1,046,001	
ELIMINATE SDC INVESTMENT IN GOLDEN HERITAGE & SCM		
E. DEFERRED INTERCO PROFIT	$ 2,565,923	
HOME INVENTORY		$ 2,565,923
ELIMINATE DEFERRED PROFIT ON INTERCO LOT SALES TO HOMEBUILDING		
F. LPSCO COMMON STOCK	$ 78,200	
LPSCO PAID IN CAPITAL	$11,151,953	
LPSCO EARNINGS - PRIOR	$ 665,307	
LPSCO EARNINGS - CURRENT YEAR	$ 30,780	
SDC INVESTMENT IN LPSCO - CONTRIB CAPITAL		$11,230,153
SDC INVESTMENT IN LPSCO - EARNINGS		$ 695,515
ELIMINATE SDC INVESTMENT IN LPSCO		
G. LPSCO LONG-TERM NOTES PAYABLE	$ 300,000	
SDC LONG-TERM NOTES RECEIVABLE		$ 300,000
ELIMINATE LPSCO INTERCOMPANY NOTE WITH SDC		
H. LPSCO ACCOUNTS PAYABLE	$ 21,391	
SDC ACCOUNTS RECEIVABLE		$ 21,391
ELIMINATE LPSCO INTERCOMPANY A/R WITH SDC		

SUNCOR DEVELOPMENT COMPANY
CONSOLIDATING BALANCE SHEET
DECEMBER 1998 CONSOLIDATING AND ELIMINATING ENTRIES

	DEBIT	CREDIT
I. SMLP CONTRIBUTED CAPITAL - MINORITY INT		$ 7,985,114
SMLP CONTRIBUTED CAPITAL - SDC GP	$ 490,147	
SMLP DISTRIBUTED CAPITAL - SDC GP		$ 9,878,612
SMLP CONTRIBUTED CAPITAL - SDC LP	$ 2,100,000	
SMLP DISTRIBUTED CAPITAL - SDC LP		$ 5,851,507
SMLP EARNINGS - PRIOR	$23,562,002	
SMLP EARNINGS - CURRENT YEAR	$ 4,759,433	
MINORITY INTEREST CONTRIBUTED CAPITAL	$ 7,985,114	
MINORITY INTEREST - PRIOR (35%)		$ 8,246,701
MINORITY INTEREST - CURRENT YEAR (35%)		$ 1,665,802
SDC INVESTMENT IN SMLP - LP		$ 2,100,000
SDC DISTRIBUTIONS FROM SMLP - LP	$ 5,851,507	
SDC INVESTMENT IN SMLP - GP		$ 490,147
SDC DISTRIBUTIONS FROM SMLP - GP	$ 9,878,612	
SDC INVESTMENT IN SMLP - EARNINGS		$18,408,933
ELIMINATE SDC INVESTMENT IN SMLP #3500		
J. SMLP ACCOUNTS PAYABLE	$ 27,761	
SDC ACCOUNTS RECEIVABLE		$ 27,761
GH ACCOUNTS PAYABLE	$ 310,000	
SMLP ACCOUNTS RECEIVABLE		$ 310,000
ELIMINATE SMLP INTERCOMPANY A/R WITH SDC AND HOMEBUILDING (PREMIUMS)		
K. SASI ACCOUNTS PAYABLE	$ 0	$ 0
SDC ACCOUNTS RECEIVABLE	$ 0	$ 0
ELIMINATE SASI INTERCOMPANY A/R WITH SDC		
L. SASI CONTRIBUTED CAPITAL	$ 489,023	
SASI CAPITAL DISTRIBUTIONS		$ 650,000
SASI EARNINGS - PRIOR	$ 375,392	
SASI EARNINGS - CURRENT YEAR	$ 159,366	
PV INVESTMENT IN SASI - CONTRIB CAPITAL		$ 489,023
PV INVESTMENT IN SASI - DISTRIBUTIONS	$ 650,000	
PV INVESTMENT IN SASI - EARNINGS		$ 534,758
ELIMINATE PALM VALLEY INVESTMENT IN SASI		
M. PVGC CONTRIBUTED CAPITAL	$ 6,158,173	
PVGC EARNINGS - PRIOR	$ 201,082	
PVGC EARNINGS - CURRENT YEAR		$ 127,903
SDC INVESTMENT IN PVGC - EARNINGS		$ 73,179
SDC INVESTMENT IN PVGC - CONTRIB CAPITAL		$ 6,158,173
ELIMINATE SDC INVESTMENT IN PALM VALLEY GOLF		
N. SDC CONTRIB. CAPITAL TO PVGC	$ 4,060,675	
PVGC ACCOUNTS RECEIVABLE		$ 4,060,675

SUNCOR DEVELOPMENT COMPANY
CONSOLIDATING BALANCE SHEET
DECEMBER 1998 CONSOLIDATING AND ELIMINATING ENTRIES

	DEBIT	CREDIT
ELIMINATE PALM VALLEY GOLF INTERCOMPANY A/R WITH SDC		
O. WWOS CONTRIBUTED CAPITAL - PHASE 1	$ 9,500,000	
WWOS CONTRIBUTED CAPITAL - PHASE 2	$13,522,531	
WWOS CONTRIBUTED WORKING CAPITAL	$ 837,594	
WWOS EARNINGS - PRIOR		$ 1,933,052
WWOS EARNINGS - CURRENT YEAR		$ 90,340
WWOS CAPITAL DISTRIBUTIONS - PHASE 1		$ 9,500,000
WWOS CAPITAL DISTRIBUTIONS - PHASE 2		$ 4,967,126
WWOS PREFERRED RETURN - PHASE 1		$ 287,568
WWOS PREFERRED RETURN - PHASE 2		$ 2,281,296
SDC INVESTMENT IN WWOS - PHASE 1		$ 9,500,000
SDC INVESTMENT IN WWOS - PHASE 2		$13,408,870
SDC INVESTMENT IN WWOS -CONTRIBUTED CAPITAL		$ 431,255
SDC INVESTMENT IN WWOS - EARNINGS	$ 2,023,392	
SDC DISTRIBUTIONS FROM WWOS - PHASE 1	$ 9,500,000	
SDC DISTRIBUTIONS FROM WWOS - PHASE 2	$ 4,967,126	
SDC PREFERRED RETURN - PHASE 1	$ 287,568	
SDC PREFERRED RETURN - PHASE 2	$ 1,761,296	
ELIMINATE SDC COMMERCIAL INVESTMENT IN WIGWAM OUTLET STORES #4400		
P. WWOS INTEREST PAYABLE - PHASE 1 LAND	$ 29,585	
WWOS INTEREST PAYABLE - RLC	$ 67,813	
SDC INTEREST RECEIVABLE - PHASE 1 LAND		$ 29,585
SDC INTEREST RECEIVABLE - RLC		$ 67,813
WWOS NOTES PAYABLE - PHASE 1 LAND	$ 1,304,153	
SDC NOTES RECEIVABLE - PHASE 1 LAND		$ 1,304,153
WWOS NOTES PAYABLE - RLC	$10,000,000	
SDC NOTES RECEIVABLE - RLC		$10,000,000
ELIMINATE WWOS INTERCOMPANY NOTES AND INTEREST WITH SDC		
Q. WWOS ACCOUNTS PAYABLE		$ 48,503
SDC ACCOUNTS RECEIVABLE	$ 48,503	
WWOS MANAGEMENT FEE PAYABLE	$ 5,272	
SDC COMMERCIAL A/R		$ 5,272
ELIMINATE WWOS INTERCOMPANY A/R WITH SDC		
R. KABUTO CONTRIBUTED CAPITAL - SDC	$ 8,853,122	
KABUTO CONTRIBUTED CAPITAL - KABUTO	$ 3,834,535	
MINORITY INTEREST		$ 3,834,535
SDC INVESTMENT IN KABUTO - CONTR CAPITAL		$ 5,981,619
BALANCING PLUG		$ 2,871,502
ELIMINATE SDC INVESTMENT IN KABUTO JV #3000		
S. COMMERCIAL OPS CONTRIBUTED CAPITAL	$80,522,808	
COMMERCIAL EARNINGS - PRIOR	$ 491,813	
COMMERCIAL EARNINGS - CURRENT YEAR	$ 3,604,982	
SDC INVEST IN GEN COMMERCIAL OPS - EARNINGS		$ 1,636,480
SDC INVEST IN GEN COMMERCIAL OPS - CONT CAPITAL		$77,619,340
SDC INVESTMENT IN OUTER LIMITS - PURCHASE		$ 1,822,515

SUNCOR DEVELOPMENT COMPANY
CONSOLIDATING BALANCE SHEET
DECEMBER 1998 CONSOLIDATING AND ELIMINATING ENTRIES

	DEBIT	CREDIT
SDC INVESTMENT IN FIDDLE (SCOTTS) - CONT CAPITAL	$ 2,012,593	
SDC INVESTMENT IN FIDDLE (SCOTTS) - EARNINGS	$ 413,484	
SDC INVESTMENT IN FUNTASTICKS - CONT CAPITAL		$ 2,043,745
SDC INVESTMENT IN FUNTASTICKS - EARNINGS		$ 290,658
SDC INVESTMENT IN FIDDLE (TEMPE) - CONT CAPITAL		$ 1,049,800
SDC INVESTMENT IN FIDDLE (TEMPE) - EARNINGS		$ 573,717
SDC INVESTMENT IN PV MARKETPLACE - EARNINGS		$ 1,406,129
SDC INVESTMENT IN PV PAVILIONS - EARNINGS		$ 899,849
SDC INVESTMENT IN PV CROSSING - EARNINGS		$ 311,587
SDC INVESTMENT IN METROCENTER - EARNINGS		$ 253,727
SDC INVESTMENT IN REST PLACE - EARNINGS	$ 65,725	
SDC INVESTMENT IN LITCHFIELD OTHER - EARNINGS		$ 73,203
SDC INVESTMENT IN AUTOPLEX - EARNINGS	$ 574,137	
SDC INVESTMENT IN TALAVI - EARNINGS	$ 139,299	
SDC INVESTMENT IN WWOS - EARNINGS	$ 11,397	
SDC INVESTMENT IN LP PROF. PLAZA - EARNINGS	$ 18,428	
SDC INVESTMENT IN APS PROPERTIES - EARNINGS	$ 126,084	
ELIMINATE SDC INVESTMENT IN COMMERCIAL OPERATIONS #2000		
T. HIDDEN HILLS CONTRIBUTED CAPITAL	$ 1,173,714	
HIDDEN HILLS EARNINGS - PRIOR		$ 1,567
HIDDEN HILLS EARNINGS - CURRENT YEAR		$ 1,503
SDC INVESTMENT IN HIDDEN HILLS - EARNINGS	$ 3,070	
SDC INVESTMENT IN HIDDEN HILLS - CONT CAPITAL		$ 1,173,907
ELIMINATE SDC INVESTMENT IN HIDDEN HILLS JV #3300		
U. SDC INVESTMENT IN RANCHO VIEJO - EARNINGS	$ 85,702	
SDC INVESTMENT IN RANCHO VIEJO - CAPITAL		$ 8,759,885
RANCHO VIEJO CONTRIBUTED CAPITAL	$ 8,759,885	
RANCHO VIEJO EARNINGS - PRIOR		$ 23,942
RANCHO VIEJO EARNINGS - CURRENT YEAR		$ 61,760
ELIMINATE SDC INVESTMENT IN RANCHO VIEJO JV #6600		
V. PV CONTRIBUTED CAPITAL	$157,595,695	
PV EARNINGS - PRIOR	$ 3,496,839	
PV EARNINGS - CURRENT YEAR	$ 6,128,499	
SDC INVESTMENT IN PALM VALLEY - EARNINGS		$ 9,625,558
SDC INVESTMENT IN PALM VALLEY - DEVELOP		$157,595,695
ELIMINATE SDC INVESTMENT IN PALM VALLEY #5500		
W. CORAL CANYON CONTRIBUTED CAPITAL	$ 481,241	
SDC INVESTMENT IN CORAL CANYON		$ 481,241
ELIMINATE SDC INVESTMENT IN CORAL CANYON #3900		

SunCor Development Company
Consolidating Income Statement (Unaudited)
For the Year Ending December 31, 1998

Account Description	SunCor	LPSCo	Scts Mtn	PVGC	GHH
Revenues					
Home Sales	$ 0	$ 0	$ 0	$ 0	$50,228,047
Land Sales	50,859,043	0	10,017,886	0	0
Commercial Properties	5,143,994	0	0	2,113,400	0
Utility Sales	0	2,095,302	0	0	0
Management Fees	1,180,276	0	0	0	0
Total Operating Revenues	57,183,313	2,095,302	10,017,886	2,113,400	50,228,047
Operating Expenses					
Cost of Homes Sold	(2,439,803)	0	0	0	43,395,872
Cost of Land Sold	40,202,747	0	5,042,867	0	0
Commercial Properties	5,552,147	0	0	202,461	0
Utility Expense	0	1,639,443	0	0	0
Land Project Costs	1,901,734	0	123,984	0	0
General & Administrative	10,213,245	0	146,953	1,493,611	5,402,670
Depreciation & Amortization	960,152	385,008	47	192,911	510,016
Total Operating Expenses	56,390,222	2,024,451	5,313,850	1,888,983	49,308,558
Net Operating Income/(Loss)	793,091	70,851	4,704,035	224,417	919,490
Other Income and Gains					
Equity in Joint Ventures	4,585,909	0	0	0	0
Interest Income	737,547	7,799	55,783	0	0
Other	0	0	0	0	180,203
Total Other Income and Gains	5,323,456	7,799	55,783	0	180,203
Interest Expense, Net					
Interest Expense	5,249,779	47,870	385	352,320	53,691
Less: Capitalized Interest	(2,333,492)	0	0	0	0
Total Interest Expense, Net	2,916,287	47,870	385	352,320	53,691
Minority Interest	1,234,975	0	0	0	0
Income before Taxes	1,965,286	30,780	4,759,433	(127,903)	1,046,001
Income Taxes	(37,200,000)	0	0	0	0
NET INCOME/(LOSS)	$39,165,286	$ 30,780	$ 4,759,433	($127,903)	$ 1,046,001

Account Description	WWOS	Hidden Hills	Rancho Viejo	Consolidated Income
Revenues				
Home Sales	$ 0	$ 0	$ 0	$ 50,228,047
Land Sales	0	0	634,992	61,511,921
Commercial Properties	3,095,236	0	0	10,352,630
Utility Sales	0	0	0	2,095,302
Management Fees	0	0	0	1,180,276
Total Operating Revenues	3,095,236	0	634,992	125,368,176
Operating Expenses				
Cost of Homes Sold	0	0	0	40,956,069
Cost of Land Sold	0	0	478,121	45,723,735
Commercial Properties	1,401,090	0	0	7,155,698
Utility Expense	0	0	0	1,639,443
Land Project Costs	0	947	97,682	2,124,347
General & Administrative	0	556	125,340	17,382,374
Depreciation & Amortization	845,355	0	2,306	2,895,795
Total Operating Expenses	2,246,445	1,503	703,449	117,877,461
Net Operating Income/(Loss)	848,791	(1,503)	(68,457)	7,490,715
Other Income and Gains				
Equity in Joint Ventures	0	0	0	4,585,909
Interest Income	4,536	0	6,698	812,363
Other	0	0	0	180,203
Total Other Income and Gains	4,536	0	6,698	5,578,475
Interest Expense, Net				
Interest Expense	943,670	0	0	6,647,715
Less: Capitalized Interest	0	0	0	(2,333,492)
Total Interest Expense, Net	943,670	0	0	4,314,223
Minority Interest	0	0	0	1,234,975
Income before Taxes	(90,343)	(1,503)	(61,760)	7,519,992
Income Taxes	0	0	0	(37,200,000)
NET INCOME/(LOSS)	($90,343)	($1,503)	($61,760)	$ 44,719,992

Downloaded By: Shirley Nagy

Company: PINNACLE WEST CAPITAL CORP
Form Type: U-3A-2 SEC File #: 069-00306
Description: FORM U-3A-2
SEC File Date: 02/27/98

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Adopted November 9, 1939 File No. 69-306

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.

FORM U-3A-2

Statement by Holding Company
Claiming Exemption under Rule U-2
from the Provisions of the
Public Utility Holding Company Act of 1935

To Be Filed Annually Prior to March 1

Pinnacle West Capital Corporation

(Name of Company)

hereby files with the Securities and Exchange Commission, pursuant to Rule 2, its statement claiming exemption as a holding company from the provisions of the Public Utility Holding Company Act of 1935, and submits the following information:

1. Name, state of organization, location and nature of business of Claimant and every subsidiary thereof, other than any exempt wholesale generator (EWG) or foreign utility company in which Claimant directly or indirectly holds an interest.

Pinnacle West Capital Corporation ("Claimant"), having been incorporated on February 20, 1985 under the laws of the State of Arizona, and having its principal executive offices at 400 East Van Buren, Suite 700, Phoenix, Arizona 85004, was organized principally to acquire and hold securities of other corporations for investment purposes. Claimant currently holds stock in the following subsidiaries:

a. Arizona Public Service Company ("APS" or the "Company"), is engaged principally in serving electricity in the State of Arizona. Incorporated in 1920 under the laws of the State of Arizona and having its principal executive offices at 400 North Fifth Street, Phoenix, Arizona 85004, APS became a subsidiary of the Claimant pursuant to a corporate restructuring plan approved by the Company's shareholders on April 18, 1985.

(1) AXIOM Power Solutions, Inc. ("AXIOM") -- an Arizona corporation having been incorporated on October 29, 1996 and having its principal executive offices at 400 E. Van Buren, Phoenix, Arizona 85004, was organized primarily to sell security and energy management products and services. AXIOM is a wholly-owned subsidiary of APS.

(2) Bixco, Inc. ("Bixco") -- an Arizona corporation having been incorporated on June 4, 1971 and having its principal executive offices at 400 North Fifth Street, Phoenix, Arizona 85004, was organized primarily to conduct exploration activities for energy resources and other valuable minerals. Subsequent to the sale of its oil and natural gas properties in 1981, Bixco has been inactive. Bixco is a wholly-owned subsidiary of APS.

b. SunCor Development Company ("SunCor") -- an Arizona corporation having been incorporated on June 30, 1965 and having its principal executive offices at 3838 North Central Avenue, Suite 1500, Phoenix, Arizona 85012, is a wholly-owned subsidiary of Claimant engaged primarily in the owning, holding and development of real property.

(1) SunCor Resort & Golf Management, Inc. ("Resort & Golf Management") (previously named "SunCor Resort Management, Inc." and "SunCor Farms, Inc.") -- an Arizona corporation having been incorporated on December 31, 1986 and having its principal executive offices at 3838 North Central Avenue, Suite 1500, Phoenix, Arizona 85012 operates and manages hotel, golf, food and beverage for the Wigwam Resort and Country Club, Sedona Golf Resort, SunRidge Canyon Golf Club, Real del Mar Golf Club, and Palm Valley Golf Club. Resort & Golf Management is a wholly-owned subsidiary of SunCor.

(2) Litchfield Park Service Company ("LPSCO") -- an Arizona corporation having been incorporated on September 21, 1954 and having its principal executive offices at 501 East Plaza Circle, Suite B, Litchfield Park, Arizona 85340, is a regulated public utility engaged in providing water and sewer services to commercial and residential customers. LPSCO became a wholly-owned subsidiary of SunCor on December 31, 1986.

(3) Golden Heritage Homes, Inc.. ("Golden Heritage Homes") -- (previously named "SunCor Homes, Inc.", LGR, Inc. and "WGP Realty, Inc.") an Arizona corporation having been incorporated on May 14, 1986 and having its principal executive offices at 3838 North Central Avenue, Suite 1500, Phoenix, Arizona 85012, was organized to provide brokerage and realty services in the sale of commercial and residential real property. Golden Heritage Homes is a wholly-owned subsidiary of SunCor.

(i) Golden Heritage Construction, Inc. ("GH Construction") -- an Arizona corporation having been incorporated on December 30, 1993 and having its principal executive offices at 7975 North Hayden Rd. Suite D-280, Scottsdale, Arizona 85258, was organized to serve as a general residential contractor. GH Construction became a wholly-owned subsidiary of Golden Heritage Homes, Inc. on January 1, 1996.

(4) SCM, Inc. ("SCM") -- an Arizona corporation having been incorporated on May 14, 1991 and having its principal executive offices at 3838 North Central Avenue, Suite 1500, Phoenix, Arizona 85012, was organized to

participate in real estate joint ventures and other real estate related activities. SCM is a wholly-owned subsidiary of SunCor.

(5) Golf de Mexico, S.A. DE C.V. ("Golf de Mexico") -- a Mexican variable capital corporation having been incorporated on February 8, 1992 in Tijuana, Baja California, Mexico, and having its principal executive offices at 3838 North Central Avenue, Suite 1500, Phoenix, Arizona 85012, was organized to operate and manage the Real del Mar Golf Course in Mexico. Golf de Mexico has been inactive.

(6) SunCor Realty & Management Company ("SunCor Realty") -- (previously named Russell Ranch Development Company) an Arizona corporation having been incorporated on April 1, 1994 and having its principal executive offices at 3838 North Central Avenue, Suite 1500, Phoenix, Arizona 85012 was organized to participate in real estate joint ventures and other real estate related activities. SunCor Realty is a wholly-owned subsidiary of SunCor.

(7) Palm Valley Golf Club, Inc. ("Palm Valley Golf") -- an Arizona corporation having been incorporated on January 23, 1996 and having its principal executive offices at 3838 North Central Avenue, Suite 1500, Phoenix, Arizona 85012 was organized to hold title to the Palm Valley Golf Course. Palm Valley Golf is a wholly-owned subsidiary of SunCor.

(8) Rancho Viejo de Santa Fe, Inc. ("Rancho Viejo") -- a New Mexico corporation having been incorporated on March 18, 1996 and having its principal executive offices at 3838 North Central Avenue, Suite 1500, Phoenix, Arizona 85012 was organized to engage in real estate development in New Mexicq. Rancho Viego is a wholly-owned subsidiary of SunCor.

(9) Ranchland Utility Company ("Ranchland") - - A New Mexico Corporation having been incorporated on September 5, 1997 and having its principal executive offices at 1590-B Pacheco Street, Santa Fe, New Mexico 87505 is a waste water utility. Ranchland is a wholly-owned subsidiary of Rancho Viejo.

c. El Dorado Investment Company -- an Arizona corporation having been incorporated on July 27, 1983 and having its principal executive offices at 400 East Van Buren, Suite 800, Phoenix, Arizona 85004, is a wholly-owned subsidiary of Claimant engaged primarily in the acquisition and holding of stocks and securities of other companies for investment purposes.

2. A brief description of the properties of Claimant and each of its subsidiary public utility companies used for the generation, transmission and distribution of electric energy for sale, or for the production, transmission and distribution of natural or manufactured gas, indicating the location of principal generating plants, transmission lines, producing fields, gas manufacturing plants and electric and gas distribution facilities, including all such properties which are outside the state in which Claimant and its subsidiaries are organized and all transmission or pipelines which deliver or receive electric energy or gas at the borders of such state.

Neither the Claimant nor any of its subsidiaries own property used for the production, transmission and distribution of natural or manufactured gas. APS, a "public utility company" as that term is defined in the Public Utility Holding Company Act of 1935, is the only one of Claimant's subsidiaries that owns property used for the generation, transmission and distribution of electric energy for sale.

Exhibit D attached hereto shows the location of APS' major generating plants (including those owned jointly with others), principal transmission lines (including those operated for others) and interconnections of transmission lines with out-of-state utilities at state lines. All of such facilities, except the Four Corners Generating Station ("Four Corners"), and all of APS' distribution facilities, are located within the State of Arizona. Four Corners is a mine-mouth power plant, located in the northwest corner of New Mexico, near the city of Farmington, approximately 40 miles east of the Arizona-New Mexico border.

APS' present generating facilities have an accredited capacity aggregating 4,006,109 kilowatts, comprised as follows:

	Capacity
Coal:	
Units 1, 2 and 3 at Four Corners, aggregating	560,000 kw
15% owned Units 4 and 5 at Four Corners, representing	222,000
Units 1, 2, and 3 at the Cholla Plant, aggregating	615,000
14% owned Units 1, 2 and 3 at the Navajo Plant, representing	315,000
	1,712,000 kw
Gas or Oil:	
Two steam units at Ocotillo, two steam units at Saguaro aggregating	435,000 kw(1)
Eleven combustion turbine units, aggregating	493,000
Three combined cycle units, aggregating	255,000
	1,183,000 kw
Nuclear:	
29.1% owned or leased Units 1, 2 and 3 at Palo Verde, representing	1,105,509 kw
Other (Hydro)	5,600 kw

(1)West Phoenix steam units (96,300 kw) are currently mothballed.

APS' transmission facilities consist of approximately 4,544 pole miles of overhead lines and approximately 9,587 miles of underground lines, all of which are located within the State of Arizona. APS' distribution facilities consist of approximately 11,197 pole miles of overhead lines and approximately 9,587 miles of underground lines, all of which are located within the State of Arizona.

3. The following information for the last calendar year with respect to Claimant and each of its subsidiary public utility companies:

a. Number of kwh of electric energy sold at retail or wholesale.

Claimant	APS
None	29,050,500,000 kwh of electric energy sold at wholesale or retail

b. Number of kwh of electric energy distributed at retail outside the state in which each such company is organized.

Claimant	APS
None	59,405,000 kwh of electric energy distributed at retail outside Arizona

c. Number of kwh of electric energy sold at wholesale outside the state in which each such company is organized, or at the state line.

Claimant	APS
None	926,900 kwh of electric energy sold at wholesale outside Arizona or at state line

d. Number of kwh of electric energy purchased outside the state in which each such company is organized or at the state line.

Claimant	APS
None	0 kwh of electric energy purchased outside Arizona or at state line

4. The following information for the reporting period with respect to Claimant and each interest it holds directly or indirectly in an EWG or a foreign utility company, stating monetary amounts in United States dollars:

The Claimant holds no interest, direct or indirect, in an EWG or a foreign utility company.

a. Name, location, business address and description of the facilities used by the EWG or foreign utility company for the generation, transmission and distribution of electric energy for sale or for the distribution at retail of natural or manufactured gas.

Not applicable.

b. Name of each system company that holds an interest in such EWG or foreign utility company; and description of the interest held.

Not applicable.

c. Type and amount of capital invested, directly or indirectly, by the holding company claiming exemption; any direct or indirect guarantee of the security of the EWG or foreign utility company by the holding company claiming exemption; and any debt or other financial obligation for which there is recourse, directly or indirectly, to the holding company claiming exemption or another system company, other than the EWG or foreign utility company.

Not applicable.

d. Capitalization and earnings of the EWG or foreign utility company during the reporting period.

Not applicable.

e. Identify any service, sales or construction contract(s) between the EWG or foreign utility company and a system company, and describe the services to be rendered or goods sold and fees or revenues under such agreement(s).

Not applicable.

EXHIBIT A

A consolidating statement of income and surplus of the Claimant and its subsidiary companies for the last calendar year, together with a consolidating balance sheet of Claimant and its subsidiary companies as of the close of such calendar year.

Exhibit A hereto includes consolidating statements of income and consolidating balance sheets for the Claimant and the following of its subsidiaries: Arizona Public Service Company, SunCor Development Company and El Dorado Investment Company. Subsidiaries have been consolidated for financial reporting purposes in accordance with Statement of Financial Accounting Standards No. 94, Consolidation of All Majority-Owned Subsidiaries. Also included are consolidating statements of income and consolidating balance sheets for SunCor Development Company and its subsidiaries.

EXHIBIT B FINANCIAL DATA STATEMENT

If, at the time a report on this form is filed, the registrant is required to submit this report and any amendments thereto electronically via EDGAR, the registrant shall furnish a Financial Data Schedule. The Schedule shall set forth the financial and other data specified below that are applicable to the registrant on a consolidated basis.

1. Total Assets.

2. Total Operating Revenues.

3. Net Income.

See Exhibit B hereto.

EXHIBIT B Financial Data Schedule

The Claimant submits the following consolidated financial information:

1. Total Assets: $6,850,417,000

2. Total Operating Revenues: $1,995,026,000

3. Net Income: $235,856,000

EXHIBIT C

An organizational chart showing the relationship of each EWG or foreign utility company to associate companies in the holding-company system.

Not applicable.

EXHIBIT D

Exhibit D is a map of the state of Arizona showing the following:

APS Service Area;
Major APS Power Plants, including joint ownership;
Principal APS Transmission Lines; and
Transmission Lines Operated for Others.

The above-named Claimant has caused this statement to be duly executed on its behalf by its authorized officer on this 27th day of February, 1998.

Pinnacle West Capital Corporation

(Name of Claimant)

By /s/ Michael S. Ash

Michael S. Ash
Corporate Counsel

[CORPORATE SEAL]

Attest:

/s/Suzanne Debes

Suzanne Debes
Associate Secretary

Name, title and address of officer to whom notices and correspondence concerning this statement should be addressed:

Michael S. Ash	Corporate Counsel	(Name)	(Title)
400 East Van Buren, Suite 700, Phoenix, Arizona 85004		(Address)	

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATING BALANCE SHEET
31-Dec-97
(THOUSANDS OF DOLLARS)

	PWCC	APS	SUNCOR	ELDO
A S S E T S				
CURRENT ASSETS				
Cash and cash equivalents	$ 7,322	$ 12,552	$ 5,108	$ 2,502
Customer and other receivables - net	1,023	170,997	4,507	10,072
Accrued utility revenue		58,559		
Materials and supplies		70,634		
Fossil fuel		9,621		
Deferred income taxes	53,601	3,496		790
Other current assets	52	24,529	16,955	--
Total current assets	61,998	350,388	26,570	13,364
INVESTMENTS AND OTHER ASSETS				
Real estate investments, net			365,799	
Other assets	2,201,006	164,906	6,721	21,152
Total investments and other	2,201,006	164,906	372,520	21,152
UTILITY PLANT				
Electric plant in service and held for future use		7,009,059		
Less accumulated depreciation and amortization		2,620,607		
Total		4,388,452		
Construction work in progress		237,492		
Nuclear Fuel		51,624		
Net Utility Plant		4,677,568		
DEFERRED DEBITS				
Regulatory asset for income taxes	--	458,369		
Rate synchronization deferral		358,871		
Other deferred debits	9,288	321,040	4,465	--
Total deferred debits	9,288	1,138,280	4,465	--
TOTAL ASSETS	$2,272,292	$6,331,142	$ 403,555	$ 34,516

	ELIMINATIONS AND ADJUSTING ENTRIES DEBIT	CREDIT	TOTAL
A S S E T S			
CURRENT ASSETS			
Cash and cash equivalents			$ 27,484
Customer and other receivables - net		3,092(b,h)	183,507
Accrued utility revenue			58,559
Materials and supplies			70,634
Fossil fuel			9,621
Deferred income taxes			57,887
Other current assets		128(c)	41,408
Total current assets		3,220	449,100
INVESTMENTS AND OTHER ASSETS			
Real estate investments, net	6,892(e)	6,770(d)	365,921
Other assets	2,069(h)	2,180,827(a,e)	215,027
Total investments and other	8,961	2,187,597	580,948
UTILITY PLANT			
Electric plant in service and held for future use			7,009,059
Less accumulated depreciation and amortization			2,620,607
Total			4,388,452
Construction work in progress			237,492
Nuclear Fuel			51,624
Net Utility Plant			4,677,568
DEFERRED DEBITS			
Regulatory asset for income taxes			458,369
Rate synchronization deferral			358,871
Other deferred debits		9,232(f)	325,561
Total deferred debits		9,232	1,142,801
TOTAL ASSETS	$ 8,961	$2,200,049	$6,850,417

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATING BALANCE SHEET
31-Dec-97
(THOUSANDS OF DOLLARS)

LIABILITIES AND EQUITY	PWCC	APS	SUNCOR	ELDO
CURRENT LIABILITIES				
Accounts payable	$ 2,089	$ 107,423	$ 7,786	$ 131
Accrued taxes	--	85,886	--	
Accrued interest	829	31,660	485	--
Commerical paper, net	--	130,750		
Current maturities of long-term debt	--	104,068	4,627	
Customer Deposits		29,116	1,556	
Other current liabilities	(420)	19,588	511	6
Total current liabilities	2,498	508,491	14,965	137
LONG-TERM DEBT LESS CURRENT MATURITIES	205,000	1,953,162	86,086	--
DEFERRED CREDITS AND OTHER				
Deferred income taxes	17,008	1,345,177		
Deferred investment tax credit		60,093		
Unamortized gain-sale of utility plant		82,363		
Other deferred credits	20,350	361,371	5,502	
Total deferred credits	37,358	1,849,004	5,502	--
COMMITMENTS AND CONTINGENCIES (NOTE)				
MINORITY INTERESTS:				
Non-Redeemable preferred stock of APS		142,051		
Redeemable preferred stock of APS		29,110		
Scottsdale Mountain of SunCor			6,770	
COMMON STOCK EQUITY:				
Common stock	2,026,872	1,320,526	406,391	50,046
Retained earnings	564	528,798	(116,159)	(15,667)
Total	2,027,436	1,849,324	290,232	34,379
TOTAL LIABILITIES AND EQUITY	$ 2,272,292	$ 6,331,142	$ 403,555	$ 34,516

LIABILITIES AND EQUITY	*ELIMINATIONS AND ADJUSTING ENTRIES* DEBIT	CREDIT	TOTAL
CURRENT LIABILITIES			
Accounts payable			$ 117,429
Accrued taxes	1,276(g)		84,610
Accrued interest			32,974
Commerical paper, net			130,750
Current maturities of long-term debt			108,695
Customer Deposits			30,672
Other current liabilities	1,151(b,c)		18,534
Total current liabilities	2,427	--	523,664
LONG-TERM DEBT LESS CURRENT MATURITIES	--	--	2,244,248
DEFERRED CREDITS AND OTHER			
Deferred income taxes		1,276(g)	1,363,461
Deferred investment tax credit	9,232(f)		50,861
Unamortized gain-sale of utility plant			82,363
Other deferred credits			387,223
Total deferred credits	9,232	1,276	1,883,908
COMMITMENTS AND CONTINGENCIES (NOTE)			
MINORITY INTERESTS:			
Non-Redeemable preferred stock of APS			142,051
Redeemable preferred stock of APS			29,110
Scottsdale Mountain of SunCor	6,770(d)		--
COMMON STOCK EQUITY:			
Common stock	2,250,064(a)		1,553,771
Retained earnings		76,129(a)	473,665
Total	2,250,064	76,129	2,027,436
TOTAL LIABILITIES AND EQUITY	$2,268,493	$ 77,405	$6,850,417

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATING BALANCE SHEET
ELIMINATING AND ADJUSTING ENTRIES

(a)	Common stock		$2,250,064	
		Accumulated deficit		$76,129
		Other assets		2,173,935

To eliminate PNW investment in subsidiaries

	Common Stock	Earnings/ Dividends	Total
APS	$1,793,627	$55,697	$1,849,324
SunCor	406,391	(116,159)	290,232
El Dorado	50,046	(15,667)	34,379
Total	$2,250,064	($76,129)	$2,173,935

(b)	Other current liabilities		$1,023	
		Customer and other receivables - net		$1,023

To eliminate intercompany receivables/payables

	A/R PNW	A/P Subs Books
APS	$636	$636
SunCor	381	381
El Dorado	6	6
Total	$ 1,023	$ 1,023

(c)	Other current liabilities		$128	
		Other current assets		$128

To eliminate PNW payable to APS

(d)	Minority interest-Suncor		$6,770	
		Real estate investments - net		$6,770

To eliminate minority interest of Suncor JV partners

(e)	Real estate investments - net		$6,892	
		Other - assets		$6,892

To reclass PNW capitalized interest related to SunCor

(f)	Deferred investment tax credit		$9,232	
		Other deferred debits		$9,232

To relcass PNW ITC

(g)	Accrued taxes		$1,276	
		Deferred income taxes		$1,276

To relcass PNW accrued taxes

(h)	Other assets		$2,069	
		Customer and other receivables - net		$2,069

To reclass ELD Unity Note & interest to long term.

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATING INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 1997
(THOUSANDS OF DOLLARS)

	PWCC	APS	SUNCOR	ELDO
OPERATING REVENUES:				
Electric		$ 1,878,553		
Real Estate			116,473	
Total	--	1,878,553	116,473	--
FUEL EXPENSES:				
Fuel for electric generation		201,341		
Purchased power		235,286		
Total	--	436,627	--	--
OPERATING EXPENSES:				
Utility operations and maintenance		399,434		
Real estate operations			111,112	
Depreciation and amortization	268	365,671	2,346	--
Taxes other than income taxes		120,259		
Total	268	885,364	113,458	--
OPERATING INCOME	(268)	556,562	3,015	--
OTHER INCOME (DEDUCTIONS):				
Allowance for equity funds used during construction		--		
Interest on long-term debt	(17,318)	(140,931)	(4,197)	--
Other interest	(1,478)	(17,195)	--	--
Capital interest		16,208		
Preferred stock dividend requirements		(12,803)		
Other - net	252,170	(9,827)	6,516	7,897
Total	233,374	(164,548)	2,319	7,897
INCOME BEFORE INCOME TAXES	233,106	392,014	5,334	7,897
Income Tax Expense (Benefit)	(2,750)	153,324		(293)
NET INCOME (LOSS)	$ 235,856	$ 238,690	$ 5,334	$ 8,190

	ELIMINATIONS DEBIT	*ELIMINATIONS* CREDIT	TOTAL
OPERATING REVENUES:			
Electric			$ 1,878,553
Real Estate			116,473
Total	--	--	1,995,026
FUEL EXPENSES:			
Fuel for electric generation			201,341
Purchased power			235,286
Total	--	--	436,627
OPERATING EXPENSES:			
Utility operations and maintenance			399,434
Real estate operations	1,776(b)	1,260(d)	111,628
Depreciation and amortization			368,285
Taxes other than income taxes	1,287(c,d)		121,546
Total	3,063	1,260	1,000,893
OPERATING INCOME	(3,063)	(1,260)	557,506
OTHER INCOME (DEDUCTIONS):			
Allowance for equity funds used during construction			--
Interest on long-term debt		1,776(b)	(160,670)
Other interest			(18,673)
Capital interest			16,208
Preferred stock dividend requirements			(12,803)
Other - net	252,214(a)	27(c)	4,569
Total	252,214	1,803	(171,369)
INCOME BEFORE INCOME TAXES	255,277	543	386,137
Income Tax Expense (Benefit)			150,281
NET INCOME (LOSS)	$ 255,277	$ 543	$ 235,856

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATING INCOME STATEMENT
ELIMINATING ENTRIES

(a)	Other - net (Subsiary income)	$252,214	
	Retained Earnings		$252,214

To eliminate PWCC Equity in earnings from subsidiairies

	PWCC
APS	238,690
SunCor	5,334
El Dorado	8,190
Total	252,214

(b)	Real Estate Operations	$1,776	
	Interest on long term debt		$1,776

To reclass Capitalized Interest for SunCor Land Sales.

(c)	Taxes other than income taxes	$27	
	Other - net		$27

To reclass PNW property taxes

(d)	Taxes other than income taxes	$1,260	
	Real estate operations		$1,260

To reclass SunCor property taxes

SUNCOR DEVELOPMENT COMPANY
CONSOLIDATING BALANCE SHEET
FOR THE MONTH ENDED DECEMBER 31, 1997

	ACCOUNT DESCRIPTION	SUNCOR CORPORATE	LPSCO	SUNCOR FARMING	SMLP	PVGC	HOMES	SUNCOR PALM VALLEY
	ASSETS:							
	CURRENT ASSETS							
	CASH AND SHORT TERM INVESTMENTS	3,847,842	316,271	100,708	864,098	(1,583)	(173,224)	406,000
1	ACCOUNTS RECEIVABLE	297,492	110,197	78,866	350,872	29,467	1,154,192	
	INTERCOMPANY ACCOUNTS:							
1	SASI	95						
1	LPSCO	91,260						
1	SMLP	18,788						
1	KABUTO JV							
1	PVGC					4,090,907		
1	SCM & GH - 129						(3,616,182)	
1	WWOS	12,397						
1	GOLDEN HERITAGE - GENERAL	421,643						
1	SCM-GENERAL	4,626,804						
1	HOMEBUILDING I/C INTEREST	1,345,579					(1,345,580)	
1	HOMEBUILDING CASH ADVANCES	8,996,796						
1	SUNRIDGE - DEVELOPMENT	86,771						
1	SUNRIDGE - GOLF	123,139						
1	SEDONA - DEVELOPMENT	23,754						
1	SEDONA - GOLF	92,155						
1	WIGWAM RESORT	302,257						
1	INTEREST RECEIVABLE	354,540						2,921
	NOTES RECEIVABLE	334,939			307,749			0
2	INVENTORIES					68,300		
2	PREPAID EXPENSES	38,272	21,863			46,503		2,028
	HOME INVENTORY	7,356					18,674,570	
	TOTAL CURRENT ASSETS	21,021,877	448,331	179,574	1,522,719	4,233,594	14,693,776	410,948

	ACCOUNT DESCRIPTION	WWOS	KABUTO JV	SUNCOR COMMERCIAL	H HILLS	R VIEJO
	ASSETS:					
	CURRENT ASSETS					
	CASH AND SHORT TERM INVESTMENTS	31,769	250	(326,546)		42,820
1	ACCOUNTS RECEIVABLE	96,566		122,241		
	INTERCOMPANY ACCOUNTS:					
1	SASI					
1	LPSCO					
1	SMLP					
1	KABUTO JV					
1	PVGC					
1	SCM & GH - 129					
1	WWOS					
1	GOLDEN HERITAGE - GENERAL					
1	SCM-GENERAL					
1	HOMEBUILDING I/C INTEREST					
1	HOMEBUILDING CASH ADVANCES					
1	SUNRIDGE - DEVELOPMENT					
1	SUNRIDGE - GOLF					
1	SEDONA - DEVELOPMENT					
1	SEDONA - GOLF					
1	WIGWAM RESORT					
1	INTEREST RECEIVABLE			5,605		223
	NOTES RECEIVABLE			915,763		
2	INVENTORIES			33,892		
2	PREPAID EXPENSES			0		
	HOME INVENTORY					
	TOTAL CURRENT ASSETS	128,335	250	750,955	0	43,042

	ACCOUNT DESCRIPTION	ELIMINATIONS REF	ELIMINATIONS DEBIT	ELIMINATIONS REF	ELIMINATIONS CREDIT	CONSOLIDATED
	ASSETS:					
	CURRENT ASSETS					
	CASH AND SHORT TERM INVESTMENTS					5,108,404
1	ACCOUNTS RECEIVABLE			J	158,000	2,081,894
	INTERCOMPANY ACCOUNTS:					
1	SASI			K	95	0
1	LPSCO			H	114,257	(22,997)
1	SMLP			J	18,788	0
1	KABUTO JV					0
1	PVGC			N	4,090,907	0
1	SCM & GH - 129	A	4,797,280	A	1,181,097	(0)
1	WWOS			Q	12,397	0
1	GOLDEN HERITAGE - GENERAL			A	421,643	0
1	SCM-GENERAL			A	4,626,804	0
1	HOMEBUILDING I/C INTEREST	C	1,345,580	C	1,345,580	(0)
1	HOMEBUILDING CASH ADVANCES			B	8,996,796	0
1	SUNRIDGE - DEVELOPMENT					86,771
1	SUNRIDGE - GOLF					123,139
1	SEDONA - DEVELOPMENT					23,754
1	SEDONA - GOLF					92,155

1	WIGWAM RESORT				302,257
1	INTEREST RECEIVABLE		P	101,480	261,807
	NOTES RECEIVABLE				1,558,451
2	INVENTORIES				102,192
2	PREPAID EXPENSES				108,666
	HOME INVENTORY		E	1,938,311	16,743,614
	TOTAL CURRENT ASSETS	6,142,859		23,006,155	26,570,106

ACCOUNT DESCRIPTION	SUNCOR CORPORATE	LPSCO	SUNCOR FARMING	SMLP	PVGC	HOMES	SUNCOR PALM VALLEY
LONG-TERM ASSETS							
DEVELOPMENT PROJECTS							
HIDDEN HILLS							
RANCHO VIEJO							
PALM VALLEY							177,275,730
LITCHFIELD GREENS							2,277,974
KABUTO JV							
SCOTTSDALE MTN				8,838,343			
MARKETPLACE - AUTOPLEX							
TATUM RANCH	31,750,234						
TALAVI							
WIGWAM OUTLET STORES							
GOLDEN HERITAGE LAND						895,891	
BILTMORE ESTATES	41,893						
EQUITY INVESTMENTS:							
EQUITY IN CTRPT ASSOC-LLP	22,843,447						
INVEST IN KYRENE ASSOCIATES LLC							
INVEST IN PV APARTMENTS							1,368,213
INVESTMENT IN SUNRIDGE CANYON LLC	11,218,584						
INVESTMENT IN SEDONA GOLF LC	6,620,633						
INVESTMENT IN PLUMCOR REALTY LLC							
INVEST IN TALAVI ASSOCIATES LLC							
CONSOLIDATED ELIMINATING ENTITIES:							
INVEST IN KABUTO JV	5,797,485						
INVESTMENT IN WIGWAM OUTLET LLC	4,455,629						
INVEST IN SCOTTS MTN LTD PART	7,086,924						
INVEST IN GOLDEN HERITAGE	151,062						
GOLDEN HERITAGE DUE DILIGENCE	7,001						
INVESTMENT IN SCM	483,214						
6 INVESTMENT IN LPSCO	8,368,589						
INVESTMENT IN SASI							64,415
INVESTMENT IN PALM VALLEY	181,041,431						

ACCOUNT DESCRIPTION	WWOS	KABUTO JV	SUNCOR COMMERCIAL	H HILLS	R VIEJO
LONG-TERM ASSETS					
DEVELOPMENT PROJECTS					
HIDDEN HILLS				478,017	
RANCHO VIEJO					2,437,315
PALM VALLEY			15,327,464		
LITCHFIELD GREENS					
KABUTO JV		12,617,550			
SCOTTSDALE MTN					
MARKETPLACE - AUTOPLEX			17,125,079		
TATUM RANCH					
TALAVI			3,492,629		
WIGWAM OUTLET STORES	17,370,149				
GOLDEN HERITAGE LAND					
BILTMORE ESTATES					
EQUITY INVESTMENTS:					
EQUITY IN CTRPT ASSOC-LLP					
INVEST IN KYRENE ASSOCIATES LLC			1,446,636		
INVEST IN PV APARTMENTS					
INVESTMENT IN SUNRIDGE CANYON LLC					
INVESTMENT IN SEDONA GOLF LC					
INVESTMENT IN PLUMCOR REALTY LLC			847,741		
INVEST IN TALAVI ASSOCIATES LLC			2,325,106		
CONSOLIDATED ELIMINATING ENTITIES:					
INVEST IN KABUTO JV					
INVESTMENT IN WIGWAM OUTLET LLC					
INVEST IN SCOTTS MTN LTD PART					
INVEST IN GOLDEN HERITAGE					
GOLDEN HERITAGE DUE DILIGENCE					
INVESTMENT IN SCM					
6 INVESTMENT IN LPSCO					
INVESTMENT IN SASI					
INVESTMENT IN PALM VALLEY					

ACCOUNT DESCRIPTION	ELIMINATIONS REF	ELIMINATIONS DEBIT	ELIMINATIONS REF	ELIMINATIONS CREDIT	CONSOLIDATED
LONG-TERM ASSETS					
DEVELOPMENT PROJECTS					
HIDDEN HILLS					478,017
RANCHO VIEJO					2,437,315
PALM VALLEY					192,603,194
LITCHFIELD GREENS					2,277,974
KABUTO JV					12,617,550
SCOTTSDALE MTN					8,838,343
MARKETPLACE - AUTOPLEX					17,125,079
TATUM RANCH					31,750,234
TALAVI					3,492,629
WIGWAM OUTLET STORES					17,370,149
GOLDEN HERITAGE LAND					895,891
BILTMORE ESTATES					41,893
EQUITY INVESTMENTS:					
EQUITY IN CTRPT ASSOC-LLP					22,843,447

	INVEST IN KYRENE ASSOCIATES LLC						1,446,636
	INVEST IN PV APARTMENTS						1,368,213
	INVESTMENT IN SUNRIDGE CANYON LLC						11,218,584
	INVESTMENT IN SEDONA GOLF LC						6,620,633
	INVESTMENT IN PLUMCOR REALTY LLC						847,741
	INVEST IN TALAVI ASSOCIATES LLC						2,325,106
	CONSOLIDATED ELIMINATING ENTITIES:						0
	INVEST IN KABUTO JV			R	8,768,265		(2,970,780)
	INVESTMENT IN WIGWAM OUTLET LLC	O	17,498,042	O	23,026,125		(1,072,454)
	INVEST IN SCOTTS MTN LTD PART	I	10,764,769	I	17,905,448		(53,755)
	INVEST IN GOLDEN HERITAGE			D	151,062		0
	GOLDEN HERITAGE DUE DILIGENCE						7,001
	INVESTMENT IN SCM			D	483,214		0
6	INVESTMENT IN LPSCO			F	8,368,589		0
	INVESTMENT IN SASI	L	650,000	L	714,415		0
	INVESTMENT IN PALM VALLEY			V	181,041,431		0

	ACCOUNT DESCRIPTION	SUNCOR CORPORATE	LPSCO	SUNCOR FARMING	SMLP	PVGC
	INVESTMENT IN PALM VALLEY GOLF	6,359,255				
1	PALM VALLEY GOLF CONTRIB. CAP	(4,090,907)				
	PROJECT 2000:					
	INVESTMENT IN FIDDLESTICKS-SCOTTS	394,249				
	INVESTMENT IN FIDDLESTICKS-TEMPE	2,544,985				
	INVESTMENT IN FUNTASTICKS	3,444,214				
	INVESTMENT IN GENERAL COMM OPS	50,453,138				
	INVESTMENT IN PV MARKETPLACE	920,669				
	INVESTMENT IN PV PAVILIONS	671,963				
	INVESTMENT IN PV CROSSING	(151,342)				
	INVESTMENT IN AUTOPLEX	(244,933)				
	INVESTMENT IN TALAVI	(92,150)				
	INVESTMENT IN METROCENTER	123,793				
	INVESTMENT IN RESTORATION PLACE	(29,982)				
	INVESTMENT IN LITCHFIELD PARK OPS	30,064				
	INVESTMENT IN RANCHO VIEJO	2,420,586				
	INVESTMENT IN HIDDEN HILLS	477,117				
	COMMERCIAL PROPERTIES	0				5,431,977
	LONG-TERM NOTES RECEIVABLE	4,462,797				
	SDC PHASE I LAND NOTE TO WWOS	1,484,153				
	SDC PAYOFF OF WWOS RLC	10,000,000				
	SDC LOAN TO LPSCO	300,000				
	PROPERTY & EQUIPMENT, NET	605,533		36,696	1,082	102,799
3	DEFERRED ASSETS	2,621,179	885,811			230,331
	WATER, SEWER UTILITY PROP (NET)		9,768,026			
3	DEPOSITS					
	TOTAL LONG-TERM ASSETS	362,570,507	10,653,837	36,696	8,839,425	5,765,107
	TOTAL ASSETS	383,592,384	11,102,168	216,270	10,362,144	9,998,701

	ACCOUNT DESCRIPTION	HOMES	SUNCOR PALM VALLEY	WWOS	KABUTO JV	SUNCOR COMMERCIAL
	INVESTMENT IN PALM VALLEY GOLF					
1	PALM VALLEY GOLF CONTRIB. CAP					
	PROJECT 2000:					
	INVESTMENT IN FIDDLESTICKS-SCOTTS					
	INVESTMENT IN FIDDLESTICKS-TEMPE					
	INVESTMENT IN FUNTASTICKS					
	INVESTMENT IN GENERAL COMM OPS					
	INVESTMENT IN PV MARKETPLACE					
	INVESTMENT IN PV PAVILIONS					
	INVESTMENT IN PV CROSSING					
	INVESTMENT IN AUTOPLEX					
	INVESTMENT IN TALAVI					
	INVESTMENT IN METROCENTER					
	INVESTMENT IN RESTORATION PLACE					
	INVESTMENT IN LITCHFIELD PARK OPS					
	INVESTMENT IN RANCHO VIEJO					
	INVESTMENT IN HIDDEN HILLS					
	COMMERCIAL PROPERTIES					18,090,608
	LONG-TERM NOTES RECEIVABLE		459,833			
	SDC PHASE I LAND NOTE TO WWOS					
	SDC PAYOFF OF WWOS RLC					
	SDC LOAN TO LPSCO					
	PROPERTY & EQUIPMENT, NET	955,170	71,604	16,691		
3	DEFERRED ASSETS		145,380	236,504		187,249
	WATER, SEWER UTILITY PROP (NET)					
3	DEPOSITS	158,805				
	TOTAL LONG-TERM ASSETS	2,009,866	181,663,150	17,623,344	12,617,550	58,842,513
	TOTAL ASSETS	16,703,642	182,074,098	17,751,680	12,617,800	59,593,467

	ACCOUNT DESCRIPTION	H HILLS	R VIEJO	ELIMINATIONS REF	DEBIT	REF	CREDIT	CONSOLIDATED
	INVESTMENT IN PALM VALLEY GOLF					M	6,359,255	0
1	PALM VALLEY GOLF CONTRIB. CAP			N	4,090,907			0
	PROJECT 2000:							0
	INVESTMENT IN FIDDLESTICKS-SCOTTS			S	1,428,266	S	1,822,515	0
	INVESTMENT IN FIDDLESTICKS-TEMPE					S	2,544,985	0
	INVESTMENT IN FUNTASTICKS					S	3,444,214	0

	INVESTMENT IN GENERAL COMM OPS			S	890,859	S	51,343,998		0
	INVESTMENT IN PV MARKETPLACE					S	920,669		0
	INVESTMENT IN PV PAVILIONS					S	671,963		0
	INVESTMENT IN PV CROSSING			S	151,342				0
	INVESTMENT IN AUTOPLEX			S	244,933				0
	INVESTMENT IN TALAVI			S	92,150				0
	INVESTMENT IN METROCENTER					S	123,793		0
	INVESTMENT IN RESTORATION PLACE			S	29,982				0
	INVESTMENT IN LITCHFIELD PARK OPS					S	30,064		0
	INVESTMENT IN RANCHO VIEJO			U	23,942	U	2,444,528		0
	INVESTMENT IN HIDDEN HILLS			T	1,567	T	478,683		0
	COMMERCIAL *PROPERTIES*								23,522,585
	LONG-TERM NOTES RECEIVABLE								4,922,630
	SDC PHASE I LAND NOTE TO WWOS					P	1,484,153		0
	SDC PAYOFF OF WWOS RLC					P	10,000,000		0
	SDC LOAN TO LPSCO					G	300,000		0
	PROPERTY & EQUIPMENT, NET		8,298						1,797,872
3	DEFERRED ASSETS								4,306,454
	WATER, SEWER UTILITY PROP (NET)								9,768,026
3	DEPOSITS								158,805
	TOTAL LONG-TERM ASSETS	478,017	2,445,613		35,866,759		322,427,370		376,985,014
	TOTAL ASSETS	478,017	2,488,655		42,009,619		345,433,525		403,555,121

	ACCOUNT DESCRIPTION	SUNCOR CORPORATE	LPSCO	SUNCOR FARMING	SMLP	PVGC
	LIABILITIES:					
	CURRENT LIABILITIES					
4	A/P & RETENTION	38,723	104,211	30,761	13,467	32,464
4	ACCRUED LIABILITIES	1,926,954	120,572	61,648	146,177	56,920
	INTERCOMPANY ACCOUNTS:					
4	LPSCO - SDC		114,257			
4	SMLP - SDC				18,788	
4	SCM-SDC CASH ADVANCES 267					
4	GH-SDC INTERCO CAPITAL 265					
4	WWOS-SDC					
4	KABUTO JV-SDC					
	INTEREST PAYABLE	484,591				
	S/T NOTES PAYABLE OTHER					
	$45 MILLION TERM LOAN	3,005,169				
	$55 MILLION RLC					
	GOLDEN HERITAGE (PEW)					
	TEXTRON LOAN					
5	DEFERRED PROFIT	1,938,311		5,350	107,796	
	PWCC INTERCO PAYABLE	236,126				
	CUSTOMER DEPOSITS	0				
	TOTAL CURRENT LIABILITIES	7,629,874	339,040	97,759	286,228	89,384
	LONG-TERM LIABILITIES					
	LONG-TERM NOTES PAYABLE					
	WWOS OWES SDC PH I LAND NOTE					
	WWOS RLC PAYOFF BY SDC					
	CORPORATE TERM NOTE	$41,994,831				
	CORPORATE RLC	40,600,000				
	LPSCO OWES SDC		300,000			
	GOLDEN HERITAGE (PEW)					
	TEXTRON LOAN					3,550,062
6	OTHER ACCRUED LIABILITIES	3,124,805	585,186	54,096		
6	DEFERRED TAXES		238,404			
6	LONG-TERM CUSTOMER DEPOSITS		479,788			
6	CONTRIB PROPERTY AIA		999,073			
	DEFERRED CREDIT	11,000				
	TOTAL L/T LIABILITIES	85,730,636	2,602,451	54,096	0	3,550,062
	TOTAL LIABILITIES	93,360,510	2,941,491	151,855	286,228	3,639,446

	ACCOUNT DESCRIPTION	HOMES	SUNCOR PALM VALLEY	WWOS	KABITO JV	SUNCOR COMMERCIAL
	LIABILITIES:					
	CURRENT LIABILITIES					
4	A/P & RETENTION	2,110,634	748,284	625,567		244,648
4	ACCRUED LIABILITIES	410,842	122,084		15,000	1,066,471
	INTERCOMPANY ACCOUNTS:					
4	LPSCO - SDC					
4	SMLP - SDC					
4	SCM-SDC CASH ADVANCES 267	8,996,796				
4	GH-SDC INTERCO CAPITAL 265	1,432,265				
4	WWOS-SDC			12,397		
4	KABUTO JV-SDC					
	INTEREST PAYABLE	0		101,480		
	S/T NOTES PAYABLE OTHER					
	$45 MILLION TERM LOAN					
	$55 MILLION RLC					
	GOLDEN HERITAGE (PEW)	1,562,863				
	TEXTRON LOAN					
5	DEFERRED PROFIT		162,299			
	PWCC INTERCO PAYABLE					
	CUSTOMER DEPOSITS	1,555,966				
	TOTAL CURRENT LIABILITIES	16,069,366	1,032,667	739,444	15,000	1,311,120

	LONG-TERM LIABILITIES				
	LONG-TERM NOTES PAYABLE				
	WWOS OWES SDC PH I LAND NOTE		1,484,153		
	WWOS RLC PAYOFF BY SDC		10,000,000		
	CORPORATE TERM NOTE				
	CORPORATE RLC				
	LPSCO OWES SDC				
	GOLDEN HERITAGE (PEW)				
	TEXTRON LOAN				
6	OTHER ACCRUED LIABILITIES	0			217,679
6	DEFERRED TAXES				
6	LONG-TERM CUSTOMER DEPOSITS				
6	CONTRIB PROPERTY AIA				
	DEFERRED CREDIT				
	TOTAL L/T LIABILITIES	0	0	11,484,153	0	217,679
	TOTAL LIABILITIES	16,069,366	1,032,667	12,223,597	15,000	1,528,799

				ELIMINATIONS			
	ACCOUNT DESCRIPTION	H HILLS	R VIEJO	REF	DEBIT	REF	CREDIT	CONSOLIDATED
	LIABILITIES:							
	CURRENT LIABILITIES							
4	A/P & RETENTION	900	32,301	J,K,A	158,095			3,823,866
4	ACCRUED LIABILITIES		35,768					3,962,437
	INTERCOMPANY ACCOUNTS:							
4	LPSCO - SDC			H	114,257			0
4	SMLP - SDC			J	18,788			0
4	SCM-SDC CASH ADVANCES 267			B	8,996,796			0
4	GH-SDC INTERCO CAPITAL 265			A	1,432,265			0
4	WWOS-SDC			Q	12,397			0
4	KABUTO JV-SDC							0
	INTEREST PAYABLE			P	101,480			484,591
	S/T NOTES PAYABLE OTHER							
	$45 MILLION TERM LOAN							3,005,169
	$55 MILLION RLC							0
	GOLDEN HERITAGE (PEW)							1,562,863
	TEXTRON LOAN					*	58,445	58,445
5	DEFERRED PROFIT			E	1,938,311			275,445
	PWCC INTERCO PAYABLE							236,126
	CUSTOMER DEPOSITS							1,555,966
X	TOTAL CURRENT LIABILITIES	900	68,069		12,772,389		58,445	14,964,908
	LONG-TERM LIABILITIES							
	LONG-TERM NOTES PAYABLE							
	WWOS OWES SDC PH I LAND NOTE			P	1,484,153			0
	WWOS RLC PAYOFF BY SDC			P	10,000,000			0
	CORPORATE TERM NOTE							41,994,831
	CORPORATE RLC							40,600,000
	LPSCO OWES SDC			G	300,000			0
	GOLDEN HERITAGE (PEW)							0
	TEXTRON LOAN			*	58,445			3,491,617
6	OTHER ACCRUED LIABILITIES							3,981,766
6	DEFERRED TAXES			F	207,912			30,492
6	LONG-TERM CUSTOMER DEPOSITS							479,788
6	CONTRIB PROPERTY AIA							999,073
	DEFERRED CREDIT							11,000
	TOTAL L/T LIABILITIES	0	0		12,050,510		0	91,588,567
	TOTAL LIABILITIES	900	68,069		24,822,899		58,445	106,553,475

ACCOUNT DESCRIPTION	SUNCOR CORPORATE	LPSCO	SUNCOR FARMING	SMLP	PVGC
MINORITY INTEREST					
EQUITY:					
SDC COMMON STOCK	1,022,000				
SDC ADDITIONAL PAID IN CAPITAL	405,368,522				
SDC EARNED SURPLUS-BEGINNING	(121,492,825)				
SDC EARNED SURPLUS-CURRENT	5,334,177				
SUBSIDIARY EARNINGS-CURRENT		29,982	(85,522)	2,907,509	(194,675)
SUBSIDIARY EQUITY:					
LPSCO		8,130,695			
SASI			149,937		
SMLP #3500				7,168,407	
PVGC					6,553,929
HOMEBUILDING					
PALM VALLEY #5500					
WWOS #4400					
KABUTO JV #3000					
COMMERCIAL PROPERTIES #2000					
HIDDEN HILLS #3300					
RANCHO SANTE FE #6600					
TOTAL EQUITY	290,231,874	8,160,677	64,415	10,075,916	6,359,255
TOTAL LIABILITIES AND EQUITY	383,592,384	11,102,168	216,270	10,362,144	9,998,701

ACCOUNT DESCRIPTION	HOMES	SUNCOR PALM VALLEY	WWOS	KABITO JV	SUNCOR COMMERCIAL
MINORITY INTEREST					
EQUITY:					
SDC COMMON STOCK					
SDC ADDITIONAL PAID IN CAPITAL					
SDC EARNED SURPLUS-BEGINNING					
SDC EARNED SURPLUS-CURRENT					
SUBSIDIARY EARNINGS-CURRENT	1,809,835	3,496,839	(831,462)	0	749,681
SUBSIDIARY EQUITY:					
LPSCO					
SASI					
SMLP #3500					
PVGC					
HOMEBUILDING	(1,175,560)				
PALM VALLEY #5500		177,544,592			
WWOS #4400			6,359,545		
KABUTO JV #3000				12,602,800	
COMMERCIAL PROPERTIES #2000					57,314,987
HIDDEN HILLS #3300					
RANCHO SANTE FE #6600					
TOTAL EQUITY	634,276	181,041,431	5,528,083	12,602,800	58,064,668
TOTAL LIABILITIES AND EQUITY	16,703,642	182,074,098	17,751,680	12,617,800	59,593,467

ACCOUNT DESCRIPTION	H HILLS	R VIEJO	ELIMINATIONS REF	DEBIT	REF	CREDIT
MINORITY INTEREST					I,R	6,769,772
EQUITY:						
SDC COMMON STOCK						
SDC ADDITIONAL PAID IN CAPITAL						
SDC EARNED SURPLUS-BEGINNING						
SDC EARNED SURPLUS-CURRENT						
SUBSIDIARY EARNINGS-CURRENT	(1,567)	(10,049)	D,F,I,M,S,V	8,799,172	L,O,T,U	928,599
SUBSIDIARY EQUITY:						
LPSCO			F	8,130,695		
SASI			L	799,937	L	650,000
SMLP #3500			I	23,244,640	I	16,076,233
PVGC			M	6,553,929		
HOMEBUILDING					D	1,175,560
PALM VALLEY #5500			V	177,544,592		
WWOS #4400			O	23,026,125	O	16,666,580
KABUTO JV #3000			R	12,602,800		
COMMERCIAL PROPERTIES #2000			S	57,572,855	S	257,868
HIDDEN HILLS #3300	478,683		T	478,683		
RANCHO SANTE FE #6600		2,430,635	U	2,444,528	U	13,893
TOTAL EQUITY	477,117	2,420,586		321,197,958		35,768,733
TOTAL LIABILITIES AND EQUITY	478,017	2,488,655		346,020,857		42,596,951

ACCOUNT DESCRIPTION	CONSOLIDATED
MINORITY INTEREST	6,769,772
EQUITY:	
SDC COMMON STOCK	1,022,000
SDC ADDITIONAL PAID IN CAPITAL	405,368,522
SDC EARNED SURPLUS-BEGINNING	(121,492,825)
SDC EARNED SURPLUS-CURRENT	5,334,177
SUBSIDIARY EARNINGS-CURRENT	0
SUBSIDIARY EQUITY:	
LPSCO	0
SASI	0
SMLP #3500	0
PVGC	0
HOMEBUILDING	0
PALM VALLEY #5500	0
WWOS #4400	0
KABUTO JV #3000	(0)
COMMERCIAL PROPERTIES #2000	0
HIDDEN HILLS #3300	0
RANCHO SANTE FE #6600	(0)
TOTAL EQUITY	290,231,874
TOTAL LIABILITIES AND EQUITY	403,555,121

* TO RECLASS CURRENT PORTION OF PVGC LOAN AS OF 12/31/97

SUNCOR DEVELOPMENT COMPANY
CONSOLIDATING BALANCE SHEET
DECEMBER 1997 CONSOLIDATING & ELIMINATING ENTRIES

		DEBIT	CREDIT
A.	SCM INTERCO A/P TO SDC	$4,797,280	
	GH INTERCO CAPITAL FROM SDC - ACQUISITION	$1,432,265	
	GH INTERCO A/P TO SDC		$1,181,097
	SDC A/R FROM GH		$421,643
	SDC A/R FROM SCM		$4,626,804
B.	HOMEBUILDING CASH ADVANCES FROM SDC	$8,996,796	
	SDC CASH ADVANCES TO HOMEBUILDING		$8,996,796
C.	SCM INTERCO CAPPED INTEREST	$1,345,580	
	SDC INTERCO INTEREST A/R FROM SCM		$1,345,580
	TO ELIMINATE INTERCO RECEIVABLES/PAYABLES BETWEEN HOMEBUILDING AND SDC		
D.	SDC INVESTMENT IN GH		$151,062
	SDC DUE DILIGENCE COSTS - GHH ACQUISITION		--
	SDC INVESTMENT IN SCM		$483,214
	HOMEBUILDING CURRENT YEAR INCOME	$1,809,835	
	HOMEBUILDING ACCUMULATED LOSSES		$1,175,560
	TO ELIMINATE INVESTMENT IN GH & SCM ON SDC BOOKS		
E.	DEFERRED INTERCO PROFIT	$1,938,311	
	HOME INVENTORY		$1,938,311
	TO ELIMINATE B/S GROSS UP ON INTERCO LOT SALES BETWEEN SDC AND HOMEBUILDING		
F.	LPSCO COMMON STOCK	$78,200	
	LPSCO PAID IN CAPITAL	$7,417,170	
	LPSCO EARNINGS - PRIOR	$635,325	
	SDC DEFERRED TAXES DIFFERENTIAL	$207,912	
	LPSCO EARNINGS - CURRENT YEAR	$29,982	
	SDC INVESTMENT IN LPSCO - CONTRIB CAPITAL		$7,495,370
	SDC INVESTMENT IN LPSCO - EARNINGS		$665,307
	SDC INVESTMENT IN LPSCO - DEFERRED TAXES DIFFERENTIAL		$207,912
	ELIMINATE SDC INVESTMENT IN LPSCO		
G.	LPSCO LONG-TERM NOTES PAYABLE	$300,000	
	SDC LONG-TERM NOTES RECEIVABLE		$300,000
	ELIMINATE LPSCO INTERCOMPANY NOTE WITH SDC		
H.	LPSCO ACCOUNTS PAYABLE	$114,257	
	SDC ACCOUNTS RECEIVABLE		$114,257
	ELIMINATE LPSCO INTERCOMPANY A/R WITH SDC		
I.	SMLP CONTRIBUTED CAPITAL-MINORITY INT		$5,311,464

		DEBIT	CREDIT
	SMLP CONTRIBUTED CAPITAL-SDC GP	$490,147	
	SMLP DISTRIBUTED CAPITAL-SDC GP		$6,059,112
	SMLP CONTRIBUTED CAPITAL-SDC LP	$2,100,000	
	SMLP DISTRIBUTED CAPITAL-SDC LP		$4,705,657
	SMLP EARNINGS - PRIOR	$20,654,493	
	SMLP EARNINGS - CURRENT YEAR	$2,907,509	
	MINORITY INTEREST CONTRIBUTED CAPITAL	$5,311,464	
	MINORITY INTEREST - PRIOR (35%)		$7,229,073
	MINORITY INTEREST - CURRENT YEAR (35%)		$1,017,628
	SDC INVESTMENT IN SMLP-LP		$2,100,000
	SDC DISTRIBUTIONS FROM SMLP-LP	$4,705,657	
	SDC INVESTMENT IN SMLP-GP		$490,147
	SDC DISTRIBUTIONS FROM SMLP -GP	$6,059,112	
	SDC INVESTMENT IN SMLP - EARNINGS		$15,315,301
	SDC LAND BASIS DIFFERENTIAL	--	
	ELIMINATE SDC INVESTMENT IN SMLP #3500		
J.	SMLP ACCOUNTS PAYABLE	$18,788	
	SDC ACCOUNTS RECEIVABLE		$18,788
	GH ACCOUNTS PAYABLE	$158,000	
	SMLP ACCOUNTS RECEIVABLE		$158,000
	ELIMINATE SMLP INTERCOMPANY A/R WITH SDC AND HOMEBUILDING (PREMIUMS)		
K.	SASI ACCOUNTS PAYABLE	$95	
	SDC ACCOUNTS RECEIVABLE		$95
	ELIMINATE SASI INTERCOMPANY A/R WITH SDC		
L.	SASI CONTRIBUTED CAPITAL	$339,023	
	SASI CAPITAL DISTRIBUTIONS		$650,000
	SASI EARNINGS - PRIOR	$460,914	
	SASI EARNINGS - CURRENT YEAR		$85,522
	PV INVESTMENT IN SASI - CONTRIB CAPITAL		$339,023
	PV INVESTMENT IN SASI - DISTRIBUTIONS	$650,000	
	PV INVESTMENT IN SASI - EARNINGS		$375,392
	ELIMINATE PALM VALLEY INVESTMENT IN SASI		
M.	PVGC CONTRIBUTED CAPITAL	$6,158,173	
	PVGC EARNINGS - PRIOR	$395,756	
	PVGC EARNINGS - CURRENT YEAR	($194,675)	
	SDC INVESTMENT IN PVGC - EARNINGS		$201,082
	SDC INVESTMENT IN PVGC - CONTRIB CAPITAL		$6,158,173
	ELIMINATE SDC INVESTMENT IN PALM VALLEY GOLF		
N.	SDC CONTRIB. CAPITAL TO PVGC	$4,090,907	
	PVGC ACCOUNTS RECEIVABLE		$4,090,907

		DEBIT	CREDIT
	ELIMINATE PVGC INTERCOMPANY A/R WITH SDC		
O.	WWOS CONTRIBUTED CAPITAL-PHASE 1	$9,500,000	
	WWOS CONTRIBUTED CAPITAL-PHASE 2	$13,526,125	
	WWOS EARNINGS - PRIOR		$1,101,590
	WWOS EARNINGS - CURRENT YEAR		$831,462
	WWOS CAPITAL DISTRIBUTIONS-PHASE 1		$9,500,000
	WWOS CAPITAL DISTRIBUTIONS-PHASE 2		$4,967,126
	WWOS PREFERRED RETURN-PHASE 1		$287,568
	WWOS PREFERRED RETURN-PHASE 2		$810,296
	SDC INVESTMENT IN WWOS -PHASE 1		$9,500,000
	SDC INVESTMENT IN WWOS -PHASE 2		$13,526,125
	SDC INVESTMENT IN WWOS - EARNINGS	$1,933,052	
	SDC DISTRIBUTIONS FROM WWOS-PHASE 1	$9,500,000	
	SDC DISTRIBUTIONS FROM WWOS-PHASE 2	$4,967,126	
	SDC PREFERRED RETURN -PHASE 1	$287,568	
	SDC PREFERRED RETURN -PHASE 2	$810,296	
	SDC BASIS DIFFERENTIAL PH I BUILDINGS	--	
	SDC BASIS DIFFERENTIAL PH I LAND	--	
	SDC BASIS DIFFERENTIAL PH II LAND	--	
	SDC 1994 CAPPED INTEREST ON WWOS		--
	SDC 1995 DEVELOPMENT FEES		--
	ELIMINATE SDC INVESTMENT IN WIGWAM OUTLET STORES #4400		
P.	WWOS INTEREST PAYABLE	$33,668	
	WWOS INTEREST PAYABLE	$67,813	
	SDC INTEREST RECEIVABLE		$33,668
	SDC INTEREST RECEIVABLE		$67,813
	WWOS NOTES PAYABLE	$1,484,153	
	SDC NOTES RECEIVABLE		$1,484,153
	WWOS NOTES PAYABLE	$10,000,000	
	SDC NOTES RECEIVABLE		$10,000,000
	ELIMINATE WWOS INTERCOMPANY NOTES AND INTEREST WITH SDC		
Q.	WWOS ACCOUNTS PAYABLE	$12,397	
	SDC ACCOUNTS RECEIVABLE		$12,397
	ELIMINATE WWOS INTERCOMPANY A/R WITH SDC		
R.	KABUTO CONTRIBUTED CAPITAL - SDC	$8,768,265	
	KABUTO CONTRIBUTED CAPITAL - KABUTO	$3,834,535	
	MINORITY INTEREST		$3,834,535
	SDC INVESTMENT IN KABUTO - CONTR CAPITAL		$5,914,509
	BALANCING PLUG		$2,853,757
	SDC BASIS DIFFERENTIAL IN LAND	--	
	SDC DEVELOPMENT COSTS		--

		DEBIT	CREDIT
	ELIMINATE SDC INVESTMENT IN KABUTO JV #3000		
S.	COMMERCIAL OPS CONTRIBUTED CAPITAL	$57,572,855	
	COMMERCIAL EARNINGS - PRIOR		$257,868
	COMMERCIAL EARNINGS - CURRENT YEAR	$749,681	
	SDC INVEST IN GEN COMMERCIAL OPS - EARNINGS	$890,859	
	SDC INVEST IN GEN COMMERCIAL OPS - CONT CAPITAL		$51,343,998
	SDC INVESTMENT IN OUTER LIMITS - PURCHASE		$1,822,515
	SDC INVESTMENT IN FIDDLE (SCOTTS) - CONT CAPITAL	$1,090,059	
	SDC INVESTMENT IN FIDDLE (SCOTTS) - EARNINGS	$338,207	
	SDC INVESTMENT IN FUNTASTICKS - CONT CAPITAL		$3,282,433
	SDC INVESTMENT IN FUNTASTICKS - EARNINGS		$161,781
	SDC INVESTMENT IN FIDDLE (TEMPE) - CONT CAPITAL		$2,213,969
	SDC INVESTMENT IN FIDDLE (TEMPE) - EARNINGS		$331,016
	SDC INVESTMENT IN PV MARKETPLACE - EARNINGS		$920,669
	SDC INVESTMENT IN PV PAVILIONS - EARNINGS		$671,963
	SDC INVESTMENT IN PV CROSSING - EARNINGS	$151,342	
	SDC INVESTMENT IN METROCENTER - EARNINGS		$123,793
	SDC INVESTMENT IN REST PLACE - EARNINGS	$29,982	
	SDC INVESTMENT IN LITCHFIELD OTHER - EARNINGS		$30,064
	SDC INVESTMENT IN AUTOPLEX - EARNINGS	$244,933	
	SDC INVESTMENT IN TALAVI - EARNINGS	$92,150	
	ELIMINATE SDC INVESTMENT IN COMMERCIAL OPERATIONS #2000		
T.	HIDDEN HILLS CONTRIBUTED CAPITAL	$478,683	
	HIDDEN HILLS EARNINGS - PRIOR		$0
	HIDDEN HILLS EARNINGS - CURRENT YEAR		$1,567
	SDC INVESTMENT IN HIDDEN HILLS - EARNINGS	$1,567	
	SDC INVESTMENT IN HIDDEN HILLS - CONT CAPITAL		$478,683
	ELIMINATE SDC INVESTMENT IN HIDDEN HILLS JV #3300		
U.	SDC INVESTMENT IN RANCHO VIEJO - EARNINGS	$23,942	
	SDC INVESTMENT IN RANCHO VIEJO - CAPITAL		$2,444,528
	RANCHO VIEJO CONTRIBUTED CAPITAL	$2,444,528	
	RANCHO VIEJO EARNINGS - PRIOR		$13,893
	RANCHO VIEJO EARNINGS - CURRENT YEAR		$10,049
	ELIMINATE SDC INVESTMENT IN RANCHO VIEJO JV #6600		
V.	PV CONTRIBUTED CAPITAL	$177,544,592	
	PV EARNINGS - PRIOR	$0	
	PV EARNINGS - CURRENT YEAR	$3,496,839	
	SDC INVESTMENT IN PALM VALLEY - EARNINGS		$3,496,839
	SDC INVESTMENT IN PALM VALLEY - DEVELOP		$177,544,592
	ELIMINATE SDC INVESTMENT IN PALM VALLEY #5500		
	TOTAL	$372,755,514	$372,755,514

SUNCOR DEVELOPMENT COMPANY
CONSOLIDATING INCOME STATEMENT
FOR THE YEAR ENDING DECEMBER 31, 1997

ACCOUNT DESCRIPTION	SUNCOR	LPSCO	SCTS MTN	PVGC	G H HOMES	WWOS
REVENUES:						
SALE OF ASSETS	$6,000,000	-	-	-	-	-
DEFERRED PROFIT	-	-	279,896	-	-	-
LAND SALES	40,827,538	-	4,876,887	-	-	-
HOME SALES	-	-	-	-	58,111,924	-
COMMERCIAL PROPERTIES	5,975,257	-	-	2,194,091	-	2,322,774
UTILITY SALES	-	1,618,907	-	-	-	-
MANAGEMENT FEES	1,149,442	-	-	-	-	-
TOTAL OPERATING REVENUES	53,952,237	1,618,907	5,156,783	2,194,091	58,111,924	2,322,774
OPERATING EXPENSES						
COST OF ASSETS SOLD	5,043,300	-	-	-	-	-
COST OF LAND SOLD	33,564,613	-	2,079,251	-	-	-
COST OF HOMES SOLD	(2,322,193)	-	-	-	50,970,298	-
LAND PROJECT COSTS	2,118,718	-	239,337	-	-	-
COMMERCIAL PROPERTIES	4,498,370	-	-	1,725,179	-	1,072,563
GENERAL & ADMINISTRATIVE	9,882,277	-	204,301	-	4,909,682	-
UTILITY EXPENSE	-	1,397,097	-	-	-	-
RESORT OPERATIONS	10,202	-	-	-	-	-
DEPRECIATION & AMORTIZATION	716,227	178,950	563	158,207	336,901	954,720
TOTAL OPERATING EXPENSES	53,511,514	1,576,047	2,523,452	1,883,386	56,216,881	2,027,283
NET OPERATING INCOME	440,723	42,860	2,633,331	310,705	1,895,043	295,491
OTHER INCOME AND GAINS:						
EQUITY IN JOINT VENTURES	3,182,361	-	-	-	-	-
INTEREST INCOME	857,924	14,466	281,535	-	-	19,422
OTHER	-	-	-	-	49,269	-
TOTAL OTHER INCOME AND GAINS	4,040,285	14,466	281,535	-	49,269	19,422
INTEREST EXPENSE						
INTEREST EXPENSE	5,870,928	27,340	7,357	505,378	134,477	1,146,375
LESS: CAPITALIZED INTEREST	(3,494,746)	-	-	-	-	-
TOTAL INTEREST EXPENSE	2,376,182	27,340	7,357	505,378	134,477	1,146,375
NET INCOME BEFORE MINORITY INTEREST	2,104,825	29,986	2,907,509	(194,673)	1,809,835	(831,462)
MINORITY INTEREST	480,231	-	-	-	-	-
NET INCOME/(LOSS)	$1,624,594	$29,986	$2,907,509	($194,673)	$1,809,835	($831,462)

ACCOUNT DESCRIPTION	HIDDEN HILLS	RANCHO VIEJO	ELIMINATING ENTRIES	CONSOLIDATED INCOME
REVENUES:				
SALE OF ASSETS	-	-	-	$6,000,000
DEFERRED PROFIT	-	-	-	279,896
LAND SALES	-	265,847	-	45,970,272
HOME SALES	-	-	-	58,111,924
COMMERCIAL PROPERTIES	-	-	-	10,492,122
UTILITY SALES	-	-	-	1,618,907
MANAGEMENT FEES	-	-	-	1,149,442
TOTAL OPERATING REVENUES	-	265,847	-	123,622,563
OPERATING EXPENSES				
COST OF ASSETS SOLD	-	-	-	5,043,300
COST OF LAND SOLD	-	220,328	-	35,864,192
COST OF HOMES SOLD	-	-	-	48,648,105
LAND PROJECT COSTS	290	60,945	-	2,419,290
COMMERCIAL PROPERTIES	-	-	-	7,296,112
GENERAL & ADMINISTRATIVE	1,277	-	-	15,057,115
UTILITY EXPENSE	-	-	-	1,337,519
RESORT OPERATIONS	-	-	-	10,202
DEPRECIATION & AMORTIZATION	-	398	-	2,345,966
TOTAL OPERATING EXPENSES	1,567	281,671	-	118,021,801
NET OPERATING INCOME	(1,567)	(15,824)	-	5,600,762
OTHER INCOME AND GAINS:				
EQUITY IN JOINT VENTURES	-	-	-	3,182,361
INTEREST INCOME	-	5,775	-	1,179,122
OTHER	-	-	-	49,269
TOTAL OTHER INCOME AND GAINS	-	5,775	-	4,410,752
INTEREST EXPENSE				
INTEREST EXPENSE	-	-	-	7,691,855
LESS: CAPITALIZED INTEREST	-	-	-	(3,494,746)
TOTAL INTEREST EXPENSE	-	-	-	4,197,109
NET INCOME BEFORE MINORITY INTEREST	(1,567)	(10,049)	-	5,814,405
MINORITY INTEREST	-	-	-	480,231
NET INCOME/(LOSS)	($1,567)	($10,049)	-	$5,334,174

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Adopted November 9, 1939 File No. 69-306

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.

FORM U-3A-2

Statement by Holding Company
Claiming Exemption under Rule U-2
from the Provisions of the
Public Utility Holding Company Act of 1935

To Be Filed Annually Prior to March 1

Pinnacle West Capital Corporation

(Name of Company)

hereby files with the Securities and Exchange Commission, pursuant to Rule 2, its statement claiming exemption as a holding company from the provisions of the Public Utility Holding Company Act of 1935, and submits the following information:

1. Name, state of organization, location and nature of business of Claimant and every subsidiary thereof, other than any exempt wholesale generator (EWG) or foreign utility company in which Claimant directly or indirectly holds an interest.

Pinnacle West Capital Corporation ("Claimant"), having been incorporated on February 20, 1985 under the laws of the State of Arizona, and having its principal executive offices at 400 East Van Buren, Suite 700, Phoenix, Arizona 85004, was organized principally to acquire and hold securities of other corporations for investment purposes. Claimant currently holds stock in the following subsidiaries:

a. Arizona Public Service Company ("APS" or the "Company"), is engaged principally in serving electricity in the State of Arizona. Incorporated in 1920 under the laws of the State of Arizona and having its principal executive offices at 400 North Fifth Street, Phoenix, Arizona 85004, APS became a subsidiary of the Claimant pursuant to a corporate restructuring plan approved by the Company's shareholders on April 18, 1985.

(1) AXIOM Power Solutions, Inc. ("AXIOM") -- an Arizona corporation having been incorporated on October 29, 1996 and having its principal executive offices at 400 E. Van Buren, Phoenix, Arizona 85004, was organized primarily to sell security and energy management products and services. AXIOM is a wholly-owned subsidiary of APS.

(2) Bixco, Inc. ("Bixco") -- an Arizona corporation having been incorporated on June 4, 1971 and having its principal executive offices at 400 North Fifth Street, Phoenix, Arizona 85004, was organized primarily to conduct exploration activities for energy resources and other valuable minerals. Subsequent to the sale of its oil and natural gas properties in 1981, Bixco has been inactive. Bixco is a wholly-owned subsidiary of APS.

b. SunCor Development Company ("SunCor") -- an Arizona corporation having been incorporated on June 30, 1965 and having its principal executive offices at 3838 North Central Avenue, Suite 1500, Phoenix, Arizona 85012, is a wholly-owned subsidiary of Claimant engaged primarily in the owning, holding and development of real property.

(1) SunCor Resort & Golf Management, Inc. ("Resort & Golf Management") (previously named "SunCor Resort Management, Inc." and "SunCor Farms, Inc.") -- an Arizona corporation having been incorporated on December 31, 1986 and having its principal executive offices at 3838 North Central Avenue, Suite 1500, Phoenix, Arizona 85012 operates and manages hotel, golf, food and beverage for the Wigwam Resort and Country Club, Sedona Golf Resort, SunRidge Canyon Golf Club, Real del Mar Golf Club, and Palm Valley Golf Club. Resort & Golf Management is a wholly-owned subsidiary of SunCor.

(2) Litchfield Park Service Company ("LPSCO") -- an Arizona corporation having been incorporated on September 21, 1954 and having its principal executive offices at 501 East Plaza Circle, Suite B, Litchfield Park, Arizona 85340, is a regulated public utility engaged in providing water and sewer services to commercial and residential customers. LPSCO became a wholly-owned subsidiary of SunCor on December 31, 1986.

(3) SunCor Homes, Inc. ("SunCor Homes") -- (previously named "LGR, Inc." and "WGP Realty, Inc.") an Arizona corporation having been incorporated on May 14, 1986 and having its principal executive offices at 3838 North Central Avenue, Suite 1500, Phoenix, Arizona 85012, was organized to provide brokerage and realty services in the sale of commercial and residential real property. SunCor Homes is a wholly-owned subsidiary of SunCor.

(i) Golden Heritage Construction, Inc. ("Golden Heritage") -- an Arizona corporation having been incorporated on December 30, 1993 and having its principal executive offices at 7975 North Hayden Rd. Suite D-280, Scottsdale, Arizona 85258, was organized to serve as a general residential contractor. Golden Heritage became a wholly-owned subsidiary of SunCor Homes, Inc. on January 1, 1996.

(4) SCM, Inc. ("SCM") -- an Arizona corporation having been incorporated on May 14, 1991 and having its principal executive offices at 3838 North Central Avenue,

Suite 1500, Phoenix, Arizona 85012, was organized to participate in real estate joint ventures and other real estate related activities. SCM is a wholly-owned subsidiary of SunCor.

(5) Golf de Mexico, S.A. DE C.V. ("Golf de Mexico") -- a Mexican variable capital corporation having been incorporated on February 8, 1992 in Tijuana, Baja California, Mexico, and having its principal executive offices at 3838 North Central Avenue, Suite 1500, Phoenix, Arizona 85012, was organized to operate and manage the Real del Mar Golf Course in Mexico.

(6) SunCor Realty & Management Company ("SunCor Realty") -- (previously named Russell Ranch Development Company) an Arizona corporation having been incorporated on April 1, 1994 and having its principal executive offices at 3838 North Central Avenue, Suite 1500, Phoenix, Arizona 85012 was organized to participate in real estate joint ventures and other real estate related activities. SunCor Realty is a wholly-owned subsidiary of SunCor.

(7) Palm Valley Golf Club, Inc. ("Palm Valley Golf") -- an Arizona corporation having been incorporated on January 23, 1996 and having its principal executive offices at 3838 North Central Avenue, Suite 1500, Phoenix, Arizona 85012 was organized to hold title to the Palm Valley Golf Course. Palm Valley Golf is a wholly-owned subsidiary of SunCor.

(8) Rancho Viejo de Santa Fe, Inc. ("Rancho Viejo") -- a New Mexico corporation having been incorporated on March 18, 1996 and having its principal executive offices at 3838 North Central Avenue, Suite 1500, Phoenix, Arizona 85012 was organized to engage in real estate development in New Mexico. Rancho Viego is a wholly-owned subsidiary of SunCor.

c. El Dorado Investment Company -- an Arizona corporation having been incorporated on July 27, 1983 and having its principal executive offices at 400 East Van Buren, Suite 750, Phoenix, Arizona 85004, is a wholly-owned subsidiary of Claimant engaged primarily in the acquisition and holding of stocks and securities of other companies for investment purposes.

2. A brief description of the properties of Claimant and each of its subsidiary public utility companies used for the generation, transmission and distribution of electric energy for sale, or for the production, transmission and distribution of natural or manufactured gas, indicating the location of principal generating plants, transmission lines, producing fields, gas manufacturing plants and electric and gas distribution facilities, including all such properties which are outside the state in which Claimant and its subsidiaries are organized and all transmission or pipelines which deliver or receive electric energy or gas at the borders of such state.

Neither the Claimant nor any of its subsidiaries own property used for the production, transmission and distribution of natural or manufactured gas. APS, a "public utility company" as that term is defined in the Public Utility Holding Company Act of 1935, is the only one of Claimant's subsidiaries that owns property used for the generation, transmission and distribution of electric energy for sale.

Exhibit D attached hereto shows the location of APS' major generating plants (including those owned jointly with others), principal transmission lines (including those operated for others) and interconnections of transmission lines with out-of-state utilities at state lines. All of such facilities, except the Four Corners Generating Station ("Four Corners"), and all of APS' distribution facilities, are located within the State of Arizona. Four Corners is a mine-mouth power plant, located in the northwest corner of New Mexico, near the city of Farmington, approximately 40 miles east of the Arizona-New Mexico border.

APS' present generating facilities have an accredited capacity aggregating 4,039,220 kilowatts, comprised as follows:

	Capacity
Coal:	
Units 1, 2 and 3 at Four Corners, aggregating	560,000 kw
15% owned Units 4 and 5 at Four Corners, representing	222,000
Units 1, 2, and 3 at the Cholla Plant, aggregating	615,000
14% owned Units 1, 2 and 3 at the Navajo Plant, representing	315,000
	1,712,000 kw
Gas or Oil:	
Two steam units at Ocotillo, two steam units at Saguaro and one steam unit at Yucca, aggregating	463,400 kw(1)
Eleven combustion turbine units, aggregating	500,600
Three combined cycle units, aggregating	253,500
	1,217,500 kw
Nuclear:	
29.1% owned or leased Units 1, 2 and 3 at Palo Verde, representing	1,105,520 kw
Other	4,200 kw

(1) West Phoenix steam units (96,300) are currently mothballed.

APS' transmission facilities consist of approximately 4,862 pole miles of overhead lines and approximately 18 miles of underground lines, all of which are located within the State of Arizona. APS' distribution facilities consist of approximately 11,335 pole miles of overhead lines and approximately 8,993 miles of underground lines, all of which are located within the State of Arizona.

3. The following information for the last calendar year with respect to Claimant and each of its subsidiary public utility companies:

a. Number of kwh of electric energy sold at retail or wholesale.

Claimant	APS
None	22,387,930,000 kwh of electric energy sold at wholesale or retail

b. Number of kwh of electric energy distributed at retail outside the state in which each such company is organized.

Claimant	APS
None	62,766,000 kwh of electric energy distributed at retail outside Arizona

c. Number of kwh of electric energy sold at wholesale outside the state in which each such company is organized, or at the state line.

Claimant	APS
None	973,300 kwh of electric energy sold at wholesale outside Arizona or at state line

d. Number of kwh of electric energy purchased outside the state in which each such company is organized or at the state line.

Claimant	APS
None	4,605,356 kwh of electric energy purchased outside Arizona or at state line

4. The following information for the reporting period with respect to Claimant and each interest it holds directly or indirectly in an EWG or a foreign utility company, stating monetary amounts in United States dollars:

The Claimant holds no interest, direct or indirect, in an EWG or a foreign utility company.

a. Name, location, business address and description of the facilities used by the EWG or foreign utility company for the generation, transmission and distribution of electric energy for sale or for the distribution at retail of natural or manufactured gas.

Not applicable.

b. Name of each system company that holds an interest in such EWG or foreign utility company; and description of the interest held.

Not applicable.

c. Type and amount of capital invested, directly or indirectly, by the holding company claiming exemption; any direct or indirect guarantee of the security of the EWG or foreign utility company by the holding company claiming exemption; and any debt or other financial obligation for which there is recourse, directly or indirectly, to the holding company claiming exemption or another system company, other than the EWG or foreign utility company.

Not applicable.

d. Capitalization and earnings of the EWG or foreign utility company during the reporting period.

Not applicable.

e. Identify any service, sales or construction contract(s) between the EWG or foreign utility company and a system company, and describe the services to be rendered or goods sold and fees or revenues under such agreement(s).

Not applicable.

EXHIBIT A

A consolidating statement of income and surplus of the Claimant and its subsidiary companies for the last calendar year, together with a consolidating balance sheet of Claimant and its subsidiary companies as of the close of such calendar year.

Exhibit A hereto includes consolidating statements of income and consolidating balance sheets for the Claimant and the following of its subsidiaries: Arizona Public Service Company, SunCor Development Company and El Dorado Investment Company. Subsidiaries have been consolidated for financial reporting purposes in accordance with Statement of Financial Accounting Standards No. 94, Consolidation of All Majority-Owned Subsidiaries. Also included are consolidating statements of income and consolidating balance sheets for SunCor Development Company and its subsidiaries.

EXHIBIT B FINANCIAL DATA STATEMENT

If, at the time a report on this form is filed, the registrant is required to submit this report and any amendments thereto electronically via EDGAR, the registrant shall furnish a Financial Data Schedule. The Schedule shall set forth the financial and other data specified below that are applicable to the registrant on a consolidated basis.

1. Total Assets.

2. Total Operating Revenues.

3. Net Income.

See Exhibit B hereto.

EXHIBIT C

An organizational chart showing the relationship of each EWG or foreign utility company to associate companies in the holding-company system.

Not applicable.

EXHIBIT D

Exhibit D is a map of the state of Arizona showing the following:

APS Service Area;
Major APS Power Plants, including joint ownership;
Principal APS Transmission Lines;
and Transmission Lines Operated for Others.

The above-named Claimant has caused this statement to be duly executed on its behalf by its authorized officer on this 28th day of February, 1997.

Pinnacle West Capital Corporation

(Name of Claimant)

By /s/ Michael S. Ash

Michael S. Ash
Corporate Counsel

[CORPORATE SEAL]

Attest:

/s/Suzanne Debes

Suzanne Debes
Associate Secretary

Name, title and address of officer to whom notices and correspondence concerning this statement should be addressed:

Michael S. Ash	Corporate Counsel	(Name)	(Title)
400 East Van Buren, Suite 700, Phoenix, Arizona 85004		(Address)	

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATING INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 1996
(THOUSANDS OF DOLLARS)

	PWCC	APS	SUNCOR	ELDO
OPERATING REVENUES:				
Electric		$1,718,272		
Real Estate			99,488	
Total	--	1,718,272	99,488	--
FUEL EXPENSES:				
Fuel for electric generation		230,393		
Purchased power		95,130		
Total	--	325,523	--	--
OPERATING EXPENSES:				
Utility operations and maintenance		430,714		
Real estate operations			94,874	
Depreciation and amortization	216	297,210	2,081	--
Taxes other than income taxes	33	121,104	940	
Total	249	849,028	97,895	--
OPERATING INCOME	(249)	543,721	1,593	--
OTHER INCOME (DEDUCTIONS):				
Allowance for equity funds used during construction		5,209		
Interest on long-term debt	(22,208)	(147,666)	(2,790)	--
Other interest	(4,967)	(18,797)	--	--
Allowance for borrowed funds used during construction		9,509		
Preferred stock dividend requirements		(17,092)		
Other, net	233,977	(15,544)	5,351	372
Total	206,802	(184,381)	2,561	372
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	206,553	359,340	4,154	372
Income Tax Benefits (Expense)	4,506	(132,961)		(1)
INCOME FROM CONTINUING OPERATIONS	211,059	226,379	4,154	371
DISCONTINUED OPERATIONS, NET OF TAX	(9,539)			
EXTRAORDINARY ITEM FOR EARLY RETIREMENT OF DEBT, NET OF TAX	(20,340)			
NET INCOME (LOSS)	$ 181,180	$ 226,379	$ 4,154	$ 371

	* E L I M I N A T I O N S * DEBIT		CREDIT		TOTAL
OPERATING REVENUES:					
Electric					$ 1,718,272
Real Estate					99,488
Total	--		--		1,817,760
FUEL EXPENSES:					
Fuel for electric generation					230,393
Purchased power					95,130
Total	--		--		325,523
OPERATING EXPENSES:					
Utility operations and maintenance					430,714
Real estate operations	1,206	(c)			96,080
Depreciation and amortization					299,507
Taxes other than income taxes					122,077
Total	1,206		--		948,378
OPERATING INCOME	(1,206)		--		543,859
OTHER INCOME (DEDUCTIONS):					
Allowance for equity funds used during construction					5,209
Interest on long-term debt			1,206	(c)	(171,458)
Other interest			--	(b)	(23,764)
Allowance for borrowed funds used during construction					9,509
Preferred stock dividend requirements					(17,092)
Other, net	230,904	(a,b)			(6,748)
Total	230,904		1,206		(204,344)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	229,698		1,206		339,515
Income Tax Benefits (Expense)					(128,456)
INCOME FROM CONTINUING OPERATIONS	229,698		1,206		211,059
DISCONTINUED OPERATIONS, NET OF TAX					(9,539)
EXTRAORDINARY ITEM FOR EARLY RETIREMENT OF DEBT, NET OF TAX					(20,340)
NET INCOME (LOSS)	$ 229,698		$ 1,206		$ 181,180

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATING INCOME STATEMENT
ELIMINATING ENTRIES

(a)	Income from Subsidiaries	$ 230,904		
	Retained Earnings		$	230,904

To eliminate PWCC Equity in earnings from subsidiairies

	PWCC
APS	226,379
SUNCOR	4,154
EL DORADO	371
	230,904

(b)	Interest Income (SunCor)	$ --		
	Interest Expense (El Dorado)		$	--

To eliminate SunCor interest charges to El Dorado.

(c)	Real Estate Operations	$ 1,206		
	Interest Expense (PWCC)		$	1,206

To reclass Capitalized Interest for SunCor Land Sales.

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATING BALANCE SHEET
December 31, 1996
(THOUSANDS OF DOLLARS)

	PWCC	APS	SUNCOR	ELDO
A S S E T S				
CURRENT ASSETS				
Cash and cash equivalents	$ 4,485	$ 12,521	$ 6,225	$ 3,455
Customer and other receivables - net	572	159,928	7,416	1,893
Accrued utility revenue		55,470		
Materials and supplies		74,120		
Fossil fuel		13,928		
Deferred income taxes	61,264	8,424		
Other current assets	314	22,767	18,150	--
Total current assets	66,635	347,158	31,791	5,348
INVESTMENTS AND OTHER ASSETS				
Real estate investments, net (cap interest)	8,668		398,809	
Other assets	2,111,100	113,666	5,861	33,459
Total investments and other	2,119,768	113,666	404,670	33,459
UTILITY PLANT				
Electric plant in service and held for future use		6,803,211		
Less accumulated depreciation and amortization		2,426,143		
Total	--	4,377,068	--	--
Construction work in progress		226,935		
Nuclear Fuel		51,137		
Net Utility Plant	--	4,655,140	--	--
DEFERRED DEBITS				
Regulatory asset for income taxes	--	516,722		
Rate synchronization deferral		414,082		
Other deferred debits	69	376,454	4,917	
Total deferred debits	69	1,307,258	4,917	--
TOTAL ASSETS	$ 2,186,472	$ 6,423,222	$ 441,378	$ 38,807

	ELIMINATIONS AND ADJUSTING ENTRIES DEBIT	CREDIT		TOTAL
A S S E T S				
CURRENT ASSETS				
Cash and cash equivalents				$ 26,686
Customer and other receivables - net		572	(b)	169,237
Accrued utility revenue				55,470
Materials and supplies				74,120
Fossil fuel				13,928
Deferred income taxes				69,688
Other current assets		91	(c)	41,140
Total current assets	--	663		450,269
INVESTMENTS AND OTHER ASSETS				
Real estate investments, net (cap interest)		8,950	(f)	398,527
Other assets		2,090,977	(a)	173,109
Total investments and other	--	2,099,927		571,636
UTILITY PLANT				
Electric plant in service and held for future us				6,803,211
Less accumulated depreciation and amortization				2,426,143
Total	--	--		4,377,068
Construction work in progress				226,935
Nuclear Fuel				51,137
Net Utility Plant	--	--		4,655,140
DEFERRED DEBITS				
Regulatory asset for income taxes				516,722
Rate synchronization deferral				414,082
Other deferred debits				381,440
Total deferred debits	--	--		1,312,244
TOTAL ASSETS	$ --	$ 2,100,590		$ 6,989,289

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATING BALANCE SHEET
December 31, 1996
(THOUSANDS OF DOLLARS)

	PWCC	APS	SUNCOR	ELDO
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Accounts payable	$ 2,958	$ 174,394	$ 6,625	$ 118
Accrued taxes	(3,914)	86,327	--	
Accrued interest	208	39,115	326	
Dividend payable	--	--		
Short-term borrowings	--	--		
Commerical paper, net	--	16,900		
Current maturities of long-term debt	--	153,780	2,497	
Customer Deposits		32,137	2,085	
Other current liabilities	18,199	21,150	907	
Total current liabilities	17,451	523,803	12,440	118
LONG-TERM DEBT LESS CURRENT MATURITIES	250,000	2,029,482	92,631	
DEFERRED CREDITS AND OTHER				
Deferred income taxes	(54,930)	1,414,242		
Deferred investment tax credit	(13,344)	87,723		
Unamortized gain-sale of utility plant		86,939		
Other deferred credits	16,972	332,970	4,459	
Total deferred credits	(51,302)	1,921,874	4,459	--
COMMITMENTS AND CONTINGENCIES (NOTE)				
MINORITY INTERESTS:				
Non-Redeemable preferred stock of APS		165,673		
Redeemable preferred stock of APS		53,000		
Joint Ventures of SunCor			8,950	
COMMON STOCK EQUITY:				
Common stock	2,109,455	1,269,284	444,391	62,546
Accumulated deficit	(139,132)	460,106	(121,493)	(23,857)
Total	1,970,323	1,729,390	322,898	38,689
TOTAL LIABILITIES AND EQUITY	$ 2,186,472	$ 6,423,222	$ 441,378	$ 38,807

	ELIMINATIONS AND ADJUSTING ENTRIES DEBIT	CREDIT	TOTAL
L I A B I L I T I E S A N D E Q U I T Y			
CURRENT LIABILITIES			
Accounts payable			$ 184,095
Accrued taxes			82,413
Accrued interest			39,652
Dividend payable	-- (d)		--
Short-term borrowings			--
Commerical paper, net			16,900
Current maturities of long-term debt			156,277
Customer Deposits			34,222
Other current liabilities	3,197 (b),(c), (e)		37,056
Total current liabilities	3,197	--	550,615
LONG-TERM DEBT LESS CURRENT MATURITIES			2,372,113
DEFERRED CREDITS AND OTHER			
Deferred income taxes			1,359,312
Deferred investment tax credit			74,379
Unamortized gain-sale of utility plant			86,939
Other deferred credits		2,534 (e)	356,935
Total deferred credits	--	2,534	1,877,565
COMMITMENTS AND CONTINGENCIES (NOTE)			
MINORITY INTERESTS:			
Non-Redeemable preferred stock of APS			165,673
Redeemable preferred stock of APS			53,000
Joint Ventures of SunCor	8,950 (e)		--
COMMON STOCK EQUITY:			
Common stock	2,249,322 (a)		1,636,354
Accumulated deficit		158,345 (a)	333,969
Total	2,249,322	158,345	1,970,323
TOTAL LIABILITIES AND EQUITY	$ 2,261,469	$ 160,879	$ 6,989,289

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATING BALANCE SHEET
ELIMINATING AND ADJUSTING ENTRIES

(a)	Common stock		2,249,322	
	Notes payable - SunCor, El Dorado		--	
		Accumulated deficit	--	158,345
		Other investments		2,090,977
	Total		2,249,322	2,249,322

To eliminate PWCC investment in subsidiaries

	Common Stock	Earnings/ Dividends	Notes	Total
APS	1,742,385	(12,995)	--	1,729,390
SunCor	444,391	(121,493)	--	322,898
El Dorado	62,546	(23,857)	--	38,689
Total	2,249,322	(158,345)	--	2,090,977

(b)	Other current liabilities		572	
		Customer and other receivables - net		572

To eliminate intercompany receivable/payable

	A/R PWCC's Books	A/P SUB's Books
APS	130	130
SunCor	443	443
El Dorado	(1)	(1)
Total	572	572

(c)	Other current liabilities (PWCC)		91	
		Other current assets (APS)		91

To eliminate PWCC payable to APS

(d)	Dividends Payable (APS)		--	
		Customer and other receiv. (PNW)		--

To eliminate APS Dividend to PNW

(e)	Current Liabilities (PNW)		2,534	
		Deferred Credits (PNW)		2,534

Reclass deferred compensation

(f)	Scottsdale Mountain - Minority Interest		8,950	
		Real estate investments - net		8,950

To eliminate Minority Interest - SunCor Scottsdale Mountain

SUNCOR DEVELOPMENT COMPANY
CONSOLIDATING BALANCE SHEET
FOR THE MONTH ENDED DECEMBER 31, 1996

ACCOUNT DESCRIPTION	SUNCOR	LPSCO	SASI	SCTS MTN	PVGC	SHI	SCM
ASSETS:							
CURRENT ASSETS							
CASH AND SHORT TERM INVESTMENTS	$ 4,666,819	$ 345,533	$ 417,524	$ 1,509,499	$ 47,652	$ (14,235)	$ (352,503)
ACCOUNTS RECEIVABLE	356,927	84,647	141,936	327,513	28,180	83,181	49,263
INTERCOMPANY ACCOUNTS:							
SASI			368				
LPSCO	85,521						
SMLP	18,333						
KABUTO JV	--						
PVGC	--						
SCM/SHI I/C - 12901 & 12201	--					1,685,351	(1,685,351)
SCM/SHI I/C - 12902	--					(2,379,358)	2,379,358
SCM - SDC -12903	--						(4,663,344)
SHI - SDC - 12903 & 265	125,501					333,738	
WWOS	18,733						
GOLDEN HERITAGE	42,465						
HOMEBUILDING I/C INTEREST	135,646						
GOLDEN HERITAGE CASH ADVANCE	11,692,358						(11,692,358)
SUNRIDGE - DEVELOPMENT	60,698						
SUNRIDGE - GOLF	114,958						
SEDONA - DEVELOPMENT	44,281						
SEDONA - GOLF	(205,396)						
WIGWAM RESORT	377,474						
OUTER LIMITS (2000)	(58,140)						
COMMERCIAL PROJECT - GENERAL	5,051,459						
FIDDLESTICKS	3,685,231						
FUNTASTICKS	4,590,012						
HIDDEN HILLS	174,208						
RANCHO VIEJO	756,736						
INTEREST RECEIVABLE	132,659			117,857			
NOTES RECEIVABLE	3,145,422	4,746		2,603,250			
INVENTORIES	--				72,984		
PREPAID EXPENSES	--	14,564			57,875		
HOME INVENTORY	52,919					2,442,969	16,518,852
TOTAL CURRENT ASSETS	35,064,824	449,490	559,828	4,558,119	206,691	2,151,646	553,917

ACCOUNT DESCRIPTION	WWOS	GH HOMES	KABUTO JV	COMMERCIAL	HIDDEN HILLS	RANCHO VIEJO	ELIMINATIONS REF	ELIMINATIONS DEBIT	ELIMINATIONS REF	ELIMINATIONS CREDIT
ASSETS:										
CURRENT ASSETS										
CASH AND SHORT TERM INVESTMENTS	$ 93,801		$ 250	$ (494,705)		$ 5,000				
ACCOUNTS RECEIVABLE	(25,497)			38,451						
INTERCOMPANY ACCOUNTS:										
SASI							P	172		
LPSCO									M	85,521
SMLP									O	18,333
KABUTO JV										
PVGC										
SCM/SHI I/C - 12901 & 12201							AB	6,603,859	AB	6,603,859
SCM/SHI I/C - 12902							C	2,379,358	C	2,379,358
SCM - SDC -12903							D	4,663,344		
SHI - SDC - 12903 & 265							D	1,432,265	D	1,891,504
WWOS									U	18,733
GOLDEN HERITAGE									G	42,465
HOMEBUILDING I/C INTEREST									F	135,646
GOLDEN HERITAGE CASH ADVANCE							E	11,692,358	E	11,692,358
SUNRIDGE - DEVELOPMENT										
SUNRIDGE - GOLF										
SEDONA - DEVELOPMENT										
SEDONA - GOLF										
WIGWAM RESORT										
OUTER LIMITS (2000)							X	58,140		
COMMERCIAL PROJECT - GENERAL									X	5,051,459
FIDDLESTICKS									X	3,685,231
FUNTASTICKS									X	4,590,012
HIDDEN HILLS									Z	174,208
RANCHO VIEJO									AA	756,736
INTEREST RECEIVABLE									T	72,611
NOTES RECEIVABLE	8,041									
INVENTORIES				21,609						
PREPAID EXPENSES				44,358						
HOME INVENTORY									J	1,075,417
TOTAL CURRENT ASSETS	76,345	--	250	(390,287)	--	5,000		26,829,496		38,273,451

ACCOUNT DESCRIPTION	CONSOLIDATED
ASSETS:	
CURRENT ASSETS	
CASH AND SHORT TERM INVESTMENTS	$ 6,224,635
ACCOUNTS RECEIVABLE	1,084,601
INTERCOMPANY ACCOUNTS:	
SASI	540
LPSCO	--
SMLP	--
KABUTO JV	--
PVGC	--
SCM/SHI I/C - 12901 & 12201	--
SCM/SHI I/C - 12902	--
SCM - SDC -12903	--
SHI - SDC - 12903 & 265	--
WWOS	--
GOLDEN HERITAGE	--
HOMEBUILDING I/C INTEREST	--
GOLDEN HERITAGE CASH ADVANCE	60,698
SUNRIDGE - DEVELOPMENT	114,958
SUNRIDGE - GOLF	44,281
SEDONA - DEVELOPMENT	(205,396)
SEDONA - GOLF	377,474
WIGWAM RESORT	--
OUTER LIMITS (2000)	--
COMMERCIAL PROJECT - GENERAL	--
FIDDLESTICKS	--
FUNTASTICKS	--
HIDDEN HILLS	--
RANCHO VIEJO	--
	--
INTEREST RECEIVABLE	177,905
NOTES RECEIVABLE	5,761,459
INVENTORIES	94,593
PREPAID EXPENSES	116,797
HOME INVENTORY	17,939,323
TOTAL CURRENT ASSETS	31,791,868

ACCOUNT DESCRIPTION	SUNCOR	LPSCO	SASI	SCTS MTN	PVGC	SHI	SCM
LONG-TERM ASSETS							
DEVELOPMENT PROJECTS							
HIDDEN HILLS							
RANCHO VIEJO							
PALM VALLEY	202,486,457						
LITCHFIELD GREENS	2,987,026						
KABUTO JV	--						
SCOTTSDALE MTN	--			10,637,107			
MARKETPLACE - CENTERPOINT	21,464,829						
TATUM RANCH	40,840,941						
TALAVI	8,494,198						
RESTORATION PLACE - TOWNE CNTR	(11,827)						
WIGWAM OUTLET STORES	--						
GOLDEN HERITAGE LAND	--						955,487
EQUITY INVESTMENTS:							
EQUITY IN TEMPE MKTPL JV	4,657,017						
EQUITY IN CTRPT ASSOC-JV	23,216,298						
INVESTMENT IN BILTMORE ESTATES	464,583						
INVEST IN PV APARTMENTS	817,002						
INVESTMENT IN SUNRIDGE CANYON	11,201,128						
INVESTMENT IN SEDONA GOLF	6,116,340						
INVESTMENT IN PLUMCOR OFFICE JV	2,569,397						
CONSOLIDATED ELIMINATING ENTITIES:							
INVEST IN KABUTO JV	5,769,120						
INVESTMENT IN WIGWAM OUTLET	5,501,073						
INVEST IN SCOTTS MTN LTD PART	11,106,848						
INVEST IN SUNCOR HOMES:							
SUNCOR HOMES EARNINGS	223,493						
GOLDEN HERITAGE EARNINGS	(1,794,677)						
INVEST IN GOLDEN HERITAGE HOMES	26,501						
INVESTMENT IN LPSCO	8,277,474						
INVESTMENT IN SASI	400,109						
INVESTMENT IN PALM VALLEY GOLF	6,553,930						
INVESTMENT IN OUTER LIMITS	1,668,979						
INVESTMENT IN FIDDLESTICKS	(31,249)						
INVESTMENT IN FUNTASTICKS	(43,535)						
INVESTMENT IN COMM OPS	5,351						
INVESTMENT IN PV PAVILIONS	(100)						
INVESTMENT IN PV CROSSING	(31,673)						
INVESTMENT IN AUTOPLEX	(286)						
INVESTMENT IN TALAVI	(2,841)						
INVESTMENT IN RANCHO VIEJO	(13,893)						
COMMERCIAL PROPERTIES	2,480,405				5,598,637		
LONG-TERM NOTES RECEIVABLE	1,229,007			2,901,096			
SDC PHASE I LAND NOTE TO WWOS	1,611,156						
SDC PAYOFF OF WWOS RLC	10,000,000						
SDC LOAN TO LPSCO	300,000						
PALM VALLEY GOLF INTERCOMPANY	(4,021,827)				4,021,827		
BUILDING, EQUIPMENT AND OTHER (NET)	701,119	--	36,696	1,127	45,773	841,862	104,245
DEFERRED ASSETS	3,314,819	576,836		--	257,173		
WATER, SEWER UTILITY PROP (NET)	--	8,609,113					
CONTRIBUTED PROPERTY	--	1,059,926				8,630	153,175
DEPOSITS							
TOTAL LONG-TERM ASSETS	378,532,692	10,245,875	36,696	13,539,330	9,923,410	850,492	1,212,907
TOTAL ASSETS	$413,597,516	$10,695,365	$ 596,524	$18,097,449	$10,130,101	$3,002,138	$1,766,824

ACCOUNT DESCRIPTION	WWOS	GH HOMES	KABUTO JV	COMMERCIAL	HIDDEN HILLS	RANCHO VIEJO	ELIMINATIONS REF	ELIMINATIONS DEBIT	ELIMINATIONS REF	ELIMINATIONS CREDIT
LONG-TERM ASSETS										
DEVELOPMENT PROJECTS										
HIDDEN HILLS					174,208					
RANCHO VIEJO						737,843				
PALM VALLEY				5,286,144						
LITCHFIELD GREENS			12,574,976							
KABUTO JV									V	2,956,571
SCOTTSDALE MTN									N	83,503
MARKETPLACE - CENTERPOINT				504,883						
TATUM RANCH										
TALAVI				32,623						
RESTORATION PLACE - TOWNE CNTR										
WIGWAM OUTLET STORES	18,241,943						S	451,398	S	1,559,870
GOLDEN HERITAGE LAND										
EQUITY INVESTMENTS:										
EQUITY IN TEMPE MKTPL JV										
EQUITY IN CTRPT ASSOC-JV										
INVESTMENT IN BILTMORE ESTATES										
INVEST IN PV APARTMENTS										
INVESTMENT IN SUNRIDGE CANYON										
INVESTMENT IN SEDONA GOLF										
INVESTMENT IN PLUMCOR OFFICE JV										
CONSOLIDATED ELIMINATING ENTITIES:										
INVEST IN KABUTO JV									V	5,769,120
INVESTMENT IN WIGWAM OUTLET									S	5,501,073
INVEST IN SCOTTS MTN LTD PART									N	11,106,848
INVEST IN SUNCOR HOMES:										
SUNCOR HOMES EARNINGS									H	223,493
GOLDEN HERITAGE EARNINGS							H	1,794,677		
INVEST IN GOLDEN HERITAGE HOMES										
INVESTMENT IN LPSCO									K	8,277,474
INVESTMENT IN SASI									P	400,109
INVESTMENT IN PALM VALLEY GOLF									Q	6,553,930
INVESTMENT IN OUTER LIMITS									Y	1,668,979
INVESTMENT IN FIDDLESTICKS							Y	31,249		
INVESTMENT IN FUNTASTICKS							Y	43,535		
INVESTMENT IN COMM OPS									Y	5,351
INVESTMENT IN PV PAVILIONS							Y	100		
INVESTMENT IN PV CROSSING							Y	31,673		
INVESTMENT IN AUTOPLEX							Y	286		
INVESTMENT IN TALAVI							Y	2,841		
INVESTMENT IN RANCHO VIEJO							BB	13,893		
COMMERCIAL PROPERTIES				10,733,633						
LONG-TERM NOTES RECEIVABLE									T	1,611,156
SDC PHASE I LAND NOTE TO WWOS									T	10,000,000
SDC PAYOFF OF WWOS RLC									L	300,000
SDC LOAN TO LPSCO							R	4,021,827	R	4,021,827
PALM VALLEY GOLF INTERCOMPANY										
BUILDING, EQUIPMENT AND OTHER (NET)										
DEFERRED ASSETS	523,145			72,193						
WATER, SEWER UTILITY PROP (NET)										
CONTRIBUTED PROPERTY										
DEPOSITS										
TOTAL LONG-TERM ASSETS	18,765,088	--	12,574,976	16,629,476	174,208	737,843		6,391,479		60,039,304
TOTAL ASSETS	$18,841,433	$ --	$12,575,226	$16,239,189	$174,208	$742,843		$33,220,975		$98,312,755

ACCOUNT DESCRIPTION	CONSOLIDATED
LONG-TERM ASSETS	
DEVELOPMENT PROJECTS	
HIDDEN HILLS	174,208
RANCHO VIEJO	737,843
PALM VALLEY	207,772,601
LITCHFIELD GREENS	2,987,601
KABUTO JV	9,618,405
SCOTTSDALE MTN	10,553,604
MARKETPLACE - CENTERPOINT	21,969,712
TATUM RANCH	40,840,941
TALAVI	8,526,941
RESTORATION PLACE - TOWNE CNTR	(11,827)
WIGWAM OUTLET STORES	17,133,471
GOLDEN HERITAGE LAND	955,487
EQUITY INVESTMENTS:	
EQUITY IN TEMPE MKTPL JV	4,657,017
EQUITY IN CTRPT ASSOC-JV	23,216,298
INVESTMENT IN BILTMORE ESTATES	464,583
INVEST IN PV APARTMENTS	817,002
INVESTMENT IN SUNRIDGE CANYON	11,201,128
INVESTMENT IN SEDONA GOLF	6,116,340
INVESTMENT IN PLUMCOR OFFICE JV	2,569,397
CONSOLIDATED ELIMINATING ENTITIES:	
INVEST IN KABUTO JV	--
INVESTMENT IN WIGWAM OUTLET	--
INVEST IN SCOTTS MTN LTD PART	--
INVEST IN SUNCOR HOMES:	
SUNCOR HOMES EARNINGS	--
GOLDEN HERITAGE EARNINGS	--
INVEST IN GOLDEN HERITAGE HOMES	26,501
INVESTMENT IN LPSCO	--
INVESTMENT IN SASI	--
INVESTMENT IN PALM VALLEY GOLF	--
INVESTMENT IN OUTER LIMITS	--
INVESTMENT IN FIDDLESTICKS	--
INVESTMENT IN FUNTASTICKS	--
INVESTMENT IN COMM OPS	--
INVESTMENT IN PV PAVILIONS	--
INVESTMENT IN PV CROSSING	--
INVESTMENT IN AUTOPLEX	--
INVESTMENT IN TALAVI	--
INVESTMENT IN RANCHO VIEJO	--
COMMERCIAL PROPERTIES	18,812,675
LONG-TERM NOTES RECEIVABLE	4,130,103
SDC PHASE I LAND NOTE TO WWOS	--
SDC PAYOFF OF WWOS RLC	--
SDC LOAN TO LPSCO	--
PALM VALLEY GOLF INTERCOMPANY	--
BUILDING, EQUIPMENT AND OTHER (NET)	1,730,822
DEFERRED ASSETS	4,744,166
WATER, SEWER UTILITY PROP (NET)	8,609,113
CONTRIBUTED PROPERTY	1,059,926
DEPOSITS	161,805
TOTAL LONG-TERM ASSETS	409,575,168
TOTAL ASSETS	$ 441,367,036

ACCOUNT DESCRIPTION	SUNCOR	LPSCO	SASI	SCTS MTN	PVGC	SHI	SCM
LIABILITIES:							
CURRENT LIABILITIES							
A/P & RETENTION	$ 1,054,550	$ 389,898	$ 40,744	$ 111,922	$ 40,654	$ 138,251	$ 582,108
ACCRUED LIABILITIES	1,806,502	34,416	155,843	336,426	54,334	33,559	
INTERCOMPANY ACCOUNTS:							
LPSCO - SDC		117,889					
SMLP - SDC				18,333			
PVGC							
SCM-SDC INTERCOMPANY	(4,204,105)						
SHI-SDC INTERCOMPANY	129,234,240					25,158	
SCM EARNINGS	(395,624)						
WWOS							
KABUTO JV							
OUTER LIMITS - SDC							
COMMERCIAL OPERATIONS - GENERAL							
FIDDLESTICKS							
FUNTASTICKS							
HIDDEN HILLS							
RANCHO VIEJO							
INTEREST PAYABLE	325,581					17,307	135,646
S/T NOTES PAYABLE OTHER							
TATUM RANCH MONK NOTE	78,027						
SMLP	--			936,893			
GOLDEN HERITAGE (PEW)							
TEXTRON LOAN							
DEFERRED PROFIT	1,237,716			387,692			
PWCC INTERCO PAYABLE	337,995						
CUSTOMER DEPOSITS	117,067					1,314,797	653,446
ACCRUED TAXES		18,714					
TOTAL CURRENT LIABILITIES	357,709	560,917	196,587	1,791,266	94,988	1,529,072	1,371,200
LONG-TERM LIABILITIES							
LONG-TERM NOTES PAYABLE							
TATUM RANCH MONK NOTE	156,053						
WWOS OWES SCD PH I LAND NOTE							
WWOS RLC PAYOFF BY SDC							
CORPORATE TERM NOTE	45,000,000						
CORPORATE RLC	42,431,700						
LPSCO OWES SDC		300,000					
GOLDEN HERITAGE (PEW)						3,044,250	
TEXTRON LOAN					3,481,183		
OTHER ACCRUED LIABILITIES	2,754,358						
DEFERRED TAXES		238,404					
LONG-TERM ADVANCE-IN-AID		--					
LONG-TERM METER DEPOSITS		405,425					
CONTRIB PROPERTY AIA		1,059,925					
TOTAL L/T LIABILITIES	90,342,111	2,003,754	--	--	3,481,183	3,044,250	--
TOTAL LIABILITIES	90,699,820	2,564,671	196,587	1,791,266	3,576,171	4,573,322	1,371,200
MINORITY INTEREST							
EQUITY:							

ACCOUNT DESCRIPTION	SUNCOR	LPSCO	SASI	SCTS MTN	PVGC	SHI	SCM
SDC COMMON STOCK	1,022,000						
SDC ADDITIONAL PAID IN CAPITAL	443,368,522						
SDC EARNED SURPLUS-BEGINNING	(125,646,609)						
SDC EARNED SURPLUS-CURRENT	4,153,783						
SUBSIDIARY EARNINGS-CURRENT		19,237	4,468	7,168,410	100,993	(1,359,913)	16,338
SUBSIDIARY EQUITY:							
LPSCO		8,111,457					
SASI			395,469				
SMLP				9,137,773			
PVGC					6,452,937		
SCM							379,286
SHOMES						(211,271)	
WWOS							
GOLDEN HERITAGE							
KABUTO JV							
OUTER LIMITS							
TOTAL EQUITY	322,897,696	8,130,694	399,937	16,306,183	6,553,930	(1,571,184)	395,624
TOTAL LIABILITIES AND EQUITY	$413,597,516	$10,695,365	$ 596,524	$ 18,097,449	$ 10,130,101	$3,002,138	$ 1,766,824

ACCOUNT DESCRIPTION	WWOS	GH HOMES	KABUTO JV	COMMERCIAL	HIDDEN HILLS	RANCHO VIEJO	ELIMINATIONS REF	ELIMINATIONS DEBIT	ELIMINATIONS REF	ELIMINATIONS CREDIT
LIABILITIES:										
CURRENT LIABILITIES										
A/P & RETENTION	$ --			$ 1,204,911						
ACCRUED LIABILITIES	529,388		15,000	63,963						
INTERCOMPANY ACCOUNTS:										
LPSCO - SDC							M	85,521		
SMLP - SDC							O	18,333		
PVGC										
SCM-SDC INTERCOMPANY									D	4,204,105
SHI-SDC INTERCOMPANY 129,234,240							G	25,158		
SCM EARNINGS									I	395,624
WWOS	18,733						U	18,733		
KABUTO JV								--		
OUTER LIMITS - SDC				(58,140)					X	58,140
COMMERCIAL OPERATIONS - GENERAL				5,051,459			X	5,051,459		
FIDDLESTICKS				3,685,231			X	3,685,231		
FUNTASTICKS				4,590,012			X	4,590,012		
HIDDEN HILLS					174,208		Z	174,208		
RANCHO VIEJO						756,736	AA	756,736		
INTEREST PAYABLE	72,611						FGT	225,564		
S/T NOTES PAYABLE OTHER										
TATUM RANCH MONK NOTE										
SMLP										
GOLDEN HERITAGE (PEW)									**	1,420,000
TEXTRON LOAN									#	61,892
DEFERRED PROFIT							J	1,075,417		
PWCC INTERCO PAYABLE										
CUSTOMER DEPOSITS										
ACCRUED TAXES										
TOTAL CURRENT LIABILITIES	620,732	--	15,000	14,537,436	174,208	756,736		15,706,372		6,139,761
LONG-TERM LIABILITIES										
LONG-TERM NOTES PAYABLE										
TATUM RANCH MONK NOTE										
WWOS OWES SCD PH I LAND NOTE	1,611,156						T	1,611,156		
WWOS RLC PAYOFF BY SDC	10,000,000						T	10,000,000		
CORPORATE TERM NOTE										
CORPORATE RLC										
LPSCO OWES SDC							L	300,000		
GOLDEN HERITAGE (PEW)							**	1,420,000		
TEXTRON LOAN							*	61,892		
OTHER ACCRUED LIABILITIES				137,107						
DEFERRED TAXES								146,780		
LONG-TERM ADVANCE-IN-AID										
LONG-TERM METER DEPOSITS										
CONTRIB PROPERTY AIA										
TOTAL L/T LIABILITIES	11,611,156	--	--	137,107	--	--		13,539,828		--
TOTAL LIABILITIES	12,231,888	--	15,000	14,674,543	174,208	756,736		29,246,200		6,139,761
MINORITY INTEREST									NV	8,950,367
EQUITY:										

ACCOUNT DESCRIPTION	WWOS	GH HOMES	KABUTO JV	COMMERCIAL	HIDDEN HILLS	RANCHO VIEJO	ELIMINATIONS REF	DEBIT	REF	CREDIT
SDC COMMON STOCK										
SDC ADDITIONAL PAID IN CAPITAL										
SDC EARNED SURPLUS-BEGINNING										
SDC EARNED SURPLUS-CURRENT										
SUBSIDIARY EARNINGS-CURRENT	(1,101,590)		--	(257,869)		(13,893)	IKNPQ	7,309,446	HSY(BB)	2,733,265
SUBSIDIARY EQUITY:										
LPSCO							K	8,111,457		
SASI							P	395,469		
SMLP							N	9,137,773		
PVGC							Q	6,452,937		
SCM							I	379,286		
SHOMES									H	211,271
WWOS	7,711,135						S	7,711,135		
GOLDEN HERITAGE										
KABUTO JV			12,560,226				V	12,560,226		
OUTER LIMITS				1,822,515			Y	1,822,515		
TOTAL EQUITY	6,609,545	--	12,560,226	1,564,646	--	(13,893)		53,880,244		2,944,536
TOTAL LIABILITIES AND EQUITY	$18,841,433	$ --	$12,575,226	$16,239,189	$174,208	$742,843		$83,126,444		$18,034,664

ACCOUNT DESCRIPTION	CONSOLIDATED
LIABILITIES:	
CURRENT LIABILITIES	
A/P & RETENTION	$ 3,563,038
ACCRUED LIABILITIES	3,029,431
INTERCOMPANY ACCOUNTS:	
LPSCO - SDC	32,368
SMLP - SDC	--
PVGC	--
SCM-SDC INTERCOMPANY	--
SHI-SDC INTERCOMPANY 129,234,240	--
SCM EARNINGS	--
WWOS	--
KABUTO JV	--
OUTER LIMITS - SDC	--
COMMERCIAL OPERATIONS - GENERAL	--
FIDDLESTICKS	--
FUNTASTICKS	--
HIDDEN HILLS	--
RANCHO VIEJO	--
INTEREST PAYABLE	325,581
S/T NOTES PAYABLE OTHER	
TATUM RANCH MONK NOTE	78,027
SMLP	936,893
GOLDEN HERITAGE (PEW)	1,420,000
TEXTRON LOAN	61,892
DEFERRED PROFIT	549,991
PWCC INTERCO PAYABLE	337,995
CUSTOMER DEPOSITS	2,085,310
ACCRUED TAXES	18,714
TOTAL CURRENT LIABILITIES	12,439,240
LONG-TERM LIABILITIES	
LONG-TERM NOTES PAYABLE	--
TATUM RANCH MONK NOTE	156,053
WWOS OWES SCD PH I LAND NOTE	--
WWOS RLC PAYOFF BY SDC	--
CORPORATE TERM NOTE	45,000,000
CORPORATE RLC	42,431,700
LPSCO OWES SDC	--
GOLDEN HERITAGE (PEW)	1,624,250
TEXTRON LOAN	3,419,291
OTHER ACCRUED LIABILITIES	2,891,465
DEFERRED TAXES	91,624
LONG-TERM ADVANCE-IN-AID	--
LONG-TERM METER DEPOSITS	405,425
CONTRIB PROPERTY AIA	1,059,925
TOTAL L/T LIABILITIES	97,079,733
TOTAL LIABILITIES	109,518,973
MINORITY INTEREST	8,950,367
EQUITY:	

SDC COMMON STOCK	1,022,000
SDC ADDITIONAL PAID IN CAPITAL	443,368,522
SDC EARNED SURPLUS-BEGINNING	(125,646,609)
SDC EARNED SURPLUS-CURRENT	4,153,783
SUBSIDIARY EARNINGS-CURRENT	--
SUBSIDIARY EQUITY:	
LPSCO	--
SASI	--
SMLP	--
PVGC	--
SCM	--
SHOMES	--
WWOS	--
GOLDEN HERITAGE	--
KABUTO JV	--
OUTER LIMITS	--
TOTAL EQUITY	322,897,696
TOTAL LIABILITIES AND EQUITY	$ 441,367,036

SUNCOR DEVELOPMENT COMPANY
CONSOLIDATING INCOME STATEMENT
FOR THE YEAR ENDING DECEMBER 31, 1996

ACCOUNT DESCRIPTION	SUNCOR	LPSCO	SCTS MTN
REVENUES:			
SALE OF ASSETS	$ 30,633	$ --	$ --
DEFERRED PROFIT	(163,914)	--	91,639
LAND SALES	30,253,994	--	13,194,485
HOME SALES	--	--	--
COMMERCIAL PROPERTIES	4,660,516	--	--
UTILITY SALES	--	1,448,257	--
MANAGEMENT FEES	1,329,474	--	--
TOTAL OPERATING REVENUES	36,110,703	1,448,257	13,286,124
OPERATING EXPENSES			
COST OF ASSETS SOLD	49,726	--	--
COST OF LAND SOLD	23,696,669	--	5,590,797
COST OF HOMES SOLD	(1,685,689)	--	--
LAND PROJECT COSTS	2,148,254	--	346,884
COMMERCIAL PROPERTIES	3,588,341	--	--
GENERAL & ADMINISTRATIVE	8,273,501	--	377,161
UTILITY EXPENSE	--	1,288,886	--
RESORT OPERATIONS	69,436	--	--
DEPRECIATION & AMORTIZATION	668,010	233,190	563
TOTAL OPERATING EXPENSES	36,808,248	1,522,076	6,315,405
NET OPERATING INCOME	(697,545)	(73,819)	6,970,719
OTHER INCOME AND GAINS:			
EQUITY IN JOINT VENTURES	3,399,538	--	--
INTEREST INCOME	399,334	6,716	212,962
TOTAL OTHER INCOME AND GAINS	3,798,872	6,716	212,962
INTEREST EXPENSE			
INTEREST EXPENSE	4,332,252	26,872	330,309
LESS: CAPITALIZED INTEREST	(2,865,470)	--	(315,036)
TOTAL INTEREST EXPENSE	1,466,782	26,872	15,273
NET INCOME BEFORE MINORITY INTEREST	1,634,545	(93,975)	7,168,408
MINORITY INTEREST	2,216,127	--	--
NET INCOME/(LOSS)	$ (581,582)	$ (93,975)	$ 7,168,408

ACCOUNT DESCRIPTION	PVGC	SCM	S HOMES
REVENUES:			
SALE OF ASSETS	$ --	$ --	$ --
DEFERRED PROFIT	--	--	--
LAND SALES	--	--	--
HOME SALES	--	18,566,949	45,860,575
COMMERCIAL PROPERTIES	2,137,042	--	--
UTILITY SALES	--	--	--
MANAGEMENT FEES	--	--	--
TOTAL OPERATING REVENUES	2,137,042	18,566,949	45,860,575
OPERATING EXPENSES			
COST OF ASSETS SOLD	--	--	--
COST OF LAND SOLD	--	--	--
COST OF HOMES SOLD	--	18,136,772	42,738,830
LAND PROJECT COSTS	--	--	--
COMMERCIAL PROPERTIES	1,753,380	--	--
GENERAL & ADMINISTRATIVE	--	409,754	4,336,226
UTILITY EXPENSE	--	--	--
RESORT OPERATIONS	--	--	--
DEPRECIATION & AMORTIZATION	162,495	4,084	162,030
TOTAL OPERATING EXPENSES	1,915,875	18,550,610	47,237,086
NET OPERATING INCOME	221,167	16,339	(1,376,511)
OTHER INCOME AND GAINS:			
EQUITY IN JOINT VENTURES	--	--	--
INTEREST INCOME	--	--	16,599
TOTAL OTHER INCOME AND GAINS	--	--	16,599
INTEREST EXPENSE			
INTEREST EXPENSE	120,175	--	--
LESS: CAPITALIZED INTEREST	--	--	--
TOTAL INTEREST EXPENSE	120,175	--	--
NET INCOME BEFORE MINORITY INTEREST	100,992	16,339	(1,359,912)
MINORITY INTEREST	--	--	--
NET INCOME/(LOSS)	$ 100,992	$ 16,339	$ (1,359,912)

ACCOUNT DESCRIPTION	WWOS	RANCHO VIEJO	ELIMINATING ENTRIES	
REVENUES:				
SALE OF ASSETS	$ --	$ --	$ --	
DEFERRED PROFIT	--	--	--	
LAND SALES	--	--	--	
HOME SALES	--	--	(18,566,949)	A
COMMERCIAL PROPERTIES	2,005,457	--	--	
UTILITY SALES	--	--	--	
MANAGEMENT FEES	--	--	--	
TOTAL OPERATING REVENUES	2,005,457	--	(18,566,949)	
OPERATING EXPENSES				
COST OF ASSETS SOLD	--	--	--	
COST OF LAND SOLD	--	--	--	
COST OF HOMES SOLD	--	--	(18,566,949)	A
LAND PROJECT COSTS	--	--	--	
COMMERCIAL PROPERTIES	1,082,120	--	--	
GENERAL & ADMINISTRATIVE	--	13,894	--	
UTILITY EXPENSE	--	--	--	
RESORT OPERATIONS	--	--	--	
DEPRECIATION & AMORTIZATION	850,975	--	--	
TOTAL OPERATING EXPENSES	1,933,095	13,894	(18,566,949)	
NET OPERATING INCOME	72,362	(13,894)	--	
OTHER INCOME AND GAINS:				
EQUITY IN JOINT VENTURES	--	--	--	
INTEREST INCOME	5,622	--	--	
TOTAL OTHER INCOME AND GAINS	5,622	--	--	
INTEREST EXPENSE				
INTEREST EXPENSE	1,327,300	--	--	
LESS: CAPITALIZED INTEREST	(166,760)	--	--	
TOTAL INTEREST EXPENSE	1,160,540	--	--	
NET INCOME BEFORE MINORITY INTEREST	(1,082,556)	(13,894)	--	
MINORITY INTEREST	--	--	--	
NET INCOME/(LOSS)	$ (1,082,556)	$ (13,894)	$ --	

ACCOUNT DESCRIPTION	CONSOLIDATED INCOME
REVENUES:	
SALE OF ASSETS	$ 30,633
DEFERRED PROFIT	(72,275)
LAND SALES	43,448,479
HOME SALES	45,860,575
COMMERCIAL PROPERTIES	8,803,015
UTILITY SALES	1,448,257
MANAGEMENT FEES	1,329,474
TOTAL OPERATING REVENUES	100,848,158
OPERATING EXPENSES	
COST OF ASSETS SOLD	49,726
COST OF LAND SOLD	29,287,466
COST OF HOMES SOLD	40,622,964
LAND PROJECT COSTS	2,495,138
COMMERCIAL PROPERTIES	6,423,841
GENERAL & ADMINISTRATIVE	13,563,521
UTILITY EXPENSE	1,135,901
RESORT OPERATIONS	69,436
DEPRECIATION & AMORTIZATION	2,081,347
TOTAL OPERATING EXPENSES	95,729,340
NET OPERATING INCOME	5,118,818
OTHER INCOME AND GAINS:	
EQUITY IN JOINT VENTURES	3,399,538
INTEREST INCOME	641,233
TOTAL OTHER INCOME AND GAINS	4,040,771
INTEREST EXPENSE	
INTEREST EXPENSE	6,136,908
LESS: CAPITALIZED INTEREST	(3,347,266)
TOTAL INTEREST EXPENSE	2,789,642
NET INCOME BEFORE MINORITY INTEREST	6,369,947
MINORITY INTEREST	2,216,127
NET INCOME/(LOSS)	$ 4,153,820

A. HOME SALES		18,566,949	
	COST OF HOME SALES		18,136,772
	COST OF HOME SALES (SCM MARGIN)		430,177

ELIMINATE INTERCOMPANY SALES AND PROFITS BETWEEN SCM AND SUNCOR HOMES

SUNCOR DEVELOPMENT COMPANY
CONSOLIDATING BALANCE SHEET
DECEMBER 1996 ELIMINATING ENTRIES

		DEBIT	CREDIT
K.	LPSCO EQUITY	8,111,457	
	EARNED SURPLUS - CURRENT	19,237	
	INVESTMENT IN LPSCO		8,277,474
	DEFERRED TAXES	146,780	
	ELIMINATE SDC INVESTMENT IN LPSCO		
L	LONG-TERM NOTES PAYABLE	300,000	
	LONG-TERM NOTES RECEIVABLE		300,000
	ELIMINATE LPSCO INTERCOMPANY NOTE WITH SDC		
M	ACCOUNTS PAYABLE	85,521	
	ACCOUNTS RECEIVABLE		85,521
	ELIMINATE LPSCO INTERCOMPANY A/R WITH SDC		
N	SMLP EQUITY	9,137,773	
	EARNED SURPLUS - CURRENT	7,168,410	
	MINORITY INTEREST - PRIOR YEAR		2,606,888
	MINORITY INTEREST - CURRENT YEAR		2,508,944
	SMLP LAND		83,503
	INVESTMENT IN SMLP		11,106,848
	ELIMINATE SDC INVESTMENT IN SMLP		
O	ACCOUNTS PAYABLE	18,333	
	ACCOUNTS RECEIVABLE		18,333
	ELIMINATE SMLP INTERCOMPANY A/R WITH SDC		
P	SASI EQUITY	395,469	
	EARNED SURPLUS - CURRENT	4,468	
	ACCOUNTS PAYABLE	172	
	INVESTMENT IN SASI		400,109
	ELIMINATE SDC INVESTMENT IN SASI		
Q	EARNED SURPLUS - CURRENT	100,993	
	PALM VALLEY EQUITY	6,452,937	
	INVESTMENT IN PV GOLF CLUB		6,553,930
	ELIMINATE SDC INVESTMENT IN PALM VALLEY GOLF		
R	ACCOUNTS PAYABLE	4,021,827	
	ACCOUNTS RECEIVABLE		4,021,827
	ELIMINATE PVGC INTERCOMPANY A/R WITH SDC		
S	WWOS EQUITY	7,711,135	
	1994 CAPITALIZED INTEREST	344,558	
	DEVELOPMENT FEES	106,840	
	EARNED SURPLUS - CURRENT		1,101,590
	INVESTMENT IN WWOS		5,501,073
	BASIS DIFFERENTIAL IN LAND PH1		854,972
	BASIS DIFFERENTIAL IN BLDG		156,750
	BASIS DIFFERENTIAL IN LAND PH2		548,148
	ELIMINATE SDC INVESTMENT IN WIGWAM OUTLET STORES		
T	INTEREST PAYABLE	72,611	

	INTEREST RECEIVABLE		72,611
	NOTES PAYABLE	1,611,156	
	NOTES RECEIVABLE		1,611,156
	NOTES PAYABLE	10,000,000	
	NOTES RECEIVABLE		10,000,000
	ELIMINATE WWOS INTERCOMPANY NOTES AND INTEREST WITH SDC		
U	ACCOUNTS PAYABLE	18,733	
	ACCOUNTS RECEIVABLE		18,733
	ELIMINATE WWOS INTERCOMPANY A/R WITH SDC		
V	KABUTO JV EQUITY	12,560,226	
	MINORITY INTEREST		3,834,535
	INVESTMENT IN KABUTO JV		5,769,120
	KABUTO JV LAND		2,956,571
	ELIMINATE SDC INVESTMENT IN KABUTO JV		
W	ACCOUNTS PAYABLE	--	
	ACCOUNTS RECEIVABLE		--
	ELIMINATE KABUTO JV INTERCOMPANY A/R WITH SDC		
X	COMMERCIAL OPERATIONS - GENERAL A/P	5,051,459	
	COMMERCIAL OPERATIONS - OUTER LIMITS A/P		58,140
	COMMERCIAL OPERATIONS - FIDDLESTICKS A/P	3,685,231	
	COMMERCIAL OPERATIONS - FUNTASTICKS A/P	4,590,012	
	SUNCOR COMMERCIAL OPS - GENERAL A/R		5,051,459
	SUNCOR COMMERCIAL OPS - OUTER LIMITS A/R	58,140	
	SUNCOR COMMERCIAL OPS - FIDDLESTICKS A/R		3,685,231
	SUNCOR COMMERCIAL OPS - FUNTASTICKS A/R		4,590,012
	ELIMINATE COMMERCIAL OPERATIONS INTERCOMPANY A/R WITH SDC		
Y	COMMERCIAL OPERATIONS EQUITY	1,822,515	
	EARNED SURPLUS - CURRENT		257,869
	INVESTMENT IN OUTER LIMITS		1,668,979
	INVESTMENT IN FIDDLESTICKS	31,249	
	INVESTMENT IN FUNTASTICKS	43,535	
	INVESTMENT IN PV PAVILLIONS	100	
	INVESTMENT IN PV CROSSING	31,673	
	INVESTMENT IN COMM OPS		5,351
	INVESTMENT IN AUTOPLEX	286	
	INVESTMENT IN TALAVI	2,841	
	ELIMINATE SDC INVESTMENT IN COMMERCIAL OPERATIONS		
Z	ACCOUNTS PAYABLE	174,208	
	ACCOUNTS RECEIVABLE		174,208
	ELIMINATE HIDDEN HILLS INTERCOMPANY A/R WITH SDC		
AA	ACCOUNTS PAYABLE	756,736	
	ACCOUNTS RECEIVABLE		756,736
	ELIMINATE RANCO VIEJO INTERCOMPANY A/R WITH SDC		
BB	INVESTMENT IN RANCHO VIEJO	13,893	
	EARNED SURPLUS - CURRENT		13,893
	ELIMINATE SDC INVESTMENT IN RANCHO VIEJO JV		
		84,636,621	84,636,621

SUNCOR DEVELOPMENT COMPANY
CONSOLIDATING BALANCE SHEET
DECEMBER 1996 ELIMINATING ENTRIES

G/L				Debit	Credit
			(A)		
SHI - 12201	a	SHI A/P TO SCM		2,459,254	
SCM-12201	b	SCM A/R FROM SHI			2,459,254
			(B)		
SCM-12901	c	SCM INTERCO A/P TO SHI - GHH		4,144,605	
SHI - 12901	d	SHI INTERCO A/R FROM SCM - GHH			4,144,605
			(C)		
SHI - 12902	e	SHI INTERCO A/P TO SCM - GENTRY		2,379,358	
SCM-12902	f	SCM INTERCO A/R FROM SHI - GENTRY			2,379,358
		TO ELIMINATE INTERCO RECEIVABLES/PAYABLES BETWEEN HOMEBUILDING COMPANIES			
			(D)		
SCM-12903	g	SCM INTERCO A/P TO SDC - GENTRY		4,663,344	
SHI - 265	h	SHI INTERCO NOTE TO SDC - ACQUISITION		1,432,265	
SHI - 12903	i	SHI INTERCO A/R FROM SDC - GENTRY			1,766,003
1000-206575	j	SDC A/R FROM SCM			4,204,106
1000-107230	k	SDC A/R FROM S HOMES			125,501
			(E)		
			(E)		
SCM-267	l	GOLDEN HERITAGE CASH ADVANCES FROM SDC		11,692,358	
1000-107260	m	SDC CASH ADVANCES TO GOLDEN HERITAGE			11,692,358
			(F)		
SCM-267	n	SCM INTERCO NOTE TO SDC - GH INTEREST		71,856	
SCM-268	o	SCM INTERCO NOTE TO SDC - SH INTEREST		63,790	
1000-107255	p	SDC INTERCO INTEREST A/R FROM HOMEBUILDING			135,646
			(G)		
SHI - 129	q	SHI INTERCO PAYABLE TO SDC		2,825	
SHI - 234	r	SHI INTERCO PAYROLL PAYABLE TO SDC		8,733	
SHI - 240	s	SHI INTERCO PAYROLL PAYABLE TO SDC		13,600	
SHI - 275	t	SHI INTERCO INTEREST PAYABLE TO SDC		17,307	
1000-107250	u	SDC A/R FROM GOLDEN HERITAGE			42,465
		TO ELIMINATE INTERCO RECEIVABLES/PAYABLES BETWEEN HOMEBUILDING COMPANIES AND SDC			
			(H)		
1000-176135	v	SDC INVESTMENT IN SHI - GOLDEN HERITAGE		1,794,677	
1000-176132	w	SDC INVESTMENT IN SHI - SUNCOR HOMES			223,493
SHI - P&L	x	SHI CURRENT YEAR LOSS			1,359,913
SHI - B/S	y	SHI ACCUMULATED LOSSES			211,271
		TO ELIMINATE INVESTMENT IN SHI ON SDC BOOKS			
SCM-P&L	z	SCM CURRENT YEAR INCOME	(I)	16,339	
SCM	aa	SCM ACCUMULATED INCOME		379,286	
1000-206576	bb	SDC INVESTMENT IN SCM			395,624
		TO ELIMINATE INVESTMENT IN SCM ON SDC BOOKS			
1000-235990	cc	DEFERRED INTERCO PROFIT HOME INVENTORY	(J)	1,075,417	1,075,417
		TO ELIMINATE BALANCE SHEET GROSS UP ON INTERCO LOT SALES BETWEEN SDC AND HOMEBUILDING			
TOTALS				30,215,014	30,215,014

EXHIBIT B Financial Data Schedule

The Claimant submits the following consolidated financial information:

1. Total Assets: $6,989,289,000

2. Total Operating Revenues: $1,817,760,000

3. Net Income: $181,180,000

EXHIBIT D

Map of the state of Arizona showing the following:

APS Service Area;

Major APS Power Plants, including joint ownership;

Principal APS Transmission Lines; and

Transmission Lines Operated for Others.

1800 M Street, N.W.
Washington, D.C. 20036-5869
202-467-7000
Fax: 202-467-7176

Morgan, Lewis
& Bockius LLP
COUNSELORS AT LAW

Mary Ann K. Huntington
202-467-7622

August 19, 1999

99 AUG 19 PM 4:56
FEDERAL ENERGY REGULATORY COMMISSION

Mr. David P. Boergers
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: *APS Energy Services Company, Inc.*, Docket No. ER99-___-000

Dear Mr. Boergers:

On behalf of APS Energy Services Company, Inc., please find enclosed an original and 14 copies an Application for an Order Approving Market Based Rates.

If you have any questions, please feel free to call me at 202-467-7622.

Sincerely,

Mary Ann K. Huntington

Attorney for
APS Energy Services Company, Inc.

Enclosure

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

APS Energy Services Company, Inc.	)	**Docket No. ER99-____-000**

APPLICATION OF APS ENERGY SERVICES COMPANY, INC. FOR ORDER APPROVING MARKET-BASED RATES

Pursuant to Section 205 of the Federal Power Act, 16 U.S.C. § 824d, and Rule 205 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission ("FERC" or the "Commission"), 18 C.F.R. § 385.205 (1998), APS Energy Services Company, Inc. ("APSES") hereby submits for filing this Application for authorization to engage in wholesale power sales at market-determined prices. APSES requests that the Commission take the following actions: (1) accept its Market-Based Rate Tariff (the "Market Rate Tariff") for wholesale sales of energy and capacity, including ancillary services within the California Independent System Operator ("ISO"); (2) approve the code of conduct governing APSES' relationship with its public utility affiliate, Arizona Public Service Company ("APS"); and (3) grant waivers of certain of the Commission's regulations and blanket authorizations of other actions under the Commission's regulations. Pursuant to Section 35.3(a) of the Commission's regulations, APSES also requests an effective date of 60 days after this filing, or the date on which the Commission issues an order approving APSES' application for market-based rates, whichever is earlier.

I. DESCRIPTION OF APSES

APSES is an Arizona corporation formed in 1998, whose principal place of business is located at 400 East Van Buren Street, Phoenix, Arizona. APSES does not own or control electric

power generation, transmission, or distribution facilities. APSES was formed to provide unregulated energy and related energy services to customers throughout Arizona, California, and other states that have instituted retail direct access. APSES seeks authorization to engage in wholesale power marketing activities at negotiated market-based rates under the proposed Market Rate Tariff.

APSES is a subsidiary of Pinnacle West Capital Corporation which also owns APS. APSES, therefore, is an affiliate of APS, a public service corporation organized under the laws of the State of Arizona, which is engaged in the business of generating, transmitting, distributing, and selling electricity in all or part of eleven of Arizona's fifteen counties. APS is authorized to sell wholesale power and energy at market-based rates. Arizona Public Service Co., 79 FERC ¶ 61,022 (1997). In its order granting market-based rate authority to APS, the Commission found that APS does not possess market power. Arizona Public Service Co., 79 FERC at 61,098-99. APSES has no other utility affiliates.

II. COMMUNICATIONS

APSES respectfully requests that service of pleadings and deliveries of communications and correspondence concerning this matter be directed to the following:

Vicki G. Sandler, Vice President
APS Energy Services Company, Inc.
400 East Van Buren Street
Mail Station 8103
Phoenix, Arizona 85004
Phone: (602) 744-5045

Barbara Muller Champion, Senior Attorney
Arizona Public Service Company
P.O. Box 53999
Mail Station 9820
Phoenix, Arizona 85004
Phone: (602) 250-3547

Mary Ann K. Huntington
Morgan, Lewis & Bockius LLP
1800 M Street, N.W.
Washington, D.C. 20036
Tel: (202) 467-7622

Applicants request that the above-listed individuals be placed on the official service list compiled for this proceeding.

III. LIST OF MATERIALS SUBMITTED WITH THIS FILING

This filing contains the following materials:

1. Exhibit A - APSES' Market-Rate Tariff, including a form of service agreement;

2. Exhibit B - APSES' Code of Conduct governing its relationship with APS;

3. Exhibit C - Notice of Filing suitable for publication in the Federal Register, with an electronic version on diskette.

IV. REQUEST FOR MARKET-BASED RATE APPROVAL FOR APSES

The Commission traditionally has permitted an entity -- whether a public utility, an independent power producer, or a power marketer -- to engage in wholesale sales of power and energy at market-based rates if the entity can demonstrate that neither it nor any of its affiliates have market power in relevant markets for generation service and transmission service (or have adequately mitigated such market power) and that neither can erect barriers to entry. See, e.g., Heartland Energy Service, Inc., 68 FERC ¶ 61,223, at 62,060 (1994) ("Heartland"). In evaluating requests for market-based rates, the Commission also considers whether there is any evidence of, or potential for, affiliate abuse or reciprocal dealing between the applicant and its affiliates. Id. As demonstrated in this application and its supporting materials, APSES satisfies the Commission's criteria and should be granted authority to engage in wholesale power sales transactions at market-based rates, including sales of ancillary services into the California ISO.

In addition to governing the market-based sales of power and energy, the Market Rate Tariff will permit APSES to reassign transmission capacity, transmission rights, and associated ancillary services acquired for its own use under open access transmission tariffs. The Market

Rate Tariff permits APSES to resell such capacity and rights at a price not higher than the highest of (1) the price APSES originally paid for the service, (2) the transmission provider's maximum rate for the service on file at the time of the resale, or (3) APSES' own opportunity costs capped at the applicable transmission provider's cost of expansion at the time of the sale to the eligible customer.[1/] The resold service will be provided in accordance with the terms and conditions of service of the original transmission provider's applicable open access transmission tariff. APSES' proposed reassignment of transmission and associated ancillary services is wholly consistent with reassignment provisions the Commission previously has accepted. See, e.g., Alliant Services Company, 85 FERC ¶ 61,344 (1998); Select Energy, Inc., 85 FERC ¶ 61,290 (1998); Commonwealth Edison Co., 78 FERC ¶ 61,312 (1997).

A. **Market Power**

With respect to its market power concerns, the Commission generally requires that an entity seeking authorization to transact at market-based rates (1) demonstrate that the entire output of its or any of its affiliates' generating facilities is committed under long-term contracts, (2) demonstrate that the applicant or its affiliates already are authorized to sell power at market-based rates, or (3) submit a market analysis that indicates that neither the applicant nor its affiliates have generation dominance in the relevant markets. LG&E Power Marketing, Inc., 68 FERC ¶ 61,247, at 62,121 (1994).

In this case, APSES has demonstrated that its affiliate, APS, is already authorized to sell at market-based rates. See Arizona Public Service Co., 79 FERC at 61,098-101. APSES relies on the market power study that its affiliate, APS, relied on in support of its market-based rate

---

1/ APSES will not charge a rate based on its opportunity costs absent a separate filing under Section 205 of the Federal Power Act.

application, which FERC accepted. See, e.g., Alliant Services Co., 85 FERC ¶ 61,344 (1998) (finding no market power based on affiliates' market study approved in earlier merger order); Louisville Gas and Electric Co., et al., 85 FERC ¶ 61,215 (1998) (finding no market power based on affiliates' market studies approved in earlier market-based rate application orders). Moreover, because APSES does not own or control any generating facilities, APSES has no market power in generation. As such, the Commission should reach the same conclusion here that it reached in Arizona Public Service Co. -- that APSES does not have generation market power.

B. Transmission Market Power

In order to ensure that applicants for market-based rate authority do not possess transmission market power, the Commission generally requires the applicant, or its affiliated public utility, to file or have on file open access transmission tariffs for the provision of comparable services. See, e.g., Southern Indiana Gas & Electric Company, 77 FERC ¶ 61,021 (1996). APS filed its open access tariff on July 9, 1996 (Docket No. OA96-153-000), and a revised open access tariff on July 12, 1996 (Docket No. ER96-2401-000). The Commission accepted the revised open access tariff for filing on September 9, 1996, effective on February 11, 1997.[2/]

APSES does not own any transmission facilities. Accordingly, the availability of open access transmission service over APS' transmission facilities under the APS transmission tariff eliminates the potential for any exercise of transmission market power by APSES.

2/ In addition, on June 18, 1999, the Commission issued a letter order accepting a Settlement governing APS' transmission rates filed on October 10, 1997, as amended October 24, 1997, in Docket Nos. OA96-153-000 and ER96-2401-000.

C. Barriers to Entry

In previous cases, the Commission has examined the possibility that an entity might be able to erect other barriers to entry as a possible ground for denying the authority to charge market-based rates. Heartland, 68 FERC at 62,062. Neither APSES nor APS are affiliated with any entities that could impose barriers to entry in the electric power generation business through their ownership or control of any resources or inputs that could be essential to market entry by competitors.

D. Affiliate Abuse and Reciprocal Dealing

In evaluating market-based rate applications of affiliated power marketers, the Commission also considers the potential for affiliate abuse and reciprocal dealing. The Commission has explained that affiliate abuse takes place when a public utility and an affiliated power marketer transact in ways that result in a transfer of benefits from the public utility (and the ratepayers) to the power marketer (and the shareholders). Heartland 68 FERC at 62,062; Wholesale Power Services, Inc., 72 FERC ¶ 61,284 (1995).

In this instance, APSES submits with this application a Code of Conduct governing its relationship with its public utility affiliate, APS. The Code of Conduct satisfies the Commission's information sharing and interaffiliate transaction pricing rules that protect against affiliate abuse. See, e.g., Duke Power, 84 FERC ¶ 61,235 (1998). The Code of Conduct is attached as **Exhibit B**. For these reasons, no potential for affiliate abuse arises from the grant of market-based rate authority to APSES. Id.

D. The Commission's Filing Requirements

Consistent with the Commission's requirements, APSES commits that it will file quarterly transaction summaries and satisfy the Commission's other standard reporting requirements for affiliated power marketers. See Southern Co. Services, Inc., 87 FERC ¶ 61,214 (1999); Horizon Energy Co., 81 FERC ¶ 61,368 (1997). Specifically, APSES will file umbrella service agreements for short-term transactions (one year or less) within 30 days of the date of commencement of service, to be followed by quarterly transaction summaries for specific sales. For long-term transactions (longer than one year), the actual service agreement for each transaction will be filed within 30 days after commencement of service. Southern Co. Services, Inc., 87 FERC slip op. at 17.

APSES commits that it will file a revised market power analysis every three years. This commitment is consistent with Commission precedent. Morgan Stanley Capital Group, Inc., 69 FERC ¶ 61,175 (1994) (as clarified in Engelhard Power Marketing, Inc., 70 FERC ¶ 61,250 (1995)).

V. REQUEST FOR EFFECTIVE DATE AND WAIVERS

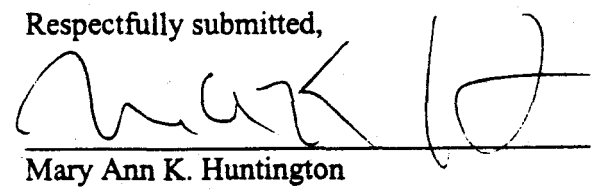
Consistent with the Commission's decisions in previous power marketer cases, APSES respectfully requests the Commission to waive the following requirements of the Commission's regulations: (1) waiver of accounting and reporting requirements under Parts 41, 101, and 141 of the Commission's regulations; (2) waiver of interlocking directorate filing requirements under Part 45 of the Commission's regulations, or, alternatively, permission to file abbreviated filings with respect to interlocking directorates under Part 45; and (3) waiver of the filing requirements of Subparts B and C of Part 35 of the Commission's regulations, other than Sections 35.12(a), 35.13(b), 35.15, and 35.16. See, e.g., AES Huntington Beach, L.L.C., 83 FERC ¶ 61,100 (1998).

Pursuant to Section 35.3(a) of the Commission's regulations, APSES respectfully requests that the Commission accept the Market Rate Tariff for filing and permit it to become effective the earlier of either sixty days after the date of this filing or the date the Commission grants acceptance.

VII. CONCLUSION

WHEREFORE, for the foregoing reasons, APSES requests the Commission to issue an order that grants: (1) authorization for APSES to engage in wholesale sales of electric power at market-based rates, including sales of ancillary services at market-based rates in the California market; (2) acceptance of the APSES Market Rate Tariff for filing effective sixty days after the filing of this application; (3) approval of the code of conduct governing APSES' relationship with APS; and (4) certain blanket authorizations; and (5) certain waivers of the Commission's regulations as stated herein.

Respectfully submitted,



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Attorneys for
APS Energy Services Company, Inc.

Dated: August 19, 1999

Exhibit A

APS Energy Services Company, Inc.

Market-Based Rate Tariff

APS Energy Services Company, Inc.

MARKET-BASED RATE TARIFF

1. Availability: APS Energy Services Company, Inc. ("APSES") makes electric capacity or energy available for sale for resale under this Rate Schedule to any purchaser.

2. Applicability: This schedule is applicable to all sales of electric capacity or energy by APSES not otherwise subject to a particular rate schedule of APSES, but shall not apply to the sales of electric capacity or energy to, or the purchase of electric capacity or energy from Arizona Public Service Company ("APS").

   This schedule also is applicable to the reassignment of transmission capacity, transmission rights and associated ancillary services, that APSES has acquired for its own use on the transmission systems of transmission providers.

3. Rates: All sales of electric capacity or energy shall be made at rates established by agreement between the purchaser and APSES.

4. Other Terms and Conditions:

   All other terms and conditions shall be established by agreement between the purchaser and APSES.

   APSES will not sell electric capacity or energy to, or purchase electric capacity or energy from APS, absent a separate filing with FERC pursuant to Section 205 of the Federal Power Act.

5. Effective Date:

   This Rate Schedule shall be effective on the date established by FERC.

6. Reassignment of Transmission Rights:

   APSES may reassign transmission capacity, transmission rights, and associated ancillary services that it has reserved for its own use at a price not to exceed the highest of: (1) the original transmission rate paid by APSES; (2) the applicable transmission provider's maximum stated firm transmission rate on file at the time of the transmission reassignment; or (3) APSES's own opportunity costs, capped at the applicable transmission provider's cost of expansion at the time of the sale to the eligible

customer. APSES will not recover opportunity costs in connection with reassignment without making a separate filing under Section 205. Except for the price, the terms and conditions under which the reassignment is made shall be under the terms and conditions governing the original grant by the transmission provider. Transmission and associated ancillary services may only be reassigned to a customer eligible to take service under the transmission provider's open access transmission tariff or other transmission rate schedules. APSES will report the name of the assignee in its quarterly reports.

APS Energy Services Company, Inc.

MARKET-BASED RATE TARIFF

SERVICE AGREEMENT

This Service Agreement, dated as of _____, is entered into by and between APS Energy Services Company, Inc. ("APSES") and _____ ("Customer"), pursuant to APSES's Market-Based Rate Tariff, FERC Electric Tariff No. 1.

Each transaction hereunder will be carried out under terms and conditions as agreed upon by APSES and the Customer in accordance with the terms and conditions of the Rate Schedule.

IN WITNESS WHEREOF, APSES and Customer have caused this Service Agreement to be executed by their respective authorized officials as of the date first above written.

Customer	**APS Energy Services Company, Inc.**
_____	
Customer	
_____	_____
Signature of Representative Date	Signature of Representative Date
_____	_____
Name of Representative	Name of Representative
_____	_____
Title of Representative	Title of Representative

Exhibit B

APS Energy Services Company, Inc.

Code of Conduct

APS ENERGY SERVICES COMPANY, INC.

STATEMENT OF POLICY AND CODE OF CONDUCT WITH RESPECT TO THE RELATIONSHIP BETWEEN APS ENERGY SERVICES COMPANY, INC. AND ARIZONA PUBLIC SERVICE COMPANY

The following Code of Conduct will govern the relationship between (1) APS Energy Services Company, Inc. ("APSES") and any other marketer affiliates that may be authorized by the Federal Energy Regulatory Commission to engage in sales for resale of energy and capacity at market-based rates (together with APSES, the "Marketing Affiliates") and (2) Arizona Public Service Company ("APS").

Marketing of Power

1. To the maximum extent practical, the employees of the Marketing Affiliates will operate separately from the employees of APS.

2. All market information shared by APS with the Marketing Affiliates will be disclosed simultaneously to the public. This includes all market information, including but not limited to, any communication concerning power or transmission business, present or future, positive or negative, concrete or potential. Shared employees in a support role are not bound by this provision, but they may not serve as an improper conduit of information to non-support personnel.

3. Sales of any non-power goods or services by APS, including sales made through affiliated EWGs or QFs, to the Marketing Affiliates will be at the higher of cost or market price.

4. Sales of any non-power goods or services by the Marketing Affiliates to APS will not be at a price above market.

Exhibit C

APS Energy Services Company, Inc.

Notice of Filing

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

APS Energy Services Company, Inc.	)	**Docket No. ER99-_____**

NOTICE OF FILING
(____, 1999)

Take notice that on _____, APS Energy Services Company, Inc. ("APSES") filed an application for an order authorizing it to make wholesale sales of electric power at market-based rates and approving the Code of Conduct governing its relationship with its affiliated public utility.

Any person desiring to be heard or to protest said filing should file a motion to intervene or protest with the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426, in accordance with Rules 211 and 214 of the Commission's Rules of Practice and Procedures (18 C.F.R. § 385.211 and 18 C.F.R. § 385.214). All such motions or protests should be filed on or before _____, 1999. Protests will be considered by the Commission in determining the appropriate action to be taken, but will not serve to make protestants parties to the proceedings. Any person wishing to become a party must file a motion to intervene. Copies of this filing are on file with the Commission and are available for public inspection. This filing may also be viewed on the Internet at http://www.ferc.fed.us/online/rims.htm (call 202-208-2222 for assistance).

David P. Boergers
Secretary

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding. Dated at Washington, D.C., this 19th day of August, 1999.

Mary Ann K. Huntington
Morgan, Lewis & Bockius LLP
1800 M Street, N.W.
Washington, D.C. 20036
(202) 467-7622

Attorney for
APS Energy Services Company, Inc.

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

October 13, 1999

Docket Nos. ER99-4102-000,
ER99-4122-000,
ER99-4162-000,
ER99-4282-000

Andrews & Kurth LLP
ATTN: Anthony J. Ivancovich, Esq.
Attorney for Milford Power Company, LLC
1701 Pennsylvania Avenue, N.W.
Suite 300
Washington, D.C. 20006-5805

Morgan, Lewis & Bockius LLP
ATTN: Mary Ann K. Huntington, Esq.
Attorney for APS Energy Services Company, Inc.
1800 M Street, N.W.
Washington, D.C. 20036-5869

Dewey Ballantine LLP
ATTN: Zori G. Ferkin, Esq.
Attorney for Mantua Creek Generating Company, L.P.
Attorney for Athens Generating Company, L.P.
1775 Pennsylvania Avenue, N.W.
Washington, D.C. 20006-4605

Dear Sir and Madams:

You submitted for filing with the Commission rate schedules under which applicants will engage in wholesale electric power and energy transactions at market-based rates. Your submittals, as modified below, comply with the Commission's requirements for market-based rates and are accepted for filing. They are designated and made effective as indicated in Appendix A to this order.

APS Energy Services Company, Inc. (APSES) requests authority to engage in sales of ancillary services at market-based rates within the California ISO. However, APSES's rate schedule does not specify the ancillary services it intends to provide nor does it restrict ancillary service sales to the markets administered by the California ISO. We will

accept APSES's proposed rate schedule. However, we will direct APSES, within 30 days of the date of this order, to revise its proposed rate schedule to specify each of the ancillary services it seeks to provide. Similarly, we will direct APSES, within 30 days of the date of this order, to revise its proposed rate schedule to limit its authority to sell ancillary services to sales into the markets administered by the California ISO.

Mantua Creek Generating Company, L.P. (Mantua Creek) requests authority to engage in the sale of certain ancillary services (Energy Imbalance and Operating Reserves) at market-based rates into the PJM Power Exchange. Athens Generating Company, L.P. (Athens) also requests authority to make sales of certain ancillary services (listed in its proposed rate schedule) at market-based rates into the markets administered by the PJM Power Exchange, ISO New England, and the New York ISO.[1] We will grant these requests.

Any waivers or authorizations requested by the applicants are granted to the extent specified in Appendix B to this order. Waiver of the prior or advance notice requirements, if requested, is granted to the extent specified in Appendix A. The applicants must comply with the reporting requirements and other requirements specified in Appendix B to this order.[2]

The codes of conduct submitted by the applicants are accepted if consistent with Appendix C, which reflects requirements adopted in previous Commission orders. Any code of conduct inconsistent with Appendix C is rejected and in such case Appendix C has been designated as the applicant's code of conduct. The codes of conduct submitted by the applicants covered by this order are consistent with Appendix C.

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[1] See Atlantic City Electric Company, et al., 86 FERC ¶ 61,248 (1999); Central Hudson Gas & Electric Corporation, et al., 86 FERC ¶ 61,062 (1999); New England Power Pool, 85 FERC ¶ 61,379 (1998).

[2] On May 27, 1999, the Commission issued an order in which it modified the reporting requirements for long-term transactions applicable to public utilities without ownership or control over generation or transmission facilities that are authorized to sell power at market-based rates (power marketers). Southern Company Services, et al., 87 FERC ¶ 61,214 (1999), reh'g pending (Southern). Specifically, with respect to any long-term transaction agreed to by a power marketer after 30 days from the date of issuance of a final order in the Southern case, the power marketer must file a service agreement with the Commission within 30 days after service commences, rather than reporting transactions thereunder in its quarterly transaction summaries.

Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (1999), an entity's filing of a timely notice of intervention or a timely, unopposed motion to intervene in a proceeding makes it a party to that proceeding.

Should an applicant or any of its affiliates deny, delay, or require unreasonable terms, conditions, or rates for natural gas fuel or services to a potential electric competitor in bulk power markets, then that electric competitor may file a complaint with the Commission that could result in the applicant's or its affiliate's authority to sell power at market-based rates being suspended.[3]

Sales of accounts receivable are not dispositions of jurisdictional facilities and are not within the scope of section 203 of the FPA. To the extent an applicant seeks a case-specific finding on this or any related point, it may file a petition for a declaratory order with the Commission.

APSES, Mantua Creek and Athens seek Commission approval to reassign transmission capacity. We find the request of APSES is consistent with our requirements. The reassignment provisions submitted by Athens and Mantua Creek fail to note that reassignments of capacity are subject to the terms and conditions of the transmission provider's open access tariff.[4] Athens and Mantua Creek will be required to revise their proposed rate schedules to remedy this deficiency.

Milford, Mantua Creek and Athens must inform the Commission of the dates service commences.

By direction of the Commission.

Linwood A. Watson, Jr.,
Acting Secretary.

[3]See, e.g., Louisville Gas & Electric Co., 62 FERC ¶ 61,016 at 61,148 (1993).

[4]See, e.g., Enron Power Marketing, Inc., 81 FERC ¶ 61,277 at 62,361 (1997).

APPENDIX A

Applicants are hereby informed of the following rate schedule designations:

Milford Power Company, L.L.C.
Docket No. ER99-4102-000
Rate Schedule Designation
Effective Date: Date of Commencement of Service

Designation	Description
FERC Electric Tariff, Original Volume No. 1 Original Sheet No. 1	Market-Based Rate Tariff

APS Energy Services Company, Inc.
Docket No. ER99-4122-000
Rate Schedule Designations
Effective Date: Date of Issuance of Order

	Designation	Description
(1)	Rate Schedule FERC No. 1	Market-Based Rate Schedule
(2)	Supplement No. 1 to Rate Schedule FERC No. 1	Code of Conduct

Mantua Creek Generating Company, L.P.
Docket No. ER99-4162-00
Rate Schedule Designations
Effective Date: Date of Commencement of Service

Designation	Description
FERC Electric Tariff Original Volume No. 1 Original Sheet Nos. 1 and 2	Market-Based Rate Tariff and Code of Conduct

Athens Generating Company, L.P.
Docket No. ER99-4282-000
Rate Schedule Designation
Effective Date: Date of Commencement of Service

Designation	Description
FERC Electric Tariff, Original Volume No. 1 Original Sheet Nos. 1-3	Market-Based Rate Tariff with Code of Conduct

APPENDIX B

(1) If requested, waiver of Parts 41, 101, and 141 of the Commission's regulations, with the exception of 18 C.F.R. § § 141.14, .15 (1999), is granted. Licensees remain obligated to file the Form No. 80 and the Annual Conveyance Report.

(2) Within 30 days of the date of this order, any person desiring to be heard or to protest the Commission's blanket approval of issuances of securities or assumptions of liabilities by those applicants who have sought such approval should file a motion to intervene or protest with the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426, in accordance with Rules 211 and 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. §§ 385.211 and 385.214.

(3) Absent a request to be heard within the period set forth in Paragraph (2) above, if the applicants have requested such authorization, the applicants are hereby authorized to issue securities and assume obligations or liabilities as guarantor, indorser, surety, or otherwise in respect of any security of another person; provided that such issue or assumption is for some lawful object within the corporate purposes of the applicants, compatible with the public interest, and reasonably necessary or appropriate for such purposes.

(4) If requested, until further order of this Commission, the full requirements of Part 45 of the Commission's regulations, except as noted below, are hereby waived with respect to any person now holding or who may hold an otherwise proscribed interlocking directorate involving the applicants. Any such person instead shall file a sworn application providing the following information:

(a) full name and business address; and

(b) all jurisdictional interlocks, identifying the affected companies and the positions held by that person.

(5) The Commission reserves the right to modify this order to require a further showing that neither the public nor private interests will be adversely affected by continued Commission approval of the applicants' issuances of securities or assumptions of liabilities, or by the continued holding of any affected interlocks.

(6) If requested, waiver of the provisions of Subparts B and C of Part 35 of the Commission's regulations, with the exception of sections 35.12(a), 35.13(b), 35.15 and 36.16, is granted for transactions under the rate schedules at issue here.

(7) (a) Applicants who own generating facilities may file umbrella service agreements for short-term power sales (one year or less) within 30 days of the date of commencement of short-term service, to be followed by quarterly transaction summaries of specific sales (including risk management transactions if they result in actual delivery of electricity). For long-term transactions (longer than one year), applicants must submit the actual individual service agreement for each transaction within 30 days of the date of commencement of service. To ensure the clear identification of filings, and in order to facilitate the orderly maintenance of the Commission's files and public access to documents, long-term transaction service agreements should not be filed together with short-term transaction summaries. For applicants who own, control or operate facilities used for the transmission of electric energy in interstate commerce, prices for generation, transmission and ancillary services must be stated separately in the quarterly reports and long-term service agreements.

(b) Applicants who do not own generating facilities must file quarterly reports detailing the purchase and sale transactions undertaken in the prior quarter (including risk management transactions if they result in actual delivery of electricity). Applicants who are power marketers should include in their quarterly reports only those risk management transactions that result in the actual delivery of electricity.

(8) The first quarterly report filed by an applicant in response to Paragraph (7) above will be due within 30 days of the end of the quarter in which the rate schedule is made effective.

(9) Each applicant must file an updated market analysis within three years of the date of this order, and every three years thereafter. The Commission reserves the right to require such an analysis at any time. The applicants must also inform the Commission promptly of any change in status that would reflect a departure from the characteristics the Commission has relied upon in approving market-based pricing. These include, but are not limited to: (a) ownership of generation or transmission supplies; or (b) affiliation with any entity not disclosed in the applicants' filing that owns generation or transmission facilities or inputs to electric power production, or affiliation with any entity that has a franchised service area. Alternatively, the applicants may elect to report such changes in conjunction with the updated market analysis required above. Each applicant must notify the Commission of which option it elects in the first quarterly report filed pursuant to Paragraph (7) above.

APPENDIX C

[APPLICANT]
SUPPLEMENT NO. _ TO RATE SCHEDULE NO. _

STATEMENT OF POLICY
AND CODE OF CONDUCT
WITH RESPECT TO THE RELATIONSHIP BETWEEN
[POWER MARKETER] AND [PUBLIC UTILITY]

Marketing of Power

1. To the maximum extent practical, the employees of [Power Marketer] will operate separately from the employees of [Public Utility].

2. All market information shared between [Public Utility] and [Power Marketer] will be disclosed simultaneously to the public. This includes all market information, including but not limited to, any communication concerning power or transmission business, present or future, positive or negative, concrete or potential. Shared employees in a support role are not bound by this provision, but they may not serve as an improper conduit of information to non-support personnel.

3. Sales of any non-power goods or services by [Public Utility], including sales made through its affiliated EWG's or QF's, to [Power Marketer] will be at the higher of cost or market price.

4. Sales of any non-power goods or services by the [Power Marketer] to [Public Utility] will not be at a price above market.

Brokering of Power

To the extent [Power Marketer] seeks to broker power for [Public Utility]:

5. [Power Marketer] will offer [Public Utility's] power first.

6. The arrangement between [Power Marketer] and [Public Utility] is non-exclusive.

7. [Power Marketer] will not accept any fees in conjunction with any Brokering services it performs for [Public Utility].

91 FERC ¶ 61,290

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: James J. Hoecker, Chairman;
William L. Massey, Linda Breathitt,
and Curt Hébert, Jr.

Pinnacle West Capital Corporation
Arizona Public Service Company
APS Energy Services Company, Inc.

Docket No. ER00-2268-000

ORDER CONDITIONALLY ACCEPTING FOR FILING PROPOSED MARKET-BASED RATE TARIFF AND CODE OF CONDUCT, AND REVISED MARKET-BASED RATE TARIFFS AND CODES OF CONDUCT

(Issued June 20, 2000)

In this order, the Commission conditionally accepts for filing a proposed market-based rate tariff and code of conduct by Pinnacle West Capital Corporation (Pinnacle), along with revised market-based rate tariffs and codes of conduct for two of Pinnacle's affiliates.

BACKGROUND

On April 21, 2000, Pinnacle[1] filed an application, under section 205 of the Federal Power Act (FPA),[2] seeking: (1) authority for Pinnacle to engage in wholesale sales of electric power at market-based rates, including market-based rate sales to its affiliates, and sales of ancillary services within the California Independent System Operator (California ISO) market; (2) authority for Pinnacle to reassign transmission capacity; (3) approval of revised market-based rate tariffs that would allow APS and

[1]Pinnacle submitted the filing on its own behalf and on behalf of its affiliates APS and APS Energy Services Company (APSES). This order collectively refers to these three companies as the "Pinnacle West Companies."

[2]16 U.S.C. § 824d (1994).

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APSES to transact business with affiliates at market-based rates;[3] and (4) approval of a code of conduct for Pinnacle and proposed modifications to the codes of conduct of APS and APSES.[4]

The Pinnacle West Companies note in their application that the Arizona Corporation Commission (Arizona Commission) is in the process of modifying its rules on retail electric competition within Arizona to allow full retail choice. On October 6, 1999, the Arizona Commission approved a settlement agreement between APS and several customer groups and consumer advocates resolving retail electric competition-related issues and approving unbundled tariffs. Pinnacle's application seeks authority to engage in wholesale power marketing activities at market-based rates. The Pinnacle West Companies also propose revisions to the market-based rate tariffs and codes of conduct of APS and APSES to permit them to engage in inter-affiliate transactions at market-based rates.

Notice of the filing was published in the Federal Register, with comments, protests, and interventions due on or before May 12, 2000.[5]

[3]Pinnacle is the parent corporation of both APS and APSES. APS is a public service corporation engaged in the business of generating, transmitting, and distributing electricity in all or part of eleven of Arizona's fifteen counties. The Commission granted APS market-based rate authority in Arizona Public Service Company, 79 FERC ¶ 61,022 (1997).

APSES is a retail marketer of electricity and energy-related services in Arizona and California. APSES also engages in wholesale marketing and brokering of electricity that it states is largely incidental to its retail function. The Commission granted APSES market-based rate authority in APS Energy Services Company, Inc., 89 FERC ¶ 61,024 (1999).

[4]As discussed below, the Pinnacle West Companies propose to eliminate (or, in the case of Pinnacle, not include) the code of conduct provisions that require *simultaneous* disclosure to the public of all market information shared between APS and its affiliates.

[5]65 Fed. Reg. 25,479 (2000).

Interventions and Protests

The Arizona Commission filed a notice of intervention. Timely motions to intervene were filed by Arizona Power Authority (APA), Salt River Agricultural Improvement and Power District (Salt River), New West Energy Corporation (New West), and Citizens Utilities Company (Citizens). Timely motions to intervene or protests were filed by Tucson Electric Power Company (Tucson) and jointly by a number of electrical and irrigation districts in the state of Arizona (Arizona Districts).[6] Late-filed motions to intervene were filed by Williams Energy Marketing & Trading Company (Williams Energy) and the Navajo Tribal Utility Authority (NTUA).

APA states that 14 of its customers have power contracts with APS. Although APA does not formally protest Pinnacle's filing, its motion to intervene raises concerns about possible affiliate abuse and increased purchased power costs. Tucson argues that Pinnacle's application raises issues about market power and affiliate abuse. Arizona Districts raise similar concerns and also argue that Pinnacle's filing should be rejected because it fails to meet the Commission's filing requirements under section 205 of the FPA for sales to affiliates at market-based rates.

On May 30, 2000, the Pinnacle West Companies filed a request for leave to file an answer and an answer to APA's motion to intervene and to the protests of Arizona Districts and Tucson.

DISCUSSION

As a preliminary matter, the Arizona Commission's notice of intervention and the timely, unopposed motions to intervene of APA, Salt River, New West, Citizens, Tucson and Arizona Districts serve to make them parties to this proceeding. We will grant the late-filed motions to intervene of Williams Energy and NTUA, given the early stage of this proceeding and the absence of any undue prejudice or delay. See 18 C.F.R. § 385.214 (1999). While Rule 213(a)(2) of the Commission's Rules of Practice and Procedure (18 C.F.R. §385.213(a)(2) (1999)) generally prohibits the filing of an answer

[6]Arizona Districts are comprised of: Aguila Irrigation District; Buckeye Water Conservation & Drainage District; Electrical District No. 1 of Pinal County; Electrical District No. 3 of Pinal County; Electrical District No. 6 of Pinal County; Electrical District No. 7 of Maricopa County; Electrical District No. 8 of Maricopa County; Harquahala Valley Power District; Maricopa County Municipal Water Conservation District No. 1; McMullen Valley Water Conservation & Drainage District; Roosevelt Irrigation District; and Tonopah Irrigation District.

to protests, we will accept the Pinnacle West Companies' answer in light of the representations made by the Pinnacle West Companies that assist in our understanding and resolution of the issues in this proceeding.

A. Market-Based Rates

The Commission allows power sales at market-based rates if the seller and its affiliates do not have, or have adequately mitigated, market power in generation and transmission and cannot erect other barriers to entry. For an affiliate of a transmission-owning public utility to demonstrate the absence or mitigation of market power, the public utility must have on file with the Commission an open access transmission tariff for the provision of comparable services. The Commission also considers whether there is evidence of affiliate abuse or reciprocal dealing.[7]

As we explain below, we find that Pinnacle's proposed market-based rate tariff, with an exception discussed below, meets these standards. Accordingly, we will conditionally accept the proposed tariff for filing, without suspension or hearing, to become effective on June 20, 2000, 60 days after the date of filing.

1. Generation Market Power

Pinnacle does not own or control any generating facilities. Further, the Commission has recently evaluated the generation dominance of Pinnacle's affiliates in Docket No. ER00-1875-000, and we are not aware of any material changes in circumstances that would require a new analysis.[8] Thus, we find that Pinnacle meets the Commission's generation market power standard for approval of market-based rates.

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[7]E.g., Progress Power Marketing, Inc., 76 FERC ¶ 61,155 at 61,919 (1996), letter order approving settlement, 79 FERC ¶ 61,149 (1997); Northwest Power Marketing Company, L.L.C., 75 FERC ¶ 61,281 at 61,889 (1996); accord Heartland Energy Services, Inc. et al., 68 FERC ¶ 61,223 at 62,060-063 (1994) (Heartland).

[8]On March 14, 2000, APS submitted an updated generation market study in Docket No. ER00-1875-000. This market study was accepted for filing by the Director, Division of Corporate Applications, Office of Markets, Tariffs, and Rates, acting under delegated authority, in an unpublished letter order issued on May 2, 2000.

2. Transmission Market Power

When an affiliate of a transmission-owning public utility seeks authorization to charge market-based rates, the Commission has required the public utility to have an open access transmission tariff on file before granting such authorization. Pinnacle does not own any transmission facilities. Its affiliate, APS, filed an open access transmission tariff with the Commission in Docket No. OA96-153-000, as amended in Docket No. ER96-2401-000. Both filings were accepted by the Commission in a letter order dated June 18, 1999. Thus, we find that Pinnacle meets the Commission's transmission market power standard for approval of market-based rates.

3. Other Barriers to Entry/Reciprocal Dealing

Based on our review of the application, we are satisfied that there are no barriers to entry or reciprocal dealing considerations of concern here.

4. Affiliate Abuse

The Pinnacle West Companies propose to engage in affiliate transactions at market-based rates.[9] Pinnacle proposes not to include in its code of conduct provisions requiring that all market information shared among the affiliates be disclosed simultaneously to the public.[10] In support of their proposal to make sales to affiliates, Pinnacle argues that there is no risk of harm to APS's retail or wholesale customers and, therefore, no potential for affiliate abuse. Pinnacle states that, in order to effectuate retail access, a substantial portion of APS's retail customers have already been authorized to choose their generation providers and that APS's remaining retail customers have been provided rate reductions that will remain in effect until 2004, well after the anticipated full retail choice date of 2001.[11] Pinnacle argues that the Commission has found that

[9]In this regard, APS and APSES propose to remove from their market-based rate tariffs the provision prohibiting affiliate sales absent a separate filing with the Commission under § 205 of the FPA. Pinnacle's proposed tariff does not include such a provision.

[10]APS and APSES propose to remove a similar provision from their codes of conduct.

[11]Based on a settlement agreement approved by the Arizona Commission, Pinnacle states that full retail choice is expected to be implemented in 2001. Pinnacle Application (continued...)

there is no potential for affiliate abuse where a public utility's retail customers have retail choice or are protected by a rate freeze. Therefore, Pinnacle states that APS's retail customers are protected from affiliate abuse concerns.

In addition, Pinnacle proposes to mitigate any potential harm to wholesale customers by putting in place measures that will protect the customers from the improper pass-through of costs associated with affiliate transactions. In the case of wholesale customers whose contracts include a pricing provision based on APS's system incremental cost, Pinnacle proposes to cap the pass-through of costs to such wholesale customers at the lesser of APS's system incremental costs (SIC) or prices calculated based on the Palo Verde Index. In the case of wholesale customers whose contracts contain a FAC, Pinnacle proposes to cap the pass-through of costs flowing through the FAC at the lesser of actual cost or historical cost based on an average of 1998 and 1999 fuel and eligible purchased power costs for the relevant monthly period.

Tucson requests that the Commission impose adequate safeguards to ensure that APS's sales to its affiliates are priced no lower than the higher of APS's costs or the relevant market price. Tucson also opposes Pinnacle West Companies' request for a waiver of certain of the Commission's code of conduct restrictions.

Tucson suggests that the Commission should impose the same safeguards (i.e., a price floor on sales from a traditional public utility to its affiliated marketers) that the Commission adopted in Detroit Edison Company, et al., 80 FERC ¶ 61,348 at 62,197-98 (1997) (Detroit Edison). Tucson argues that it is not aware of any previous Commission case that granted market-based rate approval and a blanket waiver of the prohibition against sales from a traditional utility to its affiliated marketers unless that approval was conditioned on a Detroit Edison price floor. Tucson notes that Pinnacle West Companies cite Green Power Partners I, LLC, et al., 88 FERC ¶ 61,005 (1999) (Green Power Partners) for the proposition that codes of conduct may be waived in situations where traditional public utilities lack captive ratepayers. However, Tucson argues that, in Green Power Partners, the Commission granted waiver of the affiliate sales restrictions for sales from a power marketer to a traditional public utility, not for sales from the traditional public utility to affiliated marketers (which is part of the Pinnacle West Companies' proposals). Tucson further argues that, although the Commission has granted some code of conduct waivers in cases where there are no captive ratepayers or where captive ratepayers were held harmless, the Commission has never granted a

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[11](...continued)
at 12 & n.29.

blanket waiver of the Detroit Edison standard for sales from traditional utilities to affiliated power marketers without imposing some type of pricing floor.

APA argues that, if Pinnacle is granted market-based rate authority for affiliate sales, APA's customers may suffer a rate increase as a result of the pass-through of increased purchase power costs. Further, APA argues that granting Pinnacle authority to share market information with its affiliates without simultaneous disclosure to the public could directly affect the market for wholesale power in Arizona.

Arizona Districts request that the Commission require Pinnacle to revise its code of conduct to require that all market information shared by APS with Pinnacle must simultaneously be disclosed to the public. Arizona Districts similarly ask the Commission to deny the proposed modification to the codes of conduct of APS and APSES to delete the information sharing requirement. Arizona Districts argue that this requirement is a valid and essential safeguard to prevent self-dealing and affiliate abuse.

Arizona Districts also argue that the Pinnacle West Companies have failed to explain why the Commission should allow them to make affiliate sales without making a separate section 205 filing. Arizona Districts warn that granting this request would have implications not merely for the instant filing but also for potential future transactions and affiliates not revealed in the instant filing.[12]

Commission Conclusion

As the Commission has explained in previous cases, there is a concern whenever a traditional public utility can transact with an affiliated power marketer in such a way as to transfer benefits from a power sale from the public utility's captive ratepayers to the shareholders.[13] This can occur if the public utility can sell power to its affiliated power marketer at below-market prices or if the power marketing affiliate can sell power to the public utility at a price above the prevailing market price.

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[12]Arizona Districts' Protest at 8 & n.4 (citing Pinnacle Application at 3-4, which describes Pinnacle West Energy Corporation, a recently formed company, that Pinnacle states will be engaged in the business of owning and operating exempt wholesale generating facilities).

[13]See GPU Advanced Resources, Inc., 81 FERC ¶ 61,335 at 62,539 (1997) (GPU); Detroit Edison, 80 FERC at 62,197.

In the instant filing, there will be affiliate sales: (1) from the traditional public utility (APS) to the power marketers (APSES and Pinnacle); and (2) from the power marketers to the traditional public utility. Thus, the Commission must ensure that the sale prices are not too low,[14] nor too high,[15] because, in either of these instances, the costs would be absorbed by captive ratepayers.

Pinnacle suggests that there is no potential for affiliate abuse in any event because APS's retail customers are protected by a rate reduction and freeze and/or their abilities to choose their electric suppliers and because the Pinnacle West Companies' mitigation proposals protect APS's wholesale customers against cost shifting.

With regard to APS's retail customers, Pinnacle states that a substantial portion of APS's retail customers are already authorized to choose their generation provider and that those customers not already authorized to make this choice will: (1) be eligible to make this choice beginning on January 1, 2001; and (2) are provided with a retail rate reduction until 2004. Pinnacle further states that, although APS has a right to propose rate changes for emergencies, retail rates are frozen at reduced levels "for all practical purposes."[16]

While APS has the right to propose retail rate changes in emergencies, APS has committed to notify the Commission if it ever makes a filing with the Arizona Commission invoking this right.[17] Moreover, if such a situation arises, we reserve the right to take additional steps in order to protect ratepayers.

As to APS's captive wholesale customers, Pinnacle proposes to protect these customers from potential affiliate abuse by: (1) for customers with pricing provisions based on the SIC, capping the SIC component at prices set by a competitive regional market hub (i.e., the Palo Verde Index); and (2) for wholesale customers with a FAC, limiting the pass-through of costs flowing through the wholesale FAC to the lesser of actual costs or a historical average. We find Pinnacle's proposal to cap SIC prices at levels based on the Palo Verde Index a reasonable means to avoid potential affiliate

[14]See Detroit Edison, 80 FERC at 61,348.

[15]See GPU, 81 FERC at 62,539. See also First Energy Trading & Power Marketing, Inc., 84 FERC ¶ 61,214 at 62,037 (1998) (First Energy).

[16]Pinnacle Application at 12.

[17]Pinnacle Application at n.30.

abuse.[18] As is the general practice in the industry, these rates are used to price coordination transactions that occur on an as-available basis when both parties can agree on a price that satisfies their own economic interests.

While we are satisfied by Pinnacle's proposal based on the Palo Verde Index (because the Palo Verde Index is an open, transparent, well-recognized index of market prices in the Palo Verde region and because Pinnacle does not control prices under the Palo Verde Index), we still have concerns about the proposed safeguards for Pinnacle's FAC customers.

APS proposes to limit fuel costs under the FAC to the lesser of historical costs or actual costs, in lieu of requiring the affiliates to continue to abide by the Commission's rules on affiliate abuse. Compliance with the Commission's rules on affiliate abuse, however, could result in FAC costs that are lower than historical costs or actual costs. For example, our code of conduct is designed to prevent the traditional utility from diverting transactions that are beneficial to ratepayers to its affiliate for the benefit of shareholders. Such transactions could reduce fuel and purchased power costs below historic levels and such reductions would be lost under Pinnacle's proposed FAC cap.

Based on this concern, we encourage Pinnacle to explore with its FAC customers other options to prevent potential affiliate abuse, including revisions to the FAC or the use of another rate recovery method, in lieu of the FAC, for these customers. In this regard, the parties may wish to avail themselves of the Commission's Alternate Dispute Resolution (ADR) procedures, including procedures facilitated by our Dispute Resolution Service, although we will not mandate that this approach be used. If Pinnacle follows this approach, it must submit a compliance filing on its rates for its FAC customers. This proposal should incorporate any agreement it reaches with its customers on this issue or, barring agreement, Pinnacle may propose other methods to protect these customers from affiliate abuse.

Alternatively, Pinnacle must abide by the pricing and other safeguards established in Detroit Edison and GPU. If Pinnacle chooses this approach, it must: (1) notify the Commission of its selection within 15 days of the date of issuance of this order; and (2)

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[18]The four rate schedules affected are: APS's cost-based coordination sales tariff (under which approximately 30 customers are currently served) and bilateral agreements with three customers (Citizens Utility Company, Colorado River Commission of Nevada, and Tohono O'odham Utility Authority). None of these customers have objected to Pinnacle's proposal.

file revised market-based rate tariffs reflecting the Detroit Edison and GPU safeguards within 30 days of the date of issuance of this order.

We find Arizona Districts' argument that the Pinnacle West Companies seek "a blanket authorization for inter-affiliate transactions without separate Section 205 filings" to be misplaced.[19] The application in this proceeding (seeking authority to engage in affiliate sales at market-based rates) constitutes the separate filing under section 205 that is required by the Commission.[20]

Moreover, in response to Arizona Districts' concern that the instant filing seeks blanket authority for affiliate sales with affiliates not yet in existence, the Pinnacle West Companies represent in their answer that they intend to make a separate filing or filings with the Commission to seek authority to engage in inter-affiliate transactions at market-based rates with Pinnacle West Energy Corporation once that entity is functioning.[21]

5. Ancillary Services

Pinnacle requests authority to engage in the sale of certain ancillary services at market-based rates into the California ISO market.[22] Arizona Districts argue that the Pinnacle West Companies must first receive authority to make sales at market-based rates before selling ancillary services. Arizona Districts also argue that a market power study is required before sales of ancillary services at market-based rates can be made.

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[19]Arizona Districts Protest at 5.

[20]Arizona Districts' narrow interpretation of that requirement as applying for each inter-affiliate transaction only "with respect to a specific power sales agreement filed under a section 205 application between affiliates" (id. at 9) is in error.

[21]Pinnacle West Companies' Answer at 15.

[22]Pinnacle requests authority to provide the following ancillary services into the California ISO at market-based rates: Regulation and Frequency Response Service, Energy Imbalance Service, Operating Reserve - Spinning Reserve Service, and Operating Reserve - Supplemental Reserve Service. See Pinnacle Application, Exhibit B (Proposed APS Market-Based Tariff at p.2).

We will grant Pinnacle's request to make sales of ancillary services into the California ISO market.[23] In addition, we note that, notwithstanding Arizona Districts' argument, the Commission allows an entity to request authority to make sales of ancillary services at market-based rates at the same time that it seeks market-based rate authority for sales of capacity and energy.

In addition, we will reject as misplaced Arizona Districts' argument that a market power study is required before Pinnacle makes sales of ancillary services at market-based rates, as proposed in its application. There is no requirement for such market studies because the Commission has already authorized sales into the California ISO by all market-based rate sellers.

6. Reassignment of Transmission Capacity

Pinnacle states that, consistent with the conditions established by the Commission for reassignment of transmission capacity,[24] it will reassign transmission capacity at a price not to exceed the highest of: (1) the original rate paid by Pinnacle; (2) the applicable transmission provider's maximum rate on file at the time of the sale to the eligible customer; or (3) Pinnacle's own opportunity costs, capped at the applicable transmission provider's cost of expansion at the time of the Pinnacle sale to the eligible customer. Pinnacle's proposed tariff states that Pinnacle will not recover opportunity costs without making a separate filing under section 205 of the FPA. Finally, Pinnacle's tariff states that, when Pinnacle reassigns capacity that it has acquired for its own use on the transmission provider's open access system, all non-rate terms and conditions of the applicable tariff that otherwise would apply to a direct sale of transmission service (such as posting of discounts and disclosure of information) will continue to apply. We find Pinnacle's request to be consistent with our requirements applicable to the reassignment of transmission capacity and we accept Pinnacle's proposal.

B. Waivers, Authorizations and Reporting Requirements

Pinnacle requests the following waivers and authorizations: (1) waiver of the accounting and related reporting requirements of Parts 41, 101 and 141 of the

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[23] See AES Redondo Beach, L.L.C., et al., 85 FERC ¶ 61,123 (1998), order on reh'g, 87 FERC ¶ 61,208 (1999).

[24] See Order No. 888, FERC Stats. & Regs. at 31,694-97; Order No. 888-A, FERC Stats. & Regs. at 30,219-25; Commonwealth Edison Company, 78 FERC ¶ 61,312 at 62,335-36 (1997).

Commission's regulations; (2) permission to make abbreviated filings with respect to interlocking directorates under Part 45; (3) waiver of the requirements of Subparts B and C of Part 35, except sections 35.12(a), 35.13(b), 35.15 and 35.16; and (4) blanket approval of issuances of securities or assumptions of liabilities pursuant to Part 34 of the Commission's regulations. We will grant the requested waivers and authorizations consistent with those granted to other entities with market-based rate authorization.

Consistent with procedures we have adopted in other cases, Pinnacle may file umbrella service agreements for short-term power sales (one year or less) within 30 days of the date of commencement of short-term service, to be followed by quarterly transaction summaries of specific sales. For long-term transactions (longer than one year), Pinnacle must submit the actual individual service agreement for each transaction within 30 days of the date of commencement of service.[25] Pinnacle commits to make such filings in its application.[26]

Additionally, we will direct Pinnacle to inform the Commission promptly of any change in status that would reflect a departure from the characteristics the Commission has relied upon in approving market-based pricing. These characteristics include, but are not limited to: (1) ownership of generating or transmission facilities or inputs to electric power production other than fuel supplies; (2) affiliation with any entity not disclosed in the filing that owns generation or transmission facilities or inputs to electric power production; or (3) affiliation with any entity that has a franchised service area.[27]

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[25]On May 27, 1999, the Commission issued an order in which it modified the reporting requirements for long-term transactions applicable to public utilities without ownership or control over generation or transmission facilities that are authorized to sell power at market-based rates (power marketers). Southern Company Services, et al., 87 FERC ¶ 61,214 (1999), reh'g pending (Southern). Specifically, with respect to any long-term transaction agreed to by a power marketer after 30 days from the date of issuance of a final order in the Southern case, the power marketer must file a service agreement with the Commission within 30 days after service commences, rather than reporting transactions thereunder in its quarterly transaction summaries.

[26]See Pinnacle Application at 18.

[27]See, e.g., Morgan Stanley, 69 FERC ¶ 61,696 (1994), order on reh'g, 72 FERC ¶ 61,082 (1995); InterCoast Power Marketing Company, 68 FERC ¶ 61,248 at 62,134, clarified, 68 FERC ¶ 61,324 (1994).

Alternatively, Pinnacle may elect to report such changes in the updated market analysis it will be required to file every three years.[28]

Effective Date

We will conditionally accept for filing, the proposed market-based rate tariff and code of conduct of Pinnacle and the updated market-based rate tariffs and codes of conduct of APS and APSES, to become effective on June 20, 2000.

The Commission orders:

(A) Pinnacle's filings on behalf of Pinnacle West Companies are hereby conditionally accepted for filing, as discussed in the body of this order, to become effective on June 20, 2000.

(B) Pinnacle is hereby directed to file a compliance filing consistent with the discussion in the body of this order within 30 days of the date of this order.

(C) Pinnacle's request for waiver of Parts 41, 101 and 141 of the Commission's regulations is hereby granted, as discussed in the body of this order.

(D) Within 30 days of the date of issuance of this order, any person desiring to be heard or to protest the Commission's blanket approval of issuances of securities or assumptions of liabilities by Pinnacle should file a motion to intervene or protest with the Federal Energy Regulatory Commission, 888 First Street, NE, Washington, D.C. 20426, in accordance with Rules 211 and 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. §§ 385.211 and 385.214.

(E) Absent a request to be heard within the period set forth in Ordering Paragraph D above, Pinnacle is hereby authorized to issue securities and assume obligations or liabilities as guarantor, indorser, surety, or otherwise in respect of any security of another person; provided that such issue or assumption is for some lawful object within the corporate purposes of Pinnacle, compatible with the public interest, and reasonably necessary or appropriate for such purposes.

(F) Until further order of this Commission, the full requirements of Part 45 of the Commission's regulations, except as noted below, are hereby waived with respect to any person now holding or who may hold an otherwise proscribed interlocking directorate

[28]We reserve the right to require such an analysis at any time.

involving Pinnacle. Any such person instead shall file a sworn application providing the following information:

(1) full name and business address; and

(2) all jurisdictional interlocks, identifying the affected companies and the positions held by that person.

(G) The Commission reserves the right to modify this order to require a further showing that neither the public nor private interests will be adversely affected by continued Commission approval of Pinnacle's issuances of securities or assumptions of liabilities, or by the continued holding of any affected interlocks.

(H) Pinnacle's request for waiver of the provisions of Subparts B and C of Part 35 of the Commission's regulations, is hereby granted, with the exception of sections 35.12(a), 35.13(b), 35.15 and 35.16.

(I) Pinnacle may file umbrella service agreements for short-term power sales (one year or less) within 30 days of the date of commencement of short-term service, to be followed by quarterly transaction summaries of specific sales (including risk management transactions if they result in actual delivery of electricity). For long-term transactions (longer than one year), Pinnacle must submit the actual individual service agreement for each transaction within 30 days of the date of commencement of service.

(J) Pinnacle is hereby directed to file an updated market analysis within three years of the date of this order and every three years thereafter.

(K) Pinnacle is hereby directed to inform the Commission of any change in status that would reflect a departure from the characteristics the Commission has relied upon in approving market-based pricing.

(L) Pinnacle, APS, and APSE are hereby informed of the rate schedule designations found in Attachment A.

By the Commission.

(SEAL)

David P. Boergers,
Secretary.

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FEDERAL ENERGY
REGULATORY COMMISSION

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Pinnacle West Capital Corporation	)	**Docket No. ER00-____-000**
	)	
Arizona Public Service Company	)	**Docket No. ER99-4124-000**
	)	
APS Energy Services Company, Inc.	)	**Docket No. ER99-4122-000**

APPLICATION OF PINNACLE WEST CAPITAL CORPORATION FOR ORDER APPROVING MARKET-BASED RATES, WAIVING REGULATIONS, AND GRANTING BLANKET APPROVALS; AND REQUEST OF ARIZONA PUBLIC SERVICE COMPANY AND APS ENERGY SERVICES COMPANY FOR MODIFICATION OF TARIFFS, CODES OF CONDUCT AND APS RATE SCHEDULES AND SERVICE AGREEMENTS

Pursuant to Section 205 of the Federal Power Act, 16 U.S.C. § 824d, and Rule 205 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission ("FERC" or the "Commission"), 18 C.F.R. § 385.205 (1999), Pinnacle West Capital Corporation ("PWCC") submits for filing this application for authorization to engage in wholesale power sales at market-determined prices. PWCC requests that the Commission accept its Market-Based Rate Tariff (the "Market Rate Tariff") for wholesale sales of energy and capacity, market-rate sales of ancillary services within the California Independent System Operator ("ISO") market, and the reassignment of transmission capacity.

PWCC also joins with its affiliates, Arizona Public Service Company ("APS") and APS Energy Services Company, Inc. ("APSES") (collectively, the "Pinnacle West Companies") in requesting that the Commission permit the Pinnacle West Companies to engage in inter-affiliate transactions at market-based rates and that the Commission find that, in view of the circumstances presented and commitments proposed herein, modifications to their wholesale codes of conduct are warranted. Specifically, retail

customers are protected from potential affiliate abuse through retail rate reduction obligations that APS has entered into with the Arizona Corporation Commission and/or the ability of such customers to choose their electric supplier. With regard to the limited number of wholesale customers potentially affected by transactions between and among the Pinnacle West Companies, the Pinnacle West Companies have fashioned additional commitments that will protect any such customer from potentially abusive inter-affiliate transactions. The proposed commitments, explained in more detail below, effectively cap relevant energy price components based upon competitive regional hub prices or, where applicable, upon historical fuel clause calculations.

PWCC also requests the Commission to grant standard waivers of certain of its regulations and to grant blanket authorizations of other actions under the Commission's regulations, in accordance with its policies with regard to entities engaged in power marketing activities.

Pursuant to § 35.3(a) of the Commission's regulations, PWCC requests an effective date for its Market-Based Rate Tariff of 60 days after the date of this filing, or the date on which the Commission issues an order approving the Tariff, whichever is earlier. APS and APSES request the same effective date for conforming modifications to their tariffs and codes of conduct.

I. BACKGROUND AND DESCRIPTION OF THE PARTIES

In this petition PWCC seeks authorization to engage in wholesale power marketing activities at negotiated market-based rates under the proposed Market-Based Rate Tariff. PWCC is an Arizona corporation whose principal place of business is located at 400 North 5th Street, Phoenix, Arizona. PWCC is a holding company that is exempt from registration under the Public Utility Holding Company Act of 1935, in accordance with Securities and Exchange Commission ("SEC") Rule 2(a)(1).[1] PWCC

[1] 17 C.F.R. § 250.2 (1999); *see* SEC File No. 69-306.

owns APS, a public service corporation organized under the laws of the State of Arizona, which is engaged in the business of generating, transmitting and distributing electricity in all or part of eleven of Arizona's fifteen counties. APS is authorized to sell wholesale power and energy at market-based rates.[2] In its order granting market-based rate authority to APS, the Commission found that APS does not possess market power.[3]

PWCC is also the parent of APSES, a retail marketer of electricity and energy-related services to customers in Arizona and California. APSES also engages in wholesale marketing and brokering of electricity that is largely incidental to its retail function. In a Letter Order dated October 13, 1999,[4] the Acting Secretary of the Commission, pursuant to delegated authority, accepted APSES's market-based rate schedule for filing. In doing so, the Secretary implicitly reaffirmed the Commission's earlier determination that APS and its affiliates do not possess market power in the relevant generation or transmission markets. Due to the creation of APSES, both APS and APSES submitted wholesale codes of conduct in accordance with Commission requirements.

At present, PWCC has no other electric utility subsidiaries (as the term "electric utility" is defined in Section 3(22) of the Federal Power Act[5]); however, PWCC owns Pinnacle West Energy Corporation ("PWEC"), a recently formed company to be engaged in the business of owning and operating exempt wholesale generating facilities. PWEC is currently engaged in developing and/or acquiring generation facilities in Arizona and elsewhere. It currently has no operating generating facilities and has no facilities subject

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2 *Arizona Public Service Co.*, 79 FERC ¶ 61,022 (1997). APS recently filed an updated market analysis in connection with its market-based rates. *Arizona Public Service Company*, Docket No. ER00-1875-000 (March 14, 2000).

3 79 FERC at 61,098-99.

4 Reported at 89 FERC ¶ 61,024.

5 16 U.S.C. § 796(22).

Additionally, PWCC has formed PWEC, which has filed for and obtained Certificates of Environmental Compatibility with the Arizona Power Plant and Transmission Line Siting Committee for two planned power plant projects.

Pursuant to the ACC approved Settlement Agreement, APS is required to divest generation assets by December 31, 2002.[11] It is anticipated that APS will divest its generation to PWEC. At that time, APS will become primarily a wires company.

In order to realize the full benefits of retail electric restructuring, as anticipated in the Arizona rules and the Agreement,[12] the competitive wholesale marketing and trading functions of APS will also be transferred to an affiliate of APS. The planned transfer of those functions to PWCC prompts the instant filing.

Finally, the Settlement Agreement also provides for an ACC Code of Conduct to govern the relationship between APS and APSES. This detailed and comprehensive retail code of conduct was recently approved by the ACC.[13]

II. COMMUNICATIONS

The Pinnacle West Companies respectfully request that service of pleadings and deliveries of communications and correspondence concerning this matter be directed to the following:

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[11] *See* ACC approved Settlement Agreement, § 4.1.

[12] *See, e.g.*, ACC Rule R14-2-1615, titled "Separation of Monopoly and Competitive Services;" ACC approved Settlement Agreement, § 4.2.

[13] Decision No. 61973.

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Applicants request that the above-listed individuals be placed on the official service list compiled for this proceeding.

III. LIST OF MATERIALS SUBMITTED WITH THIS FILING

This filing contains the following materials:

1. Exhibit A – PWCC's Market-Rate Tariff, including a form of service agreement and a Code of Conduct;

2. Exhibit B – conformed copy and redlined copy of APS's Market-Based Rate Tariff and modified Code of Conduct, indicating proposed changes;

3. Exhibit C – conformed copy and redlined copy of APSES's Market-Based Rate Tariff and modified Code of Conduct, indicating proposed changes;

4. Exhibit D – conformed and redlined copies of the proposed supplements to APS's wholesale contracts, tariffs and rate schedules that include system incremental cost ("SIC") provisions; attached to each supplement is a table with a sample derivation of the Palo Verde Shaped Index;

associated ancillary services acquired for its own use under open access transmission tariffs. The Market Rate Tariff permits PWCC to resell such capacity and rights at a price not higher than the highest of (1) the price PWCC originally paid for the service, (2) the transmission provider's maximum rate for the service on file at the time of the resale, or (3) PWCC's own opportunity costs capped at the applicable transmission provider's cost of expansion at the time of the sale to the eligible customer.[17] The resold service will be provided in accordance with the terms and conditions of service of the original transmission provider's applicable open access transmission tariff. PWCC's proposed reassignment of transmission and associated ancillary services is wholly consistent with reassignment provisions the Commission previously has accepted.[18]

A. Market Power

With respect to its market power concerns, the Commission generally requires that an entity seeking authorization to transact at market-based rates (1) demonstrate that the entire output of its or any of its affiliates' generating facilities is committed under long-term contracts, (2) demonstrate that the applicant or its affiliates already are authorized to sell power at market-based rates, or (3) submit a market analysis that indicates that neither the applicant nor its affiliates have generation dominance in the relevant markets.[19]

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[17] PWCC will not charge a rate based on its opportunity costs absent a separate filing under Section 205 of the Federal Power Act.

[18] *See, e.g., Alliant Services Company*, 85 FERC ¶ 61,344 (1998); *Select Energy, Inc.*, 85 FERC ¶ 61,290 (1998); *Commonwealth Edison Co.*, 78 FERC ¶ 61,312 (1997).

[19] *LG&E Power Marketing, Inc.*, 68 FERC ¶ 61,247, at 62,121 (1994).

PWCC's affiliates APS and APSES are already authorized to sell power at market-based rates.[20] PWCC relies on the market power study that its affiliates relied upon in support of their market-based rate applications, consistent with FERC precedent.[21] Moreover, because PWCC does not directly own or control any generating facilities (other than its ultimate ownership of APS), PWCC has no market power in generation. As such, the Commission should reach the same conclusion here that it reached in *Arizona Public Service Co.* -- that PWCC does not have generation market power.[22]

B. Transmission Market Power

In order to ensure that applicants for market-based rate authority do not possess transmission market power, the Commission generally requires the applicant, or its affiliated public utility, to file or have on file open access transmission tariffs for the provision of comparable services.[23] APS filed its open access tariff on July 9, 1996 (Docket No. OA96-153-000), and a revised open access tariff on July 12, 1996 (Docket No. ER96-2401-000). The Commission consolidated the two dockets and, on June 18,

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[20] *See Arizona Public Service Co.*, 79 FERC at 61,098-101; *APS Energy Services*, Letter Order, 89 FERC ¶ 61,024.

[21] *See, e.g., Alliant Services Co.*, 85 FERC ¶ 61,344 (finding no market power based on affiliates' market study approved in earlier merger order); *Louisville Gas and Electric Co., et al.*, 85 FERC ¶ 61,215 (1998) (finding no market power based on affiliates' market studies approved in earlier market-based rate application orders).

[22] As explained in footnote 2, above, APS recently filed an update to its market power study. *See Arizona Public Service Co.*, Docket No. ER00-1875-000.

[23] *See, e.g., Southern Indiana Gas & Electric Company*, 77 FERC ¶ 61,021 (1996).

1999, issued a letter order accepting a settlement governing APS's transmission rates in the consolidated dockets.

PWCC does not own any transmission facilities (other than through its ownership of APS). Accordingly, the availability of open access transmission service over APS's transmission facilities under the APS transmission tariff eliminates the potential for any exercise of transmission market power by PWCC.

C. Barriers to Entry

In previous cases, the Commission has examined the possibility that an entity might be able to erect other barriers to entry as a possible ground for denying the authority to charge market-based rates.[24] PWCC, APS and APSES are not affiliated with entities that could impose barriers to entry in the electric power generation business through their ownership or control of any resources or inputs that could be essential to market entry by competitors.

D. Affiliate Abuse and Reciprocal Dealing

In evaluating market-based rate applications of affiliated power marketers, the Commission considers the potential for affiliate abuse and reciprocal dealing. The Commission has explained that affiliate abuse takes place when a public utility and an affiliated power marketer transact in ways that result in a transfer of benefits from the public utility (and the ratepayers) to the power marketer (and the shareholders).[25] Here, due to the restructuring of the Arizona retail market and the commitments made with

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[24] *Heartland*, 68 FERC at 62,062.

[25] *Id.*; *Wholesale Power Services, Inc.*, 72 FERC ¶ 61,284 (1995).

respect to APS's wholesale customers, there is no potential for affiliate abuse. Accordingly, the Commission should permit the Pinnacle West Companies to engage in transactions at negotiated market-based prices with each other and modify certain requirements of the codes of conduct governing relations between the Pinnacle West Companies.

The Pinnacle West Companies do not seek to eliminate all the code of conduct requirements. Although, as demonstrated below, there is no risk to APS's customers from inter-affiliate transactions and relationships under the circumstances presented (and therefore no need for any code of conduct limitations), the Pinnacle West Companies do not propose to modify or eliminate at this time the code of conduct provisions which ensure that transactions among the affiliates are properly accounted for. The Pinnacle West Companies only seek to eliminate those wholesale code of conduct provisions that limit or condition the transfer of information among the Pinnacle West Companies. The proposed PWCC code of conduct and the modified codes of conduct for APS and APSES are attached as part of Exhibits A - C. The Pinnacle West Companies note that the ACC code of conduct will also continue to govern relationships between APS and APSES.

As detailed below, there is no risk of harm to APS's retail or wholesale customers from the proposed changes to the codes of conduct. APS's wholesale customers are protected by putting in place measures that will prevent any potentially inappropriate costs associated with affiliated transactions from being passed through to these customers. Under the Arizona restructuring and the Settlement Agreement, APS's retail

customers are protected by what is in essence a rate reduction and freeze and/or their ability to choose their electric supplier.[26]

1. APS's Retail Customers are Protected.

In *Enron Energy Services Power, Inc.*, the Commission held that where a public utility's retail customers have a choice of alternative suppliers, there is no potential for affiliate abuse.[27] Retail restructuring is in the process of being implemented in Arizona, and a substantial portion of APS's retail customers are already authorized to choose their generation provider.[28] APS's retail customers that are not already entitled to choose their electric service provider are provided rate reductions that will remain in effect until 2004, well after full retail choice is implemented in 2001.[29] Although APS has a right to propose rate changes for emergencies or specified extraordinary events during this period, for all practical purposes retail rates are frozen at the reduced levels.[30] The Commission has recognized that affiliate transactions cannot harm customers protected by a rate freeze.[31]

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[26] *See AmerGen Energy Co., L.L.C.*, 90 FERC ¶ 61,080 (2000) (ratepayers who have retail choice or are protected by a rate freeze are not captive customers); *Green Power Partners I, LLC, et al.*, 88 FERC ¶ 61,005 (1999) (waiving code of conduct requirement for UGI Development Co. because UGI does not have captive customers); *Enron Energy Services Power, Inc.*, 81 FERC ¶ 61,267 (1997) ("we will not accept PECO's request that we treat customers participating in a state retail [choice] program as captive customers requiring expansion of Enron Energy's code of conduct").

[27] 81 FERC ¶ 61,267 (1997); *see AmerGen Energy Co., L.L.C.*, 90 FERC ¶ 61,080 (2000).

[28] *See* ACC approved Settlement Agreement, § 1.1.

[29] *See* ACC approved Settlement Agreement, §§ 2.2, 2.6, 2.7.

[30] To the extent such an emergency or extraordinary event occurs and APS determines to file for increased retail rates, it will notify the Commission at that time.

[31] *Illinova Power Marketing, Inc., et al.*, 88 FERC ¶ 61,189 (1999) (revisions to inadequate code of conduct unnecessary because Illinois Power's retail customers are already protected by a rate freeze); *AYP Energy, Inc.*, 87 FERC ¶ 61,009 (1999); *Commonwealth Edison Co.*, 85 FERC ¶ 61,288 (1998).

Where there is no potential for affiliate abuse, there is no need for the Commission to require the full panoply of code of conduct rules it normally requires as a condition of granting market-based rate authority.[32]

2. The Pinnacle West Companies' Mitigation Proposals Will Prevent Cost Shifting to APS's Wholesale Customers.

The Pinnacle West Companies have identified two limited areas of concern in APS's existing wholesale power contracts where there may be the potential for affiliated entities to shift costs to certain contractually obligated wholesale customers. The Pinnacle West Companies propose to mitigate any potential harm to wholesale customers by putting in place measures that will protect the customers from the improper pass-through of costs associated with affiliated transactions.

The Commission has recognized that an effective method of mitigating affiliate abuse concerns is capping the pass through of costs to wholesale customers at prices set by a competitive regional market hub.[33] Benefits resulting from the use of regional market hubs extend beyond the mere mitigation of potential abusive inter-affiliate transactions by the Pinnacle West Companies. Using regional hub indices as an alternative to requiring a code of conduct to prevent inter-affiliate abuse will provide secondary benefits including: a positive incentive for utilities to create, join and transact

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[32] *See AmerGen Energy Co., L.L.C.*, 90 FERC ¶ 61,080; *Green Power Partners I, LLC, et al.*, 88 FERC ¶ 61,005 (1999) (waiving code of conduct requirement for UGI Development Co. because UGI does not have captive customers); *Enron Energy Services Power, Inc.*, 81 FERC ¶ 61,267 at 62,318 (1997) ("we will not accept PECO's request that we treat customers participating in a state retail [choice] program as captive customers requiring expansion of Enron Energy's code of conduct").

[33] *See FirstEnergy Trading Services, Inc.*, 88 FERC ¶ 61,067 (1999); *AYP Energy, Inc.*, 87 FERC ¶ 61,009 (1999); *FirstEnergy Trading & Power Marketing, Inc.*, 84 FERC ¶ 61,214 (1998).

their business through regional market hubs; greater transparency in pricing of power transactions (because the hub price is a published price); and reducing Commission staff time spent reviewing affiliate transactions through the use of objective, market-based determinants for passing through costs.

The Pinnacle West Companies' proposed system incremental cost mitigation measure makes use of regional hubs to mitigate the potential for affiliate abuse and are explained in detail below. The Pinnacle West Companies also propose a mechanism for dealing with costs flowing through the wholesale fuel adjustment clause, by capping the pass through at a historical average.

a. System Incremental Cost Provisions

The first potential area of concern applies to wholesale contracts that include a pricing provision based upon APS's system incremental cost ("SIC"). If a transaction between APS and an affiliate is used in establishing the energy price for a particular hour, then it could increase the prices paid by APS's wholesale customers that take service under these contracts. The SIC provision in some of APS's wholesale contracts presents the potential to harm wholesale customers if an affiliated transaction establishes APS's incremental cost for a particular hour.

The Pinnacle West Companies propose to mitigate this concern by capping the portion of these customers rates that include a SIC component at the lesser of: (i) the monthly rates calculated utilizing APS's actual hourly SIC values (the existing methodology); or (ii) the monthly rates calculated utilizing an hourly cents per kWh market index in lieu of the actual SIC. The market index is derived based on prices at Palo Verde, a liquid market hub that reflects market prices for the region. Because the

Palo Verde hub only publishes on-peak and off-peak, day-ahead prices, while the applicable SIC contract provisions are based upon APS's hourly SIC, APS proposes to utilize the hourly price indices published by the California PX for the nearby SP15 zone to "shape" the daily prices at Palo Verde into an hourly price curve. The resulting index, that will be used to protect SIC wholesale customers, is referred to as the Palo Verde Shaped Index.[34]

Exhibit D to this Application contains SIC customer contracts modified to reflect the use of the Palo Verde Shaped Index to mitigate market power concerns. Table A, attached to each of the modified wholesale customer SIC contracts included in Exhibit D, provides an example of how the Palo Verde Shaped Index will work in practice.

Once the Palo Verde Shaped Index has been derived for each hour of each day of a particular billing month, APS will then compare the monthly charge that each SIC customer would pay under the Palo Verde Shaped Index to the actual charges APS incurred, based upon its SIC methodology, for the entire month. APS will bill the SIC customer based upon the lower of the two total monthly charges (SIC or Palo Verde Shaped Index) for the relevant billing month.

By applying the lesser of SIC or the Palo Verde Shaped Index cost, wholesale customers are protected from affiliate abuse and receive the additional benefit of potential reduced power costs based on the hub prices. The Commission has recognized on numerous occasions that tying prices charged to an established and relevant market index

[34] Should a robust hourly market develop at Palo Verde, APS will file a request to convert from the Palo Verde Shaped Index to the use of actual Palo Verde hourly market prices.

adequately mitigates affiliate abuse concerns.[35] Both the Palo Verde hub and the California PX zone used for shaping the Palo Verde daily prices are active trading locations with published prices.

By employing a price cap based on competitive market hub prices in the region in which APS operates its system, the Pinnacle West Companies have proposed a win-win-win-win situation. Customers are protected from any potential for affiliate abuse because the alternative system incremental cost is based on a market index that will not be materially affected by transactions among the Pinnacle West Companies. The Pinnacle West Companies benefit because they will be able to transact under the new structure envisioned by the Arizona restructuring rules in much the same way as they currently operate within APS and in the same manner as other market participants in Arizona transact with their affiliates. Participants in the regional markets also "win," because relying upon the Palo Verde hub market price recognizes the legitimacy and value of regional markets. The final "winner" is the Commission, which will be able to rely more upon objective market prices to protect customers.

b. Fuel Adjustment Clauses

The second potential area of concern relates to APS's wholesale contracts that include a fuel adjustment clause ("FAC") which flows through certain fuel and purchased

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[35] *Allegheny Energy Supply Co.*, 88 FERC ¶ 61,303 (1999) ("tying the price of an affiliate transaction . . . to an established, relevant market price adequately mitigates any affiliate abuse concerns"); *First Energy Trading Services, Inc.*, 88 FERC ¶ 61,067 (1999); *AYP Energy, Inc.*, 87 FERC ¶ 61,009 (1999).

power costs to some APS wholesale customers.[36] Due to the limited nature of APS's wholesale FAC power sales[37] (and APS's concomitant limited ability and incentive to engage in abusive conduct) the burden of tying FAC calculations to market prices where purchased power is at issue does not appear to be warranted. However, in order to mitigate even the remote possibility of harm to APS's FAC customers, APS proposes to cap the monthly expense of fossil and nuclear fuel and the net energy cost of certain power purchases[38] at the lesser of actual cost, or historical cost based upon an average of 1998 and 1999 fuel and eligible purchased power costs for the relevant monthly period. APS's FAC costs in these years should provide a reasonable cap for these contracts; APS's wholesale FAC customers will receive the benefit of actual FAC costs if they are lower than the applicable monthly average from 1998-1999 , but will be protected from the FAC pass-through of costs that exceed the proposed cap. Modified customer contracts and a sample re-calculation based on 1998-1999 fuel costs are included as Exhibits E1 and E2 to this Application.

E. The Commission's Filing Requirements

Consistent with the Commission's requirements, PWCC commits that it will file quarterly transaction summaries and satisfy the Commission's other standard reporting

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[36] Proposed modifications to APS's FACs are included as Exhibits E1 and E2 to this Application.

[37] APS sold 198 GWH of energy to wholesale customers with FAC contracts in 1999, with total energy-related revenues of $4.2 million. APS's overall energy sales were 36,768 GWH and its total electric revenues were $2,292 million. Thus, APS made less than 0.5% of its total kWh sales to FAC customers in 1999.

[38] Power purchases used in calculating the "F" component of the fuel cost adjustment factor.

requirements for affiliated power marketers.[39] Specifically, PWCC will file umbrella service agreements for short-term transactions (one year or less) within 30 days of the date of commencement of service, to be followed by quarterly transaction summaries for specific sales. For long-term transactions (longer than one year), the actual service agreement for each transaction will be filed within 30 days after commencement of service.[40]

PWCC commits that it will file a revised market power analysis every three years.[41]

V. REQUEST FOR MODIFICATION OF APS AND APSES TARIFFS, CODES OF CONDUCT, AND RATE SCHEDULES AND SERVICE AGREEMENTS.

APS and APSES have market rate tariffs and codes of conduct on file with the Commission. As noted above, the Pinnacle West Companies, including APS and APSES have no captive retail customers and have mitigated potential concerns with certain wholesale customers by effectively capping relevant energy price components based upon competitive regional hub prices, or where applicable, upon historic fuel clause calculations. APS and APSES therefore request that the Commission: (1) find that each of these entities have adequately mitigated any potential for affiliate abuse; (2) accept for filing the revised market-based rate tariffs included as Exhibits B and C hereto that permit

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[39] *See Southern Co. Services, Inc.*, 87 FERC ¶ 61,214 (1999); *Horizon Energy Co.*, 81 FERC ¶ 61,368 (1997).

[40] *Southern Co. Services, Inc.*, 87 FERC at 61,848-49.

[41] *See Morgan Stanley Capital Group, Inc.*, 69 FERC ¶ 61,175 (1994) (as clarified in *Engelhard Power Marketing, Inc.*, 70 FERC ¶ 61,250 (1995)).

sales to affiliates; and (3) permit APS and APSES to modify their existing codes of conduct as discussed above and as set forth in Exhibits B and C.

In furtherance of its commitments to wholesale customers, APS also submits revised sheets to the rate schedules and service agreements reflecting APS's commitment to tie SIC and FAC clauses included in its contracts to regional hub prices or historical costs, as appropriate. The revised rate schedules and service agreements are included in Exhibits D and E to this Application. APS requests that the Commission accept these revised sheets for filing.

VI. REQUEST FOR EFFECTIVE DATE AND WAIVERS

Consistent with the Commission's decisions in previous power marketer cases, PWCC respectfully requests that the Commission waive the following requirements of the Commission's regulations: (1) the accounting and reporting requirements under Parts 41, 101, and 141 of the Commission's regulations; (2) the interlocking directorate filing requirements under Part 45 of the Commission's regulations, or, alternatively, permission to file abbreviated filings with respect to interlocking directorates under Part 45; (3) the filing requirements of Subparts B and C of Part 35 of the Commission's regulations, other than Sections 35.12(a), 35.13(b), 35.15 and 35.16; and (4) blanket authorization under Part 34 of all future issuances of securities and assumptions of obligations or liabilities as guarantor, endorser, surety or otherwise in respect of any security of any person.[42] Pursuant to Section 35.3(a) of the Commission's regulations, PWCC respectfully requests that the Commission accept the Market Rate Tariff for filing and

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[42] *See, e.g., AES Huntington Beach, L.L.C.*, 83 FERC ¶ 61,100 (1998).

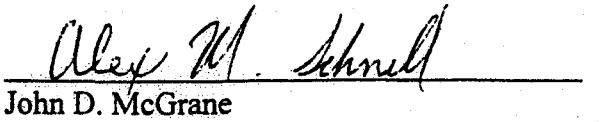
permit it to become effective the earlier of either sixty days after the date of this filing or the date upon which the Commission grants acceptance.

VII. CONCLUSION

The Pinnacle West Companies request that the Commission issue an order granting: (1) authorization for PWCC to engage in wholesale sales of electric power at market-based rates, including market-rate sales to its affiliates and sales of ancillary services at market-based rates in the California market; (2) acceptance of PWCC's request for permission to reassign transmission capacity; (3) acceptance of the PWCC Market Rate Tariff for filing effective the earlier of sixty days after the filing of this application or upon issuance of an order accepting the Tariff for filing; (4) acceptance of the proposed modifications to the code of conduct requirements applicable to the Pinnacle West Companies, conditioned on the commitments proposed herein; (5) acceptance of the revised APS and APSES market-based rate tariffs included as Exhibits B and C hereto, (6) acceptance for filing of the revised wholesale rate schedules and service agreements

included in Exhibits D and E hereto; (7) certain blanket authorizations; and (8) certain waivers of the Commission's regulations as requested herein.

Respectfully submitted,



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Attorneys for
Pinnacle West Capital Corporation

Dated: April 21, 2000

Exhibit A

Pinnacle West Capital Corporation

Market-Based Rate Tariff

and

Code of Conduct

Pinnacle West Capital Corporation

MARKET-BASED RATE TARIFF

1. Availability: Pinnacle West Capital Corporation ("PWCC") makes electric capacity or energy available for sale for resale under this Rate Schedule to any purchaser.

2. Applicability: This schedule is applicable to all sales of electric capacity or energy by PWCC not otherwise subject to a particular rate schedule of PWCC.

   This schedule is also available for purchases by the California Independent System Operator Corporation and its suppliers and market participants of Replacement Reserve Service and the following ancillary services as defined by the Commission: Regulation and Frequency Response Service, Energy Imbalance Service, Operating Reserve-Spinning Reserve Service, and Operating Reserve-Supplemental Reserve Service.

   This schedule also is applicable to the reassignment of transmission capacity, transmission rights and associated ancillary services, that PWCC has acquired for its own use on the transmission systems of transmission providers.

3. Rates: All sales of electric capacity or energy shall be made at rates established by agreement between the purchaser and PWCC.

4. Other Terms and Conditions:

   All other terms and conditions shall be established by agreement between the purchaser and PWCC.

5. Effective Date:

   This Rate Schedule shall be effective on the date established by FERC.

6. Reassignment of Transmission Rights:

PWCC may reassign transmission capacity, transmission rights, and associated ancillary services that it has reserved for its own use at a price not to exceed the highest of: (1) the original transmission rate paid by PWCC; (2) the applicable transmission provider's maximum stated firm transmission rate on file at the time of the transmission reassignment; or (3) PWCC's own opportunity costs, capped at the applicable transmission provider's cost of expansion at the time of the sale to the eligible customer. PWCC will not recover opportunity costs in connection with reassignment without making a separate filing under Section 205. Except for the price, the terms and conditions under which the reassignment is made shall be under the terms and conditions governing the original grant by the transmission provider. Transmission and associated ancillary services may only be reassigned to a customer eligible to take service under the transmission provider's open access transmission tariff or other transmission rate schedules. PWCC will report the name of the assignee in its quarterly reports.

Pinnacle West Capital Corporation

MARKET-BASED RATE TARIFF

SERVICE AGREEMENT

This Service Agreement, dated as of _____, is entered into by and between Pinnacle West Capital Corporation ("PWCC") and _____ ("Customer"), pursuant to PWCC's Market-Based Rate Tariff, FERC Electric Tariff No. 1 ("Tariff").

Each transaction hereunder will be carried out under terms and conditions as agreed upon by PWCC and the Customer in accordance with the terms and conditions of the Tariff.

IN WITNESS WHEREOF, PWCC and Customer have caused this Service Agreement to be executed by their respective authorized officials as of the date first above written.

Customer	**Pinnacle West Capital Corporation**
_____	
Customer	
_____	_____
Signature of Representative Date	Signature of Representative Date
_____	_____
Name of Representative	Name of Representative
_____	_____
Title of Representative	Title of Representative

Pinnacle West Capital Corporation

STATEMENT OF POLICY AND CODE OF CONDUCT WITH RESPECT TO THE RELATIONSHIP BETWEEN PINNACLE WEST CAPITAL CORPORATION AND ARIZONA PUBLIC SERVICE COMPANY

The following Code of Conduct will govern the relationship between Pinnacle West Capital Corporation ("PWCC") and any other marketing affiliates that may be authorized by the Federal Energy Regulatory Commission to engage in sales for resale of energy and capacity at market-based rates (the "Marketing Affiliates"), and Arizona Public Service Company ("APS").

Marketing of Power

1. To the maximum extent practical, the employees of the Marketing Affiliates will operate separately from the employees of APS.

2. Sales of any non-power goods or services by APS, including sales made through affiliated EWGs or QFs, to the Marketing Affiliates will be at the higher of cost or market price.

3. Sales of any non-power goods or services by the Marketing Affiliates to APS will not be at a price above market.

Brokering of Power

To the extent Marketing Affiliates seek to broker power for APS:

4. Marketing Affiliates will offer APS's power first.

5. The arrangement between Marketing Affiliates and APS is non-exclusive.

6. Marketing Affiliates will not accept any fees in conjunction with any brokering services they perform for APS.

ARIZONA PUBLIC SERVICE COMPANY
MARKET RATE TARIFF NO. 1
(MR-1)

1 DEFINITIONS

The following terms shall have the specified meaning when used in the Market Rate Tariff No. 1 ("Tariff") or in a Service Agreement:

1.1 **Commission:** The Federal Energy Regulatory Commission.

1.2 **Customer:** An entity that executes a Service Agreement under this Tariff.

1.3 **Service Agreement:** The initial agreement and any supplements thereto entered into by a Customer and Arizona Public Service Company ("APS") for service under this Tariff.

1.4 **Tariff:** This Market Rate Tariff No. 1 as it may be amended and/or superseded from time to time.

1.5 **Transaction:** An individual transaction scheduled pursuant to this Tariff and a Service Agreement.

1.6 **Party**: References to a Party shall mean either APS or the Customer, or collectively shall be referred to as "Parties."

2 AVAILABILITY

This Tariff is available for purchases of electric energy and/or capacity from APS. This Tariff is also available for purchases by the California Independent System Operator Corporation and its suppliers and market participants of Replacement Reserve Service and the following ancillary services as defined by the Commission: Regulation and

Frequency Response, Energy Imbalance, Operating Reserve - Spinning Reserve, and Operating Reserve - Supplemental Reserve.

3 CHARACTER OF SERVICE

APS may provide capacity and/or energy under this Tariff in varying amounts, at varying levels of firmness or priorities of service, for varying periods of service, and in accordance with varying delivery schedules, as agreed to between the Customer and APS. APS may also provide to the California Independent System Operator Corporation and its suppliers and market participants, at market based rates, Replacement Reserve Service and the following ancillary services as defined by the Commission: Regulation and Frequency Response, Energy Imbalance, Operating Reserve - Spinning Reserve, and Operating Reserve - Supplemental Reserve.

4 RATES

4.1 The rates for purchases under this Tariff shall be as agreed to by the Customer and APS.

4.2 Transmission and Ancillary Services:

4.2.1 When transmission and ancillary services to effectuate power sales transactions under APS' market-based tariff are to be obtained by APS, APS will file a service agreement placing itself under its open access transmission tariff.

4.2.2 When the customer itself is obtaining the transmission and ancillary services from APS on its own behalf, APS will file a service agreement placing the customer under its Open Access Transmission Tariff.

5 SERVICE AGREEMENTS

5.1 Prior to the commencement of service to a new customer, APS and each new Customer will execute a Service Agreement.

5.1.1 APS will file umbrella agreements for short-term transactions (one year or less) within 30 days of commencement of such service with the Commission. APS will file quarterly transaction summary reports of all short-term transactions under this Tariff stating separately the prices for generation, transmission, and ancillary services.

5.1.2 For long-term transactions (longer than one year), the separate prices for generation, transmission and ancillary services will be included as part of the Service Agreement to be filed with the Commission within 30 days of commencement of service.

5.2 APS may refuse, at its sole discretion, to enter into a Service Agreement or Transaction under this Tariff. APS is under no obligation to execute a Service Agreement to provide service hereunder.

5.3 Acceptance of service by the Customer pursuant to a Service Agreement commits the Customer to the provisions of this Tariff and to the terms of the Service Agreement.

6 EXPANSION OF FACILITIES

APS will have no obligation under this Tariff or any Service Agreement executed hereunder to plan its system, to enlarge or modify its facilities or operate its system in such a manner in order to provide or maintain energy and/or capacity sold hereunder.

7 REASSIGNMENT OF TRANSMISSION RIGHTS

APS may reassign transmission capacity, transmission rights, and associated ancillary services that it has reserved for its own use at a price not to exceed the highest of: (1) the original transmission rate paid by APS; (2) the applicable transmission provider's maximum stated firm transmission rate on file at the time of the transmission reassignment; or (3) APS' own opportunity costs, capped at the applicable transmission providers' cost of expansion at the time of the sale to the eligible customer. APS will not recover opportunity costs in connection with reassignment without making a separate filing under Section 205. Except for the price, the terms and conditions under which the reassignment is made shall be under the terms and conditions governing the original grant by the transmission provider. Transmission and associated ancillary services may only be reassigned to a customer eligible to take service under the transmission provider's open access transmission tariff or other transmission rate schedules. APS will report the name of the assignee in its quarterly reports.

8 REVISIONS TO TARIFF

APS may file revisions to this Tariff with the Commission. Nothing contained in this Tariff shall be construed as effecting or limiting in any way the right of APS to

unilaterally file with the Commission for a change in any aspect of this Tariff under Section 205 or 206 of the Federal Power Act pursuant to the Commission's Rules and Regulations promulgated thereunder.

9 EFFECTIVE DATE

This Tariff shall be effective on the date established by the Commission.

FORM OF SERVICE AGREEMENT

This Service Agreement, dated as of _____, is entered into by and between Arizona Public Service Company ("Company"), and _____ ("Customer"), pursuant to the Company's Market Rate Tariff No. 1 ("Tariff").

Each transaction hereunder shall be carried out under terms and conditions as agreed upon by the Company and Customer in accordance with the terms and conditions of the Tariff.

In the event the Customer requests that APS' Merchant Group secure on the Customer's behalf transmission services and ancillary services required to effect transactions of power and/or energy under this Tariff, the Customer shall designate below the transmission and ancillary services needed:

Network Integration Transmission Service: ❑

Firm Point-to-Point Transmission Service:

❑ Monthly ❑ Weekly ❑ Daily

Non-Firm Point-to-Point Service:

❑ On-Peak ❑ Off-Peak

Ancillary Services:

❑ Scheduling, System Control & Dispatch Service

❑ Reactive Supply & Voltage Control from Generation Sources Service

❑ Regulation & Frequency Response Service

❑ Energy Imbalance Service

❑ Operating Reserve - Spinning Reserve Service

❑ Operating Reserve - Supplemental Reserve Service

Customer shall incur no obligation by requesting that services be made available.

Accepted by FERC _____, 2000

IN WITNESS WHEREOF, Company and Customer have caused this Service Agreement to be executed by their respective authorized officials as of the date first above written.

ARIZONA PUBLIC SERVICE COMPANY

By: _____

Title: _____

Date: _____

_____
(Customer)

By: _____

Title: _____

Date: _____

Accepted by FERC _____, 2000

Arizona Public Service Company

STATEMENT OF POLICY AND CODE OF CONDUCT WITH RESPECT TO THE RELATIONSHIP BETWEEN ARIZONA PUBLIC SERVICE COMPANY AND IT'S MARKETING AFFILIATES

The following Code of Conduct will govern Arizona Public Service Company's ("APS'") relationship with APS Energy Services Company, Inc. ("APSES"), Pinnacle West Capital Corporation ("PWCC"), and any other marketing affiliates that may be authorized by the Federal Energy Regulatory Commission to engage in sales for resale of energy and capacity at market-based rates (the "Marketing Affiliates").

Marketing of Power

1. To the maximum extent practical, the employees of the Marketing Affiliates will operate separately from the employees of APS.

2. Sales of any non-power goods or services by APS, including sales made through affiliated EWGs or QFs, to the Marketing Affiliates will be at the higher of cost or market price.

3. Sales of any non-power goods or services by the Marketing Affiliates to APS will not be at a price above market.

Brokering of Power

1. To the extent APS brokers power sales for the Marketing Affiliates, APS will offer its own power first.

2. APS will charge its Marketing Affiliates the higher of APS' cost for brokering services or the market rate for such services. APS will post the actual brokering charges imposed.

ARIZONA PUBLIC SERVICE COMPANY
MARKET RATE TARIFF NO. 1
(MR-1)

1 DEFINITIONS

The following terms shall have the specified meaning when used in the Market Rate Tariff No. 1 ("Tariff") or in a Service Agreement:

1.1 **Commission:** The Federal Energy Regulatory Commission.

1.2 **Customer:** An entity that executes a Service Agreement under this Tariff.

1.3 **Service Agreement:** The initial agreement and any supplements thereto entered into by a Customer and Arizona Public Service Company ("APS") for service under this Tariff.

1.4 **Tariff:** This Market Rate Tariff No. 1 as it may be amended and/or superseded from time to time.

1.5 **Transaction:** An individual transaction scheduled pursuant to this Tariff and a Service Agreement.

1.6 **Party**: References to a Party shall mean either APS or the Customer, or collectively shall be referred to as "Parties."

2 AVAILABILITY

~~[2.1]~~ This Tariff is available for purchases of electric energy and/or capacity from APS. This Tariff is also available for purchases by the California Independent System Operator Corporation and its suppliers and market participants of Replacement Reserve Service and the following ancillary services as defined by the Commission: Regulation and Frequency Response, Energy Imbalance, Operating Reserve - Spinning Reserve, and Operating Reserve - Supplemental Reserve.

~~[2.2 No entity affiliated with APS is eligible for service under this Tariff.~~

]3 CHARACTER OF SERVICE

APS may provide capacity and/or energy under this Tariff in varying amounts, at varying levels of firmness or priorities of service, for varying periods of service, and in accordance with varying delivery schedules, as agreed to between the Customer and APS. APS may also provide to the California Independent System Operator Corporation and its suppliers and market participants, at market based rates, Replacement Reserve Service and the following ancillary services as defined by the Commission: Regulation and Frequency Response, Energy Imbalance, Operating Reserve - Spinning Reserve, and Operating Reserve - Supplemental Reserve.

4 RATES

4.1 The rates for purchases under this Tariff shall be as agreed to by the Customer and APS.

4.2 Transmission and Ancillary Services:

4.2.1 When transmission and ancillary services to effectuate power sales transactions under APS' market-based tariff are to be obtained by APS, APS will file a service agreement placing itself under its open access transmission tariff.

4.2.2 When the customer itself is obtaining the transmission and ancillary services from APS on its own behalf, APS will file a service agreement placing the customer under its Open Access Transmission Tariff.

5 SERVICE AGREEMENTS

5.1 Prior to the commencement of service to a new customer, APS and each new Customer will execute a Service Agreement.

5.1.1 APS will file umbrella agreements for short-term transactions (one year or less) within 30 days of commencement of such service with the Commission. APS will file quarterly transaction summary reports of all short-term transactions under this Tariff stating separately the prices for generation, transmission, and ancillary services.

5.1.2 For long-term transactions (longer than one year), the separate prices for generation, transmission and ancillary services will be included as part of the Service Agreement to be filed with the Commission within 30 days of commencement of service.

5.2 APS may refuse, at its sole discretion, to enter into a Service Agreement or Transaction under this Tariff. APS is under no obligation to execute a Service Agreement to provide service hereunder.

5.3 Acceptance of service by the Customer pursuant to a Service Agreement commits the Customer to the provisions of this Tariff and to the terms of the Service Agreement.

6 EXPANSION OF FACILITIES

APS will have no obligation under this Tariff or any Service Agreement executed hereunder to plan its system, to enlarge or modify its facilities or operate its system in such a manner in order to provide or maintain energy and/or capacity sold hereunder.

7 REASSIGNMENT OF TRANSMISSION RIGHTS

APS may reassign transmission capacity, transmission rights, and associated ancillary services that it has reserved for its own use at a price not to exceed the highest of: (1) the original transmission rate paid by APS; (2) the applicable transmission provider's maximum stated firm transmission rate on file at the time of the transmission reassignment; or (3) APS' own opportunity costs, capped at the applicable transmission providers' cost of expansion at the time of the sale to the eligible customer. APS will not recover opportunity costs in connection with reassignment without making a separate filing under Section 205. Except for the price, the terms and conditions under which the reassignment is made shall be under the terms and conditions governing the original grant by the transmission provider. Transmission and associated ancillary services may only be reassigned to a customer eligible to take service under the transmission provider's open access transmission tariff or other transmission rate schedules. APS will report the name of the assignee in its quarterly reports.

8 **REVISIONS TO TARIFF**

APS may file revisions to this Tariff with the Commission. Nothing contained in this Tariff shall be construed as effecting or limiting in any way the right of APS to unilaterally file with the Commission for a change in any aspect of this Tariff under Section 205 or 206 of the Federal Power Act pursuant to the Commission's Rules and Regulations promulgated thereunder.

9 **EFFECTIVE DATE**

This Tariff shall be effective on the date established by the Commission.

Customer shall incur no obligation by requesting that services be made available.

IN WITNESS WHEREOF, Company and Customer have caused this Service Agreement to be executed by their respective authorized officials as of the date ~~[firs]~~ **first** above written.

ARIZONA PUBLIC SERVICE COMPANY

By: _____

Title: _____

Date: _____

_____
(Customer)

By: _____

Title: _____

Date: _____

---------- COMPARISON OF HEADERS ----------

-HEADER 1-

Arizona Public Service Company Page 5

FERC Electric Tariff, Original Volume No. 4

Market Rate Tariff No. 1

General Terms & Conditions

A

-HEADER 2-

~~[Arizona Public Service Company Page 7~~

~~FERC Electric Tariff, Original Volume No. 4~~

~~Market Rate Tariff No. 1~~

Accepted by FERC _____, 2000

~~[ARIZONA PUBLIC SERVICE COMPANY]~~ **Arizona Public Service Company**

STATEMENT OF POLICY AND CODE OF CONDUCT WITH RESPECT TO THE RELATIONSHIP BETWEEN ARIZONA PUBLIC SERVICE COMPANY AND ~~[APS ENERGY SERVICES COMPANY, INC.]~~ IT'S MARKETING AFFILIATES

The following Code of Conduct will govern ~~[the relationship between (1)]~~ Arizona Public Service ~~[Company ("APS") and (2)]~~ **Company's ("APS'") relationship with** APS Energy Services Company, Inc. ("APSES") ~~[or]~~**, Pinnacle West Capital Corporation ("PWCC"), and** any other marketing affiliates that may be authorized by the Federal Energy Regulatory Commission to engage in sales for resale of energy and capacity at market-based rates ~~[(together with APSES,]~~(the "Marketing Affiliates").

Marketing of Power

1. To the maximum extent practical, the employees of the Marketing Affiliates will operate separately from the employees of APS.

2~~[. All market information shared by APS with the Marketing Affiliates will be disclosed simultaneously to the public. This includes all market information, including but not limited to, any communication concerning power or transmission business, present or future, positive or negative, concrete or potential. Shared employees in a support role are not bound by this provision, but they may not serve as an improper conduit of information to non-support personnel.~~

~~3~~]. Sales of any non-power goods or services by APS, including sales made through affiliated EWGs or QFs, to the Marketing Affiliates will be at the higher of cost or market price.

~~[4]~~ 3. Sales of any non-power goods or services by the Marketing Affiliates to APS will not be at a price above market.

Brokering of Power

1. To the extent APS brokers power sales for the Marketing Affiliates, APS will offer its own power first.

2. APS will charge its Marketing Affiliates the higher of APS' cost for brokering services or the market rate for such services. APS will post the actual brokering charges imposed.

~~[3. APS agrees to simultaneously make public any information shared with the Marketing Affiliates during brokering.]~~

Exhibit C

APS Energy Services Company, Inc.

Conformed Market-Based Rate Tariff,

Conformed Code of Conduct,

Red-Lined Market-Based Rate Tariff

and

Red-Lined Code of Conduct

Exhibit C

APS Energy Services Company, Inc.

Conformed Market-Based Rate Tariff,

Conformed Code of Conduct,

Red-Lined Market-Based Rate Tariff

and

Red-Lined Code of Conduct

APS Energy Services Company, Inc.

MARKET-BASED RATE TARIFF

1. Availability: APS Energy Services Company, Inc. ("APSES") makes electric capacity or energy available for sale for resale under this Rate Schedule to any purchaser.

2. Applicability: This schedule is applicable to all sales of electric capacity or energy by APSES not otherwise subject to a particular rate schedule of APSES.

   This schedule is also available for purchases by the California Independent System Operator Corporation and its suppliers and market participants of Replacement Reserve Service and the following ancillary services as defined by the Commission: Regulation and Frequency Response Service, Energy Imbalance Service, Operating Reserve - Spinning Reserve Service, and Operating Reserve – Supplemental Reserve Service.

   This schedule also is applicable to the reassignment of transmission capacity, transmission rights and associated ancillary services, that APSES has acquired for its own use on the transmission systems of transmission providers.

3. Rates: All sales of electric capacity or energy shall be made at rates established by agreement between the purchaser and APSES.

4. Other Terms and Conditions:

   All other terms and conditions shall be established by agreement between the purchaser and APSES.

5. Effective Date:

   This Rate Schedule shall be effective on the date established by FERC.

6. Reassignment of Transmission Rights:

APSES may reassign transmission capacity, transmission rights, and associated ancillary services that it has reserved for its own use at a price not to exceed the highest of: (1) the original transmission rate paid by APSES; (2) the applicable transmission provider's maximum stated firm transmission rate on file at the time of the transmission reassignment; or (3) APSES's own opportunity costs, capped at the applicable transmission provider's cost of expansion at the time of the sale to the eligible customer. APSES will not recover opportunity costs in connection with reassignment without making a separate filing under Section 205. Except for the price, the terms and conditions under which the reassignment is made shall be under the terms and conditions governing the original grant by the transmission provider. Transmission and associated ancillary services may only be reassigned to a customer eligible to take service under the transmission provider's open access transmission tariff or other transmission rate schedules. APSES will report the name of the assignee in its quarterly reports.

APS Energy Services Company, Inc.

MARKET-BASED RATE TARIFF

SERVICE AGREEMENT

This Service Agreement, dated as of _____, is entered into by and between APS Energy Services Company, Inc. ("APSES") and _____ ("Customer"), pursuant to APSES's Market-Based Rate Tariff, FERC Electric Tariff No. 1 ("Tariff").

Each transaction hereunder will be carried out under terms and conditions as agreed upon by APSES and the Customer in accordance with the terms and conditions of the Tariff.

IN WITNESS WHEREOF, APSES and Customer have caused this Service Agreement to be executed by their respective authorized officials as of the date first above written.

Customer	**APS Energy Services Company, Inc.**
_____	
Customer	
_____	_____
Signature of Representative Date	Signature of Representative Date
_____	_____
Name of Representative	Name of Representative
_____	_____
Title of Representative	Title of Representative

APS Energy Services Company, Inc.

STATEMENT OF POLICY AND CODE OF CONDUCT WITH RESPECT TO THE RELATIONSHIP BETWEEN APS ENERGY SERVICES COMPANY, INC. AND ARIZONA PUBLIC SERVICE COMPANY

The following Code of Conduct will govern the relationship between APS Energy Services Company, Inc. ("APSES") and any other marketing affiliates that may be authorized by the Federal Energy Regulatory Commission to engage in sales for resale of energy and capacity at market-based rates (the "Marketing Affiliates"), and Arizona Public Service Company ("APS").

Marketing of Power

1. To the maximum extent practical, the employees of the Marketing Affiliates will operate separately from the employees of APS.

2. Sales of any non-power goods or services by APS, including sales made through affiliated EWGs or QFs, to the Marketing Affiliates will be at the higher of cost or market price.

3. Sales of any non-power goods or services by the Marketing Affiliates to APS will not be at a price above market.

Brokering of Power

To the extent Marketing Affiliates seek to broker power for APS:

4. Marketing Affiliates will offer APS's power first.

5. The arrangement between Marketing Affiliates and APS is non-exclusive.

6. Marketing Affiliates will not accept any fees in conjunction with any brokering services they perform for APS.

APS Energy Services Company, Inc.

MARKET-BASED RATE TARIFF

1. Availability: APS Energy Services Company, Inc. ("APSES") makes electric capacity or energy available for sale for resale under this Rate Schedule to any purchaser.

2. Applicability: This schedule is applicable to all sales of electric capacity or energy by APSES not otherwise subject to a particular rate schedule of APSES~~[, but shall not apply to the sales of electric capacity or energy to, or the purchase of electric capacity or energy from Arizona Public Service Company ("APS")]~~.

   This schedule is also available for purchases by the California Independent System Operator Corporation and its suppliers and market participants of Replacement Reserve Service and the following ancillary services as defined by the Commission: Regulation and Frequency Response Service, Energy Imbalance Service, Operating Reserve - Spinning Reserve Service, and Operating Reserve – Supplemental Reserve Service.

   This schedule also is applicable to the reassignment of transmission capacity, transmission rights and associated ancillary services, that APSES has acquired for its own use on the transmission systems of transmission providers.

3. Rates: All sales of electric capacity or energy shall be made at rates established by agreement between the purchaser and APSES.

4. Other Terms and Conditions:

   All other terms and conditions shall be established by agreement between the purchaser and APSES.

~~[APSES will not sell electric capacity or energy to, or purchase electric capacity or energy from APS, absent a separate filing with FERC pursuant to Section 205 of the Federal Power Act.]~~

5. Effective Date:

   This Rate Schedule shall be effective on the date established by FERC.

6. Reassignment of Transmission Rights:

APSES may reassign transmission capacity, transmission rights, and associated ancillary services that it has reserved for its own use at a price not to exceed the highest of: (1) the original transmission rate paid by APSES; (2) the applicable transmission provider's maximum stated firm transmission rate on file at the time of the transmission reassignment; or (3) APSES's own opportunity costs, capped at the applicable transmission provider's cost of expansion at the time of the sale to the eligible customer. APSES will not recover opportunity costs in connection with reassignment without making a separate filing under Section 205. Except for the price, the terms and conditions under which the reassignment is made shall be under the terms and conditions governing the original grant by the transmission provider. Transmission and associated ancillary services may only be reassigned to a customer eligible to take service under the transmission provider's open access transmission tariff or other transmission rate schedules. APSES will report the name of the assignee in its quarterly reports.

APS Energy Services Company, Inc.

MARKET-BASED RATE TARIFF

SERVICE AGREEMENT

This Service Agreement, dated as of

[_____] _____, is entered into by and between APS Energy Services Company, Inc. ("APSES") and

[_____] _____

("Customer"), pursuant to APSES's Market-Based Rate Tariff, FERC Electric Tariff No. 1 **("Tariff")**.

Each transaction hereunder will be carried out under terms and conditions as agreed upon by APSES and the Customer in accordance with the terms and conditions of the ~~[Rate Schedule]~~ **Tariff**.

IN WITNESS WHEREOF, APSES and Customer have caused this Service Agreement to be executed by their respective authorized officials as of the date first above written.

Customer	**APS Energy Services Company, Inc.**
_____	
Customer	
_____	[_____]
Signature of Representative Date	Signature of Representative Date
_____	[_____]
Name of Representative	Name of Representative
_____	_____

Title of Representative

Title of Representative

APS ~~[ENERGY SERVICES COMPANY, INC]~~ Energy Services Company, Inc.

STATEMENT OF POLICY AND CODE OF CONDUCT WITH RESPECT TO THE RELATIONSHIP BETWEEN APS ENERGY SERVICES COMPANY, INC. AND ARIZONA PUBLIC SERVICE COMPANY

The following Code of Conduct will govern the relationship between ~~[(1)]~~ APS Energy Services Company, Inc. ("APSES") and any other ~~[marketer]~~ **marketing** affiliates that may be authorized by the Federal Energy Regulatory Commission to engage in sales for resale of energy and capacity at market-based rates ~~[(together with APSES,]~~(the "Marketing Affiliates"), and ~~[(2)]~~ Arizona Public Service Company ("APS").

Marketing of Power

1. To the maximum extent practical, the employees of the Marketing Affiliates will operate separately from the employees of APS.

2~~[. All market information shared by APS with the Marketing Affiliates will be disclosed simultaneously to the public. This includes all market information, including but not limited to, any communication concerning power or transmission business, present or future, positive or negative, concrete or potential. Shared employees in a support role are not bound by this provision, but they may not serve as an improper conduit of information to non-support personnel.~~

~~3]~~. Sales of any non-power goods or services by APS, including sales made through affiliated EWGs or QFs, to the Marketing Affiliates will be at the higher of cost or market price.

~~[4]~~ 3. Sales of any non-power goods or services by the Marketing Affiliates to APS will not be at a price above market.

Brokering of Power

To the extent Marketing Affiliates seek to broker power for APS:

4. **Marketing Affiliates will offer APS's power first.**

5. **The arrangement between Marketing Affiliates and APS is non-exclusive.**

6. **Marketing Affiliates will not accept any fees in conjunction with any brokering services they perform for APS.**

Exhibit D

Revision to APS' Wholesale Contracts

Containing System Incremental Cost Pricing Provisions

Arizona Public Service Company

FERC Electric Coordination Tariff No. 1, Revision No. 4

Conformed & Red-Lined Copy

Appendix A-1

ARIZONA PUBLIC SERVICE COMPANY

Units Most Likely To Participate Methodology

Determination of Ceiling Rates Applicable to Sales of Coordination Power and Energy Under Service Schedule A.

A. Generation Related Rate Component:

I. For sales of Coordination Power and Energy made by APS from certain APS resources, Purchaser shall pay a charge for unbundled generation related service not to exceed the following amounts to APS for Power and Energy supplied under Service Schedule A:

Maximum Demand Charge:[1]

Annual	$	60.93/kW
Monthly	$	5.08/kW
Weekly	$	1.17/kW
Daily	$	0.23/kW[2]
Hourly	$	0.0144/kW[3]

plus

Energy Charge:

a) no less than 100% of APS' System Incremental Costs (SIC); plus
b) up to 10% of SIC

Provided, however, the monthly ceiling rate as defined above shall be the lesser of this rate: (i) developed utilizing the aggregate of APS' actual hourly SIC values during the month, or (ii) the rate as developed utilizing an aggregate of an hourly cents/kWh index in lieu of SIC. The hourly cents/kWh index shall be based on a Palo Verde Shaped Index[4].

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[1] The Maximum Demand Charge for weekly, daily and hourly periods were computed utilizing the "AEP" methodology.

[2] The Daily rate of $0.23/kW shall not exceed the product of the number of kilowatts sold for a week multiplied by the maximum weekly demand charge of $1.17/kW.

[3] The hourly rate of $0.0144/kW shall not exceed the product of the number of kilowatts sold for a day multiplied by the maximum daily demand charge of $0.23/kW, and also not exceed the product of the number of kilowatts sold for a week multiplied by the maximum weekly demand charge of $1.17/kW.

[4] The Hourly Palo Verde Shaped Index shall be determined as shown on Table A.

II. When a sale of Coordination Power and Energy made by APS is conditioned upon APS acquiring Purchased Power, Purchaser shall pay the following amounts to APS for Power and Energy supplied under this Service Schedule A:

a) APS' actual Purchased Power costs

III. Purchaser shall also be responsible for any taxes, purchased power costs, and for any other costs incurred by APS in fulfilling its obligations for Coordination Power under this Service Schedule A which otherwise would not have been incurred.

B. Transmission and Ancillary Service Rate Components:

I. Purchaser shall be required to secure transmission and ancillary services from APS' Transmission Group on its own behalf. If Purchaser obtains the required transmission and ancillary services, APS shall file a service agreement with the FERC placing the Purchaser under APS' Open Access Transmission Tariff. All pertinent arrangements for such services can be made directly with APS' Transmission Group personnel at:

Arizona Public Service Company
P.O. Box 53999; Station 2260
Phoenix, Arizona 85072-3999
Facsimile No. (602) 250-1127

II. In the alternative, Purchaser may request that APS' Merchant Group secure all transmission and ancillary services under APS' Open Access Transmission Tariff required to effect service to Purchaser. APS' Merchant Group shall have the option to decline such requests.

Should the APS Merchant Group secure all transmission and related services, an appropriate Open Access Transmission Tariff Service Agreement shall be filed with the Federal Energy Regulatory Commission.

The unbundled rate components for each transmission and ancillary service assessed to the Purchaser for Power and/or Energy under this Electric Coordination Tariff No. 1 are listed on Attachment A.

Appendix A-2

ARIZONA PUBLIC SERVICE COMPANY

Unit Revenue Constraint Methodology

Determination of Ceiling Rates Applicable to Sales of Coordination Power and Energy Under Service Schedule A

A. Generation Related Rate Component:

I. For sales of Coordination Power and Energy made by APS based on the costs of Palo Verde Unit No. 3, Purchaser shall pay a charge for unbundled generation related service not to exceed the following amounts to APS for Power and Energy supplied under Service Schedule A:

Maximum Demand Charge:[5]

Annual	$ 438.80/kW
Monthly	$ 36.57/kW
Weekly	$ 8.44/kW
Daily	$ 1.69/kW[6]
Hourly	$ 0.1056/kW[7]

plus

Energy Charge:

a) no less than 100% of APS' System Incremental Costs (SIC), plus
b) up to 10% of SIC

Note A: The total charges for Power and Energy shall not exceed the product of the requested demand (kW) multiplied by the applicable Maximum Demand Charge in Section I above, plus the variable costs of Palo Verde Unit No. 3 (based on the second previous month's cost data), and not withstanding the foregoing, a floor equal to 100% of APS' System Incremental Cost.

Note B: The total amount of Power available for sales by APS under this Service Schedule and under other APS tariffs and agreements, for which the agreed upon demand

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[5] The Maximum Demand Charge for weekly, daily and hourly periods were computed utilizing the "AEP" methodology.

[6] The Daily rate of $1.69/kW shall not exceed the product of the number of kilowatts sold for a week multiplied by the maximum weekly demand charge of $8.44/kW.

[7] The hourly rate of $0.1056/kW shall not exceed the product of the number of kilowatts sold for a day multiplied by the maximum daily demand charge of $1.69/kW, and also not exceed the product of the number of kilowatts sold for a week multiplied by the maximum weekly demand charge of $8.44/kW.

charge is determined based on Palo Verde Unit No. 3, is limited to 370 MWs (APS' share of Palo Verde No. 3) on an hourly basis.

Provided, however, the monthly ceiling rate and the monthly floor rate as defined above shall be the lesser of these rates: (i) developed utilizing the aggregate of APS' actual hourly SIC values during the month, or (ii) the rates as developed utilizing an aggregate of an hourly cents/kWh index in lieu of SIC. The hourly cents/kWh index shall be based on a Palo Verde Shaped Index[8].

II. When a sale of Coordination Power and Energy made by APS is conditioned upon APS acquiring Purchased Power, Purchaser shall pay the following amounts to APS for Power and Energy supplied under this Service Schedule A:

a) APS' actual Purchased Power costs

III. Purchaser shall also be responsible for any taxes, purchased power costs, and for any other costs incurred by APS in fulfilling its obligations for Coordination Power under this Service Schedule A which otherwise would not have been incurred.

B. <u>Transmission and Ancillary Service Rate Components:</u>

I. Purchaser shall be required to secure transmission and ancillary services from APS' Transmission Group on its own behalf. If Purchaser obtains the required transmission and ancillary services, APS shall file a service agreement with the FERC placing the Purchaser under APS' Open Access Transmission Tariff. All pertinent arrangements for such services can be made directly with APS' Transmission Group personnel at:

Arizona Public Service Company
P.O. Box 53999; Station 2260
Phoenix, Arizona 85072-3999
Facsimile No. (602) 250-1127

II. In the alternative, Purchaser may request that APS' Merchant Group secure all transmission and ancillary services under APS' Open Access Transmission Tariff required to effect service to Purchaser. APS' Merchant Group shall have the option to decline such requests.

Should the APS Merchant Group secure all transmission and related services, an appropriate Open Access Transmission Tariff Service Agreement shall be filed with the Federal Energy Regulatory Commission.

The unbundled rate components for each transmission and ancillary service assessed to the Purchaser for Power and/or Energy under this Electric Coordination Tariff No. 1 are listed on Attachment A.

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[8] The Hourly Palo Verde Shaped Index shall be determined as shown on Table A.

Appendix B-1

ARIZONA PUBLIC SERVICE COMPANY

Units Most Likely to Participate Methodology

Determination of Ceiling Rates Applicable to Non-Returned Power and Energy Under Service Schedule B

A. Generation Related Rate Component:

I. For sales of non–returned Power and Energy exchange deliveries made by APS from certain APS resources, Purchaser shall pay a charge for unbundled generation related service not to exceed the following amounts to APS for Power and Energy supplied under this Service Schedule B:

Maximum Demand Charge:[1]

Annual	$	60.93/kW
Monthly	$	5.08/kW
Weekly	$	1.17/kW
Daily	$	0.23/kW[2]
Hourly	$	0.0144/kW[3]

plus

Energy Charge:

a) no less than 100% of APS' System Incremental Costs (SIC), plus
b) up to 10% of SIC

Provided, however, the monthly ceiling rate as defined above shall be the lesser of this rate: (i) developed utilizing the aggregate of APS' actual hourly SIC values during the month, or (ii) the rate as developed utilizing an aggregate of an hourly cents/kWh index in lieu of SIC. The hourly cents/kWh index shall be based on a Palo Verde Shaped Index[4].

---

[1] The Maximum Demand Charge for weekly, daily and hourly periods were computed utilizing the "AEP" methodology.

[2] The Daily rate of $0.23/kW shall not exceed the product of the number of kilowatts sold for a week multiplied by the maximum weekly demand charge of $1.17/kW.

[3] The hourly rate of $0.0144/kW shall not exceed the product of the number of kilowatts sold for a day multiplied by the maximum daily demand charge of $0.23/kW, and also not exceed the product of the number of kilowatts sold for a week multiplied by the maximum weekly demand charge of $1.17/kW.

[4] The Hourly Palo Verde Shaped Index shall be determined as shown on Table A.

II. When a sale of Coordination Power and Energy made by APS is conditioned upon APS acquiring Purchased Power, Purchaser shall pay the following amounts to APS for Power and Energy supplied under this Service Schedule B:

a) APS' actual Purchased Power costs

III. Purchaser shall also be responsible for any taxes, purchased power costs, and for any other costs incurred by APS in fulfilling its obligations for Coordination Power under this Service Schedule B which otherwise would not have been incurred.

B. Transmission and Ancillary Service Rate Components:

I. The Parties recognize that separate arrangements must be made for all required transmission and ancillary services associated with Power and Energy Exchange transactions. The Parties may negotiate the responsibility for costs related to all required transmission and ancillary services. If Purchaser obtains the required transmission and ancillary services, APS shall file a service agreement with the FERC placing the Purchaser under APS' Open Access Transmission Tariff. All pertinent arrangements for such services can be made directly with APS' Transmission Group personnel at:

Arizona Public Service Company
P.O. Box 53999; Station 2260
Phoenix, Arizona 85072-3999
Facsimile No. (602) 250-1127

II. In the alternative, Purchaser may request that APS' Merchant Group secure all transmission and ancillary services under APS' Open Access Transmission Tariff required to effect service to Purchaser. APS' Merchant Group shall have the option to decline such requests.

Should the APS Merchant Group secure all transmission and related services, an appropriate Open Access Transmission Tariff Service Agreement shall be filed with the Federal Energy Regulatory Commission.

The unbundled rate components for each transmission and ancillary service assessed to the Purchaser for Power and/or Energy under this Electric Coordination Tariff No. 1 are listed on Attachment A.

Appendix B-2

ARIZONA PUBLIC SERVICE COMPANY

Unit Revenue Constraint Methodology

Determination of Ceiling Rates Applicable to Non-Returned Power and Energy Under Service Schedule B

A. Generation Related Rate Component:

I. For sales of non–returned Power and Energy exchange deliveries made by APS based on the costs of Palo Verde Unit No. 3, Purchaser shall pay a charge for unbundled generation related service not to exceed the following amounts to APS for Power and Energy supplied under this Service Schedule B:

Maximum Demand Charge:[5]

Annual	$ 438.80/kW
Monthly	$ 36.57/kW
Weekly	$ 8.44/kW
Daily	$ 1.69/kW[6]
Hourly	$ 0.1056/kW[7]

plus

Energy Charge:

a) no less than 100% of APS' System Incremental Costs (SIC), plus
b) up to 10% of SIC

Note A: The total charges for Power and Energy shall not exceed the product of the requested demand (kW) multiplied by the applicable Maximum Demand Charge in Section I above, plus the variable costs of Palo Verde Unit No. 3 (based on the second previous month's cost data), and not withstanding the foregoing, a floor equal to 100% of APS' System Incremental Cost.

Note B: The total amount of Power available for sales by APS under this Service Schedule and under other APS tariffs and agreements, for which the agreed upon demand

[5] The Maximum Demand Charge for weekly, daily and hourly periods were computed utilizing the "AEP" methodology.

[6] The Daily rate of $1.69/kW shall not exceed the product of the number of kilowatts sold for a week multiplied by the maximum weekly demand charge of $8.44/kW.

[7] The hourly rate of $0.1056/kW shall not exceed the product of the number of kilowatts sold for a day multiplied by the maximum daily demand charge of $1.69/kW, and also not exceed the product of the number of kilowatts sold for a week multiplied by the maximum weekly demand charge of $8.44/kW.

charge is determined based on Palo Verde Unit No. 3, is limited to 370 MWs (APS' share of Palo Verde No. 3) on an hourly basis.

Provided, however, the monthly ceiling rate and the monthly floor rate as defined above shall be the lesser of these rates: (i) developed utilizing the aggregate of APS' actual hourly SIC values during the month, or (ii) the rates as developed utilizing an aggregate of an hourly cents/kWh index in lieu of SIC. The hourly cents/kWh index shall be based on a Palo Verde Shaped Index[8].

II. When a sale of Coordination Power and Energy made by APS is conditioned upon APS acquiring Purchased Power, Purchaser shall pay the following amounts to APS for Power and Energy supplied under this Service Schedule B:

a) APS' actual Purchased Power costs

III. Purchaser shall also be responsible for any taxes, purchased power costs, and for any other costs incurred by APS in fulfilling its obligations for Coordination Power under this Service Schedule B which otherwise would not have been incurred.

B. <u>Transmission and Ancillary Service Rate Components:</u>

I. The Parties recognize that separate arrangements must be made for all required transmission and ancillary services associated with Power and Energy Exchange transactions. The Parties may negotiate the responsibility for costs related to all required transmission and ancillary services. If Purchaser obtains the required transmission and ancillary services, APS shall file a service agreement with the FERC placing the Purchaser under APS' Open Access Transmission Tariff. All pertinent arrangements for such services can be made directly with APS' Transmission Group personnel at:

Arizona Public Service Company
P.O. Box 53999; Station 2260
Phoenix, Arizona 85072-3999
Facsimile No. (602) 250-1127

II. In the alternative, Purchaser may request that APS' Merchant Group secure all transmission and ancillary services under APS' Open Access Transmission Tariff required to effect service to Purchaser. APS' Merchant Group shall have the option to decline such requests.

Should the APS Merchant Group secure all transmission and related services, an appropriate Open Access Transmission Tariff Service Agreement shall be filed with the Federal Energy Regulatory Commission.

The unbundled rate components for each transmission and ancillary service assessed to the Purchaser for Power and/or Energy under this Electric Coordination Tariff No. 1 are listed on Attachment A.

[8] The Hourly Palo Verde Shaped Index shall be determined as shown on Table A.

EXAMPLE OF DETERMINATION OF THE PALO VERDE SHAPED INDEX

TABLE A

Date	ou	SP-15 (1) Index $/MWh	PV Index (2) Firm Price On Peak $/MWh	PV Index (2) Firm Price Off Peak $/MWh	PV Shaped Index (3) ($/MWh)
9/1/1998	1	28.52		32.50	34.13
9/1/1998	2	27.48		32.50	32.88
9/1/1998	3	26.18		32.50	31.33
9/1/1998	4	25.48		32.50	30.49
9/1/1998	5	25.60		32.50	30.63
9/1/1998	6	27.55		32.50	32.97
9/1/1998	7	28.16	91.89		25.93
9/1/1998	8	29.37	91.89		27.04
9/1/1998	9	37.49	91.89		34.52
9/1/1998	10	49.00	91.89		45.12
9/1/1998	11	88.36	91.89		81.36
9/1/1998	12	102.84	91.89		94.70
9/1/1998	13	122.68	91.89		112.97
9/1/1998	14	136.86	91.89		126.03
9/1/1998	15	155.10	91.89		142.82
9/1/1998	16	167.06	91.89		153.83
9/1/1998	17	165.19	91.89		152.11
9/1/1998	18	141.53	91.89		130.33
9/1/1998	19	118.06	91.89		108.71
9/1/1998	20	104.99	91.89		96.68
9/1/1998	21	99.90	91.89		91.99
9/1/1998	22	50.00	91.89		46.04
9/1/1998	23	28.17		32.50	33.71
9/1/1998	24	28.29		32.50	33.85
Average for Day SP-15 on-peak			99.79	Avg PV Indx shaped onpk	91.89
Average for Day SP-15 off-peak			27.16	Avg PV Indx shaped offpk	32.50

Date	Hou	SP-15 (1) Index $/MWh	PV Index (2) Firm Price On Peak $/MWh	PV Index (2) Firm Price Off Peak $/MWh	PV Shaped Index (3) ($/MWh)
4/28/1999	1	14.50		14.88	14.43
4/28/1999	2	13.50		14.88	13.44
4/28/1999	3	11.52		14.88	11.47
4/28/1999	4	11.65		14.88	11.60
4/28/1999	5	12.00		14.88	11.94
4/28/1999	6	15.49		14.88	15.42
4/28/1999	7	24.32	26.85		22.67
4/28/1999	8	31.50	26.85		29.37
4/28/1999	9	30.59	26.85		28.52
4/28/1999	10	30.99	26.85		28.89
4/28/1999	11	29.71	26.85		27.70
4/28/1999	12	28.99	26.85		27.03
4/28/1999	13	28.49	26.85		26.56
4/28/1999	14	28.00	26.85		26.10
4/28/1999	15	27.49	26.85		25.63
4/28/1999	16	26.89	26.85		25.07
4/28/1999	17	26.84	26.85		25.02
4/28/1999	18	26.75	26.85		24.94
4/28/1999	19	26.28	26.85		24.50
4/28/1999	20	29.50	26.85		27.50
4/28/1999	21	35.00	26.85		32.63
4/28/1999	22	29.50	26.85		27.50
4/28/1999	23	23.64		14.88	23.53
4/28/1999	24	17.32		14.88	17.24
Average for Day SP-15 on-peak			28.80	Avg PV Indx shaped onpk	26.85
Average for Day SP-15 off-peak			14.95	Avg PV Indx shaped offpk	14.88

NOTES: (1) California Power Exchange (CalPX) Day Ahead Hourly SP-15 Post Congestion Index ("SP-15"). Found on Website: www. CALPX.com. For specific instructions: Get on website:http://www.calpx.com/prices/index_prices_dayahead_trading.html Then select the "Hourly Zonal Prices Constrained Report" and the dates you want. (For this example select 9/1/98) Hit the "view" key. Scroll over to SP-15 (right side) and look at the price. It should be $28.52 for hour 1.

(2) Dow Jones Palo Verde Daily On and Off-Peak Index. This index can be found for three current months on website http://www.energyonline.com/Restructuring/energydb/estathme.html.

(3) The on-peak value of the Palo Verde Shaped Index is calculated by taking the ratio of the SP-15 Index hourly value on-peak divide it by the SP-15 average daily on-peak values, times the Palo Verde On-Peak value for the day. The off-peak value for PV Shaped Index is calculted using SP-15 off-peak values in the ratio times the PV off-peak value for the day. PV Index Shaped = SP-15 hourly value/SP15 Average of Daily Values X PV Index for same hour.

Appendix A-1

ARIZONA PUBLIC SERVICE COMPANY

Units Most Likely To Participate Methodology

Determination of Ceiling Rates Applicable to Sales of Coordination Power and Energy Under Service Schedule A.

A. Generation Related Rate Component:

I. For sales of Coordination Power and Energy made by APS from certain APS resources, Purchaser shall pay a charge for unbundled generation related service not to exceed the following amounts to APS for Power and Energy supplied under Service Schedule A:

Maximum Demand Charge:[1]

Annual	$	60.93/kW
Monthly	$	5.08/kW
Weekly	$	1.17/kW
Daily	$	0.23/kW[2]
Hourly	$	0.0144/kW[3]

plus

Energy Charge:

a) no less than 100% of APS' System Incremental Costs (SIC); plus
b) up to 10% of SIC

Provided, however, the monthly ceiling rate as defined above shall be the lesser of this rate: (i) developed utilizing the aggregate of APS' actual hourly SIC values during the month, or (ii) the rate as developed utilizing an aggregate of an hourly cents/kWh index in lieu of SIC. The hourly cents/kWh index shall be based on a Palo Verde Shaped Index[4].

II. When a sale of Coordination Power and Energy made by APS is conditioned upon APS acquiring Purchased Power, Purchaser shall pay the following amounts to APS for Power and Energy supplied under this Service Schedule A:

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[1] The Maximum Demand Charge for weekly, daily and hourly periods were computed utilizing the "AEP" methodology.

[2] The Daily rate of $0.23/kW shall not exceed the product of the number of kilowatts sold for a week multiplied by the maximum weekly demand charge of $1.17/kW.

[3] The hourly rate of $0.0144/kW shall not exceed the product of the number of kilowatts sold for a day multiplied by the maximum daily demand charge of $0.23/kW, and also not exceed the product of the number of kilowatts sold for a week multiplied by the maximum weekly demand charge of $1.17/kW.

[4] The Hourly Palo Verde Shaped Index shall be determined as shown on Table A.

a) APS' actual Purchased Power costs

III. Purchaser shall also be responsible for any taxes, purchased power costs, and for any other costs incurred by APS in fulfilling its obligations for Coordination Power under this Service Schedule A which otherwise would not have been incurred.

B. Transmission and Ancillary Service Rate Components:

I. Purchaser shall be required to secure transmission and ancillary services from APS' Transmission Group on its own behalf. If Purchaser obtains the required transmission and ancillary services, APS shall file a service agreement with the FERC placing the Purchaser under APS' Open Access Transmission Tariff. All pertinent arrangements for such services can be made directly with APS' Transmission Group personnel at:

Arizona Public Service Company
P.O. Box 53999; Station 2260
Phoenix, Arizona 85072-3999
Facsimile No. (602) 250-1127

II. In the alternative, Purchaser may request that APS' Merchant Group secure all transmission and ancillary services under APS' Open Access Transmission Tariff required to effect service to Purchaser. APS' Merchant Group shall have the option to decline such requests.

Should the APS Merchant Group secure all transmission and related services, an appropriate Open Access Transmission Tariff Service Agreement shall be filed with the Federal Energy Regulatory Commission.

The unbundled rate components for each transmission and ancillary service assessed to the Purchaser for Power and/or Energy under this Electric Coordination Tariff No. 1 are listed on Attachment A.

Appendix A-2

ARIZONA PUBLIC SERVICE COMPANY

Unit Revenue Constraint Methodology

Determination of Ceiling Rates Applicable to Sales of Coordination Power and Energy Under Service Schedule A

A. **Generation Related Rate Component:**

I. For sales of Coordination Power and Energy made by APS based on the costs of Palo Verde Unit No. 3, Purchaser shall pay a charge for unbundled generation related service not to exceed the following amounts to APS for Power and Energy supplied under Service Schedule A:

Maximum Demand Charge:[5]

Annual	$ 438.80/kW
Monthly	$ 36.57/kW
Weekly	$ 8.44/kW
Daily	$ 1.69/kW[6]
Hourly	$ 0.1056/kW[7]

plus

Energy Charge:

a) no less than 100% of APS' System Incremental Costs (SIC), plus
b) up to 10% of SIC

Note A: The total charges for Power and Energy shall not exceed the product of the requested demand (kW) multiplied by the applicable Maximum Demand Charge in Section I above, plus the variable costs of Palo Verde Unit No. 3 (based on the second previous month's cost data), and not withstanding the foregoing, a floor equal to 100% of APS' System Incremental Cost.

Note B: The total amount of Power available for sales by APS under this Service Schedule and under other APS tariffs and agreements, for which the agreed upon demand

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[5] The Maximum Demand Charge for weekly, daily and hourly periods were computed utilizing the "AEP" methodology.

[6] The Daily rate of $1.69/kW shall not exceed the product of the number of kilowatts sold for a week multiplied by the maximum weekly demand charge of $8.44/kW.

[7] The hourly rate of $0.1056/kW shall not exceed the product of the number of kilowatts sold for a day multiplied by the maximum daily demand charge of $1.69/kW, and also not exceed the product of the number of kilowatts sold for a week multiplied by the maximum weekly demand charge of $8.44/kW.

charge is determined based on Palo Verde Unit No. 3, is limited to 370 MWs (APS' share of Palo Verde No. 3) on an hourly basis.

Provided, however, the monthly ceiling rate and the monthly floor rate as defined above shall be the lesser of these rates: (i) developed utilizing the aggregate of APS' actual hourly SIC values during the month, or (ii) the rates as developed utilizing an aggregate of an hourly cents/kWh index in lieu of SIC. The hourly cents/kWh index shall be based on a Palo Verde Shaped Index[8].

II. When a sale of Coordination Power and Energy made by APS is conditioned upon APS acquiring Purchased Power, Purchaser shall pay the following amounts to APS for Power and Energy supplied under this Service Schedule A:

a) APS' actual Purchased Power costs

III. Purchaser shall also be responsible for any taxes, purchased power costs, and for any other costs incurred by APS in fulfilling its obligations for Coordination Power under this Service Schedule A which otherwise would not have been incurred.

B. Transmission and Ancillary Service Rate Components:

I. Purchaser shall be required to secure transmission and ancillary services from APS' Transmission Group on its own behalf. If Purchaser obtains the required transmission and ancillary services, APS shall file a service agreement with the FERC placing the Purchaser under APS' Open Access Transmission Tariff. All pertinent arrangements for such services can be made directly with APS' Transmission Group personnel at:

Arizona Public Service Company
P.O. Box 53999; Station 2260
Phoenix, Arizona 85072-3999
Facsimile No. (602) 250-1127

II. In the alternative, Purchaser may request that APS' Merchant Group secure all transmission and ancillary services under APS' Open Access Transmission Tariff required to effect service to Purchaser. APS' Merchant Group shall have the option to decline such requests.

Should the APS Merchant Group secure all transmission and related services, an appropriate Open Access Transmission Tariff Service Agreement shall be filed with the Federal Energy Regulatory Commission.

The unbundled rate components for each transmission and ancillary service assessed to the Purchaser for Power and/or Energy under this Electric Coordination Tariff No. 1 are listed on Attachment A.

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[8] The Hourly Palo Verde Shaped Index shall be determined as shown on Table A.

Appendix B-1

ARIZONA PUBLIC SERVICE COMPANY

Units Most Likely to Participate Methodology

Determination of Ceiling Rates Applicable to Non-Returned Power and Energy Under Service Schedule B

A. Generation Related Rate Component:

I. For sales of non-returned Power and Energy exchange deliveries made by APS from certain APS resources, Purchaser shall pay a charge for unbundled generation related service not to exceed the following amounts to APS for Power and Energy supplied under this Service Schedule B:

Maximum Demand Charge:[1]

Annual	$	60.93/kW
Monthly	$	5.08/kW
Weekly	$	1.17/kW
Daily	$	0.23/kW[2]
Hourly	$	0.0144/kW[3]

plus

Energy Charge:

a) no less than 100% of APS' System Incremental Costs (SIC), plus
b) up to 10% of SIC

Provided, however, the monthly ceiling rate as defined above shall be the lesser of this rate: (i) developed utilizing the aggregate of APS' actual hourly SIC values during the month, or (ii) the rate as developed utilizing an aggregate of an hourly cents/kWh index in lieu of SIC. The hourly cents/kWh index shall be based on a Palo Verde Shaped Index[4].

[1] The Maximum Demand Charge for weekly, daily and hourly periods were computed utilizing the "AEP" methodology.

[2] The Daily rate of $0.23/kW shall not exceed the product of the number of kilowatts sold for a week multiplied by the maximum weekly demand charge of $1.17/kW.

[3] The hourly rate of $0.0144/kW shall not exceed the product of the number of kilowatts sold for a day multiplied by the maximum daily demand charge of $0.23/kW, and also not exceed the product of the number of kilowatts sold for a week multiplied by the maximum weekly demand charge of $1.17/kW.

[4] The Hourly Palo Verde Shaped Index shall be determined as shown on Table A.

II. When a sale of Coordination Power and Energy made by APS is conditioned upon APS acquiring Purchased Power, Purchaser shall pay the following amounts to APS for Power and Energy supplied under this Service Schedule B:

a) APS' actual Purchased Power costs

III. Purchaser shall also be responsible for any taxes, purchased power costs, and for any other costs incurred by APS in fulfilling its obligations for Coordination Power under this Service Schedule B which otherwise would not have been incurred.

B. Transmission and Ancillary Service Rate Components:

I. The Parties recognize that separate arrangements must be made for all required transmission and ancillary services associated with Power and Energy Exchange transactions. The Parties may negotiate the responsibility for costs related to all required transmission and ancillary services. If Purchaser obtains the required transmission and ancillary services, APS shall file a service agreement with the FERC placing the Purchaser under APS' Open Access Transmission Tariff. All pertinent arrangements for such services can be made directly with APS' Transmission Group personnel at:

Arizona Public Service Company
P.O. Box 53999; Station 2260
Phoenix, Arizona 85072-3999
Facsimile No. (602) 250-1127

II. In the alternative, Purchaser may request that APS' Merchant Group secure all transmission and ancillary services under APS' Open Access Transmission Tariff required to effect service to Purchaser. APS' Merchant Group shall have the option to decline such requests.

Should the APS Merchant Group secure all transmission and related services, an appropriate Open Access Transmission Tariff Service Agreement shall be filed with the Federal Energy Regulatory Commission.

The unbundled rate components for each transmission and ancillary service assessed to the Purchaser for Power and/or Energy under this Electric Coordination Tariff No. 1 are listed on Attachment A.

Appendix B-2

ARIZONA PUBLIC SERVICE COMPANY

Unit Revenue Constraint Methodology

Determination of Ceiling Rates Applicable to Non-Returned Power and Energy Under Service Schedule B

A. Generation Related Rate Component:

I. For sales of non–returned Power and Energy exchange deliveries made by APS based on the costs of Palo Verde Unit No. 3, Purchaser shall pay a charge for unbundled generation related service not to exceed the following amounts to APS for Power and Energy supplied under this Service Schedule B:

Maximum Demand Charge:[5]

Annual	$ 438.80/kW
Monthly	$ 36.57/kW
Weekly	$ 8.44/kW
Daily	$ 1.69/kW[6]
Hourly	$ 0.1056/kW[7]

plus

Energy Charge:

a) no less than 100% of APS' System Incremental Costs (SIC), plus
b) up to 10% of SIC

Note A: The total charges for Power and Energy shall not exceed the product of the requested demand (kW) multiplied by the applicable Maximum Demand Charge in Section I above, plus the variable costs of Palo Verde Unit No. 3 (based on the second previous month's cost data), and not withstanding the foregoing, a floor equal to 100% of APS' System Incremental Cost.

Note B: The total amount of Power available for sales by APS under this Service Schedule and under other APS tariffs and agreements, for which the agreed upon demand

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[5] The Maximum Demand Charge for weekly, daily and hourly periods were computed utilizing the "AEP" methodology.

[6] The Daily rate of $1.69/kW shall not exceed the product of the number of kilowatts sold for a week multiplied by the maximum weekly demand charge of $8.44/kW.

[7] The hourly rate of $0.1056/kW shall not exceed the product of the number of kilowatts sold for a day multiplied by the maximum daily demand charge of $1.69/kW, and also not exceed the product of the number of kilowatts sold for a week multiplied by the maximum weekly demand charge of $8.44/kW.

charge is determined based on Palo Verde Unit No. 3, is limited to 370 MWs (APS' share of Palo Verde No. 3) on an hourly basis.

Provided, however, the monthly ceiling rate and the monthly floor rate as defined above shall be the lesser of these rates: (i) developed utilizing the aggregate of APS' actual hourly SIC values during the month, or (ii) the rates as developed utilizing an aggregate of an hourly cents/kWh index in lieu of SIC. The hourly cents/kWh index shall be based on a Palo Verde Shaped Index[8].

II. When a sale of Coordination Power and Energy made by APS is conditioned upon APS acquiring Purchased Power, Purchaser shall pay the following amounts to APS for Power and Energy supplied under this Service Schedule B:

a) APS' actual Purchased Power costs

III. Purchaser shall also be responsible for any taxes, purchased power costs, and for any other costs incurred by APS in fulfilling its obligations for Coordination Power under this Service Schedule B which otherwise would not have been incurred.

B. Transmission and Ancillary Service Rate Components:

I. The Parties recognize that separate arrangements must be made for all required transmission and ancillary services associated with Power and Energy Exchange transactions. The Parties may negotiate the responsibility for costs related to all required transmission and ancillary services. If Purchaser obtains the required transmission and ancillary services, APS shall file a service agreement with the FERC placing the Purchaser under APS' Open Access Transmission Tariff. All pertinent arrangements for such services can be made directly with APS' Transmission Group personnel at:

Arizona Public Service Company
P.O. Box 53999; Station 2260
Phoenix, Arizona 85072-3999
Facsimile No. (602) 250-1127

II. In the alternative, Purchaser may request that APS' Merchant Group secure all transmission and ancillary services under APS' Open Access Transmission Tariff required to effect service to Purchaser. APS' Merchant Group shall have the option to decline such requests.

Should the APS Merchant Group secure all transmission and related services, an appropriate Open Access Transmission Tariff Service Agreement shall be filed with the Federal Energy Regulatory Commission.

The unbundled rate components for each transmission and ancillary service assessed to the Purchaser for Power and/or Energy under this Electric Coordination Tariff No. 1 are listed on Attachment A.

[8] The Hourly Palo Verde Shaped Index shall be determined as shown on Table A.

APS-FERC Rate Schedule No. 225

Citizens Utilities Company

Conformed & Red-Lined Copy

SERVICE SCHEDULE A - WHOLESALE POWER
TO THE
POWER SERVICE AGREEMENT
BETWEEN
ARIZONA PUBLIC SERVICE COMPANY
AND
CITIZENS UTILITIES COMPANY

EXHIBIT B

DETERMINATION OF CEILING AND MINIMUM RATES APPLICABLE
TO SALE OF WHOLESALE POWER UNDER SERVICE SCHEDULE A

I. .Sales of Wholesale Power made by APS under the terms and conditions of Service Schedule A to the Wholesale Power Service Agreement shall be based on the costs of Palo Verde Unit No. 3. Citizens shall pay a charge not to exceed the following amounts to APS for power and energy supplied under Service Schedule A:

Maximum Demand Charge:[1]

Annual	$ 515.83/kW
Monthly	$ 42.99/kW
Weekly	$ 9.92/kW
Daily	$ 1.98/kW[2]
Hourly	$ 0.1238/kW[3]

plus

Energy Charge:

a) no less than 100% of APS' System Incremental Costs (SIC), plus

b) up to 10% of SIC[4]

Note A: The total charges for Power and Energy shall not exceed the product of the requested demand (kW) multiplied by the applicable Maximum Demand Charge in Section 1 above, plus the variable costs of Palo Verde Unit No. 3 (based on the second previous month's cost data), and not withstanding the foregoing, a floor equal to 100% of APS' System Incremental Cost.

Note B: The total amount of Power available for sales by APS under this Service Schedule and under other APS tariffs and agreements, for which the agreed upon demand charge is determined based on Palo Verde Unit No. 3, is limited to 370 MW(APS' share of Palo Verde No. 3) on an hourly basis.

II. The minimum charge for service under Service Schedule A shall be the SIC.

Provided, however, the monthly ceiling rate and monthly minimum rate as defined in parts I and II above, shall be the lesser of these rates: (i) developed utilizing the aggregate of APS' actual hourly SIC values during the month, or

[1] The Maximum Demand Charge for weekly, daily and hourly periods were computed utilizing the "AEP" methodology

[2] The Daily rate of $1.98/kW shall not exceed the product of the number of kilowatts sold for a week multiplied by the maximum weekly demand charge of $9.92/kW.

[3] The hourly rate of $0.1238/kW shall not exceed the product of the number of kilowatts sold for a day multiplied by the maximum daily demand charge of $1.98/kW, and also not exceed the product of the number of kilowatts sold for a week multiplied by the maximum weekly demand charge of $9.92kW.

[4] Whenever the SIC for an hour is based on Purchased Power, the 10% mark-up shall be limited to one mill/kWh.

(ii) the rates as developed utilizing the aggregate of hourly cents/kWh index in lieu of SIC. The hourly cents/kWh index shall be based on a Palo Verde Shaped Index[5].

III. Citizens shall also be responsible for purchased power costs, and for any other costs incurred by APS in fulfilling its obligations for power and energy under this Service Schedule A which otherwise would not have been incurred.

[5] The Hourly Palo Verde Shaped Index shall be determined as shown on Table A.

SERVICE SCHEDULE B
(SUPPLEMENTAL CAPACITY)
TO THE
POWER SERVICE AGREEMENT
BETWEEN
ARIZONA PUBLIC SERVICE COMPANY
AND
CITIZENS UTILITIES COMPANY

EXHIBIT A

DETERMINATION OF CEILING AND MINIMUM RATES APPLICABLE TO SALE OF SUPPLEMENTAL CAPACITY UNDER SERVICE SCHEDULE B.

I. Sales of Supplemental Capacity and related energy made by APS under the terms and conditions of Service Schedule B to the Wholesale Power Service Agreement from certain APS resources shall not exceed the following amounts:

Maximum Demand Charge:[1]

Annual	$105.77/kW
Monthly	$ 8.81/kW
Weekly	$ 2.03/kW
Daily	$ 0.41/kW[2]
Hourly	$ 0.0256/kW[3]

plus

Energy Charge:

a) no less than 100% of APS' System. Incremental Costs (SIC), plus
b) Up to 10% of SIC[4]

II. The minimum charge for service under Service Schedule B shall be the SIC.

Provided, however, the monthly ceiling rate and monthly minimum rate as defined in parts I and II above, shall be the lesser of these rates: (i) developed utilizing the aggregate of APS' actual hourly SIC values during the month, or (ii) the rates as developed utilizing the aggregate of hourly cents/kWh index in lieu of SIC. The hourly cents/kWh index shall be based on a Palo Verde Shaped Index[5].

---

[1] The Maximum Demand Charge for weekly, daily and hourly periods were computed utilizing the "AEP" methodology.

[2] The Daily rate of $0.41/kW shall not exceed the product of the number of kilowatts sold for a week multiplied by the maximum weekly demand charge of $2.03/kW.

[3] The hourly rate of $0.0256/kW shall not exceed the product of the number of kilowatts sold for a day multiplied by the maximum daily demand charge of $0.41/kW, and also not exceed the product of the number of kilowatts sold for a week multiplied by the maximum weekly demand charge of $2.03kW.

[4] Whenever the SIC for an hour is based on Purchased Power, the 10% mark-up shall be limited to one mill/kWh.

[5] The Hourly Palo Verde Shaped Index shall be determined as shown on Table A.

III. Citizens shall also be responsible for purchased power costs, and for any other costs incurred by APS in fulfilling its obligations for supplemental capacity and energy under this Service Schedule B which otherwise would not have been incurred.

SERVICE SCHEDULE C - SUPPLEMENTAL PEAKING ENERGY
TO THE
POWER SERVICE AGREEMENT
BETWEEN
ARIZONA PUBLIC SERVICE COMPANY
AND
CITIZENS UTILITIES COMPANY

EXHIBIT A

DETERMINATION OF CEILING AND MINIMUM RATES APPLICABLE TO SALE OF SUPPLEMENTAL PEAKING ENERGY UNDER SERVICE SCHEDULE B

I. Sales of Supplemental Peaking Energy made by APS under the terms and conditions of Service Schedule C to the Wholesale Power Service Agreement from certain APS resources shall not exceed the following amounts:

Maximum Demand Charge:[1]

Annual	$ 105.77/kW
Monthly	$ 8.81/kW
Weekly	$ 2.03/kW
Daily	$ 0.41/kW[2]
Hourly	$ 0.0256/kW[3]

plus

Energy Charge:

a) no less than 100% of APS' System Incremental Costs (SIC), plus

b) up to 10% of SIC[4]

II. The minimum charge of service under Service Schedule C shall be the SIC.

Provided, however, the monthly ceiling rate and monthly minimum rate as defined in parts I and II above, shall be the lesser of these rates: (i) developed utilizing the aggregate of APS' actual hourly SIC values during the month, or (ii) the rates as developed utilizing the aggregate of hourly cents/kWh index in lieu of SIC. The hourly cents/kWh index shall be based on a Palo Verde Shaped Index[5].

---

[1] The Maximum Demand Charge for weekly, daily and hourly periods were computed utilizing the "AEP" methodology.

[2] The Daily rate of $0.41/kW shall not exceed the product of the number of kilowatts sold for a week multiplied by the maximum weekly demand charge of $2.03/kW.

[3] The hourly rate of $0.0256/kW shall not exceed the product of the number of kilowatts sold for a day multiplied by the maximum daily demand charge of $0.41/kW, and also not exceed the product of the number of kilowatts sold for a week multiplied by the maximum weekly demand charge of $2.03kW.

[4] Whenever the SIC for an hour is based on Purchased Power, the 10% mark-up shall be limited to one mill/kWh.

[5] The Hourly Palo Verde Shaped Index shall be determined as shown on Table A.

III. Citizens shall also be responsible for purchased power costs, and for any other costs incurred by APS in fulfilling its obligations for supplemental peaking energy under this Service Schedule C which otherwise would not have been incurred.

EXAMPLE OF DETERMINATION OF THE PALO VERDE SHAPED INDEX

TABLE A

Date	ou	SP-15 (1) Index $/MWh	PV Index (2) Firm Price On Peak $/MWh	PV Index (2) Firm Price Off Peak $/MWh	PV Shaped Index (3) ($/MWh)	Date	Hou	SP-15 (1) Index $/MWh	PV Index (2) Firm Price On Peak $/MWh	PV Index (2) Firm Price Off Peak $/MWh	PV Shaped Index (3) ($/MWh)
9/1/1998	1	28.52		32.50	34.13	4/28/1999	1	14.50		14.88	14.43
9/1/1998	2	27.48		32.50	32.88	4/28/1999	2	13.50		14.88	13.44
9/1/1998	3	26.18		32.50	31.33	4/28/1999	3	11.52		14.88	11.47
9/1/1998	4	25.48		32.50	30.49	4/28/1999	4	11.65		14.88	11.60
9/1/1998	5	25.60		32.50	30.63	4/28/1999	5	12.00		14.88	11.94
9/1/1998	6	27.55		32.50	32.97	4/28/1999	6	15.49		14.88	15.42
9/1/1998	7	28.16	91.89		25.93	4/28/1999	7	24.32	26.85		22.67
9/1/1998	8	29.37	91.89		27.04	4/28/1999	8	31.50	26.85		29.37
9/1/1998	9	37.49	91.89		34.52	4/28/1999	9	30.59	26.85		28.52
9/1/1998	10	49.00	91.89		45.12	4/28/1999	10	30.99	26.85		28.89
9/1/1998	11	88.36	91.89		81.36	4/28/1999	11	29.71	26.85		27.70
9/1/1998	12	102.84	91.89		94.70	4/28/1999	12	28.99	26.85		27.03
9/1/1998	13	122.68	91.89		112.97	4/28/1999	13	28.49	26.85		26.56
9/1/1998	14	136.86	91.89		126.03	4/28/1999	14	28.00	26.85		26.10
9/1/1998	15	155.10	91.89		142.82	4/28/1999	15	27.49	26.85		25.63
9/1/1998	16	167.06	91.89		153.83	4/28/1999	16	26.89	26.85		25.07
9/1/1998	17	165.19	91.89		152.11	4/28/1999	17	26.84	26.85		25.02
9/1/1998	18	141.53	91.89		130.33	4/28/1999	18	26.75	26.85		24.94
9/1/1998	19	118.06	91.89		108.71	4/28/1999	19	26.28	26.85		24.50
9/1/1998	20	104.99	91.89		96.68	4/28/1999	20	29.50	26.85		27.50
9/1/1998	21	99.90	91.89		91.99	4/28/1999	21	35.00	26.85		32.63
9/1/1998	22	50.00	91.89		46.04	4/28/1999	22	29.50	26.85		27.50
9/1/1998	23	28.17		32.50	33.71	4/28/1999	23	23.64		14.88	23.53
9/1/1998	24	28.29		32.50	33.85	4/28/1999	24	17.32		14.88	17.24
Average for Day SP-15 on-peak			99.79	Avg PV Indx shaped onpk	91.89	Average for Day SP-15 on-peak			28.80	Avg PV Indx shaped onpk	26.85
Average for Day SP-15 off-peak			27.16	Avg PV Indx shaped offpk	32.50	Average for Day SP-15 off-peak			14.95	Avg PV Indx shaped offpk	14.88

NOTES: (1) California Power Exchange (CalPX) Day Ahead Hourly SP-15 Post Congestion Index ("SP-15"). Found on Website: www. CALPX.com. For specific instructions: Get on website:http://www.calpx.com/prices/index_prices_dayahead_trading.html Then select the "Hourly Zonal Prices Constrained Report" and the dates you want. (For this example select 9/1/98) Hit the "view" key. Scroll over to SP-15 (right side) and look at the price. It should be $28.52 for hour 1.

(2) Dow Jones Palo Verde Daily On and Off-Peak Index. This index can be found for three current months on website http://www.energyonline.com/Restructuring/energydb/estathme.html.

(3) The on-peak value of the Palo Verde Shaped Index is calculated by taking the ratio of the SP-15 Index hourly value on-peak divide it by the SP-15 average daily on-peak values, times the Palo Verde On-Peak value for the day. The off-peak value for PV Shaped Index is calculted using SP-15 off-peak values in the ratio times the PV off-peak value for the day. PV Index Shaped = SP-15 hourly value/SP15 Average of Daily Values X PV Index for same hour.

SERVICE SCHEDULE A - WHOLESALE POWER
TO THE
POWER SERVICE AGREEMENT
BETWEEN
ARIZONA PUBLIC SERVICE COMPANY
AND
CITIZENS UTILITIES COMPANY

EXHIBIT B

DETERMINATION OF CEILING AND MINIMUM RATES APPLICABLE
TO SALE OF WHOLESALE POWER UNDER SERVICE SCHEDULE A

I. .Sales of Wholesale Power made by APS under the terms and conditions of Service Schedule A to the Wholesale Power Service Agreement shall be based on the costs of Palo Verde Unit No. 3. Citizens shall pay a charge not to exceed the following amounts to APS for power and energy supplied under Service Schedule A:

Maximum Demand Charge:[1]

Annual	$ 515.83/kW
Monthly	$ 42.99/kW
Weekly	$ 9.92/kW
Daily	$ 1.98/kW[2]
Hourly	$ 0.1238/kW[3]

plus

Energy Charge:

a) no less than 100% of APS' System Incremental Costs (SIC), plus

b) up to 10% of SIC[4]

Note A: The total charges for Power and Energy shall not exceed the product of the requested demand (kW) multiplied by the applicable Maximum Demand Charge in Section 1 above, plus the variable costs of Palo Verde Unit No. 3 (based on the second previous month's cost data), and not withstanding the foregoing, a floor equal to 100% of APS' System Incremental Cost.

Note B: The total amount of Power available for sales by APS under this Service Schedule and under other APS tariffs and agreements, for which the agreed upon demand charge is determined based on Palo Verde Unit No. 3, is limited to 370 MW(APS' share of Palo Verde No. 3) on an hourly basis.

II. The minimum charge for service under Service Schedule A shall be the SIC.

Provided, however, the monthly ceiling rate and monthly minimum rate as defined in parts I and II above, shall be the lesser of these rates: (i) developed utilizing the aggregate of APS' actual hourly SIC values during the month, or

[1] The Maximum Demand Charge for weekly, daily and hourly periods were computed utilizing the "AEP" methodology

[2] The Daily rate of $1.98/kW shall not exceed the product of the number of kilowatts sold for a week multiplied by the maximum weekly demand charge of $9.92/kW.

[3] The hourly rate of $0.1238/kW shall not exceed the product of the number of kilowatts sold for a day multiplied by the maximum daily demand charge of $1.98/kW, and also not exceed the product of the number of kilowatts sold for a week multiplied by the maximum weekly demand charge of $9.92kW.

[4] Whenever the SIC for an hour is based on Purchased Power, the 10% mark-up shall be limited to one mill/kWh.

SERVICE SCHEDULE B
(SUPPLEMENTAL CAPACITY)
TO THE
POWER SERVICE AGREEMENT
BETWEEN
ARIZONA PUBLIC SERVICE COMPANY
AND
CITIZENS UTILITIES COMPANY

EXHIBIT A

DETERMINATION OF CEILING AND MINIMUM RATES APPLICABLE TO SALE OF SUPPLEMENTAL CAPACITY UNDER SERVICE SCHEDULE B.

I. Sales of Supplemental Capacity and related energy made by APS under the terms and conditions of Service Schedule B to the Wholesale Power Service Agreement from certain APS resources shall not exceed the following amounts:

Maximum Demand Charge:[1]

Annual	$105.77/kW
Monthly	$ 8.81/kW
Weekly	$ 2.03/kW
Daily	$ 0.41/kW[2]
Hourly	$ 0.0256/kW[3]

plus

Energy Charge:

a) no less than 100% of APS' System. Incremental Costs (SIC), plus
b) Up to 10% of SIC[4]

II. The minimum charge for service under Service Schedule B shall be the SIC.

Provided, however, the monthly ceiling rate and monthly minimum rate as defined in parts I and II above, shall be the lesser of these rates: (i) developed utilizing the aggregate of APS' actual hourly SIC values during the month, or (ii) the rates as developed utilizing the aggregate of hourly cents/kWh index in lieu of SIC. The hourly cents/kWh index shall be based on a Palo Verde Shaped Index[5].

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[1] The Maximum Demand Charge for weekly, daily and hourly periods were computed utilizing the "AEP" methodology.

[2] The Daily rate of $0.41/kW shall not exceed the product of the number of kilowatts sold for a week multiplied by the maximum weekly demand charge of $2.03/kW.

[3] The hourly rate of $0.0256/kW shall not exceed the product of the number of kilowatts sold for a day multiplied by the maximum daily demand charge of $0.41/kW, and also not exceed the product of the number of kilowatts sold for a week multiplied by the maximum weekly demand charge of $2.03kW.

[4] Whenever the SIC for an hour is based on Purchased Power, the 10% mark-up shall be limited to one mill/kWh.

[5] The Hourly Palo Verde Shaped Index shall be determined as shown on Table A.

III. Citizens shall also be responsible for purchased power costs, and for any other costs incurred by APS in fulfilling its obligations for supplemental capacity and energy under this Service Schedule B which otherwise would not have been incurred.

SERVICE SCHEDULE C - SUPPLEMENTAL PEAKING ENERGY
TO THE
POWER SERVICE AGREEMENT
BETWEEN
ARIZONA PUBLIC SERVICE COMPANY
AND
CITIZENS UTILITIES COMPANY

EXHIBIT A

DETERMINATION OF CEILING AND MINIMUM RATES APPLICABLE TO SALE OF SUPPLEMENTAL PEAKING ENERGY UNDER SERVICE SCHEDULE B

I. Sales of Supplemental Peaking Energy made by APS under the terms and conditions of Service Schedule C to the Wholesale Power Service Agreement from certain APS resources shall not exceed the following amounts:

Maximum Demand Charge:[1]

Annual	$ 105.77/kW
Monthly	$ 8.81/kW
Weekly	$ 2.03/kW
Daily	$ 0.41/kW[2]
Hourly	$ 0.0256/kW[3]

plus

Energy Charge:

a) no less than 100% of APS' System Incremental Costs (SIC), plus

b) up to 10% of SIC[4]

II. The minimum charge of service under Service Schedule C shall be the SIC.

Provided, however, the monthly ceiling rate and monthly minimum rate as defined in parts I and II above, shall be the lesser of these rates: (i) developed utilizing the aggregate of APS' actual hourly SIC values during the month, or (ii) the rates as developed utilizing the aggregate of hourly cents/kWh index in lieu of SIC. The hourly cents/kWh index shall be based on a Palo Verde Shaped Index[5].

[1] The Maximum Demand Charge for weekly, daily and hourly periods were computed utilizing the "AEP" methodology.

[2] The Daily rate of $0.41/kW shall not exceed the product of the number of kilowatts sold for a week multiplied by the maximum weekly demand charge of $2.03/kW.

[3] The hourly rate of $0.0256/kW shall not exceed the product of the number of kilowatts sold for a day multiplied by the maximum daily demand charge of $0.41/kW, and also not exceed the product of the number of kilowatts sold for a week multiplied by the maximum weekly demand charge of $2.03kW.

[4] Whenever the SIC for an hour is based on Purchased Power, the 10% mark-up shall be limited to one mill/kWh.

[5] The Hourly Palo Verde Shaped Index shall be determined as shown on Table A.

III. Citizens shall also be responsible for purchased power costs, and for any other costs incurred by APS in fulfilling its obligations for supplemental peaking energy under this Service Schedule C which otherwise would not have been incurred.

EXAMPLE OF DETERMINATION OF THE PALO VERDE SHAPED INDEX

TABLE A

Date	ou	SP-15 (1) Index $/MWh	PV Index (2) Firm Price On Peak $/MWh	PV Index (2) Firm Price Off Peak $/MWh	PV Shaped Index (3) ($/MWh)	Date	Hou	SP-15 (1) Index $/MWh	PV Index (2) Firm Price On Peak $/MWh	PV Index (2) Firm Price Off Peak $/MWh	PV Shaped Index (3) ($/MWh)
9/1/1998	1	28.52		32.50	34.13	4/28/1999	1	14.50		14.88	14.43
9/1/1998	2	27.48		32.50	32.88	4/28/1999	2	13.50		14.88	13.44
9/1/1998	3	26.18		32.50	31.33	4/28/1999	3	11.52		14.88	11.47
9/1/1998	4	25.48		32.50	30.49	4/28/1999	4	11.65		14.88	11.60
9/1/1998	5	25.60		32.50	30.63	4/28/1999	5	12.00		14.88	11.94
9/1/1998	6	27.55		32.50	32.97	4/28/1999	6	15.49		14.88	15.42
9/1/1998	7	28.16	91.89		25.93	4/28/1999	7	24.32	26.85		22.67
9/1/1998	8	29.37	91.89		27.04	4/28/1999	8	31.50	26.85		29.37
9/1/1998	9	37.49	91.89		34.52	4/28/1999	9	30.59	26.85		28.52
9/1/1998	10	49.00	91.89		45.12	4/28/1999	10	30.99	26.85		28.89
9/1/1998	11	88.36	91.89		81.36	4/28/1999	11	29.71	26.85		27.70
9/1/1998	12	102.84	91.89		94.70	4/28/1999	12	28.99	26.85		27.03
9/1/1998	13	122.68	91.89		112.97	4/28/1999	13	28.49	26.85		26.56
9/1/1998	14	136.86	91.89		126.03	4/28/1999	14	28.00	26.85		26.10
9/1/1998	15	155.10	91.89		142.82	4/28/1999	15	27.49	26.85		25.63
9/1/1998	16	167.06	91.89		153.83	4/28/1999	16	26.89	26.85		25.07
9/1/1998	17	165.19	91.89		152.11	4/28/1999	17	26.84	26.85		25.02
9/1/1998	18	141.53	91.89		130.33	4/28/1999	18	26.75	26.85		24.94
9/1/1998	19	118.06	91.89		108.71	4/28/1999	19	26.28	26.85		24.50
9/1/1998	20	104.99	91.89		96.68	4/28/1999	20	29.50	26.85		27.50
9/1/1998	21	99.90	91.89		91.99	4/28/1999	21	35.00	26.85		32.63
9/1/1998	22	50.00	91.89		46.04	4/28/1999	22	29.50	26.85		27.50
9/1/1998	23	28.17		32.50	33.71	4/28/1999	23	23.64		14.88	23.53
9/1/1998	24	28.29		32.50	33.85	4/28/1999	24	17.32		14.88	17.24
Average for Day SP-15 on-peak			99.79	Avg PV Indx shaped onpk	91.89	Average for Day SP-15 on-peak			28.80	Avg PV Indx shaped onpk	26.85
Average for Day SP-15 off-peak			27.16	Avg PV Indx shaped offpk	32.50	Average for Day SP-15 off-peak			14.95	Avg PV Indx shaped offpk	14.88

NOTES: (1) California Power Exchange (CalPX) Day Ahead Hourly SP-15 Post Congestion Index ("SP-15"). Found on Website: www. CALPX.com. For specific instructions: Get on website:http://www.calpx.com/prices/index_prices_dayahead_trading.html Then select the "Hourly Zonal Prices Constrained Report" and the dates you want. (For this example select 9/1/98) Hit the "view" key. Scroll over to SP-15 (right side) and look at the price. It should be $28.52 for hour 1.

(2) Dow Jones Palo Verde Daily On and Off-Peak Index. This index can be found for three current months on website http://www.energyonline.com/Restructuring/energydb/estathme.html.

(3) The on-peak value of the Palo Verde Shaped Index is calculated by taking the ratio of the SP-15 Index hourly value on-peak divide it by the SP-15 average daily on-peak values, times the Palo Verde On-Peak value for the day. The off-peak value for PV Shaped Index is calculted using SP-15 off-peak values in the ratio times the PV off-peak value for the day. PV Index Shaped = SP-15 hourly value/SP15 Average of Daily Values X PV Index for same hour.

a) Maximum Demand Charge[4]:

Annual:	$ 94.21/kW
Monthly:	$ 7.85/kW
Weekly:	$ 1.81/kW
Daily:	$ 0.36/kW[5]
Hourly:	$ 0.0225/kW[6]

b) APS's actual purchased power costs; plus
c) a one mill adder

Provided, however, the monthly ceiling rate as defined in parts I and II-A above, shall be the lesser of this rate: (i) developed utilizing the aggregate of APS' actual hourly SIC values during the month, or (ii) the rate as developed utilizing the aggregate of hourly cents/kWh index in lieu of SIC. The hourly cents/kWh index shall be based on a Palo Verde Shaped Index[7].

II-B. When a sale of Power and/or Energy made by APS is conditioned upon APS acquiring purchased power for the explicit purpose of fulfilling APS's obligations for transactions hereunder and for which APS's system does not standby to supply Firm Power and Energy from its own resources, CRC shall pay the following amounts to APS for Power and Energy supplied under this Agreement:

a) APS's actual purchased power costs; plus
b) a transmission adder of 2.9 mills/kWh for use of APS's transmission system; plus
c) a one mill adder when such purchased power transactions are less than one year in duration.

III. For purposes of determining the maximum charge, CRC shall also be responsible for any taxes, purchased power costs, and for any other costs incurred by APS in fulfilling its obligations for Power and Energy under this Agreement which otherwise would not have been incurred.

Effective Date: _____

[4] The maximum demand charge for weekly, daily and hourly period were computed utilizing the "AEP" methodology.

[5] The daily rate of $0.36/KW shall not exceed the product of the number of kilowatts sold for a week multiplied by the maximum weekly demand charge of $1.81.

[6] The hourly rate of $0.0225/kW shall not exceed the product of the number of kilowatts sold for a day multiplied by the maximum daily demand charge of $0.36/kW, and also not exceed the product of the number of kilowatts sold for a week multiplied by the maximum weekly demand charge of $1.81/kW.

[7] The Hourly Palo Verde Shaped Index shall be determined as shown on Table A.

EXAMPLE OF DETERMINATION OF THE PALO VERDE SHAPED INDEX

TABLE A

Date	ou	SP-15 (1) Index $/MWh	PV Index (2) Firm Price On Peak $/MWh	PV Index (2) Firm Price Off Peak $/MWh	PV Shaped Index (3) ($/MWh)	Date	Hou	SP-15 (1) Index $/MWh	PV Index (2) Firm Price On Peak $/MWh	PV Index (2) Firm Price Off Peak $/MWh	PV Shaped Index (3) ($/MWh)
9/1/1998	1	28.52		32.50	34.13	4/28/1999	1	14.50		14.88	14.43
9/1/1998	2	27.48		32.50	32.88	4/28/1999	2	13.50		14.88	13.44
9/1/1998	3	26.18		32.50	31.33	4/28/1999	3	11.52		14.88	11.47
9/1/1998	4	25.48		32.50	30.49	4/28/1999	4	11.65		14.88	11.60
9/1/1998	5	25.60		32.50	30.63	4/28/1999	5	12.00		14.88	11.94
9/1/1998	6	27.55		32.50	32.97	4/28/1999	6	15.49		14.88	15.42
9/1/1998	7	28.16	91.89		25.93	4/28/1999	7	24.32	26.85		22.67
9/1/1998	8	29.37	91.89		27.04	4/28/1999	8	31.50	26.85		29.37
9/1/1998	9	37.49	91.89		34.52	4/28/1999	9	30.59	26.85		28.52
9/1/1998	10	49.00	91.89		45.12	4/28/1999	10	30.99	26.85		28.89
9/1/1998	11	88.36	91.89		81.36	4/28/1999	11	29.71	26.85		27.70
9/1/1998	12	102.84	91.89		94.70	4/28/1999	12	28.99	26.85		27.03
9/1/1998	13	122.68	91.89		112.97	4/28/1999	13	28.49	26.85		26.56
9/1/1998	14	136.86	91.89		126.03	4/28/1999	14	28.00	26.85		26.10
9/1/1998	15	155.10	91.89		142.82	4/28/1999	15	27.49	26.85		25.63
9/1/1998	16	167.06	91.89		153.83	4/28/1999	16	26.89	26.85		25.07
9/1/1998	17	165.19	91.89		152.11	4/28/1999	17	26.84	26.85		25.02
9/1/1998	18	141.53	91.89		130.33	4/28/1999	18	26.75	26.85		24.94
9/1/1998	19	118.06	91.89		108.71	4/28/1999	19	26.28	26.85		24.50
9/1/1998	20	104.99	91.89		96.68	4/28/1999	20	29.50	26.85		27.50
9/1/1998	21	99.90	91.89		91.99	4/28/1999	21	35.00	26.85		32.63
9/1/1998	22	50.00	91.89		46.04	4/28/1999	22	29.50	26.85		27.50
9/1/1998	23	28.17		32.50	33.71	4/28/1999	23	23.64		14.88	23.53
9/1/1998	24	28.29		32.50	33.85	4/28/1999	24	17.32		14.88	17.24
Average for Day SP-15 on-peak			99.79	Avg PV Indx shaped onpk	91.89	Average for Day SP-15 on-peak			28.80	Avg PV Indx shaped onpk	26.85
Average for Day SP-15 off-peak			27.16	Avg PV Indx shaped offpk	32.50	Average for Day SP-15 off-peak			14.95	Avg PV Indx shaped offpk	14.88

NOTES: (1) California Power Exchange (CalPX) Day Ahead Hourly SP-15 Post Congestion Index ("SP-15"). Found on Website: www. CALPX.com. For specific instructions: Get on website:http://www.calpx.com/prices/index_prices_dayahead_trading.html Then select the "Hourly Zonal Prices Constrained Report" and the dates you want. (For this example select 9/1/98) Hit the "view" key. Scroll over to SP-15 (right side) and look at the price. It should be $28.52 for hour 1.

(2) Dow Jones Palo Verde Daily On and Off-Peak Index. This index can be found for three current months on website http://www.energyonline.com/Restructuring/energydb/estathme.html.

(3) The on-peak value of the Palo Verde Shaped Index is calculated by taking the ratio of the SP-15 Index hourly value on-peak divide it by the SP-15 average daily on-peak values, times the Palo Verde On-Peak value for the day. The off-peak value for PV Shaped Index is calculted using SP-15 off-peak values in the ratio times the PV off-peak value for the day. PV Index Shaped = SP-15 hourly value/SP15 Average of Daily Values X PV Index for same hour.

ELECTRIC POWER SERVICE AGREEMENT
BETWEEN
COLORADO RIVER COMMISSION OF NEVADA
AND
APS

EXHIBIT B

Determination of Maximum Charges Applicable to the Sale of Power and Energy to CRC.

I. For sales of Power and Energy made by APS to CRC from certain APS resources, CRC shall pay a charge not to exceed the following amounts:

Maximum Demand Charge[1]:

Annual:	$ 94.21/kW
Monthly:	$ 7.85/kW
Weekly:	$ 1.81/kW
Daily:	$ 0.36/kW[2]
Hourly:	$ 0.0225/kW[3]; plus

Energy Charge:

a) 100% of APS's System Incremental Costs (SIC); plus
b) up to 10% of SIC

II-A. When APS purchases Power and/or Energy from other entities for economic purposes to fulfill its system obligations, and should such purchases(s) subsequently be determined to be the basis for determination of the SIC for transactions under this Agreement for which APS stands ready to supply Power and Energy from its own resources, CRC shall pay a charge not to exceed the following amounts to APS for Power and Energy supplied under this Agreement:

[1] The maximum demand charge for weekly, daily and hourly period were computed utilizing the "AEP" methodology.

[2] The daily rate of $0.36/kW shall not exceed the product of the number of kilowatts sold for a week multiplied by the maximum weekly demand charge of $1.81/kW.

[3] The hourly rate of $0.0225/kW shall not exceed the product of the number of kilowatts sold for a day multiplied by the maximum daily demand charge of $0.36/kW, and also not exceed the product of the number of kilowatts sold for a week multiplied by the maximum weekly demand charge of $1.81/kW.

a) Maximum Demand Charge[4]:

Annual:	$ 94.21/kW
Monthly:	$ 7.85/kW
Weekly:	$ 1.81/kW
Daily:	$ 0.36/kW[5]
Hourly:	$ 0.0225/kW[6]

b) APS's actual purchased power costs; plus
c) a one mill adder

Provided, however, the monthly ceiling rate as defined in parts I and II-A above, shall be the lesser of this rate: (i) developed utilizing the aggregate of APS' actual hourly SIC values during the month, or (ii) the rate as developed utilizing the aggregate of hourly cents/kWh index in lieu of SIC. The hourly cents/kWh index shall be based on a Palo Verde Shaped Index[7].

II-B. When a sale of Power and/or Energy made by APS is conditioned upon APS acquiring purchased power for the explicit purpose of fulfilling APS's obligations for transactions hereunder and for which APS's system does not standby to supply Firm Power and Energy from its own resources, CRC shall pay the following amounts to APS for Power and Energy supplied under this Agreement:

a) APS's actual purchased power costs; plus
b) a transmission adder of 2.9 mills/kWh for use of APS's transmission system; plus
c) a one mill adder when such purchased power transactions are less than one year in duration.

III. For purposes of determining the maximum charge, CRC shall also be responsible for any taxes, purchased power costs, and for any other costs incurred by APS in fulfilling its obligations for Power and Energy under this Agreement which otherwise would not have been incurred.

Effective Date: _____

[4] The maximum demand charge for weekly, daily and hourly period were computed utilizing the "AEP" methodology.

[5] The daily rate of $0.36/KW shall not exceed the product of the number of kilowatts sold for a week multiplied by the maximum weekly demand charge of $1.81.

[6] The hourly rate of $0.0225/kW shall not exceed the product of the number of kilowatts sold for a day multiplied by the maximum daily demand charge of $0.36/kW, and also not exceed the product of the number of kilowatts sold for a week multiplied by the maximum weekly demand charge of $1.81/kW.

[7] The Hourly Palo Verde Shaped Index shall be determined as shown on Table A.

EXAMPLE OF DETERMINATION OF THE PALO VERDE SHAPED INDEX

TABLE A

Date	ou	SP-15 (1) Index $/MWh	PV Index (2) Firm Price On Peak $/MWh	PV Index (2) Firm Price Off Peak $/MWh	PV Shaped Index (3) ($/MWh)	Date	Hou	SP-15 (1) Index $/MWh	PV Index (2) Firm Price On Peak $/MWh	PV Index (2) Firm Price Off Peak $/MWh	PV Shaped Index (3) ($/MWh)
9/1/1998	1	28.52		32.50	34.13	4/28/1999	1	14.50		14.88	14.43
9/1/1998	2	27.48		32.50	32.88	4/28/1999	2	13.50		14.88	13.44
9/1/1998	3	26.18		32.50	31.33	4/28/1999	3	11.52		14.88	11.47
9/1/1998	4	25.48		32.50	30.49	4/28/1999	4	11.65		14.88	11.60
9/1/1998	5	25.60		32.50	30.63	4/28/1999	5	12.00		14.88	11.94
9/1/1998	6	27.55		32.50	32.97	4/28/1999	6	15.49		14.88	15.42
9/1/1998	7	28.16	91.89		25.93	4/28/1999	7	24.32	26.85		22.67
9/1/1998	8	29.37	91.89		27.04	4/28/1999	8	31.50	26.85		29.37
9/1/1998	9	37.49	91.89		34.52	4/28/1999	9	30.59	26.85		28.52
9/1/1998	10	49.00	91.89		45.12	4/28/1999	10	30.99	26.85		28.89
9/1/1998	11	88.36	91.89		81.36	4/28/1999	11	29.71	26.85		27.70
9/1/1998	12	102.84	91.89		94.70	4/28/1999	12	28.99	26.85		27.03
9/1/1998	13	122.68	91.89		112.97	4/28/1999	13	28.49	26.85		26.56
9/1/1998	14	136.86	91.89		126.03	4/28/1999	14	28.00	26.85		26.10
9/1/1998	15	155.10	91.89		142.82	4/28/1999	15	27.49	26.85		25.63
9/1/1998	16	167.06	91.89		153.83	4/28/1999	16	26.89	26.85		25.07
9/1/1998	17	165.19	91.89		152.11	4/28/1999	17	26.84	26.85		25.02
9/1/1998	18	141.53	91.89		130.33	4/28/1999	18	26.75	26.85		24.94
9/1/1998	19	118.06	91.89		108.71	4/28/1999	19	26.28	26.85		24.50
9/1/1998	20	104.99	91.89		96.68	4/28/1999	20	29.50	26.85		27.50
9/1/1998	21	99.90	91.89		91.99	4/28/1999	21	35.00	26.85		32.63
9/1/1998	22	50.00	91.89		46.04	4/28/1999	22	29.50	26.85		27.50
9/1/1998	23	28.17		32.50	33.71	4/28/1999	23	23.64		14.88	23.53
9/1/1998	24	28.29		32.50	33.85	4/28/1999	24	17.32		14.88	17.24
Average for Day SP-15 on-peak			99.79	Avg PV Indx shaped onpk	91.89	Average for Day SP-15 on-peak			28.80	Avg PV Indx shaped onpk	26.85
Average for Day SP-15 off-peak			27.16	Avg PV Indx shaped offpk	32.50	Average for Day SP-15 off-peak			14.95	Avg PV Indx shaped offpk	14.88

NOTES: (1) California Power Exchange (CalPX) Day Ahead Hourly SP-15 Post Congestion Index ("SP-15"). Found on Website: www. CALPX.com. For specific instructions: Get on website:http://www.calpx.com/prices/index_prices_dayahead_trading.html Then select the "Hourly Zonal Prices Constrained Report" and the dates you want. (For this example select 9/1/98) Hit the "view" key. Scroll over to SP-15 (right side) and look at the price. It should be $28.52 for hour 1.

(2) Dow Jones Palo Verde Daily On and Off-Peak Index. This index can be found for three current months on website http://www.energyonline.com/Restructuring/energydb/estathme.html.

(3) The on-peak value of the Palo Verde Shaped Index is calculated by taking the ratio of the SP-15 Index hourly value on-peak divide it by the SP-15 average daily on-peak values, times the Palo Verde On-Peak value for the day. The off-peak value for PV Shaped Index is calculted using SP-15 off-peak values in the ratio times the PV off-peak value for the day.

PV Index Shaped = SP-15 hourly value/SP15 Average of Daily Values X PV Index for same hour.

Service Agreement under APS' Market Rate Tariff

Tohono O'odham Utility Authority

Conformed & Red-Lined Copy

Exhibit I

RATES FOR POWER SUPPLY

The following rates and charges shall be applicable to Customer for the services provided under this Supplement No. 1. Customer shall pay Company monthly for such services in accordance with the following rate provisions:

1. Base Monthly Rate

   1.1 Customer Charge: $417/month per month, plus

   1.2 Demand Charge: $12.00/kW times the Monthly Billing Demand, Plus

   1.3 Energy Charge: Higher of (i) $0.0210 per kWh, or
   (ii) SIC per hour

   Provided, however, that the monthly energy charge as defined above shall be the lesser of this charge: (i) developed utilizing the aggregate of APS actual hourly SIC values during the month, or (ii) the rate as developed utilizing an aggregate of an hourly cents/kWh index in lieu of SIC. The hourly cents/kWh index shall be based on a Palo Verde Shaped Index[1].

2. Base Monthly Minimum:

   2.1 Customer Charge, plus

   2.2 Demand Charge

3. Determination of Monthly Billing Demand and Monthly Billing Energy:

   3.1 Monthly Billing Demand: The Monthly Billing Demand shall be the higher of:

   3.1.1 The applicable Contract Demand, or

   3.1.2 The demand determined by using the formula:

   $$APSKW = HMKW - (HKW + PDKW)$$

   Where:

   APSKW = The highest 60-minute integrated demand kW provided by Company to Customer during the billing month at the Point of Delivery, plus Transmission Losses. In no event shall this amount be less than zero.

   HMKW = The highest integrated metered demand at the Point of Delivery during any 60-minute period of the billing month.

   HKW = The highest Hoover Resource kW utilized by Customer at the Point of Delivery during the applicable billing month.

   PDKW = The highest P-D Resource kW utilized by the Customer at the Point of Delivery during the applicable billing month.

[1] Hourly Palo Verde Shaped Index shall be determined as shown on Table A.

3.2 Monthly Billing Energy: The Monthly Billing Energy shall be determined as follows:

APSKWH = TKWH - (HKWH + PDKWH + FKWH)

Where:

APSKWH = The Monthly Billing Energy provided by Company to Customer at the Point of Delivery, plus Transmission Losses during the current billing month, however in no event shall this amount be less than zero.

TKWH = The total number of kWh delivered and metered at the Point of Delivery during the applicable billing month.

HKWH = The Hoover Resource kWh utilized by the Customer at the Point of Delivery during the applicable billing month.

PDKWH = The P-D kWh utilized by the Customer at the Point of Delivery during the applicable billing month.

FKWH = The total Firming Energy kWh utilized by Customer at the Point of Delivery during the applicable billing month.

4. Charges for Transmission Service:

The APS Merchant Group has executed a Service Agreement for Network Integration Transmission Service ("Network Service") under Part III of APS' Open Access Transmission Tariff ("OATT") on file with the Commission in order to effect delivery of power and energy pursuant to this transaction. The cost associated with the Transmission Service and all applicable ancillary services shall be absorbed by APS' Merchant Group and are subsumed within the charges for the Base Monthly Rate in Section 1 hereof.

The monthly demand charge for Network Service shall be calculated in accordance with Sections 34.1, 34.2 and 34.3 (See Attachment 1) of APS' OATT and the Annual Transmission Revenue Requirements specified in Attachment H thereto (See Attachment 2). Ancillary services shall be calculated monthly in accordance with Schedules 1, 2, 3, 5 and 6 of the OATT (see Attachments 3, 4, 5, 6 and 7).

ARIZONA PUBLIC SERVICE COMPANY	TOHONO O'ODHAM UTILITY AUTHORITY
Signature: _____	Signature: _____
Name: _____	Name: _____
Title: _____	Title: _____
Date: _____	Date: _____

Effective: Effective Billing Date

EXAMPLE OF DETERMINATION OF THE PALO VERDE SHAPED INDEX

TABLE A

Date	ou	SP-15 (1) Index $/MWh	PV Index (2) Firm Price On Peak $/MWh	PV Index (2) Firm Price Off Peak $/MWh	PV Shaped Index (3) ($/MWh)	Date	Hou	SP-15 (1) Index $/MWh	PV Index (2) Firm Price On Peak $/MWh	PV Index (2) Firm Price Off Peak $/MWh	PV Shaped Index (3) ($/MWh)
9/1/1998	1	28.52		32.50	34.13	4/28/1999	1	14.50		14.88	14.43
9/1/1998	2	27.48		32.50	32.88	4/28/1999	2	13.50		14.88	13.44
9/1/1998	3	26.18		32.50	31.33	4/28/1999	3	11.52		14.88	11.47
9/1/1998	4	25.48		32.50	30.49	4/28/1999	4	11.65		14.88	11.60
9/1/1998	5	25.60		32.50	30.63	4/28/1999	5	12.00		14.88	11.94
9/1/1998	6	27.55		32.50	32.97	4/28/1999	6	15.49		14.88	15.42
9/1/1998	7	28.16	91.89		25.93	4/28/1999	7	24.32	26.85		22.67
9/1/1998	8	29.37	91.89		27.04	4/28/1999	8	31.50	26.85		29.37
9/1/1998	9	37.49	91.89		34.52	4/28/1999	9	30.59	26.85		28.52
9/1/1998	10	49.00	91.89		45.12	4/28/1999	10	30.99	26.85		28.89
9/1/1998	11	88.36	91.89		81.36	4/28/1999	11	29.71	26.85		27.70
9/1/1998	12	102.84	91.89		94.70	4/28/1999	12	28.99	26.85		27.03
9/1/1998	13	122.68	91.89		112.97	4/28/1999	13	28.49	26.85		26.56
9/1/1998	14	136.86	91.89		126.03	4/28/1999	14	28.00	26.85		26.10
9/1/1998	15	155.10	91.89		142.82	4/28/1999	15	27.49	26.85		25.63
9/1/1998	16	167.06	91.89		153.83	4/28/1999	16	26.89	26.85		25.07
9/1/1998	17	165.19	91.89		152.11	4/28/1999	17	26.84	26.85		25.02
9/1/1998	18	141.53	91.89		130.33	4/28/1999	18	26.75	26.85		24.94
9/1/1998	19	118.06	91.89		108.71	4/28/1999	19	26.28	26.85		24.50
9/1/1998	20	104.99	91.89		96.68	4/28/1999	20	29.50	26.85		27.50
9/1/1998	21	99.90	91.89		91.99	4/28/1999	21	35.00	26.85		32.63
9/1/1998	22	50.00	91.89		46.04	4/28/1999	22	29.50	26.85		27.50
9/1/1998	23	28.17		32.50	33.71	4/28/1999	23	23.64		14.88	23.53
9/1/1998	24	28.29		32.50	33.85	4/28/1999	24	17.32		14.88	17.24
Average for Day SP-15 on-peak			99.79	Avg PV Indx shaped onpk	91.89	Average for Day SP-15 on-peak			28.80	Avg PV Indx shaped onpk	26.85
Average for Day SP-15 off-peak			27.16	Avg PV Indx shaped offpk	32.50	Average for Day SP-15 off-peak			14.95	Avg PV Indx shaped offpk	14.88

NOTES: (1) California Power Exchange (CalPX) Day Ahead Hourly SP-15 Post Congestion Index ("SP-15"). Found on Website: www. CALPX.com. For specific instructions: Get on website:http://www.calpx.com/prices/index_prices_dayahead_trading.html Then select the "Hourly Zonal Prices Constrained Report" and the dates you want. (For this example select 9/1/98) Hit the "view" key. Scroll over to SP-15 (right side) and look at the price. It should be $28.52 for hour 1.

(2) Dow Jones Palo Verde Daily On and Off-Peak Index. This index can be found for three current months on website http://www.energyonline.com/Restructuring/energydb/estathme.html.

(3) The on-peak value of the Palo Verde Shaped Index is calculated by taking the ratio of the SP-15 Index hourly value on-peak divide it by the SP-15 average daily on-peak values, times the Palo Verde On-Peak value for the day. The off-peak value for PV Shaped Index is calculted using SP-15 off-peak values in the ratio times the PV off-peak value for the day. PV Index Shaped = SP-15 hourly value/SP15 Average of Daily Values X PV Index for same hour.

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   1.3 Energy Charge: Higher of (i) $0.0210 per kWh, or
   (ii) SIC per hour

   Provided, however, that the monthly energy charge as defined above shall be the lesser of this charge: (i) developed utilizing the aggregate of APS actual hourly SIC values during the month, or (ii) the rate as developed utilizing an aggregate of an hourly cents/kWh index in lieu of SIC. The hourly cents/kWh index shall be based on a Palo Verde Shaped Index[1].

2. Base Monthly Minimum:

   2.1 Customer Charge, plus

   2.2 Demand Charge

3. Determination of Monthly Billing Demand and Monthly Billing Energy:

   3.1 Monthly Billing Demand: The Monthly Billing Demand shall be the higher of:

   3.1.1 The applicable Contract Demand, or

   3.1.2 The demand determined by using the formula:

   APSKW = HMKW - (HKW + PDKW)

   Where:

   APSKW = The highest 60-minute integrated demand kW provided by Company to Customer during the billing month at the Point of Delivery, plus Transmission Losses. In no event shall this amount be less than zero.

   HMKW = The highest integrated metered demand at the Point of Delivery during any 60-minute period of the billing month.

   HKW = The highest Hoover Resource kW utilized by Customer at the Point of Delivery during the applicable billing month.

   PDKW = The highest P-D Resource kW utilized by the Customer at the Point of Delivery during the applicable billing month.

[1] Hourly Palo Verde Shaped Index shall be determined as shown on Table A.

3.2 Monthly Billing Energy: The Monthly Billing Energy shall be determined as follows:

APSKWH = TKWH - (HKWH + PDKWH + FKWH)

Where:

APSKWH = The Monthly Billing Energy provided by Company to Customer at the Point of Delivery, plus Transmission Losses during the current billing month, however in no event shall this amount be less than zero.

TKWH = The total number of kWh delivered and metered at the Point of Delivery during the applicable billing month.

HKWH = The Hoover Resource kWh utilized by the Customer at the Point of Delivery during the applicable billing month.

PDKWH = The P-D kWh utilized by the Customer at the Point of Delivery during the applicable billing month.

FKWH = The total Firming Energy kWh utilized by Customer at the Point of Delivery during the applicable billing month.

4. Charges for Transmission Service:

The APS Merchant Group has executed a Service Agreement for Network Integration Transmission Service ("Network Service") under Part III of APS' Open Access Transmission Tariff ("OATT") on file with the Commission in order to effect delivery of power and energy pursuant to this transaction. The cost associated with the Transmission Service and all applicable ancillary services shall be absorbed by APS' Merchant Group and are subsumed within the charges for the Base Monthly Rate in Section 1 hereof.

The monthly demand charge for Network Service shall be calculated in accordance with Sections 34.1, 34.2 and 34.3 (See Attachment 1) of APS' OATT and the Annual Transmission Revenue Requirements specified in Attachment H thereto (See Attachment 2). Ancillary services shall be calculated monthly in accordance with Schedules 1, 2, 3, 5 and 6 of the OATT (see Attachments 3, 4, 5, 6 and 7).

ARIZONA PUBLIC SERVICE COMPANY	TOHONO O'ODHAM UTILITY AUTHORITY
Signature: _____	Signature: _____
Name: _____	Name: _____
Title: _____	Title: _____
Date: _____	Date: _____

Effective: Effective Billing Date

Exhibit E1

Revisions to Fuel Adjustment Clauses
in APS Wholesale Power Contracts:

Electrical District No. 3 (APS-FERC Rate Schedule No. 12)
Electrical District No. 1 (APS-FERC Rate Schedule No. 68)
Southern California Edison (APS-FERC Rate Schedule No. 120)
San Carlos Irrigation Project (APS-FERC Rate Schedule No. 201)

Revisions to Fuel Adjustment Clauses
in APS Market Rate Tariff Service Agreements:

Majority Districts
City of Wickenburg

Includes Conformed and Red-Lined Copies

NOTE: Exhibits I(A) and I(B) of each of the contracts or service agreements listed above are identical (in their original form and as revised). Applicants propose to add a new Exhibit I(C) to each of the contracts.

EXHIBIT I(A)

FUEL COST ADJUSTMENT CLAUSE

(1) The billing[1/] for service rendered during the billing month shall be increased or decreased by an adjustment amount per kilowatthour of sales (to the nearest 0.0001¢) equal to the difference between the fuel cost per kilowatthour of sales for that month and the base period, calculated as follows:

$$Adjustment\ Factor = \frac{F}{S} - 1.2438\ ¢/\text{kWh}$$

Where: "F" is the expense of fossil and nuclear fuel and certain purchased power costs in the current period and "S" is the kWh sales in the current period, as defined below.

(i) The applicable corrected monthly fuel adjustment factor for any given month shall be capped at a level that is no greater than the average of the actual corrected fuel adjustment factor for the same month for 1998 and 1999.

The calculation of the applicable monthly "Hold Harmless" corrected fuel adjustment factor shall be performed in accordance with Exhibit I(C).

(2) Fuel and purchased power costs (F) shall be the cost of:

(i) Fossil and nuclear fuel consumed in the Company's own plants, and the Company's share of fossil and nuclear fuel consumed in jointly owned or leased plants; plus

(ii) the actual identifiable fossil and nuclear fuel costs associated with energy purchased for reasons other than identified in paragraph (2)(iii) below; plus

(iii) the net energy cost of energy purchases, exclusive of capacity or demand charges (irrespective of the designation assigned to such transactions) when such energy is purchased on an economic dispatch basis. Included therein may be such costs as the charges for economy energy purchases and the charges as a result of scheduled outage, all such kinds of energy being purchased by the Company to substitute for its own higher cost energy; and less

(iv) the cost of fossil and nuclear fuel recovered through all inter-system sales and specific deliveries[2/]; plus

(v) a credit to allowable fuel and purchase power costs which passes to jurisdictional customers 75% of the benefits of sales transactions made under the aegis of the Conformed Western Systems Power Pool Agreement. Such credit shall be calculated in accordance with Exhibit I(B).

[1/] Billing under this clause will preliminarily be based on the billing month's sales multiplied by the adjustment factor determined from the second preceding month. The billing thus determined will be corrected to the adjustment factor determined for the billing month. Such correction will be made two months after the preliminary billing.

[2/] Specific deliveries are intended to include transactions for which the rate is tied to fuel costs of specific plants or units.

(3) Sales (S) shall be all kWh's sold, excluding inter-system sales and specific deliveries. Where for any reason, billed system sales cannot be coordinated with fuel costs for the billing period, sales may be equated to the sum of (i) generation, (ii) firm purchases, (iii) economy purchases, less (iv) energy associated with pumped storage operations, less (v) inter-system sales referred to in paragraph (2)(iv) above, less (vi) total system losses.

(4) The adjustment factor developed according to this procedure shall be modified to properly allow for losses (estimated if necessary) associated only with wholesale sales for resale.

(5) The adjustment factor developed according to this procedure may be further modified to allow the recovery of gross receipts and other similar revenue based tax charges occasioned by the fuel adjustment revenues.

(6) (a) The cost of fossil fuel shall include those items listed in Account 151 of the Commission's Uniform System of Accounts for Public Utilities and Licenses. The cost of nuclear fuel shall be that as shown in Account 518, except that if Account 518 also contains any expense for fossil fuel which has already been included in the cost of fossil fuel, it shall be deducted from this account. (Paragraph C of Account 518 includes the cost of other fuels used for ancillary steam facilities.)

(b) The cost of both fossil fuel and nuclear fuel shall also reflect all refunds and credits (including any applicable interest) not in excess of $25,000 for the FERC jurisdictional allocation of any single refund/credit received from fuel suppliers/vendors applicable to previous period (non-current) payments made to such suppliers/vendors for fuel or other related allowable expenses. If such refunds/credits are not passed through and credited to applicable fuel accounts for more than one billing cycle after the Company's receipt of such refunds/credits, the Company shall include an appropriate interest credit computed in accordance with 18 C.F.R. §35.19(a).

(7) Notwithstanding the specified aforementioned treatment of fuel and purchased power costs for purposes of inclusion in determining the Company's monthly Fuel Cost Adjustment Clause (FAC) factor, the following specific credits/debits to Account 518 (nuclear fuel expenses) related to Spent Nuclear Fuel Disposal Cost refunds received from the United States Department of Energy covering the period October, 1986 through January, 1994 shall be allowed for inclusion in computing applicable monthly FAC factors:

10/86	($2,232)	07/91	($80,234)
07/88	($5,526)	08/81	($69,045)
10/88	($15,534)	09/91	($64,688)
10/89	($18,970)	10/91	($59,390)
12/90	($2,175,153)	11/91	($39,207)
01/91	($63,884)	12/91	$550,519
02/91	($59,363)	02/92	($147,600)
03/91	($63,981)	06/92	$11,136
04/91	($52,520)	07/92	($543,312)
05/91	($54,089)	01/94	$381,252
06/91	($69,544)		

(8) Additionally, credits to Accounts 501, 547, and 555 related to refunds received from El Paso Natural Gas Company as a result of FERC Docket Nos. RP90-81-000, RP91-26-000, RP91-188-000, and RP92-60-000 shall be allowed for inclusion in computing applicable monthly FAC factors. In the aggregate, such credits covering the period March 1990 through July 1994 are in the amount of ($1,168,468).

EXHIBIT I(B)

SAMPLE
COMPUTATION OF WSPP CREDIT
FOR INCLUSION IN FERC FUEL ADJUSTMENT

MONTH OF: _____

Economy Sales/
Unit Commitment Sales/
System Capacity Sales:

Customer	(1) Total Sales Revenue ($)	(2) Fuel Cost ($)	(3) Wheeling Cost[1/] ($)	(4) Markup Col (1) - Col (2) - Col (3)
LADWP	23,150	17,703	106	5,341
NPC	4,250	3,213	65	972
SCE	217,914	161,272	1,047	55,595
SDG&E	45,788	29,351	250	16,187
SMUD	126,338	88,257	678	37,403
TOTAL SALES				115,498
				X 75%
AMOUNT TO BE CREDITED TO FUEL ADJUSTMENT				86,624

/1/ Reflects only those wheeling costs incurred by APS.

EXHIBIT I(B)

SAMPLE
COMPUTATION OF WSPP CREDIT
FOR INCLUSION IN FERC FUEL ADJUSTMENT

MONTH OF: _____

Economy Sales/
Unit Commitment Sales/
System Capacity Sales:

Customer	(1) Total Sales Revenue ($)	(2) Fuel Cost ($)	(3) Wheeling Cost[1/] ($)	(4) Markup Col (1) - Col (2) - Col (3)
LADWP	23,150	17,703	106	5,341
NPC	4,250	3,213	65	972
SCE	217,914	161,272	1,047	55,595
SDG&E	45,788	29,351	250	16,187
SMUD	126,338	88,257	678	37,403
TOTAL SALES				115,498
				X 75%
	AMOUNT TO BE CREDITED TO FUEL ADJUSTMENT			86,624

/1/ Reflects only those wheeling costs incurred by APS.

EXHIBIT I(C)

Arizona Public Service Company
Fuel Cost Adjustment Clause "Hold" Harmless" Calculation

Table 1
Calculation of APS' "Hold Harmless" Factor

(¢/kWh)

	(1) Actual Corrected 1998 FAC Factor	(2) Actual Corrected 1999 FAC Factor	(3) Average [Col (1) + Col (2)]/2
Jan	(0.4070)	(0.2499)	(0.3285)
Feb	(0.5574)	(0.2742)	(0.4158)
Mar	(0.4778)	(0.3406)	(0.4092)
Apr	(0.1669)	(0.1768)	(0.1719)
May	(0.2402)	(0.2493)	(0.2448)
June	(0.2550)	(0.1948)	(0.2249)
July	0.1298	(0.1891)	(0.0297)
Aug	0.2997	(0.4918)	(0.0961)
Sept	0.2254	(0.2361)	(0.0053)
Oct	(0.3159)	0.0378	(0.1391)
Nov	(0.4186)	(0.1469)	(0.2828)
Dec	(0.1622)		

Table 2
Examples Showing Determination of the Applicable Monthly Corrected FAC Factor
(January 2000)
For Illustrative Purposes Only

Example A:

(¢/kWh)

(1) Preliminary FAC Factor	(2) Calculated Correction FAC Factor	(3) Actual Corrected FAC Factor Col (1) + Col (2)	(4) "Hold Harmless" Factor From Table 1	(5) Applicable FAC Factor[1]
(0.1948)	(0.2970)	(0.4918)	(0.3285)	(0.4918)

Example B:

(¢/kWh)

(1) Preliminary FAC Factor	(2) Calculated Correction FAC Factor	(3) Actual Corrected FAC Factor Col (1) + Col (2)	(4) "Hold Harmless" Factor From Table 1	(5) Applicable FAC Factor[2]
0.0246	0.1002	0.1248	(0.3285)	(0.3285)

[1] This Applicable FAC factor shall always be the lesser of the value in either Column 3 or Column 4.
[2] This Applicable FAC factor shall always be the lesser of the value in either Column 3 or Column 4.

Exhibit E2

Revisions to Fuel Adjustment Clauses
in APS Wholesale Power Contract:

City of Williams (APS-FERC Rate Schedule No. 192)
Exhibit IV(A), Exhibit IV(B), and a new Exhibit IV(C)

Includes Conformed & Red-Lined Copies

EXHIBIT IV(A)

FUEL COST ADJUSTMENT CLAUSE

(1) The billing[1/] for service rendered during the billing month shall be increased or decreased by an adjustment amount per kilowatthour of sales (to the nearest 0.0001¢) equal to the difference between the fuel cost per kilowatthour of sales for that month and the base period, calculated as follows:

$$Adjustment\ Factor = \frac{F}{S} - 1.2438\ ¢/kWh$$

Where: "F" is the expense of fossil and nuclear fuel and certain purchased power costs in the current period and "S" is the kWh sales in the current period, as defined below.

(i) The applicable corrected monthly fuel adjustment factor for any given month shall be capped at a level that is no greater than the average of the actual corrected fuel adjustment factor for the same month for 1998 and 1999.

The calculation of the applicable monthly "Hold Harmless" corrected fuel adjustment factor shall be performed in accordance with Exhibit IV(C).

(2) Fuel and purchased power costs (F) shall be the cost of:

(i) Fossil and nuclear fuel consumed in the Company's own plants, and the Company's share of fossil and nuclear fuel consumed in jointly owned or leased plants; plus

(ii) the actual identifiable fossil and nuclear fuel costs associated with energy purchased for reasons other than identified in paragraph (2)(iii) below; plus

(iii) the net energy cost of energy purchases, exclusive of capacity or demand charges (irrespective of the designation assigned to such transactions) when such energy is purchased on an economic dispatch basis. Included therein may be such costs as the charges for economy energy purchases and the charges as a result of scheduled outage, all such kinds of energy being purchased by the Company to substitute for its own higher cost energy; and less

(iv) the cost of fossil and nuclear fuel recovered through all inter-system sales and specific deliveries[2/]; plus

(v) a credit to allowable fuel and purchase power costs which passes to jurisdictional customers 75% of the benefits of sales transactions made under the aegis of the Conformed Western Systems Power Pool Agreement. Such credit shall be calculated in accordance with Exhibit I(B).

[1/] Billing under this clause will preliminarily be based on the billing month's sales multiplied by the adjustment factor determined from the second preceding month. The billing thus determined will be corrected to the adjustment factor determined for the billing month. Such correction will be made two months after the preliminary billing.

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(3) Sales (S) shall be all kWh's sold, excluding inter-system sales and specific deliveries. Where for any reason, billed system sales cannot be coordinated with fuel costs for the billing period, sales may be equated to the sum of (i) generation, (ii) firm purchases, (iii) economy purchases, less (iv) energy associated with pumped storage operations, less (v) inter-system sales referred to in paragraph (2)(iv) above, less (vi) total system losses.

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(b) The cost of both fossil fuel and nuclear fuel shall also reflect all refunds and credits (including any applicable interest) not in excess of $25,000 for the FERC jurisdictional allocation of any single refund/credit received from fuel suppliers/vendors applicable to previous period (non-current) payments made to such suppliers/vendors for fuel or other related allowable expenses. If such refunds/credits are not passed through and credited to applicable fuel accounts for more than one billing cycle after the Company's receipt of such refunds/credits, the Company shall include an appropriate interest credit computed in accordance with 18 C.F.R. §35.19(a).

(7) Notwithstanding the specified aforementioned treatment of fuel and purchased power costs for purposes of inclusion in determining the Company's monthly Fuel Cost Adjustment Clause (FAC) factor, the following specific credits/debits to Account 518 (nuclear fuel expenses) related to Spent Nuclear Fuel Disposal Cost refunds received from the United States Department of Energy covering the period October, 1986 through January, 1994 shall be allowed for inclusion in computing applicable monthly FAC factors:

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03/91	($63,981)	06/92	$11,136
04/91	($52,520)	07/92	($543,312)
05/91	($54,089)	01/94	$381,252
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EXHIBIT IV(B)

SAMPLE
COMPUTATION OF WSPP CREDIT
FOR INCLUSION IN FERC FUEL ADJUSTMENT

MONTH OF: _____

Economy Sales/
Unit Commitment Sales/
System Capacity Sales:

Customer	(1) Total Sales Revenue ($)	(2) Fuel Cost ($)	(3) Wheeling Cost[1/] ($)	(4) Markup Col (1) - Col (2) - Col (3)
LADWP	23,150	17,703	106	5,341
NPC	4,250	3,213	65	972
SCE	217,914	161,272	1,047	55,595
SDG&E	45,788	29,351	250	16,187
SMUD	126,338	88,257	678	37,403
TOTAL SALES				115,498
				X 75%
	AMOUNT TO BE CREDITED TO FUEL ADJUSTMENT			86,624

/1/ Reflects only those wheeling costs incurred by APS.

EXHIBIT IV(C)

Arizona Public Service Company
Fuel Cost Adjustment Clause "Hold" Harmless" Calculation

Table 1
Calculation of APS' "Hold Harmless" Factor

(¢/kWh)

	(1) Actual Corrected 1998 FAC Factor	(2) Actual Corrected 1999 FAC Factor	(3) Average [Col (1) + Col (2)]/2
Jan	(0.4070)	(0.2499)	(0.3285)
Feb	(0.5574)	(0.2742)	(0.4158)
Mar	(0.4778)	(0.3406)	(0.4092)
Apr	(0.1669)	(0.1768)	(0.1719)
May	(0.2402)	(0.2493)	(0.2448)
June	(0.2550)	(0.1948)	(0.2249)
July	0.1298	(0.1891)	(0.0297)
Aug	0.2997	(0.4918)	(0.0961)
Sept	0.2254	(0.2361)	(0.0053)
Oct	(0.3159)	0.0378	(0.1391)
Nov	(0.4186)	(0.1469)	(0.2828)
Dec	(0.1622)		

Table 2
Examples Showing Determination of the Applicable Monthly Corrected FAC Factor
(January 2000)
For Illustrative Purposes Only

Example A:

(¢/kWh)

(1) Preliminary FAC Factor	(2) Calculated Correction FAC Factor	(3) Actual Corrected FAC Factor Col (1) + Col (2)	(4) "Hold Harmless" Factor From Table 1	(5) Applicable FAC Factor[1]
(0.1948)	(0.2970)	(0.4918)	(0.3285)	(0.4918)

Example B:

(¢/kWh)

(1) Preliminary FAC Factor	(2) Calculated Correction FAC Factor	(3) Actual Corrected FAC Factor Col (1) + Col (2)	(4) "Hold Harmless" Factor From Table 1	(5) Applicable FAC Factor[2]
0.0246	0.1002	0.1248	(0.3285)	(0.3285)

[1] This Applicable FAC factor shall always be the lesser of the value in either Column 3 or Column 4.
[2] This Applicable FAC factor shall always be the lesser of the value in either Column 3 or Column 4.

EXHIBIT IV(A)

FUEL COST ADJUSTMENT CLAUSE

(1) The billing[1/] for service rendered during the billing month shall be increased or decreased by an adjustment amount per kilowatthour of sales (to the nearest 0.0001¢) equal to the difference between the fuel cost per kilowatthour of sales for that month and the base period, calculated as follows:

$$Adjustment\ Factor = \frac{F}{S} - 1.2438\ ¢/\text{kWh}$$

Where: "F" is the expense of fossil and nuclear fuel and certain purchased power costs in the current period and "S" is the kWh sales in the current period, as defined below.

(i) The applicable corrected monthly fuel adjustment factor for any given month shall be capped at a level that is no greater than the average of the actual corrected fuel adjustment factor for the same month for 1998 and 1999.

The calculation of the applicable monthly "Hold Harmless" corrected fuel adjustment factor shall be performed in accordance with Exhibit IV(C).

(2) Fuel and purchased power costs (F) shall be the cost of:

(i) Fossil and nuclear fuel consumed in the Company's own plants, and the Company's share of fossil and nuclear fuel consumed in jointly owned or leased plants; plus

(ii) the actual identifiable fossil and nuclear fuel costs associated with energy purchased for reasons other than identified in paragraph (2)(iii) below; plus

(iii) the net energy cost of energy purchases, exclusive of capacity or demand charges (irrespective of the designation assigned to such transactions) when such energy is purchased on an economic dispatch basis. Included therein may be such costs as the charges for economy energy purchases and the charges as a result of scheduled outage, all such kinds of energy being purchased by the Company to substitute for its own higher cost energy; and less

(iv) the cost of fossil and nuclear fuel recovered through all inter-system sales and specific deliveries[2/]; plus

(v) a credit to allowable fuel and purchase power costs which passes to jurisdictional customers 75% of the benefits of sales transactions made under the aegis of the Conformed Western Systems Power Pool Agreement. Such credit shall be calculated in accordance with Exhibit I(B).

[1/] Billing under this clause will preliminarily be based on the billing month's sales multiplied by the adjustment factor determined from the second preceding month. The billing thus determined will be corrected to the adjustment factor determined for the billing month. Such correction will be made two months after the preliminary billing.

[2/] Specific deliveries are intended to include transactions for which the rate is tied to fuel costs of specific plants or units.

(3) Sales (S) shall be all kWh's sold, excluding inter-system sales and specific deliveries. Where for any reason, billed system sales cannot be coordinated with fuel costs for the billing period, sales may be equated to the sum of (i) generation, (ii) firm purchases, (iii) economy purchases, less (iv) energy associated with pumped storage operations, less (v) inter-system sales referred to in paragraph (2)(iv) above, less (vi) total system losses.

(4) The adjustment factor developed according to this procedure shall be modified to properly allow for losses (estimated if necessary) associated only with wholesale sales for resale.

(5) The adjustment factor developed according to this procedure may be further modified to allow the recovery of gross receipts and other similar revenue based tax charges occasioned by the fuel adjustment revenues.

(6) (a) The cost of fossil fuel shall include those items listed in Account 151 of the Commission's Uniform System of Accounts for Public Utilities and Licenses. The cost of nuclear fuel shall be that as shown in Account 518, except that if Account 518 also contains any expense for fossil fuel which has already been included in the cost of fossil fuel, it shall be deducted from this account. (Paragraph C of Account 518 includes the cost of other fuels used for ancillary steam facilities.)

(b) The cost of both fossil fuel and nuclear fuel shall also reflect all refunds and credits (including any applicable interest) not in excess of $25,000 for the FERC jurisdictional allocation of any single refund/credit received from fuel suppliers/vendors applicable to previous period (non-current) payments made to such suppliers/vendors for fuel or other related allowable expenses. If such refunds/credits are not passed through and credited to applicable fuel accounts for more than one billing cycle after the Company's receipt of such refunds/credits, the Company shall include an appropriate interest credit computed in accordance with 18 C.F.R. §35.19(a).

(7) Notwithstanding the specified aforementioned treatment of fuel and purchased power costs for purposes of inclusion in determining the Company's monthly Fuel Cost Adjustment Clause (FAC) factor, the following specific credits/debits to Account 518 (nuclear fuel expenses) related to Spent Nuclear Fuel Disposal Cost refunds received from the United States Department of Energy covering the period October, 1986 through January, 1994 shall be allowed for inclusion in computing applicable monthly FAC factors:

10/86	($2,232)	07/91	($80,234)
07/88	($5,526)	08/81	($69,045)
10/88	($15,534)	09/91	($64,688)
10/89	($18,970)	10/91	($59,390)
12/90	($2,175,153)	11/91	($39,207)
01/91	($63,884)	12/91	$550,519
02/91	($59,363)	02/92	($147,600)
03/91	($63,981)	06/92	$11,136
04/91	($52,520)	07/92	($543,312)
05/91	($54,089)	01/94	$381,252
06/91	($69,544)		

(8) Additionally, credits to Accounts 501, 547, and 555 related to refunds received from El Paso Natural Gas Company as a result of FERC Docket Nos. RP90-81-000, RP91-26-000, RP91-188-000, and RP92-60-000 shall be allowed for inclusion in computing applicable monthly FAC factors. In the aggregate, such credits covering the period March 1990 through July 1994 are in the amount of ($1,168,468).

EXHIBIT IV(B)

SAMPLE
COMPUTATION OF WSPP CREDIT
FOR INCLUSION IN FERC FUEL ADJUSTMENT

MONTH OF: _____

Economy Sales/
Unit Commitment Sales/
System Capacity Sales:

Customer	(1) Total Sales Revenue ($)	(2) Fuel Cost ($)	(3) Wheeling Cost[1/] ($)	(4) Markup Col (1) - Col (2) - Col (3)
LADWP	23,150	17,703	106	5,341
NPC	4,250	3,213	65	972
SCE	217,914	161,272	1,047	55,595
SDG&E	45,788	29,351	250	16,187
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TOTAL SALES				115,498
				X 75%
		AMOUNT TO BE CREDITED TO FUEL ADJUSTMENT		86,624

/1/ Reflects only those wheeling costs incurred by APS.

EXHIBIT IV(C)

Arizona Public Service Company
Fuel Cost Adjustment Clause "Hold" Harmless" Calculation

Table 1
Calculation of APS' "Hold Harmless" Factor

	(1) Actual Corrected 1998 FAC Factor (¢/kWh)	(2) Actual Corrected 1999 FAC Factor (¢/kWh)	(3) Average [Col (1) + Col (2)]/2 (¢/kWh)
Jan	(0.4070)	(0.2499)	(0.3285)
Feb	(0.5574)	(0.2742)	(0.4158)
Mar	(0.4778)	(0.3406)	(0.4092)
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May	(0.2402)	(0.2493)	(0.2448)
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July	0.1298	(0.1891)	(0.0297)
Aug	0.2997	(0.4918)	(0.0961)
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Oct	(0.3159)	0.0378	(0.1391)
Nov	(0.4186)	(0.1469)	(0.2828)
Dec	(0.1622)		

Table 2
Examples Showing Determination of the Applicable Monthly Corrected FAC Factor
(January 2000)
For Illustrative Purposes Only

Example A:

(1) Preliminary FAC Factor (¢/kWh)	(2) Calculated Correction FAC Factor (¢/kWh)	(3) Actual Corrected FAC Factor Col (1) + Col (2) (¢/kWh)	(4) "Hold Harmless" Factor From Table 1 (¢/kWh)	(5) Applicable FAC Factor[1] (¢/kWh)
(0.1948)	(0.2970)	(0.4918)	(0.3285)	(0.4918)

Example B:

(1) Preliminary FAC Factor (¢/kWh)	(2) Calculated Correction FAC Factor (¢/kWh)	(3) Actual Corrected FAC Factor Col (1) + Col (2) (¢/kWh)	(4) "Hold Harmless" Factor From Table 1 (¢/kWh)	(5) Applicable FAC Factor[2] (¢/kWh)
0.0246	0.1002	0.1248	(0.3285)	(0.3285)

[1] This Applicable FAC factor shall always be the lesser of the value in either Column 3 or Column 4.
[2] This Applicable FAC factor shall always be the lesser of the value in either Column 3 or Column 4.

Exhibit F

Notice of Filing

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Pinnacle West Capital Corporation	)	**Docket No. ER00-____-000**
	)	
Arizona Public Service Company	)	**Docket No. ER99-4124-000**
	)	
APS Energy Services Company, Inc.	)	**Docket No. ER99-4122-000**

NOTICE OF FILING
(____, 2000)

Take notice that on April ___, 2000, Pinnacle West Capital Corporation ("PWCC"), filed an application for an order authorizing it to make wholesale sales of electric power at market-based rates, waiving certain of the Commission's regulations and seeking blanket approval to engage in certain transactions. PWCC, Arizona Public Service Company and APS Energy Services Company, Inc. (collectively, the "Pinnacle West Companies"), also seek permission to transact among themselves at market-based rates and for modification of their wholesale code of conduct requirements and certain wholesale contracts.

Any person desiring to be heard or to protest said filing should file a motion to intervene or protest with the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426, in accordance with Rules 211 and 214 of the Commission's Rules of Practice and Procedures (18 C.F.R. § 385.211 and 18 C.F.R. § 385.214). All such motions or protests should be filed on or before _____, 2000. Protests will be considered by the Commission in determining the appropriate action to be taken, but will not serve to make protestants parties to the proceedings. Any person wishing to become a party must file a motion to intervene. Copies of this filing are on file with the Commission and are available for public inspection. This filing may also be viewed on the Internet at http://www.ferc.fed.us/online/rims.htm (call 202-208-2222 for assistance).

David P. Boergers
Secretary

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Washington, D.C., this 21st day of April, 2000.

Alex M. Schnell

Alex M. Schnell
Morgan, Lewis & Bockius LLP
1800 M Street, N.W.
Washington, D.C. 20036
(202) 467-7622

Attorney for
Pinnacle West Capital Corporation

ORIGINAL

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Morgan, Lewis & Bockius LLP
COUNSELORS AT LAW

FILED
OFFICE OF THE SECRETARY
00 JUL 28 PM 4:35
FEDERAL ENERGY
REGULATORY COMMISSION

July 28, 2000

ER00-3312-000

Honorable David P. Boergers, Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: Application of Pinnacle West Energy Corporation for Order Approving Market-Based Rates, Docket No. ER00- -000

Dear Secretary Boergers:

Pursuant to Section 205 of the Federal Power Act, 16 U.S.C. § 824d (1994), and Rule 205 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission, 18 C.F.R. § 385.205 (1999), Pinnacle West Energy Corporation ("PWE") hereby submits for filing six copies of an Application for Order Approving Market-Based Rates.

A form of notice suitable for publication in the *Federal Register* and a copy of the notice on a computer diskette are attached hereto.

If you have any questions about this filing, please feel free to contact me.

Respectfully submitted,

John D. McGrane
Morgan, Lewis & Bockius LLP
1800 M Street, N.W.
Washington, D.C. 20036-5869
Phone: (202) 467-7000

Barbara M. Champion, Senior Attorney
Pinnacle West Capital Corporation
P.O. Box 53999

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000808-0863-1

DOCKETED
JUL 28 2000

Morgan, Lewis
& Bockius LLP

Mail Station 8695
Phoenix, Arizona 85072-3999
Phone: (602) 250-3547

Attorneys for
Pinnacle West Energy Corporation

Enclosures

ORIGINAL

OFFICE OF THE SECRETARY
00 JUL 28 PM 4:48
FEDERAL ENERGY REGULATORY COMMISSION

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Pinnacle West Energy Corporation) **Docket No. ER00-____-000**

ER00-3312-000

APPLICATION OF PINNACLE WEST ENERGY CORPORATION FOR ORDER APPROVING MARKET-BASED RATES

Pursuant to Section 205 of the Federal Power Act, 16 U.S.C. § 824d, and Rule 205 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission ("FERC" or the "Commission"), 18 C.F.R. § 385.205 (1998), Pinnacle West Energy Corporation ("PWE") hereby submits for filing this Application for authorization to engage in wholesale power sales at market-determined prices. PWE requests that the Commission take the following actions: (1) accept its Market-Based Rate Tariff (the "Market Rate Tariff") for wholesale sales of energy and capacity, including ancillary services within the California Independent System Operator ("ISO"); (2) approve the code of conduct governing PWE's relationship with its parent company, Pinnacle West Capital Corporation ("PWCC"), its public utility affiliate, Arizona Public Service Company ("APS"), and its marketing affiliate, APS Energy Services Company, Inc. ("APSES") (collectively, the "Pinnacle West Companies"); and (3) grant waivers of certain of the Commission's regulations and blanket authorizations of other actions under the Commission's regulations. Pursuant to Section 35.3(a) of the Commission's regulations, PWE also requests an effective date of 60 days after this filing, or the date on which the Commission issues an order approving PWE's application for market-based rates, whichever is earlier.

I. DESCRIPTION OF PWE

PWE was incorporated in Arizona on September 27, 1999, whose principal place of business is located at 400 North Fifth Street, Phoenix, Arizona, 85004. PWE does not own distribution facilities or transmission facilities other than those facilities associated with and supporting generation facilities that PWE will own (e.g., step-up transformers and related equipment). PWE is a subsidiary of PWCC, a holding company that is exempt from registration under the Public Utility Holding Company Act of 1935, in accordance with Securities and Exchange Commission ("SEC") Rule 2(a)(1).[1] PWCC also owns APS, a public service corporation organized under the laws of the State of Arizona, which is engaged in the business of transmitting and distributing electricity in all or part of eleven of Arizona's fifteen counties. APS is also authorized to sell wholesale power and energy at market-based rates.[2] In its order granting market-based rate authority to APS, the Commission found that APS does not possess market power.[3]

Additionally, PWCC is the parent of APSES, a marketer of electricity and energy-related services primarily to retail customers in Arizona and California. APSES also engages in wholesale marketing and brokering of electricity that is largely incidental to its retail function. In a Letter Order dated October 13, 1999,[4] the Acting Secretary of the Commission, pursuant to delegated authority, accepted APSES' market-based rate schedule for filing.

On April 21, 2000, PWCC filed an application for authorization to engage in wholesale power sales at market based rates and requested that the Commission permit

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1 17 C.F.R. § 250.2 (1999); *see* SEC File No. 69-306.

2 *Arizona Public Service Co.*, 79 FERC ¶ 61,022 (1997). APS recently filed an updated market analysis in connection with its market-based rates. *Arizona Public Service Company*, Docket No. ER00-1875-000 (March 14, 2000).

3 79 FERC at 61,098-99.

4 Reported at 89 FERC ¶ 61,024.

PWCC and its affiliates, APS and APSES, to engage in inter-affiliate transactions at market based rates in conjunction with changes to their respective codes of conduct.[5]

On June 20, 2000, the Commission conditionally accepted for filing a proposed market-based rate tariff and code of conduct for PWCC in Docket No. ER00-2268-000. In doing so, the Commission implicitly reaffirmed its earlier determination that PWCC's subsidiaries, APS and APSES, do not possess market power in the relevant generation or transmission markets. As ordered by the Commission, PWCC submitted a compliance filing to resolve all remaining concerns of the Commission regarding potential affiliate abuse and the effect of affiliate transactions on captive wholesale customers with fuel adjustment clauses. Upon acceptance of its compliance filing, PWCC will be authorized to engage in inter-affiliate transactions.

PWE and APSES were formed in response to the restructuring currently underway in the wholesale and retail sectors of the electric industry in Arizona and elsewhere. PWE is currently in the business of owning and operating generating facilities and is actively engaged in developing and/or acquiring new generation facilities in Arizona and elsewhere. In Arizona, the Arizona Corporation Commission ("ACC") has implemented a plan to permit retail access. On October 6, 1999, the ACC approved a Settlement Agreement between APS and several customer groups and consumer advocates resolving retail electric competition-related issues and approving unbundled tariffs.[6]

Under the terms of the Electric Competition Rules of the ACC and APS's Settlement Agreement, retail choice for APS's retail customers is being phased-in. All of APS's retail customers will be entitled to choose their retail power supplier beginning

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5 *Pinnacle West Capital Corporation, et al.*, Docket No.ER00-2268-000.

6 ACC Decision No. 61973.

January 1, 2001.[7] APS's retail customers that are not yet entitled to chose their retail power supplier are subject to retail rate reductions that will continue until after customer choice becomes available.[8] Under the Settlement Agreement, APS is entitled to apply for a change in the agreed upon rate reductions only in the event of an emergency or a material change in its cost of service as a result of specified extraordinary events.

Pursuant to the ACC approved Settlement Agreement, APS is required to divest generation assets by December 31, 2002.[9] On July 28, 2000, APS filed pursuant to Section 203 of the Federal Power Act, 16 U.S.C. § 824(b), and Part 33 of the Regulations of the Commission, 18 C.F.R., Part 33, a request to transfer to PWE certain FERC-jurisdictional facilities associated with generation assets being transferred to PWE as a further step toward a corporate restructuring. Once completed, APS will become primarily a "wires" company.

Each sector of the electric utility market is becoming increasingly competitive and present greater market opportunities than have previously existed. Transferring the generation assets to PWE will help PWCC and its affiliates adapt their electric businesses to these changing markets. The restructuring plan will allow PWCC and its affiliates to better compete in these markets and permit it to better serve its customers and its shareholders.

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7 *See* ACC approved Settlement Agreement, § 1.1.

8 *See* ACC approved Settlement Agreement, §§ 2.2, 2.6, 2.7.

9 *See* ACC approved Settlement Agreement, § 4.1.

II. COMMUNICATIONS

PWE respectfully requests that service of pleadings and deliveries of communications and correspondence concerning this matter be directed to the following:

Barbara M. Gomez
Treasurer
Pinnacle West Energy Corporation
400 North 5th Street
Mail Station 9996
Phoenix, Arizona 85004
Phone: (602) 250-5677

Barbara M. Champion
Senior Attorney
Pinnacle West Capital Corporation
400 North 5th Street
Mail Station 8695
Phoenix, Arizona 85004
Phone: (602) 250-3547

Joel R. Spitzkoff
Manager of Federal Regulation
Arizona Public Service Company
400 North 5th Street
Mail Station 9905
Phoenix, Arizona 85004
Phone: (602) 250-2949

John D. McGrane
Mary Ann K. Huntington
Kristina E. Beard
Morgan, Lewis & Bockius LLP
1800 M Street, N.W
Washington, D.C. 20036
Phone: (202) 467-7621

Applicants request that the above-listed individuals be placed on the official service list compiled for this proceeding.

III. LIST OF MATERIALS SUBMITTED WITH THIS FILING

This filing contains the following materials:

1. Exhibit A - PWE Market-Rate Tariff, including a form of service agreement;

2. Exhibit B - PWE Code of Conduct governing its relationship with PWCC and its affiliates;

3. Exhibit C - Notice of Filing suitable for publication in the Federal Register, with an electronic version on diskette.

IV. REQUEST FOR MARKET-BASED RATE APPROVAL FOR PWE

The Commission traditionally has permitted an entity -- whether a public utility, an independent power producer, or a power marketer -- to engage in wholesale sales of power and energy at market-based rates if the entity can demonstrate that neither it nor

any of its affiliates have market power in relevant markets for generation service and transmission service (or have adequately mitigated such market power) and that neither can erect barriers to entry.[10] In evaluating requests for market-based rates, the Commission also considers whether there is any evidence of, or potential for, affiliate abuse or reciprocal dealing between the applicant and its affiliates.[11] As demonstrated in this application and its supporting materials, PWE satisfies the Commission's criteria and should be granted authority to engage in wholesale power sales transactions at market-based rates, including sales of ancillary services into the California ISO.[12] In addition to governing the market-based sales of power and energy, the Market Rate Tariff will permit PWE to reassign transmission capacity, transmission rights, and associated ancillary services acquired for its own use under open access transmission tariffs. The Market Rate Tariff permits PWE to resell such capacity and rights at a price not higher than the highest of (1) the price PWE originally paid for the service, (2) the transmission provider's maximum rate for the service on file at the time of the resale, or (3) PWE's own opportunity costs capped at the applicable transmission provider's cost of expansion at the time of the sale to the eligible customer.[13] The resold service will be provided in accordance with the terms and conditions of service of the original transmission provider's applicable open access transmission tariff. PWE's proposed reassignment of transmission and associated ancillary services is wholly consistent with reassignment

10 *See, e.g., Heartland Energy Service, Inc.*, 68 FERC ¶ 61,223, at 62,060 (1994) ("*Heartland*").

11 *Id.*

12 The ancillary services PWE seeks authority to sell into the California ISO are: replacement reserve service, regulation and frequency response service, energy imbalance service, operating reserve-spinning reserve service and operating reserve-supplemental reserve service.

13 PWE will not charge a rate based on its opportunity costs absent a separate filing under Section 205 of the Federal Power Act.

provisions the Commission previously has accepted.[14]

A. **Market Power**

With respect to its market power concerns, the Commission generally requires that an entity seeking authorization to transact at market-based rates (1) demonstrate that the entire output of its or any of its affiliates' generating facilities is committed under long-term contracts, (2) demonstrate that the applicant or its affiliates already are authorized to sell power at market-based rates, or (3) submit a market analysis that indicates that neither the applicant nor its affiliates have generation dominance in the relevant markets.[15]

PWE's parent company PWCC and its affiliates APS and APSES are already authorized to sell power at market-based rates.[16] PWE relies on the market power study that its affiliates relied upon in support of their market-based rate applications, consistent with FERC precedent.[17] The transfer of generating assets between APS and PWE does not alter the results of the market power study. As such, the Commission should reach the same conclusion here that it reached in *Arizona Public Service Co.* -- that PWE does

14 *See, e.g., Alliant Services Company*, 85 FERC ¶ 61,344 (1998); *Select Energy, Inc.*, 85 FERC ¶ 61,290 (1998); *Commonwealth Edison Co.*, 78 FERC ¶ 61,312 (1997).

15 *LG&E Power Marketing, Inc.*, 68 FERC ¶ 61,247, at 62,121 (1994).

16 *See Pinnacle West Capital Corp., et al.*, 91 FERC ¶ 61,290 (2000); *Arizona Public Service Co.*, 79 FERC at 61,098-101; *APS Energy Services*, Letter Order, 89 FERC ¶ 61,024.

17 *See, e.g., Alliant Services Co.*, 85 FERC ¶ 61,344 (finding no market power based on affiliates' market study approved in earlier merger order); *Louisville Gas and Electric Co., et al.*, 85 FERC ¶ 61,215 (1998) (finding no market power based on affiliates' market studies approved in earlier market-based rate application orders).

not have generation market power.[18]

B. Transmission Market Power

In order to ensure that applicants for market-based rate authority do not possess transmission market power, the Commission generally requires the applicant, or its affiliated public utility, to file or have on file open access transmission tariffs for the provision of comparable services.[19] APS filed its open access tariff on July 9, 1996 (Docket No. OA96-153-000), and a revised open access tariff on July 12, 1996 (Docket No. ER96-2401-000). The Commission consolidated the two dockets and, on June 18, 1999, issued a letter order accepting a settlement governing APS's transmission rates in the consolidated dockets.

PWE will not own any transmission facilities except for those transmission facilities associated with the power plants being transferred (i.e. step-up transformers and related equipment). Accordingly, the availability of open access transmission service over APS' transmission facilities under the APS transmission tariff eliminates the potential for any exercise of transmission market power by PWE.

C. Barriers to Entry

In previous cases, the Commission has examined the possibility that an entity might be able to erect other barriers to entry as a possible ground for denying the

18 As explained in footnote 2, above, APS recently filed an update to its market power study. *See Arizona Public Service Co.*, Docket No. ER00-1875-000. That update was accepted by the Commission on May 2, 2000.

19 *See, e.g., Southern Indiana Gas & Electric Company*, 77 FERC ¶ 61,021 (1996).

authority to charge market-based rates.[20] PWE, PWCC, APS and APSES are not affiliated with entities that could impose barriers to entry in the electric power generation business through their ownership or control of any resources or inputs that could be essential to market entry by competitors.

D. Affiliate Abuse and Reciprocal Dealing

In evaluating market-based rate applications of affiliated power marketers, the Commission considers the potential for affiliate abuse and reciprocal dealing. The Commission has explained that affiliate abuse takes place when a public utility and an affiliated power marketer transact in ways that result in a transfer of benefits from the public utility (and the ratepayers) to the power marketer (and the shareholders).[21] Here, due to the restructuring of the Arizona retail market and the commitments made with respect to APS's wholesale customers in *Pinnacle West Capital Corporation, et al*, Docket No. ER00-2268-001 there is no potential for affiliate abuse. Accordingly, the Commission should permit PWE and the other Pinnacle West Companies to engage in transactions at negotiated market-based prices with each other under the codes of conduct governing relations between the Pinnacle West Companies.

The proposed PWE code of conduct that is similar to the codes of conduct for PWCC, APS, and APSES is attached as part of Exhibit A. The Pinnacle West Companies note that the ACC code of conduct will also continue to govern relationships between APS and APSES.

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20 *Heartland*, 68 FERC at 62,062.

21 *Id.*; *Wholesale Power Services, Inc.*, 72 FERC ¶ 61,284 (1995).

As detailed in *Pinnacle West Capital Corporation, et al.*, Docket No. ER00-2268-001, there is no risk of harm to the retail or wholesale customers of PWE's affiliate, APS, from the proposed changes to the codes of conduct. APS's wholesale customers are protected by putting in place measures that will prevent any potentially inappropriate costs associated with affiliated transactions from being passed through to these customers. Under the Arizona restructuring and the Settlement Agreement, APS's retail customers are protected by what is in essence a rate reduction and freeze and/or their ability to choose their electric supplier.[22]

E. The Commission's Filing Requirements

Consistent with the Commission's requirements, PWE commits that it will file quarterly transaction summaries and satisfy the Commission's other standard reporting requirements for affiliated power marketers.[23] Specifically, PWCC will file umbrella service agreements for short-term transactions (one year or less) within 30 days of the date of commencement of service, to be followed by quarterly transaction summaries for specific sales. For long-term transactions (longer than one year), the actual service agreement for each transaction will be filed within 30 days after commencement of

22 *See AmerGen Energy Co., L.L.C.*, 90 FERC ¶ 61,080 (2000) (ratepayers who have retail choice or are protected by a rate freeze are not captive customers); *Green Power Partners I, LLC, et al.*, 88 FERC ¶ 61,005 (1999) (waiving code of conduct requirement for UGI Development Co. because UGI does not have captive customers); *Enron Energy Services Power, Inc.*, 81 FERC ¶ 61,267 (1997) ("we will not accept PECO's request that we treat customers participating in a state retail [choice] program as captive customers requiring expansion of Enron Energy's code of conduct").

23 *See Southern Co. Services, Inc.*, 87 FERC ¶ 61,214 (1999); *Horizon Energy Co.*, 81 FERC ¶ 61,368 (1997).

service.[24]

PWE commits that it will file a revised market power analysis every three years.[25]

V. REQUEST FOR EFFECTIVE DATE AND WAIVERS

Consistent with the Commission's decisions in previous power marketer cases, PWE respectfully requests that the Commission waive the following requirements of the Commission's regulations: (1) the accounting and reporting requirements under Parts 41, 101, and 141 of the Commission's regulations; (2) the interlocking directorate filing requirements under Part 45 of the Commission's regulations, or, alternatively, permission to file abbreviated filings with respect to interlocking directorates under Part 45; (3) the filing requirements of Subparts B and C of Part 35 of the Commission's regulations, other than Sections 35.12(a), 35.13(b), 35.15 and 35.16; and (4) blanket authorization under Part 34 of all future issuances of securities and assumptions of obligations or liabilities as guarantor, endorser, surety or otherwise in respect of any security of any person.[26] Pursuant to Section 35.3(a) of the Commission's regulations, PWE respectfully requests that the Commission accept the Market Rate Tariff for filing and permit it to become effective the earlier of either sixty days after the date of this filing or the date upon which the Commission grants acceptance.

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24 *Southern Co. Services, Inc.*, 87 FERC at 61,848-49.

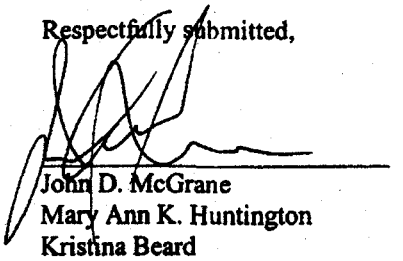
25 *See Morgan Stanley Capital Group, Inc.*, 69 FERC ¶ 61,175 (1994) (as clarified in *Engelhard Power Marketing, Inc.*, 70 FERC ¶ 61,250 (1995)).

26 *See, e.g., AES Huntington Beach, L.L.C.*, 83 FERC ¶ 61,100 (1998).

VI. CONCLUSION

PWE requests that the Commission issue an order granting: (1) authorization for PWE to engage in wholesale sales of electric power at market-based rates, including market-rate sales to its affiliates and sales of ancillary services at market-based rates in the California market; (2) acceptance of PWE's request for permission to reassign transmission capacity; (3) acceptance of the PWE Market Rate Tariff for filing effective the earlier of sixty days after the filing of this application or upon issuance of an order accepting the Tariff for filing; (4) approval of the proposed code of conduct governing PWE's relationship with the other Pinnacle West Companies; (5) certain blanket authorizations; and (6) certain waivers of the Commission's regulations as requested herein.

Respectfully submitted,



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Attorneys for
Pinnacle West Energy Corporation

Dated: July 28, 2000

Exhibit A

Pinnacle West Energy Corporation

Market-Based Rate Tariff

Pinnacle West Energy Corporation

MARKET-BASED RATE TARIFF

1. Availability: Pinnacle West Energy Corporation ("PWE") makes electric capacity or energy available for sale for resale under this Rate Schedule to any purchaser.

2. Applicability: This schedule is applicable to all sales of electric capacity and/or energy by PWE

   This schedule is also available for purchases by the California Independent System Operator Corporation and its suppliers and market participants of Replacement Reserve Service and the following ancillary services as defined by the Commission: Regulation and Frequency Response Service, Energy Imbalance Service, Operating Reserve-Spinning Reserve Service, and Operating Reserve-Supplemental Reserve Service.

   This schedule also is applicable to the reassignment of transmission capacity, transmission rights and associated ancillary services, that PWE has acquired for its own use on the transmission systems of transmission providers.

3. Rates: All sales of electric capacity or energy shall be made at rates established by agreement between the purchaser and PWE.

4. Other Terms and Conditions: All other terms and conditions shall be established by agreement between the purchaser and PWE.

5. Effective Date: This Rate Schedule shall be effective on the date established by FERC.

6. Reassignment of Transmission Rights: PWE may reassign transmission capacity, transmission rights, and associated ancillary services that it has reserved for its own use at a price not to exceed the highest of: (1) the original transmission rate paid by PWE; (2) the applicable transmission provider's maximum stated firm transmission rate on file at the time of the transmission reassignment; or (3) PWE's own opportunity costs, capped at the applicable transmission provider's cost of expansion at the time of the sale to the eligible customer. PWE will not recover opportunity costs in connection with reassignment without making a separate filing under Section 205. Except for the price, the terms and conditions under which the reassignment is made shall be under the terms and conditions governing the original grant by the transmission provider. Transmission and associated ancillary services may only be reassigned to a customer eligible to take service under the transmission provider's open access transmission tariff or other transmission rate schedules. PWE will report the name of the assignee in its quarterly reports.

Issued by: Alan Propper
Director, Pricing and Regulation
Issued on: July 28, 2000

Effective:_____

Pinnacle West Energy Corporation

MARKET-BASED RATE TARIFF

SERVICE AGREEMENT

This Service Agreement, dated as of _____, is entered into by and between Pinnacle West Energy Corporation ("PWE") and _____ ("Customer"), pursuant to PWE's Market-Based Rate Tariff, FERC Electric Tariff No. 1 ("Tariff").

Each transaction hereunder will be carried out under terms and conditions as agreed upon by PWE and the Customer in accordance with the terms and conditions of the Tariff.

IN WITNESS WHEREOF, PWE and Customer have caused this Service Agreement to be executed by their respective authorized officials as of the date first above written.

Customer	**Pinnacle West Energy Corporation**
_____	
Customer	
_____	_____
Signature of Representative Date	Signature of Representative Date
_____	_____
Name of Representative	Name of Representative
_____	_____
Title of Representative	Title of Representative

Issued by: Alan Propper
Director, Pricing and Regulation
Issued on: July 28, 2000

Effective:_____

Exhibit B

Pinnacle West Energy Corporation

Code of Conduct

Pinnacle West Energy Corporation

STATEMENT OF POLICY AND CODE OF CONDUCT WITH RESPECT TO THE RELATIONSHIP BETWEEN PINNACLE WEST ENERGY CORPORATION AND ARIZONA PUBLIC SERVICE COMPANY

The following Code of Conduct will govern the relationship between Pinnacle West Energy Corporation ("PWE") and any other marketing affiliates that may be authorized by the Federal Energy Regulatory Commission to engage in sales for resale of energy and capacity at market-based rates (the "Marketing Affiliates"), and Arizona Public Service Company ("APS").

Marketing of Power

1. To the maximum extent practical, the employees of the Marketing Affiliates will operate separately from the employees of APS.

2. Sales of any non-power goods or services by APS, including sales made through affiliated EWGs or QFs, to the Marketing Affiliates will be at the higher of cost or market price.

3. Sales of any non-power goods or services by the Marketing Affiliates to APS will not be at a price above market.

Exhibit C

NOTICE OF FILING

92 FERC ¶ 61,248

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: James J. Hoecker, Chairman;
William L. Massey, Linda Breathitt,
and Curt Hébert, Jr.

Pinnacle West Energy Corporation Docket No. ER00-3312-000

ORDER ACCEPTING FOR FILING PROPOSED MARKET-BASED RATE TARIFF

(Issued September 26, 2000)

In this order, the Commission accepts for filing a proposed market-based rate tariff filed by Pinnacle West Energy Corporation (PWE).

BACKGROUND

On July 28, 2000, PWE filed an application, under section 205 of the Federal Power Act (FPA),[1] seeking: (1) authority for PWE to engage in wholesale sales of electric power at market-based rates, including market-based rate sales to its affiliates, and sales of ancillary services within the California Independent System Operator (California ISO) market; (2) authority for PWE to reassign transmission capacity and transmission rights; (3) approval of a code of conduct for PWE;[2] and (4) waivers of certain of the Commission's regulations and blanket authorizations for other actions under the Commission's regulations.

PWE's application states that PWE's parent company, Pinnacle West Capital Corporation (PWCC), and its affiliates, Arizona Public Service Company (APS) and APS

[1] 16 U.S.C. § 824d (1994).

[2] PWE proposes to exclude from its code of conduct provisions that require simultaneous disclosure to the public of all market information shared between APS and its affiliates.

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Energy Services Company (APSES) (collectively, Pinnacle West Companies), are already authorized to sell power at market-based rates.[3]

PWE's application also states that the Arizona Corporation Commission (Arizona Commission) is in the process of modifying its rules on retail electric competition within Arizona to allow full retail choice.[4] On October 6, 1999, the Arizona Commission approved a settlement agreement between APS and several customer groups and consumer advocates resolving retail electric competition-related issues and approving unbundled tariffs.[5] Pursuant to the settlement approved by the Arizona Commission, APS is required to divest its generation assets by December 31, 2002.[6]

Notice of the filing was published in the Federal Register, with comments, protests, and interventions due on or before August 18, 2000.[7]

On July 28, 2000, the same date that PWE filed the instant application, APS filed a request pursuant to section 203 of the FPA,[8] and Part 33 of the Commission's Regulations, 18 C.F.R. § 33.1, et seq., to transfer to PWE certain Commission jurisdictional facilities associated with generation assets being transferred to PWE as a further step toward a corporate restructuring.[9]

Interventions and Protests

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[3]PWE Application at 2. See Pinnacle West Capital Corporation, 91 FERC ¶ 61,290 (2000) (PWCC), reh'g pending; Arizona Public Service Company, 79 FERC ¶ 61,022 (1997); APS Energy Services Company, Inc., Letter Order, 89 FERC ¶ 61,024 (1999).

[4]PWE Application at 3.

[5]Id.

[6]Id. at 4.

[7]65 Fed. Reg. 48,985 (2000).

[8]16 U.S.C. § 824(b) (1994).

[9]APS's application under § 203 of the FPA is currently pending Commission review in Docket No. EC00-118-000.

The Arizona Commission filed a notice of intervention. A timely motion to intervene was filed by Salt River Agricultural Improvement and Power District (Salt River). Timely motions to intervene and protests were filed by Tucson Electric Power Company (Tucson), Citizens Utilities Company (Citizens), and jointly by a number of electrical and irrigation districts in the State of Arizona (Arizona Districts).[10] A late-filed motion to intervene and protest was filed by Tohono O'odham Utility Authority (TOUA).

Tucson and Arizona Districts reiterate concerns they raised in Docket No. ER00-2268-000, in which PWCC sought and was granted market-based rate authority, including authority to make market-based sales to affiliates.[11] Tucson argues that PWE's application raises issues about market power and affiliate abuse. Arizona Districts raise similar concerns and also argue that PWE's filing should be rejected because it fails to meet the Commission's filing requirements under section 205 of the FPA for sales to affiliates at market-based rates. Citizens protests PWE's request to sell power to its affiliated franchised utility, APS, as well as other affiliated marketers, at market-based rates, when considered in the context of APS divesting all its generating facilities to PWE (currently pending in Docket No. EC00-118-000). TOUA argues that, taken together, the instant filing and the filing in Docket No. EC00-118-000 will have an adverse impact on its rates, especially on the system incremental cost (SIC) feature under its wholesale power sales contracts with APS. TOUA also requests consolidation of this proceeding with the proceeding in Docket No. EC00-118-000.

On August 31, 2000, PWE filed for leave to file an answer and an answer to Arizona Districts' protest. On September 5, 2000, PWE filed for leave to file an answer and an answer to TOUA's protest.

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[10]Arizona Districts are comprised of: Aguila Irrigation District; Buckeye Water Conservation & Drainage District; Electrical District No. 1 of Pinal County; Electrical District No. 3 of Pinal County; Electrical District No. 6 of Pinal County; Electrical District No. 7 of Maricopa County; Electrical District No. 8 of Maricopa County; Harquahala Valley Power District; Maricopa County Municipal Water Conservation District No. 1; McMullen Valley Water Conservation & Drainage District; Roosevelt Irrigation District; and Tonopah Irrigation District.

[11]See PWCC, 91 FERC at 61,998-99; Tucson Protest at 4; Arizona Districts Protest at 4.

DISCUSSION

As a preliminary matter, Arizona Commission's notice of intervention and the timely, unopposed motions to intervene of Salt River, Tucson, Citizens, and Arizona Districts serve to make them parties to this proceeding.[12] In addition, we will grant TOUA's untimely motion to intervene, given TOUA's interest in this proceeding, the early stage of this proceeding, and the absence of any undue prejudice or delay.

While Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2000), generally prohibits the filing of an answer to a protest, we will accept PWE's answers because they aid our understanding and resolution of the issues in this proceeding.

A. Market-Based Rates

The Commission allows power sales at market-based rates if the seller and its affiliates do not have, or have adequately mitigated, market power in generation and transmission and cannot erect other barriers to entry. For an affiliate of a transmission-owning public utility to demonstrate the absence or mitigation of market power, the public utility must have on file with the Commission an open access transmission tariff for the provision of comparable services. The Commission also considers whether there is evidence of affiliate abuse or reciprocal dealing.[13]

As we explain below, we find that PWE's proposed market-based rate tariff meets these standards. Accordingly, we will accept the proposed tariff for filing, without suspension or hearing, to become effective on September 25, 2000, 60 days after the date of filing.

1. Generation Market Power

As a result of the Arizona retail choice program, APS has proposed to divest its generation assets and for PWE to acquire from it certain FERC-jurisdictional generation facilities. APS's application for Commission approval of this transfer of jurisdictional

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[12] See 18 C.F.R. § 385.214 (2000).

[13] E.g., Progress Power Marketing, Inc., 76 FERC ¶ 61,155 at 61,919 (1996), letter order approving settlement, 79 FERC ¶ 61,149 (1997); Northwest Power Marketing Company, L.L.C., 75 FERC ¶ 61,281 at 61,889 (1996); accord Heartland Energy Services, Inc., et al., 68 FERC ¶ 61,223 at 62,060-063 (1994) (Heartland).

facilities is pending before the Commission in Docket No. EC00-118-000. However, for purposes of evaluating the instant application, we will assume that this transfer of facilities takes place.

The Commission recently evaluated the generation dominance of PWE's affiliates in Docket No. ER00-1875-000, and, in our view, the proposed transfer of generating assets between APS and PWE would not alter the results of that market power study.[14] In addition, we are not aware of any other material changes in circumstances that would require a new market analysis. Thus, we find that PWE meets the Commission's generation market power standard for approval of market-based rates.

2. Transmission Market Power

When an affiliate of a transmission-owning public utility seeks authorization to charge market-based rates, the Commission has required the public utility to have an open access transmission tariff on file before granting such authorization. PWE does not own any transmission facilities. Its affiliate, APS, filed an open access transmission tariff with the Commission in Docket No. OA96-153-000, as amended in Docket No. ER96-2401-000. Both filings were accepted by the Commission in a letter order dated June 18, 1999. Thus, we find that PWE meets the Commission's transmission market power standard for approval of market-based rates.

3. Other Barriers to Entry

Based on our review of the application, we are satisfied that there are no issues regarding other barriers to entry of concern here.

4. Affiliate Abuse/ Reciprocal Dealing

PWE proposes to engage in transactions with its affiliated Pinnacle West Companies at market-based rates. PWE argues, based on the restructuring of the Arizona retail market (including a retail rate reduction, retail rate freeze, and the implementation of retail choice) and the commitments made to APS's wholesale customers in PWCC and

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[14]On March 14, 2000, APS submitted an updated generation market study in Docket No. ER00-1875-000. This market study was accepted for filing by the Director, Division of Corporate Applications, Office of Markets, Tariffs, and Rates, acting under delegated authority, in an unpublished letter order issued on May 2, 2000.

Pinnacle West Capital Corporation, Docket No. ER00-2268-001,[15] that its application does not raise affiliate abuse issues.[16] Thus, PWE argues, there is no need for its code of conduct to include provisions requiring the simultaneous public disclosure of all market information shared among the affiliates.

Citizens argues that it may face higher rates for capacity and energy through the SIC component of its requirements contract with APS (Citizens' PSA) if PWE obtains market-based rates. Citizens expresses concern that APS's divestiture of its generating assets to PWE, along with PWE's ability to sell power to APS at negotiated rates, will allow APS to manipulate the calculation of the SIC.

Citizens also argues that the Palo Verde Index is not an effective safeguard to protect wholesale customers from affiliate abuse. Citizens states that the Palo Verde Index figure significantly exceeds Citizens' current SIC energy rates and is so inflated that, in most cases, the SIC methodology will determine the applicable energy charge, even if it includes above-market purchased power costs resulting from affiliate transactions. Thus, Citizens argues that use of the Palo Verde Index will allow PWE substantial latitude to inflate APS's SIC customers' rates. Citizens also argues that PWE's proposed use of the Palo Verde Index neither replicates nor reflects the parties' economic bargain set out in Citizens' PSA and thus is not a reasonable proxy for APS's SIC.

TOUA raises concerns similar to those raised by Citizens. It states that the combined effect of PWE's request for market-based rates and APS's request for approval of its sale of generation facilities to PWE will be to increase TOUA's rates, especially the SIC component of the rates. TOUA expresses concern that APS's SIC costs may be

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[15]PWCC's market-based rate compliance filing was accepted for filing by the Director, Division of Corporate Applications, Office of Markets, Tariffs, and Rates, acting under delegated authority, in an unpublished letter order issued on August 25, 2000 in Docket No. ER00-2268-001. This filing included fuel adjustment clause revisions consistent with our order in PWCC. See PWCC, 91 FERC at 61,998-99.

[16]PWE proposes to mitigate any potential harm to APS's wholesale customers by putting in place measures that will protect the customers from the improper pass-through of costs associated with affiliate transactions. In the case of APS's wholesale customers whose contracts include a pricing provision based on APS's system incremental cost (SIC), PWE proposes to cap the pass-through of costs to such wholesale customers at the lesser of APS's SIC or prices calculated based on the Palo Verde Index. In the case of APS's wholesale customers with an FAC, PWE commits to abide by the commitments reflected in its compliance filing in Docket No. ER00-2268-001.

driven up by inter-affiliate power purchases at negotiated rates. TOUA argues that this could result in PWE raising its customers' costs merely by making sales to its affiliates at inflated prices.

In its protest, Tucson incorporates by reference arguments that it made in PWCC (rehearing pending).

Arizona Districts urges the Commission to deny PWE's application to engage in wholesale power sales at market-based rates, including ancillary services and inter-affiliate transactions at market-based rates, for the same reasons it offered in its intervention in PWCC.

Commission Conclusion

As the Commission has explained in previous cases, there is a concern whenever a traditional public utility can transact with an affiliated power marketer in such a way as to transfer benefits from a power sale from the public utility's captive ratepayers to the shareholders.[17] PWE argues that there is no potential for affiliate abuse here because APS's retail customers are protected by a rate reduction and freeze and/or their ability to choose their electric suppliers. As to APS's captive wholesale customers, PWE proposes to protect these customers against potential cost shifting by offering to abide by the same commitments made by APS, and accepted by the Commission, with respect to APS's wholesale customers in PWCC.

In response to concerns raised by two of APS's customers, Citizens and TOUA, PWE represents that the transfer of contracts and generation assets from APS to PWCC and PWE will not affect the rate protections provided in Docket No. ER00-2268-000 to APS's wholesale customers. PWE states that the provisions of its contracts with Citizens and TOUA will continue to be applied as if APS continued to own the generation. Thus, to the extent APS generation costs would have determined the SIC value, the appropriate monthly charge to SIC customers for generation from the transferred APS facilities will not be based on rates negotiated by or between the Pinnacle West Companies. PWE states that energy charges for transferred APS generation will be passed through to wholesale SIC customers in accordance with the terms of the applicable SIC provisions of the customer's contract, not at some higher rate negotiated by or between PWE, PWCC

[17] See First Energy Trading & Power Marketing, Inc., 84 FERC ¶ 61,214 at 62,037 (1998); GPU Advanced Resources, Inc., 81 FERC ¶ 61,335 at 62,539 (1997); Detroit Edison Company, et al., 80 FERC ¶ 61,348 at 62,197 (1997).

and APS.[18] We find that PWE's explanation adequately resolves the concerns raised by Citizens and TOUA.

In PWCC, the Commission found PWCC's proposal to cap SIC prices at levels based on the Palo Verde Index a reasonable means to avoid potential affiliate abuse. The Commission stated that, as is the general practice in the industry, these rates are used to price coordination transactions that occur on an "as-available basis" when both parties can agree on a price that satisfies each party's own economic interests.[19] The Commission stated that the four rate schedules affected were APS's cost-based coordination sales tariff and bilateral agreements with three customers (Citizens, Colorado River Commission of Nevada, and TOUA) and that none of the customers had objected to Pinnacle's proposal.[20]

We find without merit Citizens' argument that the Palo Verde Index is inadequate to protect against affiliate abuse by the Pinnacle West Companies. The Commission has repeatedly held that capping the pass-through of prices resulting from affiliate transactions by reference to competitive prices at recognized market hubs provides an effective mechanism to prevent affiliate abuse.[21] Citizens has failed to persuade us that the Palo Verde Index is not a recognized market hub with competitive prices or that this safeguard would not be adequate to prevent affiliate abuse under the circumstances at issue here.[22]

Based on the protections against affiliate abuse accepted in Docket No. ER00-2268-000, wholesale customers with SIC provisions in their contracts receive the benefit of the actual APS SIC or the Palo Verde Index, whichever is lower. Thus, we agree with PWE that, where APS's traders hedge and beat the market, there will be a direct benefit to

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[18]PWE September 5 Answer at 5-6.

[19]PWCC, 91 FERC at 61,998.

[20]Id. at n.18.

[21]See First Energy Trading Services, Inc., 88 FERC ¶ 61,067 (1999); AYP Energy, Inc., 87 FERC ¶ 61,009 at 61,022(1999); PWCC, 91 FERC at 61,998.

[22]In PWCC, the Commission stated that it was satisfied by PWCC's proposal to cap SIC prices based on the Palo Verde Index "because the Palo Verde Index is an open, transparent, well-recognized index of market prices in the Palo Verde region and because [PWCC] does not control prices under the Palo Verde Index." PWCC, 91 FERC at 61,998.

Citizens and other SIC customers; where APS's traders do not beat the market (due to generation outages or otherwise), the Palo Verde Index may provide a buffer against excessive prices that protects the interests of APS's SIC customers.

As noted above, Tucson and Arizona Districts each reiterate in this proceeding arguments they raised in Docket No. ER00-2268-000 and that we addressed in PWCC, 91 FERC at 61,999. Thus, we will not revisit those issues here. Moreover, Tucson's arguments are more appropriately addressed on rehearing in PWCC.[23]

For the foregoing reasons, we will approve PWE's request to make sales at market-based rates to its affiliates, including its proposed code of conduct.

5. Ancillary Services

PWE requests authority to engage in the sale of certain ancillary services at market-based rates into the California ISO market.[24] We will grant PWE's request to make sales of ancillary services into the California ISO market at market-based rates.[25]

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[23]Arizona Districts did not seek rehearing of PWCC.

[24]PWE requests authority to provide the following ancillary services into the California ISO at market-based rates: Regulation and Frequency Response Service, Energy Imbalance Service, Operating Reserve - Spinning Reserve Service, and Operating Reserve - Supplemental Reserve Service. See Pinnacle Application, Exhibit B (Proposed APS Market-Based Tariff at p.2).

As noted above, Arizona Districts raise the same objections to PWE's request to engage in ancillary service sales into the California ISO at market-based rates that it raised with regard to PWCC's similar request in Docket No. ER00-2268-000. The Commission fully addressed Arizona Districts' objections in PWCC, 91 FERC at 61,999, and Arizona Districts did not seek rehearing of the Commission's resolution of those issues in that proceeding. Accordingly, we will not revisit those issues here.

[25]See AES Redondo Beach, L.L.C., et al., 85 FERC ¶ 61,123 (1998), order on reh'g, 87 FERC ¶ 61,208 (1999).

ORIGINAL

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ER 97-1672-000

February 12, 1997

OFFICE OF THE SECRETARY
FILED
97 FEB 12 AM 8:37
FEDERAL ENERGY REGULATORY COMMISSION

Lois D. Cashell
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: Arizona Public Service Company, Docket No. ER97-___-000

Dear Ms. Cashell:

Pursuant to Rule 205 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission, please find enclosed for filing on behalf of Arizona Public Service Company ("APS") an original and fourteen (14) copies of APS's Application for Order Approving Market-Based Rates. Also enclosed is diskette containing a Notice of Filing suitable for publication in the Federal Register.

If you have any questions regarding the enclosed Application, please call me at (202) 467-7622.

Very truly yours,

Mary Ann K. Huntington
Attorney for
Arizona Public Service Company

Enclosures

cc: Thomas Parrish

FERC DOCKETED
FEB 12 1997

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ER 97-1672-000

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Arizona Public Service Company	)	Docket No. ER97- -000

FILED
97 FEB 18 PM 3:37

APPLICATION OF ARIZONA PUBLIC SERVICE COMPANY FOR ORDER APPROVING MARKET-BASED RATES

Pursuant to Rule 205 of the Federal Energy Regulatory Commission's ("Commission's") Rules of Practice and Procedure, 18 C.F.R. § 385.205 (1996), Arizona Public Service Company ("APS") submits this application for authorization to engage in wholesale, bulk power sales at market-determined prices, including sales not involving APS's generation or transmission. Specifically, APS requests that the Commission (1) accept and approve APS's market-based Market Rate Tariff No. 1 ("Market Tariff"), attached hereto as Exhibit A, (2) grant blanket authorizations for APS to make wholesale sales of electric power at rates to be negotiated with the purchaser; and (3) waive the Commission's filing requirements, as necessary. Pursuant to Section 35.3(a) of the Commission's regulations, APS requests an effective date of 60 days after this filing, or the date on which the Commission issues an order approving APS's application for market-based rates, whichever is earlier.

I. BACKGROUND

APS is a public utility company incorporated under the laws of Arizona. APS owns, operates and controls facilities located in the state of Arizona used for the generation, transmission, and distribution of electric power. APS is seeking authorization to engage in wholesale, bulk power marketing activities at negotiated rates. APS plans to engage in sales of its own generation, and may

engage in purchase and resale transactions involving electric energy and capacity purchased from other public utilities, power producers, and power marketers. APS's Market Tariff allows it to make sales of energy and capacity to unaffiliated entities at market-based rates.

II. COMMUNICATIONS

Communications regarding this Application should be directed to the following individuals:

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(602) 250-2949

Copies of this filing have been mailed to the Arizona Corporation Commission.

III. LIST OF MATERIALS SUBMITTED WITH THIS FILING

The following is a list of materials APS has submitted with its application for market-based rates:

Exhibit A - APS's market-based Market Rate Tariff No. 1, including a Form of Service Agreement

Exhibit B - A Market Power analysis for APS

Exhibit C - A Notice of Filing suitable for publication in the Federal Register

IV. REQUEST FOR MARKET-BASED RATE APPROVAL

Historically, the Commission has required APS and other jurisdictional public utilities to develop their rates based on their "cost of service." As more competition has developed in the wholesale power market, the Commission has been willing to accept rates that are negotiated between the parties without requiring cost support by the seller. In light of the rapid changes occurring in the electric utility industry, APS wants additional flexibility in pricing its wholesale power sales and, therefore, seeks authorization to make such sales at negotiated market-based rates, pursuant to the enclosed Market Tariff.

The Commission generally will allow an entity -- whether a public utility, an independent power producer, or a power marketer -- to charge market-based rates if it can demonstrate that neither it nor any of its affiliates has, or has adequately mitigated market-power in generation and transmission and neither can erect barriers to entry. In evaluating requests for market-based rates, the Commission also considers whether there is any evidence of affiliate abuse or reciprocal dealing. In a number of recent cases, the Commission has set forth the criteria that must be satisfied in order for a jurisdictional entity to receive authorization to charge market-based rates. The Commission has explained the current standards for market-based rates as follows:

> The Commission's general standard is to allow market-based rates if the seller (and each of its affiliates) does not have, or has adequately mitigated market power in generation and transmission and cannot erect other barriers to entry. In addition, the Commission considers whether there is evidence of affiliate abuse or reciprocal dealing . . . In evaluating requests for open-ended, market rate authority, the

> Commission uses these same general standards but also implements reporting and independent review requirements because it will not have the opportunity to examine the particular circumstances of each transaction.

Heartland Energy Service, Inc., 68 FERC ¶ 61,223, at 62,060 (1994). The Commission uses these criteria to evaluate the market-based rate applications of traditional electric utilities, as well as power marketers. *See Southwestern Public Service Co.*, 72 FERC ¶ 61,208 (1995); *Maine Public Service Co.*, 71 FERC ¶ 61,249 (1995). As demonstrated herein, APS meets the Commission's criteria and should be granted authority to engage in transactions at market-based rates.

A. **Generation Market Power**

With respect to its generation market power concerns, the Commission generally requires that an entity (1) demonstrate that the entire output of its or any of its affiliates' generating facilities is committed under a long-term contract; (2) demonstrate that it and its affiliates already are authorized to sell power at market-based rates; or (3) submit a market analysis that indicates that neither it nor its affiliates have generation dominance in the relevant markets. *LG&E Power Marketing, Inc. et al.*, 68 FERC ¶ 61,247, at 62,121 (1994). The Commission has explained:

> When evaluating generation dominance for a traditional investor-owned electric utility, an affiliated power producer or an independent power producer that proposes to sell at market-based rates on an open-ended basis, the Commission defines the geographic markets as those utilities directly interconnected to the seller (first tier markets). Affiliated power marketers may sell in these same markets or in other markets. To guard against the possibility that an affiliated marketer's rates would be affected by the generation dominance of an affiliated public utility, the affiliated power marketer needs to provide a market analysis of the relevant market of its affiliates that own generating assets. If the market analysis shows no generation dominance for the affiliates, there would be no reason to ascribe generation dominance to the affiliated power marketer in the same market or in any other (more remote) markets.

Heartland, 68 FERC at 62,061 (footnotes omitted); *see also Detroit Edison* Co., 77 FERC ¶ 61,279, slip op. at 2 (Dec. 19, 1996); *PacifiCorp.*, 77 FERC ¶ 61,280, slip op. at 2 (Dec. 19, 1996); *Progress Power Marketing, Inc.*, 76 FERC ¶ 61,155, at 61,919 (1996); *Northwest Power Marketing Company, L.LC.*, 75 FERC ¶ 61,281, at 61,889 (1996).

APS is engaged in the generation, transmission and distribution of electric energy and capacity in a franchised electric service territory. To address the Commission's requirements concerning generation market power, APS has submitted with this filing a market power analysis, attached as Exhibit B, which demonstrates that APS does not have generation market power.

Consistent with the Commission's requirements, APS's market-power analysis considers total and uncommitted capacity in APS's first tier markets. APS's share of total generating capacity and uncommitted or surplus capacity in each first tier market was determined using data from the Western Systems Coordinating Council ("WSCC") 1996 Loads and Resources Report. Additional information from the following sources was also utilized in preparing APS's market power analysis: (1) "1995 WSCC Existing Generation" database; (2) RDI "POWERDAT" database; and (3) "WSCC 1995 Coordinated Bulk Power Supply Program (1994-2004)" report. In determining uncommitted capacity, a reserve margin of 6% to 25% was used for all of the first and second tier entities. The reserve margin data was obtained from the WSCC 1995 Coordinated Bulk Power Supply Program (1994-2000) report. If information on an individual company's reserve margin was not available, then the summer, subregional power area average was used for that utility.

The market power analysis demonstrates that APS does not have market power. After the effects of APS's open access transmission tariff are taken into account, APS's share of total

capacity in the first tier markets ranges from 3% to 7%; APS's share of uncommitted capacity is 0%. These figures are well within the range the Commission has approved for market-based rates.

In addition to APS's own generation, the market power analysis concludes that APS's expected external power marketing activities do not raise generation market power concerns. The market power study explains that with the availability of open access transmission service, entry by those who would market power on a buy-and-sell basis is relatively easy; therefore, power marketing does not raise concerns about the exercise of market power. As a result, APS requests that the Commission grant its request to sell power at market-based rates.

B. Transmission Market Power

In order to ensure that utilities do not possess transmission market power, the Commission generally requires a public utility have on file an open access transmission tariff for the provision of comparable services *See, e.g., Southern Indiana Gas & Electric Company*, 77 FERC ¶ 61,021 (1996).

On July 9, 1996, APS filed in Docket No. OA96-153-000 an open-access transmission tariff providing for comparable services.

C. Barriers to Entry

In addition to generation and transmission market power, the Commission also analyzes whether the entity seeking market-based rates owns or controls other potential barriers to entry. In prior cases, the Commission has indicated that it also will consider whether the entity is affiliated with, or owns, interstate gas pipelines or local gas distribution systems.

APS is not affiliated with any entities that could impose barriers to entry in the electric power generation business through their ownership or control of any resources or inputs that could be essential to market entry by competitors. *See* Exhibit B, APS's Market Power Analysis.

D. Affiliate Abuse and Reciprocal Dealing

In evaluating market-based rate applications of affiliated power marketers, the Commission also considers the potential for affiliate abuse and reciprocal dealing. The Commission has explained that affiliate abuse takes place when a public utility and an affiliated power marketer transact in ways that result in a transfer of benefits from the public utility (and the ratepayers) to the power marketer (and the shareholders). *Heartland*, 68 FERC at 62,062; *Wholesale Power Services, Inc.*, 72 FERC ¶ 61,284 (1995).

In this instance, there is no affiliated power marketer seeking market-based rates. APS itself is seeking market-based rates for its own wholesale power sales, including sales not involving APS's transmission or generation facilities. For this reason, there is no affiliate abuse issue in this proceeding. *See Southwestern Service Co.*, 72 FERC ¶ 61,208, at 61,968 (1995).

E. The Commission's Filing Requirements

In *Southern Company Services, Inc.*, 75 FERC ¶ 61,130 (1996), the Commission revised its filing requirements for public utilities engaged in market-based sales. Consistent with the Commission's requirements in Southern, APS commits that it will file quarterly transaction summaries of short-term transactions (transactions with a duration of one year or less) entered into under APS's Market Tariff. For short-term transactions, APS will list the purchaser, the transaction period, the unbundled prices for generation, transmission, and ancillary services, the amount of electricity sold, and the total charge to the purchaser. For long-term transactions (those with a duration of more than

one year), APS will file the transaction agreement within 30 days of commencement of service. *Prior Notice and Filing Requirements Under Part II of the Federal Power Act*, 64 FERC ¶ 61,139, *clarified*, 65 FERC ¶ 61,081 (1993). For both the quarterly summaries and the service agreements for long-term transactions, APS will separately state the unbundled prices for generation, transmission, and ancillary services, as required by the Commission. *See Cincinnati Gas & Electric Co.*, 77 FERC ¶ 61,172, slip op. at 5 (Nov. 15, 1996). Additionally, to facilitate the orderly maintenance of the Commission's files, APS will file its long-term transactions separately from its short-term transactions.

With respect to electricity price risk management transactions (*e.g.*, futures, options, swaps) that allow customers to control or mitigate adverse fluctuations in the price of electricity, the Commission has noted that while many such contracts obligate the selling company to deliver electricity upon the customer's demand, frequently the customer may decide not to exercise its contractual right to take delivery. As a result, APS will only file transactions which actually go to delivery. *New York Mercantile Exchange*, 74 FERC ¶ 61,131 (1 996).

APS commits that it will file a revised market analysis every three years. This is consistent with Commission precedent. *Morgan Stanley Capital Group, Inc.*, 69 FERC ¶ 61,175, at 61,695 (1994) (as clarified in *Engelhard Power Marketing, Inc.*, 70 FERC ¶ 61,250(1995)).

V. OTHER INFORMATION

APS is unable to determine the level of use of its Market Tariff; therefore, APS cannot provide an estimate of revenues.

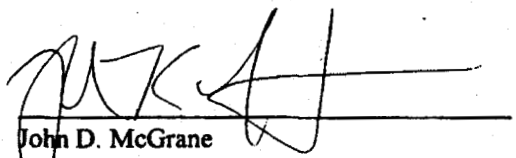
There are no expenses or costs included in the proposed rates that have been judged in any administrative or judicial proceedings to be illegal, duplicative, or unnecessary costs that are demonstrably the product of any discriminatory employment practices.

APS respectfully requests that the Commission accept the Market Tariff for filing and permit it to become effective 60 days from the date of this filing, or the date of the Commission's order accepting APS's request for market-based rate approval, whichever is earlier. Because APS has requested market-based rate authority, many of the Commission's filing requirements are inapplicable. To the extent any filing requirement is not satisfied by the material enclosed herewith, APS requests a waiver of any additional filing requirements in Part 35 of the Commission's regulations which may be necessary to permit implementation of the Market Tariff in accordance with its terms.

VI. CONCLUSION

WHEREFORE, for the foregoing reasons, APS requests the Commission to issue an order that grants authorization for APS to make wholesale sales of electric power at market-based rates, including sales not involving APS's generation or transmission. APS requests an effective date 60 days from the date of this filing, or the date of the Commission's order accepting APS's request for market-based rate approval, whichever is earlier.

Respectfully submitted,



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Dated: February 12, 1997

ARIZONA PUBLIC SERVICE COMPANY
MARKET RATE TARIFF NO. 1
(MR-1)

1 **DEFINITIONS**

The following terms shall have the specified meaning when used in the Market Rate Tariff No. 1 ("Tariff") or in a Service Agreement

1.1 **Commission:** The Federal Energy Regulatory Commission.

1.2 **Customer:** An entity that executes a Service Agreement under this Tariff.

1.3 **Service Agreement:** The initial agreement and any supplements thereto entered into by a Customer and Arizona Public Service Company ("APS") for service under this Tariff.

1.4 **Tariff:** This Market Rate Tariff No. 1 as it may be amended and/or superseded from time to time.

1.5 **Transaction:** An individual transaction scheduled pursuant to this Tariff and a Service Agreement.

2 **AVAILABILITY**

2.1 This Tariff is available for purchases of electric energy and/or capacity from APS.

2.2 No entity affiliated with APS is eligible for service under this Tariff.

3 **CHARACTER OF SERVICE**

APS may provide capacity and/or energy under this Tariff in varying amounts, at varying levels of firmness or priorities of service, for varying periods of service, and in accordance with varying delivery schedules, as agreed to between the Customer and APS.

4 **RATES**

4.1 The rates for purchases under this Tariff shall be as agreed to by the Customer and APS.

4.2 Should APS obtain transmission service under its Open Access Transmission Tariff for sales under this Tariff, it will separately state the prices for wholesale generation, transmission and ancillary services.

5 **SERVICE AGREEMENTS**

5.1 Prior to the commencement of service to a new customer, APS and each new Customer will execute a Service Agreement. APS will file a copy of the executed Service Agreement with the Commission.

5.2 APS may refuse, at its sole discretion, to enter into a Service Agreement or Transaction under this Tariff. APS is under no obligation to execute a Service Agreement to provide service hereunder.

5.3 Acceptance of service by the Customer pursuant to a Service Agreement commits the Customer to the provisions of this Tariff and to the terms of the Service Agreement.

6 **EXPANSION OF FACILITIES**

APS will have no obligation under this Tariff or any Service Agreement executed hereunder to plan its system, to enlarge or modify its facilities or operate its system in such a manner in order to provide or maintain energy and/or capacity sold hereunder.

FORM OF SERVICE AGREEMENT

This Service Agreement, dated as of _____, is entered into by and between Arizona Public Service Company ("Company"), and _____ ("Customer"), pursuant to the Company's Market Rate Tariff No. 1 ("Tariff").

Each transaction hereunder shall be carried out under terms and conditions as agreed upon by the Company and Customer in accordance with the terms and conditions of the Tariff.

IN WITNESS WHEREOF, Company and Customer have caused this Service Agreement to be executed by their respective authorized officials as of the date first above written.

ARIZONA PUBLIC SERVICE COMPANY _____

By: _____ By: _____

Title: _____ Title: _____

Date: _____ Date: _____

EXHIBIT B

Arizona Public Service Company's
Generation Market Power Analysis

The Federal Energy Regulatory Commission ("FERC") has required those requesting the right to make wholesale bulk power sales at market-determined prices to document that they do not possess either *transmission market power* or *generation dominance*. Concerning the first of these, FERC has found that concerns about what is called *transmission market power* can be eliminated by the filing of an open access transmission tariff that meets its comparability requirements. With the Final Rule in Docket No. RM95-8-000, *Promoting Wholesale Competition Through Open Access Non-Discriminatory Transmission Services By Public Utilities and Recovery of Stranded Costs by Public Utilities and Transmitting Utilities*, FERC Stats. & Regs. ¶ 31,026 (1996) ("Order No. 888"), all jurisdictional utilities were required to file such tariffs, and so this seemingly no longer has significance as a separate requirement for granting market-based pricing authority. Arizona Public Service Company ("APS") already has filed such a tariff. Concerning the second, *generation dominance*, FERC's approach for assessing the appropriateness of market-based pricing for wholesale bulk power sales from existing capacity has been to look at the applicant's shares of total and uncommitted generating capacity within various *first tier markets*.[1/] FERC's approach for assessing the appropriateness of market-based pricing for wholesale bulk power sales from new capacity is to examine whether the applicant for market-based pricing authority controls entry barriers that might be used to thwart potential competitors. This exhibit, including its attached tables,

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1/ The analysis examines APS's share of total and uncommitted generator capacity with APS' first tier and second tier markets.

provides, in support of APS's application for market-based pricing authority, the types of analyses which FERC has required.

FIRST TIER ANALYSES

As indicated, FERC's approach for assessing the appropriateness of market-based pricing for sales from existing capacity has been to look at the applicant's share of total and uncommitted capacity within various first tier markets. A first tier utility is one that is directly interconnected with the applicant. The participants in each first tier market, sometimes called a hub and spoke market, include (i) the utility on whom the market is centered, (ii) the applicant for market-based pricing, (iii) each utility other than the applicant that is interconnected with the center utility, and (iv) any other utility that can be accessed by the applicant's open access transmission tariff.[2/] For such analyses, total capacity generally is considered to be the sum of owned capacity plus firm purchases net of firm sales, while uncommitted capacity is the excess of the company's total capacity over the sum of its peak demand plus reserve responsibility. Consistent with the Commission's requirements, APS's market-power analysis considers total and uncommitted generating capacity in APS's first tier markets.

The utilities interconnected with APS are as follows: Arizona Electric Power Cooperative, Inc. ("AEPC"), Colorado River Indian Irrigation Project ("CRIP"), El Paso Electric Company ("EPE"), Electrical and Irrigation Districts ("ED/ID"),[3/] Imperial Irrigation District ("IID"),

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2/ With the issuance of Order No. 888 and its requirement that all jurisdictional utilities file open access transmission tariffs, this category seemingly should be revised to include all utilities accessible by payment of but a single wheeling charge, and not just those accessible by a single wheeling charge over the applicant's system.

3/ ED/ID consists of: Aguila Irrigation District ("AID"), Buckeye Water Conservation & (continued...)

Los Angeles Department of Water & Power ("LADWP"), Navajo Tribal Utility Authority ("NTUA"), Nevada Power Company ("NEVP"), PacifiCorp-West ("PAC-W"), PacifiCorp-East ("PAC-E"), Plains Electric Generation & Transmission Cooperative ("Plains"), Public Service Company of New Mexico ("PNM"), Salt River Project ("SRP"), San Diego Gas & Electric Company ("SDG&E"), Southern California Edison Company ("SCE"), Southern California Public Power Association ("SCPPA"), Tohono O'Odham Utility Authority ("TOUA"), Tri-State G&T Association, Inc. ("TSGT"), Tucson Electric Power Company ("TEP"), United States Bureau of Reclamation-Lower Colorado River ("USLC"), United States Bureau of Reclamation-Upper Colorado River-NW ("USUCNW"), United States Bureau of Reclamation-Upper Colorado River-RM ("USUCRM"), Western Area Power Administration-Lower Colorado River ("WAUC"), Western Area Power Administration-Lower Colorado River ("WALC"), Wickenburg Electrical Department ("WED"), and Williams ("WMS").

The results of the first tier analyses are summarized in Tables 1, 2, and 3 attached hereto. Table 1 contains information on total installed capacity, firm load, firm purchases, firm sales, planning reserve margin (the percent of total capacity that is reserves and the amount of reserves), and uncommitted capacity for each first and second tier entity; Table 2 contains an analysis of each first tier target market; and Table 3 contains a summary of APS's market share of total installed and uncommitted capacity.

3/(...continued)

Drainage District ("BWCD"), Electrical District No. 1 ("ED1"), Electrical District No. 3 ("ED3"), Electrical District No. 7 ("ED7"), Electrical District No. 8 ("ED8"), Harquahala Valley Power District ("HVPD"), Maricopa County Municipal Water Conservation District No. 1 ("MCM"), McMullen Valley Water Conservation & Drainage District ("MVD"), Roosevelt Irrigation District ("RID"), and Tonopah Irrigation District ("TID").

and after the effects of the open access tariff have been incorporated. Under either analysis, APS's figures are far below those which might suggest concern about the potential exercise of market power under either FERC precedent or any other reasonable standard.

ENTRY BARRIERS

The above analyses implicitly assume that all of APS's sales under market-based pricing authority will involve its own generation or transmission. However, APS also may make sales under this authority that do not involve its own generation or transmission. Such sales do not present any concerns about the possible exercise of market power. Ease of entry is one of the most important factors to consider in assessing the potential for the exercise of market power. Where entry is relatively easy, concerns about the potential exercise of market power should vanish. With the advent of open access transmission tariffs, entry by those who would market electric capacity on a buy-and-resell basis, as APS may do, is relatively easy. It requires access to those transmission tariffs, knowledge of supply and demand sources, and perhaps an ability to recognize various types of risk and provide mechanisms to hedge these, but it does not require various types of capital investments in generation or transmission plant that in the past might have been used to argue that entry was difficult. In short, there are potentially many entities that could compete with APS in the marketing of capacity on an simultaneous buy-and-resell basis. Stated differently, with the advent of open access transmission tariffs, power marketing does not possess the characteristics of an activity where there are likely to be realistic concerns about the exercise of market power.

In the past, FERC's analyses of potential barriers have focused on control of sites at which new generation might be constructed, control of fuel supplies and control of fuel transport facilities. As a general matter, a single firm is unlikely to have sufficient control in any of these areas

to enable it to thwart entry by its competitors. The specific facts indicate that such control is not present in this case. APS plans to install a combustion turbine near Kingman, Arizona in 1998 to serve the load of Citizens Utilities Company ("CUC") in the Kingman area and which cost will be directly assigned to CUC. However, at this time, there is no firm commitment to install additional APS owned generation resources. Additionally, APS does not have ownership in or control of any fossil fuel or nuclear fuel resources. Finally, as a joint participant in the Navajo Generating Station, APS has partial ownership interest in the railroad that delivers coal from the mine to the plant (including the locomotive, coal cars and approximately 80 miles of track). Other than this, APS does not have, in part or whole, any ownership interest in fuel transportation facilities.

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TABLE 1
GENERATION POWER MARKET ANALYSIS
DATA SUMMARY [1]

	1	2	3	4	5	6	7
					Planning Reserve Margin		
ENTITY	Total Installed Capacity [2]	Firm Load [3]	Firm Purchases [4]	Firm Sales [4]	Percent [5]	Amount [2*5]	Uncommitted Capacity [6] [1+3-(2+4+6)]
ARIZONA PUBLIC SERVICE CO.	3,943	4,024	537	454	16%	644	-
							-
FIRST-TIER ENTITIES							-
ARIZONA ELECTRIC PWR COOP INC (AEPC)	520	586	298	100	16%	94	38
COLORADO RIVER INDIAN IRRIGATION PROJECT (CRIIP)	-	6	6	-	13%	1	-
EL PASO ELECTRIC CO. (EPE)	1,486	1,088	120	314	13%	141	63
ELECTRICAL and IRRIGATION DISTRICTS (ED/ID) (7)	-	163	163	-	13%	21	-
IMPERIAL IRRIGATION DISTRICT (IID)	653	630	405	4	15%	95	330
LOS ANGELES DEPT OF WATER & POWER (LDWP)	7,516	5,209	179	148	16%	807	1,531
NAVAJO TRIBAL UTILITY AUTHORITY (NTUA)	-	126	126	-	13%	16	-
NEVADA POWER CO. (NEVP)	2,994	3,316	315	-	15%	497	-
PACIFICORP-WEST (PAC-W)	6,833	7,388	-	225	11%	813	-
PACIFICORP-EAST (PAC-E)	938	-	255	635	11%	-	558
PLAINS ELECTRIC GEN & TRANS COOP (PEGT)	235	377	148	-	18%	68	-
PSC OF NEW MEXICO (PNM)	1,497	1,202	248	199	20%	240	103
SALT RIVER PROJECT (SRP)	4,086	4,114	1,143	371	16%	658	86
SAN DIEGO GAS & ELECTRIC CO. (SDGE)	3,055	3,260	1,133	-	15%	489	439
SOUTHERN CALIFORNIA EDISON CO. (SCE)	18,237	17,209	1,543	3	16%	2,753	-
SOUTHERN CALIFORNIA PUBLIC POWER ASSOCIATION (SCPPA)	739	-	-	739	0%	-	-
TOHONO O'ODHAM UTILITY AUTHORITY (TOUA)	-	14	14	-	13%	2	-
TRI-STATE G & T ASSN, INC. (TSGT)	1,256	1,099	763	533	15%	165	222
TUCSON ELECTRIC POWER CO. (TEP)	1,948	1,682	415	295	15%	252	134
US BUREAU OF RECLAMATION-LOWER COLORADO RIVER (USLC)	547	-	-	547	6%	-	-
US BUREAU OF RECLAMATION-UPPER COLORADO RIVER-NW (USUC)	-	-	-	-	11%	-	-
US BUREAU OF RECLAMATION-UPPER COLORADO RIVER-RM (USUC)	-	-	-	-	15%	-	-
WESTERN AREA POWER ADMIN.-LOWER COLORADO RIVER (WALC)	457	71	227	37	6%	4	572
WESTERN AREA POWER ADMIN.-UPPER COLORADO RIVER (WAUC)	1,807	7	-	1,183	15%	1	616
WICKENBURG ELECTRICAL DEPARTMENT (WED)	-	6	6	-	13%	1	-
WILLIAMS (WMS)	-	3	3	-	13%	0	-
TOTAL	58,747	51,580	8,047	5,786		7,764	1,663
ARIZONA PUBLIC SERVICE CO. / TOTAL	6.7%						0.0%

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TABLE 1
GENERATION POWER MARKET ANALYSIS
DATA SUMMARY [1]

ENTITY	1 Total Installed Capacity [2]	2 Firm Load [3]	3 Firm Purchases [4]	4 Firm Sales [4]	5 Planning Reserve Margin Percent [5]	6 Planning Reserve Margin Amount [2*5]	7 Uncommitted Capacity [6] {1+3-(2+4+6)}
SECOND-TIER ENTITIES							
ANAHEIM PUBLIC UTILITIES DEPT. (ANHM)	377	-	96	-	16%	-	473
ARIZONA POWER AUTHORITY (APA)	400	15	-	362	0%	-	23
ARKANSAS RIVER POWER AUTHORITY (ARPA)	75	58	38	-	15%	9	46
AZUSA (AZSA)	32	-	30	-	16%	-	62
BANNING (BNNG)	22	-	14	-	16%	-	36
BASIN ELECTRIC POWER COOPERATIVE (BEPC)	651	278	43	225	15%	42	149
BASIN ELECTRIC POWER COOPERATIVE (BEPC)	-	-	-	-	15%	-	-
BLACK HILLS CORP. (BHPL)	299	306	104	6	15%	46	45
BONNERS FERRY, CITY OF (BF)	-	-	-	-	11%	-	-
BONNEVILLE POWER ADMIN (BPA)	1,351	11,549	315	369	11%	1,270	-
BURBANK PUBLIC SERVICE DEPT. (BURB)	354	245	50	5	20%	49	105
CALIFORNIA DEPT-WTR RESOURCES (CDWR)	1,836	1,123	637	212	10%	112	1,027
CENTRAL CALIFORNIA POWER AGENCY (CCPA)	122	-	-	23	16%	-	99
CENTRALIA LIGHT DEPARTMENT (CC)	-	-	-	-	11%	-	-
CENTURY POWER CORPORATION (CPC)	-	-	-	40	13%	-	-
CITIZENS UTILITY COMPANY (CUC)	45	239	239	-	16%	38	7
COLORADO SPRINGS UTILITIES (CSU)	536	578	140	-	15%	87	11
COLTON (CLTN)	2	-	31	-	16%	-	33
COMISION FEDERAL DE ELECTRICDAD (CFE)	1,330	1,104	140	220	15%	166	-
COMISION FEDERAL DE ELECTRICDAD (MEX)	-	-	-	-	15%	-	-
DESERET GENERATION & TRAN COOP (DGT)	520	222	102	107	11%	24	269
EUGENE WATER & ELECTRIC BOARD (EWEB)	127	473	-	-	11%	52	-
FARMINGTON ELECTRIC UTILITY (FARM)	125	105	21	-	13%	14	27
GLENDALE PUBLIC SERVICE DEPT. (GLEN)	345	275	70	-	25%	69	72
HOWELL POWER SYSTEMS, INC. (HOW)	-	-	-	-	13%	-	-
IDAHO POWER CO. (IPC)	2,646	2,393	-	1	11%	263	-
INTERMOUNTAIN CONSUMER POWER AASSOCIATION (ICPA)	338	-	-	-	11%	-	338
LOS ALAMOS COUNTY UTILITIES (LAC)	89	80	32	-	13%	10	31
M-S-R PUBLIC POWER AGENCY (MSR)	143	-	-	-	16%	-	143
METROPOLITAN WATER DISTRICT (MWD)	154	290	-	21	16%	45	-
MODESTO IRRIGATION DISTRICT (MID)	283	502	489	-	16%	78	192
MONTANA POWER CO. (MPC)	1,585	1,397	-	81	11%	154	-
MUNICIPAL ENERGY AGENCY FO NEBRASKA (MEAN)	38	94	67	-	15%	14	-

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TABLE 1
GENERATION POWER MARKET ANALYSIS
DATA SUMMARY [1]

ENTITY	1	2	3	4	5	6	7
					Planning Reserve Margin		
	Total Installed Capacity [2]	Firm Load [3]	Firm Purchases [4]	Firm Sales [4]	Percent [5]	Amount [2*5]	Uncommitted Capacity [6] [1+3-(2+4+6)]
SECOND-TIER ENTITIES CONTINUED							
NAVAJO AGRICULTURAL PRODUCTS INDUSTRY (NAPI)	-	16	16	-	13%	2	-
NEBRASKA PUBLIC POWER DISTRICT (NPPD)	-	-	-	-	15%	-	-
NORTHERN CALIFORNIA POWER AGENCY (NCPA)	404	628	-	192	16%	97	-
OKANOGAN PUBLIC UTILITY DISTRICT (OKPD)	-	-	-	-	11%	-	-
PACIFIC GAS & ELECTRIC CO. (PG&E)	17,414	16,532	1,833	767	16%	2,562	-
PASADENA WATER & POWER DEPT. (PASA)	327	264	42	-	15%	40	66
PLATTE RIVER POWER AUTHORITY (PRPA)	411	343	142	224	15%	51	-
PORTLAND GENERAL ELECTRIC CO (PGE)	2,284	3,315	877	315	11%	365	-
PSC OF COLORADO (PSC)	3,784	4,239	1,058	188	15%	636	-
PUD NO 1 OF CHELAN COUNTY (CHPD)	2,004	542	-	-	11%	60	1,402
PUD NO 1 OF COWLITZ COUNTY (COPD)	72	-	-	-	11%	-	72
PUD NO 1 OF DOUGLAS COUNTY (DOPD)	840	158	-	-	11%	17	665
PUD NO 1 OF GRAYS HARBOR CNTY (GHPD)	54	-	-	-	11%	-	54
PUD NO 1 OF PEND OREILLE CNTY (POPD)	75	-	-	-	11%	-	75
PUD NO 1 OF SNOHOMISH COUNTY (SHPD)	212	-	-	-	11%	-	212
PUD NO 2 OF GRANT COUNTY (GCPD)	1,967	464	-	-	11%	51	1,452
PUGET SOUND POWER & LIGHT CO. (PSPL)	2,545	4,134	-	-	11%	455	-
REDDING ELECTRIC DEPT. (RDNG)	29	184	187	-	16%	29	3
RIVERSIDE UTILITIES DEPT. (RVSD)	172	-	65	-	16%	-	237
ROCKY MOUNTAIN GENERATION COOPERATIVE (RMGC)	-	21	19	-	15%	3	-
SACRAMENTO MUNICIPAL UTIL DIST (SMUD)	835	2,240	1,301	-	16%	347	-
SAN CARLOS IRRIGATION PROJECT (SCIP)	-	26	-	-	13%	3	-
SAN FRANCISCO [CITY & COUNTY] (CCSF)	232	-	-	136	16%	-	96
SANTA CLARA ELECTRIC DEPT. (SNCL)	89	397	433	-	16%	62	64
SASKATCHEWAN POWER COMPANY (SPC)	-	-	-	-	15%	-	-
SEATTLE CITY LIGHT (SCL)	1,904	1,757	-	-	11%	193	-
SIERRA PACIFIC POWER CO (SPP)	1,118	1,151	-	160	11%	127	-
SOUTHWESTERN PUBLIC SERVICE COMPANY (SWPS)	-	-	-	-	15%	-	-
TACOMA PUBLIC UTILS-LIGHT DIV (TCL)	879	1,043	-	-	11%	115	-
TEXAS & NEW MEXICO POWER COMPANY (TNP)	-	222	126	-	13%	29	-
TRANSMISSION AGENCY OF NORTHERN CALIFORNIA (TANC)	-	-	-	-	16%	-	-
TURLOCK IRRIGATION DISTRICT (TID)	380	330	154	48	16%	51	105

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TABLE 1
GENERATION POWER MARKET ANALYSIS
DATA SUMMARY [1]

ENTITY	1	2	3	4	5	6	7
					Planning Reserve Margin		
	Total Installed Capacity [2]	Firm Load [3]	Firm Purchases [4]	Firm Sales [4]	Percent [5]	Amount [2*5]	Uncommitted Capacity [6] [1+3-(2+4+6)]
SECOND-TIER ENTITIES CONTINUED							
U.S. ARMY CORP OF ENGINEERS (USCE)	14,450	-	-	-	11%	-	14,450
U.S. DEPARTMENT OF THE INTERIOR (USDI)	-	-	-	-	16%	-	-
US BUREAU OF RECLAMATION-GREAT PLAINS (USGP)	-	-	-	-	15%	-	-
US BUREAU OF RECLAMATION-MID PACIFIC-CA (USMP)	1,257	-	-	1,052	16%	-	205
US BUREAU OF RECLAMATION-PACIFIC NORTHWEST (USPN)	7,107	-	-	-	11%	-	7,107
UTAH ASSOCIATED MUN POWER SYS (UAMP)	200	366	426	-	11%	40	220
UTAH MUNICIPAL POWER AGENCY (UMPA)	49	146	85	66	11%	16	-
VERNON MUNICIPAL LIGHT DEPT. (VERN)	43	-	40	-	16%	-	83
WASHINGTON WATER POWER CO. (WWPC)	1,759	1,540	-	-	11%	169	49
WESTERN AREA POWER ADMIN.-LOWER MONTANA (WALM)	819	64	427	926	15%	10	246
WESTERN AREA POWER ADMIN.-MID PACIFIC-CA (WAMP)	1	-	1,633	673	16%	-	961
WESTERN AREA POWER ADMIN.-MID PACIFIC-NW (WAMP)	45	-	-	-	11%	-	45
WESTERN AREA POWER ADMIN.-UPPER MONTANA (WAUM)	-	-	-	-	15%	-	-
WESTERN AREA POWER ADMIN.-UPPER MONTANA-NW (WAUM)	-	-	-	-	11%	-	-
WESTPLAINS ENERGY (WPE)	81	247	201	-	15%	37	-
WYOMING MUNICIPAL POWER AGENCY (WMPA)	23	35	11	-	15%	5	-
YUMA IRRIGATION DISTRICT (YID)	-	1	1	-	13%	0	-

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GENERATION POWER MARKET ANALYSIS
NOTES FOR TABLE 1

1. Data is from "Western Systems Coordinating Council (WSCC) 1996 Loads and Resources Report" unless specified otherwise.
2. Capacity is defined as the total installed generation (i.e., accredited capacity) and is at time of each entity's system peak.
   For the Northwest utilities, resource allocation amongst the utilities is from the "1995 WSCC Existing Generation" database.
3. The loads are actual system peak loads for 1995; except NTUA (1994) which is from the RDI "POWERDAT" database.
   For APS, this load is for retail customers served in the State of Arizona.
   The San Carlos Irrigation Project, SCIP, is included with AEPC.
   Welton-Mohawk Irrigation District and Yuma Irrigation District are included with WALC.
4. Firm purchases and sales include long-term contracts and short-term power arrangements and are at time of each entity's system peak.
5. The Planning Reserve Margin data is from the "WSCC 1995 Coordinated Bulk Power Supply Program (1994-2004)" report.
   If planning reserve margin data is unavailable for individual companies, then the summer, subregional power area average is used.
6. A dash indicates that the availability of reserve margin or uncommitted capacity is equal to zero or is less than zero.
7. The Electrical and Irrigation Districts are: Aguila Irrigation District (AID), Buckeye Water Conservation & Drainage District (BWCD), Electrical District No. 1 (ED1), Electrical District No. 3 (ED3), Electrical District No. 7 (ED7), Electrical District No. 8 (ED8), Harquahala Valley Power District (HVPD), Maricopa County Municipal Water Conservation District No. 1 (MCM), McMullen Valley Water Conservation & Drainage District (MVD), Roosevelt Irrigation District (RID), and Tonopah Irrigation District (TID).

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TABLE 2

MARKET 1 OF 22

ANALYSIS OF EACH FIRST-TIER TARGET MARKET

LINE		TOTAL INSTALLED CAPACITY	UNCOMMITTED CAPACITY
1	**FIRST-TIER ENTITY: AEPC**	520	38
	BEFORE OPEN ACCESS TRANSMISSION TARIFF (DIRECTLY INTERCONNECTED ENTITIES)		
2	APS	3,943	-
3	EPE	1,486	63
4	PNM	1,497	103
5	TNP	-	-
6	SRP	4,086	86
7	USLC	547	-
8	TEP	1,948	134
9	WALC	457	572
10	**SUB TOTAL (2 + ... + 9)**	13,964	957
11	**TOTAL (1 + 10)**	14,484	996
	AFTER OPEN ACCESS TRANSMISSION TARIFF (ADDITIONAL POTENTIAL MARKET PARTICIPANTS)		
12	CRIIP	-	-
13	ED/ID	-	-
14	IID	653	330
15	LDWP	7,516	1,531
16	NTUA	-	-
17	NEVP	2,994	-
18	PAC-W	6,833	-
19	PAC-E	938	558
20	PEGT	235	-
21	SDGE	3,055	439
22	SCE	18,237	-
23	SCPPA	739	-
24	TOUA	-	-
25	TSGT	1,256	222
26	USUC	-	-
27	USUC	-	-
28	WAUC	1,807	616
29	WED	-	-
30	WMS	-	-
31	**SUB TOTAL (11 + ... + 30)**	44,262	3,695
32	**TOTAL (11 + 31)**	58,747	4,691
	APS' SHARE OF TOTAL TARGET MARKET		
33	**BEFORE OPEN-ACCESS TARIFF (2 / 11)**	**27.2%**	**0.0%**
34	**AFTER OPEN-ACCESS TARIFF (2 / 32)**	**6.7%**	**0.0%**

TABLE 2

MARKET 3 OF 22

ANALYSIS OF EACH FIRST-TIER TARGET MARKET

LINE		TOTAL INSTALLED CAPACITY	UNCOMMITTED CAPACITY
1	**FIRST-TIER ENTITY: EPE**	1,486	63
	BEFORE OPEN ACCESS TRANSMISSION TARIFF (DIRECTLY INTERCONNECTED ENTITIES)		
2	APS	3,943	-
3	PAC-W	6,833	-
4	PAC-E	938	558
5	USUC	-	-
6	USUC	-	-
7	TSGT	1,256	222
8	WAUC	1,807	616
9	PEGT	235	-
10	PNM	1,497	103
11	TNP	-	-
12	SRP	4,086	86
13	TEP	1,948	134
14	AEPC	520	38
15	CPC	-	-
16	SCE	18,237	-
17	LDWP	7,516	1,531
18	SDGE	3,055	439
19	SCPPA	739	-
20	MEX	-	-
21	**SUB TOTAL (2 + ... + 20)**	52,610	3,727
22	**TOTAL (1 + 21)**	54,096	3,790
	AFTER OPEN ACCESS TRANSMISSION TARIFF (ADDITIONAL POTENTIAL MARKET PARTICIPANTS)		
23	CRIIP	-	-
24	ED/ID	-	-
25	IID	653	330
26	NTUA	-	-
27	NEVP	2,994	-
28	TOUA	-	-
29	USLC	547	-
30	WALC	457	572
31	WED	-	-
32	WMS	-	-
33	**SUB TOTAL (22 + ... + 32)**	4,651	901
34	**TOTAL (22 + 33)**	58,747	4,691
	APS' SHARE OF TOTAL TARGET MARKET		
35	**BEFORE OPEN-ACCESS TARIFF (2 / 22)**	**7.3%**	**0.0%**
36	**AFTER OPEN-ACCESS TARIFF (2 / 34)**	**6.7%**	**0.0%**

TABLE 2

MARKET 4 OF 22

ANALYSIS OF EACH FIRST-TIER TARGET MARKET

LINE		TOTAL INSTALLED CAPACITY	UNCOMMITTED CAPACITY
1	ED/ID	-	-
	BEFORE OPEN ACCESS TRANSMISSION TARIFF (DIRECTLY INTERCONNECTED ENTITIES)		
2	APS	3,943	-
3	**SUB TOTAL (2 + ... + 2)**	3,943	-
4	**TOTAL (1 + 3)**	3,943	-
	AFTER OPEN ACCESS TRANSMISSION TARIFF (ADDITIONAL POTENTIAL MARKET PARTICIPANTS)		
5	AEPC	520	38
6	CRIIP	-	-
7	EPE	1,486	63
8	IID	653	330
9	LDWP	7,516	1,531
10	NTUA	-	-
11	NEVP	2,994	-
12	PAC-W	6,833	-
13	PAC-E	938	558
14	PEGT	235	-
15	PNM	1,497	103
16	SRP	4,086	86
17	SDGE	3,055	439
18	SCE	18,237	-
19	SCPPA	739	-
20	TOUA	-	-
21	TSGT	1,256	222
22	TEP	1,948	134
23	USLC	547	-
24	USUC	-	-
25	USUC	-	-
26	WALC	457	572
27	WAUC	1,807	616
28	WED	-	-
29	WMS	-	-
30	**SUB TOTAL (5 + ... + 29)**	54,804	4,691
31	**TOTAL (4 + 30)**	58,747	4,691
	APS' SHARE OF TOTAL TARGET MARKET		
32	**BEFORE OPEN-ACCESS TARIFF (2 / 4)**	**100.0%**	**0.0%**
33	**AFTER OPEN-ACCESS TARIFF (2 / 31)**	**6.7%**	**0.0%**

TABLE 2

MARKET 5 OF 22

ANALYSIS OF EACH FIRST-TIER TARGET MARKET

LINE		TOTAL INSTALLED CAPACITY	UNCOMMITTED CAPACITY
1	**FIRST-TIER ENTITY: IID**	653	330
	BEFORE OPEN ACCESS TRANSMISSION TARIFF (DIRECTLY INTERCONNECTED ENTITIES)		
2	APS	3,943	-
3	EPE	1,486	63
4	PNM	1,497	103
5	SRP	4,086	86
6	USLC	547	-
7	WALC	457	572
8	SCE	18,237	-
9	LDWP	7,516	1,531
10	SDGE	3,055	439
11	SCPPA	739	-
12	**SUB TOTAL (2 + ... + 11)**	41,562	2,793
13	**TOTAL (1 + 12)**	42,215	3,123
	AFTER OPEN ACCESS TRANSMISSION TARIFF (ADDITIONAL POTENTIAL MARKET PARTICIPANTS)		
14	AEPC	520	38
15	CRIIP	-	-
16	ED/ID	-	-
17	NTUA	-	-
18	NEVP	2,994	-
19	PAC-W	6,833	-
20	PAC-E	938	558
21	PEGT	235	-
22	TOUA	-	-
23	TSGT	1,256	222
24	TEP	1,948	134
25	USUC	-	-
26	USUC	-	-
27	WAUC	1,807	616
28	WED	-	-
29	WMS	-	-
30	**SUB TOTAL (14 + ... + 29)**	16,531	1,568
31	**TOTAL (13 + 30)**	58,747	4,691
	APS' SHARE OF TOTAL TARGET MARKET		
32	**BEFORE OPEN-ACCESS TARIFF (2 / 13)**	**9.3%**	**0.0%**
33	**AFTER OPEN-ACCESS TARIFF (2 / 31)**	**6.7%**	**0.0%**

TABLE 2

MARKET 6 OF 22

ANALYSIS OF EACH FIRST-TIER TARGET MARKET

LINE		TOTAL INSTALLED CAPACITY	UNCOMMITTED CAPACITY
1	**FIRST-TIER ENTITY: LDWP**	7,516	1,531
	BEFORE OPEN ACCESS TRANSMISSION TARIFF (DIRECTLY INTERCONNECTED ENTITIES)		
2	APS	3,943	-
3	BPA	1,351	-
4	USCE	14,450	14,450
5	USPN	7,107	7,107
6	WAMP	45	45
7	ICPA	338	338
8	EPE	1,486	63
9	PNM	1,497	103
10	APA	400	23
11	SRP	4,086	86
12	USLC	547	-
13	TEP	1,948	134
14	IID	653	330
15	WALC	457	572
16	SCE	18,237	-
17	SDGE	3,055	439
18	NEVP	2,994	-
19	SCPPA	739	-
20	MWD	154	-
21	CDWR	1,838	1,027
22	ANHM	377	473
23	BURB	354	105
24	GLEN	345	72
25	PASA	327	66
26	RVSD	172	237
27	AZSA	32	62
28	BNNG	22	36
29	CLTN	2	33
30	VERN	43	83
31	PG&E	17,414	-
32	USMP	1,257	205
33	WAMP	1	961
34	MSR	143	143
35	**SUB TOTAL (2 + ... + 34)**	85,814	27,192
36	**TOTAL (1 + 35)**	93,330	28,723

TABLE 2

MARKET 6 OF 22

ANALYSIS OF EACH FIRST-TIER TARGET MARKET

LINE		TOTAL INSTALLED CAPACITY	UNCOMMITTED CAPACITY
	AFTER OPEN ACCESS TRANSMISSION TARIFF (ADDITIONAL POTENTIAL MARKET PARTICIPANTS)		
37	AEPC	520	38
38	CRIIP	-	-
39	ED/ID	-	-
40	NTUA	-	-
41	PAC-W	6,833	-
42	PAC-E	938	558
43	PEGT	235	-
44	TOUA	-	-
45	TSGT	1,256	222
46	USUC	-	-
47	USUC	-	-
48	WAUC	1,807	616
49	WED	-	-
50	WMS	-	-
51	SUB TOTAL (37 + ... + 50)	11,589	1,434
52	TOTAL (36 + 51)	104,919	30,157
	APS' SHARE OF TOTAL TARGET MARKET		
53	BEFORE OPEN-ACCESS TARIFF (2 / 36)	4.2%	0.0%
54	AFTER OPEN-ACCESS TARIFF (2 / 52)	3.8%	0.0%

TABLE 2

MARKET 7 OF 22

ANALYSIS OF EACH FIRST-TIER TARGET MARKET

LINE		TOTAL INSTALLED CAPACITY	UNCOMMITTED CAPACITY
1	NTUA	-	-
	BEFORE OPEN ACCESS TRANSMISSION TARIFF (DIRECTLY INTERCONNECTED ENTITIES)		
2	APS	3,943	-
3	PAC-W	6,833	-
4	PAC-E	938	558
5	USUC	-	-
6	USUC	-	-
7	TSGT	1,256	222
8	WAUC	1,807	616
9	EPE	1,486	63
10	NAPI	-	-
11	PNM	1,497	103
12	FARM	125	27
13	SRP	4,086	86
14	SCE	18,237	-
15	**SUB TOTAL (2 + ... + 14)**	40,208	1,675
16	**TOTAL (1 + 15)**	40,208	1,675
	AFTER OPEN ACCESS TRANSMISSION TARIFF (ADDITIONAL POTENTIAL MARKET PARTICIPANTS)		
17	AEPC	520	38
18	CRIIP	-	-
19	ED/ID	-	-
20	IID	653	330
21	LDWP	7,516	1,531
22	NEVP	2,994	-
23	PEGT	235	-
24	SDGE	3,055	439
25	SCPPA	739	-
26	TOUA	-	-
27	TEP	1,948	134
28	USLC	547	-
29	WALC	457	572
30	WED	-	-
31	WMS	-	-
32	**SUB TOTAL (17 + ... + 31)**	18,664	3,043
33	**TOTAL (16 + 32)**	58,872	4,718
	APS' SHARE OF TOTAL TARGET MARKET		
34	**BEFORE OPEN-ACCESS TARIFF (2 / 16)**	**9.8%**	**0.0%**
35	**AFTER OPEN-ACCESS TARIFF (2 / 33)**	**6.7%**	**0.0%**

TABLE 2

MARKET 8 OF 22

ANALYSIS OF EACH FIRST-TIER TARGET MARKET

LINE		TOTAL INSTALLED CAPACITY	UNCOMMITTED CAPACITY
1	NEVP	2,994	-
	BEFORE OPEN ACCESS TRANSMISSION TARIFF (DIRECTLY INTERCONNECTED ENTITIES)		
2	APS	3,943	-
3	PAC-W	6,833	-
4	PAC-E	938	558
5	USUC	-	-
6	USUC	-	-
7	WAUC	1,807	616
8	APA	400	23
9	SRP	4,086	86
10	USLC	547	-
11	TEP	1,948	134
12	WALC	457	572
13	SCE	18,237	-
14	LDWP	7,516	1,531
15	MWD	154	-
16	CDWR	1,838	1,027
17	**SUB TOTAL (2 + ... + 16)**	48,704	4,547
18	**TOTAL (1 + 17)**	51,698	4,547
	AFTER OPEN ACCESS TRANSMISSION TARIFF (ADDITIONAL POTENTIAL MARKET PARTICIPANTS)		
19	AEPC	520	38
20	CRIIP	-	-
21	EPE	1,486	63
22	ED/ID	-	-
23	IID	653	330
24	NTUA	-	-
25	PEGT	235	-
26	PNM	1,497	103
27	SDGE	3,055	439
28	SCPPA	739	-
29	TOUA	-	-
30	TSGT	1,256	222
31	WED	-	-
32	WMS	-	-
33	**SUB TOTAL (19 + ... + 32)**	9,441	1,195
34	**TOTAL (18 + 33)**	61,139	5,742
	APS' SHARE OF TOTAL TARGET MARKET		
35	**BEFORE OPEN-ACCESS TARIFF (2 / 18)**	**7.6%**	**0.0%**
36	**AFTER OPEN-ACCESS TARIFF (2 / 34)**	**6.4%**	**0.0%**

TABLE 2

MARKET 9 OF 22

ANALYSIS OF EACH FIRST-TIER TARGET MARKET

LINE		TOTAL INSTALLED CAPACITY	UNCOMMITTED CAPACITY
	PAC-W	6,833	-
	PAC-E	938	558
1	PAC	7,771	558
	BEFORE OPEN ACCESS TRANSMISSION TARIFF (DIRECTLY INTERCONNECTED ENTITIES)		
2	APS	3,943	-
3	BF	-	-
4	BPA	1,351	-
5	CC	-	-
6	CHPD	2,004	1,402
7	COPD	72	72
8	DOPD	840	665
9	EWEB	127	-
10	GCPD	1,967	1,452
11	GHPD	54	54
12	POPD	75	75
13	PGE	2,284	-
14	PSPL	2,545	-
15	SCL	1,904	-
16	TCL	879	-
17	WWPC	1,759	49
18	USCE	14,450	14,450
19	USPN	7,107	7,107
20	SHPD	212	212
21	WAMP	45	45
22	OKPD	-	-
23	IPC	2,646	-
24	MPC	1,585	-
25	UMPA	49	-
26	DGT	520	269
27	USUC	-	-
28	WAUM	-	-
29	SPP	1,118	-
30	UAMP	200	220
31	PSC	3,784	-
32	BEPC	651	149
33	USUC	-	-
34	PRPA	411	-
35	TSGT	1,256	222
36	BHPL	299	45
37	WALM	819	246
38	WAUC	1,807	616
39	WMPA	23	-
40	EPE	1,486	63
41	PNM	1,497	103
42	SRP	4,086	86
43	TEP	1,948	134
44	SCE	18,237	-
45	LDWP	7,516	1,531
46	NEVP	2,994	-
47	PG&E	17,414	-
48	USMP	1,257	205
49	WAMP	1	961
50	NCPA	404	-
51	USDI	-	-
52	TANC	-	-
53	**SUB TOTAL (2 + ... + 52)**	113,624	30,431
54	**TOTAL (1 + 53)**	120,457	30,989

TABLE 2

MARKET 9 OF 22

ANALYSIS OF EACH FIRST-TIER TARGET MARKET

LINE		TOTAL INSTALLED CAPACITY	UNCOMMITTED CAPACITY
	AFTER OPEN ACCESS TRANSMISSION TARIFF (ADDITIONAL POTENTIAL MARKET PARTICIPANTS)		
55	AEPC	520	38
56	CRIIP	-	-
57	ED/ID	-	-
58	IID	653	330
59	NTUA	-	-
60	PEGT	235	-
61	SDGE	3,055	439
62	SCPPA	739	-
63	TOUA	-	-
64	USLC	547	-
65	WALC	457	572
66	WED	-	-
67	WMS	-	-
68	SUB TOTAL (55 + ... + 67)	6,205	1,379
69	TOTAL (54 + 68)	126,663	32,368
	APS' SHARE OF TOTAL TARGET MARKET		
70	BEFORE OPEN-ACCESS TARIFF (2 / 54)	3.3%	0.0%
71	AFTER OPEN-ACCESS TARIFF (2 / 69)	3.1%	0.0%

TABLE 2

MARKET 10 OF 22

ANALYSIS OF EACH FIRST-TIER TARGET MARKET

LINE		TOTAL INSTALLED CAPACITY	UNCOMMITTED CAPACITY
1	PEGT	235	-
	BEFORE OPEN ACCESS TRANSMISSION TARIFF (DIRECTLY INTERCONNECTED ENTITIES)		
2	APS	3,943	-
3	USUC	-	-
4	USUC	-	-
5	TSGT	1,256	222
6	WAUC	1,807	616
7	EPE	1,486	63
8	PNM	1,497	103
9	SRP	4,086	86
10	TEP	1,948	134
11	**SUB TOTAL (2 + ... + 10)**	16,023	1,224
12	**TOTAL (1 + 11)**	16,258	1,224
	AFTER OPEN ACCESS TRANSMISSION TARIFF (ADDITIONAL POTENTIAL MARKET PARTICIPANTS)		
13	AEPC	520	38
14	CRIIP	-	-
15	ED/ID	-	-
16	IID	653	330
17	LDWP	7,516	1,531
18	NTUA	-	-
19	NEVP	2,994	-
20	PAC-W	6,833	-
21	PAC-E	938	558
22	SDGE	3,055	439
23	SCE	18,237	-
24	SCPPA	739	-
25	TOUA	-	-
26	USLC	547	-
27	WALC	457	572
28	WED	-	-
29	WMS	-	-
30	**SUB TOTAL (13 + ... + 29)**	42,488	3,467
31	**TOTAL (12 + 30)**	58,747	4,691
	APS' SHARE OF TOTAL TARGET MARKET		
32	**BEFORE OPEN-ACCESS TARIFF (2 / 12)**	**24.3%**	**0.0%**
33	**AFTER OPEN-ACCESS TARIFF (2 / 31)**	**6.7%**	**0.0%**

TABLE 2

MARKET 11 OF 22

ANALYSIS OF EACH FIRST-TIER TARGET MARKET

LINE		TOTAL INSTALLED CAPACITY	UNCOMMITTED CAPACITY
1	**FIRST-TIER ENTITY: PNM**	1,497	103
	BEFORE OPEN ACCESS TRANSMISSION TARIFF (DIRECTLY INTERCONNECTED ENTITIES)		
2	APS	3,943	-
3	PAC-W	6,833	-
4	PAC-E	938	558
5	USUC	-	-
6	UAMP	200	220
7	PSC	3,784	-
8	USUC	-	-
9	TSGT	1,256	222
10	WAUC	1,807	616
11	EPE	1,486	63
12	PEGT	235	-
13	NAPI	-	-
14	LAC	89	31
15	FARM	125	27
16	TNP	-	-
17	HOW	-	-
18	SRP	4,086	86
19	TEP	1,948	134
20	AEPC	520	38
21	NTUA	-	-
22	SCE	18,237	-
23	LDWP	7,516	1,531
24	SDGE	3,055	439
25	SCPPA	739	-
26	ANHM	377	473
27	MSR	143	143
28	**SUB TOTAL (2 + ... + 27)**	57,317	4,580
29	**TOTAL (1 + 28)**	58,813	4,683
	AFTER OPEN ACCESS TRANSMISSION TARIFF (ADDITIONAL POTENTIAL MARKET PARTICIPANTS)		
30	CRIIP	-	-
31	ED/ID	-	-
32	IID	653	330
33	NEVP	2,994	-
34	TOUA	-	-
35	USLC	547	-
36	WALC	457	572
37	WED	-	-
38	WMS	-	-
39	**SUB TOTAL (29 + ... + 38)**	4,651	901
40	**TOTAL (29 + 39)**	63,464	5,585
	APS' SHARE OF TOTAL TARGET MARKET		
41	**BEFORE OPEN-ACCESS TARIFF (2 / 29)**	**6.7%**	**0.0%**
42	**AFTER OPEN-ACCESS TARIFF (2 / 40)**	**6.2%**	**0.0%**

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TABLE 2

ANALYSIS OF EACH FIRST-TIER TARGET MARKET

LINE		TOTAL INSTALLED CAPACITY	UNCOMMITTED CAPACITY
1	**FIRST-TIER ENTITY: SRP**	4,086	86
	BEFORE OPEN ACCESS TRANSMISSION TARIFF (DIRECTLY INTERCONNECTED ENTITIES)		
2	APS	3,943	-
3	PAC-W	6,833	-
4	PAC-E	938	558
5	USUC	-	-
6	PSC	3,784	-
7	USUC	-	-
8	PRPA	411	-
9	TSGT	1,256	222
10	WAUC	1,807	616
11	EPE	1,486	63
12	PEGT	235	-
13	PNM	1,497	103
14	USLC	547	-
15	TEP	1,948	134
16	IID	653	330
17	AEPC	520	38
18	WALC	457	572
19	SCE	18,237	-
20	LDWP	7,516	1,531
21	SDGE	3,055	439
22	NEVP	2,994	-
23	SCPPA	739	-
24	MWD	154	-
25	**SUB TOTAL (2 + ... + 24)**	59,009	4,605
26	**TOTAL (1 + 25)**	63,095	4,691
	AFTER OPEN ACCESS TRANSMISSION TARIFF (ADDITIONAL POTENTIAL MARKET PARTICIPANTS)		
27	CRIIP	-	-
28	ED/ID	-	-
29	NTUA	-	-
30	TOUA	-	-
31	WED	-	-
32	WMS	-	-
33	**SUB TOTAL (26 + ... + 32)**	-	-
34	**TOTAL (26 + 33)**	63,095	4,691
	APS' SHARE OF TOTAL TARGET MARKET		
35	**BEFORE OPEN-ACCESS TARIFF (2 / 26)**	**6.2%**	**0.0%**
36	**BEFORE OPEN-ACCESS TARIFF (2 / 34)**	**6.2%**	**0.0%**

TABLE 2

MARKET 13 OF 22

ANALYSIS OF EACH FIRST-TIER TARGET MARKET

LINE		TOTAL INSTALLED CAPACITY	UNCOMMITTED CAPACITY
1	**FIRST-TIER ENTITY: SDGE**	3,055	439
	BEFORE OPEN ACCESS TRANSMISSION TARIFF (DIRECTLY INTERCONNECTED ENTITIES)		
2	APS	3,943	-
3	EPE	1,486	63
4	PNM	1,497	103
5	SRP	4,086	86
6	IID	653	330
7	SCE	18,237	-
8	LDWP	7,516	1,531
9	SCPPA	739	-
10	ANHM	377	473
11	RVSD	172	237
12	CFE	1,330	220
13	**SUB TOTAL (2 + ... + 12)**	40,036	3,042
14	**TOTAL (1 + 13)**	43,091	3,481
	AFTER OPEN ACCESS TRANSMISSION TARIFF (ADDITIONAL POTENTIAL MARKET PARTICIPANTS)		
15	AEPC	520	38
16	CRIIP	-	-
17	ED/ID	-	-
18	NTUA	-	-
19	NEVP	2,994	-
20	PAC-W	6,833	-
21	PAC-E	938	558
22	PEGT	235	-
23	TOUA	-	-
24	TSGT	1,256	222
25	TEP	1,948	134
26	USLC	547	-
27	USUC	-	-
28	USUC	-	-
29	WALC	457	572
30	WAUC	1,807	616
31	WED	-	-
32	WMS	-	-
33	**SUB TOTAL (15 + ... + 32)**	17,535	2,140
34	**TOTAL (14 + 33)**	60,626	5,621
	APS' SHARE OF TOTAL TARGET MARKET		
35	**BEFORE OPEN-ACCESS TARIFF (2 / 14)**	**9.2%**	**0.0%**
36	**AFTER OPEN-ACCESS TARIFF (2 / 34)**	**6.5%**	**0.0%**

TABLE 2

MARKET 14 OF 22

ANALYSIS OF EACH FIRST-TIER TARGET MARKET

LINE		TOTAL INSTALLED CAPACITY	UNCOMMITTED CAPACITY
	AFTER OPEN ACCESS TRANSMISSION TARIFF (ADDITIONAL POTENTIAL MARKET PARTICIPANTS)		
45	AEPC	520	100
46	CRIIP	-	-
47	ED/ID	-	-
48	NTUA	-	-
49	PEGT	235	-
50	TOUA	-	-
51	WED	-	-
52	WMS	-	-
53	**SUB TOTAL (45 + ... + 52)**	755	100
54	**TOTAL (44 + 53)**	84,121	8,604
	APS' SHARE OF TOTAL TARGET MARKET		
55	**BEFORE OPEN-ACCESS TARIFF (2 / 44)**	**4.7%**	**0.0%**
56	**BEFORE OPEN-ACCESS TARIFF (2 / 54)**	**4.7%**	**0.0%**

TABLE 2

MARKET 15 OF 22

ANALYSIS OF EACH FIRST-TIER TARGET MARKET

LINE		TOTAL INSTALLED CAPACITY	UNCOMMITTED CAPACITY
1	SCPPA	739	-
	BEFORE OPEN ACCESS TRANSMISSION TARIFF (DIRECTLY INTERCONNECTED ENTITIES)		
2	APS	3,943	-
3	ICPA	338	338
4	USUC	-	-
5	UAMP	200	220
6	PSC	3,784	-
7	USUC	-	-
8	TSGT	1,256	222
9	WAUC	1,807	616
10	EPE	1,486	63
11	PEGT	235	-
12	NAPI	-	-
13	PNM	1,497	103
14	LAC	89	31
15	FARM	125	27
16	SRP	4,086	86
17	IID	653	330
18	SCE	18,237	-
19	LDWP	7,516	1,531
20	SDGE	3,055	439
21	BURB	354	105
22	GLEN	345	72
23	PASA	327	66
24	RVSD	172	237
25	AZSA	32	62
26	BNNG	22	36
27	CLTN	2	33
28	VERN	43	83
29	MSR	143	143
30	SUB TOTAL (2 + ... + 29)	49,747	4,841
31	TOTAL (1 + 30)	50,486	4,841

TABLE 2

ANALYSIS OF EACH FIRST-TIER TARGET MARKET

LINE		TOTAL INSTALLED CAPACITY	UNCOMMITTED CAPACITY
	AFTER OPEN ACCESS TRANSMISSION TARIFF (ADDITIONAL POTENTIAL MARKET PARTICIPANTS)		
32	AEPC	520	38
33	CRIIP	-	-
34	ED/ID	-	-
35	NTUA	-	-
36	NEVP	2,994	-
37	PAC-W	6,833	-
38	PAC-E	938	558
39	TOUA	-	-
40	TEP	1,948	134
41	USLC	547	-
42	WALC	457	572
43	WED	-	-
44	WMS	-	-
45	**SUB TOTAL (32 + ... + 44)**	14,237	1,302
46	**TOTAL (31 + 45)**	64,723	6,143
	APS' SHARE OF TOTAL TARGET MARKET		
47	**BEFORE OPEN-ACCESS TARIFF (2 / 31)**	**7.8%**	**0.0%**
48	**AFTER OPEN-ACCESS TARIFF (2 / 46)**	**6.1%**	**0.0%**

TABLE 2

MARKET 16 OF 22

ANALYSIS OF EACH FIRST-TIER TARGET MARKET

LINE		TOTAL INSTALLED CAPACITY	UNCOMMITTED CAPACITY
1	TOUA	-	-
	BEFORE OPEN ACCESS TRANSMISSION TARIFF (DIRECTLY INTERCONNECTED ENTITIES)		
2	APS	3,943	-
3	SUB TOTAL (2 + ... + 2)	3,943	-
4	TOTAL (1 + 3)	3,943	-
	AFTER OPEN ACCESS TRANSMISSION TARIFF (ADDITIONAL POTENTIAL MARKET PARTICIPANTS)		
5	AEPC	520	38
6	CRIIP	-	-
7	EPE	1,486	63
8	ED/ID	-	-
9	IID	653	330
10	LDWP	7,516	1,531
11	NTUA	-	-
12	NEVP	2,994	-
13	PAC-W	6,833	-
14	PAC-E	938	558
15	PEGT	235	-
16	PNM	1,497	103
17	SRP	4,086	86
18	SDGE	3,055	439
19	SCE	18,237	-
20	SCPPA	739	-
21	TSGT	1,256	222
22	TEP	1,948	134
23	USLC	547	-
24	USUC	-	-
25	USUC	-	-
26	WALC	457	572
27	WAUC	1,807	616
28	WED	-	-
29	WMS	-	-
30	SUB TOTAL (5 + ... + 29)	54,804	4,691
31	TOTAL (4 + 30)	58,747	4,691
	APS' SHARE OF TOTAL TARGET MARKET		
32	BEFORE OPEN-ACCESS TARIFF (2 / 4)	100.0%	0.0%
33	AFTER OPEN-ACCESS TARIFF (2 / 31)	6.7%	0.0%

TABLE 2

MARKET 17 OF 22

ANALYSIS OF EACH FIRST-TIER TARGET MARKET

LINE		TOTAL INSTALLED CAPACITY	UNCOMMITTED CAPACITY
1	TSGT	1,256	222
	BEFORE OPEN ACCESS TRANSMISSION TARIFF (DIRECTLY INTERCONNECTED ENTITIES)		
2	APS	3,943	-
3	PAC-W	6,833	-
4	PAC-E	938	558
5	DGT	520	269
6	USUC	-	-
7	UAMP	200	220
8	WPE	81	-
9	CSU	536	11
10	ARPA	75	46
11	PSC	3,784	-
12	BEPC	651	149
13	USUC	-	-
14	PRPA	411	-
15	BHPL	299	45
16	WALM	819	246
17	WAUC	1,807	616
18	RMGC	-	-
19	MEAN	38	-
20	WMPA	23	-
21	EPE	1,486	63
22	PEGT	235	-
23	NAPI	-	-
24	PNM	1,497	103
25	LAC	89	31
26	FARM	125	27
27	SRP	4,086	86
28	TEP	1,948	134
29	SCE	18,237	-
30	SCPPA	739	-
31	ANHM	377	473
32	MSR	143	143
33	NPPD	-	-
34	BEPC	-	-
35	SWPS	-	-
36	SUB TOTAL (2 + ... + 35)	49,920	3,220
37	TOTAL (1 + 36)	51,176	3,443

TABLE 2

MARKET 17 OF 22

ANALYSIS OF EACH FIRST-TIER TARGET MARKET

LINE		TOTAL INSTALLED CAPACITY	UNCOMMITTED CAPACITY
	AFTER OPEN ACCESS TRANSMISSION TARIFF (ADDITIONAL POTENTIAL MARKET PARTICIPANTS)		
38	AEPC	520	38
39	CRIIP	-	-
40	ED/ID	-	-
41	IID	653	330
42	LDWP	7,516	1,531
43	NTUA	-	-
44	NEVP	2,994	-
45	SDGE	3,055	439
46	TOUA	-	-
47	USLC	547	-
48	WALC	457	572
49	WED	-	-
50	WMS	-	-
51	**SUB TOTAL (38 + ... + 50)**	15,742	2,909
52	**TOTAL (37 + 51)**	66,917	6,352
	APS' SHARE OF TOTAL TARGET MARKET		
53	**BEFORE OPEN-ACCESS TARIFF (2 / 37)**	**7.7%**	**0.0%**
54	**AFTER OPEN-ACCESS TARIFF (2 / 52)**	**5.9%**	**0.0%**

TABLE 2

MARKET 18 OF 22

ANALYSIS OF EACH FIRST-TIER TARGET MARKET

LINE		TOTAL INSTALLED CAPACITY	UNCOMMITTED CAPACITY
1	**FIRST-TIER ENTITY: TEP**	1,948	134
	BEFORE OPEN ACCESS TRANSMISSION TARIFF (DIRECTLY INTERCONNECTED ENTITIES)		
2	APS	3,943	-
3	PAC-W	6,833	-
4	PAC-E	938	558
5	USUC	-	-
6	UAMP	200	220
7	PSC	3,784	-
8	USUC	-	-
9	TSGT	1,256	222
10	WAUC	1,807	616
11	EPE	1,486	63
12	PEGT	235	-
13	NAPI	-	-
14	PNM	1,497	103
15	LAC	89	31
16	FARM	125	27
17	TNP	-	-
18	SRP	4,086	86
19	USLC	547	-
20	AEPC	520	38
21	WALC	457	572
22	CPC	-	-
23	SCE	18,237	-
24	LDWP	7,516	1,531
25	SDGE	3,055	439
26	NEVP	2,994	-
27	SCPPA	739	-
28	ANHM	377	473
29	MSR	143	143
30	**SUB TOTAL (2 + ... + 29)**	60,863	5,121
31	**TOTAL (1 + 30)**	62,811	5,255
	AFTER OPEN ACCESS TRANSMISSION TARIFF (ADDITIONAL POTENTIAL MARKET PARTICIPANTS)		
32	CRHP	-	-
33	ED/ID	-	-
34	HD	653	330
35	NTUA	-	-
36	TOUA	-	-
37	WED	-	-
38	WMS	-	-
39	**SUB TOTAL (31 + ... + 38)**	653	330
40	**TOTAL (31 + 39)**	63,464	5,585
	APS' SHARE OF TOTAL TARGET MARKET		
41	**BEFORE OPEN-ACCESS TARIFF (2 / 31)**	**6.3%**	**0.0%**
42	**AFTER OPEN-ACCESS TARIFF (2 / 40)**	**6.2%**	**0.0%**

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TABLE 2

MARKET 19 OF 22

ANALYSIS OF EACH FIRST-TIER TARGET MARKET

LINE		TOTAL INSTALLED CAPACITY	UNCOMMITTED CAPACITY
	WALC	457	572
	USLC	547	-
1	WALC	1,004	572
	BEFORE OPEN ACCESS TRANSMISSION TARIFF (DIRECTLY INTERCONNECTED ENTITIES)		
2	APS	3,943	-
3	USUC	-	-
4	USUC	-	-
5	WAUC	1,807	616
6	APA	400	23
7	SRP	4,086	86
8	TEP	1,948	134
9	IID	653	330
10	CUC	45	7
11	AEPC	520	38
12	YID	-	-
13	SCE	18,237	-
14	LDWP	7,516	1,531
15	NEVP	2,994	-
16	MWD	154	-
17	**SUB TOTAL (2 + ... + 16)**	42,304	2,764
18	**TOTAL (1 + 17)**	42,761	3,336
	AFTER OPEN ACCESS TRANSMISSION TARIFF (ADDITIONAL POTENTIAL MARKET PARTICIPANTS)		
19	CRIIP	-	-
20	EPE	1,486	63
21	ED/ID	-	-
22	NTUA	-	-
23	PAC-W	6,833	-
24	PAC-E	938	558
25	PEGT	235	-
26	PNM	1,497	103
27	SDGE	3,055	439
28	SCPPA	739	-
29	TOUA	-	-
30	TSGT	1,256	222
31	WED	-	-
32	WMS	-	-
33	**SUB TOTAL (18 + ... + 32)**	16,039	1,385
34	**TOTAL (18 + 33)**	58,799	4,721
	APS' SHARE OF TOTAL TARGET MARKET		
35	**BEFORE OPEN-ACCESS TARIFF (2 / 18)**	**9.2%**	**0.0%**
36	**AFTER OPEN-ACCESS TARIFF (2 / 34)**	**6.7%**	**0.0%**

TABLE 2

MARKET 20 OF 22

ANALYSIS OF EACH FIRST-TIER TARGET MARKET

LINE		TOTAL INSTALLED CAPACITY	UNCOMMITTED CAPACITY
	WAUC	1,807	616
	USUC	-	-
	USUC	-	-
1	WAUC	1,807	616
	BEFORE OPEN ACCESS TRANSMISSION TARIFF (DIRECTLY INTERCONNECTED ENTITIES)		
2	APS	3,943	-
3	PAC-W	6,833	-
4	PAC-E	938	558
5	DGT	520	269
6	UAMP	200	220
7	WPE	81	-
8	CSU	536	11
9	PSC	3,784	-
10	BEPC	651	149
11	PRPA	411	-
12	TSGT	1,256	222
13	BHPL	299	45
14	WALM	819	246
15	RMGC	-	-
16	WMPA	23	-
17	EPE	1,486	63
18	PEGT	235	-
19	NAPI	-	-
20	PNM	1,497	103
21	LAC	89	31
22	SRP	4,086	86
23	USLC	547	-
24	TEP	1,948	134
25	NTUA	-	-
26	WALC	457	572
27	SCE	18,237	-
28	NEVP	2,994	-
29	SCPPA	739	-
30	ANHM	377	473
31	PG&E	17,414	-
32	USMP	1,257	205
33	WAMP	1	961
34	NCPA	404	-
35	MSR	143	143
36	USDI	-	-
37	TANC	-	-
38	**SUB TOTAL (2 + ... + 37)**	72,205	4,491
39	**TOTAL (1 + 38)**	74,012	5,107

TABLE 2

MARKET 20 OF 22

ANALYSIS OF EACH FIRST-TIER TARGET MARKET

LINE		TOTAL INSTALLED CAPACITY	UNCOMMITTED CAPACITY
	AFTER OPEN ACCESS TRANSMISSION TARIFF (ADDITIONAL POTENTIAL MARKET PARTICIPANTS)		
40	AEPC	520	38
41	CRIIP	-	-
42	ED/ID	-	-
43	IID	653	330
44	LDWP	7,516	1,531
45	SDGE	3,055	439
46	TOUA	-	-
47	WED	-	-
48	WMS	-	-
49	**SUB TOTAL (40 + ... + 48)**	11,744	2,337
50	**TOTAL (39 + 49)**	85,756	7,444
	APS' SHARE OF TOTAL TARGET MARKET		
51	**BEFORE OPEN-ACCESS TARIFF (2 / 39)**	**5.3%**	**0.0%**
52	**AFTER OPEN-ACCESS TARIFF (2 / 50)**	**4.6%**	**0.0%**

TABLE 2

MARKET 21 OF 22

ANALYSIS OF EACH FIRST-TIER TARGET MARKET

LINE		TOTAL INSTALLED CAPACITY	UNCOMMITTED CAPACITY
1	WED	-	-
	BEFORE OPEN ACCESS TRANSMISSION TARIFF (DIRECTLY INTERCONNECTED ENTITIES)		
2	APS	3,943	-
3	**SUB TOTAL (2 + ... + 2)**	3,943	-
4	**TOTAL (1 + 3)**	3,943	-
	AFTER OPEN ACCESS TRANSMISSION TARIFF (ADDITIONAL POTENTIAL MARKET PARTICIPANTS)		
5	AEPC	520	38
6	CRIIP	-	-
7	EPE	1,486	63
8	ED/ID	-	-
9	IID	653	330
10	LDWP	7,516	1,531
11	NTUA	-	-
12	NEVP	2,994	-
13	PAC-W	6,833	-
14	PAC-E	938	558
15	PEGT	235	-
16	PNM	1,497	103
17	SRP	4,086	86
18	SDGE	3,055	439
19	SCE	18,237	-
20	SCPPA	739	-
21	TOUA	-	-
22	TSGT	1,256	222
23	TEP	1,948	134
24	USLC	547	-
25	USUC	-	-
26	USUC	-	-
27	WALC	457	572
28	WAUC	1,807	616
29	WMS	-	-
30	**SUB TOTAL (5 + ... + 29)**	54,804	4,691
31	**TOTAL (4 + 30)**	58,747	4,691
	APS' SHARE OF TOTAL TARGET MARKET		
32	**BEFORE OPEN-ACCESS TARIFF (2 / 4)**	**100.0%**	**0.0%**
33	**AFTER OPEN-ACCESS TARIFF (1 / 31)**	**6.7%**	**0.0%**

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TABLE 2

MARKET 22 OF 22

ANALYSIS OF EACH FIRST-TIER TARGET MARKET

LINE		TOTAL INSTALLED CAPACITY	UNCOMMITTED CAPACITY
1	WMS	-	-
	BEFORE OPEN ACCESS TRANSMISSION TARIFF (DIRECTLY INTERCONNECTED ENTITIES)		
2	APS	3,943	-
3	SUB TOTAL (2 + ... + 2)	3,943	-
4	TOTAL (1 + 3)	3,943	-
	AFTER OPEN ACCESS TRANSMISSION TARIFF (ADDITIONAL POTENTIAL MARKET PARTICIPANTS)		
5	AEPC	520	38
6	CRIIP	-	-
7	EPE	1,486	63
8	ED/ID	-	-
9	IID	653	330
10	LDWP	7,516	1,531
11	NTUA	-	-
12	NEVP	2,994	-
13	PAC-W	6,833	-
14	PAC-E	938	558
15	PEGT	235	-
16	PNM	1,497	103
17	SRP	4,086	86
18	SDGE	3,055	439
19	SCE	18,237	-
20	SCPPA	739	-
21	TOUA	-	-
22	TSGT	1,256	222
23	TEP	1,948	134
24	USLC	547	-
25	USUC	-	-
26	USUC	-	-
27	WALC	457	572
28	WAUC	1,807	616
29	WED	-	-
30	SUB TOTAL (5 + ... + 29)	54,804	4,691
31	TOTAL (4 + 30)	58,747	4,691
	APS' SHARE OF TOTAL TARGET MARKET		
32	BEFORE OPEN-ACCESS TARIFF (2 / 4)	100.0%	0.0%
33	AFTER OPEN-ACCESS TARIFF (1 / 31)	6.7%	0.0%

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TABLE 3

SUMMARY ANALYSIS
APS' MARKET SHARES OF TOTAL INSTALLED CAPACITY AND UNCOMMITTED CAPACITY

	INSTALLED CAPACITY		UNCOMMITTED CAPACITY	
Target Market	**APS' Share Without Open Access Tariff**	**APS' Share With Open Access Tariff**	**APS' Share Without Open Access Tariff**	**APS' Share With Open Access Tariff**
ARIZONA ELECTRIC PWR COOP INC	27%	7%	0%	0%
COLORADO RIVER INDIAN IRRIGATION PROJECT	80%	7%	0%	0%
EL PASO ELECTRIC CO.	7%	7%	0%	0%
ELECTRICAL and IRRIGATION DISTRICTS	100%	7%	0%	0%
IMPERIAL IRRIGATION DISTRICT	9%	7%	0%	0%
LOS ANGELES DEPT OF WATER & POWER	4%	4%	0%	0%
NAVAJO TRIBAL UTILITY AUTHORITY	10%	7%	0%	0%
NEVADA POWER CO.	8%	6%	0%	0%
PACIFICORP	3%	3%	0%	0%
PLAINS ELECTRIC GEN & TRANS COOP	24%	7%	0%	0%
PSC OF NEW MEXICO	7%	6%	0%	0%
SALT RIVER PROJECT	6%	6%	0%	0%
SAN DIEGO GAS & ELECTRIC CO.	9%	7%	0%	0%
SOUTHERN CALIFORNIA EDISON CO.	5%	5%	0%	0%
SOUTHERN CALIFORNIA PUBLIC POWER ASSOCIATION	8%	6%	0%	0%
TOHONO O'ODHAM UTILITY AUTHORITY	100%	7%	0%	0%
TRI-STATE G & T ASSN, INC.	8%	6%	0%	0%
TUCSON ELECTRIC POWER CO.	6%	6%	0%	0%
WESTERN AREA POWER ADMIN. -LOWER COLORADO RIVER	9%	7%	0%	0%
WESTERN AREA POWER ADMIN. -UPPER COLORADO RIVER	5%	5%	0%	0%
WICKENBURG ELECTRICAL DEPARTMENT	100%	7%	0%	0%
WILLIAMS	100%	7%	0%	0%

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79 FERC ¶ 61,022

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Elizabeth Anne Moler, Chair;
Vicky A. Bailey, James J. Hoecker,
William L. Massey, and Donald F. Santa, Jr.

Arizona Public Service Company) Docket No. ER97-1672-000

ORDER CONDITIONALLY ACCEPTING FOR FILING
PROPOSED MARKET-BASED RATES

(Issued April 11, 1997)

In this order, we conditionally accept for filing, without suspension or hearing, the proposed market-based power sales rates filed by Arizona Public Service Company (Arizona Public Service).

Background

On February 12, 1997, Arizona Public Service filed an application for authorization to sell electric capacity and energy at market-based rates.

Notice of Arizona Public Service's application was published in the Federal Register, 62 Fed. Reg. 10,551 (1997), with comments, protests, and motions to intervene due on or before March 14, 1997.

A timely motion to intervene raising no substantive issues was filed by the Salt River Project Agricultural Improvement and Power District (Salt River Project).

A timely motion to intervene and protest was filed by several wholesale customers of Arizona Public Service (Districts), in which they request the Commission to set the question of market power for hearing.

Arizona Public Service filed an answer to the Districts' request for hearing.

Discussion

Procedural Matter

Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (1996), the timely, unopposed

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motions to intervene of the Salt River Project and the Districts serve to make them parties this proceeding.

Market-Based Rates

The Commission allows power sales at market-based rates if the seller and its affiliates do not have, or have adequately mitigated, market power in generation and transmission and cannot erect other barriers to entry. In order to demonstrate the absence or mitigation of market power, a transmission-owning public utility must have on file with the Commission an open access tariff for the provision of comparable services. The Commission also considers whether there is evidence of affiliate abuse or reciprocal dealing. 1/

As we explain below, we find that, with Arizona Public Service's filing of an open access pro forma compliance tariff, 2/ Arizona Public Service's market-based rate application, as modified in certain respects, meets these standards. Accordingly, we will conditionally accept the proposed market-based rates for filing, to become effective on the date of this order, as requested by Arizona Public Service, subject to the condition that Arizona Public Service revise its power sales tariff as discussed below.

1. Generation Market Power

In support of its market-based rate application, Arizona Public Service has submitted a generation dominance analysis which indicates that its market share of installed and uncommitted capacity will not exceed levels that the Commission has found to be acceptable. 3/

1/ E.g., Progress Power Marketing, Inc., 76 FERC ¶ 61,155 at 61,919 (1996), reh'g pending; Northwest Power Marketing Company, L.L.C., 75 FERC ¶ 61,281 at 61,889 (1996); accord Heartland Energy Services, Inc., 68 FERC ¶ 61,223 at 62,060-63 (1994).

2/ See Promoting Wholesale Competition Through Open Access Non-discriminatory Transmission Services by Public Utilities and Recovery of Stranded Costs by Public Utilities and Transmitting Utilities, Order No. 888, 61 Fed. Reg. 21,540 (1996), FERC Stats. & Regs. ¶ 31,036 (1996), order on reh'g, Order No. 888-A, 62 Fed. Reg. 12,274 (1997), FERC Stats. & Regs. ¶ 31,048 (1997), reh'g pending.

3/ See, e.g., Southwestern Public Service Company, 72 FERC ¶ 61,208 at 61,966-67 (1995), reh'g pending; Louisville Gas & (continued...)

The Districts suggest there is an inconsistency between the Commission's decision in Order No. 888-A 4/ to continue to use the "hub-and-spoke" method of delineating relevant geographic markets for assessing generation market power when considering applications for market-based rate authorization, and language in the Commission's Merger Policy Statement 5/ indicating that the hub-and-spoke method has certain drawbacks in defining geographic markets. They further state that a proper delineation of geographic markets would likely show that Arizona Public Service has generation market power, and that various price and non-price transmission service conditions proposed by Arizona Public Service would enable Arizona Public Service to impose anticompetitive pricing for its generation.

We recently addressed this issue in Consolidated Edison of New York, Inc., 78 FERC ¶ 61,298 (1997). Here, as there, we conclude that it is neither necessary nor appropriate to change the market power screen that we traditionally have used to analyze market-based rate applications. 6/ While the general issue of a public utility's market power is raised in both the merger and market-based rate contexts, there are also significant differences in some of the specific issues raised in the two types of proceedings, in the nature of the activities for which approval is sought, and in the timing deadlines within which we must complete our initial analyses. The Districts have failed to address any of these differences.

As an initial matter, proposed mergers raise a fundamental market power issue not presented in market-based rates: the potential for increased market concentration owing to the loss of competitors that results from the Commission's approval of a utility merger. Moreover, the Commission in the merger context evaluates the likely competitive impacts of a corporate

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(...continued)
Electric Company, 62 FERC ¶ 61,016 at 61,146 (1993).

4/ Order No. 888-A at ____, mimeo at 39.

5/ Inquiry Concerning the Commission's Merger Policy under the Federal Power Act, Order No. 592, 61 Fed. Reg. 68,595 (1996), FERC Stats. & Regs. ¶ 31,044 (1996).

6/ Of course, as we stated in New York State Electric and Gas Corporation, et al., 78 FERC ¶ 61,309 (1997), while we will not require applicants to support their requests for market-based rates with a comprehensive market power analysis as described in the merger policy statement, we will consider such an analysis if they wish to file it as a substitute for our traditional hub-and-spoke analysis.

reorganization which, once consummated, cannot easily be undone, and for which it may be more difficult to remedy anticompetitive problems after-the-fact. 7/ Further, the Commission in the merger context does not have a statutory time constraint in which it must apply a competitive screen analysis and issue an initial order. Merger applications thus require the Commission to apply a more thorough competitive screen analysis.

In contrast, in the market-based rate context the Commission is not faced with the elimination of competitors and is not asked to approve an activity that involves structural corporate changes in the marketplace. Additionally, the Commission must, in the absence of a request for waiver of prior notice or a proposed effective date beyond 60 days from filing, take initial action on a completed market-based rate application within 60 days and of necessity must use a market screen analysis which it is capable of applying within that short time frame. There is also not a need for as extensive a screen analysis in the market rate context because of the Commission's ability to monitor and remedy market power abuses by utilities charging market-based rates. If the Commission approves market-based rates, it monitors behavior and market structure on a continuing basis through reporting and filing requirements and can promptly remedy market power abuses by revoking market-based rates or taking other remedial action at any time.

Finally, we emphasize that the issue here is the screening analysis that is used to initially evaluate these different types of applications. As we stated in Order No. 888 at 31,660, intervenors may raise specific evidence challenging any presumption implicit in the Commission's screen analysis of market-based rate proposals. Here, the Districts have provided no such evidence.

Accordingly, we find that Arizona Public Service meets the Commission's generation market power standard for market-based rates.

2. Transmission Market Power

When a public utility seeks authorization to charge market-based rates, the Commission has required the public utility to have an open access transmission tariff on file before granting such authorization. 8/ Arizona Public Service has filed an open access transmission tariff in Docket No. OA96-153-000. For this

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7/ See 16 U.S.C. § 824b(b) (1994).

8/ See, e.g., Order No. 888 at 31,656-57; accord Southern Company Services, Inc. 71 FERC ¶ 61,392 at 62,536 (1995).

reason, we find that Arizona Public Service meets the Commission's transmission market power standard for approval of market-based rates.

We are not persuaded by the Districts' arguments to the contrary. The Districts argue that Arizona Public Service's open access transmission tariff has not been shown to mitigate transmission market power because its open access rates and various other non-rate terms and conditions have been set for hearing and may be excessive or discriminatory, 9/ and because Arizona Public Service's revised tariff has not yet been approved by the Commission. 10/

We have explained that we will not delay the effectiveness of market-based rate authority or attach refund conditions to market-based power sales rates simply because the utility's cost-based transmission rates have been set for hearing. 11/ Moreover, in its order addressing the non-rate terms and conditions of Arizona Public Services's open access transmission tariff only one change was directed, and one matter set for hearing. 12/ Customers still are assured of access to Arizona Public Service's transmission system under the pro forma terms and conditions, and have the ability to bring to the Commission's attention any implementation issues that arise with respect to

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9/ See Long Sault Inc., et al., 76 FERC ¶ 61,313 (1996) (setting for hearing rate issues arising under open access pro forma tariff filings, including Arizona Public Services' in Docket No. OA96-153-000); Arizona Public Service Company, 78 FERC ¶ 61,083 (1997) (Arizona Public Service) (consolidating Docket Nos. OA96-153-000 and ER96-2401-000); American Electric Power Service Corporation, et al., 78 FERC ¶ 61,070 (1997) (AEP) (directing certain revisions to Arizona Public Services' compliance filing in Docket No. OA96-153-000).

10/ On February 27, 1997, Arizona Public Service filed a revised open access transmission tariff in response to the Commission's orders in Arizona Public Service and AEP.

11/ See, e.g., American Electric Power Service Corporation, et al., 72 FERC ¶ 61,287 (1995).

12/ 78 FERC at 61,263-64 (Arizona Public Service was directed to provide a better description of *the methods it uses* to compute available transmission capability. A hearing was established concerning whether Arizona Public Service's system impact study methodology should be revised).

their specific service requests. This is sufficient to find that Arizona Public Service has mitigated its transmission market power.

3. Other Barriers to Entry/Reciprocal Dealing/Affiliate Abuse

We are satisfied, given Arizona Public Service's explanation, that there are no barrier to entry, reciprocal dealing or affiliate abuse of concern here.

Unbundling of Rates

Order No. 888 at 31,654 provides that, as part of the functional unbundling of wholesale services, the prices for wholesale generation, transmission and ancillary services must be separately stated for sales under requirements or coordination contracts executed after July 9, 1996. Arizona Public Service's market-based power sales tariff does not state that Arizona Public Service will obtain transmission under its open access transmission tariff, nor does it address the circumstances under which transmission and ancillary service will be provided under Arizona Public Service's open access transmission tariff. Thus, the tariff does not address our unbundling requirements.

Accordingly, we will direct Arizona Public Service to revise its market-based power sales tariff to state explicitly that Arizona Public Service will obtain transmission under its open access tariff, and to state explicitly separate prices for generation, transmission and ancillary services. In addition, we will require Arizona Public Service to revise its market-based tariff to state that: (1) when transmission and ancillary services to effectuate power sales transactions under Arizona Public Service's market-based tariff are to be obtained by Arizona Public Service, Arizona Public Service must file a service agreement placing itself under its open access transmission tariff; and (2) when the customer itself is obtaining the transmission and ancillary services from Arizona Public Service, Arizona Public Service must file a service agreement placing the customer under its open access tariff. 13/

Since we are permitting Arizona Public Service to report prices for short-term market-based transactions (one year or less) in quarterly summaries, as discussed below, the separate prices for the unbundled services in such short-term transactions should be included in those quarterly summaries. For long-term transactions (longer than one year), the separate prices should

13/ See Public Service Electric & Gas Company, 78 FERC ¶ 61,119 (1997).

be included in the service agreements filed for specific transactions.

Reporting and Filing Requirements

We will direct Arizona Public Service to inform the Commission promptly of any change in status that would reflect a departure from the characteristics the Commission has relied upon in approving market-based pricing. These include, but are not limited to: (1) ownership of generation or transmission facilities or inputs to electric power production other than fuel supplies; or (2) affiliation with any entity not disclosed in the filing that owns generation or transmission facilities or inputs to electric power production, or affiliation with any entity that has a franchised service area. 14/ Alternatively, Arizona Public may report such changes with the updated market analysis it will be required to file every three years. 15/

Consistent with procedures we have adopted in other cases, Arizona Public Service may file umbrella agreements for short-term transactions (one year or less) within 30 days of the date of commencement of short-term service, to be followed by quarterly transaction summaries of specific sales. For long-term transactions (longer than one year), Arizona Public Service must submit the actual individual service agreement for each transaction within 30 days of the date of commencement of service. 16/

To ensure the clear identification of filings, and in order to facilitate the orderly maintenance of the Commission's files and public access to the documents, long-term transaction service agreements (over one year) should not be filed together with short-term transaction (one year or less) summaries.

Arizona Public Service has indicated that it may engage in risk management transactions, including, but not limited to, options, swaps and futures. Arizona Public Service is required to report, consistent with the filing procedures set forth above,

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14/ See, e.g., Morgan Stanley Capital Group, Inc., 69 FERC ¶ 61,175 at 61,695 (1994), order on reh'g, 72 FERC ¶ 61,082 (1995) (Morgan Stanley); InterCoast Power Marketing Company, 68 FERC ¶ 61,248 at 62,134, clarified, 68 FERC ¶ 61,324 (1994).

15/ We reserve the right to require such an analysis any time.

16/ See Southern Company Services, Inc., 75 FERC ¶ 61,130 at 61,444-45 (1996), order on clarification, 75 FERC ¶ 61,353 (1996).

only those risk management transactions that result in the actual delivery of electricity. 17/

The Commission orders:

(A) Arizona Public Service Company is hereby directed to revise its market-based power sales tariff, within 15 days of the date of issuance of this order, to reflect the revisions discussed in the body of this order.

(B) Arizona Public Service's market-based power sales tariff is hereby conditionally accepted for filing, to become effective on the date of this order, on condition that Arizona Public Service makes the compliance filing directed in Ordering Paragraph (A) above.

(C) Arizona Public Service is hereby directed to conform to the filing and reporting requirements specified in this order. The first quarterly report of transactions undertaken by Arizona Public Service under its market-based power sales tariff will be due within 30 days of the calendar quarter ending June 30, 1997.

(D) Arizona Public Service is hereby directed to file an updated market analysis within three years of the date of this order, and every three years thereafter.

(E) Arizona Public Service is hereby directed to inform the Commission promptly of any change in status that would reflect a departure from the characteristics the Commission has relied upon in approving market-based pricing. Alternatively, as discussed in the body of this order, Arizona Public Service may elect to report any such changes every three years with the updated market analysis filed pursuant to Ordering Paragraph (D) above. Arizona Public Service shall notify the Commission of which option it elects in its first quarterly report filed pursuant to Ordering Paragraph (C) above.

17/ See Morgan Stanley, 69 FERC at 61,696.

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FEDERAL ENERGY
REGULATORY COMMISSION

Morgan, Lewis & Bockius LLP
COUNSELORS AT LAW

March 28, 2001

The Honorable David P. Boergers
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: Application of Pinnacle West Energy Corporation for Determination of Exempt Wholesale Generator Status, Docket No. EG01-163-000.

Dear Secretary Boergers:

Enclosed for filing are: (1) a check made payable to the Treasurer of the United States in the amount of $1310.00; and (2) an original and eighteen copies of the Application of Pinnacle West Energy Corporation for Determination of Exempt Wholesale Generator Status ("Application"). Please file stamp and return four copies of the Application for our records.

If you have any questions regarding the attached Application or check, please contact the undersigned.

Sincerely,

Andrea Weinstein

Andrea J. Weinstein
Morgan, Lewis & Bockius LLP
1800 M Street, N.W.
Washington, D.C. 20036-5869
Phone: 202-467-7332

Enclosures

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UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

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Pinnacle West Energy Corporation **Docket No. EG01-_____**

APPLICATION OF PINNACLE WEST ENERGY CORPORATION FOR DETERMINATION OF EXEMPT WHOLESALE GENERATOR STATUS

Pursuant to Section 32 of the Public Utility Holding Company Act ("PUHCA"), 15 U.S.C. § 79z-5a (1994), and Subchapter T, Part 365 of the regulations of the Federal Energy Regulatory Commission ("FERC" or "Commission"), 18 C.F.R. Part 365 (2000), Pinnacle West Energy Corporation ("PWE") hereby applies for a determination that it will be an exempt wholesale generator ("EWG") within the meaning of section 32(a)(1) of PUHCA.

I. COMMUNICATIONS

All communications regarding this Application should be sent to:

Karilee S. Ramaley
Pinnacle West Capital Corporation
400 North 5th Street
Mail Station 8695
Phoenix, AZ 85004
(602) 250-3626

John D. McGrane
Mary Ann K. Huntington
Andrea J. Weinstein
Morgan, Lewis & Bockius LLP
1800 M Street, N.W.
Washington, D.C. 20036
(202) 467-7000

II. INFORMATION ABOUT PINNACLE WEST ENERGY CORPORATION

PWE is a wholly-owned subsidiary of Pinnacle West Capital Corporation ("PNW"), a public-utility holding company exempt from the provisions of the Public Utility Holding Company Act of 1935 ("PUHCA"), except Section 9(a)(2) thereof, by virtue of Section 3(a)(1) of PUHCA. Arizona Public Service Company ("APS") is PNW's only existing public-utility company affiliate. PWE was created to serve as PNW's competitive generation affiliate, and

PNW, over time, will move substantially all of APS's generating assets to PWE, while retaining its transmission and distribution facilities within APS. On July 28, 2000, in Docket No. EC00-118-000, PNW, PWE and APS filed a joint application pursuant to section 203 of the Federal Power Act requesting authorization to separate APS's generation and wholesale marketing businesses from its transmission and distribution businesses. On November 24, 2000, the Commission authorized the transfer of APS's generation assets, and associated transmission plant (step-up transformers and generator leads), and existing generation operating agreements to PWE. *See Arizona Public Service Company, et al.*, 93 FERC ¶ 61,216 (2000). Earlier, on September 12, 2000, PWE filed an application pursuant to Section 9(a)(2) of PUHCA requesting approval from the Securities and Exchange Commission ("SEC") in connection with the reorganization and transfer of APS's generating assets to PWE since it will result in PWE becoming a public-utility company. This application is currently pending before the SEC.[1] In addition to the APS facilities being moved to PWE, PWE plans to establish separate EWG subsidiaries to develop, own and operate generating plants located outside of Arizona.

III. SWORN STATEMENT

In support of this application, appended hereto and made a part hereof is the affidavit of Ajoy K. Banerjee, Vice President, Generation Expansion, which affirms and verifies the following facts:

1. PWE will be engaged directly, or indirectly through one or more affiliates as defined in section 2(a)(11)(B) of PUHCA, and exclusively in the business of owning or operating, or both owning and operating, all or part of one or more eligible facilities and selling electric energy at wholesale.

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[1] PWE intends to maintain its EWG status until the SEC authorizes it to become a public-utility company and at that time PWE will notify the Commission.

2. The eligible facilities ("Facilities") PWE plans to directly or indirectly own and/or operate are:

(a) a 100% interest in West Phoenix Unit No. 4 ("West Phoenix No. 4"), a newly constructed natural gas-fired, combined cycle unit with a nominal power output of 120 MW located on the site of APS's West Phoenix Plant;

(b) a 100% interest in 10 trailer-mounted generating units ("trailer-mounted units") with a combined capacity of less than 200 MW. Five of the trailer-mounted units will be located on the site of the West Phoenix Plant and five will be located on the site of the Saguaro Power Plant in Red Rock, Arizona.

3. PWE will lease the trailer-mounted units from General Electric Energy Rentals, Inc. and will operate the trailer-mounted units. During the term of the lease, PWE will have all of the rights and privileges associated with ownership of the trailer-mounted units. As the operator of the trailer-mounted units, PWE will manage, control, operate, and maintain the units, and sell the electric output associated with the trailer-mounted units. *See, e.g., TXU (No. 5) Pty Ltd.*, 92 FERC ¶ 61,170 (2000); *Kalaeloa Partners, LP*, 77 FERC ¶ 61,075 (1996).

4. West Phoenix No. 4 and the trailer-mounted units constitute "eligible facilities" as defined in Section 32(a)(2) of PUHCA, because they will be used for the generation of electric energy exclusively for sale at wholesale.

5. PWE will not engage in any retail sales.

6. PWE is an associate of APS, which is an electric utility company as defined by Section 2(a)(3) of PUHCA.

7. No portion of the Facilities will be owned or operated by an electric utility company that is an affiliate or associate company of PWE. However, because West Phoenix No.

4 is located near generating facilities owned and operated by APS and because it is economically efficient to have a single entity perform certain routine day-to-day services necessary to run both the utility-owned and EWG-owned facilities since they are in close geographic proximity, PWE and APS intend to enter into a Services Agreement pursuant to which APS will provide certain services to PWE. APS will be responsible for providing the services identified in the Services Agreement, primarily daily maintenance activities, but will not have full operating responsibility for West Phoenix No. 4. *See, e.g., Prior Notice and Filing Requirements Under Part II of the Federal Power Act*, 64 FERC ¶ 61,139, at 61,993-94 (1993); *Puget Sound Power & Light Company*, 64 FERC ¶ 61,335, at 63,428 (1993).[2] Because the Service Agreement will satisfy both FERC and SEC precedent, the Services Agreement should not affect the Commission's EWG determination.[3]

8. There are no lease arrangements involving the Facilities and any United States public-utility company or any affiliate or associate of any United States public-utility company. However, as noted above, PWE is leasing the trailer-mounted units from General Electric Energy Rentals, Inc.

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[2] Under SEC precedent, APS also should be not be considered the "operator" of West Phoenix No. 4 since APS will not: (1) hold any interest in PWE or the West Phoenix No. 4; and (2) will not sell electricity, schedule electrical output, bill, collect revenues, schedule interruptions in the delivery of electricity, procure fuel supply, or modify the capacity requirements of the facilities. *See Kenetech Windpower, Inc.*, SEC No-Action Letter (April 15, 1994); *Colstrip Energy Limited Partnership*, SEC No-Action Letter (November 14, 1989). Moreover, the fee structure under which APS will be compensated will not be related to the revenue or income PWE receives, nor will it be directly related to the electrical output from the facilities.

[3] In any event, even if APS were somehow viewed as "operating" West Phoenix No. 4, the plain language of Section 32(d) of PUHCA, which bars ownership or operation of a "portion" of an eligible facility by an affiliated electric utility company, does not apply to the current proposal since PWE will own the *entire* unit and APS would be "operating" the *entire* unit. In other words, there is no intermingling of operation or ownership since neither of the functions will be apportioned between the EWG and the affiliated electric utility.

9. PWE also plans to engage in activities that the Commission has previously determined to be "incidental" to an EWG's primary business of owning and operating eligible facilities and selling electric energy at wholesale. These activities include:

(a) developing and purchasing other eligible facilities. *See, e.g., China Power Partners, L.P.*, 70 FERC ¶ 61,256 (1995); *Southern Electric Wholesale Generators, Inc.*, 66 FERC ¶ 61,264 (1994).

(b) wholesale marketing and brokering of electric energy that PWE has not generated. *See, e.g., Entergy Power Marketing Corp.*, 73 FERC ¶ 61,063 (1995); *CNG Power Services Corp.*, 71 FERC ¶ 61,378 (1995); *LG&E Power Marketing, Inc.*, 67 FERC ¶ 61,083 (1994).

(c) selling or reselling ancillary services and interconnected operations services at wholesale. *See, e.g., Phelps Dodge Energy Services,* 88 FERC ¶ 61,052 (1999);

(d) selling by-products of electric generation, such as steam, fly ash and bottom ash. *See, e.g., Erie Boulevard Hydropower, L.P.,* 87 FERC ¶ 61,378 (1999);

(e) selling excess natural gas supplies and reassigning excess capacity originally obtained to effect a specific wholesale sale of electric energy. *See, e.g., Selkirk Cogen Partners, L.P.*, 69 FERC ¶ 61,037 (1994);

(f) delivering fuel to third parties to generate electric power to be delivered by that third party to PWE for sale at wholesale. *See, e.g., CNG Power Services Corp.*, 71 FERC ¶ 61,378 (1995); *Southern Energy Marketing, Inc.*, 71 FERC ¶ 61,376 (1995); and

(g) entering into contracts for transmission capacity solely to the extent necessary to effect sales at wholesale of electricity generated by PWE or others. *See, e.g., CNG Power Services Corp.*, 71 FERC ¶ 61,026 (1995).

10. In addition to the incidental activities above, PWE plans to own directly or indirectly a natural gas storage facility. The natural gas storage facility is necessary for the operation of West Phoenix No. 4 and is incidental to PWE's primary business of owning and operating eligible facilities and selling electric energy at wholesale. *See Desarollo Pectacalco S. De R. L. De C.V.*, 67 FERC ¶ 61,070 at 61,199, *order on reh'g*, 67 FERC ¶ 61,403 (1994) (fuel storage facilities are not part of the eligible facility and such facilities are incidental to primary EWG business); *Compañia Hidroeléctrica Doña Julia S. De R.L.*, 85 FERC ¶ 61,336 (1998) (ownership of discharge and offshoot pipelines for other hydroelectric projects is incidental to primary EWG business).

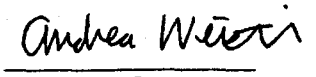
IV. NOTICE OF APPLICATION AND SERVICE

Included with this application is a form of notice in paper and electronic formats suitable for publication in the *Federal Register*. A copy of this application has been served on the Securities and Exchange Commission and the Arizona Corporation Commission.

V. CONCLUSION

For the foregoing reasons, PWE respectfully requests the Commission to determine that PWE is an Exempt Wholesale Generator under Section 32(a)(1) of PUHCA.

Respectfully submitted,



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1800 M Street, N.W.
Washington, D.C. 20036
Tel: (202) 467-7622/7621

Attorneys for
Pinnacle West Energy Corporation

Dated: March 28, 2001

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Pinnacle West Energy Corporation **Docket No. EG01-_____**

APPLICATION OF PINNACLE WEST ENERGY CORPORATION FOR DETERMINATION OF EXEMPT WHOLESALE GENERATOR STATUS

AFFIDAVIT OF
AJOY K. BANERJEE

STATE OF ARIZONA)
)
COUNTY OF MARICOPA)

The undersigned, Ajoy K. Banerjee, being first duly sworn, attests that I am Vice President, Generation Expansion, of Pinnacle West Energy Corporation; that as such I am legally authorized to bind Pinnacle West Energy Corporation; that I have read the foregoing Application of Pinnacle West Energy Corporation for Determination of Exempt Wholesale Generator Status (the "Application") and know the contents thereof; and that the facts and representations set forth in the Application are true and correct to the best of my knowledge, information, and belief.

Name: Ajoy K. Banerjee
Title: Vice President, Generation Expansion

Subscribed and sworn to before me
this twenty-seventh day of March 2001.

Notary Public

OFFICIAL SEAL
SCHERRY BOYER
NOTARY PUBLIC - STATE OF ARIZONA
MARICOPA COUNTY
My Comm Expires Oct. 14, 2002

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FEDERAL ENERGY
REGULATORY COMMISSION

Morgan, Lewis
& Bockius LLP
COUNSELORS AT LAW

April 27, 2001

The Honorable David P. Boergers
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: Amended and Supplemental Application of Pinnacle West Energy Corporation for Determination of Exempt Wholesale Generator Status, Docket No. EG01-163-001.

Dear Secretary Boergers:

Enclosed for filing are an original and fourteen copies of an Amended and Supplemental Application of Pinnacle West Energy Corporation for Determination of Exempt Wholesale Generator Status. In accordance with the Commission's rules, attached is a Notice of Filing in hard copy and on diskette.

Please file stamp and return four copies of the Amended and Supplemental Application for our records.

If you have any questions regarding the Amended and Supplemental Application, please contact the undersigned.

Sincerely,

Andrea Weistein

Andrea J. Weinstein
Attorney for
Pinnacle West Energy Corporation

Enclosures

cc: Jan Macpherson
Securities and Exchange Commission
Arizona Corporation Commission

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Pinnacle West Energy Corporation	)	**Docket No. EG01-163-001**

AMENDED AND SUPPLEMENTAL APPLICATION FOR DETERMINATION OF EXEMPT WHOLESALE GENERATOR STATUS

On March 28, 2001, Pinnacle West Energy Corporation ("PWE") filed an application with the Federal Energy Regulatory Commission ("FERC" or "Commission") requesting that the Commission issue an order determining that PWE is an exempt wholesale generator ("EWG") pursuant to Section 32(a)(1) of the Public Utility Holding Company Act, as amended, and Part 365 of the Commission's regulations. PWE submits this amended and supplemental application to modify the eligible facilities it plans to directly or indirectly own and/or operate and to provide the Commission with additional information concerning PWE's development activities.

On page 3 of the initial application, PWE states that PWE plans to directly or indirectly own and/or operate a "100% interest in 10 trailer-mounted generating units ('trailer-mounted units') with a combined capacity of less than 200 MW." At this time, PWE no longer intends to operate the trailer-mounted units as eligible facilities. Instead, West Phoenix No. 4 will be PWE's only eligible facility. In the event that PWE later decides to operate the trailer-mounted units as eligible facilities, PWE will file a separate application for EWG status to cover those facilities.

In addition, on page 2 of the initial application, PWE states that "PWE plans to establish separate EWG subsidiaries to develop, own and operate generating plants located outside of Arizona." PWE wishes to clarify that prior to PWE's acquisition of any ownership interest or operation interest in any additional eligible facilities, PWE will either file for EWG status for such acquisition or notify the Commission pursuant to 18 C.F.R. § 365.8.

An applicant for an EWG determination is allowed to amend and supplement its application upon a showing of good cause, as allowed by 18 C.F.R. § 365.5, and PWE has demonstrated cause for amending and supplementing it application. This amended and supplemental application neither substantially alters PWE's initial application nor encompasses any activities not previously presented in that application.

PWE requests waiver of any applicable Commission regulations to the extent necessary to waive any applicable filing requirements. PWE provides in paper and electronic formats a proposed notice of filing suitable for publication in the Federal Register in the event the Commission elects to notice the filing.

In accordance with Section 365.5 of the Commission's regulations, 18 C.F.R. § 365.5, PWE is not required to submit an additional filing fee with this filing.

For the reasons set forth in PWE's initial application and this amended and supplemental application, PWE respectfully requests that the Commission determine that PWE is an exempt wholesale generator under Section 32(a)(1) of PUHCA.

Respectfully submitted,

John D. McGrane
Mary Ann K. Huntington
Andrea J. Weinstein
Morgan, Lewis & Bockius LLP
1800 M Street, N.W.
Washington, D.C. 20036
Tel: (202) 467-7000

Karilee S. Ramaley
Pinnacle West Capital Corporation
400 North 5th Street
Mail Station 8695
Phoenix, AZ 85004
(602) 250-3626

Attorneys for
Pinnacle West Energy Corporation

Dated: April 27, 2001

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Pinnacle West Energy Corporation **Docket No. EG01-163-001**

APPLICATION OF PINNACLE WEST ENERGY CORPORATION FOR DETERMINATION OF EXEMPT WHOLESALE GENERATOR STATUS

AFFIDAVIT OF
AJOY K. BANERJEE

STATE OF ARIZONA)
)
COUNTY OF MARICOPA)

The undersigned, Ajoy K. Banerjee, being first duly sworn, attests that I am Vice President, Generation Expansion of Pinnacle West Energy Corporation; that as such I am legally authorized to bind Pinnacle West Energy Corporation; that I have read the foregoing Application of Pinnacle West Energy Corporation for Determination of Exempt Wholesale Generator Status (the "Application") and know the contents thereof; and that the facts and representations set forth in the Application are true and correct to the best of my knowledge, information, and belief.

Name: Ajoy K. Banerjee
Title: Vice President, Generation Expansion

Subscribed and sworn to before me
this ~~sixth~~ 9th day of April 2001.

Notary Public

OFFICIAL SEAL
JOY L. HEINRICH
Notary Public - State of Arizona
MARICOPA COUNTY
My Comm. Expires Oct. 1, 200

1800 M Street, N.W.
Washington, D.C. 20036-5869
202-467-7000
Fax: 202-467-7176

FILED
OFFICE OF THE SECRETARY
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REGULATORY COMMISSION

Morgan, Lewis & Bockius LLP
COUNSELORS AT LAW

Andrea J. Weinstein
(202) 467-7332
ajweinstein@morganlewis.com

May 2, 2001

Hon. David P. Boergers, Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

RE: Pinnacle West Energy Corporation
Docket No. EG01-163-000

Dear Mr. Boergers:

Pursuant to Rule 216 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission, 18 C.F.R. § 385.216, Pinnacle West Energy Corporation ("PWE") hereby files an original and fourteen (14) copies of a Notice of Withdrawal of its Application for Determination of Exempt Wholesale Generator Status. No parties have intervened or protested the PWE Application, so no party will be prejudiced or otherwise affected by PWE's withdrawal. PWE requests waiver of the provisions of 18 C.F.R. § 385.216 to allow the withdrawal to become effective as of the date of this filing.

Respectfully submitted,

Andrea Weinstein

Andrea J. Weinstein
Attorney for
Pinnacle West Energy Corporation

cc: Jan Macpherson
Securities and Exchange Commission
Arizona Corporation Commission

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Pinnacle West Energy Corporation	)	**Docket No. EG01-163-000**

NOTICE OF WITHDRAWAL

Pursuant to Rule 216 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission ("FERC"), 18 C.F.R. § 385.216, Pinnacle West Energy Corporation ("PWE"), hereby withdraws its Application for Determination of Exempt Wholesale Generator ("EWG") Status, which PWE filed with FERC in the above-captioned docket on March 28, 2001, as amended and supplemented on April 27, 2001. No parties have intervened or protested the PWE application, so no party will be prejudiced or otherwise affected by PWE's withdrawal.

Rule 216 of the Commission's Rules of Practice and Procedure provides that a party's withdrawal of a pleading shall become effective 15 days after the date on which the withdrawal was filed. PWE requests waiver of the provisions of 18 C.F.R. § 385.216 to allow the Notice of Withdrawal to become effective as of the date of this filing.[1]

Good cause exists to waive the provisions of 18 C.F.R. § 385.216. On September 12, 2000, Pinnacle West Capital Corporation ("PNW") filed an application pursuant to Section 9(a)(2) of the Public Utility Holding Company Act of 1935 requesting approval from the Securities and Exchange Commission ("SEC") in connection with a proposed corporate reorganization involving the transfer of Arizona Public Service Company's fossil generating assets to PWE and PWE's operation of other generating facilities currently being developed. Approval was requested because it would result in PWE becoming a public-utility company.

---

[1] *See Southern Natural Gas Company*, 76 FERC ¶ 61,121 (1996) (waiving 15-day requirement of 18 C.F.R. § 385.216 to avoid delay in construction of facilities).

PWE stated in its initial EWG Application that it intended to maintain its EWG status only until the SEC authorized it to become a public-utility company. On April 27, 2001, the SEC issued an order authorizing PNW to establish PWE as a public-utility company. For this reason, PWE is filing this Notice of Withdrawal and no further Commission action is requested.

Respectfully submitted,

Mary Ann K. Huntington
Andrea J. Weinstein
Morgan, Lewis & Bockius, LLP
1800 M Street, N.W.
Washington, D.C. 20036
Tel: (202) 467-7622/7332

Attorneys for
Pinnacle West Energy Corporation

Dated: May 2, 2001

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Pinnacle West Energy Corporation	)	**Docket No. EG01-163-000**

NOTICE OF FILING

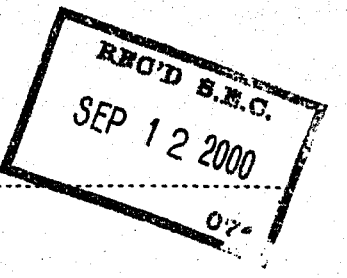
(May __, 2001)

On May 2, 2001, Pinnacle West Energy Corporation ("PWE") filed with the Federal Energy Regulatory Commission a Notice of Withdrawal of its Application for Determination of Exempt Wholesale Generator ("EWG") Status. PWE states that no parties have intervened or protested the PWE EWG Application, so no party will be prejudiced or otherwise affected by PWE's withdrawal. PWE requests that its Notice of Withdrawal become effective as of the date of filing.

Any person desiring to be heard or to protest said filing should file a motion to intervene or comments with the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426, in accordance with Rules 211 and 214 of the Commission's Rules of Practice and Procedures (18 C.F.R. § 385.211 and 18 C.F.R. § 385.214). The Commission will limit its consideration of comments to those that concern the adequacy or accuracy of the application. All such motions and comments should be filed on or before _____, 2001. Any person wishing to become a party must file a motion to intervene. Copies of this filing are on file with the Commission and are available for public inspection. This filing may also be viewed on the Internet at http://www.ferc.fed.us/online/rims.htm (call 202-208-2222 for assistance).

David P. Boergers
Secretary

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549



FORM U-1
APPLICATION
UNDER
THE PUBLIC UTILITY HOLDING COMPANY ACT OF 1935

PINNACLE WEST CAPITAL CORPORATION
400 East Van Buren Street, Suite 700
Phoenix, Arizona 85004

(Name of company filing this statement and address of principal executive offices)

None

(Name of top registered holding company parent)

Herbert I. Zinn
Pinnacle West Capital Corporation
400 North Fifth Street
Mail Station 8695
Phoenix, Arizona 85004

Mary Ann K. Huntington
Morgan, Lewis & Bockius LLP
1800 M Street, N.W.
Washington, D.C. 20036

(Name and address of agents for service)

The Commission is requested to send copies of all notices, orders, and communications in connection with this Application to:

Herbert I. Zinn
Pinnacle West Capital Corporation
400 North Fifth Street
Mail Station 8695
Phoenix, Arizona 85004

Mary Ann K. Huntington
Morgan, Lewis & Bockius LLP
1800 M Street, N.W.
Washington, D.C. 20036

EXHIBIT A-3

EXPEDITED
AZ CORP COMMISSION
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ARTICLES OF INCORPORATION

OF

PINNACLE WEST ENERGY CORPORATION

APPR RA-TIB NA-SIC
DATE APPR 09-22-99
TERM
DATE

FIRST: The name of the corporation is Pinnacle West Energy Corporation.

SECOND: The purpose for which the corporation is organized is the transaction of any or all lawful business for which corporations may be incorporated under the laws of the State of Arizona, as they may be amended from time to time. The character of business which the corporation initially intends actually to conduct in the State of Arizona is development, production and sale of wholesale energy.

THIRD: The aggregate number of shares that the corporation shall have authority to issue is One Hundred (100) common shares, all of which shares shall be of a single class and shall have a par value of $.01 per share.

FOURTH: The name and street address in Arizona of the initial statutory agent of the corporation is CT Corporation System, 3225 North Central Avenues, suite 1601, Phoenix, Arizona 85012. The street address of the initial known place of business of the corporation in Arizona is 400 North 5th Street, Station 9068, Phoenix, Arizona 85004.

FIFTH: The number of directors constituting the initial board of directors of the corporation is two (2). The names and addresses of the persons who are to serve as directors until the first annual meeting of shareholders, or until their successors are elected and qualified, are:

Name	Address
William J. Post	400 North Fifth Street Phoenix, AZ 85004
William L. Stewart	400 North Fifth Street Phoenix, AZ 85004

The number of persons to serve on the board of directors thereafter shall be fixed by the bylaws of the corporation.

SIXTH: The name and address of the incorporator is Pinnacle West Capital Corporation, 400 East Van Buren, Phoenix, Arizona 85004.

SEVENTH: The liability of a director or former director to the corporation or its shareholders shall be eliminated to the fullest extent permitted by Section 10-202.B.1 of the Arizona Revised Statutes.

If the Arizona Business Corporation Act is amended to authorize corporate action further eliminating or limiting the liability of directors, the liability of a director of the corporation shall be eliminated or limited to the fullest extent permitted by the Arizona Business Corporation Act, as amended.

Any repeal or modification of this Article Seventh shall not adversely affect any right or protection of a director of the corporation existing hereunder with respect to any act or omission occurring prior to or at the time of such repeal or modification.

The provisions of this Article Seventh shall not be deemed to limit or preclude indemnification of a director by the corporation for any liability of a director which has not been eliminated by the provisions of this Article Seventh.

EIGHTH: The corporation shall indemnify any and all of its existing and former directors and officers to the fullest extent permitted by Section 10-202.B.2 of the

Arizona Business Corporation Act. If the Arizona Business Corporation Act is amended to authorize corporate action broadening the corporation's ability to indemnify its directors and officers, the corporation shall indemnify its existing and former directors and officers to the fullest extent permitted by the Arizona Business Corporation Act, as amended. Any repeal or modification of this Article Eighth shall not adversely affect any right or protection of any existing or former director or officer of the corporation existing hereunder with respect to any act or omission occurring prior to or at the time of such repeal or modification.

DATED: September 27, 1999

PINNACLE WEST CAPITAL CORPORATION

By: Michael V. Palmeri

Michael V. Palmeri
Vice President/Finance
Incorporator

H:\SECURITS\CORP\Bap5280.doc

EXHIBIT B-1

TERM SHEET

The following is a summary of all material terms and conditions relating to the relocation by Arizona Public Service Company, an Arizona corporation ("APS") of its

a. electric generating business and assets (the "Generating Assets"), as more particularly defined below, which will be moved to APS's affiliate, Pinnacle West Energy Corporation, an Arizona corporation ("PWEC"); and

b. bulk power marketing and trading assets (the "Bulk Power Assets") which will be moved to Pinnacle West Capital Corporation, an Arizona corporation ("PWCC"),

in conjunction with an overall corporate reorganization by PWCC, APS's parent company, which is, in substantial respect, undertaken in furtherance of a Settlement Agreement, dated May 14, 1999, and approved by the Arizona Corporation Commission (the "ACC") on October 6, 1999 in its Decision No. 61973.

Executive Summary:

In furtherance of an overall corporation reorganization, APS intends to move its

a. Generating Assets, as described below, in two (2) stages, to two (2) newly created subsidiaries (respectively, "Subsidiary A" and "Subsidiary B") that will each be merged into PWEC; and

b. Bulk Power Assets that will be relocated to PWCC.

The bulk of APS's Fossil Assets and Solar Assets (as defined below) will be moved to Subsidiary A by January 1, 2001, and APS's Nuclear Assets (as defined below) will be moved to Subsidiary B by December 31, 2002. APS's Bulk Power Assets will be moved to PWCC by January 1, 2001.

Simultaneously with each stage of the relocation of Generating Assets, APS will divest itself of its ownership interest in Subsidiary A and Subsidiary B, respectively, by transferring the common stock of each subsidiary to PWCC. PWCC will then merge each subsidiary into its wholly owned subsidiary, PWEC, thereby completing the move of APS's Generating Assets to its affiliate, PWEC. Any Fossil Assets, as defined below, that are not moved to PWEC by January 1, 2001, will be moved to PWEC using a similar subsidiary transaction by December 31, 2001. The Bulk Power Assets will be moved directly to PWCC.

As a result of this corporate reorganization, by January 1, 2003, APS shall be engaged in the transmission and distribution of electricity in the State of Arizona, and will no longer be engaged in the generation of electricity. PWEC shall be engaged in the generation and sale of electricity to wholesale customers in the region bounded by the Western States Coordinating

Council. By January 1, 2001, PWCC will assume the bulk power marketing and trading activities that were previously conducted by APS.

The Plan of Reorganization

1. **Generating Assets:**

   1.1. Palo Verde Nuclear Generating Station – Wintersburg, Arizona
   1.2. Four Corners Generating Station – Fruitland, New Mexico
   1.3. Navajo Generating Station – Page, Arizona
   1.4. Cholla Generating Station – Joseph City, Arizona
   1.5. West Phoenix Generating Station – Phoenix, Arizona
   1.6. Ocotillo Generating Station – Tempe, Arizona
   1.7. Saguaro Generating Station – Red Rock, Arizona
   1.8. Yucca Generating Station – Yuma, Arizona
   1.9. Douglas/Fairview Generating Station – Douglas, Arizona
   1.10. Various grid-connected solar generating facilities located in the State of Arizona

   Item 1.1 is referred to herein as the "Nuclear Assets."
   Items 1.2 through 1.9 are referred to herein as the "Fossil Assets."
   Item 1.10 is referred to herein as the "Solar Assets."

   Bulk Power Assets

   Various agreements relating to the purchase and sale of bulk electric power, emission allowances, natural gas, and other energy-related commodities, together with infrastructure and related items of tangible personal property used or useful in connection with the conduct of bulk power trading activities.

2. **Established Asset Value:**

   For purposes of the reorganization, the Generating Assets and the Bulk Power Assets will be valued at APS's book value as of the Closings referred to in Sections 3.1.1 and 3.1.2, below.

3. **Other Material Terms and Conditions:**

   3.1 Effective Dates:

   3.1.1 The bulk of the Fossil Assets, the Solar Assets and the Bulk Power Assets will be moved on or before January 2, 2001. Any remaining Fossil Assets will be moved by December 31, 2001.

   3.1.2 The Nuclear Assets will be moved by December 31, 2002.

   3.2 Conditions and Approvals Required as a Condition of the Reorganization:

3.2.1 Third Party Approvals and Consents: The reorganization will be subject to certain approvals and consents:

3.2.1.1 Participant approvals, to the extent applicable, for the Four Corners Generating Station, Navajo Generating Station and Palo Verde Nuclear Generating Station.

3.2.1.2 Third party consents to assignment and transfer of various contracts, licenses, leases, easements, permits, etc., necessary and useful for the operation of the assets being transferred (*e.g.*, goods and services).

3.2.2 Regulatory Requirements: The reorganization will be subject to certain regulatory requirements:

3.2.2.1 Federal Energy Regulatory Commission ("FERC") approval under Section 203 of the Federal Power Act.

3.2.2.2 Receipt of favorable letter rulings from the Internal Revenue Service that the proposed reorganization will be tax free.

3.2.2.3 Final approval by the Securities Exchange Commission, pursuant to Section 9(a)(2) of the Public Utility Holding Company Act ("PUHCA"), that PWCC, as an exempt holding company, may acquire an interest in PWEC, a public utility for purposes of PUHCA; or alternatively, a determination by the FERC that PWEC is an exempt wholesale generator under Section 32 of PUHCA.

3.2.2.4 Permit transfer approvals from various Federal, State and local environmental regulatory authorities.

3.2.2.5 Approval by the Nuclear Regulatory Commission of the transfer of the Palo Verde Nuclear Generating Station Operating License from APS to PWEC.

3.2.3 Other Conditions

On the effective dates of the reorganization, indicated above, the parties will deliver all appropriate instruments and documents as necessary to accomplish the relocation of the Generating Assets and Bulk Power Assets to PWEC and PWCC, respectively, including necessary instruments of title and assignments of all contracts, permits, authorizations, leases, water rights, easements and rights-of-way used and useful to ownership or operation of the Assets.

EXHIBIT D-1

1800 M Street, N.W.
Washington, D.C. 20036-5869
202-467-7000
Fax: 202-467-7176

Morgan, Lewis & Bockius LLP
COUNSELORS AT LAW

July 28, 2000

Honorable David P. Boergers, Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: Application of Arizona Public Service Company, Pinnacle West Capital Corporation, and Pinnacle West Energy Corporation for Authorization to Transfer Jurisdictional Facilities, Docket No. EC00- -000

Dear Secretary Boergers:

Pursuant to Section 203 of the Federal Power Act, 16 U.S.C. § 824b (1994), and Part 33 of the regulations of the Federal Energy Regulatory Commission, 18 C.F.R. Part 33, Arizona Public Service Company ("APS"), Pinnacle West Capital Corporation ("PWCC"), and Pinnacle West Energy Corporation ("PWE") (jointly "Applicants"), hereby submit for filing six copies of an Application for Authorization to Transfer Jurisdictional Facilities.

Applicants are making this filing in connection with the proposed corporate restructuring of APS, under which APS will separate its generation and wholesale marketing businesses, from its transmission and distribution businesses. Applicants developed the restructuring plan in order to comply with the Arizona retail choice program, which provides for the introduction of customer choice for retail customers, and requires APS to divest its generation assets. As demonstrated in the body of the Application, the proposed transfer of jurisdictional facilities raises no competitive or other concerns, and is in the public interest.

A form of notice suitable for publication in the *Federal Register* and a copy of the notice on a computer diskette are attached hereto. Applicants have served a copy of this Application on the Arizona Corporation Commission and the New Mexico Public Regulation Commission. In addition, copies of this transmittal letter have been sent to all customers under each of the wholesale power sales contracts, tariffs, and service agreements that APS seeks authorization under Section 203 to transfer to an affiliate.

Any of these customers that desire a copy of the Application should contact the undersigned.

If you have any questions about this filing, please feel free to contact me.

Respectfully submitted,

John D. McGrane
Morgan, Lewis & Bockius LLP
1800 M Street, N.W.
Washington, D.C. 20036-5869
Phone: (202) 467-7000

Barbara M. Champion, Senior Attorney
Pinnacle West Capital Corporation
P.O. Box 53999
Mail Station 8695
Phoenix, Arizona 85072-3999
Phone: (602) 250-3547

Attorneys for
Arizona Public Service Company
Pinnacle West Capital Corporation
Pinnacle West Energy Corporation

Enclosures

cc: Arizona Corporation Commission
New Mexico Public Regulation Commission

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Arizona Public Service Company	)	Docket No. EC00-_____
Pinnacle West Capital Corporation	)	
Pinnacle West Energy Corporation	)	

APPLICATION OF
ARIZONA PUBLIC SERVICE COMPANY,
PINNACLE WEST CAPITAL CORPORATION, AND
PINNACLE WEST ENERGY CORPORATION
FOR AUTHORIZATION TO TRANSFER
JURISDICTIONAL FACILITIES

I. INTRODUCTION

Arizona Public Service Company ("APS"), and its affiliates Pinnacle West Capital Corporation ("PWCC") and Pinnacle West Energy Corporation ("PWE") (collectively, "Applicants"), submit this Application to obtain the approvals necessary to separate APS's generation and wholesale marketing businesses from its transmission and distribution businesses. APS is separating its generation and marketing functions from its transmission and distribution functions, in accordance with the Arizona retail choice program and as the means of implementing the Settlement Agreement approved by the Arizona Corporation Commission ("ACC") which calls for the divestiture of APS's generation assets. Upon completion of the proposed corporate restructuring, PWE will own and operate APS's existing generating plants, and APS will become a "wires" company, owning and operating transmission and distribution facilities. PWCC will have a Marketing and Trading Department and act as a power marketer, and conduct trading and brokering functions on behalf of its subsidiaries APS, PWE, and APS Energy Services Company, Inc. ("APSES").

Under Section 203 of the Federal Power Act, 16 U.S.C. § 824b (1994), and Part 33 of the Federal Energy Regulatory Commission's ("FERC" or the "Commission") Regulations, 18 C.F.R. §§ 33.1-33.10 (1999), Applicants seek authorization for:

1. the transfer from APS to PWE, directly or indirectly, of certain jurisdictional facilities;

2. the transfer from APS to PWE, directly or indirectly, of certain operational agreements to PWE; and

3. the transfer from APS to PWCC of certain wholesale power sales contracts, APS's Electric Coordination Tariff and accompanying service agreements, and certain service agreements under APS's Market-Rate Tariff including any new agreements APS enters into under its market-rate tariff up to and until the time of transfer.

Upon the transfer of APS fossil generation resources to PWE, contemplated to occur on or before January 1, 2001, PWE will sell the output from its generation resources to PWCC. Under the restructuring plan, PWCC will, in turn, provide APS with all of its generation-related ancillary services pursuant to agreements to be filed with the Commission.[1] These arrangements will allow APS to continue providing ancillary services at the existing rates in its OATT until a market for ancillary services develops in Arizona.

[1] Specifically, PWE intends to file an application for authorization to sell power at market-based rates in a separate but concurrent filing. At that time, PWE will also file an agreement for the sale of generation related ancillary services to PWCC at exactly the same rates that APS currently charges transmission customers under its OATT. To the extent additional generation related ancillary services may be required by the Commission or pursuant to protocols to be filed by the Arizona Independent System Administrator, PWE will supply those services to PWCC. PWCC will then in turn provide ancillary services to APS, again at the same rates currently charged by APS under its OATT. PWE and PWCC will reserve the right to change such rates and services as their costs of providing such service change, or as conditions warrant.

II. REQUEST FOR EXPEDITED APPROVAL AND REQUESTED EFFECTIVE DATES

The approvals that Applicants request are necessary to implement Arizona's retail choice plan for the Applicants. Accordingly, Applicants request that the Commission issue an order no later than November 30, 2000, approving the Section 203 application and request expedited consideration to the extent necessary. Applicants note that they anticipate transferring most of the assets and personnel at year-end, in order to facilitate calendar year record keeping, and believe that the time between the requested approval date of November 30 and the contemplated transfer is necessary to allow the transfer of personnel and to implement other aspects of the transaction. Applicants will promptly notify the Commission upon the consummation of the transactions described herein.

III. PROPOSED RESTRUCURING PLAN OF THE APPLICANTS

A. Description of the Parties

PWCC: PWCC is an Arizona corporation whose principal place of business is located at 400 North 5th Street, Phoenix, Arizona. PWCC is a holding company that is exempt from registration under the Public Utility Holding Company Act of 1935, as amended ("PUHCA"), by virtue of Section 3(a)(1) of PUHCA and Rule 2 of the regulations of the Securities and Exchange Commission ("SEC"). PWCC is the parent company of APS, PWE, and APSES. At present, PWCC has no electric-utility company subsidiaries, other than APS. PWCC has two non-utility subsidiaries, El Dorado Investment Company, an investment firm with a portfolio consisting of venture capital, limited partnerships, and other holdings, and SunCor Development Company, a real estate developer invested in planned communities and commercial/industrial projects.

PWCC is also a power marketer. On June 20, 2000, the Commission conditionally accepted for filing a proposed market-based rate tariff and code of conduct for PWCC in Docket No. ER00-2268-000. As ordered by the Commission, PWCC submitted a compliance filing to resolve the remaining concerns of the Commission regarding potential affiliate abuse and the effect of affiliate transactions on captive wholesale customers with fuel adjustment clauses. PWCC will market power and energy that it purchases and will engage in wholesale marketing and brokering activities.

APS: APS is a public service corporation organized under the laws of the State of Arizona, engaged in the business of generating, transmitting and distributing electricity in all or part of eleven of Arizona's fifteen counties. APS owns or partially owns a number of generating assets. A list of the transmission assets that APS is transferring to PWE is included as Attachment A. The transmission assets being transferred are facilities functionalized to production – such as step-up transformers and related equipment. A list of the contracts that APS will be transferring to PWE and PWCC is included in Attachment B. APS is authorized to sell wholesale power and energy at market-based rates.[2] In its order granting market-base rate authority to APS, the Commission found that APS does not possess market power.[3] APS has an OATT on file with the Commission.[4]

PWE: PWE was formed as a subsidiary of its parent company, PWCC, for the purpose of owning and operating wholesale generating facilities. PWE was incorporated

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2 *See Arizona Public Service Co.*, 79 FERC & 61,022 (1997). APS recently filed an updated market analysis concerning its market-based rates. *See Arizona Public Service Co.*, Docket No. ER00-1875-000 (March 14, 2000).

3 *See Arizona Public Service Co.*, 79 FERC & 61,022, at 61,098-99.

4 Docket Nos. OA96-153-000, ER96-2401-000.

in Arizona on September 27, 1999, and currently has no operating generating facilities that are subject to the Commission's jurisdiction. Upon transfer of APS's generating assets to PWE, PWE will become a generating company[5] and APS will become primarily a wires company. PWE will generally sell the output from its generating facilities to PWCC but may sell a portion to other wholesale customers.

Diagrams showing the corporate relationships between PWCC, APS, and PWE before and following consummation of the transaction are attached as Appendices A and B.

B. Arizona Restructuring

The Applicants developed the restructuring plan in response to the changes currently underway in the wholesale and retail sectors of the electric and gas industries in Arizona and elsewhere. Specifically in Arizona, the ACC has implemented a plan and rules to permit retail access. On October 6, 1999, the ACC approved a Settlement Agreement between APS and several customer groups and consumer advocates resolving retail electric competition-related issues and approving unbundled tariffs.[6] Under the terms of the Electric Competition Rules of the ACC and APS's Settlement Agreement, retail choice for APS's retail customers is being phased-in. All of APS's retail customers will be entitled to choose their retail power supplier beginning January 1, 2001.[7] Remaining retail customers of APS taking service under "standard offer" bundled rates

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5 PWCC currently anticipates seeking approval from the Securities and Exchange Commission ("SEC") under Section 9(a)(2) of Public Utilities Holding Company Act of 1935, as amended ("PUHCA"), in connection with the transfer since it will result in PWE becoming a public-utility company; alternatively, PWE will file for exempt wholesale generator status under Section 32 of PUHCA.

6 ACC Decision No. 61973.

7 *See* Attachment D - ACC approved Settlement Agreement, § 1.1.

will be subject to planned rate reductions that will continue until July, 2004.[8] Under the Settlement Agreement, APS is entitled to apply for a change in the agreed upon rate reductions only in the event of an emergency or a material change in its cost of service as a result of specified extraordinary events. The approved Settlement Agreement also requires that APS divest its generation assets by December 31, 2002, but allows APS to divest its assets to an affiliate.[9]

C. Applicants Plan to Implement Arizona Restructuring

In response to the state restructuring proceedings, PWCC formed APSES, a marketer of electricity and energy-related services to primarily retail customers in Arizona and California, and PWE, a corporation formed to engage in the business of owning and operating generating facilities in Arizona and elsewhere. To further comply with state restructuring, APS is now transferring its existing generating assets, and requesting the authority to transfer associated transmission plant, and existing generation operating agreements to PWE. Additionally, APS is requesting the authority to transfer certain existing wholesale power sales agreements to PWCC.

To implement the actual transfer of facilities after Commission approval, APS intends the following transactions. As previously mentioned APS and PWE are direct and wholly-owned subsidiaries of PWCC. New subsidiaries will be created as needed to implement the transfer of facilities. The following transactions will occur on or about January 1, 2001, pursuant to a plan of reorganization. First, APS will contribute its fossil and applicable solar generation assets and its operational agreements to one or more of these newly formed subsidiaries (hereafter all will be referred to as a "Transitory

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[8] *See* Attachment D - ACC approved Settlement Agreement, §§ 2.2, 2.6, 2.7.

[9] *See* Attachment D - ACC approved Settlement Agreement, § 4.1.

Subsidiaries"). This transaction is intended to qualify as a tax-deferred reorganization under IRC Section 368(a)(1)(D). Second, APS will distribute or cause to be distributed all of the stock of a Transitory Subsidiary to PWCC in a transaction intended to qualify as a tax-deferred spin-off under IRC Section 355. Third, under state law, the Transitory Subsidiary will then be merged into PWE (with PWE surviving) in a transaction intended to qualify as a tax-deferred statutory merger under IRC Section 368(a)(1)(A). It is contemplated that the three aforementioned transactions will occur simultaneously.

APS also intends to transfer certain wholesale power contracts to PWCC in a similar manner as described above with the use of a different subsidiary (in this case, the subsidiary will be merged into PWCC). Following approval of such transfer, APS will transfer the contracts and, as required in Section 35.16 of the Commission's regulations, file a Notice of Succession within 30 days. At that time, APS will refile each agreement with the Commission in accordance with the Commission's recent ruling on rate schedule designations.[10]

The transfer of the APS nuclear facilities is contemplated to occur by the end of 2002 pursuant to the current plan of reorganization. APS intends to use the same mechanism as described above for the other generating assets for transferring the nuclear assets to PWE. The delay in transferring the nuclear assets is to ensure additional time to adequately address complicated contractual arrangements, such as sale/leaseback provisions, in place amongst the various owners of the nuclear facilities. There are also certain financial and economic considerations that must be resolved before the actual transfer of nuclear assets can take place. APS will inform the Commission when the

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[10] *See Designation of Electric Rate Schedule Sheets*, Order No. 614, 90 FERC & 61,352 (2000).

actual transfer of its nuclear generating units takes place.

The proposed restructuring plan of the Applicants will help PWCC and its affiliates adapt their electric businesses to new and changing markets. The restructuring plan will allow PWCC and its affiliates to better compete in these markets and permit better service for customers and shareholders.

IV. APPLICATION PURSUANT TO SECTION 203

Section 203 of the FPA requires Commission approval for the disposition of facilities that are subject to the Commission's jurisdiction and have value in excess of $50,000. APS owns and operates step-up transformers and associated transmission facilities at its generating facilities that will be included in the direct or indirect transfer of assets to PWE. APS also has existing wholesale contracts that will be transferred to PWCC and PWE and these contracts are considered "facilities." *See Enron Power Marketing, Inc.*, 65 FERC ¶ 61,305 (1993). Accordingly, the instant transaction involves a disposition of jurisdictional facilities requiring Commission approval. The Commission will approve such a disposition if it concludes that the transaction is consistent with the public interest. *See, e.g., Boston Edison Co.*, 80 FERC ¶ 61,274 (1997). In analyzing the effect of the disposition on the public interest, FERC generally considers the following three factors: (1) the effect on competition, (2) the effect on rates, and (3) the effect on regulation. As shown below, the proposed transfer of jurisdictional assets is in the public interest. The transfer will actually benefit the public interest, as it will facilitate the restructuring of the electric power industry in Arizona by (1) finalizing the implementation of retail access in Arizona as promulgated by the ACC, (2) allowing competition in the generation markets, and (3) enabling APS to operate its transmission system as a "wires" only company.

A. The Effect on Competition

The restructuring plan of the Applicants reflects the type of structural changes that are becoming typical in the evolving competitive electric marketplace. The restructuring will properly align the generation business into one unit, the transmission and distribution business into another, and the wholesale power marketing function in still another unit. Such an alignment will be beneficial to the competitive marketplace because it will allow each entity to focus exclusively on its core business. Because this restructuring is internal to the Pinnacle West corporate family, there are no competitive impacts from the transfers contemplated herein. *See, e.g., PECO Energy Co.*, 90 FERC ¶ 61,269, at 61,903 (2000); *Public Svc. Elec. & Gas, Co.*, 88 FERC ¶ 61,299, at 61,916 (1999) (finding that similar internal restructuring did not increase market concentration or affect competition).

Additionally, APS has had market rate approval for the past three years. On May 2, 2000, an updated market power study by APS was accepted by the Commission in Docket No. ER00-1875-000. The updated report shows that APS does not possess market power in the generation or transmission markets. In addition, PWCC recently received conditional approval for a market-based tariff in Docket No. ER00-2268-000.[11] Finally, PWE is filing for market-based rate approval in a separate but concurrent filing. Since neither APS, PWCC, or PWE possess market power in generation or transmission markets, the transfer of assets should not create any competitive issues. In fact, providing a competitive alternative for generation resources in the retail and wholesale markets, the transfer of assets will further competition to the benefit of all customers.

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[11] As noted previously in III.A, on July 13, 2000, APS and PWCC submitted a compliance filing to address the sole remaining concern of the Commission regarding the treatment of APS's captive wholesale customers with fuel adjustment clauses.

B. The Effect on Rates

The transfer of assets should not affect the rates currently paid by retail and wholesale customers. APS does not intend to change its transmission rates, since none of the transmission assets being transferred to PWE are currently in APS's transmission rates reflected in its OATT. In order to deliver the output of the PWE generating assets, the entity purchasing the power will be required to use transmission service pursuant to APS's OATT.

As stated previously, the retail customers of APS are protected by rate reductions through July, 2004 and all retail customers will be able by January 1, 2001 to choose their electric supplier. Most of APS's wholesale transactions are currently conducted under market-based rates or through the Western System Power Pool and the transfer of assets should have no effect on their competitive rates. APS does have some cost-based wholesale rate customers, of which all but two can readily choose alternate power suppliers. APS does not believe the transfer of assets will harm its current wholesale customers. APS recently proposed measures that will protect wholesale customers from any potential affiliate abuse associated with affiliated transactions. To protect existing customers with system incremental cost (SIC) in their pricing provisions, APS will cap the pass-through of cost at the lesser of SIC or prices based on the Palo Verde Index. For customers with a fuel adjustment clause (FAC) in their contracts, APS has proposed that the customers would pay the lesser of a FAC calculated with inter-affiliate transactions included, a FAC calculated with the inter-affiliate transactions priced not as actual but at the Palo Verde Index price for a similar duration, or the average of the actual corrected FAC for the same month for 1998 or 1999 (*See Pinnacle West Capital Corporation*, Docket No. ER00-2268-000). These protections will continue in place.

In addition, further protection to all customers regarding ancillary services will be provided. In separate Section 205 filings, appropriate agreements will be filed with the Commission that will provide APS with its generation related ancillary services. Inasmuch as the charges for such ancillary services currently included in APS's OATT are based on the fossil generation units to be transferred from APS to PWE, the costs associated with providing these ancillary services will be unchanged when the units are transferred. Upon the transfer of the assets, PWE will sell generation-related ancillary services to PWCC at rates identical to those in APS's OATT, and under a separate agreement, PWCC in turn will provide APS with its generation-related ancillary services at exactly the same charges. Under this arrangement APS is ensured of obtaining all its generation-related ancillary services, and will merely pass through to customers subscribing to such services the costs APS incurs for these services at exactly the same rates currently in APS's OATT. Indeed, by PWE becoming a separate entity with the above-mentioned safeguards, competition in the generation market should expand, and all customers should benefit.

C. The Effect on Regulation

The Commission requires Applicants under Section 203 to evaluate the effect of a proposed transaction on regulation at both the Federal and state level. The Commission is mainly concerned with instances where (1) the transaction will shift regulatory authority from the Commission to the SEC or otherwise diminish Commission authority; or (2) the affected state commissions will not have authority to act on the proposed transaction.[12]

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[12] *See Inquiry Concerning the Commission's Merger Policy Under the Federal Power Act: Policy Statement*, Order No. 592, FERC Stats. & Regs. & 30,110 (1996), at 30,124-25.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM U-1
APPLICATION
UNDER
THE PUBLIC UTILITY HOLDING COMPANY ACT OF 1935

PINNACLE WEST CAPITAL CORPORATION
400 East Van Buren Street, Suite 700
Phoenix, Arizona 85004

(Name of company filing this statement and address of principal executive offices)

None

(Name of top registered holding company parent)

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The Commission is requested to send copies of all notices, orders, and communications in connection with this Application to:

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Pursuant to Sections 9(a)(2) and 10 of the Public Utility Holding Company Act of 1935 (the "Act"), Pinnacle West Capital Corporation, an Arizona corporation ("PNW"), hereby requests approval from the Securities and Exchange Commission (the "Commission") to establish a new public-utility company subsidiary in connection with the proposed corporate reorganization (the "Reorganization") involving the relocation of certain generation assets from Arizona Public Service Company ("APS"), PNW's existing public-utility company subsidiary, to Pinnacle West Energy Corporation ("PWE"), another wholly-owned subsidiary of PNW. As a result of this Reorganization, PWE will become an "electric utility company" and a "public-utility company" within the meaning of the Act, and, therefore, PNW will acquire an additional public-utility subsidiary. (However, PWE will not become a public service corporation under Arizona state law.) PNW will continue to meet the requirements for an intrastate exemption under Section 3(a)(1) of the Act and will continue to file annual exemption statements on Form U-3A-2 pursuant to Rule 2 of the Commission's regulations.

The purpose of the Reorganization is to comply with certain requirements set forth in rules adopted by the Arizona Corporation Commission ("ACC") that provide the framework for introduction of retail electric competition in Arizona (the "Competition Rules"), and in a final ACC order approving the APS' settlement with various parties with respect to implementation of the Competition Rules (the "Settlement"). Pursuant to the Competition Rules and the Settlement, APS must separate its generating assets and competitive services from its transmission and distribution functions no later than December 31, 2002. PNW seeks Commission approval now, however, because APS intends to move a substantial portion of its generating assets to PWE on or before January 1, 2001. There may be some delays in moving particular assets from APS to PWE, pending receipt by APS of certain consents or waivers from third parties with respect to such assets, but most of the non-nuclear generating assets are to be moved to PWE on or before January 1, 2001.

ITEM 1 DESCRIPTION OF PROPOSED TRANSACTION

A. Description of the Parties

1. **Pinnacle West Capital Corporation:** PNW was incorporated in 1985 under the laws of the State of Arizona. Through its subsidiaries, PNW is engaged in the generation, transmission, and distribution of electricity and the sale of energy services. Also through subsidiaries, PNW is involved in real estate development and in venture capital investment. On December 31, 1999, PNW employed approximately 7,534 people, including the employees of its subsidiaries. Of these employees, 6,234 were employees of its existing public-utility subsidiary, APS, and employees assigned to joint projects of APS where APS services as a project manager. PNW's principal executive offices are located at 400 East Van Buren, Phoenix Arizona 85004. PNW is currently a public-utility holding company exempt from the provisions of the Act, except Section 9(a)(2), by reason of its filing of annual exemption statements on Form U-3A-2 pursuant to Rule 2 of the Commission's regulations. 17 C.F.R. § 250.2(a). PNW's direct, wholly-owned subsidiaries are described below and a copy of PNW's most recent Form U-3A-2 is attached as Exhibit G-1.

2. **Arizona Public Service Company:** APS is a public-utility company incorporated in 1920 under the laws of the State of Arizona. APS is a wholly-owned subsidiary of PNW. APS' principal executive offices are located at 400 North Fifth Street, Phoenix Arizona 85004. APS provides retail electric services principally in the State of Arizona and is actively engaged in the competitive wholesale electric markets. APS is subject to regulation by the ACC with respect to retail rates, accounting, service standards, service territory, issuances of securities, siting, of generation and transmission projects and various other matters.

APS is also subject to the jurisdiction of the Federal Energy Regulatory Commission ("FERC") under Parts I, II, and III of the Federal Power Act for certain phases of its business,

including regulation of its rates relating to wholesale sales of energy and interstate transmission, licensing its hydroelectric stations, accounting, and certain other matters. APS' current business structure consists of three primary business units: generation; power marketing; and transmission/distribution. The following briefly describes these business units.

a. ***Generation*** -- APS currently owns or leases generating facilities with a total accredited capacity of approximately 4,000 megawatts. The fuel mix of APS' generation capacity is 41.8% coal; 31.5% gas or oil; 26.5% nuclear; and less than 1% other. APS' sources of energy during 1999 were approximately 56.8% from its own generation resources and approximately 43.2% from purchased power. The Reorganization involves the relocation of a substantial portion of APS' generating facilities and related facilities, as well as the transfer of certain of the employees of APS' generation business unit. The generating assets being moved to PWE on or before January 1, 2001 are briefly described below.[1] Also, attached, as Exhibit E-1, is a map showing the location of each of APS' generation facilities.

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[1] In addition to the generating facilities to be moved by January 1, 2001, APS also owns or leases an interest in the Palo Verde Nuclear Generating Station ("PVNGS"), a three-unit nuclear generating facility located in Wintersburg, Arizona approximately 55 miles west of Phoenix, Arizona. The total accredited capacity of PVNGS is 3,733 megawatts, of which APS owns or leases 29.1%, or approximately 1,086 megawatts. APS is also the operator of the facility. There are six other co-owners of PVNGS, which collectively own or lease the remaining 70.9%. Ownership is in the form of a co-tenancy, and the co-owners are not affiliates of one another. APS operates PVNGS pursuant to an agreement in which each owner pays its proportionate share of the cost of operating the facility. While the Reorganization involving APS' non-nuclear generating facilities is contemplated to occur on or before January 1, 2001, APS does not plan to move its interest in PVNGS to PWE until 2002. The delay in moving the nuclear assets is to ensure additional time to adequately address complicated contractual arrangements, such as sale and leaseback provisions between APS and certain owner trusts to which APS has sold and leased back a portion of its interest in PVNGS Unit 2 and the PVNGS common facilities. There are also certain financial and economic considerations that must be resolved before the nuclear assets can be moved to PWE.

Four Corners Power Plant ("Four Corners"):

Four Corners is a five-unit coal fired power plant located near Farmington, New Mexico on the Navajo Reservation. The property underlying the plant is held under easements granted by the federal government and under leases from the Navajo Nation. Units 1, 2 and 3 have an accredited capacity of 560 megawatts. These units are 100% owned and operated by APS. Units 4 and 5 have an accredited capacity of 1,480 megawatts; APS owns 15% of units 4 and 5, or 222 megawatts. The remaining interests in units 4 and 5 are co-owned by five other entities. Ownership of units 4 and 5 is through a co-tenancy arrangement, and the co-owners are not affiliates of one another. APS operates Four Corners units 4 and 5 pursuant to an agreement in which each owner pays its proportionate share of the operating cost.

Cholla Power Plant ("Cholla"):

Cholla is a four-unit coal-fired power plant located in Navajo County approximately 200 miles northeast of Phoenix, Arizona. Units 1, 2 and 3 have an accredited capacity of 615 megawatts. These units are 100% owned and operated by APS. Unit 4 has an accredited capacity of 380 megawatts; unit 4 is 100% owned by another unaffiliated entity. APS is also the operator for this unit.

Navajo Power Plant ("Navajo"):

Navajo is a three-unit coal-fired plant located south of Page, Arizona. The total accredited capacity for the plant is 2,250 megawatts. APS owns 14%, or 315 megawatts of this plant. The remaining interests in the plant are co-owned by five other entities which are not affiliated with APS. APS does not operate Navajo.

Saguaro Power Plant ("Saguaro"):

Saguaro is a four-unit power plant consisting of two gas/oil-fired steam units and two gas/oil-fired combustion turbine units and is located 30 miles north of Tucson, Arizona. The total accredited capacity for the plant is 319 megawatts. Steam units 1 and 2 have a combined capacity of 209 megawatts, and the two combustion turbines have a combined capacity of 110 megawatts. This plant is 100% owned and operated by APS.

Ocotillo Power Plant ("Ocotillo"):

Ocotillo is a six-unit multi-fueled generating plant located in Tempe, Arizona. Two units are gas/oil-fired steam units; two units are gas/oil-fired combustion turbines; and two units are solar. The total accredited capacity for steam units 1 and 2 is 226 megawatts; for combustion turbine units 1 and 2, the accredited capacity is 110 megawatts; and for solar units 1 and 2, the accredited capacity is 172 kilowatts. This plant is 100% owned and operated by APS.

Yucca Power Plant ("Yucca"):

Yucca is a five-unit gas/oil combustion turbine plant located near Yuma, Arizona. The accredited capacity of units 1, 2, 3 and 4 is 147 megawatts. These units are 100% owned and operated by APS. Unit 5 and a separate steam unit are owned by a separate, unaffiliated entity but operated by APS.

West Phoenix Power Plant ("West Phoenix"):

West Phoenix is a six-unit gas/oil-fired steam, combustion turbine, and combined cycle generation plant located in Phoenix, Arizona. Combustion turbine units 1 and 2 have an accredited capacity of 110 megawatts; combined cycle units 1, 2 and 3 have an accredited capacity of 255 megawatts; and steam units 4, 5 and 6 have an accredited capacity of 108.3 megawatts. APS owns or leases and operates 100% of West Phoenix and is entitled to 100% of the output.[2]

Douglas/Fairview Power Plant:

Douglas/Fairview is a single combustion turbine unit with a capacity rating of 16 megawatts located near Douglas, Arizona. Douglas/Fairview is 100% owned and operated by APS.

Solar Power Plants

APS also owns a number of solar units that will be moved to PWE as part of the Reorganization. These solar units are located around the state (primarily in the Phoenix metropolitan area) and have a total combined capacity rating of 1 megawatt.

b. ***Power Marketing*** -- APS' Power Marketing and Trading division ("Power Marketing") primarily engages in the sale and purchase of electric capacity and energy in the wholesale market. Power Marketing sells excess power from APS' generation facilities and also purchases energy from other entities to meet APS' requirements to supply retail and wholesale customers. Power Marketing also engages in hedging transactions in forward markets for electricity and fuel and in the purchase and sale of emission allowances as part of APS' effort to manage risks associated with its generation and distribution activities. The ACC Competition

Rules and Settlement contemplate that as a competitive asset, APS will also move its Power Marketing division to an affiliate. Thus, on or before January 1, 2001, Power Marketing will become a division of PNW.[3]

c. ***Transmission/Distribution*** -- APS owns and operates approximately 5,296 miles of transmission lines, of which all but 140 miles are located within the State of Arizona. APS' transmission was built primarily to bring generation from its power plants to its retail electric loads in Arizona. Ownership and operation of APS' transmission facilities is subject to regulation by FERC. Transmission rates are prescribed by FERC and the use of and access to the transmission system is subject to FERC's open access requirements set forth in FERC Order No. 888. As of December 31, 1999, APS' distribution system served approximately 827,000 electric retail customers in its service territory within the State of Arizona. APS provides distribution services in 11 of Arizona's 15 counties, including the metropolitan Phoenix area. Pursuant to the Settlement approved by the ACC in 1999, which is more fully discussed below, retail rates have been set until July 1, 2004, subject to conditions or circumstances which constitute an emergency. APS' transmission and distribution business will remain with APS under the Reorganization.

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[2] APS currently leases its interest in combined cycle units 1, 2, and 3. Because the lease does not expire until June 24, 2001, APS may not move its interest in those units to PWE until mid-2001.

[3] PNW itself will not become an electric utility company when this occurs. The Commission and Staff have both recognized, on numerous occasions, that marketing activities are not utility activities under the Act. See, e.g., UNITIL, Holding Company Act Release No. 26650 (Jan. 21, 1997); SEI Holdings, Inc., Holding Company Act Release No. 26581 (Sept. 26, 1996); Sunoco Power Marketing, L.L.C., SEC No-Action Letter, 1997 SEC No-Act. LEXIS 785 (July 24, 1997); Enron Capital & Trade Resources Corp., SEC No-Action Letter, 1997 SEC No-Act. LEXIS 287 (Feb. 13, 1997); Eastex Power Marketing, Inc., SEC No-Action Letter, 1996 SEC No-Act. LEXIS 536 (Apr. 30, 1996); LG&E Power Marketing, Inc., SEC No-Action Letter, 1996 SEC No-Act. LEXIS 510 (Apr. 26, 1996); Coral Power, L.L.C., SEC No-Action Letter, 1996 SEC No-Act. LEXIS 314 (Feb. 22, 1996); AIG Trading Corp., SEC No-Action Letter, 1995 SEC No-Act. LEXIS 195 (Jan. 20, 1995); Inter-Coast Power Marketing Co., SEC No-Action Letter, 1994 SEC No-Act. LEXIS 886 (Dec. 6, 1994); Electric Clearinghouse, Inc., SEC No-Action Letter, 1994; SEC No-Act. LEXIS 452 (Apr. 13, 1994); CRSS Power Marketing, Inc., SEC No-Action Letter, 1994 SEC No-Act. LEXIS 431 (Mar. 31, 1994).

3. **Pinnacle West Energy Corporation:** PWE was incorporated in Arizona on September 27, 1999 under the laws of the State of Arizona. PWE is a wholly-owned subsidiary of PNW. PWE was organized primarily to engage in the business of developing, owning, and operating generation plants used for the production and sale of wholesale energy. Currently, PWE is engaged in the development of approximately 2,600 megawatts of generating capacity in the State of Arizona and operations in other states are contemplated, too; however, PWE is not currently an electric utility company or a public-utility company within the meaning of the Act. Upon consummation of the Reorganization described herein and the subsequent relocation of APS' nuclear generating facilities, PWE will own or lease the generation facilities currently owned or leased by APS and will assume APS' responsibilities as operator of the facilities described above, with the exception of the Navajo Generating Station, which will continue to be operated by another, unaffiliated entity.[4] PWE's principal place of business is 400 North Fifth Street, Phoenix, Arizona 85004.

4. **APS Energy Services Company, Inc. ("APSES"):** APSES is an Arizona corporation formed in 1998. APSES is a wholly-owned subsidiary of PNW. APSES was organized as a retail power marketer to provide retail energy and related retail energy services to customers throughout Arizona, California, and other states that have instituted retail direct access. APSES does not own or control electric power generation, transmission, or distribution facilities.[5] APSES' principal place of business is 400 East Van Buren Street, Phoenix, Arizona.

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[4] In the future, PWE may also acquire or develop other generating assets. To the extent necessary for PNW to maintain its intrastate exemption, PWE may establish exempt wholesale generator ("EWG") subsidiaries to own and/or operate future assets that may be located out of state.

[5] APSES is not an "electric utility company" or a "public-utility company" as those terms are defined in the Act. See, e.g., Enron, SEC No-Action Letter (1997).

5. **SunCor Development Company ("SunCor"):** SunCor was incorporated in 1965 under the laws of the State of Arizona. SunCor is a wholly-owned subsidiary of PNW. SunCor is engaged in commercial and residential real estate development. SunCor is not engaged in the generating, transmitting, distributing or selling of electric energy and will not be affected by the Reorganization. SunCor's principal place of business is 3838 North Central, Suite 1500, Phoenix, Arizona 85012

6. **El Dorado Investment Company ("El Dorado"):** El Dorado was incorporated in 1983 under the laws of the State of Arizona. El Dorado is an investment company and wholly-owned subsidiary of PNW. El Dorado is not engaged in the business of generating, transmitting, distributing, or selling of electric energy and will not be affected by the Reorganization. El Dorado's principal place of business is 400 East Van Buren Street, Suite 800, Phoenix, Arizona 85004

B. Regulatory Background

The Reorganization is being undertaken in accordance with the Competition Rules and Settlement. Specifically, in Arizona, the ACC has adopted the Competition Rules to expedite the transition to retail electric competition. Among other things, the Competition Rules required that APS separate its generation assets and competitive business activities from its transmission and distribution functions. In 1999, the ACC approved the Settlement between APS and several customer groups and consumer advocates resolving retail electric competition-related issues and approving unbundled tariffs.[6] Under the terms of the Competition Rules and the Settlement, retail choice for APS' retail customers is being phased-in. All of APS' retail customers will be entitled to choose their retail power supplier beginning January 1, 2001.[7] The retail rates of customers that continue to take fully bundled service from APS and do not choose an alternative

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[6] The ACC order approving the Settlement is attached as Exhibit D-4.

[7] See Exhibit D-4.

supplier will be subject to planned rate reductions that will continue until July, 2004.[8] Under the Settlement, APS is entitled to apply for a change in the agreed upon rate reductions only in the event of an emergency or a material change in its cost of service as a result of specified extraordinary events. The Settlement also requires APS to complete separation of its generation assets by December 31, 2002.[9]

C. The Reorganization

PNW and APS propose to undertake the Reorganization pursuant to the arrangements described in the Term Sheet, attached as Exhibit B-1 hereto.

The principal transactions associated with the Reorganization are described below. As previously mentioned, APS and PWE are both currently direct, wholly-owned subsidiaries of PNW. APS and PWE will be the only two "public-utility company" (as defined in the Act) subsidiaries of PNW upon the completion of the Reorganization. It is contemplated that the following transactions will occur on or before January 1, 2001: First, APS will contribute the bulk of its fossil and solar generating facilities, assets and related operational agreements to one or more of these newly-formed subsidiaries (hereafter "Transitory Subsidiaries") which will be wholly-owned by APS. This transaction is intended to qualify as a tax-deferred reorganization under Internal Revenue Code ("IRC") Section 368(a)(1)(D). Second, APS will distribute or cause to be distributed all of the stock of each Transitory Subsidiary to PNW in a transaction intended to qualify as a tax-deferred spin-off under IRC Section 355. Third, under state law, the Transitory Subsidiaries will then be merged into PWE (with PWE as the surviving entity) in a transaction intended to qualify as a tax-deferred statutory merger under IRC Section 368(a)(1)(A). It is contemplated that the three aforementioned transactions will occur simultaneously.

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[8] See Exhibit D-4.

[9] See Exhibit D-4.

When the Reorganization is complete, APS' existing divisional structure in which its electric utility operations are divided along functional lines will be formalized, and separate corporate entities will engage in the transmission/distribution of electricity and the generation of electricity. APS will become a "wires" company and continue to own and operate its existing electric transmission/distribution system, and PWE will become a "generating" company and will own or lease and operate APS' existing generation assets and sell the output from these assets at wholesale to Power Marketing. Power Marketing, in turn, is expected then to sell power to APS and other non-affiliated power purchasers. APS will continue to provide transmission and distribution services at regulated rates, as well as provide energy to those retail customers in APS' existing service territory that do not elect to use an alternate retail power supplier. A diagram of PNW's corporate structure, after the Reorganization is complete and the nuclear generating facilities have been moved to PWE, is shown on Appendix B to Exhibit D-1 attached hereto.

Consummation of the Reorganization is subject to certain conditions as stated in the Term Sheet attached as Exhibit B-1. Principally, these conditions include: (a) the approval of the Commission under Section 9(a)(2) of the Act; (b) approvals of FERC under Sections 203 and 205 of the Federal Power Act 16 U.S.C. §§824b and d (1994); and (c) consents and waivers of certain third parties with respect to contracts associated with the generation assets. The approval of the ACC has already been granted.[10] No PNW shareholder approval is required in connection with the Reorganization. Although APS does not believe that shareholder approval is required for the Reorganization, the approval of its sole shareholder is expected to be

[10] Approval from the Nuclear Regulatory Commission ("NRC") will be obtained in connection with the movement of APS' interest in its nuclear generating assets, which will occur by year-end 2002. No NRC approval, however, is necessary in connection with the Reorganization involving APS' non-nuclear generating facilities. Approval of some plant participants may also be required.

obtained.[11] The approval of APS' Board of Directors is expected to be obtained in November 2000.

D. Purpose and Anticipated Effects of the Reorganization

The principal purpose of the Reorganization and the subsequent relocation of APS' nuclear generating facilities to PWE is to assure compliance with the provisions of the Competition Rules and the Settlement and provide PNW with increased financial, managerial, and organizational flexibility which will enable APS and PWE to effectively compete in a restructured utility industry. After extensive investigation and analysis, PNW has determined that the proposed Reorganization offers the best means of positioning the PNW system for future changes and opportunities and will enable PNW to take advantage of emerging business opportunities and manage risks to the benefit of both shareholders and customers. The Reorganization is the first step in a clear functional and corporate separation between PNW's competitive generation business, and its distribution and transmission business, enabling each company to focus its resources on more clearly defined product markets and services. The intent of the Reorganization and subsequent relocation of APS' nuclear generating facilities is to create a financially sound and responsive utility system which can provide utility services effectively and efficiently. Additionally, the corporate division along functional lines will provide a better structure for regulators to assure that there is no cross-subsidization of costs or transfer of business risk from the competitive generation business to the fully-regulated transmission/distribution business. Moreover, this type of corporate division of utility operations along functional lines is becoming a highly-desirable form of conducting both a regulated transmission/distribution business and a competitive generation business.

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[11] As a wholly-owned subsidiary of PNW, APS' only shareholder is PNW.

The Reorganization will have no adverse effect on APS' existing electric utility operations. The Reorganization will not cause substantive changes in PNW's ultimate interest in existing utility businesses and will not involve the transfer or acquisition of any additional utility assets beyond those currently held by APS or those which may be developed or acquired by PWE in the future. The managers and employees in PNW's existing utility operations will continue to perform their existing functions -- either as employees of APS, the transmission/distribution company, or as employees of PWE, the generating company. Thus, even though day-to-day utility operations would not be affected, the benefits discussed above will accrue to PNW and its customers and shareholders as a result of the Reorganization and the subsequent relocation of APS' nuclear generating facilities to PWE.

E. Additional Information

No associate company or affiliate of PNW or APS, or any affiliate of any associate company of PNW or APS, has any direct or indirect material interest in the proposed Reorganization except as stated herein.

ITEM 2 FEES, COMMISSIONS AND EXPENSES

The fees, commission and expenses to be paid or incurred by PNW and APS in connection with the Reorganization are estimated as follows:

Auditors' Fee	*
Legal Fees	*
Miscellaneous	*
Total	*

* To be filed by amendment

ITEM 3 APPLICABLE STATUTORY PROVISIONS

Sections 9(a)(2) and 10 of the Act are applicable to the proposed Reorganization. As a result of the proposed Reorganization, PNW will have two wholly-owned, public-utility company subsidiaries, APS and PWE. Section 9(a)(2) of the Act requires Commission approval before a person may acquire more than 5% of the outstanding voting securities of more than one "public-utility company." The standards for approval of a transaction under Section 9(a)(2) of the Act are set forth in Section 10 of the Act. The relevant standards under Section 10 are set forth in Section 10(b), 10(c) and 10(f).

For the reasons explained below, the Commission should approve the Reorganization pursuant to Section 9(a)(2) of the Act because it complies with the applicable standards of Section 10. PNW respectfully requests that the Commission issue an order approving the Reorganization by December 1, 2000, so that PNW has sufficient time to complete the Reorganization on or before January 1, 2001.[12] PNW anticipates moving most of the assets and personnel on or before January 1, 2001 ,[13] in order to facilitate calendar year record keeping, and believes that the time between the requested approval date of December 1, 2000, and the contemplated Reorganization is necessary to allow the transfer of personnel and to implement other aspects of the Reorganization.

A. Approval of the Reorganization under Section 9(a)(2).

Section 9(a)(2) makes it unlawful, without approval of the Commission under Section 10, "for any person . . . to acquire, directly or indirectly, any security of any public-utility company, if such person is an affiliate . . . of such company and of any other public utility or holding

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[12] In the event the Commission does not issue its order by December 1, 2000, PWE intends to file an application with FERC for EWG status and limit its activities exclusively to the ownership and operation of eligible facilities and sale of power at wholesale in order to maintain EWG status until the Commission issues an order approving the Reorganization.

company, or will by virtue of such acquisition become such an affiliate." By virtue of the proposed Reorganization, PNW will own more than 5% of the outstanding voting securities of two "public-utility companies" (APS and PWE) thus becoming an affiliate of both of these public-utility companies. Under Section 2(a)(5) of the Act, a "public-utility company" is an "electric utility company" or a "gas utility company." Under Sections 2(a)(3) and 2(a)(4) of the Act, an "electric utility company" is defined as "any company which owns or operates facilities used for the generation, transmission, or distribution of electric energy for sale . . . ." Upon completion of the Reorganization, PWE will own and operate certain of APS' existing facilities for the generation of electric energy for sale, and APS will continue to own and operate its existing facilities for the transmission and distribution of electric energy for sale, as well as its nuclear generating facilities. Therefore, both PWE and APS will be public-utility companies within the meaning of the Act.

1. Section 10(b)

Section 10(b) provides that the Commission shall approve an acquisition pursuant to Section 9(a)(2) unless the Commission finds that:

(1) such acquisition will tend towards interlocking relations or the concentration of control of public-utility companies, of a kind or to an extent detrimental to the public interest or the interest of investors, or consumers;

(2) in case of the acquisition of securities or utility assets, the consideration, including all fees, commissions, and other remuneration, to whomsoever paid, to be given, directly or indirectly, in connection with such acquisition is not reasonable or does not bear a fair relation to the sums invested in or the earning capacity of the utility

[13] As noted above, certain generating assets, such as PVNGS and combined cycle units 1, 2, and 3 at West Phoenix, may be moved to PWE at a later date.

assets to be acquired or the utility assets underlying the securities to be acquired; or

(3) such acquisition will unduly complicate the capital structure of the holding-company system of the applicant or will be detrimental to the public interest or the interest of investors or consumers or the proper functioning of such holding-company system.

PNW respectfully submits that no adverse findings should be made under any of these provisions.

a. "Detrimental Interlocking Relations" or "Concentration of Control" -- Section 10(b)(1)

Consistent with Section 10(b)(1) of the Act, PNW submits that the Reorganization will not tend towards interlocking relations or the concentration of control of public-utility companies, of a kind or to an extent detrimental to the public interest or the interest of investors or customers. The Reorganization involves the first step in the ultimate segregation of APS' existing utility assets and operations along functional lines into a generation company (PWE) and a transmission and distribution company (APS).

While there may be certain common directors and officers of PNW and the public-utility subsidiaries, these relations normally exist in public-utility holding company systems among affiliated and associated companies and should not be considered detrimental to the public interest or the interest of investors or consumers. See Central Maine Power Company, et al., Holding Co. Act Release No. 26903 (Aug. 7, 1998); CIPSCO, Inc., Holding Co. Act Release No. 25152, 47 SEC Docket 174 (Sept. 18, 1990).

Similarly, the Reorganization should not, within the meaning of Section 10(b)(1), be deemed to tend towards any "concentration of control of public-utility companies" that might be detrimental to the public interest, consumers or investors. The Reorganization will not involve

the acquisition or control of any utility assets or operations which are not already owned or controlled by PNW or its existing public-utility subsidiary, APS, or being developed by PWE, and "will therefore have no effect on the concentration of control of public-utility companies." Central Maine Power Company, et al., Holding Co. Act Release No. 26903 (Aug. 7, 1998); accord BEC Energy, et al., Holding Co. Act Release No. 26874 (May 15, 1998); Energy East Corp., Holding Co. Act Release No. 26834 (March 4, 1998); Wisconsin Energy Corp., Holding Co. Act Release No. 24267 (Dec. 18, 1996).

b. Fairness of Consideration and Fees -- Section 10(b)(2)

Section 10(b)(2) of the Act requires the Commission to determine whether the consideration paid in connection with a proposed acquisition of securities is reasonable and bears a fair relation to the investment in and earning capacity of the utility assets underlying the securities being acquired.

The generating assets will be recorded on the books of PWE at net book value. In addition, PWE will assume certain outstanding debt associated with the generating assets being moved. The valuation of PNW's investment in the securities of PWE and APS will be adjusted accordingly to reflect the movement of these assets and the associated debt to PWE. [14]

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[14] Specifically, PWE will assume APS' rights and obligations with respect to approximately $180 million in pollution control bonds issued by Navajo County, Arizona, Pollution Control Corporation and Coconino County, Arizona, Pollution Control Corporation. These two series of bonds were issued by the respective pollution control corporations under two separate Indentures of Trust dated as of August 1, 1993 between the issuer and an independent trustee. In each case, the issuer loaned the proceeds of the bonds to APS under a Loan Agreement dated as of August 1, 1993, and APS is responsible to repay the loan by making payments on the bonds when due. APS' obligations are secured by First Mortgage Bonds issued by APS and delivered to the Trustee for the pollution control bonds. At the time generating assets are moved to PWE, APS will assign its rights and obligations under the Loan Agreements to PWE, and PWE will assume such obligations. APS will remain primarily liable for such obligations and the First Mortgage Bonds will remain outstanding.

PWE will also assume APS' obligations under another approximately $60 million of pollution control bond debt, releasing APS from such obligations. No bondholder consent is required in connection with PWE's assumption of this debt. However, APS must give advance notice to the bondholders and any bondholder who does not wish to continue to hold the bonds may tender its bonds for purchase. In addition, if the issuance of a new letter of credit in substitution for the existing letter of credit supporting the bonds causes the ratings on the bonds to be lower than the existing rating, the bonds will be subject to a mandatory tender on the substitution date, and all the bonds will be subject to mandatory repurchase and remarketing on that date.

Since the Reorganization involves an entirely intra-company movement of existing assets from one wholly-owned subsidiary to another and not the acquisition of new assets or securities, PNW believes that the valuation established for purposes of this asset transition is reasonable and bears a fair relationship to the sums invested in the assets. PNW, as the sole owner of both APS and PWE, can expect to earn a fair return on its investment in APS and its investment in PWE.

An estimate of the fees and expenses to be paid in connection with the Reorganization is stated in Item 2 above. Such fees and expenses will be reasonable and customary for a transaction of this kind and will not be material when measured against PNW's consolidated book value or the earning capacity of its assets. See, e.g., Energy East Corp., Holding Co. Act Release No. 27128 (Feb. 2, 2000).

c. Complication of Capital Structure -- Section 10(b)(3)

Section 10(b)(3) of the Act requires the Commission to determine whether the transaction will unduly complicate the capital structure of the PNW system, be detrimental to the public interest, the interest of the investors or consumers, or the proper functioning of the holding-company system. No such effect will result from the Reorganization.

The Reorganization will not involve the creation of any ownership interests other than those necessary to maintain the basic corporate relationships of the reorganized holding-company system. Pursuant to the Reorganization, PNW will continue to be the only issuer of publicly owned equity securities in the system. PNW will continue to own all of the outstanding common stock of PWE, APS, and PNW's existing non-utility subsidiaries; there will be no minority equity interest in any of PNW's public-utility subsidiaries. As noted above, certain pollution control bonds issued by APS will be assumed by PWE, but this will in no way complicate the capital structure of PNW, APS, or PWE. This type of capital structure is typical of a contemporary holding company system and is within the traditional standards of the Act.

Moreover, the Reorganization is a significant step toward the ultimate goal of creating separate entities to perform PNW's transmission/distribution business and its generation business in compliance with the ACC's Competition Rules and the Settlement. Consequently, because the Reorganization does not complicate the capital structure of PNW, APS, or PWE, the standards of Section 10(b)(3) of the Act are satisfied.

2. Section 10(c)

The relevant provisions of Section 10(c) of the Act state that the Commission shall not approve:

> (1) an acquisition of securities or utility assets, or of any other interest, which is unlawful under the provisions of Section 8 or is detrimental to the carrying out of the provisions of Section 11; or

(2) the acquisition of securities or utility assets of a public-utility or holding company unless the Commission finds that such acquisition will serve the public interest by tending towards the economical and the efficient development of an integrated public-utility system . . . .

APS and PNW respectfully submit that no adverse determination should be made under either of these provisions.

a. Significant Benefits -- Section 10(c)(1)

Section 10(c)(1) prohibits an acquisition of securities which is "unlawful under the provisions of Section 8" or "detrimental to the carrying out of the provisions of Section 11." By their express terms, Sections 8 and 11 apply only to registered holding companies and do not apply to exempt holding companies. After the Reorganization, PNW will continue to be exempt from all provisions of the Act, except Section 9(a)(2), pursuant to Section 3(a)(1) of the Act since PNW and its utility subsidiaries, APS and PWE, will each be predominantly intrastate in character, carry on their businesses substantially in Arizona, and be organized in Arizona. Accordingly, Section 8 of the Act is inapplicable to the Reorganization.

For the purposes of the Commission's review of the proposed reorganization of a holding company, the relevant provision of Section 11 is Section 11(b)(2), which requires the Commission to find that "the corporate structure . . . of any company in the holding-company system does not unduly or unnecessarily complicate the structure . . . of such holding-company system." In that connection, the Commission has construed this requirement, "to mean that the structural change must result in significant benefits to the holding-company system." CIPSCO Inc., Holding Co. Act Release No. 25152, 47 SEC Docket at 178 (Sept. 18, 1990); accord Central Maine Power Company, et al., Holding Co. Act Release No. 26903 (Aug. 7, 1998); BEC Energy, et al., Holding Co. Act Release No. 26874 (May 15, 1998); Energy East Corp., Holding Co. Act Release No. 26834 (March 4, 1998).

As discussed above in Section D of Item 1, the corporate structure resulting from the Reorganization will yield significant benefits. Most importantly, the Reorganization and subsequent move of APS' nuclear generating facilities to PWE will enable APS to implement the requirements of ACC Competition Rules and Settlement. In addition, segregation of the separate

utility functions into separate corporations dedicated solely to those functions will: (1) enable the executives, officers, and managers of APS and PWE to concentrate on the delivery of cost efficient and effective utility services responsive to the needs of customers; (2) allow PNW's subsidiaries and affiliates to be more competitive in their businesses; (3) segregate the financial and legal risks associated with those businesses; (4) ensure that there is no cross-subsidization of costs or business risk; and (5) aid the investment community in analyzing and valuing individual lines of business. In cases involving corporate reorganizations or the formation of holding companies, the Commission has held that the existence of these kinds of potential benefits satisfies the statutory standard of Section 10(c)(1). See, e.g., Central Maine Power Company, Holding Co. Act Release No. 26903 (Aug. 7, 1998); Atlanta Gas Light Company, Holding Co. Act Release No. 26482, 61 SEC Docket 1057 (March 5, 1996); SIGCORP, Inc., Holding Co. Act Release No. 26431, 60 SEC Docket 90 (Dec. 14, 1995); PP&L Resources, Inc., Holding Co. Act Release No. 26248, 58 SEC Docket 2634 (March 10, 1995); CIPSCO Inc., Holding Co. Act Release No. 25152, 47 SEC Docket 174 (Sept. 18, 1990); Wisconsin Energy Corp., Holding Co. Act Release No. 24267 (Dec. 18, 1996).

b. Economics and Efficiencies of an Integrated System – Section 10(c)(2)

Under Section 10(c)(2), the Commission must find that the Reorganization tends towards the economical and efficient development of an integrated public utility system. PNW respectfully submits that this standard is met in this case.

(i) Economics and Efficiencies

A number of economies and efficiencies will result from the PNW structure. Some of these benefits are described in Section D of Item 1 and Section A.2.a of Item 3, above. Overall, the Reorganization will permit a more efficient way to take advantage of competitive opportunities in the electric utility industry. Separating the competitive generation business from the regulated transmission/distribution operations will increase the ability of the system to take advantage of market opportunities and enable each entity to focus its resources on more clearly defined product markets and services.

(ii) Integrated Public Utility System

The electric utility system of PNW is presently "integrated" within the meaning of Section 2(a)(29) of the Act and will remain so after the Reorganization.

The standards that must be met for an electric utility system to be integrated within the meaning of Section 2(a)(29) of the Act are:

(1) the utility assets are to be physically interconnected or capable of physical interconnection and under normal conditions may be economically operated as a single interconnected and coordinated system;

(2) the operations of the system are confined to a single area or region, that is not so large as to impair the advantages of localized management, efficient operation, and the effectiveness of regulation.

The Reorganization will not affect the physical interconnections associated with PNW's existing utility system. All of APS' existing interconnections will remain intact after the Reorganization. The Reorganization will maintain a continuous, geographically compact system with the same physical interconnections as exist today. Similarly, the area of operations of the system will not be affected by the Reorganization and will continue to be primarily confined to a single area (e.g., APS' existing service territory in Arizona) that is not so large as to impair the advantages of

continuing localized management, efficient operation, and effective regulation. See CP&L Energy, Inc., Holding Co. Act Release No. 27188 (June 15, 2000); Central Maine Power Company, et al., Holding Co. Act Release No. 26903 (Aug. 7, 1998).

3. Section 10(f)

Section 10(f) provides that "[t]he Commission shall not approve any acquisition . . . under this Section unless it appears to the satisfaction of the Commission that such State laws as may apply in respect of such acquisition have been complied with, except where the Commission finds that compliance with such State laws would be detrimental to the carrying out of the provisions of Section 11 . . . ."

The Reorganization is conditioned on full compliance with the laws of the Arizona. APS is currently and will remain subject to the jurisdiction of the ACC with respect to the provision of retail electric service. APS and PNW have received the necessary approval from the ACC to proceed with the Reorganization. Copies of this ACC approval is filed as Exhibit D-5 hereto.

For the reasons stated above, the proposed Reorganization meets the standards set forth in Sections 9(a)(2) and 10. The Reorganization involves the first step in the segregation of APS' existing utility assets and operations along functional lines into a wires company and a generation company. The Reorganization will not unduly complicate the capital structure of the PNW system; nor will the Reorganization be detrimental to the public interest, the interests of investors or consumers, or the proper functioning of this system. Also, the Reorganization will yield significant benefits by allowing PNW's public-utility subsidiaries to more effectively compete in the electric utility industry. Therefore, the Commission should by order approve the Reorganization.

B. PNW Will Continue to Claim a Section 3(a)(1) Exemption After the Reorganization.

Section 3(a)(1) of the Act makes an exemption from all of the provisions of the Act, except for Section 9(a)(2), available to a holding company, if "such holding company, and every subsidiary company thereof which is a public-utility company from which such holding company derives, directly or indirectly, any material part of its income, are predominately intrastate in character and carry on their business substantially in a single State in which such holding company and every such subsidiary company thereof are organized." After the Reorganization is complete, PNW and its two public-utility subsidiaries -- APS and PWE -- will be predominantly intrastate in character and will carry on their business substantially in Arizona, the state in which they are all organized.[15] In this regard, PNW will continue to claim an exemption pursuant to Section 3(a)(1) of the Act and Rule 2 of the Commission's regulations, by filing annual exemption statements on Form U-3A-2 following the Reorganization.

ITEM 4 REGULATORY APPROVAL

The Reorganization will require the approval of the ACC and FERC. APS has received an order approving the Reorganization from the ACC, a copy of which is attached hereto as Exhibit D-5. APS has also filed an application for approval of the proposed Reorganization with the FERC, a copy of which is attached as Exhibit D-1. A copy of the final FERC order pursuant thereto will be filed as Exhibit D-2 by amendment hereto. Other than such enumerated approvals and the approval of the Commission hereunder, no other approvals of utility regulatory authorities are required for the Reorganization and the movement of the non-nuclear generating assets to PWE.

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[15] While APS' existing power marketing division will be moved to PNW, and will continue to perform its power marketing activities on a nationwide basis, PNW's utility operations will still be predominately intrastate in character and conducted primarily in Arizona. As noted above, the Commission Staff has indicated in a series of no-action letters that power marketers are not considered "electric utility companies" under Section 2(a)(3) of the Act and, therefore, are not "public-utility companies" under Section 2(a)(5) of the Act. See, e.g., Sunoco Power Marketing, L.L.C., SEC No-Action Letter, 1997 SEC No-Act. LEXIS 785 (July 24, 1997); Enron Capital & Trade Resources Corp., SEC No-Action Letter, 1997 SEC No-Act. LEXIS 287 (Feb. 13, 1997).

ITEM 5 PROCEDURE

PNW respectfully requests that there be no 30-day waiting period between the issuance of the Commission's order and the date on which it is to become effective. PNW also requests that there be no hearing on this application and that the Commission issue its order as soon as practicable after the filing hereof. PNW respectfully requests that the Commission issue and publish the requisite notice under Rule 23 with respect to the filing of this application not later than October 12, 2000, such notice to specify a date not later than November 13, 2000, by which comments may be entered and a date not later than December 1, 2000, as the date after which an order of the Commission granting and permitting this application to become effective may be entered by the Commission. A form of Notice is filed herewith as Exhibit H-1.

Without prejudice to its right to modify the same if a hearing should be ordered on this application, PNW hereby makes the following specifications required by paragraph (b) of Item 5 of Form U-1:

(1) There should not be a recommended decision by a hearing officer or any other responsible officer of the Commission.

(2) There should not be a 30-day waiting period between issuance of the Commission's order and the date on which the order is to become effective.

(3) PNW consents to the Division of Investment Management assisting in the preparation of the Commission's decision or order in this matter, unless such Division opposes this application.

ITEM 6 EXHIBITS AND FINANCIAL STATEMENTS

It is requested that the Commission send copies of all communications to PNW as follows:

Herbert I. Zinn
Pinnacle West Capital Corporation
400 North Fifth Street
Mail Station 8695
Phoenix, Arizona 85004

Mary Ann K. Huntington
Morgan, Lewis & Bockius LLP
1800 M Street, N.W.
Washington, D.C. 20036

A. **Exhibits**

Exhibit No.	Description of Document	Method of Filing
A-1	Restated Articles of Incorporation of PNW.	Incorporated by reference; File No. 1-8962, PNW Form 10-K for the year ended December 31, 1999.
A-2	Restated Articles of Incorporation of APS.	Incorporated by reference; File No. 1-4473, APS Form 8-K (Sept. 23, 1993)
A-3	Articles of Incorporation of PWE.	Filed herewith.
B-1	Form of Term Sheet	Filed herewith.
D-1	Application of APS, PNW and PWE to FERC for Authorization to Transfer Jurisdictional Facilities.	Filed herewith.
D-2	Order of FERC.	To be filed by amendment.
D-3	Retail Electric Competition Rules	Incorporated by reference; file No. 1-4473, filed as Exhibit 10.2 to APS' Sept. 30, 1999 Form 10-Q Report.

D-4	Comprehensive Settlement Agreement Related to the Implementation of Retail Electric Competition, filed with the Arizona Corporation Commission.	Incorporated by reference; File No. 1-4473, filed as Exhibit 10.1 to APS' May 14, 1999 Form 8-K Report.
D-5	ACC Approval of the Settlement Agreement.	Incorporated by reference; File No. 1-4473, filed as Exhibit 10.1 to APS' Sept. 1999 10-Q Report.
D-6	Amended Settlement Agreement	Filed herewith.
E-1	Map showing location of the generating facilities of APS that are being moved to PWE along with their related transmission facilities.	Filed herewith.
F-1	Signed initial opinion of counsel.	To be filed by amendment.
F-2	Past-tense opinion of counsel.	To be filed by amendment.
G-1	PNW, Form U-3A-2, "Statement by Holding Company Claiming Exemption under Rule U-2 from the Provisions of the Public Utility Holding Company Act of 1935."	Incorporated by reference; File No. 69-306, dated Feb. 29, 2000.
H-1	Form of Notice	Filed herewith.

B. Financial Statements

Statement No.	Description of Document	Method of Filing
FS-1	Historical consolidated financial statements of PNW	Incorporated by reference to Annual Reports on Form 10-K for the years ended 1999, 1998 and 1997
FS-2	Historical consolidated financial statements of APS	Incorporated by reference to Annual Reports on Form 10-K for the years ended 1999, 1998 and 1997

Although separate financial statements for PWE have not been included, PWE's financial information is included in the consolidated financial statements of PNW.

ITEM 7 INFORMATION AS TO ENVIRONMENTAL EFFECTS

None of the matters that are the subject of this application and declaration involves a "major federal action" nor do any of them "significantly affect the quality of the human environment" as those terms are used in Section 102(2)(C) of the National Environmental Policy Act. The transaction that is the subject of this application will not result in changes in the operation of the company that will have an impact on the environment. Neither APS nor PNW are aware of any federal agency that has prepared or is preparing an environmental impact statement with respect to the transactions that are the subject of this application.

SIGNATURE

Pursuant to the requirements of the Public Utility Holding Company Act of 1935, the undersigned company has duly caused this Application to be signed on its behalf by the undersigned thereunto duly authorized.

PINNACLE WEST CAPITAL CORPORATION

By: Barbara M. Gomez
Its: Treasurer

Date: September 12, 2000

Phoenix, Arizona

The transfer will not impair or diminish the Commission's jurisdiction in any respect. The restructuring plan of APS will not materially affect the ability of the Commission or state regulators to assert their regulatory jurisdiction over PWCC and its subsidiaries APS and PWE. After the transfer of assets, the Commission will continue to have jurisdiction over all of the existing wholesale transactions of APS that are being assigned to PWCC and PWE, and PWCC and PWE will be subject to federal regulation with respect to all of their wholesale power transactions. APS will continue to be subject to FERC oversight pertaining to transmission and wholesale power contracts. APS will also continue to be subject to state regulation pertaining to distribution rates and retail sales to standard offer customers under bundled rates. PWE will be under state regulation where the generation plants are located regarding applicable permitting and siting requirements. Finally, PWCC will continue to be an exempt holding company under PUHCA; therefore, the transfer will not result in any transfer of jurisdiction from the Commission to the SEC.

D. Public Interest Conclusion

Given that the proposed restructuring plan will have no adverse effect on competition, rates, or regulation, the Commission should find the plan consistent with the public interest.

V. FILING REQUIREMENTS UNDER PART 33

In accordance with the regulations, 18 C.F.R. § 33.2, Applicant states as follows:

A. Exact name and address of the principal business office of Applicants are:

Arizona Public Service Company
400 North Fifth Street
Phoenix, AZ 85004

Pinnacle West Capital Corporation
400 North Fifth Street
Phoenix, AZ 85004

Pinnacle West Energy Corporation
400 North Fifth Street
Phoenix, AZ 85004

B. Names and addresses of the persons authorized on behalf of Applicants to receive notices and communications in respect to this Application are as follows:

James M. Levine
Executive Vice President Generation
Arizona Public Service Company
400 North 5th Street
Mail Station 9046
Phoenix, Arizona 85004
Phone: (602) 250-2095

Barbara M. Champion
Senior Attorney
Pinnacle West Capital Corporation
400 North 5th Street
Mail Station 8695
Phoenix, Arizona 85004
Phone: (602) 250-3547

Joel R. Spitzkoff
Manager of Federal Regulation
Arizona Public Service Company
400 North 5th Street
Mail Station 9905
Phoenix, Arizona 85004
Phone: (602) 250-2949

John D. McGrane
Mary Ann K. Huntington
Kristina Beard
Morgan, Lewis & Bockius, LLP
1800 M Street, N.W
Washington, D.C. 20036
Phone: (202) 467-7000

C. Designation of the Territories served by Applicants, by counties and states:

APS is an investor-owned utility engaged in the business of generation, transmission, distribution and sale of electricity in all or part of eleven of Arizona's fifteen counties. APS serves numerous wholesale customers with power, and provides various transmission services to wholesale marketers, other utilities, municipalities, Federal power marketing agencies, electric cooperatives, electric districts and irrigation districts within the State of Arizona. Neither PWE nor PWCC has any service territories.

D. General statement briefly describing the facilities owned or operated for transmission of electric energy in interstate commerce or the sale of electric energy at wholesale in interstate commerce:

APS owns and operates generation resources and 4,283 miles of transmission facilities in Arizona and 140 miles of transmission facilities in New Mexico, and distribution facilities throughout much of Arizona. PWE will not possess transmission facilities other than the transmission facilities associated with generation plants that APS proposes to transfer to PWE. PWCC will not have any transmission facilities. Both PWCC and

PWE will have contracts and agreements with other parties that will be jurisdictional.

E. This Application seeks authorization of the Commission to transfer:

As described in Section III of this Application, APS seeks to transfer certain FERC-jurisdictional facilities and operating agreements to PWE, a newly formed affiliate of its parent company, Pinnacle West Capital Corporation. The transfer of assets will be at their book value at the time of transfer. Their current value at the time of filing is $24,514,216 Additionally, APS seeks to transfer to PWCC certain wholesale contracts, APS's Electric Coordination Tariff with all related service agreements, and certain service agreements under its market based tariff.

F. A statement of facilities to be disposed of, consolidated, or merged, giving a description of their present use and of their proposed use after disposition, consolidation or merger. State whether the proposed disposition of facilities or plan for consolidation or merger includes all the operating facilities of the parties of the transaction:

Attachment A contains a list of the jurisdictional transmission facilities that APS is transferring to PWE under this Application. The jurisdictional transmission facilities being transferred are step-up transformers and associated facilities located at or adjacent to the generation plants that APS is also transferring to PWE. As described in Section III of this Application, the transferred facilities will be utilized in the same manner as before the transfer. APS will continue to operate as a "wires" company with transmission and distribution assets.

Attachment B is a list of the contracts and service agreements that APS intends to transfer to PWE and PWCC. APS also seeks permission to transfer additional service agreements to PWCC that it may enter into between the time of this filing and when the actual transfer of contracts is approved.

G. A statement (in the form prescribed by the Commission's Uniform System of Accounts for Public Utilities and Licensees) of the cost of the facilities involved in the sale, lease, or other disposition or merger or consolidation. If original cost is not known, an estimate of original cost based, insofar as possible, upon records or data of the Applicant or its predecessors must be furnished, together with a full explanation of the manner in which such estimate has been made, and a description and statement of the present custody of all existing pertinent data and records:

See Attachment C. The Applicants intend to account for the transfer in accordance with Electric Plant Instruction No. 5 and Account 102 of the

Commission's Uniform System of Accounts. Applicants will file the proposed accounting when they notify the Commission that the transfer is consummated.

H. **A statement as to the effect of the proposed transaction upon any contract for the purchase, sale or interchange of electric energy:**

The transfer of facilities will not have any effect upon the ability of APS, PWCC, or PWE to meet their contractual obligations. The transfer of transmission facilities is ancillary to the generating units being transferred and will not have any material effect on the existing transmission contracts of APS. *See* Section IV. B. on the discussion of how the APS restructuring plan will effect rates.

I. **A statement as to whether any Application with respect to the transaction or any part thereof is required to be filed with any other Federal or state regulatory body:**

The following other regulatory approvals have been or will be obtained to facilitate the transfer of assets:

- The approval of the settlement agreement on October 6, 1999 by the ACC authorized APS to transfer its generating assets to a separate affiliate to foster open retail access (*see* Attachment D). APS intends to inform the ACC at least thirty days before the actual transfer of the assets.

- Approval of the transfer of APS's interest in the Palo Verde Nuclear Generating Facility by the Nuclear Regulatory Commission pursuant to the Atomic Energy Act.

- Further approvals, if necessary, from the Securities and Exchange Commission and the Federal Communications Commission to complete the APS restructuring plan.

J. **The facts relied upon by Applicant to show that the proposed disposition, merger, or consolidation of facilities or acquisition of securities will be consistent with the public interest:**

See Section IV of the Application.

K. **A brief statement of franchises held, showing date of expiration if not perpetual:**

See Attachment E, List of County and Municipal Franchises.

L. A form of notice suitable for publication in the FEDERAL REGISTER, as well as a copy of the same notice in electronic format:

See Attachment F. An electronic version of the notice is included in the filing on a 3 1/2 " diskette, in Wordperfect.

VI. REQUIRED EXHIBITS UNDER PART 33

Exhibits A, C, D, E, and F:

Applicants request a waiver of the requirements to include Exhibits A, C, D, E, and F. Such a waiver is consistent with the Commission's *Notice of Proposed Rulemaking: Revised Filing Requirements Under Part 33 of the Commission's Regulations*, IV FERC Stats. & Regs. ¶ 32,528, at 33,364 (1998), in which the Commission proposed to streamline the filing of the financial and accounting information currently required in Exhibits A, C, D, E, and F. Good cause exists to waive these filing requirements because the information required by these exhibits is not necessary for the Commission to render a decision on this Application. The Commission has recently approved other Applications for corporate realignments similar to this filing without detailed financial information. *See, e. g., Public Service Electric & Gas Co.*, 88 FERC ¶ 61,299 (1999). In accordance with the regulations, 18 C.F.R. § 33.3, Applicants attach the following exhibits to this Application:

Exhibit B: Statement of Measure of Control

The proposed transactions will not create new corporate relationships with third parties. All relevant entities are wholly owned subsidiaries of PWCC, which remains the parent company. A statement describing the measure of control or ownership is attached as Exhibit B.

Exhibit G: Application Filed with Federal and State Regulators

In the event Applicants file their Application with the Nuclear Regulatory Commission ("NRC") for approval to transfer APS's interest in the Palo Verde Nuclear Generating Facility to PWE prior to such time as the Commission has approved the instant Section 203 application, Applicants will submit a copy of the NRC Application to the Commission. Otherwise, Applicants request a waiver from the requirement to file Exhibit G.

Exhibit H: Copy of All Contracts between APS and PWE Regarding the Proposed Transfer of Assets

As this Application is for an affiliate transfer, APS has not entered into any contracts to sell, lease, or otherwise dispose of the jurisdictional facilities that are the subject of this Application.

Exhibit I: Map

A map showing the location of the generation facilities of APS that are being transferred to PWE along with their related transmission facilities is attached as Exhibit I.

VII. PROCEDURAL MATTERS

A. Request for Approval Without Hearing

Applicants respectfully request that the Commission approve the disposition of jurisdictional facilities associated with the restructuring that is occurring in Arizona on an expedited basis and without hearing based on the facts and supporting documents provided in this Application. The Application should support a finding that the transfer of assets is in the public interest and will promote competition.

B. Waiver

To the extent necessary, Applicants request a waiver of the requirement to file a market analysis in accordance with Appendix A of the Merger Policy Statement and any other waiver the Commission deems necessary to approve this Application under Section 203. Given that this filing is required to accommodate restructuring in Arizona, and that there are no rate impacts on existing customers, the Applicants believe good cause is shown for such a waiver.

C. Service and Communication

Applicants have served a copy of this Application on the ACC and the New Mexico Public Regulation Commission. Applicants have also served a copy of the transmittal letter accompanying this filing on all customers under APS wholesale contracts and service agreements that are being transferred to either PWCC or PWE. Applicants will provide any of the above customers with a complete copy of this filing upon request.

Communications regarding this Application should be addressed to the following persons, who are also designated for service in this proceeding:

James M. Levine
Executive Vice President Generation
Arizona Public Service Company
400 North 5th Street
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Phone: (602) 250-2095

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Senior Attorney
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Joel R. Spitzkoff
Manager of Federal Regulation
Arizona Public Service Company
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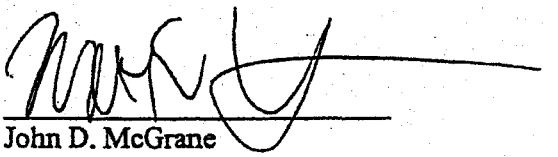
Phone: (602) 250-2949

John D. McGrane
Mary Ann K. Huntington
Kristina Beard
Morgan, Lewis & Bockius, LLP
1800 M Street, N.W.
Washington, D.C. 20036
Phone: (202) 467-7000

VIII. CONCLUSION

For the foregoing reasons, Applicants respectfully request the Commission (1) to authorize the transfer of FERC-jurisdictional facilities required to implement APS's restructuring plan as described in this Application, (2) to approve the Application without hearing, and (3) to grant waiver of any filing requirements or other regulations as the Commission may find appropriate to allow approval of the transfer of assets from APS to PWE, directly or indirectly, and the transfer of jurisdictional rates schedules from APS to PWCC and PWE.

Respectfully submitted,



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Attorneys for
Arizona Public Service Company
Pinnacle West Capital Corporation
Pinnacle West Energy Corporation

Dated: July 28, 2000

DEBORAH SCOTT
ARIZONA CORPORATION COMMISSION
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PHOENIX, AZ 85007

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P.O. DRAWER 9.
AJO, AZ 85321

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COLUMBUS, OH 43215-2373

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CANADA

CALIFORNIA POWER EXCHANGE
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CITY OF AZUSA
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AZUSA, CA 91702

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OPERATOR
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FOLSOM, CA 95630

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CINCINNATI, OH 45201

CITIZENS LEHMAN POWER SALES
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BOSTON, MA 02110

CITY OF WICKENBURG
MR. TOM CANDELARIA
155 N. TEGNER STREET
WICKENBURG, AZ 58390-1456

MR. W.A. DUNN, CHAIRMAN
ELECTRICAL DISTRICT NO. 3
ELECTRICAL DISTRICT NO. 1
41630 W. LOUIS JOHNSON DR.
MARICOPA, AZ 85239

ELIZABETH STORY, ADMINISTRATOR
TONOPAH IRRIGATION DISTRICT
P.O. BOX 159
TONOPAH, AZ 85354

HENRY A. BRUBAKER, PRESIDENT
AGUILA IRRIGATION DISTRICT
P.O. BOX 263
AGUILA, AZ 85320

JACKIE A. MECK, MANAGER
BUCKEYE WATER CONSERVATION &
DRAINAGE DISTRICT
P.O. BOX 1726
BUCKEYE, AZ 85326-0160

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14629 W. PEORIA AVE
WADDELL, AZ 85355

JAMES D. DOWNING, P.E.
ELECTRICAL DISTRICT NO. 8
MCMULLEN VALLEY WATER CONSERVATION
& DRAINAGE DISTRICT
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SALOME, AZ 85348

STEPHEN P. PAVICH, PRESIDENT
HARQUAHALA VALLEY POWER DISTRICT
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TONOPAH, AZ 85354

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MARICOPA COUNTY MUNICIPAL WATER
CONSERVATION DISTRICT NO. 1
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ROOSEVELT IRRIGATION DISTRICT
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BUCKEYE, AZ 85326

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P.O. BOX 631
BURBANK, CA 91503-0631

CITY OF GLENDALE
729 N. AVENUE, 4TH LEVEL
GLENDALE, CA 91206-4496

CITY OF IDAHO FALLS
140 S. CAPITAL AVENUE
IDAHO FALLS, ID 86402

CITY OF NEEDLES
ENOVA ENERGY MANAGEMENT, INC.
12555 HIGH BLUFF DR, SUITE 155
SAN DIEGO, CA 92130

COASTAL ELECTRIC SERVICES COMPANY
COASTAL TOWER
NINE GREENWAY PLAZA
HOUSTON, TX 77046-0995

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PARKER, AZ 85344

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OHAMA, NE 68102-5009

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US DEPARTMENT OF THE INTERIOR
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E PRIME
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ALEXANDRIA, VA 22314

EDISON SOURCE
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CITY OF INDUSTRY, CA 91746

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ST. PAUL, MN 55120-1129

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ISELIN, NJ 08830-0770

ENTERGY POWER MARKETING CORP.
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CEDAR RAPIDS, IA 52402

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DES MOINES IA 50303-0657

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PACIFICORP
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PORTLAND, OR 97232

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ALBUQUERQUE, NM 87158

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BISMARK, SD 58504

ROCKY MOUNTAIN GENERATION COOP.
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IMPROVEMENT & POWER DISTRICT
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PHOENIX, AZ

SAN CARLOS IRRIGATION PROJECT
P.O. BOX 250
COOLIDGE, AZ 85228

SAN DIEGO GAS & ELECTRIC
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SAN DIEGO, CA 92112-4120

SNOHOMISH COUNTY PUD #1
P.O. BOX 1107
EVERETT, WA 8206-1107

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SOUTHERN CALIFORNIA EDISON
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ROSEMEAD, CA 91770

EL PASO ELECTRIC COMPANY
P.O. BOX 982
EL PASO, TX 79960

THE ENERGY AUTHORITY, INC.
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JACKSONVILLE, FL 32202

TOHONO O'ODHAM UTILITY AUTHORITY
P.O. BOX 816
SELLS, AZ 85635

NEW MEXICO PUBLIC SERVICE COMMISSION
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SANTA FE, NM 87503

UTAH MUNICAPAL POWER AGENCY
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SANDY, UT 84070

UTILITY 2000 ENERGY
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CALGARY, ALBERTA T2P 3N3
CANADA

VALLEY ELECTRIC ASSOCIATION
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PAHRUMP, NV 89041

WASHINGTON WATER POWER
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SPOKANE, SA 99220-3727

WESTERN POWER SERVICES, INC.
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WESTERN RESOURCES, INC.
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TOPEKA, KS 66601

WILLIAMS ENERGY SERVICES COMPANY
P.O. BOX 2848
TULSA, OK 74101-9567

AQUILA ENERGY MARKETING CORP.
P.O. BOX 13207
KANSAS CITY, MO 64199-3207

TRACTABEL ENERGY MARKETING, INC.
1177 WEST LOOP, SUITE 800
HOUSTON, TX 77027

VERIFICATION

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Arizona Public Service Company)	Docket No. EC00-_____-000
Pinnacle West Capital Corporation)	Docket No. ER00-_____-000
Pinnacle West Energy Company)	

VERIFICATION

JACK E. DAVIS

STATE OF ARIZONA)
) ss.
County of Maricopa)

Jack E. Davis, being first duly sworn upon oath, deposes and says:

That he is **Chief Operating Officer and Executive Vice President of Pinnacle West Capital Corporation**, and makes this verification for and on behalf of said corporations, being thereto duly authorized; that he has read the foregoing Application and knows the contents thereof, and that the same is true to the best of his knowledge, information and belief.

Jack Davis

SUBSCRIBED AND SWORN to before me this 27th day of July, 2000.

Joel R. Spitzkoff
Notary Public

My Commission expires:

June 22, 2003

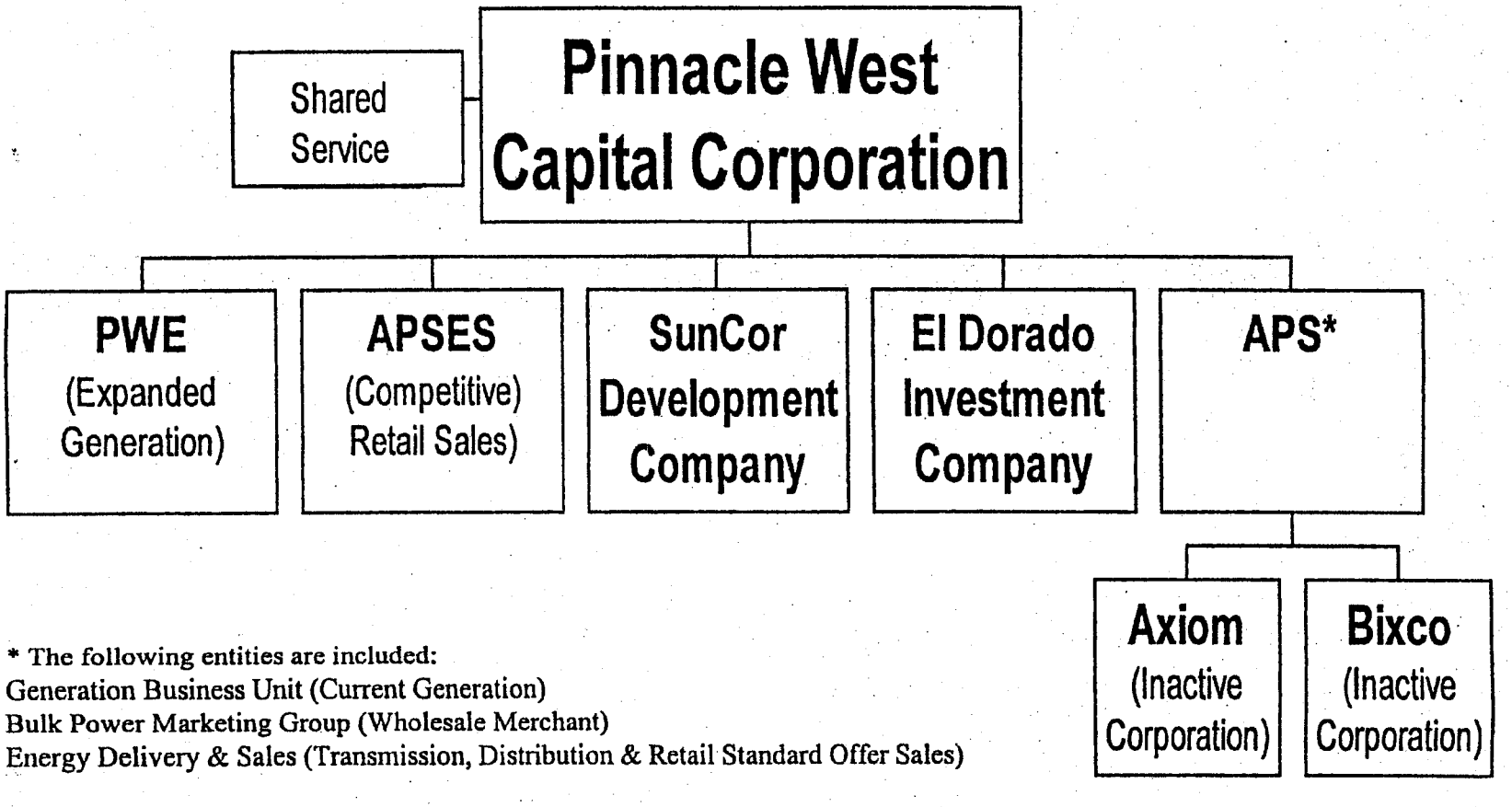
JOEL R. SPITZKOFF
Notary Public - Arizona
MARICOPA COUNTY
My Commission Expires
JUNE 22, 2003

APPENDIX A

Pre - Restructuring

Organizational Chart

APPENDIX A
PNW Corporate Structure
(Prior to Proposed Restructuring)



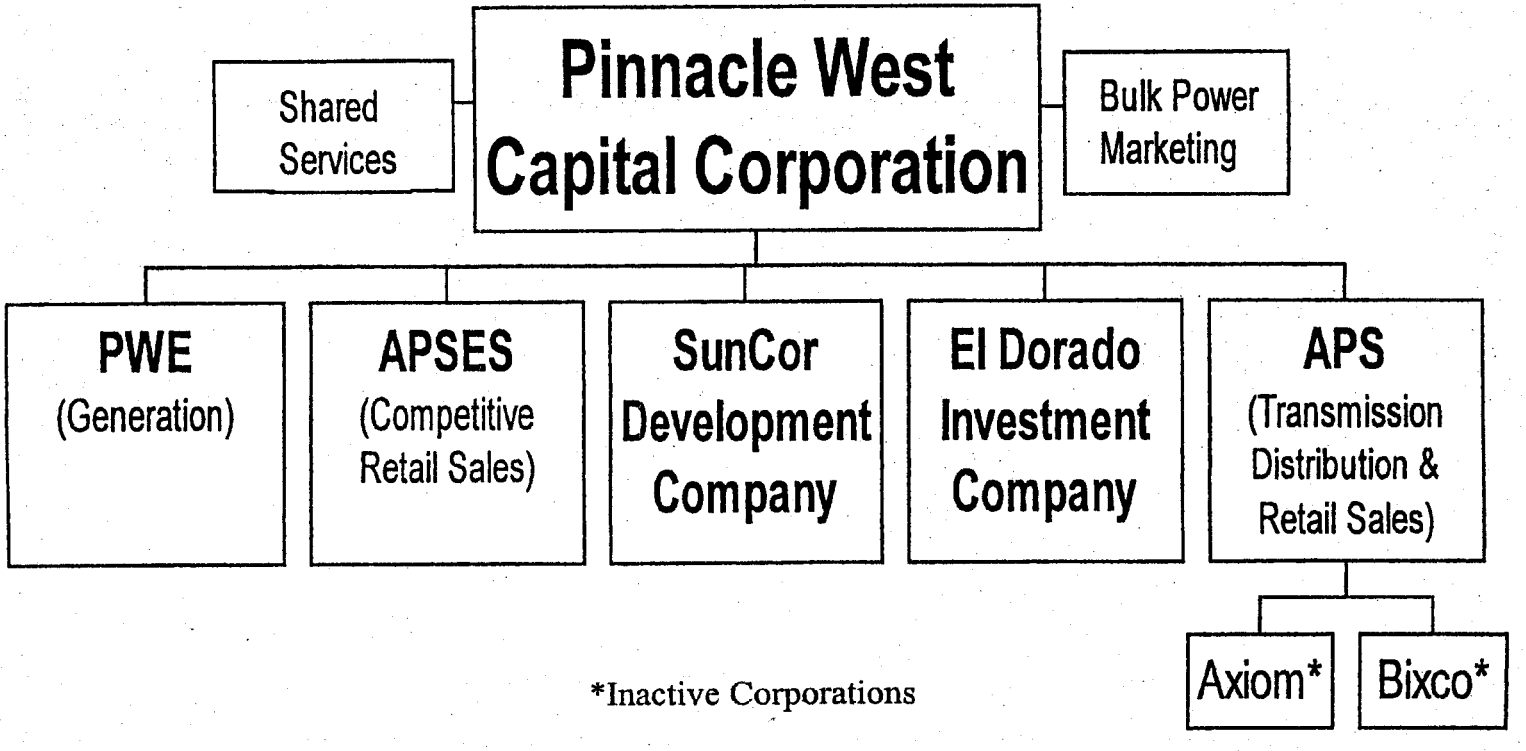
* The following entities are included:
Generation Business Unit (Current Generation)
Bulk Power Marketing Group (Wholesale Merchant)
Energy Delivery & Sales (Transmission, Distribution & Retail Standard Offer Sales)

APPENDIX B

Post - Restructuring

Organizational Chart

Appendix B
PNW Corporate Structure
(Subsequent to Proposed Restructuring)



*Inactive Corporations

ATTACHMENT A

List of the Jurisdictional Transmission Facilities

ATTACHMENT A

LIST OF THE JURISDICTIONAL TRANSMISSION FACILITIES BEING TRANSFERRED FROM APS TO PWE

APS is requesting permission to transfer associated transmission equipment composed of step-up transformers, breakers, disconnect switches, potential and current transformers, metering and tie lines located at the following generating sites that APS is also transferring to its affiliate PWE:

Palo Verde Nuclear Generating Plant
(APS operates the plant and owns 29.1% of all three Units.)

Four Corners Power Plant
(APS operates the plant and owns 100% of Unit 1, 2, and 3. APS owns 15% of Unit 4 and 5.)

Cholla Power Plant
(APS operates the plant but owns only Units 1, 2, and 3. Unit 4 is owned by PacifiCorp.)

West Phoenix Power Plant
(APS operates the plant and owns all units.)

Yucca Power Plant
(APS operates the plant but only owns Units 1, 2, 3, and 4.
Unit 5 is owned by Imperial Irrigation District.)

Ocotillo Power Plant
(APS operates the plant and owns all units.)

Saguaro Power Plant
(APS operates the plant and owns all units.)

Navajo Power Plant
(APS owns 14% of all three units, but does not operate the plant)

Fairview/Douglas
(APS operates the plant and owns the one unit.)

ATTACHMENT B

List of Wholesale Contracts and Service Agreements

Being Transferred From APS to PWCC and PWE

Existing APS Agreements, Tariffs and Service Agreements to be Transferred to Other APS Affiliates

	Rate Schedule Designation	Agreement/Tariff Title	Counter-Party	Assigned to:
1	FPC Rate Schedule No. 5	Axis Station Agreement	Southern California Edison	Pinnacle West Energy
2	FPC Rate Schedule No. 46	United States Department of Interior Kaiparowits Power Coordination Contract	Southern California Edison, San Diego Gas & Electric, United States of America	Pinnacle West Capital Corporation
3	FERC Rate Schedule No.106	Operating Letter for Banking of Arizona Power Authority Energy	Electrical District No. 3	Pinnacle West Capital Corporation
4	FERC Rate Schedule No. 117	Operating Letter for Banking of Arizona Power Authority Energy	Electrical District No. 1	Pinnacle West Capital Corporation
5	FERC Rate Schedule No. 120	Wholesale Power Agreement	Southern California Edison	Pinnacle West Capital Corporation
6	FERC Rate Schedule No. 182	Long Term Power Transaction Agreement	PacifiCorp	Pinnacle West Capital Corporation
7	FERC Rate Schedule No. 211	Four Corners Co-tenancy Agreement and Four Corners Operating Agreement	Southern California Edison, Public Service Company of New Mexico, El Paso Electric, Salt River Project Agricultural Improvement & Power District, Tucson Electric Power Company	Pinnacle West Energy
8	FERC Rate Schedule No. 215	Transmission Service Agreement	Southern California Edison/Colorado River Irrigation Project (Bureau of Indian Affairs)	Pinnacle West Capital Corporation
9	FERC Rate Schedule No. 225	Power Service Agreement	Citizens Utilities Company	Pinnacle West Capital Corporation
10	FERC Rate Schedule No. 229	Navajo Project Co-tenancy Agreement	United States of America, Dept. of Water & Power of Los Angeles, Nevada Power Company, Salt River Project Agricultural Improvement & Power District, Tucson Electric Power Company	Pinnacle West Energy
11	FERC Rate Schedule No. 231	Electric Power Service Agreement	Colorado River Commission of Nevada	Pinnacle West Capital Corporation
12	FERC Rate Schedule No.237	Service Agreement Under FERC Electric Tariff, Original Volume No. 9 of Washington Water Power	Washington Water Power	Pinnacle West Capital Corporation

Existing APS Agreements, Tariffs and Service Agreements to be Transferred to Other APS Affiliates

	Rate Schedule Designation	Agreement/Tariff Title	Counter-Party	Assigned to:
13	FERC Rate Schedule No. 238	Service Agreement Under FERC Electric Tariff, Original Volume No. 12 of PacifiCorp	PacifiCorp	Pinnacle West Capital Corporation
14	FERC Rate Schedule No. 239	Mutual Netting/Settlement Agreement	PacifiCorp	Pinnacle West Capital Corporation
15	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 1	Market Based Rate Tariff Service Agreements	Rainbow Energy Marketing Corp.	Pinnacle West Capital Corporation
16	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 2	Market Based Rate Tariff Service Agreements	NP Energy Inc.	Pinnacle West Capital Corporation
17	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 3	Market Based Rate Tariff Service Agreements	Valley Electric Association	Pinnacle West Capital Corporation
18	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 4	Market Based Rate Tariff Service Agreements	Cinergy Services, Inc.	Pinnacle West Capital Corporation
19	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 5	Market Based Rate Tariff Service Agreements	LG&E Energy Marketing Inc.	Pinnacle West Capital Corporation
20	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 6	Market Based Rate Tariff Service Agreements	Rocky Mountain Generation Coop.	Pinnacle West Capital Corporation
21	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 7	Market Based Rate Tariff Service Agreements	Entergy Power Marketing Corp.	Pinnacle West Capital Corporation
22	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 8	Market Based Rate Tariff Service Agreements	E Prime	Pinnacle West Capital Corporation
23	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 9	Market Based Rate Tariff Service Agreements	Power Company of America	Pinnacle West Capital Corporation

Existing APS Agreements, Tariffs and Service Agreements
to be Transferred to Other APS Affiliates

	Rate Schedule Designation	Agreement/Tariff Title	Counter-Party	Assigned to:
24	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 10	Market Based Rate Tariff Service Agreements	Idaho Power Company	Pinnacle West Capital Corporation
25	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 11	Market Based Rate Tariff Service Agreements	Sonat Power Marketing	Pinnacle West Capital Corporation
26	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 12	Market Based Rate Tariff Service Agreements	American Hunter Energy Inc.	Pinnacle West Capital Corporation
27	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 13	Market Based Rate Tariff Service Agreements	Western Power Services, Inc.	Pinnacle West Capital Corporation
28	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 14	Market Based Rate Tariff Service Agreements	National Gas & Electric	Pinnacle West Capital Corporation
29	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 15	Market Based Rate Tariff Service Agreements	Cajun Electric Power Coop.	Pinnacle West Capital Corporation
30	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 17	Market Based Rate Tariff Service Agreements	British Columbia Power Exchange	Pinnacle West Capital Corporation
31	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 18	Market Based Rate Tariff Service Agreements	Cook Inlet Energy Supply	Pinnacle West Capital Corporation
32	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 19	Market Based Rate Tariff Service Agreements	Snohomish County PUD #1	Pinnacle West Capital Corporation
33	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 20	Market Based Rate Tariff Service Agreements	PG&E/ Valero Power Services Inc	Pinnacle West Capital Corporation

Existing APS Agreements, Tariffs and Service Agreements to be Transferred to Other APS Affiliates

	Rate Schedule Designation	Agreement/Tariff Title	Counter-Party	Assigned to:
34	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 21	Market Based Rate Tariff Service Agreements	Western Resources, Inc.	Pinnacle West Capital Corporation
35	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 22	Market Based Rate Tariff Service Agreements	MP Energy	Pinnacle West Capital Corporation
36	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 23	Market Based Rate Tariff Service Agreements	Tucson Electric Power	Pinnacle West Capital Corporation
37	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 24	Market Based Rate Tariff Service Agreements	Coral Power LLC	Pinnacle West Capital Corporation
38	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 25	Market Based Rate Tariff Service Agreements	City of Burbank	Pinnacle West Capital Corporation
39	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 26	Market Based Rate Tariff Service Agreements	Morgan Stanley Capital Group Inc	Pinnacle West Capital Corporation
40	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 27	Market Based Rate Tariff Service Agreements	Tractabel Energy Marketing, Inc.	Pinnacle West Capital Corporation
41	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 28	Market Based Rate Tariff Service Agreements	Koch Energy Trading Inc.	Pinnacle West Capital Corporation
42	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 29	Market Based Rate Tariff Service Agreements	PG&E Energy Services	Pinnacle West Capital Corporation
43	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 30	Market Based Rate Tariff Service Agreements	Williams Energy Services	Pinnacle West Capital Corporation

Existing APS Agreements, Tariffs and Service Agreements
to be Transferred to Other APS Affiliates

	Rate Schedule Designation	Agreement/Tariff Title	Counter-Party	Assigned to:
44	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 31	Market Based Rate Tariff Service Agreements	Central Louisiana Electric Company	Pinnacle West Capital Corporation
45	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 32	Market Based Rate Tariff Service Agreements	LA Dept of Water & Power	Pinnacle West Capital Corporation
46	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 33	Market Based Rate Tariff Service Agreements	Nevada Power Company	Pinnacle West Capital Corporation
47	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 34	Market Based Rate Tariff Service Agreements	San Diego Gas & Electric	Pinnacle West Capital Corporation
48	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 35	Market Based Rate Tariff Service Agreements	Arizona Electric Power Coop.	Pinnacle West Capital Corporation
49	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 36	Market Based Rate Tariff Service Agreements	Salt River Project	Pinnacle West Capital Corporation
50	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 37	Market Based Rate Tariff Service Agreements	Southern California Edison	Pinnacle West Capital Corporation
51	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 38	Market Based Rate Tariff Service Agreements	Majority Districts (ED6, ED7, ED8, MWD, Harquahala, McMullen, RID, AID, BID & TID)	Pinnacle West Capital Corporation
52	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 39	Market Based Rate Tariff Service Agreements	American Electric Power	Pinnacle West Capital Corporation
53	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 40	Market Based Rate Tariff Service Agreements	ConAgra Energy Services, Inc.	Pinnacle West Capital Corporation

Existing APS Agreements, Tariffs and Service Agreements
to be Transferred to Other APS Affiliates

	Rate Schedule Designation	Agreement/Tariff Title	Counter-Party	Assigned to:
54	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 41	Market Based Rate Tariff Service Agreements	Eastern Power Distribution Inc	Pinnacle West Capital Corporation
55	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 42	Market Based Rate Tariff Service Agreements	Morgan Stanley Capital Group Inc	Pinnacle West Capital Corporation
56	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 43	Market Based Rate Tariff Service Agreements	Tohono O'Odham Utility Authority	Pinnacle West Capital Corporation
57	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 44	Market Based Rate Tariff Service Agreements	Town of Wickenburg	Pinnacle West Capital Corporation
58	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 46	Market Based Rate Tariff Service Agreements	California ISO	Pinnacle West Capital Corporation
59	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 47	Market Based Rate Tariff Service Agreements	California Power Exchange	Pinnacle West Capital Corporation
60	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 48	Market Based Rate Tariff Service Agreements	Electrical District No. 1	Pinnacle West Capital Corporation
61	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 49	Market Based Rate Tariff Service Agreements	Electrical District No. 3	Pinnacle West Capital Corporation
62	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 50	Market Based Rate Tariff Service Agreements	Public Service Company of New Mexico	Pinnacle West Capital Corporation
63	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 51	Market Based Rate Tariff Service Agreements	Merchant Energy Group of the Americas	Pinnacle West Capital Corporation

Existing APS Agreements, Tariffs and Service Agreements
to be Transferred to Other APS Affiliates

	Rate Schedule Designation	Agreement/Tariff Title	Counter-Party	Assigned to:
64	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 52	Market Based Rate Tariff Service Agreements	Northern Wasco County PUD	Pinnacle West Capital Corporation
65	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 53	Market Based Rate Tariff Service Agreements	San Carlos Irrigation Project	Pinnacle West Capital Corporation
66	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 54	Market Based Rate Tariff Service Agreements	City of Idaho Falls	Pinnacle West Capital Corporation
67	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 55	Market Based Rate Tariff Service Agreements	San Carlos Irrigation Project	Pinnacle West Capital Corporation
68	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 56	Market Based Rate Tariff Service Agreements	Utah Municipal Power Agency	Pinnacle West Capital Corporation
69	FERC Electric Tariff, Second Revised Volume 3, Service Agreement No. 57	Market Based Rate Tariff Service Agreements	The Energy Authority, Inc.	Pinnacle West Capital Corporation
70	FERC Electric Tariff, Volume 1	Electric Coordination Tariff		Pinnacle West Capital Corporation
71	FERC Electric Tariff, Volume 1, Service Agreement No. 1	Electric Coordination Tariff Service Agreement	Snohomish Public Utility District	Pinnacle West Capital Corporation
72	FERC Electric Tariff, Volume 1, Service Agreement No. 2	Electric Coordination Tariff Service Agreement	Electric Clearinghouse Inc.	Pinnacle West Capital Corporation
73	FERC Electric Tariff, Volume 1, Service Agreement No. 3	Electric Coordination Tariff Service Agreement	Gulfstream Energy, LLC	Pinnacle West Capital Corporation
74	FERC Electric Tariff, Volume 1, Service Agreement No. 4	Electric Coordination Tariff Service Agreement	Citizens Utility Company	Pinnacle West Capital Corporation
75	FERC Electric Tariff, Volume 1, Service Agreement No. 5	Electric Coordination Tariff Service Agreement	LG&E Power Marketing, Inc.	Pinnacle West Capital Corporation
76	FERC Electric Tariff, Volume 1, Service Agreement No. 6	Electric Coordination Tariff Service Agreement	Power Exchange Corp.	Pinnacle West Capital Corporation

Existing APS Agreements, Tariffs and Service Agreements to be Transferred to Other APS Affiliates

	Rate Schedule Designation	Agreement/Tariff Title	Counter-Party	Assigned to:
77	FERC Electric Tariff, Volume 1, Service Agreement No. 8	Electric Coordination Tariff Service Agreement	Intercoastal Power Marketing	Pinnacle West Capital Corporation
78	FERC Electric Tariff, Volume 1, Service Agreement No. 9	Electric Coordination Tariff Service Agreement	Rainbow Energy Marketing Corp.	Pinnacle West Capital Corporation
79	FERC Electric Tariff, Volume 1, Service Agreement No. 10	Electric Coordination Tariff Service Agreement	Town of Wickenburg	Pinnacle West Capital Corporation
80	FERC Electric Tariff, Volume 1, Service Agreement No. 11	Electric Coordination Tariff Service Agreement	Engelhard Power Marketing, Inc.	Pinnacle West Capital Corporation
81	FERC Electric Tariff, Volume 1, Service Agreement No. 13	Electric Coordination Tariff Service Agreement	Coastal Electric Services Company	Pinnacle West Capital Corporation
82	FERC Electric Tariff, Volume 1, Service Agreement No. 14	Electric Coordination Tariff Service Agreement	Utility 2000 Energy	Pinnacle West Capital Corporation
83	FERC Electric Tariff, Volume 1, Service Agreement No. 15	Electric Coordination Tariff Service Agreement	City of Needles	Pinnacle West Capital Corporation
84	FERC Electric Tariff, Volume 1, Service Agreement No. 16	Electric Coordination Tariff Service Agreement	Citizens Lehman Power Sales	Pinnacle West Capital Corporation
85	FERC Electric Tariff, Volume 1, Service Agreement No. 17	Electric Coordination Tariff Service Agreement	Energy Masters International	Pinnacle West Capital Corporation
86	FERC Electric Tariff, Volume 1, Service Agreement No. 18	Electric Coordination Tariff Service Agreement	Aquila Energy Marketing Corp.	Pinnacle West Capital Corporation
87	FERC Electric Tariff, Volume 1, Service Agreement No. 19	Electric Coordination Tariff Service Agreement	Industrial Energy Applications, Inc.	Pinnacle West Capital Corporation
88	FERC Electric Tariff, Volume 1, Service Agreement No. 20	Electric Coordination Tariff Service Agreement	Electrical District No. 3	Pinnacle West Capital Corporation
89	FERC Electric Tariff, Volume 1, Service Agreement No. 21	Electric Coordination Tariff Service Agreement	Western Power Services, Inc.	Pinnacle West Capital Corporation
90	FERC Electric Tariff, Volume 1, Service Agreement No. 22	Electric Coordination Tariff Service Agreement	Federal Energy Sales, Inc.	Pinnacle West Capital Corporation
91	FERC Electric Tariff, Volume 1, Service Agreement No. 23	Electric Coordination Tariff Service Agreement	Cinergy Services, Inc.	Pinnacle West Capital Corporation
92	FERC Electric Tariff, Volume 1, Service Agreement No. 24	Electric Coordination Tariff Service Agreement	Ajo Improvement Company	Pinnacle West Capital Corporation

Existing APS Agreements, Tariffs and Service Agreements to be Transferred to Other APS Affiliates

	Rate Schedule Designation	Agreement/Tariff Title	Counter-Party	Assigned to:
93	FERC Electric Tariff, Volume 1, Service Agreement No. 25	Electric Coordination Tariff Service Agreement	City of Glendale	Pinnacle West Capital Corporation
94	FERC Electric Tariff, Volume 1, Service Agreement No. 26	Electric Coordination Tariff Service Agreement	City of Azusa	Pinnacle West Capital Corporation
95	FERC Electric Tariff, Volume 1, Service Agreement No. 27	Electric Coordination Tariff Service Agreement	Tohono O'Odham Utility Authority	Pinnacle West Capital Corporation
96	FERC Electric Tariff, Volume 1, Service Agreement No. 28	Electric Coordination Tariff Service Agreement	Koch Energy Trading, Inc.	Pinnacle West Capital Corporation
97	FERC Electric Tariff, Volume 1, Service Agreement No. 29	Electric Coordination Tariff Service Agreement	Edison Source	Pinnacle West Capital Corporation
98	FERC Electric Tariff, Volume 1, Service Agreement No. 30	Electric Coordination Tariff Service Agreement	Williams Energy Services Company	Pinnacle West Capital Corporation
99	FERC Electric Tariff, Volume 1, Service Agreement No. 31	Electric Coordination Tariff Service Agreement	Colorado River Agency	Pinnacle West Capital Corporation

ATTACHMENT C

Statement of the Cost of Facilities Involved in

the Transfer of Assets Between APS and PWE

ATTACHMENT C

ARIZONA PUBLIC SERVICE COMPANY
TRANSMISSION EQUIPMENT
BY POWER PLANT AND RELATED SUBSTATION EQUIPMENT
ORIGINAL COSTS AND ACCUMULATED DEPRECIATION
AS OF MAY 31-2000

Power Plants

	Original costs	Accum Depr	Net Book Value
Fairview/Douglas	$186,986	$149,683	$37,303
Ocotillo Power Plant	$2,164,238	$1,405,630	$758,608
Saguaro Power Plant	$1,649,298	$1,397,934	$251,364
Yucca Power Plant	$652,184	$537,451	$114,733
Cholla Steam Plant	$13,197,993	$7,326,215	$5,871,778
Palo Verde Nuclear Plant	$21,126,640	$6,436,097	$14,690,543
Navajo Steam Plant	$2,009,351	$1,203,950	$805,401
West Phoenix Plant	$2,409,236	$1,729,150	$680,086
Four Corners Steam Plant	$3,835,334	$2,530,934	$1,304,400
Total Power Plant Equip in Transmission	$47,231,260	$22,717,044	$24,514,216

ATTACHMENT D

Settlement Agreement Approved by the Arizona Corporation Commission

Authorizing APS to Transfer its Generating Facilities to a Separate Affiliate

BEFORE THE ARIZONA CORPORATION COMMISSION

A.C.C. - DOCKET CONTROL
RECEIVED

MAY 17 1999

DOCUMENTS ARE SUBJECT TO REVIEW BEFORE ACCEPTANCE AS A DOCKETED ITEM.

JIM IRVIN
Commissioner-Chairman
TONY WEST
Commissioner
CARL J. KUNASEK
Commissioner

IN THE MATTER OF THE APPLICATION OF ARIZONA PUBLIC SERVICE COMPANY FOR APPROVAL OF ITS PLAN FOR STRANDED COST RECOVERY	DOCKET NO. E-01345A-98-0473
IN THE MATTER OF THE FILING OF ARIZONA PUBLIC SERVICE COMPANY OF UNBUNDLED TARIFFS PURSUANT TO A.A.C. R14-2-1601 ET SEQ.	DOCKET NO. E-01345A-97-0773
IN THE MATTER OF COMPETITION IN THE PROVISION OF ELECTRIC SERVICES THROUGHOUT THE STATE OF ARIZONA	DOCKET NO. RE-00000C-94-0165

NOTICE OF FILING, APPLICATION FOR APPROVAL OF SETTLEMENT AGREEMENT, AND REQUEST FOR PROCEDURAL ORDER

Arizona Public Service Company ("APS") hereby files the attached Settlement Agreement ("Settlement Agreement") dated as of May 17, 1999, between APS and the other signatories to this Agreement (collectively, the "Parties"). The Parties, which includes a broad coalition of large and small consumer interests, entered into the Settlement Agreement for the purpose of agreeing upon terms and conditions for the introduction of competition in generation and other competitive services that they believe to be just, reasonable and in the public interest.

Pursuant to 7.10 of the Settlement Agreement, APS, on behalf of the Parties, respectfully requests that the Commission approve the Settlement Agreement as soon as

practicable in accordance with a procedural schedule that establishes such formal hearings and/or public meetings as are required by applicable legal requirements and that afford interested parties adequate opportunity to comment and be heard on the terms of the Settlement Agreement.

APS also requests that the procedural schedule set forth in the April 21, 1999, Procedural Order regarding consideration of APS' stranded costs and unbundled rates (issues which are resolved in the Settlement Agreement) be suspended pending Commission consideration of this Settlement Agreement. Because the Settlement Agreement contemplates Commission approval no later than August 1, 1999, the Parties have attached hereto as Exhibit A a suggested procedural schedule for Commission consideration.

RESPECTFULLY SUBMITTED this 17th day of May, 1999.

SNELL & WILMER L.L.P.

Steven M. Wheeler
Thomas L. Mumaw
Jeffrey B. Guldner

Attorneys for Arizona Public Service Company

661820.01

EXHIBIT A

APS Settlement Procedural Schedule

Filing of Settlement Agreement ..... *May 17*

Procedural Order Issued ..... *May 28*

Filing Date for Testimony from Parties to the Settlement Agreement ..... *June 4*

Filing Date for Testimony from Staff and Intervenors ..... *June 25*

Filing Date for Rebuttal Testimony from Parties to the Settlement Agreement ..... *July 9*

Hearing Begins ..... *July 13*

SETTLEMENT AGREEMENT

May 14, 1999

This settlement agreement ("Agreement") is entered into as of May 14, 1999, by Arizona Public Service Company ("APS" or the "Company") and the various signatories to this Agreement (collectively, the "Parties") for the purpose of establishing terms and conditions for the introduction of competition in generation and other competitive services that are just, reasonable and in the public interest.

INTRODUCTION

In Decision No. 59943, dated December 26, 1996, the Arizona Corporation Commission ("ACC" or the "Commission") established a "framework" for introduction of competitive electric services throughout the territories of public service corporations in Arizona in the rules adopted in A.A.C. R14-2-1601 *et seq.* (collectively, "Electric Competition Rules" as they may be amended from time to time). The Electric Competition Rules established by that order contemplated future changes to such rules and the possibility of waivers or amendments for particular companies under appropriate circumstances. Since their initial issuance, the Electric Competition Rules have been amended several times and are currently stayed pursuant to Decision No. 61311, dated January 5, 1999. During this time, APS, Commission Staff and other interested parties have participated in a number of proceedings, workshops, public comment sessions and individual negotiations in order to further refine and develop a restructured utility industry in Arizona that will provide meaningful customer choice in a manner that is just, reasonable and in the public interest.

This Agreement establishes the agreed upon transition for APS to a restructured entity and will provide customers with competitive choices for generation and certain other retail services. The Parties believe this Agreement will produce benefits for all customers through implementing customer choice and providing rate reductions so that the APS service territory may benefit from economic growth. The Parties also believe this Agreement will fairly treat APS and its shareholders by providing a reasonable opportunity to recover prudently incurred investments and costs, including stranded costs and regulatory assets.

Specifically, the Parties believe the Agreement is in the public interest for the following reasons. First, customers will receive substantial rate reductions. Second, competition will be promoted through the introduction of retail access faster than would have been possible without this Agreement and by the functional separation of APS' power production and delivery functions. Third, economic development and the environment will

benefit through guaranteed rate reductions and the continuation of renewable and energy efficiency programs. Fourth, universal service coverage will be maintained through APS' low income assistance programs and establishment of "provider of last resort" obligations on APS for customers who do not wish to participate in retail access. Fifth, APS will be able to recover its regulatory assets and stranded costs as provided for in this Agreement without the necessity of a general rate proceeding. Sixth, substantial litigation and associated costs will be avoided by amicably resolving a number of important and contentious issues that have already been raised in the courts and before the Commission. Absent approval by the Commission of the settlement reflected by this Agreement, APS would seek full stranded cost recovery and pursue other rate and competitive restructuring provisions different than provided for herein. The other Parties would challenge at least portions of APS' requested relief, including the recovery of all stranded costs. The resulting regulatory hearings and related court appeals would delay the start of competition and drain the resources of all Parties.

NOW, THEREFORE, APS and the Parties agree to the following provisions which they believe to be just, reasonable and in the public interest:

TERMS OF AGREEMENT

ARTICLE I
IMPLEMENTATION OF RETAIL ACCESS

1.1. The APS distribution system shall be open for retail access on July 1, 1999; provided, however, that such retail access to electric generation and other competitive electric services suppliers will be phased in for customers in APS' service territory in accordance with the proposed Electric Competition Rules, as and when such rules become effective, with an additional 140 MW being made available to eligible non-residential customers. The Parties shall urge the Commission to approve Electric Competition Rules, at least on an emergency basis, so that meaningful retail access can begin by July 1, 1999. Unless subject to judicial or regulatory restraint, APS shall open its distribution system to retail access for all customers on January 1, 2001.

1.2. APS will make retail access available to residential customers pursuant to its December 21, 1998, filing with the Commission.

1.3. The Parties acknowledge that APS' ability to offer retail access is contingent upon numerous conditions and circumstances, a number of which are not within the direct control of the Parties. Accordingly, the Parties agree that it may become necessary to modify the terms of retail access to account for such factors, and they further agree to address such matters in good faith and to cooperate in an effort to propose joint resolutions of any such matters.

1.4. APS agrees to the amendment and modification of its Certificate(s) of Convenience and Necessity to permit retail access consistent with the terms of this Agreement. The Commission order adopting this Agreement shall constitute the necessary Commission Order amending and modifying APS' CC&Ns to permit retail access consistent with the terms of this Agreement.

ARTICLE II
RATE MATTERS

2.1. The Company's unbundled rates and charges attached hereto as Exhibit A will be effective as of July 1, 1999. The Company's presently authorized rates and charges shall be deemed its standard offer ("Standard Offer") rates for purposes of this Agreement and the Electric Competition Rules. Bills for Standard Offer service shall indicate individual unbundled service components to the extent required by the Electric Competition Rules.

2.2. Future reductions of standard offer tariff rates of 1.5% for customers having loads of less than 3 MW shall be effective as of July 1, 1999, July 1, 2000, July 1, 2001, July 1, 2002, and July 1, 2003, upon the filing and Commission acceptance of revised tariff sheets reflecting such decreases. For customers having loads greater than 3 MW served on Rate Schedules E-34 and E-35, Standard Offer tariff rates will be reduced: 1.5%, effective July 1, 1999; 1.5% effective July 1, 2000; 1.25% effective July 1, 2001; and .75% effective July 1, 2002. The 1.5% Standard Offer rate reduction to be effective July 1, 1999, includes the rate reduction otherwise required by Decision No. 59601. Such decreases shall become effective by the filing with and acceptance by the Commission of revised tariff sheets reflecting each decrease.

2.3. Customers greater than 3 MW who choose a direct access supplier must give APS one year's advance notice before being eligible to return to Standard Offer service.

2.4. Unbundled rates shall be reduced in the amounts and at the dates set forth in Exhibit A attached hereto upon the filing and Commission acceptance of revised tariff sheets reflecting such decreases.

2.5. This Agreement shall not preclude APS from requesting, or the Commission from approving, changes to specific rate schedules or terms and conditions of service, or the approval of new rates or terms and conditions of service, that do not significantly affect the overall earnings of the Company or materially modify the tariffs or increase the rates approved in this Agreement. Nothing contained in this Agreement shall preclude APS from filing changes to its tariffs or terms and conditions of service which are not inconsistent with its obligations under this Agreement.

2.6. Notwithstanding the rate reduction provisions stated above, the Commission shall, prior to December 31, 2002, approve an adjustment clause or clauses which

will provide full and timely recovery beginning July 1, 2004, of the reasonable and prudent costs of the following:

(1) APS' "provider of last resort" and Standard Offer obligations for service after July 1, 2004, which costs shall be recovered only from Standard Offer and "provider of last resort" customers;

(2) Standard Offer service to customers who have left Standard Offer service or a special contract rate for a competitive generation supplier but who desire to return to Standard Offer service, which costs shall be recovered only from Standard Offer and "provider of last resort" customers;

(3) compliance with the Electric Competition Rules or Commission-ordered programs or directives related to the implementation of the Electric Competition Rules, as they may be amended from time to time, which costs shall be recovered from all customers receiving services from APS; and

(4) Commission-approved system benefit programs or levels not included in Standard Offer rates as of June 30, 1999, which costs shall be recovered from all customers receiving services from APS.

By June 1, 2002, APS shall file an application for an adjustment clause or clauses, together with a proposed plan of administration, and supporting testimony. The Commission shall thereafter issue a procedural order setting such adjustment clause application for hearing and including reasonable provisions for participation by other parties. The Commission order approving the adjustment clauses shall also establish reasonable procedures pursuant to which the Commission, Commission Staff and interested parties may review the costs to be recovered. By June 30, 2003, APS will file its request for the specific adjustment clause factors which shall, after hearing and Commission approval, become effective July 1, 2004. APS shall be allowed to defer costs covered by this Section 2.6 when incurred for later full recovery pursuant to such adjustment clause or clauses, including a reasonable return.

2.7. By June 30, 2003, APS shall file a general rate case with prefiled testimony and supporting schedules and exhibits; provided, however, that any rate changes resulting therefrom shall not become effective prior to July 1, 2004.

2.8. APS shall not be prevented from seeking a change in unbundled or Standard Offer rates prior to July 1, 2004, in the event of (a) conditions or circumstances which constitute an emergency, such as the inability to finance on reasonable terms, or (b) material changes in APS' cost of service for Commission regulated services resulting from federal, tribal,

state or local laws, regulatory requirements, judicial decision, actions or orders. Except for the changes otherwise specifically contemplated by this Agreement, unbundled and Standard Offer rates shall remain unchanged until at least July 1, 2004.

ARTICLE III
REGULATORY ASSETS AND STRANDED COSTS

3.1. APS currently recovers regulatory assets through July 1, 2004, pursuant to Commission Decision No. 59601 in accordance with the provisions of this Agreement.

3.2. APS has demonstrated that its allowable stranded costs after mitigation (which result from the impact of retail access), exclusive of regulatory assets, are at least $533 million net present value.

3.3. The Parties agree that APS should not be allowed to recover $183 million net present value of the amounts included above. APS shall have a reasonable opportunity to recover $350 million net present value through a competitive transition charge ("CTC") set forth in Exhibit A attached hereto. Such CTC shall remain in effect until December 31, 2004, at which time it will terminate. If by that date APS has recovered more or less than $350 million net present value, as calculated in accordance with Exhibit B attached hereto, then the nominal dollars associated with any excess recovery/under recovery shall be credited/debited against the costs subject to recovery under the adjustment clause set forth in Section 2.6(3).

3.4. The regulatory assets to be recovered under this Agreement, after giving effect to the adjustments set forth in Section 3.3, shall be amortized in accordance with Schedule C of Exhibit A attached hereto.

3.5. Neither the Parties nor the Commission shall take any action that would diminish the recovery of APS' stranded costs or regulatory assets provided for herein. The Company's willingness to enter into this Agreement is based upon the Commission's irrevocable promise to permit recovery of the Company's regulatory assets and stranded costs as provided herein. Such promise by the Commission shall survive the expiration of the Agreement and shall be specifically enforceable against this and any future Commission.

ARTICLE IV
CORPORATE STRUCTURE

4.1. The Commission will approve the formation of an affiliate or affiliates of APS to acquire at book value the competitive services assets as currently required by the Electric Competition Rules. In order to facilitate the separation of such assets efficiently and at the lowest possible cost, the Commission shall grant APS a two-year extension of time until

December 31, 2002, to accomplish such separation. A similar two-year extension shall be authorized for compliance with A.A.C. R14-2-1606(B).

4.2. Approval of this Agreement by the Commission shall be deemed to constitute all requisite Commission approvals for (1) the creation by APS or its parent of new corporate affiliates to provide competitive services including, but not limited to, generation sales and power marketing, and the transfer thereto of APS' generation assets and competitive services, and (2) the full and timely recovery through the adjustment clause referred to in Section 2.6 above for all of the reasonable and prudent costs so incurred in separating competitive generation assets and competitive services as required by proposed A.A.C. R14-2-1615, exclusive of the costs of transferring the APS power marketing function to an affiliate. The assets and services to be transferred shall include the items set forth on Exhibit C attached hereto. Such transfers may require various regulatory and third party approvals, consents or waivers from entities not subject to APS' control, including the FERC and the NRC. No Party to this Agreement (including the Commission) will oppose, or support opposition to, APS requests to obtain such approvals, consents or waivers.

4.3. Pursuant to A.R.S. § 40-202(L), the Commission's approval of this Agreement shall exempt any competitive service provided by APS or its affiliates from the application of various provisions of A.R.S. Title 40, including A.R.S. §§ 40-203, 40-204(A), 40-204(B), 40-248, 40-250, 40-251, 40-285, 40-301, 40-302, 40-303, 40-321, 40-322, 40-331, 40-332, 40-334, 40-365, 40-366, 40-367 and 40-401.

4.4. APS' subsidiaries and affiliates (including APS' parent) may take advantage of competitive business opportunities in both energy and non-energy related businesses by establishing such unregulated affiliates as they deem appropriate, which will be free to operate in such places as they may determine. The APS affiliate or affiliates acquiring APS' generating assets may be a participant in the energy supply market within and outside of Arizona. Approval of this Agreement by the Commission shall be deemed to include the following specific determinations required under Sections 32(c) and (k)(2) of the Public Utility Holding Company Act of 1935:

> APS or an affiliate is authorized to establish a subsidiary company, which will seek exempt wholesale generator ("EWG") status from the Federal Energy Regulatory Commission, for the purposes of acquiring and owning Generation Assets.
>
> The Commission has determined that allowing the Generation Assets to become "eligible facilities," within the meaning of Section 32 of the Public Utility Holding Company Act ("PUHCA"), and owned by an APS EWG affiliate (1) will benefit consumers, (2) is in the public interest, and (3) does not violate Arizona law.

The Commission has sufficient regulatory authority, resources and access to the books and records of APS and any relevant associate, affiliate, or subsidiary company to exercise its duties under Section 32(k) of PUHCA.

APS will purchase any electric energy from its EWG affiliate at market based rates. This Commission has determined that (1) the proposed transaction will benefit consumers and does not violate Arizona law; (2) the proposed transaction will not provide APS' EWG affiliate an unfair competitive advantage by virtue of its affiliation with APS; (3) the proposed transaction is in the public interest.

The APS affiliate or affiliates acquiring APS' generating assets will be subject to regulation by the Commission, to the extent otherwise permitted by law, to no greater manner or extent than that manner and extent of Commission regulation imposed upon other owners or operators of generating facilities.

4.5. The Commission's approval of this Agreement will constitute certain waivers to APS and its affiliates (including its parent) of the Commission's existing affiliate interest rules (A.A.C. R14-2-801, *et seq.*), and the rescission of all or portions of certain prior Commission decisions, all as set forth on Exhibit D attached hereto.

4.6. The Parties reserve their rights under Sections 205 and 206 of the Federal Power Act with respect to the rates of any APS affiliate formed under the provisions of this Article IV.

ARTICLE V
WITHDRAWAL OF LITIGATION

5.1. Upon receipt of a final order of the Commission approving this Agreement that is no longer subject to judicial review, APS and the Parties shall withdraw with prejudice all of their various court appeals of the Commission's competition orders.

ARTICLE VI
APPROVAL BY THE COMMISSION

6.1. This Agreement shall not become effective until the issuance of a final Commission order approving this Agreement without modification on or before August 1, 1999. In the event that the Commission fails to approve this Agreement without modification according to its terms on or before August 1, 1999, any Party to this Agreement may withdraw from this Agreement and shall thereafter not be bound by its provisions; provided, however, that if APS withdraws from this Agreement, the Agreement shall be null and void and of no further force and effect. In any event, the rate reduction provisions of this Agreement shall not take effect until this Agreement is approved. Parties so withdrawing shall be free to pursue

their respective positions without prejudice. Approval of this Agreement by the Commission shall make the Commission a Party to this Agreement and fully bound by its provisions.

6.2. The Parties agree that they shall make all reasonable and good faith efforts necessary to (1) obtain final approval of this Agreement by the Commission, and (2) ensure full implementation and enforcement of all the terms and conditions set forth in this Agreement. Neither the Parties nor the Commission shall take or propose any action which would be inconsistent with the provisions of this Agreement. All Parties shall actively defend this Agreement in the event of any challenge to its validity or implementation.

ARTICLE VII
MISCELLANEOUS MATTERS

7.1. To the extent any provision of this Agreement is inconsistent with any existing or future Commission order, rule or regulation or is inconsistent with the Electric Competition Rules as now existing or as may be amended in the future, the provisions of this Agreement shall control and the approval of this Agreement by the Commission shall be deemed to constitute a Commission-approved variation or exemption to any conflicting provision of the Electric Competition Rules.

7.2. The provisions of this Agreement shall be implemented and enforceable notwithstanding the pendency of a legal challenge to the Commission's approval of this Agreement, unless such implementation and enforcement is stayed or enjoined by a court having jurisdiction over the matter. If any portion of the Commission order approving this Agreement or any provision of this Agreement is declared by a court to be invalid or unlawful in any respect, then (1) APS shall have no further obligations or liability under this Agreement, including, but not limited to, any obligation to implement any future rate reductions under Article II not then in effect, and (2) the modifications to APS' certificates of convenience and necessity referred to in Section 1.4 shall be automatically revoked, in which event APS shall use its best efforts to continue to provide noncompetitive services (as defined in the proposed Electric Competition Rules) at then current rates with respect to customer contracts then in effect for competitive generation (for the remainder of their term) to the extent not prohibited by law and subject to applicable regulatory requirements.

7.3. The terms and provisions of this Agreement apply solely to and are binding only in the context of the purposes and results of this Agreement and none of the positions taken herein by any Party may be referred to, cited or relied upon by any other Party in any fashion as precedent or otherwise in any other proceeding before this Commission or any other regulatory agency or before any court of law for any purpose except in furtherance of the purposes and results of this Agreement.

7.4. This Agreement represents an attempt to compromise and settle disputed claims regarding the prospective just and reasonable rate levels, and the terms and conditions

of competitive retail access, for APS in a manner consistent with the public interest and applicable legal requirements. Nothing contained in this Agreement is an admission by APS that its current rate levels or rate design are unjust or unreasonable.

7.5. As part of this Agreement, APS commits that it will continue the APS Community Action Partnership (which includes weatherization, facility repair and replacement, bill assistance, health and safety programs and energy education) in an annual amount of at least $500,000 through July 1, 2004. Additionally, the Company will, subject to Commission approval, continue low income rates E-3 and E-4 under their current terms and conditions.

7.6. APS shall actively support the Arizona Independent Scheduling Administrator ("AISA") and the formation of the Desert Star Independent System Operator. APS agrees to modify its OATT to be consistent with any FERC approved AISA protocols. The Parties reserve their rights with respect to any AISA protocols, including the right to challenge or seek modifications to, or waivers from, such protocols. APS shall file changes to its existing OATT consistent with this section within ten (10) days of Commission approval of this Agreement pursuant to Section 6.1.

7.7. Within thirty (30) days of Commission approval of this Agreement pursuant to Section 6.1, APS shall serve on the Parties an Interim Code of Conduct to address inter-affiliate relationships involving APS as a utility distribution company. APS shall voluntarily comply with this Interim Code of Conduct until the Commission approves a code of conduct for APS in accordance with the Electric Competition Rules that is concurrently effective with codes of conduct for all other Affected Utilities (as defined in the Electric Competition Rules). APS shall meet and confer with the Parties prior to serving its Interim Code of Conduct.

7.8. In the event of any disagreement over the interpretation of this Agreement or the implementation of any of the provisions of this Agreement, the Parties shall promptly convene a conference and in good faith shall attempt to resolve such disagreement.

7.9. The obligations under this Agreement that apply for a specific term set forth herein shall expire automatically in accordance with the term specified and shall require no further action for their expiration.

7.10. The Parties agree and recommend that the Commission schedule public meetings and hearings for consideration of this Agreement. The filing of this Agreement with the Commission shall be deemed to be the filing of a formal request for the expeditious issuance of a procedural schedule that establishes such formal hearings and public meetings as may be necessary for the Commission to approve this Agreement in accordance with

Section 6.1 and that afford interested parties adequate opportunity to comment and be heard on the terms of this Agreement consistent with applicable legal requirements.

DATED at Phoenix, Arizona, as of this 14th day of May, 1999.

RESIDENTIAL UTILITY CONSUMER OFFICE

By Greg Patterson

Title Director

ARIZONA PUBLIC SERVICE COMPANY

By Jack Davis

Title President Delivery & Sales.

ARIZONA COMMUNITY ACTION ASSOCIATION

By Janet K. Regan

Title Executive Director

(Party) _____

By _____

Title _____

ARIZONANS FOR ELECTRIC CHOICE AND COMPETITION,* a coalition of companies and associations in support of competition that includes Cable Systems International, BHP Copper, Motorola, Chemical Lime, Intel, [redacted], Honeywell, Allied Signal, Cyprus Climax Metals, Asarco, Phelps Dodge, [redacted], Homebuilders of Central Arizona, Arizona Mining Industry Gets Our Support, Arizona Food Marketing Alliance, Arizona Association of Industries, Arizona Multi-housing Association, Arizona Rock Products Association, Arizona Restaurant Association, [redacted], and Arizona Retailers Association.**

By Peter A. Woog

Title CHAIRMAN

(Party) _____

By _____

Title _____

(Party) _____

By _____

Title _____

* Enron is not a signatory to this Agreement

** Also included: Boeing, Az School Board Association, National Federation [illegible] AARP

Exhibit A
5/10/99
DA-R1

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

A.C.C. No. XXXX
Tariff or Schedule No. DA-R1
Original Tariff
Effective: XXX XX, 1999

DIRECT ACCESS
RESIDENTIAL SERVICE

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company and where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable to customers receiving electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. This rate schedule is applicable only to electric delivery required for residential purposes in individual private dwellings and in individually metered apartments when such service is supplied at one point of delivery and measured through one meter. For those dwellings and apartments where electric service has historically been measured through two meters, when one of the meters was installed pursuant to a water heating or space heating rate schedule no longer in effect, the electric service measured by such meters shall be combined for billing purposes.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10.)

TYPE OF SERVICE

Service shall be single phase, 60 Hertz, at one standard voltage (120/240 or 120/208 as may be selected by customer subject to availability at the customers premise). Three phase service is furnished under the Company's Conditions Governing Extensions of Electric Distribution Lines and Services (Schedule #3). Transformation equipment is included in cost of extension. Three phase service is required for motors of an individual rated capacity of 7-1/2 HP or more.

METERING REQUIREMENTS

All customers shall comply with the terms and conditions for load profiling or hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

May – October Billing Cycles (Summer):

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
$/month	$10.00			
All kWh		$0.04158	$0.00115	$0.00930

November – April Billing Cycles (Winter):

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
$/month	$10.00			
All kWh		$0.03518	$0.00115	$0.00930

B. MINIMUM $ 10.00 per month

(CONTINUED ON REVERSE SIDE)

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	$1.30 per month
Meter Reading	$0.30 per month
Billing	$0.30 per month

2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customers served under this rate schedule are responsible for acquiring their own generation and any other required competitively supplied services from an ESP. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

ON-SITE GENERATION TERMS AND CONDITIONS

Customers served under this rate schedule who have on-site generation connected to the Company's electrical delivery grid shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

TERMS AND CONDITIONS

This rate schedule is subject to the Company's Terms and Conditions for Standard Offer and Direct Access Services (Schedule #1) and Schedule #10. These schedules have provisions that may affect customer's monthly bill.

Exhibit A
5/10/99
DA-GS1

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

A.C.C. No. XXXX
Tariff or Schedule No. DA-GS1
Original Tariff
Effective: XXX XX, 1999

DIRECT ACCESS
GENERAL SERVICE

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable to customers receiving electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. This rate schedule is applicable to all electric service required when such service is supplied at one point of delivery and measured through one meter. For those customers whose electricity is delivered through more than one meter, service for each meter shall be computed separately under this rate unless conditions in accordance with the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service) are met. For those service locations where electric service has historically been measured through two meters, when one of the meters was installed pursuant to a water heating rate schedule no longer in effect, the electric service measured by such meters shall be combined for billing purposes.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

This rate schedule is not applicable to residential service, resale service or direct access service which qualifies for Rate Schedule DA-GS10.

TYPE OF SERVICE

Service shall be single or three phase, 60 Hertz, at one standard voltage as may be selected by customer subject to availability at the customer's premise. Three phase service is furnished under the Company's Conditions Governing Extensions of Electric Distribution Lines and Services (Schedule #3). Transformation equipment is included in cost of extension. Three phase service is not furnished for motors of an individual rated capacity of less than 7-1/2 HP, except for existing facilities or where total aggregate HP of all connected three phase motors exceed 12 HP. Three phase service is required for motors of an individual rated capacity of more than 7-1/2 HP.

METERING REQUIREMENTS

All customers shall comply with the terms and conditions for load profiling or hourly metering specified in the Company's Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

June – October Billing Cycles (Summer):

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
$ month	$12.50			
Per kW over 5		$0.721		
Per kWh for the first 2,500 kWh		$0.04255		
Per kWh for the next 100 kWh per kW over 5		$0.04255		
Per kWh for the next 42,000 kWh		$0.02901		
Per kWh for all additional kWh		$0.01811		
Per all kWh			$0.00115	
Per all kW				$2.43

(CONTINUED ON REVERSE SIDE)

A. RATE (continued)

November – May Billing Cycles (Winter):

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
$/month	$12.50			
Per kW over 5		$0.652		
Per kWh for the first 2,500 kWh		$0.03827		
Per kWh for the next 100 kWh per kW over 5		$0.03827		
Per kWh for the next 42,000 kWh		$0.02600		
Per kWh for all additional kWh		$0.01614		
Per all kWh			$0.00115	
Per all kW				$2.43

PRIMARY AND TRANSMISSION LEVEL SERVICE:

1. For customers served at primary voltage (12.5kV to below 69kV), the Distribution charge will be discounted by 11.6%.
2. For customers served at transmission voltage (69kV or higher), the Distribution charge will be discounted 52.6%.
3. Pursuant to A.A.C. R14-2-1612.K.11, the Company shall retain ownership of Current Transformers (CT's) and Potential Transformers (PT's) for those customers taking service at voltage levels of more than 25kV. For customers whose metering services are provided by an ESP, a monthly facilities charge will be billed, in addition to all other applicable charges shown above, as determined in the service contract based upon the Company's cost of CT and PT ownership, maintenance and operation.

DETERMINATION OF KW

The kW used for billing purposes shall be the average kW supplied during the 15-minute period of maximum use during the month, as determined from readings of the delivery meter.

B. MINIMUM

$12.50 plus $1.74 for each kW in excess of five of either the highest kW established during the 12 months ending with the current month or the minimum kW specified in the agreement for service, whichever is the greater.

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	$4.00 per month
Meter Reading	$0.30 per month
Billing	$0.30 per month

2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customers served under this rate schedule are responsible for acquiring their own generation and any other required competitively supplied services from an ESP or under the Company's Open Access Transmission Tariff. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

(CONTINUED ON PAGE 3)

ON-SITE GENERATION TERMS AND CONDITIONS

Customers served under this rate schedule who have on-site generation connected to the Company's electrical delivery grid shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

CONTRACT PERIOD

0 – 1,999 kW:	As provided in Company's standard agreement for service.
2,000 kW and above:	Three (3) years, or longer, at Company's option for initial period when construction is required. One (1) year, or longer, at Company's option when construction is not required.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule #10. These Schedules have provisions that may affect customer's monthly bill.

Exhibit A
5/10/99
DA-GS10

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

A.C.C. No. XXXX
Tariff or Schedule No. DA-GS10
Original Tariff
Effective: XXX XX, 1999

DIRECT ACCESS
EXTRA LARGE GENERAL SERVICE

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable to customers receiving electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. This rate schedule is applicable only to customers whose monthly maximum demand is 3,000 kW or more for three (3) consecutive months in any continuous twelve (12) month period ending with the current month. Service must be supplied at one point of delivery and measured through one meter unless otherwise specified by individual customer contract. For those customers whose electricity is delivered through more than one meter, service for each meter shall be computed separately under this rate unless conditions in accordance with the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service) are met.

This rate schedule is not applicable to resale service.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

TYPE OF SERVICE

Service shall be three phase, 60 Hertz, at Company's standard voltages that are available within the vicinity of customer's premise.

METERING REQUIREMENTS

All customers shall comply with the terms and conditions for hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
$/month	$2,430.00			
per kW		$3.53		$2.82
per kWh		$0.00999	$0.00115	

PRIMARY AND TRANSMISSION LEVEL SERVICE:

1. For customers served at primary voltage (12.5kV to below 69kV), the Distribution charge will be discounted by 4.8%.
2. For customers served at transmission voltage (69kV or higher), the Distribution charge will be discounted 36.7%.
3. Pursuant to A.A.C. R14-2-1612.K.11, the Company shall retain ownership of Current Transformers (CT's) and Potential Transformers (PT's) for those customers taking service at voltage levels of more than 25 kV. For customers whose metering services are provided by an ESP, a monthly facilities charge will be billed, in addition to all other applicable charges shown above, as determined in the service contract based upon the Company's cost of CT and PT ownership, maintenance and operation.

DETERMINATION OF KW

The kW used for billing purposes shall be the greater of:

1. The kW used for billing purposes shall be the average kW supplied during the 15-minute period (or other period as specified by individual customer's contract) of maximum use during the month, as determined from readings of the delivery meter.

2. The minimum kW specified in the agreement for service or individual customer contract.

(CONTINUED ON REVERSE SIDE)

B. MINIMUM

$2,430.00 per month plus $1.74 per kW per month.

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	$55.00 per month
Meter Reading	$ 0.30 per month
Billing	$ 0.30 per month

2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customers served under this rate schedule are responsible for acquiring their own generation and any other required competitively supplied services from an ESP. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

ON-SITE GENERATION TERMS AND CONDITIONS

Customers served under this rate schedule who have on-site generation connected to the Company's electrical delivery grid shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

CONTRACT PERIOD

For service locations in:

a) Isolated Areas: Ten (10) years, or longer, at Company's option, with standard seven (7) year termination period.
b) Other Areas: Three (3) years, or longer, at Company's option.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule #10. These schedules have provisions that may affect customer's monthly bill.

Exhibit A
5/13/99
DA-GS11

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

A.C.C. No. XXXX
Tariff or Schedule No. DA-GS11
Original Tariff
Effective: XXXXX, 1999

DIRECT ACCESS
RALSTON PURINA

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable only to Ralston Purina (Site #863970289) when it receives electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. Service must be supplied as specified by individual customer contract and the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service).

This rate schedule is not applicable to resale service.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

TYPE OF SERVICE

Service shall be three phase, 60 Hertz, at 12.5 kV.

METERING REQUIREMENTS

Customer shall comply with the terms and conditions for hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
$/month	$2,430.00			
per kW		$2.58		$1.86
per kWh		$0.00732	$0.00115	

DETERMINATION OF KW

The kW used for billing purposes shall be the greater of:

1. The kW used for billing purposes shall be the average kW supplied during the 15-minute period (or other period as specified by individual customer's contract) of maximum use during the month, as determined from readings of the delivery meter.

2. The minimum kW specified in the agreement for service or individual customer contract.

B. MINIMUM

$2,430.00 per month plus $1.74 per kW per month.

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	$55.00 per month
Meter Reading	$ 0.30 per month
Billing	$ 0.30 per month

2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

(CONTINUED ON REVERSE SIDE)

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customer is responsible for acquiring its own generation and any other required competitively supplied services from an ESP. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

ON-SITE GENERATION TERMS AND CONDITIONS

If Customer has on-site generation connected to the Company's electrical delivery grid, it shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule #10. These schedules have provisions that may affect customer's monthly bill.

Exhibit A
5/13/99
DA-GS12

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

A.C.C. No. XXXX
Tariff or Schedule No. DA-GS12
Original Tariff
Effective: XXX XX, 1999

DIRECT ACCESS
BHP COPPER

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable only to BHP Copper (Site #774932285) when it receives electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. Service must be supplied as specified by individual customer contract and the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service).

This rate schedule is not applicable to resale service.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

TYPE OF SERVICE

Service shall be three phase, 60 Hertz, at 12.5 kV or higher.

METERING REQUIREMENTS

Customer shall comply with the terms and conditions for hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

	Basic Delivery Service	Distribution at Primary Voltage	Distribution at Transmission Voltage	System Benefits	Competitive Transition Charge
$/month	$2,430.00				
per kW		$2.35	$1.22		$1.54
per kWh		$0.00665	$0.00346	$0.00115	

PRIMARY AND TRANSMISSION LEVEL SERVICE:

Pursuant to A.A.C. R14-2-1612.K.11, the Company shall retain ownership of Current Transformers (CT's) and Potential Transformers (PT's) for those customers taking service at voltage levels of more than 25 kV. For customers whose metering services are provided by an ESP, a monthly facilities charge will be billed, in addition to all other applicable charges shown above, as determined in the service contract based upon the Company's cost of CT and PT ownership, maintenance and operation.

DETERMINATION OF KW

The kW used for billing purposes shall be the greater of:

1. The kW used for billing purposes shall be the average kW supplied during the 30-minute period (or other period as specified by individual customer's contract) of maximum use during the month, as determined from readings of the delivery meter.

2. The minimum kW specified in the agreement for service or individual customer contract.

B. MINIMUM

$2,430.00 per month plus $1.74 per kW per month.

(CONTINUED ON REVERSE SIDE)

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	$55.00 per month
Meter Reading	$ 0.30 per month
Billing	$ 0.30 per month

2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customer is responsible for acquiring its own generation and any other required competitively supplied services from an ESP. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

ON-SITE GENERATION TERMS AND CONDITIONS

If Customer has on-site generation connected to the Company's electrical delivery grid, it shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule #10. These schedules have provisions that may affect customer's monthly bill.

Exhibit A
5/13/99
DA-GS13

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

A.C.C. No. XXXX
Tariff or Schedule No. DA-GS13
Original Tariff
Effective: XXX XX, 1999

DIRECT ACCESS
CYPRUS BAGDAD

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable only to Cyprus Bagdad (Site #120932284) when it receives electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. Service must be supplied as specified by individual customer contract and the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service).

This rate schedule is not applicable to resale service.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

TYPE OF SERVICE

Service shall be three phase, 60 Hertz, at 115 kV or higher.

METERING REQUIREMENTS

Customer shall comply with the terms and conditions for hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
$/month	$2,430.00			
per kW		$1.05		$1.34
per kWh		$0.00298	$0.00115	

PRIMARY AND TRANSMISSION LEVEL SERVICE:

Pursuant to A.A.C. R14-2-1612.K.11, the Company shall retain ownership of Current Transformers (CT's) and Potential Transformers (PT's) for those customers taking service at voltage levels of more than 25 kV. For customers whose metering services are provided by an ESP, a monthly facilities charge will be billed, in addition to all other applicable charges shown above, as determined in the service contract based upon the Company's cost of CT and PT ownership, maintenance and operation.

DETERMINATION OF KW

The kW used for billing purposes shall be the greater of:

1. The kW used for billing purposes shall be the average kW supplied during the 30-minute period (or other period as specified by individual customer's contract) of maximum use during the month, as determined from readings of the delivery meter.

2. The minimum kW specified in the agreement for service or individual customer contract.

B. MINIMUM

$2,430.00 per month plus $1.74 per kW per month, until June 30, 2004 when this minimum will no longer be applicable.

(CONTINUED ON REVERSE SIDE)

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	$55.00 per month
Meter Reading	$ 0.30 per month
Billing	$ 0.30 per month

2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customer is responsible for acquiring its own generation and any other required competitively supplied services from an ESP. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

ON-SITE GENERATION TERMS AND CONDITIONS

If Customer has on-site generation connected to the Company's electrical delivery grid, it shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule #10. These schedules have provisions that may affect customer's monthly bill.

ARIZONA PUBLIC SERVICE COMPANY

Exhibit A
3/10/99
Schedule A

Competitive Transition Charges
By Direct Access Rate Classes

Line #	Direct Access Rate Class	Competition Transition Charges Effective January 1 of 1999	2000	2001	2002	2003	2004
1	Residential, DA-R1 (per kWh)	$ 0.0093	$ 0.0084	$ 0.0063	$ 0.0056	$ 0.0050	$ 0.0036
2	Under 3 mW, DA-GS1, (per kW/mo.)	$ 2.43	$ 2.20	$ 1.66	$ 1.46	$ 1.30	$ 0.94
3	3 mW and Above, DA-GS10 (per kW/mo.)	$ 2.82	$ 2.55	$ 1.89	$ 1.72	$ 1.51	$ 1.09
4	BHP Copper (per kW/mo.)	$ 1.54	$ 1.53	$ 1.06	$ 0.95	$ 0.83	$ 0.61
5	Cyprus Copper (per kW/mo.)	$ 1.34	$ 1.46	$ 1.05	$ 0.94	$ 0.82	$ 0.61
6	Ralston Purina (per kW/mo.)	$ 1.86	$ 1.98	$ 1.50	$ 1.34	$ 1.18	$ 0.87
7	Average Retail (per kWh)	$ 0.0067	$ 0.0061	$ 0.0054	$ 0.0048	$ 0.0043	$ 0.0031

Charges are based upon recovery of $350 million NPV derived from APS' Compliance Filing of 8/21/98 as adjusted to synchronize Direct Access and Standard Offer revenue decreases.

ARIZONA PUBLIC S[illegible]CE COMPANY

Distribution Charges
By Direct Access Rate Classes

Exhibit A
5/13/99
Schedule B

Line #	Direct Access Rate Class	Distribution Charges Effective January 1 of 1999	2000	2001	2002	2003	2004[1]
	Residential, DA-R1						
1	Summer per kWh	$ 0.04158	$ 0.04041	$ 0.03934	$ 0.03837	$ 0.03748	$ 0.03689
2	Winter per kWh	$ 0.03518	$ 0.03419	$ 0.03329	$ 0.03247	$ 0.03172	$ 0.03122
	DA-GS1 (Under 3 mW)						
	Summer Rates						
3	per kW for all kW over 5	$ 0.721	$ 0.691	$ 0.663	$ 0.638	$ 0.615	$ 0.600
4	per kWh for the first 2,500 kWh	$ 0.04255	$ 0.04075	$ 0.03912	$ 0.03763	$ 0.03627	$ 0.03537
5	per kWh for the next 100 kWh per kW over 5	$ 0.04255	$ 0.04075	$ 0.03912	$ 0.03763	$ 0.03627	$ 0.03537
6	per kWh for the next 42,000 kWh	$ 0.02901	$ 0.02779	$ 0.02667	$ 0.02565	$ 0.02473	$ 0.02411
7	per kWh for all additional kWh	$ 0.01811	$ 0.01735	$ 0.01665	$ 0.01602	$ 0.01544	$ 0.01506
	Winter Rates						
8	per kW for all kW over 5	$ 0.652	$ 0.624	$ 0.599	$ 0.576	$ 0.555	$ 0.541
9	per kWh for the first 2,500 kWh	$ 0.03827	$ 0.03666	$ 0.03519	$ 0.03385	$ 0.03263	$ 0.03182
10	per kWh for the next 100 kWh per kW over 5	$ 0.03827	$ 0.03666	$ 0.03519	$ 0.03385	$ 0.03263	$ 0.03182
11	per kWh for the next 42,000 kWh	$ 0.02600	$ 0.02490	$ 0.02390	$ 0.02299	$ 0.02216	$ 0.02161
12	per kWh for all additional kWh	$ 0.01614	$ 0.01546	$ 0.01484	$ 0.01427	$ 0.01376	$ 0.01342
	Voltage Discounts						
13	Primary Voltage	11.6%	12.1%	12.6%	13.1%	13.6%	13.9%
14	Transmission Voltage	52.6%	54.9%	57.2%	59.5%	61.7%	63.3%
	DA-GS10 (3 mW and Above)						
15	per kW	$ 3.53	$ 3.33	$ 3.15	$ 2.98	$ 2.83	$ 2.73
16	per kWh	$ 0.00999	$ 0.00943	$ 0.00892	$ 0.00845	$ 0.00802	$ 0.00774
	Voltage Discounts						
17	Primary Voltage Discount	4.8%	5.1%	5.3%	5.6%	5.9%	6.2%
18	Transmission Voltage Discount	36.7%	38.9%	41.1%	43.4%	45.8%	47.4%
	DA-GS11 (Ralston Purina)						
19	per kW	$ 2.58	$ 2.71	$ 2.57	$ 2.44	$ 2.32	$ 2.25
20	per kWh	$ 0.00732	$ 0.00767	$ 0.00727	$ 0.00691	$ 0.00657	$ 0.00635
	DA-GS12 (BHP Copper)						
21	Primary Voltage Delivery - per kW	$ 2.35	$ 2.30	$ 2.16	$ 2.07	$ 1.99	$ 1.93
22	per kWh	$ 0.00665	$ 0.00651	$ 0.00611	$ 0.00585	$ 0.00561	$ 0.00546
23	Transmission Voltage Delivery - per kW	$ 1.22	$ 1.17	$ 1.03	$ 0.94	$ 0.85	$ 0.80
24	per kWh	$ 0.00346	$ 0.00332	$ 0.00292	$ 0.00266	$ 0.00242	$ 0.00227
	DA-GS13 (Cyprus Bagdad)						
25	per kW	$ 1.05	$ 1.21	$ 1.03	$ 0.94	$ 0.85	$ 0.80
26	per kWh	$ 0.00297	$ 0.00343	$ 0.00292	$ 0.00266	$ 0.00242	$ 0.00227

[1] Transmission voltage customers will not pay Distribution Charges after June 30, 2004

Exhibit A
5/14/99
Schedule C

ARIZONA PUBLIC SERVICE COMPANY

Regulatory Asset Amortization Schedule
(Millions of Dollars)

1999	2000	2001	2002	2003	1/1 - 6/30 2004 [1/]	Total [2/]
164	158	145	115	86	18	686

[1/] Amortization ends 6/30/2004

[2/] Includes the disallowance from Section 3.3

5/10/99

Exhibit B

Annual ACC Jurisdictional Sales of Delivered kWh or kW[1]		x % then Eligible for Access	x Applicable CTC (¢/kWh or $/kW[2]) = Annual Recovery[3]
1999	Residential	20	.93
	General Service less than 3MW	20	2.43
	General Service greater than 3MW	20	2.82
	BHP Copper	20	1.54
	Cyprus Copper	20	1.34
	Ralston Purina	20	1.86
2000	Residential	20	.84
	General Service less than 3MW	20	2.20
	General Service greater than 3MW	20	2.55
	BHP Copper	20	1.53
	Cyprus Copper	20	1.46
	Ralston Purina	20	1.98
2001	Residential	100	.63
	General Service less than 3MW	100	1.66
	General Service greater than 3MW	100	1.89
	BHP Copper	100	1.06
	Cyprus Copper	100	1.05
	Ralston Purina	100	1.50
2002	Residential	100	.56
	General Service less than 3MW	100	1.46
	General Service greater than 3MW	100	1.72
	BHP Copper	100	.95
	Cyprus Copper	100	.94
	Ralston Purina	100	1.34
2003	Residential	100	.50
	General Service less than 3MW	100	1.30
	General Service greater than 3MW	100	1.51
	BHP Copper	100	.83
	Cyprus Copper	100	.82
	Ralston Purina	100	1.18
2004	Residential	100	.36
	General Service less than 3MW	100	.94
	General Service greater than 3MW	100	1.09
	BHP Copper	100	.61
	Cyprus Copper	100	.61
	Ralston Purina	100	.87

[1] This formula assumes no change in APS' distribution service territory. In the event of any material change (e.g. by purchase, sale, expansion, condemnation, etc.) the formula will be adjusted such that APS receives the same opportunity to recover the agreed upon level of costs.

[2] General Service unmetered loads will have a demand calculated for CTC purposes based on contract energy.

[3] At the end of 2004 the net present value will be calculated to compare to the $350 million.

EXHIBIT C

Generation assets include, but are not limited to, APS' interest in the following generating stations:

Palo Verde
Four Corners
Navajo
Cholla
Saguaro
Ocotillo
West Phoenix
Yucca
Douglas
Childs
Irving

including allocated common and general plant, support assets, associated land, fuel supplies and contracts, etc. Generation assets will not include facilities included in APS' FERC transmission rates.

EXHIBIT D

Affiliate Rules Waivers

R14-2-801(5) and R14-2-803, such that the term "reorganization" does not include, and no Commission approval is required for, corporate restructuring that does not directly involve the utility distribution company ("UDC") in the holding company. For example, the holding company may reorganize, form, buy or sell non-UDC affiliates, acquire or divest interests in non-UDC affiliates, etc., without Commission approval.

R14-2-804(A)

R14-2-805(A) shall apply only to the UDC

R14-2-805(A)(2)

R14-2-805(A)(6)

R14-2-805(A)(9), (10), and (11)

Recision of Prior Commission Orders

Section X.C of the "Cogeneration and Small Power Production Policy" attached to Decision No. 52345 (July 27, 1981) regarding reporting requirements for cogeneration information.

Decision No. 55118 (July 24, 1986) - Page 15, Lines 5-1/2 through 13-1/2; Finding of Fact No. 24 relating to reporting requirements under the abolished PPFAC.

Decision No. 55818 (December 14, 1987) in its entirety. This decision related to APS Schedule 9 (Industrial Development Rate) which was terminated by the Commission in Decision No. 59329 (October 11, 1995).

9th and 10th Ordering Paragraphs of Decision No. 56450 (April 13, 1989) regarding reporting requirements under the abolished PPFAC.

Jana Van Ness
Manager
Regulatory Affairs

Tel 602/250-2310
Fax 602/250-3399
e-mail:jvanness@apsc.com
http://www.apsc.com

Mail Station 9909
P.O. Box 53999
Phoenix, AZ 85072-3999

RECEIVED
1999 DEC -1 P 3:48
AZ CORP COMMISSION
DOCUMENT CONTROL

December 1, 1999

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

RE: APS Settlement Proceeding
ACC Docket Nos. E-01345A-98-0473, E-01345A-97-0773, RE-00000C-94-0165

Dear Sir or Madam:

Pursuant to the Opinion and Order, Decision No. 61973 in the above referenced Dockets, Arizona Public Service is filing an Addendum to the Settlement Agreement incorporating the modifications required by that Decision. This Addendum has been reviewed and executed by all signatories to the original APS Settlement Agreement.

If you have any questions regarding this filing, please contact me at (602)250-2310.

Sincerely,

Jana Van Ness
Manager
State Regulations

Attachment

Cc: Docket Control (18 copies plus original)
Parties of Record

Addendum to Settlement Agreement

This Addendum is to the Settlement Agreement dated May 14, 1999 (hereafter "Agreement") between Arizona Public Service Company ("APS" or "Company") and the various signatories to the Agreement (collectively with APS, the "Parties"). By signing this Addendum to Settlement Agreement ("Addendum"), the Parties intend to revise certain provisions of the Agreement as directed by the Arizona Corporation Commission ("Commission") in Decision No. 61973 (October 6, 1999) ("Decision"). The Decision adopted and approved the Agreement subject to certain modifications.

I.
Introduction and Recitals

1. On May 14, 1999, the Parties entered into the Agreement;

2. On May 17, 1999, APS filed with the Commission a Notice of Filing Application for Approval of Settlement Agreement and Request for Procedural Order.

3. Commencing on July 14, 1999, and pursuant to a Procedural Order issued by the Hearing Division of the Commission, a full public evidentiary hearing on the Agreement was conducted.

4. On October 6, 1999, the Commission issued its Decision No. 61973 adopting and approving the Agreement as modified in the Decision.

5. The Parties now wish to enter into this Addendum to revise the Agreement as directed in the Decision.

II.
Addendum Agreement

1. Metering, Meter Reading, and Billing Credits

A. The Company's revised unbundled rates and charges reflecting the metering, meter reading, and billing credits required by the Decision are attached hereto as Revised Exhibit A.

B. The revised unbundled rates and charges in Revised Exhibit A to this Addendum are substituted for the corresponding tariffs in Exhibit A to the Agreement.

C. Schedules A through C of Exhibit A to the Agreement are not affected by this Addendum and were adopted and approved by the Commission in the Decision as originally proposed in the Agreement.

2. Advanced Notice for Large Customers. Section 2.3 of the Agreement is replaced with and superceded by the following provision:

> 2.3. Customers greater than 3 MW who choose a direct access supplier must either (a) give APS one year's advance notice before being eligible to return to Standard Offer service, or (b) pay APS for all additional costs incurred as a result of the customer returning to Standard Offer service without providing APS at least one year's advance notice.

3. Deferral of Transfer Costs. Section 2.6(3) of the Agreement is replaced with and superceded by the following provision:

> (3) compliance with the Electric Competition Rules or Commission-ordered programs or directives related to the implementation of the Electric Competition Rules, as they may be amended from time to time, which costs shall be recovered from all customers receiving services from APS, provided however, that no more than sixty-seven percent (67%) of the costs to transfer generation assets to an affiliate or affiliates shall be allowed to be deferred for future collection under this provision; and

4. Rate Matters. Section 2.8 of the Agreement is replaced with and superceded by the following provision:

> 2.8. Neither the Commission nor APS shall be prevented from seeking or authorizing a change in unbundled or Standard Offer rates prior to July 1, 2004, in the event of (a) conditions or circumstances which constitute an emergency, such as an inability to finance on reasonable terms, or (b) material changes in APS' cost of service for Commission-regulated services resulting from federal, tribal, state or local laws, regulatory requirements, judicial decisions, actions or orders. Except for the changes otherwise specifically contemplated by this Agreement, unbundled and Standard Offer rates shall remain unchanged until at least July 1, 2004.

5. Generation Affiliate. Section 4.1 of the Agreement is replaced with and superceded by the following provisions:

4.1. Affiliates.

(1) The Commission will approve the formation of an affiliate or affiliates of APS to acquire at book value the competitive services and assets as currently required by the Electric Competition Rules. In order to facilitate the separation of such assets efficiently and at the lowest possible cost, the Commission shall grant APS a two-year extension of time until December 31, 2002, to accomplish such separation. A similar two-year extension shall be authorized for compliance with A.A.C. R14-2-1606(B).

(2) The affiliate or affiliates formed under this Section 4.1 shall be direct subsidiaries of Pinnacle West Capital Corporation, and not APS.

(3) After the extensions granted in this Section 4.1 have expired, APS shall procure generation for Standard Offer customers from the competitive market as provided for in the Electric Competition Rules. An affiliated generation company formed pursuant to this Section 4.1 may competitively bid for APS' Standard Offer load, but enjoys no automatic privilege outside of the market bid on account of its affiliation with APS.

6. Statutory Waivers. Section 4.3 of the Agreement is deleted in its entirety.

7. Waivers of Affiliate Interest Rules. The Revised Exhibit D to this Addendum setting forth the Affiliate Rules Waivers is substituted for the corresponding Exhibit D to the Agreement so that the proposed waiver of R14-2-804(A) in the Agreement is deleted.

8. Conflicts with Electric Competition Rules. In reliance upon the Commission's directive in Decision No. 61973 (page 9) that "We want to make it clear that the Commission does not intend to revisit the stranded cost portion of the Agreement. It is also not the Commission's intent to undermine the benefits that parties have bargained for," Section 7.1 is replaced with and superseded by the following provision:

> 7.1. Approval of this Agreement by the Commission shall constitute a waiver of any existing Commission order, rule or regulation to the extent necessary to permit performance of the Agreement, as approved by the Commission. Any future Commission order, rule or regulation shall be construed and administered, insofar as possible, in a manner so as not to conflict with the specific provisions of this Agreement, as approved by the Commission. In the event any of the Parties deems a future Commission order, rule or regulation to be inconsistent with the specific provisions of this Agreement, a waiver of the new Commission order, rule or regulation shall be sought.
>
> Nothing in this Agreement is intended to otherwise interfere with the Commission's ability to exercise its regulatory authority by the issuance of orders, rules or regulations. The requirements of this Agreement shall be performed in accordance with the Commission's Electric Competition Rules including any specific waivers granted by the Commission's order approving this Agreement, except where a specific provision of this Agreement would excuse compliance.

9. Interim Code of Conduct. Section 7.7 of the Agreement is replaced with and superceded by the following provision:

> 7.7. Within thirty (30) days of the date of the Commission decision approving this Agreement pursuant to Section 6.1, APS shall file an initial proposed Code of Conduct to address inter-affiliate relationships involving APS as a utility distribution company as required by the Electric Competition Rules and which includes provisions to govern the supply of generation during the two-year extension provided for by Section 4.1 of this Agreement. Interested parties may provide APS with comments on the initial proposed Code of Conduct within sixty (60) days of the date of the Commission decision approving this Agreement. APS will file a final proposed Code of Conduct for Commission approval within ninety (90) days of the date of the Commission decision approving this Agreement. Until the Commission approves a Code of Conduct for APS, APS will voluntarily comply with the initial proposed Code of Conduct or, once filed, the final proposed Code of Conduct.

10. Effect of Addendum. Other than as specifically modified by this Addendum, all provisions of the Agreement remain in full force and effect.

AGREED TO AS OF December 21, **1999:**

RESIDENTIAL UTILITY CONSUMER OFFICE

By Barbara Wytaske

Title Acting Director

ARIZONA PUBLIC SERVICE COMPANY

By Jack Davis

Title President Director Sales

ARIZONA COMMUNITY ACTION ASSOCIATION

By Betty K Pruitt

Title Acting Executive Director

(Party)

By _____

Title _____

ARIZONANS FOR ELECTRIC CHOICE AND COMPETITION, a coalition of companies and associations in support of competition that includes Cable Systems International, BHP Copper, Motorola, Chemical Lime, Intel, Hughes, Honeywell, Allied Signal, Cyprus Climax Metals, Asarco, Phelps Dodge, Homebuilders of Central Arizona, Arizona Mining Industry Gets Our Support, Arizona Food Marketing Alliance, Arizona Association of Industries, Arizona Multi-housing Association, Arizona Rock Products Association, Arizona Restaurant Association, Arizona Retailers Association, Boeing, Arizona School Board Association, National Federation of Independent Business, Arizona Hospital Association, Lockheed Martin, Abbot Labs and Raytheon.

By _____

Title President

(Party)

By _____

Title _____

(Party)

By _____

Title _____

Revised
EXHIBIT D
Affiliate Rules Waivers

R14-2-801(5) and R14-2-803, such that the term "reorganization" does not include, and no Commission approval is required for, corporate restructuring that does not directly involve the utility distribution company ("UDC") in the holding company. For example, the holding company may reorganize, form, buy or sell non-UDC affiliates, acquire or divest interests in non-UDC affiliates, etc., without Commission approval.

R14-2-805(A) shall apply only to the UDC

R14-2-805(A)(2)

R14-2-805(A)(6)

R14-2-805(A)(9), (10), and (11)

Recision of Prior Commission Orders

Section X.C of the "Cogeneration and Small Power Production Policy" attached to Decision No. 52345 (July 27, 1981) regarding reporting requirements for cogeneration information.

Decision No. 55118 (July 24, 1986) - Page 15, Lines 5-1/2 through 13-1/2; Finding of Fact No. 24 relating to reporting requirements under the abolished PPFAC.

Decision No. 55818 (December 14, 1987) in its entirety. This decision related to APS Schedule 9 (Industrial Development Rate) which was terminated by the Commission in Decision No. 59329 (October 11, 1995).

9th and 10th Ordering Paragraphs of Decision No. 56450 (April 13, 1989) regarding reporting requirements under the abolished PPFAC.

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

ORIGINAL

A.C.C. No. 5351
Tariff or Schedule No. DA-GS1
Original Tariff
Effective: October 1, 1999

DIRECT ACCESS
GENERAL SERVICE

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable to customers receiving electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. This rate schedule is applicable to all electric service required when such service is supplied at one point of delivery and measured through one meter. For those customers whose electricity is delivered through more than one meter, service for each meter shall be computed separately under this rate unless conditions in accordance with the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service) are met. For those service locations where electric service has historically been measured through two meters, when one of the meters was installed pursuant to a water heating rate schedule no longer in effect, the electric service measured by such meters shall be combined for billing purposes.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

This rate schedule is not applicable to residential service, resale service or direct access service which qualifies for Rate Schedule DA-GS10.

TYPE OF SERVICE

Service shall be single or three phase, 60 Hertz, at one standard voltage as may be selected by customer subject to availability at the customer's premise. Three phase service is furnished under the Company's Conditions Governing Extensions of Electric Distribution Lines and Services (Schedule #3). Transformation equipment is included in cost of extension. Three phase service is not furnished for motors of an individual rated capacity of less than 7-1/2 HP, except for existing facilities or where total aggregate HP of all connected three phase motors exceed 12 HP. Three phase service is required for motors of an individual rated capacity of more than 7-1/2 HP.

METERING REQUIREMENTS

All customers shall comply with the terms and conditions for load profiling or hourly metering specified in the Company's Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

June - October Billing Cycles (Summer)

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
$ month	$12.50			
Per kW over 5		$0.7721		
Per kWh for the first 2,500 kWh		$0.04255		
Per kWh for the next 100 kWh per kW over 5		$0.04255		
Per kWh for the next 42,000 kWh		$0.02901		
Per kWh for all additional kWh		$0.01811		
Per all kWh			$0.00115	
Per all kW				$2.43

(CONTINUED ON REVERSE SIDE)

APPROVED FOR FILING
DECISION #: 61973

ON-SITE GENERATION TERMS AND CONDITIONS

Customers served under this rate schedule who have on-site generation connected to the Company's electrical delivery grid shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

CONTRACT PERIOD

0 - 1,999 kW:	As provided in Company's standard agreement for service.
2,000 kW and above:	Three (3) years, or longer, at Company's option for initial period when construction is required. One (1) year, or longer, at Company's option when construction is not required.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule #10. These Schedules have provisions that may affect customer's monthly bill.

APPROVED FOR FILING

DECISION #: 61973

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

ORIGINAL

A.C.C. No. 5350
Tariff or Schedule No. DA-R1
Original Tariff
Effective: October 1, 1999

DIRECT ACCESS
RESIDENTIAL SERVICE

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company and where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable to customers receiving electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. This rate schedule is applicable only to electric delivery required for residential purposes in individual private dwellings and in individually metered apartments when such service is supplied at one point of delivery and measured through one meter. For those dwellings and apartments where electric service has historically been measured through two meters, when one of the meters was installed pursuant to a water heating or space heating rate schedule no longer in effect, the electric service measured by such meters shall be combined for billing purposes.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10.)

TYPE OF SERVICE

Service shall be single phase, 60 Hertz, at one standard voltage (120/240 or 120/208 as may be selected by customer subject to availability at the customer's premise). Three phase service is furnished under the Company's Conditions Governing Extensions of Electric Distribution Lines and Services (Schedule #3). Transformation equipment is included in cost of extension. Three phase service is required for motors of an individual rated capacity of 7-1/2 HP or more.

METERING REQUIREMENTS

All customers shall comply with the terms and conditions for load profiling or hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amounts computed under A. or B. below, including the applicable Adjustments.

A. RATE

May - October Billing Cycles (Summer):

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
$/month	$10.00			
All kWh		$0.04158	$0.00115	$0.00930

November - April Billing Cycles (Winter):

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
$/month	$10.00			
All kWh		$0.03518	$0.00115	$0.00930

B. MINIMUM $10.00 per month

(CONTINUED ON REVERSE SIDE)

APPROVED FOR FILING
DECISION #: 61973

Exhibit A
DA-GS10

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

ORIGINAL

A.C.C. No. 5352
Tariff or Schedule No. DA-GS10
Original Tariff
Effective: October 1, 1999

DIRECT ACCESS
EXTRA LARGE GENERAL SERVICE

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable to customers receiving electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. This rate schedule is applicable only to customers whose monthly maximum demand is 3,000 kW or more for three (3) consecutive months in any continuous twelve (12) month period ending with the current month. Service must be supplied at one point of delivery and measured through one meter unless otherwise specified by individual customer contract. For those customers whose electricity is delivered through more than one meter, service for each meter shall be computed separately under this rate unless conditions in accordance with the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service) are met.

This rate schedule is not applicable to resale service.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

TYPE OF SERVICE

Service shall be three phase, 60 Hertz, at Company's standard voltages that are available within the vicinity of customer's premise.

METERING REQUIREMENTS

All customers shall comply with the terms and conditions for hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
$/month	$2,430.00			
per kW		$3.53		$2.82
per kWh		$0.00999	$0.00115	

PRIMARY AND TRANSMISSION LEVEL SERVICE

1. For customers served at primary voltage (12.5kV to below 69kV), the Distribution charge will be discounted by 4.8%.
2. For customers served at transmission voltage (69kV or higher), the Distribution charge will be discounted 36.7%.
3. Pursuant to A.A.C. R14-2-1612.K.11, the Company shall retain ownership of Current Transformers (CT's) and Potential Transformers (PT's) for those customers taking service at voltage levels of more than 25 kV. For customers whose metering services are provided by an ESP, a monthly facilities charge will be billed, in addition to all other applicable charges shown above, as determined in the service contract based upon the Company's cost of CT and PT ownership, maintenance and operation.

DETERMINATION OF KW

The kW used for billing purposes shall be the greater of:

1. The kW used for billing purposes shall be the average kW supplied during the 15-minute period (or other period as specified by individual customer's contract) of maximum use during the month, as determined from readings of the delivery meter.

2. The minimum kW specified in the agreement for service or individual customer contract.

(CONTINUED ON REVERSE SIDE)

APPROVED FOR FILING
DECISION #: 61973

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

ORIGINAL

A.C.C. No. 5395
Tariff or Schedule No. DA-GS11
Original Tariff
Effective: October 1, 1999

DIRECT ACCESS
RALSTON PURINA

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable only to Ralston Purina (Site #863970289) when it receives electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. Service must be supplied as specified by individual customer contract and the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service).

This rate schedule is not applicable to resale service.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

TYPE OF SERVICE

Service shall be three phase, 60 Hertz, at 12.5 kV.

METERING REQUIREMENTS

Customer shall comply with the terms and conditions for hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
$/month	$2,430.00			
per kW		$2.58		$1.86
per kWh		$0.00732	$0.00115	

DETERMINATION OF KW

The kW used for billing purposes shall be the greater of:

1. The kW used for billing purposes shall be the average kW supplied during the 15-minute period (or other period as specified by individual customer's contract) of maximum use during the month, as determined from readings of the delivery meter.
2. The minimum kW specified in the agreement for service or individual customer contract.

B. MINIMUM

$2,430.00 per month plus $1.74 per kW per month.

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	$134.15 per month
Meter Reading	$1.69 per month
Billing	$1.33 per month

2. The monthly bill is also subject to the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

(CONTINUED ON REVERSE SIDE)

APPROVED FOR FILING
1/1672

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

ORIGINAL

A.C.C. No. 5396
Tariff or Schedule No. DA-GS12
Original Tariff
Effective: October 1, 1999

DIRECT ACCESS
BHP COPPER

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable only to BHP Copper (Site #7749322851) when it receives electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. Service must be supplied as specified by individual customer contract and the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service).

This rate schedule is not applicable to resale service.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

TYPE OF SERVICE

Service shall be three phase, 60 Hertz, at 12.5 kV or higher.

METERING REQUIREMENTS

Customer shall comply with the terms and conditions for hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

	Basic Delivery Service	Distribution at Primary Voltage	Distribution at Transmission Voltage	System Benefits	Competitive Transition Charge
$/month	$2,430.00				
per kW		$2.35	$1.22		$1.54
per kWh		$0.00665	$0.00346	$0.00115	

PRIMARY AND TRANSMISSION LEVEL SERVICE

Pursuant to A.A.C. R14-2-1612.K.11, the Company shall retain ownership of Current Transformers (CT's) and Potential Transformers (PT's) for those customers taking service at voltage levels of more than 25 kV. For customers whose metering services are provided by an ESP, a monthly facilities charge will be billed, in addition to all other applicable charges shown above, as determined in the service contract based upon the Company's cost of CT and PT ownership, maintenance and operation.

DETERMINATION OF KW

The kW used for billing purposes shall be the greater of:

1. The kW used for billing purposes shall be the average kW supplied during the 30-minute period (or other period as specified by individual customer's contract) of maximum use during the month, as determined from readings of the delivery meter.

2. The minimum kW specified in the agreement for service or individual customer contract.

B. MINIMUM

$2,430.00 per month plus $1.74 per kW per month.

(CONTINUED ON REVERSE SIDE)

APPROVED FOR FILING
DECISION #: 61973

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

ORIGINAL

A.C.C. No. 5397
Tariff or Schedule No. DA-GS13
Original Tariff
Effective: October 1, 1999

DIRECT ACCESS
CYPRUS BAGDAD

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable only to Cyprus Bagdad (Site #120932284) when it receives electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. Service must be supplied as specified by individual customer contract and the Company's Schedule #4 (Toulized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service).

This rate schedule is not applicable to resale service.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

TYPE OF SERVICE

Service shall be three phase, 60 Hertz, at 115 kV or higher.

METERING REQUIREMENTS

Customer shall comply with the terms and conditions for hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
$/month	$2,430.00			
per kW		$1.05		$1.34
per kWh		$0.0029*	$0.00115	

PRIMARY AND TRANSMISSION LEVEL SERVICE

Pursuant to A.A.C. R14-2-1612 K.11, the Company shall retain ownership of Current Transformers (CT's) and Potential Transformers (PT's) for those customers taking service at voltage levels of more than 25 kV. For customers whose metering services are provided by an ESP, a monthly facilities charge will be billed, in addition to all other applicable charges shown above, as determined in the service contract based upon the Company's cost of CT and PT ownership, maintenance and operation.

DETERMINATION OF KW

The kW used for billing purposes shall be the greater of:

1. The kW used for billing purposes shall be the average kW supplied during the 30-minute period (or other period as specified by individual customer's contract) of maximum use during the month, as determined from readings of the delivery meter.

2. The minimum kW specified in the agreement for service or individual customer contract.

B. MINIMUM

$2,430.00 per month plus $1.74 per kW per month, until June 30, 2004 when this minimum will no longer be applicable.

(CONTINUED ON REVERSE SIDE)

APPROVED FOR FILING
DECISION #: 61973

ARIZONA PUBLIC ... VICE COMPANY

Competitive Transition Charges
By Direct Access Rate Classes

Line #	Direct Access Rate Class	Competition Transition Charges Effective January 1 of 1999	2000	2001	2002	2003	2004
1	Residential, DA-R1 (per kWh)	$ 0.0093	$ 0.0084	$ 0.0063	$ 0.0056	$ 0.0050	$ 0.0036
2	Under 3 mW, DA-GS1, (per kW/mo.)	$ 2.43	$ 2.20	$ 1.66	$ 1.46	$ 1.30	$ 0.94
3	3 mW and Above, DA-GS10 (per kW/mo.)	$ 2.82	$ 2.55	$ 1.89	$ 1.72	$ 1.51	$ 1.09
4	BHP Copper (per kW/mo.)	$ 1.54	$ 1.53	$ 1.06	$ 0.95	$ 0.83	$ 0.61
5	Cyprus Copper (per kW/mo.)	$ 1.34	$ 1.46	$ 1.05	$ 0.94	$ 0.82	$ 0.61
6	Ralston Purina (per kW/mo.)	$ 1.86	$ 1.98	$ 1.50	$ 1.34	$ 1.18	$ 0.87
7	Average Retail (per kWh)	$ 0.0067	$ 0.0061	$ 0.0054	$ 0.0048	$ 0.0043	$ 0.0031

Charges are based upon recovery of $350 million NPV derived from APS' Compliance Filing of 8/21/98 as adjusted to synchronize Direct Access and Standard Offer revenue decreases.

ARIZONA PUBLIC S[illegible]CE COMPANY

...ibit A
5/13/99
Schedule H

Distribution Charges
By Direct Access Rate Classes

Line #	Direct Access Rate Class	Distribution Charges Effective January 1 of 1999	2000	2001	2002	2003	2004[1]
	Residential, DA-R1						
1	Summer per kWh	$ 0.04158	$ 0.04041	$ 0.03934	$ 0.03837	$ 0.03748	$ 0.03689
2	Winter per kWh	$ 0.03518	$ 0.03419	$ 0.03329	$ 0.03247	$ 0.03172	$ 0.03122
	DA-GS1 (Under 3 mW)						
	Summer Rates						
3	per kW for all kW over 5	$ 0.721	$ 0.691	$ 0.664	$ 0.638	$ 0.615	$ 0.600
4	per kWh for the first 2,500 kWh	$ 0.04255	$ 0.04075	$ 0.03912	$ 0.03763	$ 0.03627	$ 0.03537
5	per kWh for the next 100 kWh per kW over 5	$ 0.04255	$ 0.04075	$ 0.03912	$ 0.03763	$ 0.03627	$ 0.03537
6	per kWh for the next 42,000 kWh	$ 0.02901	$ 0.02779	$ 0.02667	$ 0.02565	$ 0.02473	$ 0.02411
7	per kWh for all additional kWh	$ 0.01811	$ 0.01735	$ 0.01665	$ 0.01602	$ 0.01544	$ 0.01506
	Winter Rates						
8	per kW for all kW over 5	$ 0.652	$ 0.624	$ 0.599	$ 0.576	$ 0.555	$ 0.541
9	per kWh for the first 2,500 kWh	$ 0.03827	$ 0.03666	$ 0.03519	$ 0.03385	$ 0.03263	$ 0.03182
10	per kWh for the next 100 kWh per kW over 5	$ 0.03827	$ 0.03666	$ 0.03519	$ 0.03385	$ 0.03263	$ 0.03182
11	per kWh for the next 42,000 kWh	$ 0.02600	$ 0.02490	$ 0.02390	$ 0.02299	$ 0.02216	$ 0.02161
12	per kWh for all additional kWh	$ 0.01614	$ 0.01546	$ 0.01484	$ 0.01427	$ 0.01376	$ 0.01342
	Voltage Discounts						
13	Primary Voltage	11.6%	12.1%	12.6%	13.1%	13.6%	13.9%
14	Transmission Voltage	52.6%	54.9%	57.2%	59.5%	61.7%	63.3%
	DA-GS10 (3 mW and Above)						
15	per kW	$ 3.53	$ 3.33	$ 3.15	$ 2.98	$ 2.83	$ 2.73
16	per kWh	$ 0.00999	$ 0.00943	$ 0.00892	$ 0.00845	$ 0.00802	$ 0.00774
	Voltage Discounts						
17	Primary Voltage Discount	4.8%	5.1%	5.4%	5.6%	5.9%	6.2%
18	Transmission Voltage Discount	36.7%	38.9%	41.1%	43.4%	45.8%	47.4%
	DA-GS11 (Ralston Purina)						
19	per kW	$ 2.58	$ 2.71	$ 2.57	$ 2.44	$ 2.32	$ 2.25
20	per kWh	$ 0.00732	$ 0.00767	$ 0.00727	$ 0.00691	$ 0.00657	$ 0.00635
	DA-GS12 (IBEW Copper)						
21	Primary Voltage Delivery - per kW	$ 2.35	$ 2.30	$ 2.16	$ 2.07	$ 1.99	$ 1.93
22	per kWh	$ 0.00665	$ 0.00651	$ 0.00611	$ 0.00585	$ 0.00561	$ 0.00546
23	Transmission Voltage Delivery - per kW	$ 1.22	$ 1.17	$ 1.03	$ 0.94	$ 0.85	$ 0.80
24	per kWh	$ 0.00346	$ 0.00332	$ 0.00292	$ 0.00266	$ 0.00242	$ 0.00227
	DA-GS13 (Cyprus Bagdad)						
25	per kW	$ 1.05	$ 1.21	$ 1.03	$ 0.94	$ 0.85	$ 0.80
26	per kWh	$ 0.00297	$ 0.00343	$ 0.00292	$ 0.00266	$ 0.00242	$ 0.00227

[1] Transmission voltage customers will not pay Distribution Charges after June 30, 2004

Exhibit A
5/14/99
Schedule C

ARIZONA PUBLIC SERVICE COMPANY

Regulatory Asset Amortization Schedule
(Millions of Dollars)

1999	2000	2001	2002	2003	1/1 - 6/30 2004 [1]	Total [2]
164	158	145	115	86	18	686

[1] Amortization ends 6/30/2004

[2] Includes the disallowance from Section 3.3

ATTACHMENT E

List of County and Municipal Franchises

MUNICIPAL FRANCHISES
(Expiration Date Order)

Municipality Name	Effective Date	Expiration Date
Winkelman	11/25/75	November 25, 2000
Holbrook	4/28/76	April 28, 2001
Prescott	10/11/76	October 11, 2001
Eloy	6/21/77	June 21, 2002
Chandler	7/28/77	July 28, 2002
Gilbert	12/13/77	December 13, 2002
Casa Grande	12/19/77	December 19, 2002
Superior	1/1/78	January 1, 2003
Coolidge	1/13/78	January 13, 2003
Florence	6/1/78	June 1, 2003
Miami	6/19/78	June 19, 2003
Buckeye	5/14/79	May 14, 2004
Prescott Valley	8/9/79	August 9, 2004
Phoenix	10/5/79	October 4, 2004
Winslow	10/23/79	October 23, 2004
El Mirage	3/13/80	March 13, 2005
Scottsdale	3/30/80	March 29, 2005

Municipality Name	Effective Date	Expiration Date
Avondale	4/12/89	April 12, 2005
Goodyear	4/14/80	April 14, 2005
Parker	5/5/80	May 5, 2005
Peoria	/13/80	May 13, 2005
Glendale	6/14/80	June 13, 2005
Wickenburg	9/8/80	September 8, 2005
Snowflake	2/11/81	February 11, 2006
Bisbee	6/30/81	June 30, 2006
San Luis	7/8/81	July 8, 2006
Show Low	11/25/81	Nov. 25, 2006
Douglas	4/27/82	April 27, 2007
Tempe	1/1/82	January 1, 2007
Clarkdale	7/12/84	July 12, 2009
Hayden	3/18/85	March 18, 2010
Carefree	6/5/85	June 5, 2010
Yuma	6/5/90	June 5, 2010
Cottonwood	6/3/86	June 3, 2011
Kearny	6/6/86	June 6, 2011
Youngtown	7/17/86	July 17, 2011

Municipality Name	Effective Date	Expiration Date
Flagstaff	8/21/86	August 21, 2011
Tombstone	10/20/86	October 20, 2011
Camp Verde	11/25/87	Nov. 25, 2012
Surprise	12/17/87	Dec. 17, 2012
Paradise Valley	1/19/88	January 19, 2013
Litchfield Park	3/15/88	March 15, 2013
Cave Creek	12/6/88	December 6, 2013
Gila Bend	12/6/88	December 6, 2013
Globe	8/22/89	August 22, 2014
Quartzsite	3/20/90	March 20, 2015
Sedona	11/19/91	Nov. 19, 2016
Taylor	6/16/92	June 16, 2017
Somerton	4/27/93	April 27, 2018
Chino Valley	03/11/97	March 11, 2022
Payson	5/8/74	May 9, 2024

COUNTY FRANCHISES
(Expiration Date Order)

County Name	Effective Date	Expiration Date
Yavapai	10/24/77	October 24, 2002
Navajo	10/21/80	October 21, 2005
Coconino	5/4/81	May 4, 2006
La Paz	4/23/84	April 23, 2009
Cochise	4/25/88	April 25, 2013
Apache	12/18/89	December 18, 2014
Gila	1/27/92	January 27, 2017
Yuma	10/3/94	October 3, 2019
Pima	12/13/94	December 13, 2019
Pinal	8/27/95	August 27, 2020
Maricopa	9/18/96	September 18, 2021

ATTACHMENT F

Form of Notice

Notice of Filing

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Arizona Public Service Company	)	**Docket No. EC00-_____**
Pinnacle West Capital Corporation	)	
Pinnacle West Energy Corporation	)	

NOTICE OF FILING
(____, 2000)

Take notice that on July 28, 2000, Arizona Public Service Corporation ("APS"), Pinnacle West Capital Corporation ("PWCC"), and Pinnacle West Energy Corporation, ("PWE") (collectively, "Applicants"), filed with the Commission an Application for Authorization to Transfer Jurisdictional Facilities under Section 203 of the Federal Power Act, 16 U.S.C. § 824b (1994), and Part 33 of the Federal Energy Regulatory Commission's (FERC or the Commission) Regulations, 18 C.F.R. §§ 33.1-33.10 (1999).

Any person desiring to be heard or to protest said filing should file a motion to intervene or protest with the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426, in accordance with Rules 211 and 214 of the Commission's Rules of Practice and Procedures (18 C.F.R. § 385.211 and 18 C.F.R. § 385.214). All such motions or protests should be filed on or before _____, 2000. Protests will be considered by the Commission in determining the appropriate action to be taken, but will not serve to make protestants parties to the proceedings. Any person wishing to become a party must file a motion to intervene. Copies of this filing are on file with the Commission and are available for public inspection. This filing may also be viewed on the Internet at http://www.ferc.fed.us/online/rims.htm (call 202-208-2222 for assistance).

David P. Boergers
Secretary

EXHIBIT A

Resolution of APS's Board of Directors

Applicants have requested a waiver from the requirement to file Exhibit A.

EXHIBIT B

Statement of Measure of Control

The proposed transactions will not create new corporate relationships with third parties. All relevant entities are wholly owned subsidiaries of PWCC, which remains the parent company. These entities include APS, PWE, and APSES. PWCC does not own any bank, trust company, banking association, or firm that is authorized by law to underwrite or participate in the marketing of securities of a public utility, or any company supplying electric equipment to such party.

STATE OF ARIZONA)
) ss.
County of Maricopa)

I, Barbara M. Gomez, Treasurer of Pinnacle West Energy Corporation, do hereby certify that I have read the foregoing Exhibit B to the application of Arizona Public Service Company, Pinnacle West Capital Corporation and Pinnacle West Energy Corporation for approval of transfer of facilities and that the information contained therein is true to the best of my knowledge, information and belief.

Barbara M. Gomez

SUBSCRIBED AND SWORN to before me this 27th day of July, 2000.

Joel R. Spitzkoff
Notary Public

My Commission expires:

June 22, 2003

JOEL R. SPITZKOFF
Notary Public - Arizona
MARICOPA COUNTY
My Commission Expires
JUNE 22, 2003

EXHIBIT C

Balance Sheet

Applicants have requested a waiver from the requirement to file Exhibit C.

EXHIBIT D

Statement of Contingent Liabilities

Applicants have requested a waiver from the requirement to file Exhibit D.

EXHIBIT E

Income Statement

Applicants have requested a waiver from the requirement to file Exhibit E.

EXHIBIT F

Analysis of Retained Earnings

Applicants have requested a waiver from the requirement to file Exhibit F.

EXHIBIT G

Applications Filed With Other Federal and State Regulators

In the event Applicants file their Application with the Nuclear Regulatory Commission ("NRC") for approval to transfer APS's interest in the Palo Verde Nuclear Generating Facility to PWE prior to such time as the Commission has approved the instant Section 203 application, Applicants will submit a copy of the NRC Application to the Commission. Otherwise, Applicants request a waiver from the requirement to file Exhibit G.

EXHIBIT H

Copy of all Contracts Between APS and PWE

Regarding the Proposed Transfer of Assets

As this Application is for an affiliate transfer, APS has not entered into any contracts to sell, lease, or otherwise dispose of the jurisdictional facilities that are the subject of this Application.

STATE OF ARIZONA)
) ss.
County of Maricopa)

I, Barbara M. Gomez, Treasurer of Pinnacle West Energy Corporation, do hereby certify that I have read the foregoing Exhibit H to the application of Arizona Public Service Company, Pinnacle West Capital Corporation and Pinnacle West Energy Corporation for approval of transfer of facilities and that the information contained therein is true to the best of my knowledge, information and belief.

Barbara M. Gomez

SUBSCRIBED AND SWORN to before me this 27th day of July, 2000.

Joel R. Spitzkoff
Notary Public

My Commission expires:

June 22, 2003

JOEL R. SPITZKOFF
Notary Public - Arizona
MARICOPA COUNTY
My Commission Expires
JUNE 22, 2003

APS Electrical Generating System

APS ELECTRICAL GENERATING SYSTEM

	Unit Name	County	Ownership
1	**YUCCA:**	Yuma	
	Combustion Turbine 1		Arizona Public Service
	Combustion Turbine 2		
	Combustion Turbine 3		
	Combustion Turbine 4		
2	**DOUGLAS:**	Cochise	
	Combustion Turbine 1		Arizona Public Service
3	**SAGUARO:**	Pinal	
	Steam Unit 1		Arizona Public Service
	Steam Unit 2		
	Combustion Turbine 1		
	Combustion Turbine 2		
4	**OCOTILLO:**	Maricopa	
	Steam Unit 1		Arizona Public Service
	Steam Unit 2		
	Combustion Turbine 1		
	Combustion Turbine 2		
	Solar 1		
	Solar 2		
5	**WEST PHOENIX:**	Maricopa	
	Steam Unit 4		Arizona Public Service
	Steam Unit 5		
	Steam Unit 6		
	Combustion Turbine 1		
	Combustion Turbine 2		
	Combined Cycle 1		
	Combined Cycle 2		
	Combined Cycle 3		
6	**CHOLLA:**	Navajo	
	Coal Unit 1		Arizona Public Service
	Coal Unit 2		
	Coal Unit 3		
7	**FOUR CORNERS:**	San Juan	
	Coal Unit 1		Arizona Public Service
	Coal Unit 2		
	Coal Unit 3		
	Coal Unit 4		Arizona Public Service, Salt River Project, Tucson Electric Power
	Coal Unit 5		Public Service New Mexico, Southern Cal Edison, El Paso Electric
8	**NAVAJO:**	Coconino	
	Coal Unit 1		Arizona Public Service, Salt River Project, Tucson Electric Power
	Coal Unit 2		Nevada Power, Los Angeles Dept of Water and Power,
	Coal Unit 3		US Government
9	**PALO VERDE:**	Maricopa	
	Nuclear Unit 1		Arizona Public Service, Salt River Project, Southern Cal Public Auth,
	Nuclear Unit 2		Public Service New Mexico, Southern Cal Edison, El Paso Electric,
	Nuclear Unit 3		Los Angeles Dept of Water and Power
10	**COCONINO**	Coconino	
	Solar 1		Arizona Public Service
11	**GLENDALE**	Maricopa	
	Solar 1		Arizona Public Service
12	**SCOTTSDALE**	Maricopa	
	Solar 1		Arizona Public Service

STATE OF ARIZONA)
) ss.
County of Maricopa)

I, Ellen Willhite, Manager, Generation Administration Support, of Arizona Public Service Company, do hereby certify that the foregoing Exhibit I contains an accurate depiction of the facilities that Arizona Public Service is transferring to Pinnacle West Energy Corporation.

Ellen Willhite
Ellen Willhite

SUBSCRIBED AND SWORN to before me this 24 day of July, 2000.

Twyla Hannah
Notary Public

My Commission expires:

OFFICIAL SEAL
TWYLA HANNAH
Notary Public - State of Arizona
MARICOPA COUNTY
My Comm. Expires Nov. 12, 2002

Jana Van Ness
Manager
Regulatory Affairs

Tel 602/250-2310
Fax 602/250-3399
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1999 DEC -1 P 3:48
AZ CORP COMMISSION
DOCUMENT CONTROL

EXHIBIT D-6

December 1, 1999

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

RE: APS Settlement Proceeding
ACC Docket Nos. E-01345A-98-0473, E-01345A-97-0773, RE-00000C-94-0165

Dear Sir or Madam:

Pursuant to the Opinion and Order, Decision No. 61973 in the above referenced Dockets, Arizona Public Service is filing an Addendum to the Settlement Agreement incorporating the modifications required by that Decision. This Addendum has been reviewed and executed by all signatories to the original APS Settlement Agreement.

If you have any questions regarding this filing, please contact me at (602)250-2310.

Sincerely,

Jana Van Ness
Manager
State Regulations

Attachment

Cc: Docket Control (18 copies plus original)
Parties of Record

Addendum to Settlement Agreement

This Addendum is to the Settlement Agreement dated May 14, 1999 (hereafter "Agreement") between Arizona Public Service Company ("APS" or "Company") and the various signatories to the Agreement (collectively with APS, the "Parties"). By signing this Addendum to Settlement Agreement ("Addendum"), the Parties intend to revise certain provisions of the Agreement as directed by the Arizona Corporation Commission ("Commission") in Decision No. 61973 (October 6, 1999) ("Decision"). The Decision adopted and approved the Agreement subject to certain modifications.

I.
Introduction and Recitals

1. On May 14, 1999, the Parties entered into the Agreement;

2. On May 17, 1999, APS filed with the Commission a Notice of Filing Application for Approval of Settlement Agreement and Request for Procedural Order.

3. Commencing on July 14, 1999, and pursuant to a Procedural Order issued by the Hearing Division of the Commission, a full public evidentiary hearing on the Agreement was conducted.

4. On October 6, 1999, the Commission issued its Decision No. 61973 adopting and approving the Agreement as modified in the Decision.

5. The Parties now wish to enter into this Addendum to revise the Agreement as directed in the Decision.

II.
Addendum Agreement

1. Metering, Meter Reading, and Billing Credits

A. The Company's revised unbundled rates and charges reflecting the metering, meter reading, and billing credits required by the Decision are attached hereto as Revised Exhibit A.

B. The revised unbundled rates and charges in Revised Exhibit A to this Addendum are substituted for the corresponding tariffs in Exhibit A to the Agreement.

C. Schedules A through C of Exhibit A to the Agreement are not affected by this Addendum and were adopted and approved by the Commission in the Decision as originally proposed in the Agreement.

2. Advanced Notice for Large Customers. Section 2.3 of the Agreement is replaced with and superceded by the following provision:

> 2.3. Customers greater than 3 MW who choose a direct access supplier must either (a) give APS one year's advance notice before being eligible to return to Standard Offer service, or (b) pay APS for all additional costs incurred as a result of the customer returning to Standard Offer service without providing APS at least one year's advance notice.

3. Deferral of Transfer Costs. Section 2.6(3) of the Agreement is replaced with and superceded by the following provision:

> (3) compliance with the Electric Competition Rules or Commission-ordered programs or directives related to the implementation of the Electric Competition Rules, as they may be amended from time to time, which costs shall be recovered from all customers receiving services from APS, provided however, that no more than sixty-seven percent (67%) of the costs to transfer generation assets to an affiliate or affiliates shall be allowed to be deferred for future collection under this provision; and

4. Rate Matters. Section 2.8 of the Agreement is replaced with and superceded by the following provision:

> 2.8. Neither the Commission nor APS shall be prevented from seeking or authorizing a change in unbundled or Standard Offer rates prior to July 1, 2004, in the event of (a) conditions or circumstances which constitute an emergency, such as an inability to finance on reasonable terms, or (b) material changes in APS' cost of service for Commission-regulated services resulting from federal, tribal, state or local laws, regulatory requirements, judicial decisions, actions or orders. Except for the changes otherwise specifically contemplated by this Agreement, unbundled and Standard Offer rates shall remain unchanged until at least July 1, 2004.

5. Generation Affiliate. Section 4.1 of the Agreement is replaced with and superceded by the following provisions:

4.1. Affiliates.

(1) The Commission will approve the formation of an affiliate or affiliates of APS to acquire at book value the competitive services and assets as currently required by the Electric Competition Rules. In order to facilitate the separation of such assets efficiently and at the lowest possible cost, the Commission shall grant APS a two-year extension of time until December 31, 2002, to accomplish such separation. A similar two-year extension shall be authorized for compliance with A.A.C. R14-2-1606(B).

(2) The affiliate or affiliates formed under this Section 4.1 shall be direct subsidiaries of Pinnacle West Capital Corporation, and not APS.

(3) After the extensions granted in this Section 4.1 have expired, APS shall procure generation for Standard Offer customers from the competitive market as provided for in the Electric Competition Rules. An affiliated generation company formed pursuant to this Section 4.1 may competitively bid for APS' Standard Offer load, but enjoys no automatic privilege outside of the market bid on account of its affiliation with APS.

6. Statutory Waivers. Section 4.3 of the Agreement is deleted in its entirety.

7. Waivers of Affiliate Interest Rules. The Revised Exhibit D to this Addendum setting forth the Affiliate Rules Waivers is substituted for the corresponding Exhibit D to the Agreement so that the proposed waiver of R14-2-804(A) in the Agreement is deleted.

8. Conflicts with Electric Competition Rules. In reliance upon the Commission's directive in Decision No. 61973 (page 9) that "We want to make it clear that the Commission does not intend to revisit the stranded cost portion of the Agreement. It is also not the Commission's intent to undermine the benefits that parties have bargained for," Section 7.1 is replaced with and superseded by the following provision:

> 7.1. Approval of this Agreement by the Commission shall constitute a waiver of any existing Commission order, rule or regulation to the extent necessary to permit performance of the Agreement, as approved by the Commission. Any future Commission order, rule or regulation shall be construed and administered, insofar as possible, in a manner so as not to conflict with the specific provisions of this Agreement, as approved by the Commission. In the event any of the Parties deems a future Commission order, rule or regulation to be inconsistent with the specific provisions of this Agreement, a waiver of the new Commission order, rule or regulation shall be sought.
>
> Nothing in this Agreement is intended to otherwise interfere with the Commission's ability to exercise its regulatory authority by the issuance of orders, rules or regulations. The requirements of this Agreement shall be performed in accordance with the Commission's Electric Competition Rules including any specific waivers granted by the Commission's order approving this Agreement, except where a specific provision of this Agreement would excuse compliance.

9. Interim Code of Conduct. Section 7.7 of the Agreement is replaced with and superceded by the following provision:

> 7.7. Within thirty (30) days of the date of the Commission decision approving this Agreement pursuant to Section 6.1, APS shall file an initial proposed Code of Conduct to address inter-affiliate relationships involving APS as a utility distribution company as required by the Electric Competition Rules and which includes provisions to govern the supply of generation during the two-year extension provided for by Section 4.1 of this Agreement. Interested parties may provide APS with comments on the initial proposed Code of Conduct within sixty (60) days of the date of the Commission decision approving this Agreement. APS will file a final proposed Code of Conduct for Commission approval within ninety (90) days of the date of the Commission decision approving this Agreement. Until the Commission approves a Code of Conduct for APS, APS will voluntarily comply with the initial proposed Code of Conduct or, once filed, the final proposed Code of Conduct.

10. Effect of Addendum. Other than as specifically modified by this Addendum, all provisions of the Agreement remain in full force and effect.

AGREED TO AS OF November 24, **1999:**

RESIDENTIAL UTILITY CONSUMER OFFICE

By Barbara Wytaske

Title Acting Director

ARIZONA PUBLIC SERVICE COMPANY

By Jack Davis

Title President Delivery & Sales

ARIZONA COMMUNITY ACTION ASSOCIATION

By Betty K Pruitt

Title Acting Executive Director

(Party)

By _____

Title _____

ARIZONANS FOR ELECTRIC CHOICE AND COMPETITION, a coalition of companies and associations in support of competition that includes Cable Systems International, BHP Copper, Motorola, Chemical Lime, Intel, Hughes, Honeywell, Allied Signal, Cyprus Climax Metals, Asarco, Phelps Dodge, Homebuilders of Central Arizona, Arizona Mining Industry Gets Our Support, Arizona Food Marketing Alliance, Arizona Association of Industries, Arizona Multi-housing Association, Arizona Rock Products Association, Arizona Restaurant Association, Arizona Retailers Association, Boeing, Arizona School Board Association, National Federation of Independent Business, Arizona Hospital Association, Lockheed Martin, Abbot Labs and Raytheon.

By [signature]

Title president

(Party)

By _____

Title _____

(Party)

By _____

Title _____

Revised
EXHIBIT D
Affiliate Rules Waivers

R14-2-801(5) and R14-2-803, such that the term "reorganization" does not include, and no Commission approval is required for, corporate restructuring that does not directly involve the utility distribution company ("UDC") in the holding company. For example, the holding company may reorganize, form, buy or sell non-UDC affiliates, acquire or divest interests in non-UDC affiliates, etc., without Commission approval.

R14-2-805(A) shall apply only to the UDC

R14-2-805(A)(2)

R14-2-805(A)(6)

R14-2-805(A)(9), (10), and (11)

Recision of Prior Commission Orders

Section X.C of the "Cogeneration and Small Power Production Policy" attached to Decision No. 52345 (July 27, 1981) regarding reporting requirements for cogeneration information.

Decision No. 55118 (July 24, 1986) - Page 15, Lines 5-1/2 through 13-1/2; Finding of Fact No. 24 relating to reporting requirements under the abolished PPFAC.

Decision No. 55818 (December 14, 1987) in its entirety. This decision related to APS Schedule 9 (Industrial Development Rate) which was terminated by the Commission in Decision No..59329 (October 11, 1995).

9th and 10th Ordering Paragraphs of Decision No. 56450 (April 13, 1989) regarding reporting requirements under the abolished PPFAC.

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

ORIGINAL

A.C.C. No. 5351
Tariff or Schedule No. DA-GS1
Original Tariff
Effective: October 1, 1999

DIRECT ACCESS
GENERAL SERVICE

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable to customers receiving electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. This rate schedule is applicable to all electric service required when such service is supplied at one point of delivery and measured through one meter. For those customers whose electricity is delivered through more than one meter, service for each meter shall be computed separately under this rate unless conditions in accordance with the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service) are met. For those service locations where electric service has historically been measured through two meters, when one of the meters was installed pursuant to a water heating rate schedule no longer in effect, the electric service measured by such meters shall be combined for billing purposes.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

This rate schedule is not applicable to residential service, resale service or direct access service which qualifies for Rate Schedule DA-GS10.

TYPE OF SERVICE

Service shall be single or three phase, 60 Hertz, at one standard voltage as may be selected by customer subject to availability at the customer's premise. Three phase service is furnished under the Company's Conditions Governing Extensions of Electric Distribution Lines and Services (Schedule #3). Transformation equipment is included in cost of extension. Three phase service is not furnished for motors of an individual rated capacity of less than 7-1/2 HP, except for existing facilities or where total aggregate HP of all connected three phase motors exceed 12 HP. Three phase service is required for motors of an individual rated capacity of more than 7-1/2 HP.

METERING REQUIREMENTS

All customers shall comply with the terms and conditions for load profiling or hourly metering specified in the Company's Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

June - October Billing Cycles (Summer)

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
$/month	$12.50			
Per kW over 5		$0.7221		
Per kWh for the first 2,500 kWh		$0.04255		
Per kWh for the next 100 kWh per kW over 5		$0.04255		
Per kWh for the next 42,000 kWh		$0.02901		
Per kWh for all additional kWh		$0.01811		
Per all kWh			$0.00115	
Per all kW				$2.43

(CONTINUED ON REVERSE SIDE)

APPROVED FOR FILING
DECISION #: 61973

A. RATE (continued)

November - May Billing Cycles (Winter):

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
$/month	$12.50			
Per kW over 5		$0.652		
Per kWh for the first 2,500 kWh		$0.03827		
Per kWh for the next 100 kWh per kW over 5		$0.03827		
Per kWh for the next 42,000 kWh		$0.02600		
Per kWh for all additional kWh		$0.01614		
Per all kWh			$0.00115	
Per all kW				$2.43

PRIMARY AND TRANSMISSION LEVEL SERVICE:

1. For customers served at primary voltage (12.5kV to below 69kV), the Distribution charge will be discounted by 11.6%.
2. For customers served at transmission voltage (69kV or higher), the Distribution charge will be discounted 52.6%.
3. Pursuant to A.A.C. R14-2-1612.K.11, the Company shall retain ownership of Current Transformers (CT's) and Potential Transformers (PT's) for those customers taking service at voltage levels of more than 25kV. For customers whose metering services are provided by an ESP, a monthly facilities charge will be billed, in addition to all other applicable charges shown above, as determined in the service contract based upon the Company's cost of CT and PT ownership, maintenance and operation.

DETERMINATION OF KW

The kW used for billing purposes shall be the average kW supplied during the 15-minute period of maximum use during the month, as determined from readings of the delivery meter.

B. MINIMUM

$12.50 plus $1.74 for each kW in excess of five of either the highest kW established during the 12 months ending with the current month or the minimum kW specified in the agreement for service, whichever is the greater.

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:
   - Meter $7.62 per month
   - Meter Reading $1.69 per month
   - Billing $1.33 per month
2. The monthly bill is also subject to the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customers served under this rate schedule are responsible for acquiring their own generation and any other required competitively supplied services from an ESP or under the Company's Open Access Transmission Tariff. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10

(CONTINUED ON PAGE 3)

APPROVED FOR FILING
DECISION # 61973

ORIGINAL

ON-SITE GENERATION TERMS AND CONDITIONS

Customers served under this rate schedule who have on-site generation connected to the Company's electrical delivery grid shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

CONTRACT PERIOD

0 – 1,999 kW:	As provided in Company's standard agreement for service.
2,000 kW and above:	Three (3) years, or longer, at Company's option for initial period when construction is required. One (1) year, or longer, at Company's option when construction is not required.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule #10. These Schedules have provisions that may affect customer's monthly bill.

APPROVED FOR FILING
DECISION #: 61973

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

ORIGINAL

A.C.C. No. 5350
Tariff or Schedule No. DA-R1
Original Tariff
Effective: October 1, 1999

DIRECT ACCESS RESIDENTIAL SERVICE

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company and where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable to customers receiving electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. This rate schedule is applicable only to electric delivery required for residential purposes in individual private dwellings and in individually metered apartments when such service is supplied at one point of delivery and measured through one meter. For those dwellings and apartments where electric service has historically been measured through two meters, when one of the meters was installed pursuant to a water heating or space heating rate schedule no longer in effect, the electric service measured by such meters shall be combined for billing purposes.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10.)

TYPE OF SERVICE

Service shall be single phase, 60 Hertz, at one standard voltage (120/240 or 120/208 as may be selected by customer subject to availability at the customer's premise). Three phase service is furnished under the Company's Conditions Governing Extensions of Electric Distribution Lines and Services (Schedule #3). Transformation equipment is included in cost of extension. Three phase service is required for motors of an individual rated capacity of 7-1/2 HP or more.

METERING REQUIREMENTS

All customers shall comply with the terms and conditions for load profiling or hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

May – October Billing Cycles (Summer):

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
$/month	$10.00			
All kWh		$0.04158	$0.00115	$0.00930

November – April Billing Cycles (Winter):

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
$/month	$10.00			
All kWh		$0.03518	$0.00115	$0.00930

B. MINIMUM $ 10.00 per month

(CONTINUED ON REVERSE SIDE)

APPROVED FOR FILING
DECISION #: 61923

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	$4.00 per month
Meter Reading	$1.69 per month
Billing	$1.33 per month

2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customers served under this rate schedule are responsible for acquiring their own generation and any other required competitively supplied services from an ESP. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

ON-SITE GENERATION TERMS AND CONDITIONS

Customers served under this rate schedule who have on-site generation connected to the Company's electrical delivery grid shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

TERMS AND CONDITIONS

This rate schedule is subject to the Company's Terms and Conditions for Standard Offer and Direct Access Services (Schedule #1) and Schedule #10. These schedules have provisions that may affect customer's monthly bill.

APPROVED FOR FILING
DECISION #: 61973

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

ORIGINAL

A.C.C. No. 5352
Tariff or Schedule No. DA-GS10
Original Tariff
Effective: October 1, 1999

DIRECT ACCESS
EXTRA LARGE GENERAL SERVICE

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable to customers receiving electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. This rate schedule is applicable only to customers whose monthly maximum demand is 3,000 kW or more for three (3) consecutive months in any continuous twelve (12) month period ending with the current month. Service must be supplied at one point of delivery and measured through one meter unless otherwise specified by individual customer contract. For those customers whose electricity is delivered through more than one meter, service for each meter shall be computed separately under this rate unless conditions in accordance with the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service) are met.

This rate schedule is not applicable to resale service.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

TYPE OF SERVICE

Service shall be three phase, 60 Hertz, at Company's standard voltages that are available within the vicinity of customer's premise.

METERING REQUIREMENTS

All customers shall comply with the terms and conditions for hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
$/month	$2,430.00			
per kW		$3.53		$2.82
per kWh		$0.00999	$0.00115	

PRIMARY AND TRANSMISSION LEVEL SERVICE

1. For customers served at primary voltage (12.5kV to below 69kV), the Distribution charge will be discounted by 4.8%.
2. For customers served at transmission voltage (69kV or higher), the Distribution charge will be discounted 36.7%.
3. Pursuant to A.A.C. R14-2-1612.K.11, the Company shall retain ownership of Current Transformers (CT's) and Potential Transformers (PT's) for those customers taking service at voltage levels of more than 25 kV. For customers whose metering services are provided by an ESP, a monthly facilities charge will be billed, in addition to all other applicable charges shown above, as determined in the service contract based upon the Company's cost of CT and PT ownership, maintenance and operation.

DETERMINATION OF KW

The kW used for billing purposes shall be the greater of:

1. The kW used for billing purposes shall be the average kW supplied during the 15-minute period (or other period as specified by individual customer's contract) of maximum use during the month, as determined from readings of the delivery meter.

2. The minimum kW specified in the agreement for service or individual customer contract.

(CONTINUED ON REVERSE SIDE)

APPROVED FOR FILING
DECISION #: 61973

B. MINIMUM

$2,430.00 per month plus $1.74 per kW per month.

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	$154.15 per month
Meter Reading	$1.69 per month
Billing	$1.33 per month

2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customers served under this rate schedule are responsible for acquiring their own generation and any other required competitively supplied services from an ESP. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

ON-SITE GENERATION TERMS AND CONDITIONS

Customers served under this rate schedule who have on-site generation connected to the Company's electrical delivery grid shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

CONTRACT PERIOD

For service locations in:

a) Isolated Areas: Ten (10) years, or longer, at Company's option, with standard seven (7) year termination period.
b) Other Areas: Three (3) years, or longer, at Company's option.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule #10. These schedules have provisions that may affect customer's monthly bill.

DECISION # 61973

Exhibit A
DA-GS11

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

ORIGINAL

A.C.C. No. 5395
Tariff or Schedule No. DA-GS11
Original Tariff
Effective: October 1, 1999

DIRECT ACCESS
RALSTON PURINA

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable only to Ralston Purina (Site #8639970289) when it receives electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. Service must be supplied as specified by individual customer contract and the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service).

This rate schedule is not applicable to resale service.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

TYPE OF SERVICE

Service shall be three phase, 60 Hertz, at 12.5 kV.

METERING REQUIREMENTS

Customer shall comply with the terms and conditions for hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
$/month	$2,430.00			
per kW		$2.58		$1.86
per kWh		$0.00732	$0.00115	

DETERMINATION OF KW

The kW used for billing purposes shall be the greater of:

1. The kW used for billing purposes shall be the average kW supplied during the 15-minute period (or other period as specified by individual customer's contract) of maximum use during the month, as determined from readings of the delivery meter.

2. The minimum kW specified in the agreement for service or individual customer contract.

B. MINIMUM

$2,430.00 per month plus $1.74 per kW per month.

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	$154.15 per month
Meter Reading	$1.69 per month
Billing	$1.33 per month

2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

(CONTINUED ON REVERSE SIDE)

APPROVED FOR FILING
DECISION # 61973

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customer is responsible for acquiring its own generation and any other required competitively supplied services from an ESP. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

ON-SITE GENERATION TERMS AND CONDITIONS

If Customer has on-site generation connected to the Company's electrical delivery grid, it shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule #10. These schedules have provisions that may affect customer's monthly bill.

APPROVED FOR FILING
DECISION # 61973

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

ORIGINAL

A.C.C. No. 5396
Tariff or Schedule No. DA-GS12
Original Tariff
Effective: October 1, 1999

DIRECT ACCESS
BHP COPPER

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable only to BHP Copper (Site #774932285) when it receives electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. Service must be supplied as specified by individual customer contract and the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service).

This rate schedule is not applicable to resale service.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

TYPE OF SERVICE

Service shall be three phase, 60 Hertz, at 12.5 kV or higher.

METERING REQUIREMENTS

Customer shall comply with the terms and conditions for hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

	Basic Delivery Service	Distribution at Primary Voltage	Distribution at Transmission Voltage	System Benefits	Competitive Transition Charge
$/month	$2,430.00				
per kW		$2.35	$1.22		$1.54
per kWh		$0.00665	$0.00346	$0.00115	

PRIMARY AND TRANSMISSION LEVEL SERVICE:

Pursuant to A.A.C. R14-2-1612.K.11, the Company shall retain ownership of Current Transformers (CT's) and Potential Transformers (PT's) for those customers taking service at voltage levels of more than 25 kV. For customers whose metering services are provided by an ESP, a monthly facilities charge will be billed, in addition to all other applicable charges shown above, as determined in the service contract based upon the Company's cost of CT and PT ownership, maintenance and operation.

DETERMINATION OF KW

The kW used for billing purposes shall be the greater of:

1. The kW used for billing purposes shall be the average kW supplied during the 30-minute period (or other period as specified by individual customer's contract) of maximum use during the month, as determined from readings of the delivery meter.

2. The minimum kW specified in the agreement for service or individual customer contract.

B. MINIMUM

$2,430.00 per month plus $1.74 per kW per month.

(CONTINUED ON REVERSE SIDE)

APPROVED FOR FILING
DECISION #: 61973

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	$154.15 per month
Meter Reading	$1.69 per month
Billing	$1.33 per month

2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customer is responsible for acquiring its own generation and any other required competitively supplied services from an ESP. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

ON-SITE GENERATION TERMS AND CONDITIONS

If Customer has on-site generation connected to the Company's electrical delivery grid, it shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule #10. These schedules have provisions that may affect customer's monthly bill.

APPROVED FOR FILING
DECISION #: 61973

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

ORIGINAL

A.C.C. No. 5397
Tariff or Schedule No. DA-GS13
Original Tariff
Effective: October 1, 1999

DIRECT ACCESS
CYPRUS BAGDAD

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable only to Cyprus Bagdad (Site #120932284) when it receives electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. Service must be supplied as specified by individual customer contract and the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service).

This rate schedule is not applicable to resale service.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

TYPE OF SERVICE

Service shall be three phase, 60 Hertz, at 115 kV or higher.

METERING REQUIREMENTS

Customer shall comply with the terms and conditions for hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
$/month	$2,430.00			
per kW		$1.05		$1.34
per kWh		$0.00298	$0.00115	

PRIMARY AND TRANSMISSION LEVEL SERVICE:

Pursuant to A.A.C. R14-2-1612.K.11, the Company shall retain ownership of Current Transformers (CT's) and Potential Transformers (PT's) for those customers taking service at voltage levels of more than 25 kV. For customers whose metering services are provided by an ESP, a monthly facilities charge will be billed, in addition to all other applicable charges shown above, as determined in the service contract based upon the Company's cost of CT and PT ownership, maintenance and operation.

DETERMINATION OF KW

The kW used for billing purposes shall be the greater of:

1. The kW used for billing purposes shall be the average kW supplied during the 30-minute period (or other period as specified by individual customer's contract) of maximum use during the month, as determined from readings of the delivery meter.

2. The minimum kW specified in the agreement for service or individual customer contract.

B. MINIMUM

$2,430.00 per month plus $1.74 per kW per month, until June 30, 2004 when this minimum will no longer be applicable.

(CONTINUED ON REVERSE SIDE)

APPROVED FOR FILING
DECISION #: 61973

ORIGINAL

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	$154.15 per month
Meter Reading	$1.69 per month
Billing	$1.33 per month

2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customer is responsible for acquiring its own generation and any other required competitively supplied services from an ESP. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

ON-SITE GENERATION TERMS AND CONDITIONS

If Customer has on-site generation connected to the Company's electrical delivery grid, it shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule #10. These schedules have provisions that may affect customer's monthly bill.

APPROVED FOR FILING

DECISION #: 61973

Competitive Transition Charges
By Direct Access Rate Classes

Line #	Direct Access Rate Class	Competition Transition Charges Effective January 1 of 1999	2000	2001	2002	2003	2004
1	Residential, DA-R1 (per kWh)	$ 0.0093	$ 0.0084	$ 0.0063	$ 0.0056	$ 0.0050	$ 0.0036
2	Under 3 mW, DA-GS1, (per kW/mo.)	$ 2.43	$ 2.20	$ 1.66	$ 1.46	$ 1.30	$ 0.94
3	3 mW and Above, DA-GS10 (per kW/mo.)	$ 2.82	$ 2.55	$ 1.89	$ 1.72	$ 1.51	$ 1.09
4	BHP Copper (per kW/mo.)	$ 1.54	$ 1.53	$ 1.06	$ 0.95	$ 0.83	$ 0.61
5	Cyprus Copper (per kW/mo.)	$ 1.34	$ 1.46	$ 1.05	$ 0.94	$ 0.82	$ 0.61
6	Ralston Purina (per kW/mo.)	$ 1.86	$ 1.98	$ 1.50	$ 1.34	$ 1.18	$ 0.87
7	Average Retail (per kWh)	$ 0.0067	$ 0.0061	$ 0.0054	$ 0.0048	$ 0.0043	$ 0.0031

Charges are based upon recovery of $350 million NPV derived from APS' Compliance Filing of 8/21/98 as adjusted to synchronize Direct Access and Standard Offer revenue decreases.

ARIZONA PUBLIC S... ...CE COMPANY

...ibit A
5/13/99
Schedule B

Distribution Charges
By Direct Access Rate Classes

Line #	Direct Access Rate Class	Distribution Charges Effective January 1 of 1999	2000	2001	2002	2003	2004[1]
	Residential, DA-R1						
1	Summer per kWh	$ 0.04158	$ 0.04041	$ 0.03934	$ 0.03837	$ 0.03748	$ 0.03689
2	Winter per kWh	$ 0.03518	$ 0.03419	$ 0.03329	$ 0.03247	$ 0.03172	$ 0.03122
	DA-GS1 (Under 3 mW)						
	Summer Rates						
3	per kW for all kW over 5	$ 0.721	$ 0.691	$ 0.661	$ 0.638	$ 0.615	$ 0.600
4	per kWh for the first 2,500 kWh	$ 0.04255	$ 0.04075	$ 0.03912	$ 0.03763	$ 0.03627	$ 0.03537
5	per kWh for the next 100 kWh per kW over 5	$ 0.04255	$ 0.04075	$ 0.03912	$ 0.03763	$ 0.03627	$ 0.03537
6	per kWh for the next 42,000 kWh	$ 0.02901	$ 0.02779	$ 0.02667	$ 0.02565	$ 0.02473	$ 0.02411
7	per kWh for all additional kWh	$ 0.01811	$ 0.01735	$ 0.01665	$ 0.01602	$ 0.01544	$ 0.01506
	Winter Rates						
8	per kW for all kW over 5	$ 0.652	$ 0.624	$ 0.599	$ 0.576	$ 0.555	$ 0.541
9	per kWh for the first 2,500 kWh	$ 0.03827	$ 0.03666	$ 0.03519	$ 0.03385	$ 0.03263	$ 0.03182
10	per kWh for the next 100 kWh per kW over 5	$ 0.03827	$ 0.03666	$ 0.03519	$ 0.03385	$ 0.03263	$ 0.03182
11	per kWh for the next 42,000 kWh	$ 0.02600	$ 0.02490	$ 0.02390	$ 0.02299	$ 0.02216	$ 0.02161
12	per kWh for all additional kWh	$ 0.01614	$ 0.01546	$ 0.01484	$ 0.01427	$ 0.01376	$ 0.01342
	Voltage Discounts						
13	Primary Voltage	11.6%	12.1%	12.6%	13.1%	13.6%	13.9%
14	Transmission Voltage	52.6%	54.9%	57.2%	59.5%	61.7%	63.3%
	DA-GS10 (3 mW and Above)						
15	per kW	$ 3.53	$ 3.33	$ 3.15	$ 2.98	$ 2.83	$ 2.73
16	per kWh	$ 0.00999	$ 0.00943	$ 0.00892	$ 0.00845	$ 0.00802	$ 0.00774
	Voltage Discounts						
17	Primary Voltage Discount	4.8%	5.1%	5.3%	5.6%	5.9%	6.2%
18	Transmission Voltage Discount	36.7%	38.9%	41.1%	43.4%	45.8%	47.4%
	DA-GS11 (Ralston Purina)						
19	per kW	$ 2.58	$ 2.71	$ 2.57	$ 2.44	$ 2.32	$ 2.25
20	per kWh	$ 0.00732	$ 0.00767	$ 0.00727	$ 0.00691	$ 0.00657	$ 0.00635
	DA-GS12 (BHP Copper)						
21	Primary Voltage Delivery - per kW	$ 2.35	$ 2.30	$ 2.16	$ 2.07	$ 1.99	$ 1.93
22	per kWh	$ 0.00665	$ 0.00651	$ 0.00611	$ 0.00585	$ 0.00561	$ 0.00546
23	Transmission Voltage Delivery - per kW	$ 1.22	$ 1.17	$ 1.03	$ 0.94	$ 0.85	$ 0.80
24	per kWh	$ 0.00346	$ 0.00332	$ 0.00292	$ 0.00266	$ 0.00242	$ 0.00227
	DA-GS13 (Cyprus Bagdad)						
25	per kW	$ 1.05	$ 1.21	$ 1.03	$ 0.94	$ 0.85	$ 0.80
26	per kWh	$ 0.00297	$ 0.00343	$ 0.00292	$ 0.00266	$ 0.00242	$ 0.00227

[1] Transmission voltage customers will not pay Distribution Charges after June 30, 2004

Exhibit A
5/14/99
Schedule C

ARIZONA PUBLIC SERVICE COMPANY

Regulatory Asset Amortization Schedule
(Millions of Dollars)

1999	2000	2001	2002	2003	1/1 - 6/30 2004 [1/]	Total [2/]
164	158	145	115	86	18	686

[1/] Amortization ends 6/30/2004

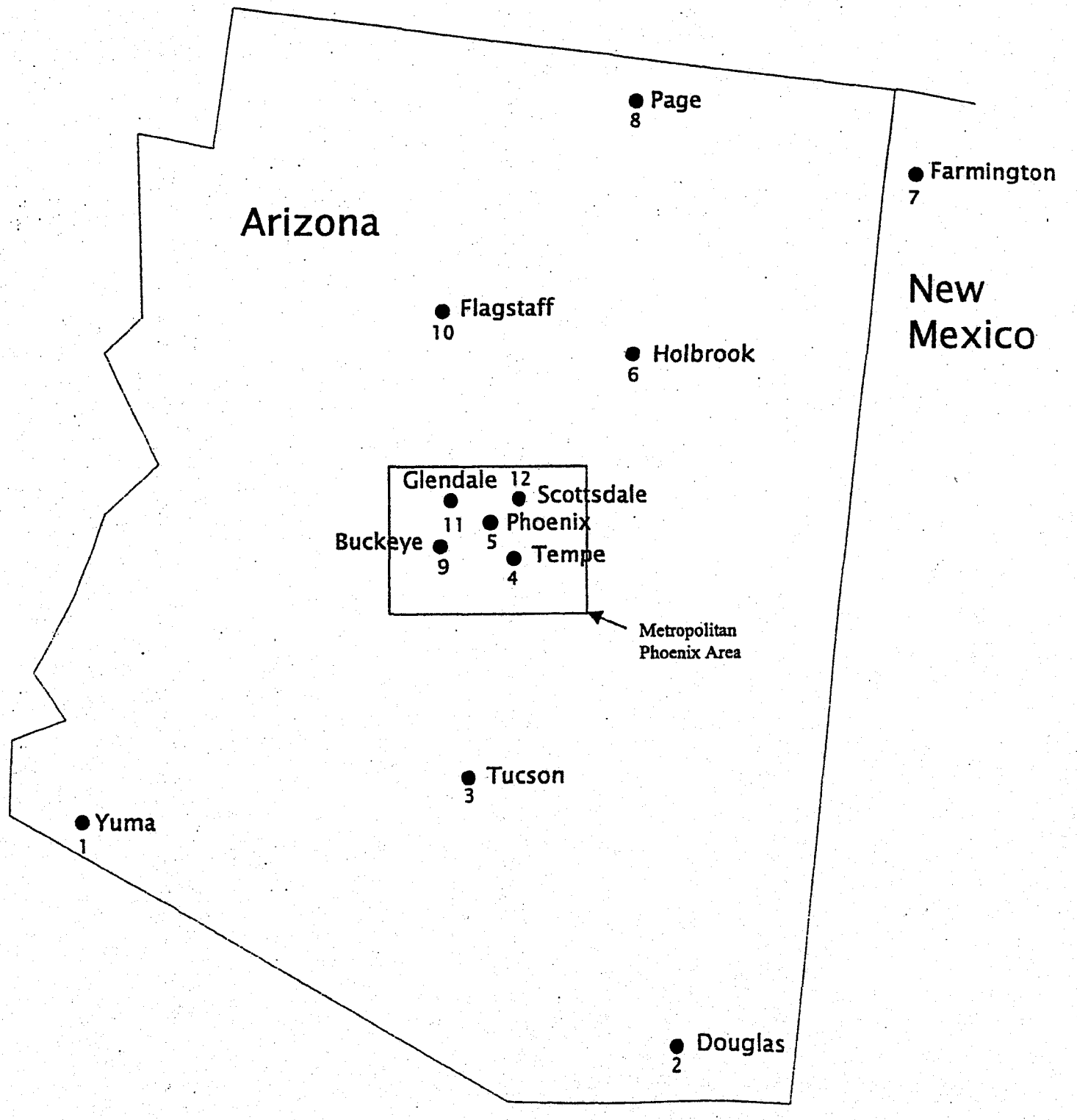
[2/] Includes the disallowance from Section 3.3

APS
Arizona Public Service Company

COMPANY CORRESPONDENCE

Bcc: Snell & Wilmer (3)
Becky Hickman (3)
Don Robertson
Jack Davis
Bill Post
Alan Propper
Jana Van Ness
Barbara Klemstine
Keith Van Ausdal
Warren Kotzman
Sally Stewart
Colleen Hawk
Wayne Ettenborough
Sharon Madden

APS Electrical Generating System



APS ELECTRICAL GENERATING SYSTEM

	Unit Name	County	Ownership
1	**YUCCA:** Combustion Turbine 1 Combustion Turbine 2 Combustion Turbine 3 Combustion Turbine 4	**Yuma**	Arizona Public Service
2	**DOUGLAS:** Combustion Turbine 1	**Cochise**	Arizona Public Service
3	**SAGUARO:** Steam Unit 1 Steam Unit 2 Combustion Turbine 1 Combustion Turbine 2	**Pinal**	Arizona Public Service
4	**OCOTILLO:** Steam Unit 1 Steam Unit 2 Combustion Turbine 1 Combustion Turbine 2 Solar 1 Solar 2	**Maricopa**	Arizona Public Service
5	**WEST PHOENIX:** Steam Unit 4 Steam Unit 5 Steam Unit 6 Combustion Turbine 1 Combustion Turbine 2 Combined Cycle 1 Combined Cycle 2 Combined Cycle 3	**Maricopa**	Arizona Public Service
6	**CHOLLA:** Coal Unit 1 Coal Unit 2 Coal Unit 3	**Navajo**	Arizona Public Service
7	**FOUR CORNERS:** Coal Unit 1 Coal Unit 2 Coal Unit 3 Coal Unit 4 Coal Unit 5	**San Juan**	Arizona Public Service Arizona Public Service, Salt River Project, Tucson Electric Power Public Service New Mexico, Southern Cal Edison, El Paso Electric
8	**NAVAJO:** Coal Unit 1 Coal Unit 2 Coal Unit 3	**Coconino**	Arizona Public Service, Salt River Project, Tucson Electric Power Nevada Power, Los Angeles Dept of Water and Power, US Government
9	**PALO VERDE:** Nuclear Unit 1 Nuclear Unit 2 Nuclear Unit 3	**Maricopa**	Arizona Public Service, Salt River Project, Southern Cal Public Auth, Public Service New Mexico, Southern Cal Edison, El Paso Electric, Los Angeles Dept of Water and Power
10	**COCONINO** Solar 1	**Coconino**	Arizona Public Service
11	**GLENDALE** Solar 1	**Maricopa**	Arizona Public Service
12	**SCOTTSDALE** Solar 1	**Maricopa**	Arizona Public Service

STATE OF ARIZONA)
) ss.
County of Maricopa)

I, Ellen Willhite, Manager, Generation Administration Support, of Arizona Public Service Company, do hereby certify that the foregoing Exhibit I contains an accurate depiction of the facilities that Arizona Public Service is transferring to Pinnacle West Energy Corporation.

Ellen Willhite
Ellen Willhite

SUBSCRIBED AND SWORN to before me this 24 day of July, 2000.

Twyla Hannah
Notary Public

My Commission expires:

OFFICIAL SEAL
TWYLA HANNAH
Notary Public - State of Arizona
MARICOPA COUNTY
My Comm. Expires Nov. 12, 2002

EXHIBIT H-1

PROPOSED FORM OF FEDERAL REGISTER NOTICE

SECURITIES AND EXCHANGE COMMISSION
(Release No. 35-_____)

Filings under the Public Utility Holding Company Act of 1935, as amended ("Act")

September __, 2000

Notice is hereby given that the following filing(s) has/have been made with the Commission pursuant to provisions of the Act and rules promulgated thereunder. All interested persons are referred to the application(s) and/or declaration(s) for the complete statements of the proposed transaction(s) summarized below. The application(s) and declaration(s) and any amendments thereto is/are available for public inspection through the Commission's Office of Public Reference.

Interested persons wishing to comment or request a hearing on the application(s) and/or declaration(s) should submit their views in writing by September __, 2000, to the Secretary, Securities and Exchange Commission, Washington, D.C. 20549-0609, and serve a copy on the relevant applicant(s) and/or declarant(s) at the address(es) specified below. Proof of service (by affidavit or, in case of an attorney at law, by certificate) should be filed with the request. Any request for hearing shall identify specifically the issues of fact or law that are disputed. A person who so requests will be so notified of any hearing, if ordered, and will receive a copy of any notice or order issued in the matter. After September __, 2000, the application(s) and/or declaration(s), as filed or amended, may be granted and/or permitted to become effective.

****

Pinnacle West Capital Corporation ("PNW"), 400 North Fifth Street, Phoenix, Arizona 85004, has filed an application-declaration pursuant to Sections 9(a)(2) and 10 of the Act, in which it requests approval to establish a new public-utility company subsidiary in connection with the proposed corporate reorganization ("Reorganization"), involving the relocation of certain generation assets from Arizona Public Service Company ("APS"), PNW's existing public-utility company subsidiary, to Pinnacle West Energy Corporation ("PWE"), another wholly-owned subsidiary of PNW. As a result of this Reorganization, PWE will become an "electric utility company" and a "public-utility company" within the meaning of the Act, and PNW will acquire an additional public-utility subsidiary. PNW will continue to meet the requirements for an intrastate exemption under Section 3(a)(1) of the Act and to file annual exemption statements on Form U-3A-2 pursuant to Rule 2 of the Commission's regulations.

The purpose of the reorganization is to comply with certain requirements set forth in rules adopted by the Arizona Corporation Commission ("ACC") that provide the framework for

introduction of retail electric competition in Arizona ("Competition Rules"), and in a final ACC order approving APS's settlement with various parties and the ACC with respect to implementation of the Competition Rules (the "Settlement"). Pursuant to the Competition Rules and Settlement, APS must move all of its generating assets and competitive services to PNW subsidiaries no later than December 31, 2002.

PNW was incorporated in 1985 under the laws of the State of Arizona. Through its subsidiaries, PNW is engaged in the generation, transmission, and distribution of electricity and the sale of energy services. Through subsidiaries, PNW is also involved in real estate development and in venture capital investment. PNW's principal subsidiaries are: APS, PWE, APS Energy Services Company, Inc., SunCor Development Company, and El Dorado Investment Company.

PNW's principal public-utility subsidiary is APS. APS, incorporated in 1920 under the laws of the State of Arizona, is a wholly-owned subsidiary of PNW. APS's principal executive offices are located at 400 North Fifth Street, Phoenix Arizona 85004. APS provides retail electric services principally in the State of Arizona and is actively engaged in the competitive wholesale electric markets. APS is subject to regulation by the ACC with respect to retail rates, accounting, service standards, service territory, issuances of securities, certification of generation and transmission projects and various other matters. APS currently owns generating facilities with a total accredited capacity of approximately 4,100 megawatts.

APS also owns and operates approximately 4,853 miles of transmission lines, of which all but 140 miles are located within the State of Arizona. APS's transmission was built primarily to bring generation from its power plants to its retail electric loads in Arizona. As of December 31, 1999, APS's distribution system served approximately 827,000 electric retail customers in its service territory within the State of Arizona. APS provides distribution services in 11 of Arizona's 15 counties, including the metropolitan Phoenix area. Pursuant to the Settlement approved by the ACC in 1999, retail rates have been set until July 1, 2004, subject to conditions or circumstances which constitute an emergency.

PWE, another wholly-owned subsidiary of PNW, was incorporated in 1999 under the laws of the State of Arizona. PWE was organized primarily to engage in the business of developing, owning, and operating generation plants used for the production and sale of wholesale energy. Currently, PWE is engaged in the development of approximately 2,600 megawatts of generating capacity in the State of Arizona; however, PWE is not currently an electric utility company or a public-utility company within the meaning of the Act. Upon completion of the Reorganization, PWE will own or lease the generation facilities currently owned or leased by APS and will assume APS's responsibilities as operator of the facilities.

When the Reorganization is complete, APS's existing structure, in which its electric utility operations are divided along functional lines, will be formalized and separate corporate entities will engage in the transmission/distribution of electricity and the generation of electricity. APS will continue to own and operate its existing electric transmission/distribution system, and PWE will own or lease and operate APS's existing generation assets, selling the output from these assets to PNW's

power marketing and trading division and to other wholesale entities. In addition, APS will serve as the provider of last resort to standard offer customers in APS's existing service territory.

The generation assets will be moved to PWE at book value. In addition, PWE will assume certain outstanding debt associated with the generating assets being moved. Specifically, PWE will assume APS's rights and obligations with respect to approximately $180 million in pollution control bonds.

The principal purpose of the Reorganization is to assure compliance with the provisions of the Competition Rules and the Settlement and to provide PNW with increased financial, managerial, and organizational flexibility which will enable APS and PWE to compete more effectively in a restructured utility industry. It is stated that the Reorganization will lead to a clear, functional and corporate separation between PNW's generation business and its wires business, enabling each company to focus its resources on more clearly defined product markets and services. PNW also states that the Reorganization will have no adverse effect on APS's existing electric utility operations. The Reorganization will not result in any real change in the ultimate ownership of existing utility assets nor will it result in the transfer or acquisition of any additional utility assets beyond those currently held by APS or being developed by PWE.

PNW states that the proposed transaction will satisfy the requirements of Section 9(a)(2), as well as the relevant provisions of Section 10 of the Act. PNW will continue to claim an exemption pursuant to Section 3(a)(1) and Rule 2 thereunder.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 1
TO
FORM U-1
APPLICATION
UNDER
THE PUBLIC UTILITY HOLDING COMPANY ACT OF 1935

PINNACLE WEST CAPITAL CORPORATION
400 East Van Buren Street, Suite 700
Phoenix, Arizona 85004

(Name of company filing this statement and address of principal executive office)

None

(Name of top registered holding company parent)

Herbert I. Zinn
Pinnacle West Capital Corporation
400 North Fifth Street
Mail Station 8695
Phoenix, Arizona 85004

Mary Ann K. Huntington
Morgan, Lewis & Bockius LLP
1800 M Street, N.W.
Washington, D.C. 20036

(Name and address of agents for service)

The Commission is requested to send copies of all notices, orders, and communications in connection with this Application to:

Herbert I. Zinn
Pinnacle West Capital Corporation
400 North Fifth Street
Mail Station 8695
Phoenix, Arizona 85004

Mary Ann K. Huntington
Morgan, Lewis & Bockius LLP
1800 M Street, N.W.
Washington, D.C. 20036

This Amendment No. 1 is being filed in order to provide the Securities and Exchange Commission with copies of Exhibit No. D-2 (Order of FERC) and Exhibit No. F-1 (Signed Initial Opinions of Counsel).

Signature

Pursuant to the requirements of the Public Utility Holding Company Act of 1935, as amended, the undersigned company has duly caused this statement to be signed on its behalf by the undersigned thereunto duly authorized.

Pinnacle West Capital Corporation

Barbara M. Gomez

By: Barbara M. Gomez
Its: Treasurer

Dated: December 8, 2000
Phoenix, Arizona

Exhibit D-2

93 FERC ¶ 61,216

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: James J. Hoecker, Chairman;
William L. Massey, Linda Breathitt,
and Curt Hébert, Jr.

Arizona Public Service Company
Pinnacle West Capital Corporation
Pinnacle West Energy Corporation

Docket Nos. EC00-118-000
and EC00-118-001

ORDER AUTHORIZING DISPOSITION OF JURISDICTIONAL FACILITIES

(Issued November 24, 2000)

I. Introduction

On July 28, 2000, as completed on August 23, 2000, Arizona Public Service Company (APS), Pinnacle West Capital Corporation (PWCC), and Pinnacle West Energy Corporation (PWE) (collectively, Applicants), filed a joint application pursuant to section 203 of the Federal Power Act (FPA)[1] requesting Commission authorization for APS to transfer to PWE certain jurisdictional facilities and operation agreements. In addition, APS requests authorization to transfer certain wholesale power sales agreements to PWCC. The jurisdictional facilities involved in the transaction include step-up transformers and other generation-related transmission facilities. The Commission has reviewed the proposed transactions under the Commission's Merger Policy Statement.[2] As discussed below, we will authorize the proposed transactions as consistent with the public interest.

---

[1] 16 U.S.C. § 824b (1994).

[2] Inquiry Concerning the Commission's Merger Policy Under the Federal Power Act: Policy Statement, Order No. 592, 61 Fed. Reg. 68,595 (1996), FERC Statutes and Regulations, Regulations Preambles January 1991-June 1996 ¶ 31,044 (1996), reconsideration denied, Order No. 592-A, 62 Fed. Reg. 33,341 (1997), 79 FERC ¶ 61,321 (1997) (Merger Policy Statement).

FERC - DOCKETED
NOV 24 2000

001128.0198.1

II. Background

A. Description of the Parties

PWCC is an Arizona corporation and an exempt public utility holding company under the Public Utility Holding Company Act of 1935 (PUHCA).[3] PWCC is the parent company of APS, PWE, and APS Energy Services Company, Inc. (APSES). PWCC has two non-utility subsidiaries, El Dorado Investment Company, an investment firm, and SunCor Development Company, a real estate developer. PWCC is also a power marketer authorized by the Commission to sell electric power at market-based rates.[4] PWE is a subsidiary of PWCC created to own and operate wholesale generating facilities.[5]

APS is an investor-owned utility engaged in generating, transmitting, and distributing electricity in Arizona. APS presently owns or partially owns several generating units that it proposes to transfer to Pinnacle West Energy. APS is also a power marketer authorized by the Commission to sell electric power at market-based rates.[6]

B. The Proposed Transaction

According to the application, the proposed transaction is part of the state restructuring proceedings and settlement agreement under which APS agreed to divest its generation assets by December 31, 2002, to an affiliate.[7] Applicants state the proposed

---

[3]15 U.S.C. 79c (1994).

[4]The Commission granted market-based authority to PWCC in Pinnacle West Capital Corporation, 91 FERC ¶ 61,290 (2000), reh'g pending.

[5]PWE is authorized to sell power at market-based rates. See Pinnacle West Energy Corporation, 92 FERC ¶ 61,248 (2000).

[6]The Commission granted market-based authority to APS in Arizona Public Service Company, 79 FERC ¶ 61,022 (1997).

[7]The Application states that the settlement approved by the Arizona Corporation Commission (Arizona Commission) on October 6, 1999, was intended to resolve retail electric competition related issues and approve unbundled tariffs.

transaction would allow APS to conduct business "primarily" as a wires company.[8] Applicants state that, starting in 2003, APS would be engaged only in providing regulated electric transmission and distribution services. The proposed transaction would enable PWE to conduct business as a generating company. It would sell most of the output from its generating facilities to PWCC, but it may also sell a portion of its output to other wholesale customers. As a result of this transaction, PWCC will have a marketing and trading department, will act as a power marketer, and will conduct trading and brokering functions on behalf of its subsidiaries (i.e., APS, PWE, and APSES). Pursuant to the restructuring plan, under separate agreements to be filed with the Commission, PWCC will provide APS with all of the generation-related ancillary services APS needs.[9]

Applicants claim that the proposed transaction is consistent with the public interest because it will not adversely affect competition, rates, or regulation and that it will benefit the public interest by: (1) finalizing the implementation of retail access in Arizona; (2) allowing competition in the generation markets; and (3) enabling APS to operate its transmission system as a "wires" only company.[10]

III. Notice and Interventions

Notice of the completed application was published in the Federal Register, with comments due on or before September 7, 2000.[11] The Arizona Corporation Commission (Arizona Commission) filed a notice of intervention. Timely motions to intervene were filed by Navajo Tribal Utility Authority (Navajo) and Salt River Agricultural Improvement and Power District (Salt River). In addition, a group of municipal water

[8]APS plans to be a "wires" only company once it completes its transfer of its nuclear generating units by the end of 2002. Until then, APS only claims that it is "primarily" a wires only company. See Application at 7-8.

[9]Applicants state that the rates for the ancillary services PWCC will provide to APS and APS's customers will be the same as the rates in APS's Open Access Transmission Tariff (Open Access Tariff) until a market for ancillary services develops in Arizona.

[10]Application at 8.

[11]65 Fed. Reg. 53,283 (2000).

districts in Arizona (Arizona Districts)[12] and Tohono O'odham Utility Authority (Tohono) filed timely motions to intervene accompanied by a protest.[13] Tucson Electric Power Company (Tucson) and Citizens Communications Company (Citizens) filed untimely motions to intervene.

On August 30, 2000, Applicants filed an answer in opposition to the protest of Tohono and Arizona Districts.

IV. Discussion

A. Procedural Matters

Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure,[14] the Arizona Commission's notice of intervention and the timely, unopposed motions to intervene of Arizona Districts, Tohono, Navajo, and Salt River serve to make them parties to this proceeding. In addition, due to the absence of any undue prejudice or delay, we will grant the late, unopposed motions to intervene of Tucson and Citizens. While rule 213 (a)(2) of the Commission's Rules of Practice and Procedure[15] generally prohibits the filing of an answer to protests, we will accept Applicants' answer because it aids our understanding and resolution of the issues.

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[12]Arizona Districts consist of small utilities, political subdivisions, and special districts organized under Arizona law to provide electricity for irrigated agriculture and rural communities. Arizona Districts are comprised of: Aguila Irrigation District; Buckeye Water Conservation & Drainage District; Electrical District Nos. 1, 3, and 6 of Pinal County; Electrical District No. 7 and 8 of Maricopa County; Harquahala Valley Power District; Maricopa County Municipal Water Conservation District No. 1; McMullen Valley Water Conservation & Drainage District; Roosevelt Irrigation District; and Tonopah Irrigation District.

[13]Tohono is a subsidiary of the Tohono O'odham Nation, formerly known as the Papago Tribe of Arizona.

[14]18 C.F.R. § 385.214 (2000).

[15]18 C.F.R. §385.213 (a)(2) (2000).

B. Standard of Review Under Section 203

Section 203(a) of the FPA provides that the Commission must approve a proposed merger if it finds that the merger "will be consistent with the public interest." 16 U.S.C. § 824b(a) (1994). The Commission's Merger Policy Statement[16] provides that the Commission will generally take account of three factors in analyzing proposed mergers: (a) the effect on competition; (b) the effect on rates; and (c) the effect on regulation. In dispositions of jurisdictional facilities not involving a merger, the Commission applies these same factors in assessing whether to authorize such transactions.[17] Consistent with these factors, we find, for the reasons discussed below, that Applicants' proposed transactions are consistent with the public interest. Accordingly, we will approve the proposed disposition of jurisdictional facilities without further investigation.

C. Effect on Competition

Applicants state that the proposed transaction will not have an adverse effect on competition in the generation or transmission markets, and no intervenor disagrees. We agree with Applicants' general assertion that market structure will not be adversely affected by the proposed transaction. We note that the proposed transaction is a transfer of jurisdictional facilities internal to the APS/PWCC/PWE corporate family and will not result in a net loss of competitors from the generation market. Thus, we find that the proposed transaction will not adversely affect competition.

D. Effect on Rates

1. Arguments of the Parties

Applicants state that the proposed transaction will not adversely affect wholesale customers' rates. Applicants state that APS does not intend to alter its transmission rates because none of the transmission assets being acquired by PWE from APS are currently included in APS's transmission tariff rates. Applicants state that APS serves most of its

---

[16]See Merger Policy Statement, FERC Stats. & Regs. ¶ 31,044 at 30,117-18.

[17]See, e.g., Conectiv and NRG Energy, Inc., 92 FERC ¶ 61,031 at 61,069-70 (2000); Wisconsin Public Service Corporation and Upper Peninsula Power Company, 91 FERC ¶ 61,322 at 62,108 (2000)); Wisconsin Electric Power Company, 90 FERC ¶ 61,346 at 62,144 (2000); Wisconsin Power & Light Company, 90 FERC ¶ 61,347 at 62,148 (2000).

power customers under market-based rates or through transactions with the Western System Power Pool (WSPP). Applicants add that, while APS serves some wholesale customers under cost-based rates, all but two of those customers can choose alternative power suppliers. Applicants also state that they have proposed measures that will protect wholesale customers from any potential affiliate abuse that might arise from the transaction. Specifically, in the case of wholesale customers whose contracts include a pricing provision based on System Incremental Cost (SIC), Applicants propose to cap the pass-through of costs to such wholesale customers at the lesser of APS's SIC or prices calculated based on the Palo Verde Index. With regard to customers whose contracts contain a Fuel Adjustment Clause (FAC), Applicants propose that they pay the lesser of a FAC calculated with inter-affiliate transactions included, or a FAC calculated with the inter-affiliate transactions priced not as actual but at the Palo Verde Index price for a similar duration, or the average of the actual corrected FAC for the same month for 1998 or 1999.[18]

Applicants also propose protection for customers taking ancillary services. Applicants state that PWE will sell generation-related ancillary services to PWCC at the rates currently charged under APS's Open Access Tariff.[19] PWCC will, in turn, provide APS with its generation-related ancillary services at exactly the same charges. APS proposes to pass through, to customers subscribing to such ancillary services, the rates it pays PWCC for these services under its Open Access Tariff.[20]

Tohono argues that APS's SIC pricing provision will adversely impact its rates. Tohono argues that the Applicants have not shown how such a provision will effectively protect customers such as Tohono. Tohono maintains that the current SIC provision has been exceedingly volatile and is likely to become more volatile and unreasonable under Applicants' restructuring plan. Tohono states that this volatility occurs because the current costs are based on APS's generating units and that if the sales contracts and generating units are transferred to PWE, the SIC costs may be driven by inter-affiliate power purchases at negotiated rates.[21]

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[18]Application at 10.

[19]PWE and PWCC reserve the right to change such rates and services as their costs of providing such service change, or as conditions change.

[20]Application at 11.

[21]Tohono Protest at 3-5.

Arizona Districts contend that Applicants failed to provide adequate ratepayer protection to their customers for the sale of ancillary services. Thus, Arizona Districts request that the Commission approval of the transaction be conditioned on Applicants' customers receiving ancillary services at cost-based rates for five years under APS's existing Open Access Tariff. Secondly, Arizona Districts request the Commission defer action in this proceeding until it reviews the Applicants' agreements to sell ancillary services at cost-based rates under APS's existing Open Access Tariff. Arizona Districts express concern that, although Applicants commit that the acquisition of ancillary services will be at APS's existing Open Access Tariff rates until a market for ancillary services develops in Arizona, Applicants reserve the right to propose revisions to the rates and conditions of ancillary services as conditions warrant. Arizona Districts maintain that Applicants should provide assurances that they will provide ancillary services at APS's existing tariff rates.[22]

2. Applicants' Response

Applicants' answer to Tohono's and Arizona Districts' protests argues that the protests should be rejected because the proposal to charge APS the same rate as APS currently is charged under its Open Access Tariff has previously been accepted by the Commission.[23] In addition, Applicants argue that the Arizona Districts have not presented factual evidence that a five-year rate freeze is necessary.

3. Commission Determination

The Commission finds that the proposed transaction will not have an adverse effect on rates. We will accept Applicants' commitment to charge for ancillary services at the rates contained in APS's Open Access Tariff.[24] PWE will sell generation-related ancillary services to PWCC at rates identical to those APS itself pays under its Open Access Tariff. We note that Applicants' proposal does not raise any concerns because the ancillary services rates paid by PWCC are the same as those that other customers are required to pay.

---

[22]Arizona Districts Protest at 4-6.

[23]See Allegheny Energy Supply Company, 89 FERC ¶ 61,258 (1999).

[24]However, we note that implementation of this proposal will require timely filing under section 205 of the FPA.

With respect to affiliate abuse, we deny Tohono's requests to set this issue for hearing.[25] Applicants have proposed measures that will protect wholesale customers from any potential affiliate abuse associated with the transaction. These measures include commitments offered by APS's affiliates, and accepted by the Commission, in previous cases.[26] Applicant reiterates here that it will continue to abide by these commitments. Applicants propose, in the case of wholesale customers whose contracts include a pricing provision based on SIC, to cap the pass-through of costs to such wholesale customers at the lesser of APS's SIC or prices calculated based on the Palo Verde Index.

Moreover, as to any adverse impact resulting from purchased power, we note that, at this juncture, these concerns are hypothetical. The customers may file complaints under section 206 of the FPA in the event these concerns materialize. Furthermore, Tohono concedes that, under their existing contract, APS is free to sell power to third parties and meet customers' needs through purchased power transactions and that customers would be charged for purchased power at the SIC. Thus, the proposed transfer of jurisdictional assets from APS would not change the status quo in this regard and would not adversely affect customers' rates.

E. Effect on Regulation

The Commission finds that the proposed transactions will not have an adverse effect on regulation. We reach this conclusion because the Commission will continue to have jurisdiction over the wholesale transactions of APS that are being transferred to PWCC and PWE. Moreover, APS will continue to be subject to the Commission's jurisdiction and the Arizona Commission for retail sales.

F. Consolidation of Dockets

Arizona Districts and Tohono request consolidation of this proceeding with that in Pinnacle West Energy Corporation, Docket No. ER00-3312-000. They argue that consolidation is appropriate because the proceedings involve the same entity and because all of these dockets raise common issues of fact and law.

---

[25]Tohono Protest at 5.

[26]Pinnacle West Capital Corporation, 91 FERC ¶ 61,290 at 61,998 (2000), reh'g pending. See also Pinnacle West Energy Corporation, 92 FERC ¶ 61,248 at 61,790-91 (2000), reh'g pending.

We see no need to consolidate this proceeding with any other proceeding, since we are not setting it for hearing. Moreover, we note that, on September 26, 2000, the Commission issued an order accepting PWE's proposed market-based rate tariff.

The Commission orders:

(A) The motions to intervene of Arizona Districts, Tohono, Navajo, Salt River, Tucson, and Citizens are hereby granted, as discussed in the body of this order;

(B) Applicants' answer to the protests of Tohono and Arizona Districts is hereby granted, as discussed in the body of this order;

(C) The proposed disposition of jurisdictional facilities is hereby authorized, on the terms and conditions and for the purposes set forth in the application, as discussed in the body of this order;

(D) The foregoing authorization is without prejudice to the authority of the Commission or any other regulatory body with respect to rates, service, accounts, valuation, estimates or determinations of cost, or any other matter whatsoever now pending or which may come before the Commission;

(E) Nothing in this order shall be construed to imply acquiescence in any estimate or determination of cost or any valuation of property claimed or asserted;

(F) The Commission retains authority under sections 203(b) and 309 of the FPA to issue supplemental orders as appropriate; and

(G) Applicants shall promptly notify the Commission of the date the disposition of jurisdictional facilities is consummated.

By the Commission.

(S E A L)

Linwood A. Watson, Jr.,
Acting Secretary.

Exhibit F-1

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[PRELIMINARY]

November 20, 2000

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: Pinnacle West Capital Corporation Form U-1 Application / Declaration (File No. 070-09745)

Ladies and Gentlemen:

We are Arizona counsel for Pinnacle West Capital Corporation, an Arizona corporation (the "***Company***"), and are familiar with the matters relating to the "***Reorganization***," as such term is defined in the Form U-1 Application / Declaration (File No. 070-09745) under the Public Utility Holding Company Act of 1935, as amended (the "***Act***"), filed with the Securities and Exchange Commission (the "***Commission***") by the Company on September 12, 2000 (the "***Application***"). Capitalized terms used herein and not otherwise defined will have the meanings given in the Application. The term "***Assets***," when used herein will mean those assets actually contributed to Transitory Subsidiary in the Reorganization, as contemplated in the Application. The term "***Assumed Debt***," when used herein, will mean the indebtedness of APS actually assumed or agreed to be assumed by Transitory Subsidiary and ultimately by PWE in the Reorganization, as contemplated in the Application. Insofar as the fossil assets of APS may be acquired by PWE at different times, it is understood that the term "***Reorganization***," when used herein, will refer only to the first transaction described herein and in the Application whereby PWE acquires Assets of APS. We are aware that PWE may file an application with the Federal Energy Regulatory Commission for temporary status as an exempt wholesale generator pending Commission approval under the Act. As described in the Application, the Reorganization involves the following:

1. The formation of Transitory Subsidiary as a wholly-owned subsidiary of APS (the "***Formation***");

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2. The contribution of the Assets and the Assumed Debt by APS to Transitory Subsidiary in exchange for the common stock of Transitory Subsidiary (the "***Capitalization***");

3. The distribution of the stock of Transitory Subsidiary by APS to the Company (the "***Spin-off***"); and

4. The merger of Transitory Subsidiary into PWE, with PWE surviving (the "***Merger***").

Among other things, we have examined:

(a) The Application;

(b) The parties' corporate proceedings and the proceedings before the Arizona Corporation Commission (the "*ACC*") relative to the Reorganization and related matters; and

(c) Such other documents and certificates (including those being delivered to you concurrently herewith) and such statutes, rules, and regulations as we have deemed relevant.

In our examination of the documents referred to above, we have assumed (i) the genuineness of the signatures not witnessed, the authenticity of documents submitted to us as originals, and the conformity to originals of documents submitted to us as copies; (ii) the legal capacity of all natural persons executing such documents; (iii) that such documents accurately describe and contain the mutual understanding of the parties, and that there are no oral or written statements or agreements that modify, amend, or vary, or purport to modify, amend, or vary, any of the terms of such documents; (iv) with respect to the Assumed Debt, that each such entity (other than APS, PWE, and Transitory Subsidiary), and with respect to all such other documents, that each such entity, had the power to enter into and perform its obligations under such documents, and that such documents have been duly authorized, executed, and delivered by, and are valid, binding upon, and enforceable against, such entities; (v) that the parties to such documents will receive no interest, charges, fees, or other benefits or compensation in the nature of interest in connection with the transactions other than those that the Company has agreed in writing in such documents to pay; and (vi) that no fraud has occurred in connection with such transactions.

Based upon the foregoing, and subject to the assumptions and conditions set forth herein, we are of the opinion that, in the event that the Reorganization is consummated in accordance with the Application:

1. All laws of the State of Arizona applicable to the Reorganization will have been complied with.

2. Following the Formation and the Capitalization, Transitory Subsidiary will be validly organized and duly existing.

3. The common stock of Transitory Subsidiary issued to APS in the Formation and the Capitalization will be validly issued, fully paid and non-assessable, and APS, as the holder of such stock following the Formation and the Capitalization, and the Company, as the holder of such stock immediately following the Spin-off, will be entitled to the rights and privileges appertaining thereto set forth in the articles of incorporation of Transitory Subsidiary.

4. PWE is validly organized and duly existing.

5. The common stock of PWE to be held by the Company following the Reorganization will be validly issued, fully paid and non-assessable, and the Company, as the holder of such stock immediately following the Merger, will be entitled to the rights and privileges appertaining thereto set forth in the articles of incorporation of PWE.

6. Following the Capitalization, the Assumed Debt that is assumed effective as of the date of the Capitalization will be the valid and binding obligation of Transitory Subsidiary in accordance with its terms. Upon the effective time of the Merger, the Assumed Debt that is assumed effective as of the date of the Merger be the valid and binding obligation of PWE in accordance with its terms.

7. Upon the effective time of the Spin-off, the Company will legally acquire the common stock of Transitory Subsidiary issued in the Capitalization.

8. The consummation of the Reorganization will not violate the legal rights of the holders of any securities issued by the Company or any "associate company," as defined in the Act, thereof.

The opinions expressed above are subject to the following assumptions and conditions:

(a) The Reorganization, as contemplated by the Application, will be authorized by the Commission. The Commission will duly enter an appropriate order or orders with respect to the Reorganization, as described in the Application, granting and permitting the Application to become effective under the Act and the rules and regulations thereunder and the Reorganization will be consummated in accordance with the Application.

(b) The Reorganization will be duly authorized and approved to the extent required by the governing documents and applicable federal and state laws, by the board of directors of each of APS, Transitory Subsidiary and PWE, and by the Company as the sole shareholder of APS, Transitory Subsidiary and PWE, and such authorizations and approvals remain in full force and effect.

(c) Without limitation of paragraph (b) above, the board of directors of Transitory Subsidiary will authorize the issuance of the common stock to APS in the Capitalization in accordance with Arizona law, and the number of shares so issued will be authorized in the articles of incorporation of Transitory Subsidiary.

(d) The Spin-off will be effected in accordance with Arizona law and the amount thereof will not exceed any limitation contained in APS' articles of incorporation.

(e) Instruments of merger will be duly and validly filed with the ACC, and such other corporate formalities as are required by the laws of the State of Arizona for the consummation of the Merger will be taken, and the Merger will become effective in accordance with the laws of the State of Arizona.

(f) None of the Capitalization, the Spin-off or the Merger will constitute a fraudulent conveyance and APS will not be rendered insolvent as a result of the Reorganization.

(g) All required approvals, authorizations, consents, certificates, and orders of, and all filings and registrations with, all applicable federal and state commissions and regulatory authorities with respect to the Reorganization will be obtained or made, as the case may be, and remain in effect (including the approval and authorization of the Commission under the Act, the Federal Energy Regulatory Commission under the Federal Power Act, as amended, and the rules and regulations thereunder, and the ACC under the applicable laws of the State of Arizona), and the Reorganization will be accomplished in accordance with all such approvals, authorizations, consent, certificates, orders, filings and registrations. APS will not utilize utility funds to form Transitory Subsidiary or to divest itself of Transitory Subsidiary.

(h) The parties will comply with, or obtain all consents, waivers and releases, if any, required for the Reorganization under all applicable governing corporate documents, contracts, agreements, debt instruments, indentures, franchises, licenses, and permits to be listed on a schedule to be provided by the Company and/or any of its associate companies.

(i) Our opinions herein are given solely with respect to the actual effectuation of the Reorganization, including with respect to consents, licenses, permits, filings with and approvals of governmental authorities that are required to effect the Reorganization, and no opinion is given as to whether APS, the Company, Transitory Subsidiary, or PWE or their businesses or operations are currently in compliance with any laws or will be after the Reorganization or as to any consents, licenses, permits, filings with or approvals of any governmental body or agency or other person required for the ownership or operation of the Assets before or following the Reorganization.

(j) The opinions set forth in paragraph 6 herein are subject to, and limited by, the following:

(i) the effect of any applicable bankruptcy, insolvency, reorganization, arrangement, moratorium or other similar laws relating to or affecting creditors rights generally;

(ii) the effect of general principles of equity, including (without limitation) concepts of materiality, reasonableness, good faith and fair dealing (regardless of whether considered in a proceeding in equity or at law);

(iii) the qualification that certain waivers, procedures, remedies, and other provisions of the documents governing the Assumed Debt may be unenforceable under or limited by the law of the State of Arizona; however, such law does not, in our opinion, substantially prevent the practical realization of the benefits intended by such documents; and

(iv) we express no opinion as to the effect of the law of any jurisdiction other than the State of Arizona wherein any creditor may be located or wherein enforcement of the Assumed Debt may be sought which limits the rates of interest legally chargeable or collectible.

(k) No act or event other than as described herein shall have occurred subsequent to the date hereof that would change the opinions expressed herein.

(l) The Reorganization will be consummated as described in the Application or with such changes as we have approved, and all legal matters incident thereto will be satisfactory to us. With respect to required approvals of the ACC, we note that two parties have filed legal actions challenging the validity of the Settlement as approved by the ACC. However, under Arizona law, an ACC order remains in effect pending appeal.

(m) In giving the final opinion required by the Commission in connection with the Reorganization, we may rely exclusively upon opinions of other counsel to the Company as to certain matters, or such other counsel may provide certain of such opinions in separate opinion letters provided to the Commission concurrently with our final opinion.

The opinions expressed herein are limited to the laws of the State of Arizona and, with respect to paragraphs 6 and 7, the federal law of the United States of America and we express no opinion on the laws of any other jurisdiction. Without limiting the foregoing, opinions herein relating to labor/employment or employee benefit matters, environmental matters, tax matters, and real estate matters are limited to the laws of the State of Arizona. The opinions expressed herein are based upon the law in effect on the date hereof, and we assume no obligation to revise or supplement this opinion should such law be changed by legislative action, judicial decision, or in any other manner, or otherwise to notify you of any changes in law or fact relevant to the opinions expressed herein. This opinion letter is rendered solely for your benefit in connection with the transactions described above, and this opinion letter is not to be used, circulated, quoted, or otherwise referred to for any other purpose.

We hereby consent to the use of this opinion as an exhibit to the Application.

Very truly yours,

Snell & Wilmer L.L.C.

Exhibit F-1

THE LAW FIRM OF
KELEHER
&McLEOD
A PROFESSIONAL ASSOCIATION

[PRELIMINARY]

November 21, 2000

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: Pinnacle West Capital Corporation
Form U-1 Application/Declaration
(File No. 070-09745)

Ladies and Gentlemen:

We are special New Mexico counsel for Pinnacle West Capital Corporation, an Arizona corporation (the "**Company**"), in regard to certain matters relating to the "**Reorganization,**" as such term is defined in the Form U-1 Application/Declaration (File No. 070-09745) under the Public Utility Holding Company Act of 1935, as amended (the "**Act**"), filed with the Securities and Exchange Commission (the "**Commission**") by the Company on September 12, 2000 (the "**Application**"). Capitalized terms used herein and not otherwise defined will have the meanings given in the Application. The term "**Four Corners Transfer,**" when used herein, will mean the transfer of the Four Corners Power Plant from APS to PWE pursuant to the Reorganization, as contemplated in the Application, which we have examined.

APS has represented to us, and we have relied upon such representation, that the only business in which it is engaged in the State of New Mexico consists of and is limited to ownership and operation of electric generating units (or undivided interests therein) and electric transmission lines, sales of electricity at retail to BHP Navajo Coal Company ("**BHP**") solely for its conduct of coal mining operations on the Navajo Reservation ("**BHP Contract**"), transmission of electricity from Tucson Electric Power Company to the Navajo Tribal Utility Authority for resale, and wholesale transactions with other utilities.

APS and PWE have represented to us, and we have relied upon such representation, that the only asset located in the State of New Mexico that is being transferred from APS to PWE pursuant to the Reorganization is the Four Corners Power Plant.

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PWE has represented to us, and we have relied upon such representation, that it is not currently engaged in any business in the State of New Mexico, and that the only business in which it will be engaged in the State of New Mexico immediately following the Reorganization consists of and is limited to ownership and operation of electric generating units (or undivided interests therein) at the Four Corners Power Plant and the sale of power and energy at wholesale from the Plant.

The Company has represented to us, and we have relied upon such representation, that it is not engaged in any business in the State of New Mexico.

Our opinions herein are given solely with respect to the actual effectuation of the Four Corners Transfer, and no opinion is given as to whether APS, the Company, Transitory Subsidiary or PWE, or their businesses or operations, are currently in compliance with any laws, or will be after the Reorganization, or as to any consents, licenses, permits, filings with or approvals of any governmental body or agency or other person required for the ownership or operation of the Four Corners Power Plant before or following the Reorganization.

Our opinions relate only to the Four Corners Transfer. In respect only of the laws of New Mexico, and subject to the qualifications and limitations with respect to this opinion letter set forth above, we are of the opinion that:

1. The activities of APS in the State of New Mexico to date do not constitute it a "public utility" as that term is defined in the relevant laws of the State of New Mexico, and accordingly, no approval, authorization, or consent of the New Mexico Public Regulation Commission is required by APS for the Four Corners Transfer contemplated in the Application. In addition, the rates and charges pursuant to the BHP Contract between APS and BHP are not subject to regulation by the New Mexico Public Regulation Commission.

2. The activities of PWE in the State of New Mexico to date do not, and immediately following the Reorganization will not, constitute it a "public utility" as that term is defined in the relevant laws of the State of New Mexico, and accordingly, no approval, authorization, or consent of the New Mexico Public

Regulation Commission is required by PWE for the Four Corners Transfer contemplated in the Application.

The opinions expressed herein are limited to the laws of the State of New Mexico and we express no opinion about the laws of any other jurisdiction. The opinions expressed herein are based upon the law in effect on the date hereof, and we assume no obligation to revise or supplement this opinion should such law be changed by legislative action, judicial decision, or in any other manner, or otherwise to notify you of any changes in law or fact relevant to the opinions expressed herein. Without limitation of the foregoing, we express no opinion on the requirements that might become applicable upon the implementation of open access in New Mexico, currently scheduled to begin January 1, 2002. This opinion letter is rendered solely for your benefit in connection with the Four Corners Transfer described above, and this opinion letter is not to be used, circulated, quoted, or otherwise referred to for any other purpose.

We hereby consent to the use of this opinion as an exhibit to the Application.

Yours truly,

KELEHER & MCLEOD, P.A.

By: Susan McCormack
Susan M. McCormack

smm0090

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 2 TO
FORM U-1
APPLICATION
UNDER
THE PUBLIC UTILITY HOLDING COMPANY ACT OF 1935

PINNACLE WEST CAPITAL CORPORATION
400 East Van Buren Street, Suite 700
Phoenix, Arizona 85004

(Name of company filing this statement and address of principal executive offices)

None

(Name of top registered holding company parent)

Herbert I. Zinn
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Phoenix, Arizona 85004

Mary Ann K. Huntington
Morgan, Lewis & Bockius LLP
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(Name and address of agents for service)

The Commission is requested to send copies of all notices, orders, and communications in connection with this Application to:

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Mary Ann K. Huntington
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Washington, D.C. 20036

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Pursuant to Sections 9(a)(2) and 10 of the Public Utility Holding Company Act of 1935 (the "Act"), Pinnacle West Capital Corporation, an Arizona corporation ("PNW"), hereby requests approval from the Securities and Exchange Commission (the "Commission") to establish a new public-utility company subsidiary in connection with the proposed corporate reorganization (the "Reorganization") involving the relocation of certain generation assets from Arizona Public Service Company ("APS"), PNW's existing public-utility company subsidiary, to Pinnacle West Energy Corporation ("PWE"), another wholly-owned subsidiary of PNW. As a result of this Reorganization, PWE will become an "electric utility company" and a "public-utility company" within the meaning of the Act, and, therefore, PNW will acquire an additional public-utility subsidiary. (However, PWE will not become a public service corporation under Arizona state law.) PNW will continue to meet the requirements for an intrastate exemption under Section 3(a)(1) of the Act and will continue to file annual exemption statements on Form U-3A-2 pursuant to Rule 2 of the Commission's regulations.

The purpose of the Reorganization is to comply with certain requirements set forth in rules adopted by the Arizona Corporation Commission ("ACC") that provide the framework for introduction of retail electric competition in Arizona (the "Competition Rules"), and in a final ACC order approving APS' settlement with various parties with respect to implementation of the Competition Rules (the "Settlement"). Pursuant to the Competition Rules and the Settlement, APS must separate its generating assets and competitive services from its transmission and distribution functions no later than December 31, 2002. PNW seeks Commission approval now, however, because APS intends to move a substantial portion of its generating assets to PWE during 2001. There may be some delays in moving particular assets from APS to PWE, pending

receipt by APS of certain consents or waivers from third parties with respect to such assets, but most of the non-nuclear generating assets are to be moved to PWE during 2001.

ITEM 1 DESCRIPTION OF PROPOSED TRANSACTION

A. Description of the Parties

1. **Pinnacle West Capital Corporation:** PNW was incorporated in 1985 under the laws of the State of Arizona. Through its subsidiaries, PNW is engaged in the generation, transmission, and distribution of electricity and the sale of energy services. Also through subsidiaries, PNW is involved in real estate development and in venture capital investment. On December 31, 1999, PNW employed approximately 7,534 people, including the employees of its subsidiaries. Of these employees, 6,234 were employees of its existing public-utility subsidiary, APS, and employees assigned to joint projects of APS where APS serves as a project manager. PNW's principal executive offices are located at 400 East Van Buren, Phoenix Arizona 85004. PNW is currently a public-utility holding company exempt from the provisions of the Act, except Section 9(a)(2), by reason of its filing of annual exemption statements on Form U-3A-2 pursuant to Rule 2 of the Commission's regulations. 17 C.F.R. § 250.2(a). PNW's direct, wholly-owned subsidiaries are described below and a copy of PNW's most recent Form U-3A-2 is attached as Exhibit G-1.

2. **Arizona Public Service Company:** APS is a public-utility company incorporated in 1920 under the laws of the State of Arizona. APS is a wholly-owned subsidiary of PNW. APS' principal executive offices are located at 400 North Fifth Street, Phoenix Arizona 85004. APS provides retail electric services principally in the State of Arizona and is actively engaged in the competitive wholesale electric markets. APS is subject to regulation by the ACC

with respect to retail rates, accounting, service standards, service territory, issuances of securities, siting, of generation and transmission projects and various other matters.

APS is also subject to the jurisdiction of the Federal Energy Regulatory Commission ("FERC") under Parts I, II, and III of the Federal Power Act for certain phases of its business, including regulation of its rates relating to wholesale sales of energy and interstate transmission, licensing its hydroelectric stations, accounting, and certain other matters. APS' current business structure consists of three primary business units: generation; power marketing; and transmission/distribution. The following briefly describes these business units.

a. ***Generation*** -- APS currently owns or leases generating facilities with a total accredited capacity of approximately 4,000 megawatts. The fuel mix of APS' generation capacity is 41.8% coal; 31.5% gas or oil; 26.5% nuclear; and less than 1% other. APS' sources of energy during 1999 were approximately 56.8% from its own generation resources and approximately 43.2% from purchased power. The Reorganization involves the relocation of a substantial portion of APS' generating facilities and related facilities, as well as the transfer of certain of the employees of APS' generation business unit. The generating assets being moved to PWE during 2001 are briefly described below.[1] Also, attached, as Exhibit E-1, is a map showing the location of each of APS' generation facilities.

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[1] In addition to the generating facilities to be moved during 2001, APS also owns or leases an interest in the Palo Verde Nuclear Generating Station ("PVNGS"), a three-unit nuclear generating facility located in Wintersburg, Arizona approximately 55 miles west of Phoenix, Arizona. The total accredited capacity of PVNGS is 3,733 megawatts, of which APS owns or leases 29.1%, or approximately 1,086 megawatts. APS is also the operator of the facility. There are six other co-owners of PVNGS, which collectively own or lease the remaining 70.9%. Ownership is in the form of a co-tenancy, and the co-owners are not affiliates of one another. APS operates PVNGS pursuant to an agreement in which each owner pays its proportionate share of the cost of operating the facility. While the Reorganization involving APS' non-nuclear generating facilities is contemplated to occur during 2001, APS does not plan to move its interest in PVNGS to PWE until 2002. The delay in moving the nuclear assets is to ensure additional time to adequately address complicated contractual arrangements, such as sale and leaseback provisions between APS and certain owner trusts to which APS has sold and leased back a portion of its interest in

Four Corners Power Plant ("Four Corners"):

Four Corners is a five-unit coal fired power plant located near Farmington, New Mexico on the Navajo Reservation. The property underlying the plant is held under easements granted by the federal government and under leases from the Navajo Nation. Units 1, 2 and 3 have an accredited capacity of 560 megawatts. These units are 100% owned and operated by APS. Units 4 and 5 have an accredited capacity of 1,480 megawatts; APS owns 15% of units 4 and 5, or 222 megawatts. The remaining interests in units 4 and 5 are co-owned by five other entities. Ownership of units 4 and 5 is through a co-tenancy arrangement, and the co-owners are not affiliates of one another. APS operates Four Corners units 4 and 5 pursuant to an agreement in which each owner pays its proportionate share of the operating cost.

Cholla Power Plant ("Cholla"):

Cholla is a four-unit coal-fired power plant located in Navajo County approximately 200 miles northeast of Phoenix, Arizona. Units 1, 2 and 3 have an accredited capacity of 615 megawatts. These units are 100% owned and operated by APS. Unit 4 has an accredited capacity of 380 megawatts; unit 4 is 100% owned by another unaffiliated entity. APS is also the operator for this unit.

Navajo Power Plant ("Navajo"):

Navajo is a three-unit coal-fired plant located south of Page, Arizona. The total accredited capacity for the plant is 2,250 megawatts. APS owns 14%, or 315 megawatts of this plant. The remaining interests in the plant are co-owned by five other entities which are not affiliated with APS. APS does not operate Navajo.

PVNGS Unit 2 and the PVNGS common facilities. There are also certain financial and economic considerations that must be resolved before the nuclear assets can be moved to PWE.

Saguaro Power Plant ("Saguaro"):

Saguaro is a four-unit power plant consisting of two gas/oil-fired steam units and two gas/oil-fired combustion turbine units and is located 30 miles north of Tucson, Arizona. The total accredited capacity for the plant is 319 megawatts. Steam units 1 and 2 have a combined capacity of 209 megawatts, and the two combustion turbines have a combined capacity of 110 megawatts. This plant is 100% owned and operated by APS.

Ocotillo Power Plant ("Ocotillo"):

Ocotillo is a six-unit multi-fueled generating plant located in Tempe, Arizona. Two units are gas/oil-fired steam units; two units are gas/oil-fired combustion turbines; and two units are solar. The total accredited capacity for steam units 1 and 2 is 226 megawatts; for combustion turbine units 1 and 2, the accredited capacity is 110 megawatts; and for solar units 1 and 2, the accredited capacity is 172 kilowatts. This plant is 100% owned and operated by APS.

Yucca Power Plant ("Yucca"):

Yucca is a five-unit gas/oil combustion turbine plant located near Yuma, Arizona. The accredited capacity of units 1, 2, 3 and 4 is 147 megawatts. These units are 100% owned and operated by APS. Unit 5 and a separate steam unit are owned by a separate, unaffiliated entity but operated by APS.

West Phoenix Power Plant ("West Phoenix"):

West Phoenix is a six-unit gas/oil-fired steam, combustion turbine, and combined cycle generation plant located in Phoenix, Arizona. Combustion turbine units 1 and 2 have an accredited capacity of 110 megawatts; combined cycle units 1, 2 and 3 have an accredited capacity of 255 megawatts; and steam units 4, 5 and 6 have an accredited capacity of 108.3 megawatts. APS owns or leases and operates 100% of West Phoenix and is entitled to 100% of the output.

Douglas/Fairview Power Plant:

Douglas/Fairview is a single combustion turbine unit with a capacity rating of 16 megawatts located near Douglas, Arizona. Douglas/Fairview is 100% owned and operated by APS.

Solar Power Plants

APS also owns a number of solar units that will be moved to PWE as part of the Reorganization. These solar units are located around the state (primarily in the Phoenix metropolitan area) and have a total combined capacity rating of 1 megawatt.

b. ***Power Marketing*** -- APS' Power Marketing and Trading division ("Power Marketing") primarily engages in the sale and purchase of electric capacity and energy in the wholesale market. Power Marketing sells excess power from APS' generation facilities and also purchases energy from other entities to meet APS' requirements to supply retail and wholesale customers. Power Marketing also engages in hedging transactions in forward markets for electricity and fuel and in the purchase and sale of emission allowances as part of APS' effort to manage risks associated with its generation and distribution activities. The ACC Competition

Rules and Settlement contemplate that as a competitive asset, APS would also move its Power Marketing division to an affiliate. Accordingly, on October 1, 2000, Power Marketing became a division of PNW.[2]

c. ***Transmission/Distribution*** -- APS owns and operates approximately 5,296 miles of transmission lines, of which all but 140 miles are located within the State of Arizona. APS' transmission was built primarily to bring generation from its power plants to its retail electric loads in Arizona. Ownership and operation of APS' transmission facilities is subject to regulation by FERC. Transmission rates are prescribed by FERC and the use of and access to the transmission system is subject to FERC's open access requirements set forth in FERC Order No. 888. As of December 31, 1999, APS' distribution system served approximately 827,000 electric retail customers in its service territory within the State of Arizona. APS provides distribution services in 11 of Arizona's 15 counties, including the metropolitan Phoenix area. Pursuant to the Settlement approved by the ACC in 1999, which is more fully discussed below, retail rates have been set until July 1, 2004, subject to conditions or circumstances which constitute an emergency. APS' transmission and distribution business will remain with APS under the Reorganization.

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[2] PNW itself did not become an electric utility company when this occurred. The Commission and Staff have both recognized, on numerous occasions, that marketing activities are not utility activities under the Act. See, e.g., UNITIL, Holding Company Act Release No. 26650 (Jan. 21, 1997); SEI Holdings, Inc., Holding Company Act Release No. 26581 (Sept. 26, 1996); Sunoco Power Marketing, L.L.C., SEC No-Action Letter, 1997 SEC No-Act. LEXIS 785 (July 24, 1997); Enron Capital & Trade Resources Corp., SEC No-Action Letter, 1997 SEC No-Act. LEXIS 287 (Feb. 13, 1997); Eastex Power Marketing, Inc., SEC No-Action Letter, 1996 SEC No-Act. LEXIS 536 (Apr. 30, 1996); LG&E Power Marketing, Inc., SEC No-Action Letter, 1996 SEC No-Act. LEXIS 510 (Apr. 26, 1996); Coral Power, L.L.C., SEC No-Action Letter, 1996 SEC No-Act. LEXIS 314 (Feb. 22, 1996); AIG Trading Corp., SEC No-Action Letter, 1995 SEC No-Act. LEXIS 195 (Jan. 20, 1995); Inter-Coast Power Marketing Co., SEC No-Action Letter, 1994 SEC No-Act. LEXIS 886 (Dec. 6, 1994); Electric Clearinghouse, Inc., SEC No-Action Letter, 1994; SEC No-Act. LEXIS 452 (Apr. 13, 1994); CRSS Power Marketing, Inc., SEC No-Action Letter, 1994 SEC No-Act. LEXIS 431 (Mar. 31, 1994).

3. **Pinnacle West Energy Corporation:** PWE was incorporated in Arizona on September 27, 1999 under the laws of the State of Arizona. PWE is a wholly-owned subsidiary of PNW. PWE was organized primarily to engage in the business of developing, owning, and operating generation plants used for the production and sale of wholesale energy. Currently, PWE is engaged in the development of approximately 2,600 megawatts of generating capacity in the State of Arizona and operations in other states are contemplated, too; however, PWE is not currently an electric utility company or a public-utility company within the meaning of the Act. Upon consummation of the Reorganization described herein and the subsequent relocation of APS' nuclear generating facilities, PWE will own or lease the generation facilities currently owned or leased by APS and will assume APS' responsibilities as operator of the facilities described above, with the exception of the Navajo Generating Station, which will continue to be operated by another, unaffiliated entity.[3] PWE's principal place of business is 400 North Fifth Street, Phoenix, Arizona 85004.

4. **APS Energy Services Company, Inc. ("APSES"):** APSES is an Arizona corporation formed in 1998. APSES is a wholly-owned subsidiary of PNW. APSES was organized as a retail power marketer to provide retail energy and related retail energy services to customers throughout Arizona, California, and other states that have instituted retail direct access. APSES does not own or control electric power generation, transmission, or distribution facilities.[4] APSES' principal place of business is 400 East Van Buren Street, Phoenix, Arizona.

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[3] In the future, PWE may also acquire or develop other generating assets. To the extent necessary for PNW to maintain its intrastate exemption, PWE may establish exempt wholesale generator ("EWG") subsidiaries to own and/or operate future assets that may be located out of state.

[4] APSES is not an "electric utility company" or a "public-utility company" as those terms are defined in the Act. See, e.g., Enron, SEC No-Action Letter (1997).

5. **SunCor Development Company ("SunCor"):** SunCor was incorporated in 1965 under the laws of the State of Arizona. SunCor is a wholly-owned subsidiary of PNW. SunCor is engaged in commercial and residential real estate development. SunCor is not engaged in generating, transmitting, distributing or selling electric energy and will not be affected by the Reorganization. SunCor's principal place of business is 3838 North Central, Suite 1500, Phoenix, Arizona 85012.

6. **El Dorado Investment Company ("El Dorado"):** El Dorado was incorporated in 1983 under the laws of the State of Arizona. El Dorado is an investment company and wholly-owned subsidiary of PNW. El Dorado is not engaged in the business of generating, transmitting, distributing, or selling electric energy and will not be affected by the Reorganization. El Dorado's principal place of business is 400 East Van Buren Street, Suite 800, Phoenix, Arizona 85004.

B. Regulatory Background

The Reorganization is being undertaken in accordance with the Competition Rules and Settlement. Specifically, in Arizona, the ACC has adopted the Competition Rules to expedite the transition to retail electric competition. Among other things, the Competition Rules required that APS separate its generation assets and competitive business activities from its transmission and distribution functions. In 1999, the ACC approved the Settlement between APS and several customer groups and consumer advocates resolving retail electric competition-related issues and approving unbundled tariffs.[5] Under the terms of the Competition Rules and the Settlement, retail choice for APS' retail customers is being phased-in. All of APS' retail customers will be

[5] The ACC order approving the Settlement is attached as Exhibit D-4.

entitled to choose their retail power supplier beginning January 1, 2001.[6] The retail rates of customers that continue to take fully bundled service from APS and do not choose an alternative supplier will be subject to planned rate reductions that will continue until July, 2004.[7] Under the Settlement, APS is entitled to apply for a change in the agreed upon rate reductions only in the event of an emergency or a material change in its cost of service as a result of specified extraordinary events. The Settlement also requires APS to complete separation of its generation assets by December 31, 2002.[8]

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6 See Exhibit D-4.
7 See Exhibit D-4.
8 See Exhibit D-4.

C. The Reorganization

PNW and APS propose to undertake the Reorganization pursuant to the arrangements described in the Term Sheet,[9] attached as Exhibit B-1 hereto.

The principal transactions associated with the Reorganization are described below. As previously mentioned, APS and PWE are both currently direct, wholly-owned subsidiaries of PNW. APS and PWE will be the only two "public-utility company" (as defined in the Act) subsidiaries of PNW upon the completion of the Reorganization. It is contemplated that the following transactions will occur during 2001: First, APS will contribute the bulk of its fossil and solar generating facilities, assets and related operational agreements to one or more of these newly-formed subsidiaries (hereafter "Transitory Subsidiaries") which will be wholly-owned by APS. This transaction is intended to qualify as a tax-deferred reorganization under Internal Revenue Code ("IRC") Section 368(a)(1)(D). Second, APS will distribute or cause to be distributed all of the stock of each Transitory Subsidiary to PNW in a transaction intended to qualify as a tax-deferred spin-off under IRC Section 355. Third, under state law, the Transitory Subsidiaries will then be merged into PWE (with PWE as the surviving entity) in a transaction intended to qualify as a tax-deferred statutory merger under IRC Section 368(a)(1)(A). It is contemplated that the three aforementioned transactions will occur simultaneously.

When the Reorganization is complete and APS' nuclear generating assets have been moved to PWE, APS' existing divisional structure in which its electric utility operations are divided along functional lines will be formalized, and separate corporate entities will engage in the transmission/distribution of electricity and the generation of electricity. APS will become a

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[9] Although the term sheet indicates that the Reorganization will take place "on or before January 1, 2001," the Reorganization is now contemplated to occur during 2001.

"wires" company and continue to own and operate its existing electric transmission/distribution system, and PWE will become a "generating" company and will own or lease and operate APS' existing generation assets and sell the output from these assets at wholesale to Power Marketing. Power Marketing, in turn, is expected then to sell power to APS and other non-affiliated power purchasers. APS will continue to provide transmission and distribution services at regulated rates, as well as provide energy to those retail customers in APS' existing service territory that do not elect to use an alternate retail power supplier. A diagram of PNW's corporate structure, after the Reorganization is complete and the nuclear generating facilities have been moved to PWE, is shown on Appendix B to Exhibit D-1 attached hereto.

Consummation of the Reorganization is subject to certain conditions as stated in the Term Sheet attached as Exhibit B-1. Principally, these conditions include: (a) the approval of the Commission under Section 9(a)(2) of the Act; (b) approvals of FERC under Sections 203 and 205 of the Federal Power Act 16 U.S.C. §§824b and d (1994); and (c) consents and waivers of certain third parties with respect to contracts associated with the generation assets. The approval of the ACC has already been granted.[10] No PNW shareholder approval is required in connection with the Reorganization. Although APS does not believe that shareholder approval is required for the Reorganization, the approval of its sole shareholder is being obtained.[11] The approval of APS' Board of Directors was obtained prior to the end of 2000.

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[10] Approval from the Nuclear Regulatory Commission ("NRC") will be obtained in connection with the movement of APS' interest in its nuclear generating assets, which will occur by year-end 2002. No NRC approval, however, is necessary in connection with the Reorganization involving APS' non-nuclear generating facilities. Approval of some plant participants may also be required.

[11] As a wholly-owned subsidiary of PNW, APS' only shareholder is PNW.

D. Purpose and Anticipated Effects of the Reorganization

The principal purpose of the Reorganization and the subsequent relocation of APS' nuclear generating facilities to PWE is to assure compliance with the provisions of the Competition Rules and the Settlement and provide PNW with increased financial, managerial, and organizational flexibility which will enable APS and PWE to effectively compete in a restructured utility industry. After extensive investigation and analysis, PNW has determined that the proposed Reorganization offers the best means of positioning the PNW system for future changes and opportunities and will enable PNW to take advantage of emerging business opportunities and manage risks to the benefit of both shareholders and customers. The Reorganization is the first step in a clear functional and corporate separation between PNW's competitive generation business, and its distribution and transmission business, enabling each company to focus its resources on more clearly defined product markets and services. The intent of the Reorganization and subsequent relocation of APS' nuclear generating facilities is to create a financially sound and responsive utility system which can provide utility services effectively and efficiently. Additionally, the corporate division along functional lines will provide a better structure for regulators to assure that there is no cross-subsidization of costs or transfer of business risk from the competitive generation business to the fully-regulated transmission/distribution business. Moreover, this type of corporate division of utility operations along functional lines is becoming a highly-desirable form of conducting both a regulated transmission/distribution business and a competitive generation business.

The Reorganization will have no adverse effect on APS' existing electric utility operations. The Reorganization will not cause substantive changes in PNW's ultimate interest in existing utility businesses and will not involve the transfer or acquisition of any additional utility

assets beyond those currently held by APS or those which may be developed or acquired by PWE in the future. The managers and employees in PNW's existing utility operations will continue to perform their existing functions -- either as employees of APS, the transmission/distribution company, or as employees of PWE, the generating company. Thus, even though day-to-day utility operations would not be affected, the benefits discussed above will accrue to PNW and its customers and shareholders as a result of the Reorganization and the subsequent relocation of APS' nuclear generating facilities to PWE.

E. Additional Information

No associate company or affiliate of PNW or APS, or any affiliate of any associate company of PNW or APS, has any direct or indirect material interest in the proposed Reorganization except as stated herein.

ITEM 2 FEES, COMMISSIONS AND EXPENSES

The fees, commission and expenses to be paid or incurred by PNW and APS in connection with the Reorganization are estimated as follows:

Auditors' Fee	*
Legal Fees	*
Miscellaneous	*
Total	*

* To be filed by amendment

ITEM 3 APPLICABLE STATUTORY PROVISIONS

Sections 9(a)(2) and 10 of the Act are applicable to the proposed Reorganization. As a result of the proposed Reorganization, PNW will have two wholly-owned, public-utility company subsidiaries, APS and PWE. Section 9(a)(2) of the Act requires Commission approval before a person may acquire more than 5% of the outstanding voting securities of more than one "public-utility company." The standards for approval of a transaction under Section 9(a)(2) of the Act are set forth in Section 10 of the Act. The relevant standards under Section 10 are set forth in Section 10(b), 10(c) and 10(f).

For the reasons explained below, the Commission should approve the Reorganization pursuant to Section 9(a)(2) of the Act because it complies with the applicable standards of Section 10. PNW respectfully requests that the Commission issue an order approving the Reorganization by March 1, 2001, so that PNW has sufficient time to complete the Reorganization during 2001.[12] PNW anticipates moving most of the assets and personnel during 2001,[13] and believes that the time between the requested approval date of March 1, 2001, and the contemplated Reorganization is necessary to allow the transfer of personnel and to implement other aspects of the Reorganization.

A. Approval of the Reorganization under Section 9(a)(2).

Section 9(a)(2) makes it unlawful, without approval of the Commission under Section 10, "for any person . . . to acquire, directly or indirectly, any security of any public-utility company, if such person is an affiliate . . . of such company and of any other public utility or holding

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[12] In the event the Commission does not issue its order prior to the anticipated date of Reorganization, PWE intends to file an application with FERC for EWG status and limit its activities exclusively to the ownership and

company, or will by virtue of such acquisition become such an affiliate." By virtue of the proposed Reorganization, PNW will own more than 5% of the outstanding voting securities of two "public-utility companies" (APS and PWE) thus becoming an affiliate of both of these public-utility companies. Under Section 2(a)(5) of the Act, a "public-utility company" is an "electric utility company" or a "gas utility company." Under Section 2(a)(3) of the Act, an "electric utility company" is defined as "any company which owns or operates facilities used for the generation, transmission, or distribution of electric energy for sale . . . ." Upon completion of the Reorganization, PWE will own and operate certain of APS' existing facilities for the generation of electric energy for sale, and APS will continue to own and operate its existing facilities for the transmission and distribution of electric energy for sale, as well as its nuclear generating facilities. Therefore, both PWE and APS will be public-utility companies within the meaning of the Act.

1. Section 10(b)

Section 10(b) provides that the Commission shall approve an acquisition pursuant to Section 9(a)(2) unless the Commission finds that:

(1) such acquisition will tend towards interlocking relations or the concentration of control of public-utility companies, of a kind or to an extent detrimental to the public interest or the interest of investors, or consumers;

(2) in case of the acquisition of securities or utility assets, the consideration, including all fees, commissions, and other remuneration, to whomsoever paid, to be given, directly or indirectly, in connection with such acquisition is not reasonable or does not bear a fair relation to the sums invested in or the earning capacity of the utility assets to be acquired or the utility assets underlying the securities to be acquired; or

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operation of eligible facilities and sale of power at wholesale in order to maintain EWG status until the Commission issues an order approving the Reorganization.

[13] As noted above, certain generating assets, such as PVNGS, may be moved to PWE at a later date.

(3) such acquisition will unduly complicate the capital structure of the holding-company system of the applicant or will be detrimental to the public interest or the interest of investors or consumers or the proper functioning of such holding-company system.

PNW respectfully submits that no adverse findings should be made under any of these provisions.

a. "Detrimental Interlocking Relations" or "Concentration of Control" -- Section 10(b)(1)

Consistent with Section 10(b)(1) of the Act, PNW submits that the Reorganization will not tend towards interlocking relations or the concentration of control of public-utility companies, of a kind or to an extent detrimental to the public interest or the interest of investors or customers. The Reorganization involves the first step in the ultimate segregation of APS' existing utility assets and operations along functional lines into a generation company (PWE) and a transmission and distribution company (APS).

While there may be certain common directors and officers of PNW and the public-utility subsidiaries, these relations normally exist in public-utility holding company systems among affiliated and associated companies and should not be considered detrimental to the public interest or the interest of investors or consumers. See Central Maine Power Company, et al., Holding Co. Act Release No. 26903 (Aug. 7, 1998); CIPSCO, Inc., Holding Co. Act Release No. 25152, 47 SEC Docket 174 (Sept. 18, 1990).

Similarly, the Reorganization should not, within the meaning of Section 10(b)(1), be deemed to tend towards any "concentration of control of public-utility companies" that might be detrimental to the public interest, consumers or investors. The Reorganization will not involve the acquisition or control of any utility assets or operations which are not already owned or controlled by PNW or its existing public-utility subsidiary, APS, or being developed by PWE,

and "will therefore have no effect on the concentration of control of public-utility companies." Central Maine Power Company, et al., Holding Co. Act Release No. 26903 (Aug. 7, 1998); accord BEC Energy, et al., Holding Co. Act Release No. 26874 (May 15, 1998); Energy East Corp., Holding Co. Act Release No. 26834 (March 4, 1998); Wisconsin Energy Corp., Holding Co. Act Release No. 24267 (Dec. 18, 1996).

b. Fairness of Consideration and Fees -- Section 10(b)(2)

Section 10(b)(2) of the Act requires the Commission to determine whether the consideration paid in connection with a proposed acquisition of securities is reasonable and bears a fair relation to the investment in and earning capacity of the utility assets underlying the securities being acquired.

The generating assets will be recorded on the books of PWE at net book value. In addition, PWE will assume certain outstanding debt associated with the generating assets being moved. The valuation of PNW's investment in the securities of PWE and APS will be adjusted accordingly to reflect the movement of these assets and the associated debt to PWE. [14]

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[14] Specifically, PWE will assume APS' rights and obligations with respect to approximately $180 million in pollution control bonds issued by Navajo County, Arizona, Pollution Control Corporation and Coconino County, Arizona, Pollution Control Corporation. These two series of bonds were issued by the respective pollution control corporations under two separate Indentures of Trust dated as of August 1, 1993 between the issuer and an independent trustee. In each case, the issuer loaned the proceeds of the bonds to APS under a Loan Agreement dated as of August 1, 1993, and APS is responsible to repay the loan by making payments on the bonds when due. APS' obligations are secured by First Mortgage Bonds issued by APS and delivered to the Trustee for the pollution control bonds. At the time generating assets are moved to PWE, APS will assign its rights and obligations under the Loan Agreements to PWE, and PWE will assume such obligations. APS will remain primarily liable for such obligations and the First Mortgage Bonds will remain outstanding.

PWE will also assume APS' obligations under another approximately $60 million of pollution control bond debt, releasing APS from such obligations. No bondholder consent is required in connection with PWE's assumption of this debt. However, APS must give advance notice to the bondholders and any bondholder who does not wish to continue to hold the bonds may tender its bonds for purchase. In addition, if the issuance of a new letter of credit in substitution for the existing letter of credit supporting the bonds causes the ratings on the bonds to be lower than the existing rating, the bonds will be subject to a mandatory tender on the substitution date, and all the bonds will be subject to mandatory repurchase and remarketing on that date.

Since the Reorganization involves an entirely intra-company movement of existing assets from one wholly-owned subsidiary to another and not the acquisition of new assets or securities, PNW believes that the valuation established for purposes of this asset transition is reasonable and bears a fair relationship to the sums invested in the assets. PNW, as the sole owner of both APS and PWE, can expect to earn a fair return on its investment in APS and its investment in PWE.

An estimate of the fees and expenses to be paid in connection with the Reorganization is stated in Item 2 above. Such fees and expenses will be reasonable and customary for a transaction of this kind and will not be material when measured against PNW's consolidated book value or the earning capacity of its assets. See, e.g., Energy East Corp., Holding Co. Act Release No. 27128 (Feb. 2, 2000).

c. Complication of Capital Structure -- Section 10(b)(3)

Section 10(b)(3) of the Act requires the Commission to determine whether the transaction will unduly complicate the capital structure of the PNW system, be detrimental to the public interest, the interest of the investors or consumers, or the proper functioning of the holding-company system. No such effect will result from the Reorganization.

The Reorganization will not involve the creation of any ownership interests other than those necessary to maintain the basic corporate relationships of the reorganized holding-company system. Pursuant to the Reorganization, PNW will continue to be the only issuer of publicly owned equity securities in the system. PNW will continue to own all of the outstanding common stock of PWE, APS, and PNW's existing non-utility subsidiaries; there will be no minority equity interest in any of PNW's public-utility subsidiaries. As noted above, certain pollution control bonds issued by APS will be assumed by PWE, but this will in no way complicate the capital structure of PNW, APS, or PWE. This type of capital structure is typical of a contemporary holding company system and is within the traditional standards of the Act.

Moreover, the Reorganization is a significant step toward the ultimate goal of creating separate entities to perform PNW's transmission/distribution business and its generation business in compliance with the ACC's Competition Rules and the Settlement. Consequently, because the Reorganization does not complicate the capital structure of PNW, APS, or PWE, the standards of Section 10(b)(3) of the Act are satisfied.

2. Section 10(c)

The relevant provisions of Section 10(c) of the Act state that the Commission shall not approve:

(1) an acquisition of securities or utility assets, or of any other interest, which is unlawful under the provisions of Section 8 or is detrimental to the carrying out of the provisions of Section 11; or

(2) the acquisition of securities or utility assets of a public-utility or holding company unless the Commission finds that such acquisition will serve the public interest by tending towards the economical and the efficient development of an integrated public-utility system . . . .

APS and PNW respectfully submit that no adverse determination should be made under either of these provisions.

a. Significant Benefits -- Section 10(c)(1)

Section 10(c)(1) prohibits an acquisition of securities which is "unlawful under the provisions of Section 8" or "detrimental to the carrying out of the provisions of Section 11." By their express terms, Sections 8 and 11 apply only to registered holding companies and do not apply to exempt holding companies. After the Reorganization, PNW will continue to be exempt from all provisions of the Act, except Section 9(a)(2), pursuant to Section 3(a)(1) of the Act since PNW and its utility subsidiaries, APS and PWE, will each be predominantly intrastate in character, carry on their businesses substantially in Arizona, and be organized in Arizona. Accordingly, Section 8 of the Act is inapplicable to the Reorganization.

For the purposes of the Commission's review of the proposed reorganization of a holding company, the relevant provision of Section 11 is Section 11(b)(2), which requires the Commission to find that "the corporate structure . . . of any company in the holding-company system does not unduly or unnecessarily complicate the structure . . . of such holding-company system." In that connection, the Commission has construed this requirement, "to mean that the structural change must result in significant benefits to the holding-company system." CIPSCO Inc., Holding Co. Act Release No. 25152, 47 SEC Docket at 178 (Sept. 18, 1990); accord Central Maine Power Company, et al., Holding Co. Act Release No. 26903 (Aug. 7, 1998); BEC Energy, et al., Holding Co. Act Release No. 26874 (May 15, 1998); Energy East Corp., Holding Co. Act Release No. 26834 (March 4, 1998).

As discussed above in Section D of Item 1, the corporate structure resulting from the Reorganization will yield significant benefits. Most importantly, the Reorganization and subsequent move of APS' nuclear generating facilities to PWE will enable APS to implement the requirements of ACC Competition Rules and Settlement. In addition, segregation of the separate

utility functions into separate corporations dedicated solely to those functions will: (1) enable the executives, officers, and managers of APS and PWE to concentrate on the delivery of cost efficient and effective utility services responsive to the needs of customers; (2) allow PNW's subsidiaries and affiliates to be more competitive in their businesses; (3) segregate the financial and legal risks associated with those businesses; (4) ensure that there is no cross-subsidization of costs or business risk; and (5) aid the investment community in analyzing and valuing individual lines of business. In cases involving corporate reorganizations or the formation of holding companies, the Commission has held that the existence of these kinds of potential benefits satisfies the statutory standard of Section 10(c)(1). See, e.g., Central Maine Power Company, Holding Co. Act Release No. 26903 (Aug. 7, 1998); Atlanta Gas Light Company, Holding Co. Act Release No. 26482, 61 SEC Docket 1057 (March 5, 1996); SIGCORP, Inc., Holding Co. Act Release No. 26431, 60 SEC Docket 90 (Dec. 14, 1995); PP&L Resources, Inc., Holding Co. Act Release No. 26248, 58 SEC Docket 2634 (March 10, 1995); CIPSCO Inc., Holding Co. Act Release No. 25152, 47 SEC Docket 174 (Sept. 18, 1990); Wisconsin Energy Corp., Holding Co. Act Release No. 24267 (Dec. 18, 1996).

b. Economics and Efficiencies of an Integrated System – Section 10(c)(2)

Under Section 10(c)(2), the Commission must find that the Reorganization tends towards the economical and efficient development of an integrated public utility system. PNW respectfully submits that this standard is met in this case.

(i) Economics and Efficiencies

A number of economies and efficiencies will result from the PNW structure. Some of these benefits are described in Section D of Item 1 and Section A.2.a of Item 3, above. Overall, the Reorganization will permit a more efficient way to take advantage of competitive opportunities in the electric utility industry. Separating the competitive generation business from the regulated transmission/distribution operations will increase the ability of the system to take advantage of market opportunities and enable each entity to focus its resources on more clearly defined product markets and services.

(ii) Integrated Public Utility System

The electric utility system of PNW is presently "integrated" within the meaning of Section 2(a)(29) of the Act and will remain so after the Reorganization.

The standards that must be met for an electric utility system to be integrated within the meaning of Section 2(a)(29) of the Act are:

(1) the utility assets are to be physically interconnected or capable of physical interconnection and under normal conditions may be economically operated as a single interconnected and coordinated system;

(2) the operations of the system are confined to a single area or region, that is not so large as to impair the advantages of localized management, efficient operation, and the effectiveness of regulation.

The Reorganization will not affect the physical interconnections associated with PNW's existing utility system. All of APS' existing interconnections will remain intact after the Reorganization. The Reorganization will maintain a continuous, geographically compact system with the same physical interconnections as exist today. Similarly, the area of operations of the system will not be affected by the Reorganization and will continue to be primarily confined to a single area (e.g., APS' existing service territory in Arizona) that is not so large as to impair the advantages

of continuing localized management, efficient operation, and effective regulation. See CP&L Energy, Inc., Holding Co. Act Release No. 27188 (June 15, 2000); Central Maine Power Company, et al., Holding Co. Act Release No. 26903 (Aug. 7, 1998).

3. Section 10(f)

Section 10(f) provides that "[t]he Commission shall not approve any acquisition . . . under this Section unless it appears to the satisfaction of the Commission that such State laws as may apply in respect of such acquisition have been complied with, except where the Commission finds that compliance with such State laws would be detrimental to the carrying out of the provisions of Section 11 . . . ."

The Reorganization is conditioned on full compliance with the laws of the Arizona. APS is currently and will remain subject to the jurisdiction of the ACC with respect to the provision of retail electric service. APS and PNW have received the necessary approval from the ACC to proceed with the Reorganization. Copies of this ACC approval is filed as Exhibit D-5 hereto.

For the reasons stated above, the proposed Reorganization meets the standards set forth in Sections 9(a)(2) and 10. The Reorganization involves the first step in the segregation of APS' existing utility assets and operations along functional lines into a wires company and a generation company. The Reorganization will not unduly complicate the capital structure of the PNW system; nor will the Reorganization be detrimental to the public interest, the interests of investors or consumers, or the proper functioning of this system. Also, the Reorganization will yield significant benefits by allowing PNW's public-utility subsidiaries to more effectively compete in the electric utility industry. Therefore, the Commission should by order approve the Reorganization.

B. PNW Will Continue to Claim a Section 3(a)(1) Exemption After the Reorganization.

Section 3(a)(1) of the Act makes an exemption from all of the provisions of the Act, except for Section 9(a)(2), available to a holding company, if "such holding company, and every subsidiary company thereof which is a public-utility company from which such holding company derives, directly or indirectly, any material part of its income, are predominately intrastate in character and carry on their business substantially in a single State in which such holding company and every such subsidiary company thereof are organized." After the Reorganization is complete, PNW and its two public-utility subsidiaries -- APS and PWE -- will be predominantly intrastate in character and will carry on their business substantially in Arizona, the state in which they are all organized.[15] In this regard, PNW will continue to claim an exemption pursuant to Section 3(a)(1) of the Act and Rule 2 of the Commission's regulations, by filing annual exemption statements on Form U-3A-2 following the Reorganization.

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[15] While APS' existing power marketing division was moved to PNW, and continues to perform its power marketing activities on a nationwide basis, PNW's utility operations are still predominately intrastate in character and conducted primarily in Arizona. As noted above, the Commission Staff has indicated in a series of no-action letters that power marketers are not considered "electric utility companies" under Section 2(a)(3) of the Act and, therefore, are not "public-utility companies" under Section 2(a)(5) of the Act. See, e.g., Sunoco Power Marketing, L.L.C., SEC No-Action Letter, 1997 SEC No-Act. LEXIS 785 (July 24, 1997); Enron Capital & Trade Resources Corp., SEC No-Action Letter, 1997 SEC No-Act. LEXIS 287 (Feb. 13, 1997).

ITEM 4 REGULATORY APPROVAL

The Reorganization will require the approval of the ACC and FERC. APS has received an order approving the Reorganization from the ACC, a copy of which is attached hereto as Exhibit D-5. APS also filed an application for approval of the proposed Reorganization with the FERC, a copy of which is attached as Exhibit D-1. A copy of the final FERC order pursuant thereto was filed by amendment on December 8, 2000, as Exhibit D-2. Other than such enumerated approvals and the approval of the Commission hereunder, no other approvals of utility regulatory authorities are required for the Reorganization and the movement of the non-nuclear generating assets to PWE.[16]

ITEM 5 PROCEDURE

PNW respectfully requests that there be no 30-day waiting period between the issuance of the Commission's order and the date on which it is to become effective. PNW also requests that there be no hearing on this application and that the Commission issue its order as soon as practicable after the filing hereof. PNW respectfully requests that the Commission issue and publish the requisite notice under Rule 23 with respect to the filing of this application not later than January 22, 2001, such notice to specify a date not later than February 22, 2001, by which comments may be entered and a date not later than March 1, 2001, as the date after which an order of the Commission granting and permitting this application to become effective may be entered by the Commission. A form of Notice is filed herewith as Exhibit H-1.

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[16] As noted above, approval from the NRC will be obtained in connection with the relocation of APS' nuclear generating facilities to PWE. *See supra* n. 10.

Without prejudice to its right to modify the same if a hearing should be ordered on this application, PNW hereby makes the following specifications required by paragraph (b) of Item 5 of Form U-1:

(1) There should not be a recommended decision by a hearing officer or any other responsible officer of the Commission.

(2) There should not be a 30-day waiting period between issuance of the Commission's order and the date on which the order is to become effective.

(3) PNW consents to the Division of Investment Management assisting in the preparation of the Commission's decision or order in this matter, unless such Division opposes this application.

ITEM 6 EXHIBITS AND FINANCIAL STATEMENTS

It is requested that the Commission send copies of all communications to PNW as follows:

Herbert I. Zinn
Pinnacle West Capital Corporation
400 North Fifth Street
Mail Station 8695
Phoenix, Arizona 85004

Mary Ann K. Huntington
Morgan, Lewis & Bockius LLP
1800 M Street, N.W.
Washington, D.C. 20036

A. Exhibits

Exhibit No.	Description of Document	Method of Filing
A-1	Restated Articles of Incorporation of PNW.	Incorporated by reference; File No. 1-8962, PNW Form 10-K for the year ended December 31, 1999.
A-2	Restated Articles of Incorporation of APS.	Incorporated by reference; File No. 1-4473, APS Form 8-K (Sept. 23, 1993)
A-3	Articles of Incorporation of PWE.	Filed herewith.
B-1	Form of Term Sheet	Filed herewith.
D-1	Application of APS, PNW and PWE to FERC for Authorization to Transfer Jurisdictional Facilities.	Filed herewith.
D-2	Order of FERC.	Filed by amendment on December 8, 2000.
D-3	Retail Electric Competition Rules	Incorporated by reference; file No. 1-4473, filed as Exhibit 10.2 to APS' Sept. 30, 1999 Form 10-Q Report.

D-4	Comprehensive Settlement Agreement Related to the Implementation of Retail Electric Competition, filed with the Arizona Corporation Commission.	Incorporated by reference; File No. 1-4473, filed as Exhibit 10.1 to APS' May 14, 1999 Form 8-K Report.
D-5	ACC Approval of the Settlement Agreement.	Incorporated by reference; File No. 1-4473, filed as Exhibit 10.1 to APS' Sept. 1999 10-Q Report.
D-6	Amended Settlement Agreement	Filed herewith.
E-1	Map showing location of the generating facilities of APS that are being moved to PWE along with their related transmission facilities.	Filed herewith.
F-1	Signed initial opinion of counsel.	Filed by amendment on December 8, 2000.
F-2	Past-tense opinion of counsel.	To be filed by amendment
G-1	PNW, Form U-3A-2, "Statement by Holding Company Claiming Exemption under Rule U-2 from the Provisions of the Public Utility Holding Company Act of 1935."	Incorporated by reference; File No. 69-306, dated Feb. 29, 2000.

H-1	Form of Notice	Filed herewith.

B. Financial Statements

Statement No.	Description of Document	Method of Filing
FS-1	Historical consolidated financial statements of PNW	Incorporated by reference to Annual Reports on Form 10-K for the years ended 1999, 1998 and 1997
FS-2	Historical consolidated financial statements of APS	Incorporated by reference to Annual Reports on Form 10-K for the years ended 1999, 1998 and 1997

Although separate financial statements for PWE have not been included, PWE's financial information is included in the consolidated financial statements of PNW.

ITEM 7 INFORMATION AS TO ENVIRONMENTAL EFFECTS

None of the matters that are the subject of this application and declaration involves a "major federal action" nor do any of them "significantly affect the quality of the human environment" as those terms are used in Section 102(2)(C) of the National Environmental Policy Act. The transaction that is the subject of this application will not result in changes in the operation of the company that will have an impact on the environment. Neither APS nor PNW are aware of any federal agency that has prepared or is preparing an environmental impact statement with respect to the transactions that are the subject of this application.

Pursuant to the requirements of the Public Utility Holding Company Act of 1935, the undersigned company has duly caused this Application to be signed on its behalf by the undersigned thereunto duly authorized.

PINNACLE WEST CAPITAL CORPORATION

By: Barbara M. Gomez
Its: Treasurer

Date: January 17, 2001

Phoenix, Arizona

As filed with the Securities and Exchange Commission on April 27, 2001

File No. 070-9745

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 3 TO
FORM U-1
APPLICATION
UNDER
THE PUBLIC UTILITY HOLDING COMPANY ACT OF 1935

PINNACLE WEST CAPITAL CORPORATION
400 East Van Buren Street, Suite 700
Phoenix, Arizona 85004

(Name of company filing this statement and address of principal executive offices)

None

(Name of top registered holding company parent)

Herbert I. Zinn	**Mary Ann K. Huntington**
Pinnacle West Capital Corporation	**Morgan, Lewis & Bockius LLP**
400 North Fifth Street	**1800 M Street, N.W.**
Mail Station 8695	**Washington, D.C. 20036**
Phoenix, Arizona 85004	

(Name and address of agents for service)

The Commission is requested to send copies of all notices, orders, and communications in connection with this Application to:

Herbert I. Zinn	**Mary Ann K. Huntington**
Pinnacle West Capital Corporation	**Morgan, Lewis & Bockius LLP**
400 North Fifth Street	**1800 M Street, N.W.**
Mail Station 8695	**Washington, D.C. 20036**
Phoenix, Arizona 85004	

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Pursuant to Sections 9(a)(2) and 10 of the Public Utility Holding Company Act of 1935 (the "Act"), Pinnacle West Capital Corporation, an Arizona corporation ("PNW"), hereby requests approval from the Securities and Exchange Commission (the "Commission") to establish a new public-utility company subsidiary in connection with the proposed corporate reorganization involving the relocation of certain generation assets from Arizona Public Service Company ("APS"), PNW's existing public-utility company subsidiary, to Pinnacle West Energy Corporation ("PWE"), another wholly-owned subsidiary of PNW, (the "Transfer Transaction"), and the operation of PWE's West Phoenix Unit No. 4 as a non-Exempt Wholesale Generator ("EWG") under the Act ("Development Activities"), (collectively, the "Reorganization"). As a result of the Reorganization, PWE will become an "electric utility company" and a "public-utility company" within the meaning of the Act, and, therefore, PNW will acquire an additional public-utility subsidiary. (However, PWE will not become a public service corporation under Arizona state law.) PNW will continue to meet the requirements for an intrastate exemption under Section 3(a)(1) of the Act and will continue to file annual exemption statements on Form U-3A-2 pursuant to Rule 2 of the Commission's regulations.

The purpose of the Reorganization is to comply with certain requirements set forth in rules adopted by the Arizona Corporation Commission ("ACC") that provide the framework for introduction of retail electric competition in Arizona (the "Competition Rules"), and in a final ACC order approving APS' settlement with various parties with respect to implementation of the Competition Rules (the "Settlement"). Pursuant to the Competition Rules and the Settlement, APS must separate its fossil and nuclear generating assets and competitive services, including the development, acquisition and operation of generating facilities not currently owned by APS, from its transmission and distribution functions no later than December 31, 2002. (On February

8, 2001, the ACC issued an order granting APS waiver of this requirement for "solar resources" and "environmentally friendly renewable electricity technologies.") PNW seeks Commission approval now, however, because APS intends to move a substantial portion of its generating assets to PWE during 2001, and PWE is currently involved in the development, acquisition, and operation of other generating facilities that are expected to come online during 2001. In particular, PWE has been developing West Phoenix No. 4, a 120 MW gas-fired combined cycle unit that is now ready to sell test power and go into operation.[1] There may be some delays in moving particular assets from APS to PWE, pending receipt by APS of certain consents or waivers from third parties with respect to such assets, but most of the non-nuclear generating assets are to be moved to PWE during 2001.

[1] As explained below, because West Phoenix No. 4 was prepared to go into operation sooner than previously anticipated, PWE filed an application for an EWG determination with the Federal Energy Regulatory Commission ("FERC") and intends to maintain EWG status only so long as necessary.

ITEM 1 DESCRIPTION OF PROPOSED TRANSACTION

A. Description of the Parties

1. **Pinnacle West Capital Corporation:** PNW was incorporated in 1985 under the laws of the State of Arizona. Through its subsidiaries, PNW is engaged in the generation, transmission, and distribution of electricity and the sale of energy services. Also through subsidiaries, PNW is involved in real estate development and in venture capital investment. On December 31, 2000, PNW employed approximately 7,200 people, including the employees of its subsidiaries. Of these employees, 5,300 were employees of its existing public-utility subsidiary, APS, and employees assigned to joint projects of APS where APS serves as a project manager. PNW's principal executive offices are located at 400 East Van Buren, Phoenix Arizona 85004. PNW is currently a public-utility holding company exempt from the provisions of the Act, except Section 9(a)(2), by reason of its filing of annual exemption statements on Form U-3A-2 pursuant to Rule 2 of the Commission's regulations. 17 C.F.R. § 250.2(a). PNW's direct, wholly-owned subsidiaries are described below and a copy of PNW's most recent Form U-3A-2 is attached as Exhibit G-1.

2. **Arizona Public Service Company:** APS is a public-utility company incorporated in 1920 under the laws of the State of Arizona. APS is a wholly-owned subsidiary of PNW. APS' principal executive offices are located at 400 North Fifth Street, Phoenix, Arizona 85004. APS provides retail electric services principally in the State of Arizona and is actively engaged in the competitive wholesale electric markets. As of December 31, 2000, APS served approximately 850,000 retail electric customers in its service territory. APS is subject to regulation by the ACC with respect to retail rates, accounting, service standards, service territory, issuances of securities, siting of generation and transmission projects and various other matters.

APS is also subject to the jurisdiction of FERC under Parts I, II, and III of the Federal Power Act for certain phases of its business, including regulation of its rates relating to wholesale sales of energy and interstate transmission, licensing its hydroelectric stations, accounting, and certain other matters. APS' current business structure consists of three primary business units: generation; power marketing; and transmission/distribution. The following briefly describes these business units.

a. ***Generation*** – As of December 31, 2000, APS owned or leased generating facilities with a total accredited capacity of approximately 4,000 megawatts. The fuel mix of APS' generation capacity is 41.8% coal; 31.5% gas or oil; 26.5% nuclear; and less than 1% other. APS' sources of energy during 2000 were approximately 54% from its own generation resources and approximately 46% from purchased power. The Reorganization involves the relocation of the ownership interest of a substantial portion of APS' generating facilities and related facilities, as well as the transfer of certain of the employees of APS' generation business unit.[2] Attached, as Exhibit E-1, is a map showing the location of each of APS' generation facilities. As of December 31, 2000, the APS generating assets being moved to PWE during 2001 can be described as follows:[3]

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[2] Because of anticipated decommissioning activities, APS intends to retain its interest in the Childs-Irving plant, a hydroelectric generating plant with a total accredited capacity of approximately 3 megawatts. In addition, the ACC's February 8, 2001 order contemplates that APS will retain ownership interests in its solar and environmentally friendly renewable resource generating plants. The total accredited capacity from these units is approximately 1 megawatt.

[3] In addition to the generating facilities to be moved during 2001, APS also owns or leases an interest in the Palo Verde Nuclear Generating Station ("PVNGS"), a three-unit nuclear generating facility located in Wintersburg, Arizona approximately 55 miles west of Phoenix, Arizona. The total accredited capacity of PVNGS is 3,733 megawatts, of which APS owns or leases 29.1%, or approximately 1,086 megawatts. APS is also the operator of the facility. There are six other co-owners of PVNGS, which collectively own or lease the remaining 70.9%. Ownership is in the form of a co-tenancy, and the co-owners are not affiliates of one another. APS operates PVNGS pursuant to an agreement in which each owner pays its proportionate share of the cost of operating the facility. While the Transfer Transaction involving APS' fossil generating facilities is contemplated to occur during 2001, APS does not plan to move its interest in PVNGS to PWE until 2002. The delay in moving the nuclear assets

Four Corners Power Plant ("Four Corners"):

Four Corners is a five-unit coal fired power plant located near Farmington, New Mexico on the Navajo Reservation. The property underlying the plant is held under easements granted by the federal government and under leases from the Navajo Nation. Units 1, 2 and 3 have an accredited capacity of 560 megawatts. These units are 100% owned and operated by APS. Units 4 and 5 have an accredited capacity of 1,480 megawatts; APS owns 15% of units 4 and 5, or 222 megawatts. The remaining interests in units 4 and 5 are co-owned by five other entities. Ownership of units 4 and 5 is through a co-tenancy arrangement, and the co-owners are not affiliates of one another. APS operates Four Corners units 4 and 5 pursuant to an agreement in which each owner pays its proportionate share of the operating cost.

Cholla Power Plant ("Cholla"):

Cholla is a four-unit coal-fired power plant located in Navajo County approximately 200 miles northeast of Phoenix, Arizona. Units 1, 2 and 3 have an accredited capacity of 615 megawatts. These units are 100% owned and operated by APS. Unit 4 has an accredited capacity of 380 megawatts; unit 4 is 100% owned by another unaffiliated entity. APS is also the operator for this unit.

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is to ensure additional time to adequately address complicated contractual arrangements, such as sale and leaseback provisions between APS and certain owner trusts to which APS has sold and leased back a portion of its interest in PVNGS Unit 2 and the PVNGS common facilities. There are also certain financial and economic considerations that must be resolved before the nuclear assets can be moved to PWE.

Navajo Power Plant ("Navajo"):

Navajo is a three-unit coal-fired plant located south of Page, Arizona. The total accredited capacity for the plant is 2,250 megawatts. APS owns 14%, or 315 megawatts of this plant. The remaining interests in the plant are co-owned by five other entities which are not affiliated with APS. APS does not operate Navajo.

Saguaro Power Plant ("Saguaro"):

Saguaro is a four-unit power plant consisting of two gas/oil-fired steam units and two gas/oil-fired combustion turbine units and is located 30 miles north of Tucson, Arizona. The total accredited capacity for the plant is 319 megawatts. Steam units 1 and 2 have a combined capacity of 209 megawatts, and the two combustion turbines have a combined capacity of 110 megawatts. This plant is 100% owned and operated by APS.

Ocotillo Power Plant ("Ocotillo"):

Ocotillo is a multi-fueled generating plant located in Tempe, Arizona. Two units are gas/oil-fired steam units, and two units are gas/oil-fired combustion turbines.[4] The total accredited capacity for steam units 1 and 2 is 226 megawatts and for combustion turbine units 1 and 2, the accredited capacity is 110 megawatts. This plant is 100% owned and operated by APS.

Yucca Power Plant ("Yucca"):

Yucca is a five-unit gas/oil combustion turbine plant located near Yuma, Arizona. The accredited capacity of units 1, 2, 3 and 4 is 147 megawatts. These units are 100% owned and operated by APS. Unit 5 and a separate steam unit are owned by a separate, unaffiliated entity but operated by APS.

West Phoenix Power Plant ("West Phoenix"):

West Phoenix is an eight-unit gas/oil-fired steam, combustion turbine, and combined cycle generation plant located in Phoenix, Arizona. Combustion turbine units 1 and 2 have an accredited capacity of 110 megawatts; combined cycle units 1, 2 and 3 have an accredited capacity of 255 megawatts; and steam units 4, 5 and 6 have an accredited capacity of 108.3 megawatts. APS owns and operates 100% of West Phoenix and is entitled to 100% of the output.

Douglas/Fairview Power Plant:

Douglas/Fairview is a single combustion turbine unit with a capacity rating of 16 megawatts located near Douglas, Arizona. Douglas/Fairview is 100% owned and operated by APS.

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[4] There are also three solar units at Ocotillo; however, these units will remain with APS.

b. ***Power Marketing*** -- APS' Power Marketing and Trading division ("Power Marketing") primarily engages in the sale and purchase of electric capacity and energy in the wholesale market. Power Marketing sells excess power from APS' generation facilities and also purchases energy from other entities to meet APS' requirements to supply retail and wholesale customers. Power Marketing also engages in hedging transactions in forward markets for electricity and fuel and in the purchase and sale of emission allowances as part of APS' effort to manage risks associated with its generation and distribution activities. The ACC Competition Rules and Settlement contemplate that as a competitive asset, APS would also move its Power Marketing division to an affiliate. Accordingly, on October 1, 2000, Power Marketing became a division of PNW.[5]

c. ***Transmission/Distribution*** -- APS owns and operates approximately 5,296 miles of transmission lines, of which all but 140 miles are located within the State of Arizona.[6] APS' transmission was built primarily to bring generation from its power plants to its retail electric loads in Arizona. Ownership and operation of APS' transmission facilities is subject to regulation by FERC. Transmission rates are prescribed by FERC and the use of and

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[5] PNW itself did not become an electric utility company when this occurred. The Commission and Staff have both recognized, on numerous occasions, that marketing activities are not utility activities under the Act. See, e.g., UNITIL, Holding Company Act Release No. 26650 (Jan. 21, 1997); SEI Holdings, Inc., Holding Company Act Release No. 26581 (Sept. 26, 1996); Sunoco Power Marketing, L.L.C., SEC No-Action Letter, 1997 SEC No-Act. LEXIS 785 (July 24, 1997); Enron Capital & Trade Resources Corp., SEC No-Action Letter, 1997 SEC No-Act. LEXIS 287 (Feb. 13, 1997); Eastex Power Marketing, Inc., SEC No-Action Letter, 1996 SEC No-Act. LEXIS 536 (Apr. 30, 1996); LG&E Power Marketing, Inc., SEC No-Action Letter, 1996 SEC No-Act. LEXIS 510 (Apr. 26, 1996); Coral Power, L.L.C., SEC No-Action Letter, 1996 SEC No-Act. LEXIS 314 (Feb. 22, 1996); AIG Trading Corp., SEC No-Action Letter, 1995 SEC No-Act. LEXIS 195 (Jan. 20, 1995); Inter-Coast Power Marketing Co., SEC No-Action Letter, 1994 SEC No-Act. LEXIS 886 (Dec. 6, 1994); Electric Clearinghouse, Inc., SEC No-Action Letter, 1994; SEC No-Act. LEXIS 452 (Apr. 13, 1994); CRSS Power Marketing, Inc., SEC No-Action Letter, 1994 SEC No-Act. LEXIS 431 (Mar. 31, 1994).

[6] Specifically, as of December 31, 2000, APS' transmission system included approximately 1,627 miles of 500 kV transmission, 578 miles of 345 kV transmission, 594 miles of 230 kV transmission, 176 miles of 115 kV transmission, and 2,321 miles of 69 kV transmission.

access to the transmission system is subject to FERC's open access requirements set forth in FERC Order No. 888. As of December 31, 2000, APS' distribution system included approximately 23,000 miles of distribution line and served approximately 850,000 electric retail customers in its service territory within the State of Arizona. APS provides distribution services in 11 of Arizona's 15 counties, including the metropolitan Phoenix area. Pursuant to the Settlement approved by the ACC in 1999, which is more fully discussed below, retail rates have been set until July 1, 2004, subject to conditions or circumstances which constitute an emergency. APS' transmission and distribution business will remain with APS under the Reorganization.

3. **Pinnacle West Energy Corporation:** PWE was incorporated in Arizona on September 27, 1999 under the laws of the State of Arizona. PWE is a wholly-owned subsidiary of PNW. PWE was organized primarily to engage in the business of developing, owning, and operating generation plants used for the production and sale of wholesale energy. As of December 31, 2000, PWE was engaged in the development of approximately 2,600 megawatts of generating capacity in the State of Arizona and operations in other states are contemplated, too; however, PWE is not currently an electric utility company or a public-utility company within the meaning of the Act.

Upon consummation of the Reorganization described herein and the subsequent relocation of APS' nuclear generating facilities, PWE will own or lease the generation facilities currently owned or leased by APS and will assume APS' responsibilities as operator of the facilities described above, with the exception of the Navajo Generating Station, which will continue to be operated by another, unaffiliated entity.

On March 28, 2001, PWE filed an application with FERC for EWG status. PWE's EWG application describes PWE's "eligible facility" as a 100% ownership and operating interest in West Phoenix Unit No. 4 ("West Phoenix No. 4"), a newly constructed natural gas-fired, combined cycle unit with a nominal power output of 120 MW located on the site of APS's West Phoenix Plant. At the time PNW filed its original Application for Commission approval under Section 9(a)(2), it was not anticipated that West Phoenix No. 4 would be completed and prepared to go into operation prior to completion of the Transfer Transaction involving APS' fossil generating facilities. However, due to the recent energy shortages in the West, PWE accelerated the development of West Phoenix No. 4, which is now ready to provide test power and go into operation, and filed its application for EWG status. PWE will limit its activities to EWG activities until the Commission issues its order authorizing PWE to become a public-utility company subsidiary of PNW. At that time, PWE plans to inform FERC that it no longer intends to operate as an EWG.[7]

PWE's principal place of business is 400 North Fifth Street, Phoenix, Arizona 85004.

4. APS Energy Services Company, Inc. ("APSES"): APSES is an Arizona corporation formed in 1998. APSES is a wholly-owned subsidiary of PNW. APSES was organized as a retail power marketer to provide retail energy and related retail energy services to customers throughout Arizona, California, and other states that have instituted retail direct access. APSES does not own or control electric power generation, transmission, or distribution facilities.[8] APSES' principal place of business is 400 East Van Buren Street, Phoenix, Arizona.

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[7] In addition, to the extent necessary for PNW to maintain its intrastate exemption, PWE may establish EWG subsidiaries to own and/or operate future assets that may be located out of state.

[8] APSES is not an "electric utility company" or a "public-utility company" as those terms are defined in the Act. See, e.g., Enron, SEC No-Action Letter (1997).

5. SunCor Development Company ("SunCor"): SunCor was incorporated in 1965 under the laws of the State of Arizona. SunCor is a wholly-owned subsidiary of PNW. SunCor is engaged in commercial and residential real estate development. SunCor is not engaged in generating, transmitting, distributing or selling electric energy and will not be affected by the Reorganization. SunCor's principal place of business is 3838 North Central, Suite 1500, Phoenix, Arizona 85012.

6. El Dorado Investment Company ("El Dorado"): El Dorado was incorporated in 1983 under the laws of the State of Arizona. El Dorado is an investment company and wholly-owned subsidiary of PNW. El Dorado is not engaged in the business of generating, transmitting, distributing, or selling electric energy and will not be affected by the Reorganization. El Dorado's principal place of business is 400 East Van Buren Street, Suite 800, Phoenix, Arizona 85004.

B. Regulatory Background

The Reorganization is being undertaken in accordance with the Competition Rules and Settlement. Specifically, in Arizona, the ACC has adopted the Competition Rules to expedite the transition to retail electric competition. Among other things, the Competition Rules required that APS separate its fossil and nuclear generation assets and competitive business activities from its transmission and distribution functions and to develop, acquire and operate additional generation outside of APS. In 1999, the ACC approved the Settlement between APS and several customer groups and consumer advocates resolving retail electric competition-related issues and approving unbundled tariffs.[9] The order found that the Settlement is in the public interest because it

[9] The ACC order approving the Settlement is attached as Exhibit D-5.

provides "for competitive retail access in APS' Service Territory, establishes rate reductions for all APS customers, [and] sets a mechanism for stranded cost recovery."[10]

Under the terms of the Competition Rules and the Settlement, retail choice for APS' retail customers is being phased-in. As of January 1, 2001, all of APS' retail customers are entitled to choose their retail power supplier.[11] The retail rates of customers that continue to take fully bundled service from APS and do not choose an alternative supplier will be subject to planned rate reductions that will continue until July, 2004.[12] Under the Settlement, APS is entitled to apply for a change in the agreed upon rate reductions only in the event of an emergency or a material change in its cost of service as a result of specified extraordinary events. The Settlement also requires APS to complete separation of its fossil and nuclear generation assets by December 31, 2002.[13]

C. The Reorganization

As previously mentioned, APS and PWE are both currently direct, wholly-owned subsidiaries of PNW. APS and PWE will be the only two "public-utility company" (as defined in the Act) subsidiaries of PNW upon the completion of the activities described in this Application.

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[10] See Exhibit D-5.

[11] See Exhibit D-5.

[12] See Exhibit D-4.

[13] See Exhibit D-4. As noted above, APS is not required to separate its solar resources and "environmentally friendly renewable electricity technologies" from its transmission/distribution functions.

PNW and APS propose to transfer APS' fossil generating facilities pursuant to the arrangements described in the Term Sheet,[14] attached as Exhibit B-1 hereto. In connection with the Transfer Transaction, it is contemplated that the following transactions will occur during 2001: First, APS will contribute all of its fossil generating facilities, assets and related operational agreements, to one or more of these newly-formed subsidiaries (hereafter "Transitory Subsidiaries") which will be wholly-owned by APS. This transaction is intended to qualify as a tax-deferred reorganization under Internal Revenue Code ("IRC") Section 368(a)(1)(D). Second, APS will distribute or cause to be distributed all of the stock of each Transitory Subsidiary to PNW in a transaction intended to qualify as a tax-deferred spin-off under IRC Section 355. Third, under state law, the Transitory Subsidiaries will then be merged into PWE (with PWE as the surviving entity) in a transaction intended to qualify as a tax-deferred statutory merger under IRC Section 368(a)(1)(A). It is contemplated that the three aforementioned transactions will occur simultaneously.

When the Reorganization is complete and APS' nuclear generating assets have been moved to PWE, APS' existing divisional structure in which its electric utility operations are divided along functional lines will be formalized, and separate corporate entities will own the transmission/distribution facilities and the fossil and nuclear generating assets. APS will become essentially a "wires" company and continue to own and operate its existing electric transmission/distribution system,[15] and PWE will become a "generating" company and will own or lease and operate the existing fossil and nuclear generation plants and other generation

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[14] Although the term sheet indicates that the transfer of assets will take place "on or before January 1, 2001," it is now contemplated to occur during 2001.

[15] APS will also continue to own its solar and renewable resource generating assets.

facilities it develops, or acquires in the future, and sell the output from these plants and other facilities at wholesale to Power Marketing. Power Marketing, in turn, is expected then to sell power to APS and other non-affiliated power purchasers. APS will continue to provide transmission and distribution services at regulated rates, as well as provide energy to those retail customers in APS' existing service territory that do not elect to use an alternate retail power supplier. A diagram of PNW's corporate structure, after the Transfer Transaction is complete and the nuclear generating facilities have been moved to PWE, is shown on Appendix B to Exhibit D-1 attached hereto.

The Transfer Transaction is subject to certain conditions as stated in the Term Sheet attached as Exhibit B-1. Principally, these conditions include: (a) the approval of the Commission under Section 9(a)(2) of the Act; (b) approvals of FERC under Sections 203 and 205 of the Federal Power Act 16 U.S.C. §§824b and d (1994); and (c) consents and waivers of certain third parties with respect to contracts associated with the generation assets. The approval of the ACC has already been granted.[16] No PNW shareholder approval is required in connection with the Transfer Transaction. Although APS does not believe that shareholder approval is required for the Transfer Transaction, the approval of its sole shareholder was obtained on November 15, 2000.[17] The approval of APS' Board of Directors was also obtained on November 15, 2000.

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[16] Approval from the Nuclear Regulatory Commission ("NRC") will be obtained in connection with the movement of APS' interest in its nuclear generating assets, which will occur by year-end 2002. No NRC approval, however, is necessary in connection with the Transfer Transaction involving APS' fossil generating facilities. Approval of some plant participants may also be required.

[17] As a wholly-owned subsidiary of PNW, APS' only shareholder is PNW.

No approval, other than the approval of the Commission under Section 9(a)(2), is necessary in connection with the Development Activities.[18]

D. Purpose and Anticipated Effects of the Reorganization

The principal purpose of the Reorganization and the subsequent relocation of APS' nuclear generating facilities to PWE is to assure compliance with the provisions of the Competition Rules and the Settlement and provide PNW with increased financial, managerial, and organizational flexibility which will enable APS and PWE to effectively compete in a restructured utility industry.

After extensive investigation and analysis, PNW has determined that the proposed Reorganization offers the best means of positioning the PNW system for future changes and opportunities and will enable PNW to take advantage of emerging business opportunities and manage risks to the benefit of both shareholders and customers. The Reorganization is the first step in a clear functional and corporate separation between PNW's competitive generation business, and its distribution and transmission business, enabling each company to focus its resources on more clearly defined product markets and services. The intent of the Reorganization and subsequent relocation of APS' nuclear generating facilities is to create a financially sound and responsive utility system which can provide utility services effectively and efficiently. Additionally, the corporate division along functional lines will provide a better structure for regulators to assure that there is no cross-subsidization of costs or transfer of business risk from the competitive generation business to the fully-regulated

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[18] As noted above, PWE has filed with FERC an application for EWG status in connection with its Development Activities. In addition, although PWE's Development Activities may involve various siting, environmental, or other approvals, all of the approvals in connection with PWE's operation of West Phoenix No. 4 have already been obtained.

transmission/distribution business. Moreover, this type of corporate division of utility assets and operations along functional lines is becoming a highly-desirable form of conducting both a regulated transmission/distribution business and a competitive generation business.

The Reorganization will have no adverse effect on APS' existing electric utility operations. The Reorganization will not cause substantive changes in PNW's ultimate interest in existing utility businesses and will not involve the transfer or acquisition of any additional utility assets beyond those currently held by APS or those which have been developed by PWE. The managers and employees in PNW's existing utility operations will continue to perform their existing functions -- either as employees of APS, the transmission/distribution company, or as employees of PWE, the generating company. Thus, even though day-to-day utility operations would not be affected, the benefits discussed above will accrue to PNW and its customers and shareholders as a result of the Reorganization and the subsequent relocation of APS' nuclear generating facilities to PWE.

E. Additional Information

No associate company or affiliate of PNW or APS, or any affiliate of any associate company of PNW or APS, has any direct or indirect material interest in the proposed Reorganization except as stated herein.

ITEM 2 FEES, COMMISSIONS AND EXPENSES

The fees, commission and expenses to be paid or incurred by PNW and APS in connection with the federal regulatory approvals required in connection with the Reorganization and the establishment of PWE are estimated as follows:

Auditors' Fee	$ 10,000.00
Legal Fees	$ 400,000.00
Total	$ 410,000.00

In addition, there will also be certain other costs associated with the transfer of APS' generating assets to PWE; these costs, which will include fees for financial consulting, asset valuation, and engineering reports, as well as additional legal fees, are estimated not to exceed $1.5 million.

ITEM 3 APPLICABLE STATUTORY PROVISIONS

Sections 9(a)(2) and 10 of the Act are applicable to the proposed Reorganization. As a result of the proposed Reorganization,[19] PNW will have two wholly-owned, public-utility company subsidiaries, APS and PWE. Section 9(a)(2) of the Act requires Commission approval before a person may acquire more than 5% of the outstanding voting securities of more than one "public-utility company." The standards for approval of a transaction under Section 9(a)(2) of the Act are set forth in Section 10 of the Act. The relevant standards under Section 10 are set forth in Section 10(b), 10(c) and 10(f).

For the reasons explained below, the Commission should approve this Application pursuant to Section 9(a)(2) of the Act because it complies with the applicable standards of Section 10. PNW respectfully requests that the Commission issue an order approving the Reorganization by May 1, 2001. As noted above, PWE has already filed an application with FERC for EWG status and intends to limit its activities exclusively to the ownership and operation of eligible facilities and sale of power at wholesale in order to maintain EWG status

[19] At this time, it is not entirely clear whether it is the Transfer Transaction or the Development Activities that will cause PWE to become a public-utility company. As noted above, PWE has applied to FERC for EWG status because West Phoenix No. 4 will be prepared to sell test power prior to the date of a Commission order authorizing PWE to become a public-utility company. Once the Commission issues its order, however, PWE intends to inform FERC that it will no longer maintain EWG status. Thus, PNW seeks authorization for PWE to become a public-utility company the earlier of (1) the date PWE notifies FERC that it no longer intends to maintain EWG status or (2) the date the Transfer Transaction is consummated.

until the Commission issues an order approving this Application. Because EWG status limits PWE's activities to those "incidental" to the ownership and operation of eligible facilities, PWE is eager to become a public-utility company as soon as possible in order to have broader flexibility in addressing the needs of the electric power market.

A. Approval of the Reorganization under Section 9(a)(2).

Section 9(a)(2) makes it unlawful, without approval of the Commission under Section 10, "for any person . . . to acquire, directly or indirectly, any security of any public-utility company, if such person is an affiliate . . . of such company and of any other public utility or holding company, or will by virtue of such acquisition become such an affiliate." By virtue of the proposed Reorganization, PNW will own more than 5% of the outstanding voting securities of two "public-utility companies" (APS and PWE) thus becoming an affiliate of both of these public-utility companies. Under Section 2(a)(5) of the Act, a "public-utility company" is an "electric utility company" or a "gas utility company." Under Section 2(a)(3) of the Act, an "electric utility company" is defined as "any company which owns or operates facilities used for the generation, transmission, or distribution of electric energy for sale . . . ." Upon completion of the Reorganization, PWE will own and operate certain of APS' existing facilities for the generation of electric energy for sale, as well as West Phoenix No. 4 and other generating assets to be developed or acquired by PWE in the future, and APS will continue to own and operate its existing facilities for the transmission and distribution of electric energy for sale, as well as its nuclear, solar, and hydroelectric generating facilities. Therefore, both PWE and APS will be public-utility companies within the meaning of the Act.

1. Section 10(b)

Section 10(b) provides that the Commission shall approve an acquisition pursuant to Section 9(a)(2) unless the Commission finds that:

(1) such acquisition will tend towards interlocking relations or the concentration of control of public-utility companies, of a kind or to an extent detrimental to the public interest or the interest of investors, or consumers;

(2) in case of the acquisition of securities or utility assets, the consideration, including all fees, commissions, and other remuneration, to whomsoever paid, to be given, directly or indirectly, in connection with such acquisition is not reasonable or does not bear a fair relation to the sums invested in or the earning capacity of the utility assets to be acquired or the utility assets underlying the securities to be acquired; or

(3) such acquisition will unduly complicate the capital structure of the holding-company system of the applicant or will be detrimental to the public interest or the interest of investors or consumers or the proper functioning of such holding-company system.

PNW respectfully submits that no adverse findings should be made under any of these provisions.

a. "Detrimental Interlocking Relations" or "Concentration of Control" -- Section 10(b)(1)

Consistent with Section 10(b)(1) of the Act, PNW submits that the Reorganization will not tend towards interlocking relations or the concentration of control of public-utility companies, of a kind or to an extent detrimental to the public interest or the interest of investors or customers. The Reorganization involves the first step in the ultimate segregation of APS' existing utility assets and operations along functional lines into a generation company (PWE) and a transmission and distribution company (APS).

While there may be certain common directors and officers of PNW and the public-utility subsidiaries, these relations normally exist in public-utility holding company systems among affiliated and associated companies and should not be considered detrimental to the public interest or the interest of investors or consumers. See Central Maine Power Company, et al., Holding Co. Act Release No. 26903 (Aug. 7, 1998); CIPSCO, Inc., Holding Co. Act Release No. 25152, 47 SEC Docket 174 (Sept. 18, 1990).

Similarly, the Reorganization should not, within the meaning of Section 10(b)(1), be deemed to tend towards any "concentration of control of public-utility companies" that might be detrimental to the public interest, consumers or investors. The Reorganization will not involve the acquisition or control of any utility assets or operations which are not already owned or controlled by PNW or its existing public-utility subsidiary, APS, or being developed by PWE, and "will therefore have no effect on the concentration of control of public-utility companies." Central Maine Power Company, et al., Holding Co. Act Release No. 26903 (Aug. 7, 1998); accord BEC Energy, et al., Holding Co. Act Release No. 26874 (May 15, 1998); Energy East

Corp., Holding Co. Act Release No. 26834 (March 4, 1998); Wisconsin Energy Corp., Holding Co. Act Release No. 24267 (Dec. 18, 1996).

b. Fairness of Consideration and Fees -- Section 10(b)(2)

Section 10(b)(2) of the Act requires the Commission to determine whether the consideration paid in connection with a proposed acquisition of securities is reasonable and bears a fair relation to the investment in and earning capacity of the utility assets underlying the securities being acquired.

The generating assets being moved as part of the Transfer Transaction will be recorded on the books of PWE at net book value. In addition, PWE will assume certain outstanding debt associated with the generating assets being moved. However, in order to maintain APS' current debt to common stock equity ratio,[20] PNW will not move all of the outstanding debt associated with the generating assets to PWE. The valuation of PNW's investment in the securities of PWE and APS will be adjusted accordingly to reflect the movement of these assets and the associated debt to PWE.[21]

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[20] As of December 31, 2000, APS' debt to Common Stock equity ratio was 49%/51%. The Reorganization is being structured so that this ratio will remain the same after the Reorganization.

[21] Specifically, PWE will assume APS' rights and obligations with respect to approximately $180 million in pollution control bonds issued by Navajo County, Arizona, Pollution Control Corporation and Coconino County, Arizona, Pollution Control Corporation. These two series of bonds were issued by the respective pollution control corporations under two separate Indentures of Trust dated as of August 1, 1993 between the issuer and an independent trustee. In each case, the issuer loaned the proceeds of the bonds to APS under a Loan Agreement dated as of August 1, 1993, and APS is responsible to repay the loan by making payments on the bonds when due. APS' obligations are secured by First Mortgage Bonds issued by APS and delivered to the Trustee for the pollution control bonds. At the time generating assets are moved to PWE, APS will assign its rights and obligations under the Loan Agreements to PWE, and PWE will assume such obligations. APS will remain primarily liable for such obligations and the First Mortgage Bonds will remain outstanding.

PWE will also assume APS' obligations under another approximately $60 million of pollution control bond debt, releasing APS from such obligations. No bondholder consent is required in connection with PWE's assumption of this debt. However, APS must give advance notice to the bondholders and any bondholder who does not wish to continue to hold the bonds may tender its bonds for purchase. In addition, if the issuance of a new letter of credit in substitution for the existing letter of credit supporting the bonds causes the ratings on the bonds to be

Since the Transfer Transaction involves an entirely intra-company movement of existing assets from one wholly-owned subsidiary to another, PNW believes that the valuation established for purposes of this asset transition is reasonable and bears a fair relationship to the sums invested in the assets. PNW, as the sole owner of both APS and PWE, can expect to earn a fair return on its investment in APS and its investment in PWE.

An estimate of the fees and expenses to be paid in connection with the Reorganization is stated in Item 2 above. Such fees and expenses will be reasonable and customary for transactions of this kind and will not be material when measured against PNW's consolidated book value or the earning capacity of its assets. See, e.g., Madison Gas and Electric Co., Holding Co. Act Release No. 27326 (Dec. 28, 2000); WPS Resources Corp., Holding Co. Act Release No. 27330 (Dec. 28, 2000); Energy East Corp., Holding Co. Act Release No. 27128 (Feb. 2, 2000).

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lower than the existing rating, the bonds will be subject to a mandatory tender on the substitution date, and all the bonds will be subject to mandatory repurchase and remarketing on that date.

c. Complication of Capital Structure -- Section 10(b)(3)

Section 10(b)(3) of the Act requires the Commission to determine whether the transaction will unduly complicate the capital structure of the PNW system, be detrimental to the public interest, the interest of the investors or consumers, or the proper functioning of the holding-company system. No such effect will result from the Reorganization.

The Reorganization will not involve the creation of any ownership interests other than those necessary to maintain the basic corporate relationships of the reorganized holding-company system. PNW will continue to be the only issuer of publicly owned equity securities in the system. PNW will continue to own all of the outstanding common stock of PWE, APS, and PNW's existing non-utility subsidiaries; there will be no minority equity interest in any of PNW's public-utility subsidiaries. As noted above, certain pollution control bonds issued by APS will be assumed by PWE, but this will in no way complicate the capital structure of PNW, APS, or PWE. This type of capital structure is typical of a contemporary holding company system and is within the traditional standards of the Act.

Moreover, the Reorganization is a significant step toward the ultimate goal of creating separate entities to perform PNW's transmission/distribution business and its generation business in compliance with the ACC's Competition Rules and the Settlement. Consequently, because the Reorganization does not complicate the capital structure of PNW, APS, or PWE, the standards of Section 10(b)(3) of the Act are satisfied.

2. Section 10(c)

The relevant provisions of Section 10(c) of the Act state that the Commission shall not approve:

> (1) an acquisition of securities or utility assets, or of any other interest, which is unlawful under the provisions of Section 8 or is detrimental to the carrying out of the provisions of Section 11; or
>
> (2) the acquisition of securities or utility assets of a public-utility or holding company unless the Commission finds that such acquisition will serve the public interest by tending towards the economical and the efficient development of an integrated public-utility system . . . .

APS and PNW respectfully submit that no adverse determination should be made under either of these provisions.

a. Significant Benefits -- Section 10(c)(1)

Section 10(c)(1) prohibits an acquisition of securities which is "unlawful under the provisions of Section 8" or "detrimental to the carrying out of the provisions of Section 11." By their express terms, Sections 8 and 11 apply only to registered holding companies and do not apply to exempt holding companies. After the Reorganization, PNW will continue to be exempt from all provisions of the Act, except Section 9(a)(2), pursuant to Section 3(a)(1) of the Act since PNW and its utility subsidiaries, APS and PWE, will each be predominantly intrastate in character, carry on their businesses substantially in Arizona, and be organized in Arizona. Accordingly, Section 8 of the Act is inapplicable to the Reorganization.

For the purposes of the Commission's review of the proposed reorganization of a holding company, the relevant provision of Section 11 is Section 11(b)(2), which requires the Commission to find that "the corporate structure . . . of any company in the holding-company system does not unduly or unnecessarily complicate the structure . . . of such holding-company system." In that connection, the Commission has construed this requirement, "to mean that the structural change must result in significant benefits to the holding-company system." CIPSCO Inc., Holding Co. Act Release No. 25152, 47 SEC Docket at 178 (Sept. 18, 1990); accord Central Maine Power Company, et al., Holding Co. Act Release No. 26903 (Aug. 7, 1998); BEC Energy, et al., Holding Co. Act Release No. 26874 (May 15, 1998); Energy East Corp., Holding Co. Act Release No. 26834 (March 4, 1998).

As discussed above in Section D of Item 1, the corporate structure resulting from the Reorganization will yield significant benefits. Most importantly, the Reorganization and subsequent movement of APS' nuclear generating facilities to PWE will enable APS to implement the requirements of ACC Competition Rules and Settlement. In particular, as the ACC noted in its order on the Settlement, the Settlement provides for competitive retail access in APS' service territory, establishes rate reductions for all APS customers, sets a mechanism for stranded cost recovery, and is in the public interest.[22] In addition, segregation of the separate utility functions into separate corporations dedicated solely to those functions will: (1) enable the executives, officers, and managers of APS and PWE to concentrate on the delivery of cost efficient and effective utility services responsive to the needs of customers; (2) allow PNW's subsidiaries and affiliates to be more competitive in their businesses; (3) segregate the financial

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[22] See Exhibit D-5.

and legal risks associated with those businesses; (4) ensure that there is no cross-subsidization of costs or business risk; and (5) aid the investment community in analyzing and valuing individual lines of business. In cases involving corporate reorganizations or the formation of holding companies, the Commission has held that the existence of these kinds of potential benefits satisfies the statutory standard of Section 10(c)(1). See, e.g., Central Maine Power Company, Holding Co. Act Release No. 26903 (Aug. 7, 1998); Atlanta Gas Light Company, Holding Co. Act Release No. 26482, 61 SEC Docket 1057 (March 5, 1996); SIGCORP, Inc., Holding Co. Act Release No. 26431, 60 SEC Docket 90 (Dec. 14, 1995); PP&L Resources, Inc., Holding Co. Act Release No. 26248, 58 SEC Docket 2634 (March 10, 1995); CIPSCO Inc., Holding Co. Act Release No. 25152, 47 SEC Docket 174 (Sept. 18, 1990); Wisconsin Energy Corp., Holding Co. Act Release No. 24267 (Dec. 18, 1996).

b. Economics and Efficiencies of an Integrated System – Section 10(c)(2)

Under Section 10(c)(2), the Commission must find that the Reorganization tends towards the economical and efficient development of an integrated public utility system. PNW respectfully submits that this standard is met in this case.

(i) Economics and Efficiencies

A number of economies and efficiencies will result from the PNW structure. Some of these benefits are described in Section D of Item 1 and Section A.2.a of Item 3, above. Overall, the Reorganization will permit a more efficient way to take advantage of competitive opportunities in the electric utility industry. Separating the competitive generation business from the regulated transmission/distribution operations will increase the ability of the system to take advantage of market opportunities and enable each entity to focus its resources on more clearly defined product markets and services.

(ii) Integrated Public Utility System

The electric utility system of PNW is presently "integrated" within the meaning of Section 2(a)(29) of the Act and will remain so after the Reorganization.

The standards that must be met for an electric utility system to be integrated within the meaning of Section 2(a)(29) of the Act are:

(1) the utility assets are to be physically interconnected or capable of physical interconnection and under normal conditions may be economically operated as a single interconnected and coordinated system;

(2) the operations of the system are confined to a single area or region, that is not so large as to impair the advantages of localized management, efficient operation, and the effectiveness of regulation.

The Commission has previously taken notice of recent developments in the electric industry and has interpreted the Act and analyzed proposed transactions in light of these changed and changing circumstances. See, e.g., American Electric Power Co., Holding Co. Act Release No. 27186 (Jun. 14, 2000) ("AEP Order"); New Century Energies, Inc., Holding Co. Act Release No. 26748 (Aug. 1, 1997) (citing Hearing on Regulation of Public Utility Holding Companies Before Subcomm. on Telecommunications and Finance and Subcomm. on Energy and Power of

the House of Representatives Comm. on Commerce, 104th Cong., 1st Sess. (Aug 4, 1995) (testimony of Arthur Levitt, Chairman, SEC)). See also Rust v. Sullivan, 500 U.S. 173, 186-87 (1991) ("an agency is not required to 'establish rules of conduct to last forever,'" "but rather must be given ample latitude to 'adapt [its] rules and policies to the demands of changing circumstances.'") (citations omitted).

The Settlement and ACC Order introducing retail competition and requiring the separation of the regulated transmission/distribution business from the competitive generation and marketing businesses constitute the type of "changing circumstance" which the Commission should consider in evaluating the proposed Reorganization. In addition, FERC has recognized that in order to foster competitive electric markets, the operation of transmission facilities should be functionally unbundled from the generation business and/or transferred to an entirely separate corporate entity. The proposed Reorganization is consistent with these goals.

When the Reorganization is complete, and APS has moved its nuclear generating assets to PWE, APS will be in compliance with the ACC Order and Settlement. Yet, the Reorganization will not affect the physical interconnections or coordinated operations associated with PNW's existing utility system. All of APS' existing interconnections will remain intact. A continuous, geographically compact system, with the same physical interconnections as exist today, will be maintained.

Moreover, although the Reorganization, for the most part, will unbundle the transmission/distribution business from the generation business from a financial perspective, the Reorganization will not affect coordination from an operational perspective. The generation and/or flow of power within the system will continue to be centrally controlled and dispatched as need or economy dictates. See, e.g., WPS Resources Corp., Holding Co. Act Release No. 27330

(Dec. 28, 2000); UNITIL, Holding Co. Act Release No. 25524 (Apr. 24, 1992). Currently, economic dispatch of units is performed by Power Marketing and that responsibility will continue to reside with Power Marketing after the Reorganization is complete. Power Marketing will ensure that power needed to serve the wires company's obligations is supplied through a combination of resources consisting of PWE-owned generation, APS-owned generation, and purchased power. Economic dispatch will be performed on the basis of availability and cost. System reliability operations will continue to be performed within the transmission organization as it always has been.

The proposed Reorganization involves the relocation of APS' ownership interest in its fossil generating facilities to PWE. This change in ownership is not expected to have a significant impact on PNW's use and enjoyment of the relocated assets. Power Marketing will conduct marketing efforts, both as a buyer and seller, for the PNW system. The Commission has recently recognized joint marketing efforts as a means to coordinate system operations within the meaning of the Act.[23] System dispatchers in Power Marketing will continually monitor the generation needs and capacity of the PNW system. Moreover, the generating assets will be dedicated to serving APS' bundled load and provider-of-last-resort obligations, albeit through a series of intra-holding company sales (that is, sales from PWE to Power Marketing and then to APS), at least through 2002. Beginning in 2003, APS will be required to procure at least 50% of its requirements through an open market bidding process. It is likely that PWE generation will be bid in to that requirement through PNW. To the extent non-PWE generation is selected to supply the APS bundled load and provider-of-last-resort obligations, that generation would be

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[23] American Electric Power Company, Inc., Holding Co. Act Release No. 27186 (June 14, 2000).

included in the purchased power portfolio of APS, and Power Marketing would simply include that purchased power in the generation dispatch queue, the same as it does for purchased power today. This method of operation will result in lower available energy costs for the APS distribution function.

In addition, PWE and APS will enter into interconnection agreements containing terms and conditions governing the interconnection of each of PWE's generators with the APS transmission/distribution system.[24] The agreements will include provisions for maintenance, operating and metering standards, access to facilities, redispatch, the provision of ancillary services, and liability issues. Power Marketing will also enter into transmission service agreements with APS under APS' FERC open access transmission tariff so that Power Marketing can receive deliveries from PWE and deliver electric energy to APS for service to APS' retail and wholesale native load customers.

Finally, the area of operations of the system will not be affected by the Reorganization and will continue to be primarily confined to a single area (e.g., APS' existing service territory in Arizona) that is not so large as to impair the advantages of continuing localized management, efficient operation, and effective regulation. See CP&L Energy, Inc., Holding Co. Act Release No. 27188 (June 15, 2000); Central Maine Power Company, et al., Holding Co. Act Release No. 26903 (Aug. 7, 1998).

3. Section 10(f)

Section 10(f) provides that "[t]he Commission shall not approve any acquisition . . . under this Section unless it appears to the satisfaction of the Commission that such State laws as

may apply in respect of such acquisition have been complied with, except where the Commission finds that compliance with such State laws would be detrimental to the carrying out of the provisions of Section 11 . . . ."

The Transfer Transaction is conditioned on full compliance with the laws of the Arizona. The Development Activities do not explicitly raise any questions of State law, other than siting and permitting issues; however, PNW fully complied with all applicable State laws when it initially formed PWE. APS is currently and will remain subject to the jurisdiction of the ACC with respect to the provision of retail electric service. APS and PNW have received the necessary approval from the ACC to proceed with the Transfer Transaction. A copy of this ACC approval is filed as Exhibit D-5 hereto.

For the reasons stated above, the proposed Reorganization meets the standards set forth in Sections 9(a)(2) and 10. The Reorganization involves the first step in the segregation of APS' existing utility assets and operations along functional lines into two companies – one company that is primarily in the wires business and a second in the generation business. The Reorganization will not unduly complicate the capital structure of the PNW system; nor will the Reorganization be detrimental to the public interest, the interests of investors or consumers, or the proper functioning of this system. Also, the Reorganization will yield significant benefits by allowing PNW's public-utility subsidiaries to more effectively compete in the electric utility industry. Therefore, the Commission should by order approve the Reorganization.

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[24] Interconnection agreements already exist for the generating units that are jointly owned or leased by APS; therefore, new interconnection agreements will be required only for those facilities that will be owned or leased in their entirety by PWE and for any new generating facilities developed or acquired by PWE.

B. PNW Will Continue to Claim a Section 3(a)(1) Exemption After the Reorganization.

Section 3(a)(1) of the Act makes an exemption from all of the provisions of the Act, except for Section 9(a)(2), available to a holding company, if "such holding company, and every subsidiary company thereof which is a public-utility company from which such holding company derives, directly or indirectly, any material part of its income, are predominately intrastate in character and carry on their business substantially in a single State in which such holding company and every such subsidiary company thereof are organized." After the Reorganization is complete, PNW and its two public-utility subsidiaries -- APS and PWE -- will be predominantly intrastate in character and will carry on their business substantially in Arizona, the state in which they are all organized.[25] In this regard, PNW will continue to claim an exemption pursuant to Section 3(a)(1) of the Act and Rule 2 of the Commission's regulations, by filing annual exemption statements on Form U-3A-2 following the Reorganization.

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[25] While APS' existing power marketing division was moved to PNW, and continues to perform its power marketing activities on a nationwide basis, PNW's utility operations are still predominately intrastate in character and conducted primarily in Arizona. As noted above, the Commission Staff has indicated in a series of no-action letters that power marketers are not considered "electric utility companies" under Section 2(a)(3) of the Act and, therefore, are not "public-utility companies" under Section 2(a)(5) of the Act. See, e.g., Sunoco Power Marketing, L.L.C., SEC No-Action Letter, 1997 SEC No-Act. LEXIS 785 (July 24, 1997); Enron Capital & Trade Resources Corp., SEC No-Action Letter, 1997 SEC No-Act. LEXIS 287 (Feb. 13, 1997).

ITEM 4 REGULATORY APPROVAL

The Transfer Transaction requires the approval of the ACC and FERC. APS has received an order approving the Transfer Transaction from the ACC, a copy of which is attached hereto as Exhibit D-5. APS also filed an application for approval of the proposed Transfer Transaction with the FERC, a copy of which is attached as Exhibit D-1. A copy of the final FERC order pursuant thereto was filed by amendment on December 8, 2000, as Exhibit D-2. Other than such enumerated approvals and the approval of the Commission hereunder, no other approvals are required for the Transfer Transaction and the movement of APS' fossil generating assets to PWE.[26] No approvals, other than the approval of the Commission under Section 9(a)(2) of the Act, are necessary in connection with PWE's Development Activities.[27]

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[26] As noted above, approval from the NRC will be obtained in connection with the relocation of APS' nuclear generating facilities to PWE. *See supra* n. 10.

[27] As noted above, PWE has filed with FERC an application for EWG status in connection with its Development Activities. In addition, although PWE's Development Activities may involve various siting, environmental, and other approvals, all of the approvals in connection with PWE's operation of West Phoenix No. 4 have already been obtained.

ITEM 5 PROCEDURE

PNW respectfully requests that there be no 30-day waiting period between the issuance of the Commission's order and the date on which it is to become effective. PNW also requests that there be no hearing on this application and that the Commission issue its order as soon as practicable after the filing hereof. PNW respectfully requests that the Commission issue and publish the requisite notice under Rule 23 with respect to the filing of this application not later than January 22, 2001, such notice to specify a date not later than February 22, 2001, by which comments may be entered and a date not later than May 1, 2001, as the date after which an order of the Commission granting and permitting this application to become effective may be entered by the Commission. A form of Notice is filed herewith as Exhibit H-1.

Without prejudice to its right to modify the same if a hearing should be ordered on this application, PNW hereby makes the following specifications required by paragraph (b) of Item 5 of Form U-1:

(1) There should not be a recommended decision by a hearing officer or any other responsible officer of the Commission.

(2) There should not be a 30-day waiting period between issuance of the Commission's order and the date on which the order is to become effective.

(3) PNW consents to the Division of Investment Management assisting in the preparation of the Commission's decision or order in this matter, unless such Division opposes this application.

ITEM 6 EXHIBITS AND FINANCIAL STATEMENTS

It is requested that the Commission send copies of all communications to PNW as follows:

Herbert I. Zinn
Pinnacle West Capital Corporation
400 North Fifth Street
Mail Station 8695
Phoenix, Arizona 85004

Mary Ann K. Huntington
Morgan, Lewis & Bockius LLP
1800 M Street, N.W.
Washington, D.C. 20036

A. **Exhibits**

Exhibit No.	Description of Document	Method of Filing
A-1	Restated Articles of Incorporation of PNW.	Incorporated by reference; File No. 1-8962, PNW Form 10-K for the year ended December 31, 1999.
A-2	Restated Articles of Incorporation of APS.	Incorporated by reference; File No. 1-4473, APS Form 8-K (Sept. 23, 1993).
A-3	Articles of Incorporation of PWE.	Filed herewith.
B-1	Form of Term Sheet.	Filed herewith.
D-1	Application of APS, PNW and PWE to FERC for Authorization to Transfer Jurisdictional Facilities.	Filed herewith.
D-2	Order of FERC.	Filed by amendment on December 8, 2000.
D-3	Retail Electric Competition Rules.	Incorporated by reference; file No. 1-4473, filed as Exhibit 10.2 to APS' Sept. 30, 1999

		Form 10-Q Report.
D-4	Comprehensive Settlement Agreement Related to the Implementation of Retail Electric Competition, filed with the Arizona Corporation Commission.	Filed by Amendment on April 27, 2001.
D-5	ACC Approval of the Settlement Agreement.	Filed by Amendment on April 27, 2001.
D-6	Amended Settlement Agreement.	Filed herewith.
D-7	ACC Order dated February 8, 2001 granting waiver for solar resources, and environmentally friendly renewable electricity technologies.	Filed by Amendment on April 27, 2001.
E-1	Map showing location of the generating facilities of APS that are being moved to PWE along with their related transmission facilities.	Filed herewith.
F-1	Signed initial opinion of counsel.	Filed by Amendment on April 27, 2001.
F-2	Past-tense opinion of counsel.	To be filed by amendment.
G-1	PNW, Form U-3A-2, "Statement by Holding Company Claiming Exemption under Rule U-2 from the Provisions of the Public Utility Holding Company Act of 1935."	Incorporated by reference; File No. 69-306, dated Feb. 29, 2000.

H-1	Form of Notice	Filed herewith.

B. Financial Statements

Statement No.	Description of Document	Method of Filing
FS-1	Historical consolidated financial statements of PNW	Incorporated by reference to Annual Reports on Form 10-K for the years ended 1999, 1998 and 1997
FS-2	Historical consolidated financial statements of APS	Incorporated by reference to Annual Reports on Form 10-K for the years ended 1999, 1998 and 1997

Although separate financial statements for PWE have not been included, PWE's financial information is included in the consolidated financial statements of PNW.

ITEM 7 INFORMATION AS TO ENVIRONMENTAL EFFECTS

None of the matters that are the subject of this application and declaration involves a "major federal action" nor do any of them "significantly affect the quality of the human environment" as those terms are used in Section 102(2)(C) of the National Environmental Policy Act. The transaction that is the subject of this application will not result in changes in the operation of the company that will have an impact on the environment. Neither APS nor PNW are aware of any federal agency that has prepared or is preparing an environmental impact statement with respect to the transactions that are the subject of this application.

SIGNATURE

Pursuant to the requirements of the Public Utility Holding Company Act of 1935, the undersigned company has duly caused this Application to be signed on its behalf by the undersigned thereunto duly authorized.

PINNACLE WEST CAPITAL CORPORATION

By: Barbara M. Gomez
Its: Treasurer

Date: April 27, 2001

Phoenix, Arizona

SETTLEMENT AGREEMENT

May 14, 1999

This settlement agreement ("Agreement") is entered into as of May 14, 1999, by Arizona Public Service Company ("APS" or the "Company") and the various signatories to this Agreement (collectively, the "Parties") for the purpose of establishing terms and conditions for the introduction of competition in generation and other competitive services that are just, reasonable and in the public interest.

INTRODUCTION

In Decision No. 59943, dated December 26, 1996, the Arizona Corporation Commission ("ACC" or the "Commission") established a "framework" for introduction of competitive electric services throughout the territories of public service corporations in Arizona in the rules adopted in A.A.C. R14-2-1601 *et seq.* (collectively, "Electric Competition Rules" as they may be amended from time to time). The Electric Competition Rules established by that order contemplated future changes to such rules and the possibility of waivers or amendments for particular companies under appropriate circumstances. Since their initial issuance, the Electric Competition Rules have been amended several times and are currently stayed pursuant to Decision No. 61311, dated January 5, 1999. During this time, APS, Commission Staff and other interested parties have participated in a number of proceedings, workshops, public comment sessions and individual negotiations in order to further refine and develop a restructured utility industry in Arizona that will provide meaningful customer choice in a manner that is just, reasonable and in the public interest.

This Agreement establishes the agreed upon transition for APS to a restructured entity and will provide customers with competitive choices for generation and certain other retail services. The Parties believe this Agreement will produce benefits for all customers through implementing customer choice and providing rate reductions so that the APS service territory may benefit from economic growth. The Parties also believe this Agreement will fairly treat APS and its shareholders by providing a reasonable opportunity to recover prudently incurred investments and costs, including stranded costs and regulatory assets.

Specifically, the Parties believe the Agreement is in the public interest for the following reasons. First, customers will receive substantial rate reductions. Second, competition will be promoted through the introduction of retail access faster than would have been possible without this Agreement and by the functional separation of APS' power production and delivery functions. Third, economic development and the environment will

benefit through guaranteed rate reductions and the continuation of renewable and energy efficiency programs. Fourth, universal service coverage will be maintained through APS' low income assistance programs and establishment of "provider of last resort" obligations on APS for customers who do not wish to participate in retail access. Fifth, APS will be able to recover its regulatory assets and stranded costs as provided for in this Agreement without the necessity of a general rate proceeding. Sixth, substantial litigation and associated costs will be avoided by amicably resolving a number of important and contentious issues that have already been raised in the courts and before the Commission. Absent approval by the Commission of the settlement reflected by this Agreement, APS would seek full stranded cost recovery and pursue other rate and competitive restructuring provisions different than provided for herein. The other Parties would challenge at least portions of APS' requested relief, including the recovery of all stranded costs. The resulting regulatory hearings and related court appeals would delay the start of competition and drain the resources of all Parties.

NOW, THEREFORE, APS and the Parties agree to the following provisions which they believe to be just, reasonable and in the public interest:

TERMS OF AGREEMENT

ARTICLE I
IMPLEMENTATION OF RETAIL ACCESS

1.1. The APS distribution system shall be open for retail access on July 1, 1999; provided, however, that such retail access to electric generation and other competitive electric services suppliers will be phased in for customers in APS' service territory in accordance with the proposed Electric Competition Rules, as and when such rules become effective, with an additional 140 MW being made available to eligible non-residential customers. The Parties shall urge the Commission to approve Electric Competition Rules, at least on an emergency basis, so that meaningful retail access can begin by July 1, 1999. Unless subject to judicial or regulatory restraint, APS shall open its distribution system to retail access for all customers on January 1, 2001.

1.2. APS will make retail access available to residential customers pursuant to its December 21, 1998, filing with the Commission.

1.3. The Parties acknowledge that APS' ability to offer retail access is contingent upon numerous conditions and circumstances, a number of which are not within the direct control of the Parties. Accordingly, the Parties agree that it may become necessary to modify the terms of retail access to account for such factors, and they further agree to address such matters in good faith and to cooperate in an effort to propose joint resolutions of any such matters.

1.4. APS agrees to the amendment and modification of its Certificate(s) of Convenience and Necessity to permit retail access consistent with the terms of this Agreement. The Commission order adopting this Agreement shall constitute the necessary Commission Order amending and modifying APS' CC&Ns to permit retail access consistent with the terms of this Agreement.

ARTICLE II
RATE MATTERS

2.1. The Company's unbundled rates and charges attached hereto as Exhibit A will be effective as of July 1, 1999. The Company's presently authorized rates and charges shall be deemed its standard offer ("Standard Offer") rates for purposes of this Agreement and the Electric Competition Rules. Bills for Standard Offer service shall indicate individual unbundled service components to the extent required by the Electric Competition Rules.

2.2. Future reductions of standard offer tariff rates of 1.5% for customers having loads of less than 3 MW shall be effective as of July 1, 1999, July 1, 2000, July 1, 2001, July 1, 2002, and July 1, 2003, upon the filing and Commission acceptance of revised tariff sheets reflecting such decreases. For customers having loads greater than 3 MW served on Rate Schedules E-34 and E-35, Standard Offer tariff rates will be reduced: 1.5%, effective July 1, 1999; 1.5% effective July 1, 2000; 1.25% effective July 1, 2001; and .75% effective July 1, 2002. The 1.5% Standard Offer rate reduction to be effective July 1, 1999, includes the rate reduction otherwise required by Decision No. 59601. Such decreases shall become effective by the filing with and acceptance by the Commission of revised tariff sheets reflecting each decrease.

2.3. Customers greater than 3 MW who choose a direct access supplier must give APS one year's advance notice before being eligible to return to Standard Offer service.

2.4. Unbundled rates shall be reduced in the amounts and at the dates set forth in Exhibit A attached hereto upon the filing and Commission acceptance of revised tariff sheets reflecting such decreases.

2.5. This Agreement shall not preclude APS from requesting, or the Commission from approving, changes to specific rate schedules or terms and conditions of service, or the approval of new rates or terms and conditions of service, that do not significantly affect the overall earnings of the Company or materially modify the tariffs or increase the rates approved in this Agreement. Nothing contained in this Agreement shall preclude APS from filing changes to its tariffs or terms and conditions of service which are not inconsistent with its obligations under this Agreement.

2.6. Notwithstanding the rate reduction provisions stated above, the Commission shall, prior to December 31, 2002, approve an adjustment clause or clauses which

will provide full and timely recovery beginning July 1, 2004, of the reasonable and prudent costs of the following:

(1) APS' "provider of last resort" and Standard Offer obligations for service after July 1, 2004, which costs shall be recovered only from Standard Offer and "provider of last resort" customers;

(2) Standard Offer service to customers who have left Standard Offer service or a special contract rate for a competitive generation supplier but who desire to return to Standard Offer service, which costs shall be recovered only from Standard Offer and "provider of last resort" customers;

(3) compliance with the Electric Competition Rules or Commission-ordered programs or directives related to the implementation of the Electric Competition Rules, as they may be amended from time to time, which costs shall be recovered from all customers receiving services from APS; and

(4) Commission-approved system benefit programs or levels not included in Standard Offer rates as of June 30, 1999, which costs shall be recovered from all customers receiving services from APS.

By June 1, 2002, APS shall file an application for an adjustment clause or clauses, together with a proposed plan of administration, and supporting testimony. The Commission shall thereafter issue a procedural order setting such adjustment clause application for hearing and including reasonable provisions for participation by other parties. The Commission order approving the adjustment clauses shall also establish reasonable procedures pursuant to which the Commission, Commission Staff and interested parties may review the costs to be recovered. By June 30, 2003, APS will file its request for the specific adjustment clause factors which shall, after hearing and Commission approval, become effective July 1, 2004. APS shall be allowed to defer costs covered by this Section 2.6 when incurred for later full recovery pursuant to such adjustment clause or clauses, including a reasonable return.

2.7. By June 30, 2003, APS shall file a general rate case with prefiled testimony and supporting schedules and exhibits; provided, however, that any rate changes resulting therefrom shall not become effective prior to July 1, 2004.

2.8. APS shall not be prevented from seeking a change in unbundled or Standard Offer rates prior to July 1, 2004, in the event of (a) conditions or circumstances which constitute an emergency, such as the inability to finance on reasonable terms, or (b) material changes in APS' cost of service for Commission regulated services resulting from federal, tribal,

state or local laws, regulatory requirements, judicial decision, actions or orders. Except for the changes otherwise specifically contemplated by this Agreement, unbundled and Standard Offer rates shall remain unchanged until at least July 1, 2004.

ARTICLE III
REGULATORY ASSETS AND STRANDED COSTS

3.1. APS currently recovers regulatory assets through July 1, 2004, pursuant to Commission Decision No. 59601 in accordance with the provisions of this Agreement.

3.2. APS has demonstrated that its allowable stranded costs after mitigation (which result from the impact of retail access), exclusive of regulatory assets, are at least $533 million net present value.

3.3. The Parties agree that APS should not be allowed to recover $183 million net present value of the amounts included above. APS shall have a reasonable opportunity to recover $350 million net present value through a competitive transition charge ("CTC") set forth in Exhibit A attached hereto. Such CTC shall remain in effect until December 31, 2004, at which time it will terminate. If by that date APS has recovered more or less than $350 million net present value, as calculated in accordance with Exhibit B attached hereto, then the nominal dollars associated with any excess recovery/under recovery shall be credited/debited against the costs subject to recovery under the adjustment clause set forth in Section 2.6(3).

3.4. The regulatory assets to be recovered under this Agreement, after giving effect to the adjustments set forth in Section 3.3, shall be amortized in accordance with Schedule C of Exhibit A attached hereto.

3.5. Neither the Parties nor the Commission shall take any action that would diminish the recovery of APS' stranded costs or regulatory assets provided for herein. The Company's willingness to enter into this Agreement is based upon the Commission's irrevocable promise to permit recovery of the Company's regulatory assets and stranded costs as provided herein. Such promise by the Commission shall survive the expiration of the Agreement and shall be specifically enforceable against this and any future Commission.

ARTICLE IV
CORPORATE STRUCTURE

4.1. The Commission will approve the formation of an affiliate or affiliates of APS to acquire at book value the competitive services assets as currently required by the Electric Competition Rules. In order to facilitate the separation of such assets efficiently and at the lowest possible cost, the Commission shall grant APS a two-year extension of time until

December 31, 2002, to accomplish such separation. A similar two-year extension shall be authorized for compliance with A.A.C. R14-2-1606(B).

4.2. Approval of this Agreement by the Commission shall be deemed to constitute all requisite Commission approvals for (1) the creation by APS or its parent of new corporate affiliates to provide competitive services including, but not limited to, generation sales and power marketing, and the transfer thereto of APS' generation assets and competitive services, and (2) the full and timely recovery through the adjustment clause referred to in Section 2.6 above for all of the reasonable and prudent costs so incurred in separating competitive generation assets and competitive services as required by proposed A.A.C. R14-2-1615, exclusive of the costs of transferring the APS power marketing function to an affiliate. The assets and services to be transferred shall include the items set forth on Exhibit C attached hereto. Such transfers may require various regulatory and third party approvals, consents or waivers from entities not subject to APS' control, including the FERC and the NRC. No Party to this Agreement (including the Commission) will oppose, or support opposition to, APS requests to obtain such approvals, consents or waivers.

4.3. Pursuant to A.R.S. § 40-202(L), the Commission's approval of this Agreement shall exempt any competitive service provided by APS or its affiliates from the application of various provisions of A.R.S. Title 40, including A.R.S. §§ 40-203, 40-204(A), 40-204(B), 40-248, 40-250, 40-251, 40-285, 40-301, 40-302, 40-303, 40-321, 40-322, 40-331, 40-332, 40-334, 40-365, 40-366, 40-367 and 40-401.

4.4. APS' subsidiaries and affiliates (including APS' parent) may take advantage of competitive business opportunities in both energy and non-energy related businesses by establishing such unregulated affiliates as they deem appropriate, which will be free to operate in such places as they may determine. The APS affiliate or affiliates acquiring APS' generating assets may be a participant in the energy supply market within and outside of Arizona. Approval of this Agreement by the Commission shall be deemed to include the following specific determinations required under Sections 32(c) and (k)(2) of the Public Utility Holding Company Act of 1935:

> APS or an affiliate is authorized to establish a subsidiary company, which will seek exempt wholesale generator ("EWG") status from the Federal Energy Regulatory Commission, for the purposes of acquiring and owning Generation Assets.
>
> The Commission has determined that allowing the Generation Assets to become "eligible facilities," within the meaning of Section 32 of the Public Utility Holding Company Act ("PUHCA"), and owned by an APS EWG affiliate (1) will benefit consumers, (2) is in the public interest, and (3) does not violate Arizona law.

The Commission has sufficient regulatory authority, resources and access to the books and records of APS and any relevant associate, affiliate, or subsidiary company to exercise its duties under Section 32(k) of PUHCA.

APS will purchase any electric energy from its EWG affiliate at market based rates. This Commission has determined that (1) the proposed transaction will benefit consumers and does not violate Arizona law; (2) the proposed transaction will not provide APS' EWG affiliate an unfair competitive advantage by virtue of its affiliation with APS; (3) the proposed transaction is in the public interest.

The APS affiliate or affiliates acquiring APS' generating assets will be subject to regulation by the Commission, to the extent otherwise permitted by law, to no greater manner or extent than that manner and extent of Commission regulation imposed upon other owners or operators of generating facilities.

4.5. The Commission's approval of this Agreement will constitute certain waivers to APS and its affiliates (including its parent) of the Commission's existing affiliate interest rules (A.A.C. R14-2-801, *et seq.*), and the rescission of all or portions of certain prior Commission decisions, all as set forth on Exhibit D attached hereto.

4.6. The Parties reserve their rights under Sections 205 and 206 of the Federal Power Act with respect to the rates of any APS affiliate formed under the provisions of this Article IV.

ARTICLE V
WITHDRAWAL OF LITIGATION

5.1. Upon receipt of a final order of the Commission approving this Agreement that is no longer subject to judicial review, APS and the Parties shall withdraw with prejudice all of their various court appeals of the Commission's competition orders.

ARTICLE VI
APPROVAL BY THE COMMISSION

6.1. This Agreement shall not become effective until the issuance of a final Commission order approving this Agreement without modification on or before August 1, 1999. In the event that the Commission fails to approve this Agreement without modification according to its terms on or before August 1, 1999, any Party to this Agreement may withdraw from this Agreement and shall thereafter not be bound by its provisions; provided, however, that if APS withdraws from this Agreement, the Agreement shall be null and void and of no further force and effect. In any event, the rate reduction provisions of this Agreement shall not take effect until this Agreement is approved. Parties so withdrawing shall be free to pursue

their respective positions without prejudice. Approval of this Agreement by the Commission shall make the Commission a Party to this Agreement and fully bound by its provisions.

6.2. The Parties agree that they shall make all reasonable and good faith efforts necessary to (1) obtain final approval of this Agreement by the Commission, and (2) ensure full implementation and enforcement of all the terms and conditions set forth in this Agreement. Neither the Parties nor the Commission shall take or propose any action which would be inconsistent with the provisions of this Agreement. All Parties shall actively defend this Agreement in the event of any challenge to its validity or implementation.

ARTICLE VII
MISCELLANEOUS MATTERS

7.1. To the extent any provision of this Agreement is inconsistent with any existing or future Commission order, rule or regulation or is inconsistent with the Electric Competition Rules as now existing or as may be amended in the future, the provisions of this Agreement shall control and the approval of this Agreement by the Commission shall be deemed to constitute a Commission-approved variation or exemption to any conflicting provision of the Electric Competition Rules.

7.2. The provisions of this Agreement shall be implemented and enforceable notwithstanding the pendency of a legal challenge to the Commission's approval of this Agreement, unless such implementation and enforcement is stayed or enjoined by a court having jurisdiction over the matter. If any portion of the Commission order approving this Agreement or any provision of this Agreement is declared by a court to be invalid or unlawful in any respect, then (1) APS shall have no further obligations or liability under this Agreement, including, but not limited to, any obligation to implement any future rate reductions under Article II not then in effect, and (2) the modifications to APS' certificates of convenience and necessity referred to in Section 1.4 shall be automatically revoked, in which event APS shall use its best efforts to continue to provide noncompetitive services (as defined in the proposed Electric Competition Rules) at then current rates with respect to customer contracts then in effect for competitive generation (for the remainder of their term) to the extent not prohibited by law and subject to applicable regulatory requirements.

7.3. The terms and provisions of this Agreement apply solely to and are binding only in the context of the purposes and results of this Agreement and none of the positions taken herein by any Party may be referred to, cited or relied upon by any other Party in any fashion as precedent or otherwise in any other proceeding before this Commission or any other regulatory agency or before any court of law for any purpose except in furtherance of the purposes and results of this Agreement.

7.4. This Agreement represents an attempt to compromise and settle disputed claims regarding the prospective just and reasonable rate levels, and the terms and conditions

of competitive retail access, for APS in a manner consistent with the public interest and applicable legal requirements. Nothing contained in this Agreement is an admission by APS that its current rate levels or rate design are unjust or unreasonable.

7.5. As part of this Agreement, APS commits that it will continue the APS Community Action Partnership (which includes weatherization, facility repair and replacement, bill assistance, health and safety programs and energy education) in an annual amount of at least $500,000 through July 1, 2004. Additionally, the Company will, subject to Commission approval, continue low income rates E-3 and E-4 under their current terms and conditions.

7.6. APS shall actively support the Arizona Independent Scheduling Administrator ("AISA") and the formation of the Desert Star Independent System Operator. APS agrees to modify its OATT to be consistent with any FERC approved AISA protocols. The Parties reserve their rights with respect to any AISA protocols, including the right to challenge or seek modifications to, or waivers from, such protocols. APS shall file changes to its existing OATT consistent with this section within ten (10) days of Commission approval of this Agreement pursuant to Section 6.1.

7.7. Within thirty (30) days of Commission approval of this Agreement pursuant to Section 6.1, APS shall serve on the Parties an Interim Code of Conduct to address inter-affiliate relationships involving APS as a utility distribution company. APS shall voluntarily comply with this Interim Code of Conduct until the Commission approves a code of conduct for APS in accordance with the Electric Competition Rules that is concurrently effective with codes of conduct for all other Affected Utilities (as defined in the Electric Competition Rules). APS shall meet and confer with the Parties prior to serving its Interim Code of Conduct.

7.8. In the event of any disagreement over the interpretation of this Agreement or the implementation of any of the provisions of this Agreement, the Parties shall promptly convene a conference and in good faith shall attempt to resolve such disagreement.

7.9. The obligations under this Agreement that apply for a specific term set forth herein shall expire automatically in accordance with the term specified and shall require no further action for their expiration.

7.10. The Parties agree and recommend that the Commission schedule public meetings and hearings for consideration of this Agreement. The filing of this Agreement with the Commission shall be deemed to be the filing of a formal request for the expeditious issuance of a procedural schedule that establishes such formal hearings and public meetings as may be necessary for the Commission to approve this Agreement in accordance with

Section 6.1 and that afford interested parties adequate opportunity to comment and be heard on the terms of this Agreement consistent with applicable legal requirements.

DATED at Phoenix, Arizona, as of this 14th day of May, 1999.

RESIDENTIAL UTILITY CONSUMER OFFICE

By Greg Patterson

Title Director

ARIZONA PUBLIC SERVICE COMPANY

By Jack Davis

Title President Delivery & Sales.

ARIZONA COMMUNITY ACTION ASSOCIATION

By Janet R. Regan

Title Executive Director

(Party) _____

By _____

Title _____

ARIZONANS FOR ELECTRIC CHOICE AND COMPETITION,* a coalition of companies and associations in support of competition that includes Cable Systems International, BHP Copper, Motorola, Chemical Lime, Intel, [redacted], Honeywell, Allied Signal, Cyprus Climax Metals, Asarco, Phelps Dodge, [redacted], Homebuilders of Central Arizona, Arizona Mining Industry Gets Our Support, Arizona Food Marketing Alliance, Arizona Association of Industries, Arizona Multi-housing Association, Arizona Rock Products Association, Arizona Restaurant Association, [redacted], and Arizona Retailers Association.**

By Peter A. Woog

Title CHAIRMAN

(Party) _____

By _____

Title _____

(Party) _____

By _____

Title _____

* Enron is NOT a signatory to this Agreement

** Also included: Boeing, Az School Board Association, National Federation of Independent Business (NFIB), Az Hospital Association, Lockheed Martin, Abbot Labs,

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

A.C.C. No. XXXX
Tariff or Schedule No. DA-R1
Original Tariff
Effective: XXX XX, 1999

DIRECT ACCESS
RESIDENTIAL SERVICE

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company and where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable to customers receiving electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. This rate schedule is applicable only to electric delivery required for residential purposes in individual private dwellings and in individually metered apartments when such service is supplied at one point of delivery and measured through one meter. For those dwellings and apartments where electric service has historically been measured through two meters, when one of the meters was installed pursuant to a water heating or space heating rate schedule no longer in effect, the electric service measured by such meters shall be combined for billing purposes.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10.)

TYPE OF SERVICE

Service shall be single phase, 60 Hertz, at one standard voltage (120/240 or 120/208 as may be selected by customer subject to availability at the customer's premise). Three phase service is furnished under the Company's Conditions Governing Extensions of Electric Distribution Lines and Services (Schedule =3). Transformation equipment is included in cost of extension. Three phase service is required for motors of an individual rated capacity of 7-1/2 HP or more.

METERING REQUIREMENTS

All customers shall comply with the terms and conditions for load profiling or hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

May – October Billing Cycles (Summer):

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
$/month	$10.00			
All kWh		$0.04158	$0.00115	$0.00930

November – April Billing Cycles (Winter):

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
$/month	$10.00			
All kWh		$0.03518	$0.00115	$0.00930

B. MINIMUM $ 10.00 per month

(CONTINUED ON REVERSE SIDE)

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	$1.30 per month
Meter Reading	$0.30 per month
Billing	$0.30 per month

2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customers served under this rate schedule are responsible for acquiring their own generation and any other required competitively supplied services from an ESP. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

ON-SITE GENERATION TERMS AND CONDITIONS

Customers served under this rate schedule who have on-site generation connected to the Company's electrical delivery grid shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

TERMS AND CONDITIONS

This rate schedule is subject to the Company's Terms and Conditions for Standard Offer and Direct Access Services (Schedule #1) and Schedule #10. These schedules have provisions that may affect customer's monthly bill.

Exhibit A
5/10/99
DA-GS1

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

A.C.C. No. XXXX
Tariff or Schedule No. DA-GS1
Original Tariff
Effective: XXX XX, 1999

DIRECT ACCESS
GENERAL SERVICE

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable to customers receiving electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. This rate schedule is applicable to all electric service required when such service is supplied at one point of delivery and measured through one meter. For those customers whose electricity is delivered through more than one meter, service for each meter shall be computed separately under this rate unless conditions in accordance with the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service) are met. For those service locations where electric service has historically been measured through two meters, when one of the meters was installed pursuant to a water heating rate schedule no longer in effect, the electric service measured by such meters shall be combined for billing purposes.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

This rate schedule is not applicable to residential service, resale service or direct access service which qualifies for Rate Schedule DA-GS10.

TYPE OF SERVICE

Service shall be single or three phase, 60 Hertz, at one standard voltage as may be selected by customer subject to availability at the customer's premise. Three phase service is furnished under the Company's Conditions Governing Extensions of Electric Distribution Lines and Services (Schedule #3). Transformation equipment is included in cost of extension. Three phase service is not furnished for motors of an individual rated capacity of less than 7-1/2 HP, except for existing facilities or where total aggregate HP of all connected three phase motors exceed 12 HP. Three phase service is required for motors of an individual rated capacity of more than 7-1/2 HP.

METERING REQUIREMENTS

All customers shall comply with the terms and conditions for load profiling or hourly metering specified in the Company's Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

June – October Billing Cycles (Summer):

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
$ month	$12.50			
Per kW over 5		$0.721		
Per kWh for the first 2,500 kWh		$0.04255		
Per kWh for the next 100 kWh per kW over 5		$0.04255		
Per kWh for the next 42,000 kWh		$0.02901		
Per kWh for all additional kWh		$0.01811		
Per all kWh			$0.00115	
Per all kW				$2.43

(CONTINUED ON REVERSE SIDE)

A. RATE (continued)

November – May Billing Cycles (Winter):

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
$/month	$12.50			
Per kW over 5		$0.652		
Per kWh for the first 2,500 kWh		$0.03827		
Per kWh for the next 100 kWh per kW over 5		$0.03827		
Per kWh for the next 42,000 kWh		$0.02600		
Per kWh for all additional kWh		$0.01614		
Per all kWh			$0.00115	
Per all kW				$2.43

PRIMARY AND TRANSMISSION LEVEL SERVICE:

1. For customers served at primary voltage (12.5kV to below 69kV), the Distribution charge will be discounted by 11.6%.
2. For customers served at transmission voltage (69kV or higher), the Distribution charge will be discounted 52.6%.
3. Pursuant to A.A.C. R14-2-1612.K.11, the Company shall retain ownership of Current Transformers (CT's) and Potential Transformers (PT's) for those customers taking service at voltage levels of more than 25kV. For customers whose metering services are provided by an ESP, a monthly facilities charge will be billed, in addition to all other applicable charges shown above, as determined in the service contract based upon the Company's cost of CT and PT ownership, maintenance and operation.

DETERMINATION OF KW

The kW used for billing purposes shall be the average kW supplied during the 15-minute period of maximum use during the month, as determined from readings of the delivery meter.

B. MINIMUM

$12.50 plus $1.74 for each kW in excess of five of either the highest kW established during the 12 months ending with the current month or the minimum kW specified in the agreement for service, whichever is the greater.

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	$4.00 per month
Meter Reading	$0.30 per month
Billing	$0.30 per month

2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customers served under this rate schedule are responsible for acquiring their own generation and any other required competitively supplied services from an ESP or under the Company's Open Access Transmission Tariff. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

(CONTINUED ON PAGE 3)

ON-SITE GENERATION TERMS AND CONDITIONS

Customers served under this rate schedule who have on-site generation connected to the Company's electrical delivery grid shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

CONTRACT PERIOD

0 – 1,999 kW:	As provided in Company's standard agreement for service.
2,000 kW and above:	Three (3) years, or longer, at Company's option for initial period when construction is required. One (1) year, or longer, at Company's option when construction is not required.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule #10. These Schedules have provisions that may affect customer's monthly bill.

Exhibit A
5/10/99
DA-GS10

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

A.C.C. No. XXXX
Tariff or Schedule No. DA-GS10
Original Tariff
Effective: XXX XX, 1999

DIRECT ACCESS
EXTRA LARGE GENERAL SERVICE

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable to customers receiving electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. This rate schedule is applicable only to customers whose monthly maximum demand is 3,000 kW or more for three (3) consecutive months in any continuous twelve (12) month period ending with the current month. Service must be supplied at one point of delivery and measured through one meter unless otherwise specified by individual customer contract. For those customers whose electricity is delivered through more than one meter, service for each meter shall be computed separately under this rate unless conditions in accordance with the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service) are met.

This rate schedule is not applicable to resale service.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

TYPE OF SERVICE

Service shall be three phase, 60 Hertz, at Company's standard voltages that are available within the vicinity of customer's premise.

METERING REQUIREMENTS

All customers shall comply with the terms and conditions for hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
$/month	$2,430.00			
per kW		$3.53		$2.82
per kWh		$0.00999	$0.00115	

PRIMARY AND TRANSMISSION LEVEL SERVICE:

1. For customers served at primary voltage (12.5kV to below 69kV), the Distribution charge will be discounted by 4.8%.
2. For customers served at transmission voltage (69kV or higher), the Distribution charge will be discounted 36.7%.
3. Pursuant to A.A.C. R14-2-1612.K.11, the Company shall retain ownership of Current Transformers (CT's) and Potential Transformers (PT's) for those customers taking service at voltage levels of more than 25 kV. For customers whose metering services are provided by an ESP, a monthly facilities charge will be billed, in addition to all other applicable charges shown above, as determined in the service contract based upon the Company's cost of CT and PT ownership, maintenance and operation.

DETERMINATION OF KW

The kW used for billing purposes shall be the greater of:

1. The kW used for billing purposes shall be the average kW supplied during the 15-minute period (or other period as specified by individual customer's contract) of maximum use during the month, as determined from readings of the delivery meter.

2. The minimum kW specified in the agreement for service or individual customer contract.

(CONTINUED ON REVERSE SIDE)

B. MINIMUM

$2,430.00 per month plus $1.74 per kW per month.

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	$35.00 per month
Meter Reading	$ 0.30 per month
Billing	$ 0.30 per month

2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customers served under this rate schedule are responsible for acquiring their own generation and any other required competitively supplied services from an ESP. T he Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

ON-SITE GENERATION TERMS AND CONDITIONS

Customers served under this rate schedule who have on-site generation connected to the Company's electrical delivery grid shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

CONTRACT PERIOD

For service locations in:

a) Isolated Areas: Ten (10) years, or longer, at Company's option, with standard seven (7) year termination period.
b) Other Areas: Three (3) years, or longer, at Company's option.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule =10. These schedules have provisions that may affect customer's monthly bill.

Exhibit A
5/13/99
DA-GS11

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

A.C.C. No. XXXX
Tariff or Schedule No. DA-GS11
Original Tariff
Effective: XXX XX, 1999

DIRECT ACCESS
RALSTON PURINA

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable only to Ralston Purina (Site #863970289) when it receives electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. Service must be supplied as specified by individual customer contract and the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service).

This rate schedule is not applicable to resale service.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

TYPE OF SERVICE

Service shall be three phase, 60 Hertz, at 12.5 kV.

METERING REQUIREMENTS

Customer shall comply with the terms and conditions for hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
$/month	$2,430.00			
per kW		$2.58		$1.86
per kWh		$0.00732	$0.00115	

DETERMINATION OF KW

The kW used for billing purposes shall be the greater of:

1. The kW used for billing purposes shall be the average kW supplied during the 15-minute period (or other period as specified by individual customer's contract) of maximum use during the month, as determined from readings of the delivery meter.

2. The minimum kW specified in the agreement for service or individual customer contract.

B. MINIMUM

$2,430.00 per month plus $1.74 per kW per month.

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	$55.00 per month
Meter Reading	$ 0.30 per month
Billing	$ 0.30 per month

2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

(CONTINUED ON REVERSE SIDE)

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customer is responsible for acquiring its own generation and any other required competitively supplied services from an ESP. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

ON-SITE GENERATION TERMS AND CONDITIONS

If Customer has on-site generation connected to the Company's electrical delivery grid, it shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule #10. These schedules have provisions that may affect customer's monthly bill.

Exhibit A
5/13/99
DA-GS12

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

A.C.C. No. XXXX
Tariff or Schedule No. DA-GS12
Original Tariff
Effective: XXX XX, 1999

DIRECT ACCESS
BHP COPPER

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable only to BHP Copper (Site #774932285) when it receives electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. Service must be supplied as specified by individual customer contract and the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service).

This rate schedule is not applicable to resale service.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

TYPE OF SERVICE

Service shall be three phase, 60 Hertz, at 12.5 kV or higher.

METERING REQUIREMENTS

Customer shall comply with the terms and conditions for hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

	Basic Delivery Service	Distribution at Primary Voltage	Distribution at Transmission Voltage	System Benefits	Competitive Transition Charge
$/month	$2,430.00				
per kW		$2.35	$1.22		$1.54
per kWh		$0.00665	$0.00346	$0.00115	

PRIMARY AND TRANSMISSION LEVEL SERVICE:

Pursuant to A.A.C. R14-2-1612.K.11, the Company shall retain ownership of Current Transformers (CT's) and Potential Transformers (PT's) for those customers taking service at voltage levels of more than 25 kV. For customers whose metering services are provided by an ESP, a monthly facilities charge will be billed, in addition to all other applicable charges shown above, as determined in the service contract based upon the Company's cost of CT and PT ownership, maintenance and operation.

DETERMINATION OF KW

The kW used for billing purposes shall be the greater of:

1. The kW used for billing purposes shall be the average kW supplied during the 30-minute period (or other period as specified by individual customer's contract) of maximum use during the month, as determined from readings of the delivery meter.

2. The minimum kW specified in the agreement for service or individual customer contract.

B. MINIMUM

$2,430.00 per month plus $1.74 per kW per month.

(CONTINUED ON REVERSE SIDE)

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	$55.00 per month
Meter Reading	$ 0.30 per month
Billing	$ 0.30 per month

2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customer is responsible for acquiring its own generation and any other required competitively supplied services from an ESP. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

ON-SITE GENERATION TERMS AND CONDITIONS

If Customer has on-site generation connected to the Company's electrical delivery grid, it shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule #10. These schedules have provisions that may affect customer's monthly bill.

Exhibit A
5/13/99
DA-GS13

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

A.C.C. No. XXXX
Tariff or Schedule No. DA-GS13
Original Tariff
Effective: XXX XX, 1999

DIRECT ACCESS
CYPRUS BAGDAD

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable only to Cyprus Bagdad (Site #120932284) when it receives electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. Service must be supplied as specified by individual customer contract and the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service).

This rate schedule is not applicable to resale service.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

TYPE OF SERVICE

Service shall be three phase, 60 Hertz, at 115 kV or higher.

METERING REQUIREMENTS

Customer shall comply with the terms and conditions for hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
$/month	$2,430.00			
per kW		$1.05		$1.34
per kWh		$0.00298	$0.00115	

PRIMARY AND TRANSMISSION LEVEL SERVICE:

Pursuant to A.A.C. R14-2-1612.K.11, the Company shall retain ownership of Current Transformers (CT's) and Potential Transformers (PT's) for those customers taking service at voltage levels of more than 25 kV. For customers whose metering services are provided by an ESP, a monthly facilities charge will be billed, in addition to all other applicable charges shown above, as determined in the service contract based upon the Company's cost of CT and PT ownership, maintenance and operation.

DETERMINATION OF KW

The kW used for billing purposes shall be the greater of:

1. The kW used for billing purposes shall be the average kW supplied during the 30-minute period (or other period as specified by individual customer's contract) of maximum use during the month, as determined from readings of the delivery meter.

2. The minimum kW specified in the agreement for service or individual customer contract.

B. MINIMUM

$2,430.00 per month plus $1.74 per kW per month, until June 30, 2004 when this minimum will no longer be applicable.

(CONTINUED ON REVERSE SIDE)

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	$55.00 per month
Meter Reading	$ 0.30 per month
Billing	$ 0.30 per month

2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customer is responsible for acquiring its own generation and any other required competitively supplied services from an ESP. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

ON-SITE GENERATION TERMS AND CONDITIONS

If Customer has on-site generation connected to the Company's electrical delivery grid, it shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule #10. These schedules have provisions that may affect customer's monthly bill.

ARIZONA PUBLIC SERVICE COMPANY

Exhibit A
3/10/99
Schedule A

Competitive Transition Charges
By Direct Access Rate Classes

Line #	Direct Access Rate Class	Competition Transition Charges Effective January 1 of					
		1999	2000	2001	2002	2003	2004
1	Residential, DA-R1 (per kWh)	$ 0.0093	$ 0.0084	$ 0.0063	$ 0.0056	$ 0.0050	$ 0.0036
2	Under 3 mW, DA-GS1, (per kW/mo.)	$ 2.43	$ 2.20	$ 1.66	$ 1.46	$ 1.30	$ 0.94
3	3 mW and Above, DA-GS10 (per kW/mo.)	$ 2.82	$ 2.55	$ 1.89	$ 1.72	$ 1.51	$ 1.09
4	BHP Copper (per kW/mo.)	$ 1.54	$ 1.53	$ 1.06	$ 0.95	$ 0.83	$ 0.61
5	Cyprus Copper (per kW/mo.)	$ 1.34	$ 1.46	$ 1.05	$ 0.94	$ 0.82	$ 0.61
6	Ralston Purina (per kW/mo.)	$ 1.86	$ 1.98	$ 1.50	$ 1.34	$ 1.18	$ 0.87
7	Average Retail (per kWh)	$ 0.0067	$ 0.0061	$ 0.0054	$ 0.0048	$ 0.0043	$ 0.0031

Charges are based upon recovery of $350 million NPV derived from APS' Compliance Filing of 8/21/98 as adjusted to synchronize Direct Access and Standard Offer revenue decreases.

ARIZONA PUBLIC SERVICE COMPANY

Exhibit A
5/13/99
Schedule B

Distribution Charges
By Direct Access Rate Classes

Line #	Direct Access Rate Class	Distribution Charges Effective January 1 of 1999	2000	2001	2002	2003	2004[1]
	Residential, DA-R1						
1	Summer per kWh	$ 0.04158	$ 0.04041	$ 0.03934	$ 0.03837	$ 0.03748	$ 0.03689
2	Winter per kWh	$ 0.03518	$ 0.03419	$ 0.03329	$ 0.03247	$ 0.03172	$ 0.03122
	DA-GS1 (Under 3 mW)						
	Summer Rates						
3	per kW for all kW over 5	$ 0.721	$ 0.691	$ 0.663	$ 0.638	$ 0.615	$ 0.600
4	per kWh for the first 2,500 kWh	$ 0.04255	$ 0.04075	$ 0.03912	$ 0.03763	$ 0.03627	$ 0.03537
5	per kWh for the next 100 kWh per kW over 5	$ 0.04255	$ 0.04075	$ 0.03912	$ 0.03763	$ 0.03627	$ 0.03537
6	per kWh for the next 42,000 kWh	$ 0.02901	$ 0.02779	$ 0.02667	$ 0.02565	$ 0.02473	$ 0.02411
7	per kWh for all additional kWh	$ 0.01811	$ 0.01735	$ 0.01665	$ 0.01602	$ 0.01544	$ 0.01506
	Winter Rates						
8	per kW for all kW over 5	$ 0.652	$ 0.624	$ 0.599	$ 0.576	$ 0.555	$ 0.541
9	per kWh for the first 2,500 kWh	$ 0.03827	$ 0.03666	$ 0.03519	$ 0.03385	$ 0.03263	$ 0.03182
10	per kWh for the next 100 kWh per kW over 5	$ 0.03827	$ 0.03666	$ 0.03519	$ 0.03385	$ 0.03263	$ 0.03182
11	per kWh for the next 42,000 kWh	$ 0.02600	$ 0.02490	$ 0.02390	$ 0.02299	$ 0.02216	$ 0.02161
12	per kWh for all additional kWh	$ 0.01614	$ 0.01546	$ 0.01484	$ 0.01427	$ 0.01376	$ 0.01342
	Voltage Discounts						
13	Primary Voltage	11.6%	12.1%	12.6%	13.1%	13.6%	13.9%
14	Transmission Voltage	52.6%	54.9%	57.2%	59.5%	61.7%	63.3%
	DA-GS10 (3 mW and Above)						
15	per kW	$ 3.53	$ 3.33	$ 3.15	$ 2.98	$ 2.83	$ 2.73
16	per kWh	$ 0.00999	$ 0.00943	$ 0.00892	$ 0.00845	$ 0.00802	$ 0.00774
	Voltage Discounts						
17	Primary Voltage Discount	4.8%	5.1%	5.3%	5.6%	5.9%	6.2%
18	Transmission Voltage Discount	36.7%	38.9%	41.1%	43.4%	45.8%	47.4%
	DA-GS11 (Ralston Purina)						
19	per kW	$ 2.58	$ 2.71	$ 2.57	$ 2.44	$ 2.32	$ 2.25
20	per kWh	$ 0.00732	$ 0.00767	$ 0.00727	$ 0.00691	$ 0.00657	$ 0.00635
	DA-GS12 (BHP Copper)						
21	Primary Voltage Delivery - per kW	$ 2.35	$ 2.30	$ 2.16	$ 2.07	$ 1.99	$ 1.93
22	per kWh	$ 0.00665	$ 0.00651	$ 0.00611	$ 0.00585	$ 0.00561	$ 0.00546
23	Transmission Voltage Delivery - per kW	$ 1.22	$ 1.17	$ 1.03	$ 0.94	$ 0.85	$ 0.80
24	per kWh	$ 0.00346	$ 0.00332	$ 0.00292	$ 0.00266	$ 0.00242	$ 0.00227
	DA-GS13 (Cyprus Bagdad)						
25	per kW	$ 1.05	$ 1.21	$ 1.03	$ 0.94	$ 0.85	$ 0.80
26	per kWh	$ 0.00297	$ 0.00343	$ 0.00292	$ 0.00266	$ 0.00242	$ 0.00227

[1] Transmission voltage customers will not pay Distribution Charges after June 30, 2004

Exhibit A
5/14/99
Schedule C

ARIZONA PUBLIC SERVICE COMPANY

Regulatory Asset Amortization Schedule
(Millions of Dollars)

1999	2000	2001	2002	2003	1/1 - 6/30 2004 [1/]	Total [2/]
164	158	145	115	86	18	686

[1/] Amortization ends 6/30/2004

[2/] Includes the disallowance from Section 3.3

5/10/99

Exhibit B

Annual ACC Jurisdictional Sales of Delivered kWh or kW[1]	x	% then Eligible for Access	x	Applicable CTC (¢/kWh or $/kW[2]) =	Annual Recovery[3]
1999	Residential	20		.93	
	General Service less than 3MW	20		2.43	
	General Service greater than 3MW	20		2.82	
	BHP Copper	20		1.54	
	Cyprus Copper	20		1.34	
	Ralston Purina	20		1.86	
2000	Residential	20		.84	
	General Service less than 3MW	20		2.20	
	General Service greater than 3MW	20		2.55	
	BHP Copper	20		1.53	
	Cyprus Copper	20		1.46	
	Ralston Purina	20		1.98	
2001	Residential	100		.63	
	General Service less than 3MW	100		1.66	
	General Service greater than 3MW	100		1.89	
	BHP Copper	100		1.06	
	Cyprus Copper	100		1.05	
	Ralston Purina	100		1.50	
2002	Residential	100		.56	
	General Service less than 3MW	100		1.46	
	General Service greater than 3MW	100		1.72	
	BHP Copper	100		.95	
	Cyprus Copper	100		.94	
	Ralston Purina	100		1.34	
2003	Residential	100		.50	
	General Service less than 3MW	100		1.30	
	General Service greater than 3MW	100		1.51	
	BHP Copper	100		.83	
	Cyprus Copper	100		.82	
	Ralston Purina	100		1.18	
2004	Residential	100		.36	
	General Service less than 3MW	100		.94	
	General Service greater than 3MW	100		1.09	
	BHP Copper	100		.61	
	Cyprus Copper	100		.61	
	Ralston Purina	100		.87	

[1] This formula assumes no change in APS' distribution service territory. In the event of any material change (e.g. by purchase, sale, expansion, condemnation, etc.) the formula will be adjusted such that APS receives the same opportunity to recover the agreed upon level of costs.

[2] General Service unmetered loads will have a demand calculated for CTC purposes based on contract energy.

[3] At the end of 2004 the net present value will be calculated to compare to the $350 million.

EXHIBIT C

Generation assets include, but are not limited to, APS' interest in the following generating stations:

Palo Verde
Four Corners
Navajo
Cholla
Saguaro
Ocotillo
West Phoenix
Yucca
Douglas
Childs
Irving

including allocated common and general plant, support assets, associated land, fuel supplies and contracts, etc. Generation assets will not include facilities included in APS' FERC transmission rates.

EXHIBIT D
Affiliate Rules Waivers

R14-2-801(5) and R14-2-803, such that the term "reorganization" does not include, and no Commission approval is required for, corporate restructuring that does not directly involve the utility distribution company ("UDC") in the holding company. For example, the holding company may reorganize, form, buy or sell non-UDC affiliates, acquire or divest interests in non-UDC affiliates, etc., without Commission approval.

R14-2-804(A)

R14-2-805(A) shall apply only to the UDC

R14-2-805(A)(2)

R14-2-805(A)(6)

R14-2-805(A)(9), (10), and (11)

Recision of Prior Commission Orders

Section X.C of the "Cogeneration and Small Power Production Policy" attached to Decision No. 52345 (July 27, 1981) regarding reporting requirements for cogeneration information.

Decision No. 55118 (July 24, 1986) - Page 15, Lines 5-1/2 through 13-1/2; Finding of Fact No. 24 relating to reporting requirements under the abolished PPFAC.

Decision No. 55818 (December 14, 1987) in its entirety. This decision related to APS Schedule 9 (Industrial Development Rate) which was terminated by the Commission in Decision No. 59329 (October 11, 1995).

9th and 10th Ordering Paragraphs of Decision No. 56450 (April 13, 1989) regarding reporting requirements under the abolished PPFAC.

BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission
DOCKETED
OCT 06 1999
DOCKETED BY

CARL J. KUNASEK
CHAIRMAN
JIM IRVIN
COMMISSIONER
WILLIAM A. MUNDELL
COMMISSIONER

IN THE MATTER OF THE APPLICATION OF ARIZONA PUBLIC SERVICE COMPANY FOR APPROVAL OF ITS PLAN FOR STRANDED COST RECOVERY.	DOCKET NO. E-01345A-98-0473
IN THE MATTER OF THE FILING OF ARIZONA PUBLIC SERVICE COMPANY OF UNBUNDLED TARIFFS PURSUANT TO A.A.C. R14-2-1601 *ET SEQ.*	DOCKET NO. E-01345A-97-0773
IN THE MATTER OF COMPETITION IN THE PROVISION OF ELECTRIC SERVICES THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. RE-00000C-94-0165 DECISION NO. 61973

OPINION AND ORDER

DATES OF HEARING: July 12, 1999 (pre-hearing conference), July 14, 15, 16, 19, 20, and 21, 1999

PLACE OF HEARING: Phoenix, Arizona

PRESIDING OFFICER: Jerry L. Rudibaugh

IN ATTENDANCE: Carl J. Kunasek, Chairman
Jim Irvin, Commissioner

APPEARANCES: Mr. Steven M. Wheeler, Mr. Thomas Mumaw and Mr. Jeffrey B. Guldner, SNELL & WILMER, LLP, on behalf of Arizona Public Service Company;

Mr. C. Webb Crockett and Mr. Jay Shapiro, FENNEMORE CRAIG, on behalf of Cyprus Climax Metals, Co., ASARCO, Inc., and Arizonans for Electric Choice & Competition;

Mr. Scott S. Wakefield, Chief Counsel, and Ms. Karen Nally on behalf of the Residential Utility Consumer Office;

Ms. Betty Pruitt on behalf of the Arizona Community Action Association;

Mr. Timothy Hogan on behalf of the Arizona Consumers Council;

Mr. Robert S. Lynch on behalf of the Arizona Transmission Dependent Utility Group;

Mr. Walter W. Meek on behalf of the Arizona Utility Investors Association;

Mr. Douglas C. Nelson, DOUGLAS C. NELSON, P.C., on behalf of Commonwealth Energy Corporation;

Mr. Lawrence V. Robertson, Jr., MUNGER & CHADWICK, and Ms. Leslie Lawner, Director Government Affairs on behalf of Enron Corporation, and Mr. Robertson on behalf of PG&E Energy Services;

Mr. Lex J. Smith, BROWN & BAIN, P.A., on behalf of Illinova Energy Partners and Sempra Energy Trading;

Mr. Randall H. Warner, ROSHKA, HEYMAN & DeWULF, P.L.C., on behalf of NEV Southwest;

Mr. Norman Furuta on behalf of the Department of the Navy;

Mr. Bradley S. Carroll on behalf of Tucson Electric Power Company; and

Mr. Christopher C. Kempley, Assistant Chief Counsel and Ms. Janet F. Wagner, Staff Attorney, Legal Division on behalf of the Utilities Division of the Arizona Corporation Commission.

BY THE COMMISSION:

On December 26, 1996, the Arizona Corporation Commission ("Commission") in Decision No. 59943 enacted A.A.C. R14-2-1601 through R14-2-1616 ("Rules" or "Electric Competition Rules").

On June 22, 1998, the Commission issued Decision No. 60977, the Stranded Cost Order which required each Affected Utility to file a plan for stranded cost recovery.

On August 10, 1998, the Commission issued Decision No. 61071 which made modifications to the Rules on an emergency basis.

On August 21, 1998, Arizona Public Service Company ("APS") filed its Stranded Costs plan.

On November 5, 1998, APS filed a Settlement Proposal that had been entered into with the Commission's Utilities Division Staff ("Staff Settlement Proposal"). Our November 24, 1998 Procedural Order set the matter for hearing. On November 25, 1998, the Commission issued

Decision No. 61259 which established an expedited procedural schedule for evidentiary hearings on the Staff Settlement Proposal.

On November 30, 1998, the Arizona Attorney General's Office, in association with numerous other parties, filed a Verified Petition for Special Action and Writ of Mandamus with the Arizona Supreme Court ("Court") regarding the Commission's November 25, 1998 Procedural Order, Decision No. 61259. The Attorney General sought a Stay of the Commission's consideration of the Staff Settlement Proposal with APS and Tucson Electric Power Company ("TEP").

On December 1, 1998, Vice Chief Justice Charles J. Jones granted a Motion for Immediate Stay of the Procedural Order. On December 9, 1998, the Commission Staff filed a notice with the Supreme Court that the Staff Settlement Proposal had been withdrawn from Commission consideration.

On April 27, 1999, the Commission issued Decision No. 61677, which modified Decision No. 60977. On May 17, 1999, APS filed with the Commission a Notice of Filing, Application for Approval of Settlement Agreement ("Settlement" or "Agreement") [1] and Request for Procedural Order.

Our May 25, 1999 Procedural Order set the matter for hearing commencing on July 14, 1999.

This matter came before a duly authorized Hearing Officer of the Commission at its offices in Phoenix, Arizona. APS, Cyprus Climax Metals, Co., ASARCO, Inc., Arizonans for Electric Choice & Competition ("AECC"), Residential Utility Consumer Office ("RUCO"), the Arizona Community Action Association ("ACAA"), the Arizona Consumers Council, the Arizona Transmission Dependent Utility Group, the Arizona Utility Investors Association, Enron Corporation, PG&E Energy Services, Illinova Energy Partners, Sempra Energy Trading, NEV Southwest, the Department of the Navy, Tucson Electric Power Company, Commonwealth Energy Corporation

[1] The Parties to the Proposed Settlement are as follows: the Residential Utility Consumer Office, Arizona Public Service Company, Arizona Community Action Association and the Arizonans for Electric Choice and Competition which is a coalition of companies and associations in support of competition that includes Cable Systems International, BHP Copper, Motorola, Chemical Lime, Intel, Honeywell, Allied Signal, Cyprus Climax Metals, Asarco, Phelps Dodge, Homebuilders of Central Arizona, Arizona Mining Industry Gets Our Support, Arizona Food Marketing Alliance, Arizona Association of Industries, Arizona Multi-housing Association, Arizona Rock Products Association, Arizona Restaurant Association, Arizona Retailers Association, Boeing, Arizona School Board Association, National Federation of Independent Business, Arizona Hospital Association, Lockheed Martin, Abbot Labs and Raytheon.

("Commonwealth") and Staff of the Commission appeared through counsel. Evidence was presented concerning the Settlement Agreement, and after a full public hearing, this matter was adjourned pending submission of a Recommended Opinion and Order by the Presiding Officer to the Commission. In addition, a post-hearing briefing schedule was established with simultaneous briefs filed on August 5, 1999.

DISCUSSION

Introduction

The Settlement provides for rate reductions for residential and business customers; sets the amount, method, and recovery period of stranded costs that APS can collect in customer charges; establishes unbundled rates; and provides that APS will separate its generating facilities, which will operate in the competitive market, from its distribution system, which will continue to be regulated.

According to APS, the Settlement was the product of months of hard negotiations with various customer groups. APS opined that the Settlement provides many clear benefits to customers, potential competitors, as well as to APS. Some of those benefits as listed by APS are as follows:

- Allowing competition to commence in APS' service territory months before otherwise possible and expanding the initial eligible load by 140 MW;
- Establishing both Standard Offer and Direct Access rates, and providing for annual rate reductions with a cumulative total of as much as $475 million by 2004;
- Ensuring stability and certainty for both bundled and unbundled rates;
- Resolving the issue of APS' stranded costs and regulatory asset recovery in a fair and equitable manner;
- Providing for the divestiture of generation and competitive services by APS in a cost-effective manner;
- Removing the specter of years of litigation and appeals involving APS and Commission over competition-related issues;
- Continuing support for a regional ISO and the AISA;
- Continuing support for low income programs; and
- Requiring APS to file an interim code of conduct to address affiliate relationships.

The Settlement was entered into by RUCO and the ACAA reflecting Agreement by residential customers of APS to the Settlement's terms and conditions. In addition, the Settlement was executed by the AECC, a coalition of commercial and industrial customers and trade associations. AECC opined that since residential and non-residential customers have agreed to the Settlement, the "public interest" has been served. AECC indicated the Settlement was not perfect but was the result of "give and take" by each of the parties. Accordingly, AECC urged the Commission to protect the "public interest" by approving the Settlement and not allow Energy Service Providers ("ESPs") to delay the benefits that competition has to offer.

Legal Issues:

The Arizona Consumers Council ("Consumers Council") opined that the Agreement was not legal because: (1) there was no full rate proceeding[2]; (2) Section 2.8 of the Agreement violates A.R.S. Section 40-246, regarding Commission initiated rate reductions; and (3) the Agreement illegally binds future Commissions. According to the Consumers Council, the Commission does not have evidence to support a finding that the rates proposed in the Agreement are just and reasonable; that the rate base proposed is proper; and asserted the proposed adjustment clause can not be established outside a general rate case.

Staff argued that the Commission in Decision No. 59601, dated April 26, 1996, has previously determined just and reasonable rates for APS which must be charged until changed in a rate proceeding. According to Staff, this case is not about changing existing rates, but instead involves the introduction of a new service - direct access. The direct access rates have been designed to replicate the revenue flow from existing rates. Staff opined that the Commission has routinely, and lawfully, approved rates for new services outside of a rate case. Further, Staff asserted that the rates proposed in the Settlement are directly related to a complete financial review. Staff indicated that the Consumers Council has provided no contrary information and should not be allowed to collaterally attack Decision No. 59601.

APS argued that no determination of fair value rate base ("FVRB"), fair value rate of return

[2] Although the Consumers Council indicated they did not believe a full rate proceeding was necessary, it is unclear as to the type of proceeding the Consumers Council believed was necessary.

("FVROR"), or other financial analysis is legally necessary to justify current APS rate levels, allow the introduction of a new service, or to evaluate a series of voluntary rate decreases. In spite of that, APS did provide information to support a FVRB of $5,195,675,000 and FVROR of 6.63 percent. No other party presented evidence in support of a FVRB or FVROR. Staff supported APS.

We concur with Staff and APS. The Consumers Council has provided no legal authority that a full rate proceeding is necessary in order to adopt a rate reduction or rates for new services. Further, pursuant to the Arizona Constitution, the Commission has jurisdiction over ratemaking matters. We also find that notice of the application and hearing was provided and that APS has provided sufficient financial information to support a finding of FVRB and FVROR. Lastly, this Commission can clearly bind future Commissions as a result of its Decision. However, as later discussed, we agree there are limitations to such legal authority.

Shopping Credit

One of the most contentious issues in the hearing was the level of the "shopping credit." The "shopping credit" is the difference between the customer's Standard Offer Rate and the Direct Access Rate available to customers who take service from ESPs. The ESPs generally argued that the Settlement's "shopping credits" were not sufficient to allow a new entrant to make a profit. AECC opined that such an argument was nothing more than a request to increase ESP's profits.

Staff opined that the "shopping credit" was too low and recommended it be increased without impacting the stranded cost recovery amount of $350 million. Under Staff's proposal, the increased "shopping credit" would be offset by reducing the competitive transition charge ("CTCs"). Further, Staff recommended that any stranded costs not collected could simply be deferred and collected after 2004.

The AECC expert testified that the "shopping credit" under the Agreement was superior to the "Shopping Credit" in the Staff Settlement Proposal as well as the one offered to SRP's customers. APS argued that artificially high shopping credits will likely increase ESP profits without lowering customer rates and will encourage inefficient firms to enter the market. Based on the analysis of the

40kW to 200 kW customer group[3], APS showed an average margin on the "shopping credit" of over 8 mils per kWh or a 23 percent markup over cost. APS asserted that the test for a reasonable "shopping credit" "should not be whether all ESPs can profit on all APS customers all of the time".

Based on the evidence presented, the "shopping credits" appear to be reasonable to allow ESPs to compete in an efficient manner. Further, we do not find customer rates should be increased simply to have higher "shopping credits".

Metering and Billing Credits

The metering and billing credits resulting from the Agreement are based on decremental costs. Several of the ESPs and Staff argued that these credits should be based upon embedded costs and not decremental costs. APS responded that such a result could cause them to lose revenues since its costs would only go down by the decremental amounts. Staff testified that the Company would not lose significant income if it used embedded costs since it would free up resources to service new customers.

We concur. The proposed credits for metering, meter reading and billing[4] will result in a direct access customer paying a portion of APS costs as well as a portion of the ESP's costs. We believe this would stymie the competitive market for these services. As a result, we find the approval of the Settlement should be conditioned upon the use of Staff's proposed credits for metering, meter reading, and billing.

Proposed One-Year Advance Notice Requirement:

Section 2.3 provides that

> "Customers greater than 3MW who chose a direct access supplier must give APS one year's advance notice before being eligible to return to Standard Offer service." [emphasis added]

Several parties expressed concerns that the one-year notice requirement to return to Standard Offer service would create a deterrent to load switching by large industrial, institutional and commercial customers. PG&E proposed that any increased cost could be charged directly to the

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[3] Represents over 80 percent of the general service customers for competitive access in phase one.

[4] For example, the monthly credits for a direct access residential customers are $1.30, $0.30, and $0.30 for metering, meter reading and billing, respectively.

customer as a condition to its return.

We agree that APS needs to have some protection from customers leaving the system when market prices are low and jumping back on Standard Offer rates when market prices go up. The suggestion by PG&E that the customer be allowed to go back to the Standard Offer if the customer pays for additional costs it has caused is a reasonable resolution. Accordingly, we will order APS to submit substitute language on this issue.

Section 2.8

Several of the parties expressed concern that Section 2.8 of the Agreement allows APS to seek rate increases under specified conditions. Additionally, as previously discussed, the Consumers Council opined that Section 2.8 violated A.R.S. Section 40-246. Staff recommended the Commission condition approval of the Agreement on Section 2.8 being amended to include language that the Commission or Staff may commence rate change proceedings under conditions paralleling those provided to the utility, including response to petitions submitted under A.R.S. § 40-246.

We agree that Section 2.8 is too restrictive on the Commission's future action. Accordingly, we will condition approval of the Agreement on inclusion of the following language in Section 2.8:

> Neither the Commission nor APS shall be prevented from seeking or authorizing a change in unbundled or Standard Offer rates prior to July 1, 2004, in the event of (a) conditions or circumstances which constitute an emergency, such as an inability to finance on reasonable terms, or (b) material changes in APS' cost of service for Commission-regulated services resulting from federal, tribal, state or local laws, regulatory requirements, judicial decisions, actions or orders. Except for the changes otherwise specifically contemplated by this Agreement, unbundled and Standard Offer rates shall remain unchanged until at least July 1, 2004.

Section 7.1

The Consumers Council opined that there was language in the Agreement which would illegally bind future Commissions. While Staff disagreed with the legal opinion of the Consumers Council, Staff was concerned with some of the binding language in the Agreement and in particular with the following language in Section 7.1:

> 7.1. To the extent any provision of this Agreement is inconsistent with any existing or future Commission order, rule or regulation or is inconsistent with the Electric

> Competition Rules as now existing or as may be amended in the future, the provisions of this Agreement shall control and the approval of the Agreement by the Commission shall be deemed to constitute a Commission-approved variation or exemption to any conflicting provision of the Electric Competition Rules.

Staff recommended the Commission not approve Section 7.1.

We share Staff's concerns. We also recognize that the parties want to preserve their benefits to their Agreement. We agree with the parties that to the extent any provision of the Agreement is inconsistent with the Electric Competition Rules as finalized by the Commission in September 1999, the provisions of the Agreement shall control. We want to make it clear that the Commission does not intend to revisit the stranded cost portion of the Agreement. It is also not the Commission's intent to undermine the benefits that parties have bargained for. With that said, the Commission must be able to make rule changes/other future modifications that become necessary over time. As a result, we will direct the parties and Staff to file within 10 days, a revised Section 7.1 consistent with the Commission's discussions herein and subsequently approved by this Commission.

Generation Affiliate

Section 4.1 of the Agreement provides the following:

> 4.1 The Commission will approve the formation of an affiliate or affiliates of APS to acquire at book value the competitive services assets as currently required by the Electric Competition Rules. In order to facilitate the separation of such assets efficiently and at the lowest possible cost, the Commission shall grant APS a two-year extension of time until December 31, 2002, to accomplish such separation. A similar two-year extension shall be authorized for compliance with A.A.C. R14-2-1606(B).

Related to Section 4.1 is Section 2.6(3) which allows APS to defer costs of forming the generation affiliate, to be collected beginning July 1, 2004.

According to NEV Southwest, APS indicated that it intends to establish a generation affiliate under Pinnacle West, not under APS. Further, that APS intends to procure generation for standard offer customers from the wholesale generation market as provided for in the Electric Competition Rules. Additionally, it was NEV Southwest's understanding that the affiliate generation company could bid for the APS standard offer load under an affiliate FERC tariff, but there would be no automatic privilege outside of the market bid. NEV Southwest supports the aforementioned concepts and recommended they be explicitly stated in the Agreement.

We concur with NEV Southwest. We shall order APS to include language as requested by

NEV Southwest. Power for Standard Offer Service will be acquired in a manner consistent with the Commission's Electric Competition Rules. We generally support the request of APS to defer those costs related to formation of a new generation affiliate pursuant to the Electric Competition Rules. We also recognize the Company is making a business decision to transfer the generation assets to an affiliate instead of an unrelated third party. As a result, we find the Company's proposed mitigation of stranded costs[5] in the Settlement should also apply to the costs of forming the new generation affiliate. Accordingly, Section 2.6(3) should be modified to reflect that only 67 percent of those costs to transfer generation assets to an affiliate shall be allowed to be deferred for future collection.

Some parties were concerned that Sections 4.1 and 4.2 provide in effect that the Commission will have approved in advance any proposed financing arrangements associated with future transfers of "competitive services" assets to an affiliate. As a result, there was a recommendation that the Commission retain the right to review and approve or reject any proposed financing arrangements. In addition, some parties expressed concern that APS has not definitively described the assets it will retain and which it will transfer to an affiliate.

We share the concerns that the non-competitive portion of APS not subsidize the spun-off competitive assets through an unfair financial arrangement. We want to make it clear that the Commission will closely scrutinize the capital structure of APS at its 2004 rate case and make any necessary adjustments. The Commission supports and authorizes the transfer by APS to an affiliate or affiliates of all its generation and competitive electric service assets as set forth in the Agreement no later than December 31, 2002. However, we will require the Company to provide the Commission with a specific list of any assets to be so transferred, along with their net book values at the time of transfer, at least thirty days prior to the actual transfer. The Commission reserves the right to verify whether such specific assets are for the provision of generation and other competitive electric services or whether there are additional APS assets that should be so transferred.

Unbundled Rates

Several parties expressed concern that the Agreement's unbundled rates fail to provide the

[5] Agreement to not recover $183 million out of a claimed $533 million.

necessary information to determine whether a competitor's price is lower than the Standard Offer rate. Further, some of the parties asserted that APS has not performed a functional cost-of-service study and as a result the Settlement's "shopping credit" is an artificial division of costs. In response, APS indicated the Standard Offer rates can not be unbundled on a strict cost-of-service basis unless the Standard Offer rates are redesigned to equal cost-of-service. APS opined that such a process would result in significant rate increases for many customers.

AECC asserted that a full rate case would result in additional months/years of delay with continued drain of resources by all interested entities.

The ESPs asserted that the bill format proposed by APS is misleading and too complex. In general, the ESPs desired a bill format that would allow customers to easily compare Standard Offer and Direct Access charges in order to make an informed decision. As a result, APS was directed to circulate an Informational Unbundled Standard Offer Bill ("Bill") to the parties for comments. Subsequent to the hearing, a Bill was circulated to the parties for comments to determine what consensus could be reached on its format. In general, there was little dispute with the format of the Bill. However, PG&E and Commonwealth disagreed with the underlying cost allocation methodologies. Enron was concerned that the Bill portrayed the Standard Offer to be more simplistic than the Direct Access portion of the Bill. Enron proposed a bill format that would clearly identify those services which are available from an ESP. Based on comments from RUCO and Staff, APS made general revisions to the proposed Bill.

We find the APS Attachment AP-1R, second revised dated 8/16/99 provides sufficient information in a concise manner to enable customers to make an informed choice. (See Attachment No. 2 herein). However, we find the Enron breakdown into a Part 1 versus Parts 2 and 3 will further help educate customers as to choice. We will direct APS to further revise its Bill to have a Part 1 as set forth by the Enron breakdown. We believe Parts 2 and 3 can be combined for simplicity.

We concur with APS that it is not necessary to file a revised cost-of-service study at this time. The proposed Standard Offer rates contained in the Settlement are based on existing tariffs approved by this Commission. Further, we concur with AECC that a full rate case with a revised cost-of-service study would result in months/years of additional delay. Lastly, the Standard Offer rates as

proposed in the Settlement are consistent with the Commission's requirement that no customer shall receive a rate increase. The following was extracted from Decision No. 61677:

> "No customer or customer class shall receive a rate increase as a result of stranded cost recovery by an Affected Utility under any of these options."

Code of Conduct

There were concerns expressed that APS would be writing its own Code of Conduct. Subsequently, APS did provide a copy of its proposed Code of Conduct to the parties for comment. Several parties also expressed concern that any Code of Conduct would not cover the actions of a single company during the two-year delay for transferring generation assets.

Based on the above, we will direct APS to file with the Commission no later than 30 days of the date of this Decision, its interim Code of Conduct. We will direct APS to file its revised Code of Conduct within 30 days of the date of this Decision. Such Code of Conduct should also include provisions to govern the supply of generation during the two-year period of delay for the transfer of generation assets so that APS doesn't give itself an undue advantage over the ESPs. All parties shall have 60 days from the date of this Decision to provide their comments to APS regarding the revised Code of Conduct. APS shall file its final proposed Code of Conduct within 90 days of the date of this Decision. Subsequently, within 10 days of filing the Code of Conduct, the Hearing Division shall establish a procedural schedule to hear the matter.

Section 2.6(1)

Pursuant to the Agreement, the Commission shall approve an adjustment clause or clauses which among other things would provide for a purchased power adjustor ("PPA") for service after July 1, 2004 for Standard Offer obligations. Part of the justification for the PPA was the fact that these costs would be outside of the Company's control.

We concur that a PPA would result in less risk to the Company resulting in lower costs for the Standard Offer customers. As a result, we will approve the concept of the PPA as set forth in Section 2.6(1) with the understanding that the Commission can eliminate the PPA once the Commission has provided reasonable notice to the Company.

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Requested Waivers

Section 4.3 of the Agreement would automatically act to exempt APS and its affiliates from the application of a wide range of provisions under A.R.S. Title 40. In addition, under Section 4.5 of the Agreement, Commission approval without modification will act to grant certain waivers to APS and its affiliates of a variety of the provisions of the Commission's affiliate interest rules (A.A.C. R14-2-801, *et seq.*), and the rescission of all or portions of certain prior Commission decisions.

Staff recommended that the Commission reserve its approval of the requested statute waivers until such time as their applicability can be evaluated on an industry-wide basis, rather than providing a blanket exemption for APS and its affiliates. Additionally, Staff recommended that the Commission not waive the applicability of A.A.C. R14-2-804(A), in order to preserve the regulatory authority needed by the Commission to justify approving Exempt Wholesale Generator ("EWG") status for APS' generation affiliate.

We concur with Staff. Accordingly, the requested statutory waivers shall not be granted by this Decision. Those waivers will be considered in an industry-wide proceeding to be scheduled at the Commission's earliest convenience. The requested waivers of affiliate interest rules and rescission of prior Commission decisions shall be granted, except that the provisions of A.A.C. R14-2-804(A) shall not be waived.

ANALYSIS/SUMMARY

Consistent with our determination in Decision No. 60977, the following primary objectives need to be taken into consideration in deciding the overall stranded cost issue:

A. Provide the Affected Utilities a reasonable opportunity to collect 100 percent of their unmitigated stranded costs;

B. Provide incentives for the Affected Utilities to maximize their mitigation effort;

C. Accelerate the collection of stranded costs into as short of a transition period as possible consistent with other objectives;

D. Minimize the stranded cost impact on customers remaining on the standard offer;

E. Don't confuse customers as to the bottom line; and

F. Have full generation competition as soon as possible.

The Commission also recognized in Decision No. 60977 that the aforementioned objectives were in conflict. Part of that conflict is reflected in the following language extracted from Decision No. 60977:

> One of the main concerns expressed over and over by various consumer groups was that the small consumers would end up with higher costs during the transition phase and all the benefits would flow to the larger users. At the time of the hearing, there had been minimal participation in California by residential customers in the competitive electric market place. It is not the Commission's intent to have small consumers pay higher short-term costs in order to provide lower costs for the larger consumers. Accordingly, we will place limitations on stranded cost recovery that will minimize the impact on the standard offer.

Decision No. 61677 modified Decision No. 60977 and allowed each Affected Utility to chose from five options.

With the modifications contained herein, we find the overall Settlement satisfies the objectives set forth in Decision Nos. 60977 and 61677. We believe the Settlement will result in an orderly process that will have real rate reductions[6] during the transition period to a competitive generation market. The Settlement allows every APS customer to have the immediate opportunity to benefit from the change in market structure while maintaining reliability and certainty of delivery. Further, the Settlement in conjunction with the Electric Rules will provide every APS customer with a choice in a reasonable timeframe and in an orderly manner. If anything, the Proposed Settlement favors customers over competitors in the short run since APS has agreed to reductions in rates totaling 7.5 percent[7]. This Commission supports competition in the generation market because of increased benefits to customers, including lower rates and greater choice. While some of the potential competitors have argued that higher "shopping credits" will result in greater choice, we find that a higher shopping credit would also mean less of a rate reduction for APS customers. We find that the Settlement strikes the proper balance between competing objectives by allowing immediate

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[6] There have been instances in other states where customers were told they would receive rate decreases which were then offset by a stranded cost add-on.

[7] Pursuant to Decision No. 59601, dated April 24, 1996, 0.68 percent of that decrease would have occurred on July 1, 1999.

rate reductions while maintaining a relatively short transition period for collection of stranded costs, followed shortly thereafter with a full rate case. At that point in time the collection of stranded costs will be completed and unbundled rates can be modified based upon an updated cost study.

* * * * * * * * * *

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

1. APS is certificated to provide electric service as a public service corporation in the State of Arizona.

2. Decision No. 59943 enacted R14-2-1601 through –1616, the Retail Electric Competition Rules.

3. Following a hearing on generic issues related to stranded costs, the Commission issued Decision No. 60977, dated June 22, 1998.

4. Decision No. 61071 adopted the Emergency Rules on a permanent basis.

5. On August 21, 1998, APS filed its Stranded Costs plan.

6. On November 5, 1998, APS filed the Staff Settlement Proposal.

7. Our November 24, 1998 Procedural Order set the matter for hearing.

8. Decision No. 61259 established an expedited procedural schedule for evidentiary hearings on the Staff Settlement Proposal.

9. The Court issued a Stay of the Commission's consideration of the Staff Settlement Proposal.

10. Staff withdrew the Staff Settlement Proposal from Commission consideration.

11. On May 17, 1999, APS filed its Settlement requesting Commission approval.

12. Our May 25, 1999 Procedural Order set the Settlement for hearing commencing on July 14, 1999.

13. Decision No. 61311 (January 11, 1999) stayed the effectiveness of the Emergency Rules and related Decisions, and ordered the Hearing Division to conduct further proceedings in this Docket.

14. In Decision No. 61634 (April 23, 1999), the Commission adopted modifications to R14-2-201 through-207, -210 and 212 and R14-2-1601 through –1617.

15. Pursuant to Decision No. 61677, dated April 27, 1999, the Commission modified Decision No. 60977 whereby each Affected Utility could choose one of the following options: (a) Net Revenues Lost Methodology; (b) Divestiture/Auction Methodology; (c) Financial Integrity Methodology; (d) Settlement Methodology; and (e) the Alternative Methodology.

16. APS and other Affected Utilities filed with the Arizona Superior Court various appeals of Commission Orders adopting the Competition Rules and related Stranded Cost Decisions (the "Outstanding Litigation").

17. Pursuant to Decision No. 61677, APS, RUCO, AECC, and ACAA entered into the Settlement to resolve numerous issues, including stranded costs and unbundled tariffs.

18. The difference between market based prices and the cost of regulated power has been generally referred to as stranded costs.

19. Any stranded cost recovery methodology must balance the interests of the Affected Utilities, ratepayers, and the move toward competition.

20. All current and future customers of the Affected Utilities should pay their fair share of stranded costs.

21. Pursuant to the terms of the Settlement Agreement, APS has agreed to the modification of its CC&N in order to implement competitive retail access in its Service Territory.

22. The Settlement Agreement provides for competitive retail access in APS' Service Territory, establishes rate reductions for all APS customers, sets a mechanism for stranded cost recovery, resolves contentious litigation, and therefore, is in the public interest and should be approved.

23. The information and formula for rate reductions contained in Exhibit AP-3 Appended to APS Exhibit No. 2 provides current financial support for the proposed rates.

24. RUCO, ACAA, and AECC collectively, represent residential and non-residential customers.

25. According to AECC, the Agreement results in higher shopping credits than in the Staff

Settlement Proposal as well as those offered by SRP.

26. The decremental approach for metering and billing will not provide sufficient credits for competitors to compete.

27. Pursuant to the Settlement, customers will receive substantial rate reductions without the necessity of a full rate case.

28. An APS rate case would take a minimum of one year to complete.

29. ESPs that have been certificated have shown more of an interest in serving larger business customers than residential customers.

30. It is not in the public or customers' interests to forego guaranteed Standard Offer rate reductions in order to have a higher shopping credit.

31. The Settlement will permit competition in a timely and efficient manner and insure all customers benefit during the transition period.

32. Based on the evidence presented, the FVRB and FVROR of APS is determined to be $5,195,675,000 and 6.63 percent, respectively.

33. The terms and conditions of the Settlement Agreement as modified herein are just and reasonable and in the public interest.

CONCLUSIONS OF LAW

1. The Affected Utilities are public service corporations within the meaning of the Arizona Constitution, Article XV, under A.R.S. §§ 40-202, -203, -250, -321, -322, -331, -336, -361, -365, -367, and under the Arizona Revised Statutes, Title 40, generally.

2. The Commission has jurisdiction over the Affected Utilities and of the subject matter contained herein.

3. Notice of the proceeding has been given in the manner prescribed by law.

4. The Settlement Agreement as modified herein is just and reasonable and in the public interest and should be approved.

5. APS should be authorized to implement its Stranded Cost Recovery Plan as set forth in the Settlement Agreement.

6. APS' CC&N should be modified in order to permit competitive retail access in APS'

CC&N service territory.

7. The requested statutory waivers should not be granted at this time. A proceeding should be commenced to consider statutory waivers on an industry-wide basis. The other waivers requested by APS in the Settlement should be granted as modified herein, except that the provisions of A.A.C. R14-2-804(A) shall not be waived.

ORDER

IT IS THEREFORE ORDERED that the Settlement Agreement as modified herein is hereby approved and all Commission findings, approvals and authorizations requested therein are hereby granted.

IT IS FURTHER ORDERED that Arizona Public Service Company's CC&N is hereby modified to permit competitive retail access consistent with this Decision and the Competition Rules.

IT IS FURTHER ORDERED that within 30 days of the date of this Decision, Arizona Public Service Company shall file a proposed Code of Conduct for Commission approval.

IT IS FURTHER ORDERED that Arizona Public Service Company shall file a revised Settlement Agreement consistent with the modifications herein.

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IT IS FURTHER ORDERED that within ten days of the date the proposed Code of Conduct is filed, the Hearing Division shall issue a Procedural Order setting a procedural schedule for consideration of the Code of Conduct.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN COMMISSIONER COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 6th day of October 1999.

BRIAN C. McNEIL
EXECUTIVE SECRETARY

DISSENT _____
JLR:dap

SERVICE LIST FOR: ARIZONA PUBLIC SERVICE COMPANY

DOCKET NOS.: E-01345A-98-0473, E-01345A-97-0773 and RE-00000C-94-0165

Service List for RE-00000C-94-0165

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SETTLEMENT AGREEMENT

May 14, 1999

This settlement agreement ("Agreement") is entered into as of May 14, 1999, by Arizona Public Service Company ("APS" or the "Company") and the various signatories to this Agreement (collectively, the "Parties") for the purpose of establishing terms and conditions for the introduction of competition in generation and other competitive services that are just, reasonable and in the public interest.

INTRODUCTION

In Decision No. 59943, dated December 26, 1996, the Arizona Corporation Commission ("ACC" or the "Commission") established a "framework" for introduction of competitive electric services throughout the territories of public service corporations in Arizona in the rules adopted in A.A.C. R14-2-1601 *et seq.* (collectively, "Electric Competition Rules" as they may be amended from time to time). The Electric Competition Rules established by that order contemplated future changes to such rules and the possibility of waivers or amendments for particular companies under appropriate circumstances. Since their initial issuance, the Electric Competition Rules have been amended several times and are currently stayed pursuant to Decision No. 61311, dated January 5, 1999. During this time, APS, Commission Staff and other interested parties have participated in a number of proceedings, workshops, public comment sessions and individual negotiations in order to further refine and develop a restructured utility industry in Arizona that will provide meaningful customer choice in a manner that is just, reasonable and in the public interest.

This Agreement establishes the agreed upon transition for APS to a restructured entity and will provide customers with competitive choices for generation and certain other retail services. The Parties believe this Agreement will produce benefits for all customers through implementing customer choice and providing rate reductions so that the APS service territory may benefit from economic growth. The Parties also believe this Agreement will fairly treat APS and its shareholders by providing a reasonable opportunity to recover prudently incurred investments and costs, including stranded costs and regulatory assets.

Specifically, the Parties believe the Agreement is in the public interest for the following reasons. First, customers will receive substantial rate reductions. Second, competition will be promoted through the introduction of retail access faster than would have been possible without this Agreement and by the functional separation of APS' power production and delivery functions. Third, economic development and the environment will

benefit through guaranteed rate reductions and the continuation of renewable and energy efficiency programs. Fourth, universal service coverage will be maintained through APS' low income assistance programs and establishment of "provider of last resort" obligations on APS for customers who do not wish to participate in retail access. Fifth, APS will be able to recover its regulatory assets and stranded costs as provided for in this Agreement without the necessity of a general rate proceeding. Sixth, substantial litigation and associated costs will be avoided by amicably resolving a number of important and contentious issues that have already been raised in the courts and before the Commission. Absent approval by the Commission of the settlement reflected by this Agreement, APS would seek full stranded cost recovery and pursue other rate and competitive restructuring provisions different than provided for herein. The other Parties would challenge at least portions of APS' requested relief, including the recovery of all stranded costs. The resulting regulatory hearings and related court appeals would delay the start of competition and drain the resources of all Parties.

NOW, THEREFORE, APS and the Parties agree to the following provisions which they believe to be just, reasonable and in the public interest:

TERMS OF AGREEMENT

ARTICLE I
IMPLEMENTATION OF RETAIL ACCESS

1.1. The APS distribution system shall be open for retail access on July 1, 1999; provided, however, that such retail access to electric generation and other competitive electric services suppliers will be phased in for customers in APS' service territory in accordance with the proposed Electric Competition Rules, as and when such rules become effective, with an additional 140 MW being made available to eligible non-residential customers. The Parties shall urge the Commission to approve Electric Competition Rules, at least on an emergency basis, so that meaningful retail access can begin by July 1, 1999. Unless subject to judicial or regulatory restraint, APS shall open its distribution system to retail access for all customers on January 1, 2001.

1.2. APS will make retail access available to residential customers pursuant to its December 21, 1998, filing with the Commission.

1.3. The Parties acknowledge that APS' ability to offer retail access is contingent upon numerous conditions and circumstances, a number of which are not within the direct control of the Parties. Accordingly, the Parties agree that it may become necessary to modify the terms of retail access to account for such factors, and they further agree to address such matters in good faith and to cooperate in an effort to propose joint resolutions of any such matters.

1.4. APS agrees to the amendment and modification of its Certificate(s) of Convenience and Necessity to permit retail access consistent with the terms of this Agreement. The Commission order adopting this Agreement shall constitute the necessary Commission Order amending and modifying APS' CC&Ns to permit retail access consistent with the terms of this Agreement.

ARTICLE II
RATE MATTERS

2.1. The Company's unbundled rates and charges attached hereto as Exhibit A will be effective as of July 1, 1999. The Company's presently authorized rates and charges shall be deemed its standard offer ("Standard Offer") rates for purposes of this Agreement and the Electric Competition Rules. Bills for Standard Offer service shall indicate individual unbundled service components to the extent required by the Electric Competition Rules.

2.2. Future reductions of standard offer tariff rates of 1.5% for customers having loads of less than 3 MW shall be effective as of July 1, 1999, July 1, 2000, July 1, 2001, July 1, 2002, and July 1, 2003, upon the filing and Commission acceptance of revised tariff sheets reflecting such decreases. For customers having loads greater than 3 MW served on Rate Schedules E-34 and E-35, Standard Offer tariff rates will be reduced: 1.5%, effective July 1, 1999; 1.5% effective July 1, 2000; 1.25% effective July 1, 2001; and .75% effective July 1, 2002. The 1.5% Standard Offer rate reduction to be effective July 1, 1999, includes the rate reduction otherwise required by Decision No. 59601. Such decreases shall become effective by the filing with and acceptance by the Commission of revised tariff sheets reflecting each decrease.

2.3. Customers greater than 3 MW who choose a direct access supplier must give APS one year's advance notice before being eligible to return to Standard Offer service.

2.4. Unbundled rates shall be reduced in the amounts and at the dates set forth in Exhibit A attached hereto upon the filing and Commission acceptance of revised tariff sheets reflecting such decreases.

2.5. This Agreement shall not preclude APS from requesting, or the Commission from approving, changes to specific rate schedules or terms and conditions of service, or the approval of new rates or terms and conditions of service, that do not significantly affect the overall earnings of the Company or materially modify the tariffs or increase the rates approved in this Agreement. Nothing contained in this Agreement shall preclude APS from filing changes to its tariffs or terms and conditions of service which are not inconsistent with its obligations under this Agreement.

2.6. Notwithstanding the rate reduction provisions stated above, the Commission shall, prior to December 31, 2002, approve an adjustment clause or clauses which

will provide full and timely recovery beginning July 1, 2004, of the reasonable and prudent costs of the following:

(1) APS' "provider of last resort" and Standard Offer obligations for service after July 1, 2004, which costs shall be recovered only from Standard Offer and "provider of last resort" customers;

(2) Standard Offer service to customers who have left Standard Offer service or a special contract rate for a competitive generation supplier but who desire to return to Standard Offer service, which costs shall be recovered only from Standard Offer and "provider of last resort" customers;

(3) compliance with the Electric Competition Rules or Commission-ordered programs or directives related to the implementation of the Electric Competition Rules, as they may be amended from time to time, which costs shall be recovered from all customers receiving services from APS; and

(4) Commission-approved system benefit programs or levels not included in Standard Offer rates as of June 30, 1999, which costs shall be recovered from all customers receiving services from APS.

By June 1, 2002, APS shall file an application for an adjustment clause or clauses, together with a proposed plan of administration, and supporting testimony. The Commission shall thereafter issue a procedural order setting such adjustment clause application for hearing and including reasonable provisions for participation by other parties. The Commission order approving the adjustment clauses shall also establish reasonable procedures pursuant to which the Commission, Commission Staff and interested parties may review the costs to be recovered. By June 30, 2003, APS will file its request for the specific adjustment clause factors which shall, after hearing and Commission approval, become effective July 1, 2004. APS shall be allowed to defer costs covered by this Section 2.6 when incurred for later full recovery pursuant to such adjustment clause or clauses, including a reasonable return.

2.7. By June 30, 2003, APS shall file a general rate case with prefiled testimony and supporting schedules and exhibits; provided, however, that any rate changes resulting therefrom shall not become effective prior to July 1, 2004.

2.8. APS shall not be prevented from seeking a change in unbundled or Standard Offer rates prior to July 1, 2004, in the event of (a) conditions or circumstances which constitute an emergency, such as the inability to finance on reasonable terms, or (b) material changes in APS' cost of service for Commission regulated services resulting from federal, tribal,

state or local laws, regulatory requirements, judicial decision, actions or orders. Except for the changes otherwise specifically contemplated by this Agreement, unbundled and Standard Offer rates shall remain unchanged until at least July 1, 2004.

ARTICLE III
REGULATORY ASSETS AND STRANDED COSTS

3.1. APS currently recovers regulatory assets through July 1, 2004, pursuant to Commission Decision No. 59601 in accordance with the provisions of this Agreement.

3.2. APS has demonstrated that its allowable stranded costs after mitigation (which result from the impact of retail access), exclusive of regulatory assets, are at least $533 million net present value.

3.3. The Parties agree that APS should not be allowed to recover $183 million net present value of the amounts included above. APS shall have a reasonable opportunity to recover $350 million net present value through a competitive transition charge ("CTC") set forth in Exhibit A attached hereto. Such CTC shall remain in effect until December 31, 2004, at which time it will terminate. If by that date APS has recovered more or less than $350 million net present value, as calculated in accordance with Exhibit B attached hereto, then the nominal dollars associated with any excess recovery/under recovery shall be credited/debited against the costs subject to recovery under the adjustment clause set forth in Section 2.6(3).

3.4. The regulatory assets to be recovered under this Agreement, after giving effect to the adjustments set forth in Section 3.3, shall be amortized in accordance with Schedule C of Exhibit A attached hereto.

3.5. Neither the Parties nor the Commission shall take any action that would diminish the recovery of APS' stranded costs or regulatory assets provided for herein. The Company's willingness to enter into this Agreement is based upon the Commission's irrevocable promise to permit recovery of the Company's regulatory assets and stranded costs as provided herein. Such promise by the Commission shall survive the expiration of the Agreement and shall be specifically enforceable against this and any future Commission.

ARTICLE IV
CORPORATE STRUCTURE

4.1. The Commission will approve the formation of an affiliate or affiliates of APS to acquire at book value the competitive services assets as currently required by the Electric Competition Rules. In order to facilitate the separation of such assets efficiently and at the lowest possible cost, the Commission shall grant APS a two-year extension of time until

December 31, 2002, to accomplish such separation. A similar two-year extension shall be authorized for compliance with A.A.C. R14-2-1606(B).

4.2. Approval of this Agreement by the Commission shall be deemed to constitute all requisite Commission approvals for (1) the creation by APS or its parent of new corporate affiliates to provide competitive services including, but not limited to, generation sales and power marketing, and the transfer thereto of APS' generation assets and competitive services, and (2) the full and timely recovery through the adjustment clause referred to in Section 2.6 above for all of the reasonable and prudent costs so incurred in separating competitive generation assets and competitive services as required by proposed A.A.C. R14-2-1615, exclusive of the costs of transferring the APS power marketing function to an affiliate. The assets and services to be transferred shall include the items set forth on Exhibit C attached hereto. Such transfers may require various regulatory and third party approvals, consents or waivers from entities not subject to APS' control, including the FERC and the NRC. No Party to this Agreement (including the Commission) will oppose, or support opposition to, APS requests to obtain such approvals, consents or waivers.

4.3. Pursuant to A.R.S. § 40-202(L), the Commission's approval of this Agreement shall exempt any competitive service provided by APS or its affiliates from the application of various provisions of A.R.S. Title 40, including A.R.S. §§ 40-203, 40-204(A), 40-204(B), 40-248, 40-250, 40-251, 40-285, 40-301, 40-302, 40-303, 40-321, 40-322, 40-331, 40-332, 40-334, 40-365, 40-366, 40-367 and 40-401.

4.4. APS' subsidiaries and affiliates (including APS' parent) may take advantage of competitive business opportunities in both energy and non-energy related businesses by establishing such unregulated affiliates as they deem appropriate, which will be free to operate in such places as they may determine. The APS affiliate or affiliates acquiring APS' generating assets may be a participant in the energy supply market within and outside of Arizona. Approval of this Agreement by the Commission shall be deemed to include the following specific determinations required under Sections 32(c) and (k)(2) of the Public Utility Holding Company Act of 1935:

> APS or an affiliate is authorized to establish a subsidiary company, which will seek exempt wholesale generator ("EWG") status from the Federal Energy Regulatory Commission, for the purposes of acquiring and owning Generation Assets.
>
> The Commission has determined that allowing the Generation Assets to become "eligible facilities," within the meaning of Section 32 of the Public Utility Holding Company Act ("PUHCA"), and owned by an APS EWG affiliate (1) will benefit consumers, (2) is in the public interest, and (3) does not violate Arizona law.

The Commission has sufficient regulatory authority, resources and access to the books and records of APS and any relevant associate, affiliate, or subsidiary company to exercise its duties under Section 32(k) of PUHCA.

APS will purchase any electric energy from its EWG affiliate at market based rates. This Commission has determined that (1) the proposed transaction will benefit consumers and does not violate Arizona law; (2) the proposed transaction will not provide APS' EWG affiliate an unfair competitive advantage by virtue of its affiliation with APS; (3) the proposed transaction is in the public interest.

The APS affiliate or affiliates acquiring APS' generating assets will be subject to regulation by the Commission, to the extent otherwise permitted by law, to no greater manner or extent than that manner and extent of Commission regulation imposed upon other owners or operators of generating facilities.

4.5. The Commission's approval of this Agreement will constitute certain waivers to APS and its affiliates (including its parent) of the Commission's existing affiliate interest rules (A.A.C. R14-2-801, *et seq.*), and the rescission of all or portions of certain prior Commission decisions, all as set forth on Exhibit D attached hereto.

4.6. The Parties reserve their rights under Sections 205 and 206 of the Federal Power Act with respect to the rates of any APS affiliate formed under the provisions of this Article IV.

ARTICLE V
WITHDRAWAL OF LITIGATION

5.1. Upon receipt of a final order of the Commission approving this Agreement that is no longer subject to judicial review, APS and the Parties shall withdraw with prejudice all of their various court appeals of the Commission's competition orders.

ARTICLE VI
APPROVAL BY THE COMMISSION

6.1. This Agreement shall not become effective until the issuance of a final Commission order approving this Agreement without modification on or before August 1, 1999. In the event that the Commission fails to approve this Agreement without modification according to its terms on or before August 1, 1999, any Party to this Agreement may withdraw from this Agreement and shall thereafter not be bound by its provisions; provided, however, that if APS withdraws from this Agreement, the Agreement shall be null and void and of no further force and effect. In any event, the rate reduction provisions of this Agreement shall not take effect until this Agreement is approved. Parties so withdrawing shall be free to pursue

their respective positions without prejudice. Approval of this Agreement by the Commission shall make the Commission a Party to this Agreement and fully bound by its provisions.

6.2. The Parties agree that they shall make all reasonable and good faith efforts necessary to (1) obtain final approval of this Agreement by the Commission, and (2) ensure full implementation and enforcement of all the terms and conditions set forth in this Agreement. Neither the Parties nor the Commission shall take or propose any action which would be inconsistent with the provisions of this Agreement. All Parties shall actively defend this Agreement in the event of any challenge to its validity or implementation.

ARTICLE VII
MISCELLANEOUS MATTERS

7.1. To the extent any provision of this Agreement is inconsistent with any existing or future Commission order, rule or regulation or is inconsistent with the Electric Competition Rules as now existing or as may be amended in the future, the provisions of this Agreement shall control and the approval of this Agreement by the Commission shall be deemed to constitute a Commission-approved variation or exemption to any conflicting provision of the Electric Competition Rules.

7.2. The provisions of this Agreement shall be implemented and enforceable notwithstanding the pendency of a legal challenge to the Commission's approval of this Agreement, unless such implementation and enforcement is stayed or enjoined by a court having jurisdiction over the matter. If any portion of the Commission order approving this Agreement or any provision of this Agreement is declared by a court to be invalid or unlawful in any respect, then (1) APS shall have no further obligations or liability under this Agreement, including, but not limited to, any obligation to implement any future rate reductions under Article II not then in effect, and (2) the modifications to APS' certificates of convenience and necessity referred to in Section 1.4 shall be automatically revoked, in which event APS shall use its best efforts to continue to provide noncompetitive services (as defined in the proposed Electric Competition Rules) at then current rates with respect to customer contracts then in effect for competitive generation (for the remainder of their term) to the extent not prohibited by law and subject to applicable regulatory requirements.

7.3. The terms and provisions of this Agreement apply solely to and are binding only in the context of the purposes and results of this Agreement and none of the positions taken herein by any Party may be referred to, cited or relied upon by any other Party in any fashion as precedent or otherwise in any other proceeding before this Commission or any other regulatory agency or before any court of law for any purpose except in furtherance of the purposes and results of this Agreement.

7.4. This Agreement represents an attempt to compromise and settle disputed claims regarding the prospective just and reasonable rate levels, and the terms and conditions

of competitive retail access, for APS in a manner consistent with the public interest and applicable legal requirements. Nothing contained in this Agreement is an admission by APS that its current rate levels or rate design are unjust or unreasonable.

7.5. As part of this Agreement, APS commits that it will continue the APS Community Action Partnership (which includes weatherization, facility repair and replacement, bill assistance, health and safety programs and energy education) in an annual amount of at least $500,000 through July 1, 2004. Additionally, the Company will, subject to Commission approval, continue low income rates E-3 and E-4 under their current terms and conditions.

7.6. APS shall actively support the Arizona Independent Scheduling Administrator ("AISA") and the formation of the Desert Star Independent System Operator. APS agrees to modify its OATT to be consistent with any FERC approved AISA protocols. The Parties reserve their rights with respect to any AISA protocols, including the right to challenge or seek modifications to, or waivers from, such protocols. APS shall file changes to its existing OATT consistent with this section within ten (10) days of Commission approval of this Agreement pursuant to Section 6.1.

7.7. Within thirty (30) days of Commission approval of this Agreement pursuant to Section 6.1, APS shall serve on the Parties an Interim Code of Conduct to address inter-affiliate relationships involving APS as a utility distribution company. APS shall voluntarily comply with this Interim Code of Conduct until the Commission approves a code of conduct for APS in accordance with the Electric Competition Rules that is concurrently effective with codes of conduct for all other Affected Utilities (as defined in the Electric Competition Rules). APS shall meet and confer with the Parties prior to serving its Interim Code of Conduct.

7.8. In the event of any disagreement over the interpretation of this Agreement or the implementation of any of the provisions of this Agreement, the Parties shall promptly convene a conference and in good faith shall attempt to resolve such disagreement.

7.9. The obligations under this Agreement that apply for a specific term set forth herein shall expire automatically in accordance with the term specified and shall require no further action for their expiration.

7.10. The Parties agree and recommend that the Commission schedule public meetings and hearings for consideration of this Agreement. The filing of this Agreement with the Commission shall be deemed to be the filing of a formal request for the expeditious issuance of a procedural schedule that establishes such formal hearings and public meetings as may be necessary for the Commission to approve this Agreement in accordance with

DECISION NO. 1.1972

Exhibit A
5/10/99
DA-R1

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

A.C.C. No. XXXX
Tariff or Schedule No. DA-R1
Original Tariff
Effective: XXX XX, 1999

DIRECT ACCESS
RESIDENTIAL SERVICE

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company and where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable to customers receiving electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. This rate schedule is applicable only to electric delivery required for residential purposes in individual private dwellings and in individually metered apartments when such service is supplied at one point of delivery and measured through one meter. For those dwellings and apartments where electric service has historically been measured through two meters, when one of the meters was installed pursuant to a water heating or space heating rate schedule no longer in effect, the electric service measured by such meters shall be combined for billing purposes.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10.)

TYPE OF SERVICE

Service shall be single phase, 60 Hertz, at one standard voltage (120/240 or 120/208 as may be selected by customer subject to availability at the customer's premise). Three phase service is furnished under the Company's Conditions Governing Extensions of Electric Distribution Lines and Services (Schedule #3). Transformation equipment is included in cost of extension. Three phase service is required for motors of an individual rated capacity of 7-1/2 HP or more.

METERING REQUIREMENTS

All customers shall comply with the terms and conditions for load profiling or hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

May – October Billing Cycles (Summer):

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
$/month	$10.00			
All kWh		$0.04158	$0.00115	$0.00930

November – April Billing Cycles (Winter):

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
$/month	$10.00			
All kWh		$0.03518	$0.00115	$0.00930

B. MINIMUM $ 10.00 per month

DECISION NO. 61973

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	$1.30 per month
Meter Reading	$0.30 per month
Billing	$0.30 per month

2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customers served under this rate schedule are responsible for acquiring their own generation and any other required competitively supplied services from an ESP. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

ON-SITE GENERATION TERMS AND CONDITIONS

Customers served under this rate schedule who have on-site generation connected to the Company's electrical delivery grid shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

TERMS AND CONDITIONS

This rate schedule is subject to the Company's Terms and Conditions for Standard Offer and Direct Access Services (Schedule #1) and Schedule #10. These schedules have provisions that may affect customer's monthly bill.

Exhibit A
5/10/99
DA-GS1

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

A.C.C. No. XXXX
Tariff or Schedule No. DA-GS1
Original Tariff
Effective: XXX XX, 1999

DIRECT ACCESS
GENERAL SERVICE

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable to customers receiving electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. This rate schedule is applicable to all electric service required when such service is supplied at one point of delivery and measured through one meter. For those customers whose electricity is delivered through more than one meter, service for each meter shall be computed separately under this rate unless conditions in accordance with the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service) are met. For those service locations where electric service has historically been measured through two meters, when one of the meters was installed pursuant to a water heating rate schedule no longer in effect, the electric service measured by such meters shall be combined for billing purposes.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

This rate schedule is not applicable to residential service, resale service or direct access service which qualifies for Rate Schedule DA-GS10.

TYPE OF SERVICE

Service shall be single or three phase, 60 Hertz, at one standard voltage as may be selected by customer subject to availability at the customer's premise. Three phase service is furnished under the Company's Conditions Governing Extensions of Electric Distribution Lines and Services (Schedule #3). Transformation equipment is included in cost of extension. Three phase service is not furnished for motors of an individual rated capacity of less than 7-1/2 HP, except for existing facilities or where total aggregate HP of all connected three phase motors exceed 12 HP. Three phase service is required for motors of an individual rated capacity of more than 7-1/2 HP.

METERING REQUIREMENTS

All customers shall comply with the terms and conditions for load profiling or hourly metering specified in the Company's Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

June – October Billing Cycles (Summer):

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
$ month	$12.50			
Per kW over 5		$0.721		
Per kWh for the first 2,500 kWh		$0.04255		
Per kWh for the next 100 kWh per kW over 5		$0.04255		
Per kWh for the next 42,000 kWh		$0.02901		
Per kWh for all additional kWh		$0.01811		
Per all kWh			$0.00115	
Per all kW				$2.43

DECISION NO. 61973

A. RATE (continued)

November – May Billing Cycles (Winter):

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
$/month	$12.50			
Per kW over 5		$0.652		
Per kWh for the first 2,500 kWh		$0.03827		
Per kWh for the next 100 kWh per kW over 5		$0.03827		
Per kWh for the next 42,000 kWh		$0.02600		
Per kWh for all additional kWh		$0.01614		
Per all kWh			$0.00115	
Per all kW				$2.43

PRIMARY AND TRANSMISSION LEVEL SERVICE:

1. For customers served at primary voltage (12.5kV to below 69kV), the Distribution charge will be discounted by 11.6%.
2. For customers served at transmission voltage (69kV or higher), the Distribution charge will be discounted 52.6%.
3. Pursuant to A.A.C. R14-2-1612.K.11, the Company shall retain ownership of Current Transformers (CT's) and Potential Transformers (PT's) for those customers taking service at voltage levels of more than 25kV. For customers whose metering services are provided by an ESP, a monthly facilities charge will be billed, in addition to all other applicable charges shown above, as determined in the service contract based upon the Company's cost of CT and PT ownership, maintenance and operation.

DETERMINATION OF KW

The kW used for billing purposes shall be the average kW supplied during the 15-minute period of maximum use during the month, as determined from readings of the delivery meter.

B. MINIMUM

$12.50 plus $1.74 for each kW in excess of five of either the highest kW established during the 12 months ending with the current month or the minimum kW specified in the agreement for service, whichever is the greater.

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	$4.00 per month
Meter Reading	$0.30 per month
Billing	$0.30 per month

2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customers served under this rate schedule are responsible for acquiring their own generation and any other required competitively supplied services from an ESP or under the Company's Open Access Transmission Tariff. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

(CONTINUED ON PAGE 3)

DECISION NO. 61973

ON-SITE GENERATION TERMS AND CONDITIONS

Customers served under this rate schedule who have on-site generation connected to the Company's electrical delivery grid shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

CONTRACT PERIOD

0 – 1,999 kW:	As provided in Company's standard agreement for service.
2,000 kW and above:	Three (3) years, or longer, at Company's option for initial period when construction is required. One (1) year, or longer, at Company's option when construction is not required.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule #10. These Schedules have provisions that may affect customer's monthly bill.

Section 6.1 and that afford interested parties adequate opportunity to comment and be heard on the terms of this Agreement consistent with applicable legal requirements.

DATED at Phoenix, Arizona, as of this 14th day of May, 1999.

RESIDENTIAL UTILITY CONSUMER OFFICE

By Greg Patterson

Title Director

ARIZONA PUBLIC SERVICE COMPANY

By Jack Davis

Title President Delivery & Sales.

ARIZONA COMMUNITY ACTION ASSOCIATION

By Janet R. Regan

Title Executive Director

(Party) _____

By _____

Title _____

ARIZONANS FOR ELECTRIC CHOICE AND COMPETITION,* a coalition of companies and associations in support of competition that includes Cable Systems International, BHP Copper, Motorola, Chemical Lime, Intel, [redacted], Honeywell, Allied Signal, Cyprus Climax Metals, Asarco, Phelps Dodge, [redacted], Homebuilders of Central Arizona, Arizona Mining Industry Gets Our Support, Arizona Food Marketing Alliance, Arizona Association of Industries, Arizona Multi-housing Association, Arizona Rock Products Association, Arizona Restaurant Association, [redacted], and Arizona Retailers Association. **

By Peter A. Woog

Title CHAIRMAN

(Party) _____

By _____

Title _____

(Party) _____

By _____

Title _____

* Enron is not a signatory to this Agreement

DECISION NO: 61973

Exhibit A
5/10/99
DA-GS10

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

A.C.C. No. XXXX
Tariff or Schedule No. DA-GS10
Original Tariff
Effective: XXX XX, 1999

DIRECT ACCESS
EXTRA LARGE GENERAL SERVICE

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable to customers receiving electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. This rate schedule is applicable only to customers whose monthly maximum demand is 3,000 kW or more for three (3) consecutive months in any continuous twelve (12) month period ending with the current month. Service must be supplied at one point of delivery and measured through one meter unless otherwise specified by individual customer contract. For those customers whose electricity is delivered through more than one meter, service for each meter shall be computed separately under this rate unless conditions in accordance with the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service) are met.

This rate schedule is not applicable to resale service.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

TYPE OF SERVICE

Service shall be three phase, 60 Hertz, at Company's standard voltages that are available within the vicinity of customer's premise.

METERING REQUIREMENTS

All customers shall comply with the terms and conditions for hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
$/month	$2,430.00			
per kW		$3.53		$2.82
per kWh		$0.00999	$0.00115	

PRIMARY AND TRANSMISSION LEVEL SERVICE:

1. For customers served at primary voltage (12.5kV to below 69kV), the Distribution charge will be discounted by 4.8%.
2. For customers served at transmission voltage (69kV or higher), the Distribution charge will be discounted 36.7%.
3. Pursuant to A.A.C. R14-2-1612.K.11, the Company shall retain ownership of Current Transformers (CT's) and Potential Transformers (PT's) for those customers taking service at voltage levels of more than 25 kV. For customers whose metering services are provided by an ESP, a monthly facilities charge will be billed, in addition to all other applicable charges shown above, as determined in the service contract based upon the Company's cost of CT and PT ownership, maintenance and operation.

DETERMINATION OF KW

The kW used for billing purposes shall be the greater of:

1. The kW used for billing purposes shall be the average kW supplied during the 15-minute period (or other period as specified by individual customer's contract) of maximum use during the month, as determined from readings of the delivery meter.

2. The minimum kW specified in the agreement for service or individual customer contract.

1.1072

B. MINIMUM

$2,430.00 per month plus $1.74 per kW per month.

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	$55.00 per month
Meter Reading	$ 0.30 per month
Billing	$ 0.30 per month

2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customers served under this rate schedule are responsible for acquiring their own generation and any other required competitively supplied services from an ESP. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

ON-SITE GENERATION TERMS AND CONDITIONS

Customers served under this rate schedule who have on-site generation connected to the Company's electrical delivery grid shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

CONTRACT PERIOD

For service locations in:

a) Isolated Areas: Ten (10) years, or longer, at Company's option, with standard seven (7) year termination period.
b) Other Areas: Three (3) years, or longer, at Company's option.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule #10. These schedules have provisions that may affect customer's monthly bill.

1 1072

Exhibit A
5/13/99
DA-GS11

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

A.C.C. No. XXXX
Tariff or Schedule No. DA-GS11
Original Tariff
Effective: XXX XX, 1999

DIRECT ACCESS
RALSTON PURINA

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable only to Ralston Purina (Site #863970289) when it receives electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. Service must be supplied as specified by individual customer contract and the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service).

This rate schedule is not applicable to resale service.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

TYPE OF SERVICE

Service shall be three phase, 60 Hertz, at 12.5 kV.

METERING REQUIREMENTS

Customer shall comply with the terms and conditions for hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
$/month	$2,430.00			
per kW		$2.58		$1.86
per kWh		$0.00732	$0.00115	

DETERMINATION OF KW

The kW used for billing purposes shall be the greater of:

1. The kW used for billing purposes shall be the average kW supplied during the 15-minute period (or other period as specified by individual customer's contract) of maximum use during the month, as determined from readings of the delivery meter.
2. The minimum kW specified in the agreement for service or individual customer contract.

B. MINIMUM

$2,430.00 per month plus $1.74 per kW per month.

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	$55.00 per month
Meter Reading	$ 0.30 per month
Billing	$ 0.30 per month

2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

1 1072

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customer is responsible for acquiring its own generation and any other required competitively supplied services from an ESP. T he Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule =10.

ON-SITE GENERATION TERMS AND CONDITIONS

If Customer has on-site generation connected to the Company's electrical delivery grid, it shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule =10. These schedules have provisions that may affect customer's monthly bill.

1 1872

Exhibit A
5/13/99
DA-GS12

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

A.C.C. No. XXXX
Tariff or Schedule No. DA-GS12
Original Tariff
Effective: XXX XX, 1999

DIRECT ACCESS
BHP COPPER

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable only to BHP Copper (Site #7749322285) when it receives electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. Service must be supplied as specified by individual customer contract and the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service).

This rate schedule is not applicable to resale service.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

TYPE OF SERVICE

Service shall be three phase, 60 Hertz, at 12.5 kV or higher.

METERING REQUIREMENTS

Customer shall comply with the terms and conditions for hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

	Basic Delivery Service	Distribution at Primary Voltage	Distribution at Transmission Voltage	System Benefits	Competitive Transition Charge
$/month	$2,430.00				
per kW		$2.35	$1.22		$1.54
per kWh		$0.00665	$0.00346	$0.00115	

PRIMARY AND TRANSMISSION LEVEL SERVICE:

Pursuant to A.A.C. R14-2-1612.K.11, the Company shall retain ownership of Current Transformers (CT's) and Potential Transformers (PT's) for those customers taking service at voltage levels of more than 25 kV. For customers whose metering services are provided by an ESP, a monthly facilities charge will be billed, in addition to all other applicable charges shown above, as determined in the service contract based upon the Company's cost of CT and PT ownership, maintenance and operation.

DETERMINATION OF KW

The kW used for billing purposes shall be the greater of:

1. The kW used for billing purposes shall be the average kW supplied during the 30-minute period (or other period as specified by individual customer's contract) of maximum use during the month, as determined from readings of the delivery meter.

2. The minimum kW specified in the agreement for service or individual customer contract.

B. MINIMUM

$2,430.00 per month plus $1.74 per kW per month.

DECISION NO. 61973

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	$5.00 per month
Meter Reading	$ 0.30 per month
Billing	$ 0.30 per month

2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customer is responsible for acquiring its own generation and any other required competitively supplied services from an ESP. T he Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

ON-SITE GENERATION TERMS AND CONDITIONS

If Customer has on-site generation connected to the Company's electrical delivery grid, it shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule #10. These schedules have provisions that may affect customer's monthly bill.

Exhibit A
5/13/99
DA-GS13

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

A.C.C. No. XXXX
Tariff or Schedule No. DA-GS13
Original Tariff
Effective: XXX XX, 1999

DIRECT ACCESS
CYPRUS BAGDAD

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable only to Cyprus Bagdad (Site #120932284) when it receives electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. Service must be supplied as specified by individual customer contract and the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service).

This rate schedule is not applicable to resale service.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

TYPE OF SERVICE

Service shall be three phase, 60 Hertz, at 115 kV or higher.

METERING REQUIREMENTS

Customer shall comply with the terms and conditions for hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
$/month	$2,430.00			
per kW		$1.05		$1.34
per kWh		$0.00298	$0.00115	

PRIMARY AND TRANSMISSION LEVEL SERVICE:

Pursuant to A.A.C. R14-2-1612.K.11, the Company shall retain ownership of Current Transformers (CT's) and Potential Transformers (PT's) for those customers taking service at voltage levels of more than 25 kV. For customers whose metering services are provided by an ESP, a monthly facilities charge will be billed, in addition to all other applicable charges shown above, as determined in the service contract based upon the Company's cost of CT and PT ownership, maintenance and operation.

DETERMINATION OF KW

The kW used for billing purposes shall be the greater of:

1. The kW used for billing purposes shall be the average kW supplied during the 30-minute period (or other period as specified by individual customer's contract) of maximum use during the month, as determined from readings of the delivery meter.

2. The minimum kW specified in the agreement for service or individual customer contract.

B. MINIMUM

$2,430.00 per month plus $1.74 per kW per month, until June 30, 2004 when this minimum will no longer be applicable.

DECISION NO. 61973

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	$55.00 per month
Meter Reading	$ 0.30 per month
Billing	$ 0.30 per month

2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customer is responsible for acquiring its own generation and any other required competitively supplied services from an ESP. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

ON-SITE GENERATION TERMS AND CONDITIONS

If Customer has on-site generation connected to the Company's electrical delivery grid, it shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule #10. These schedules have provisions that may affect customer's monthly bill.

Competitive Transition Charges
By Direct Access Rate Classes

Line #	Direct Access Rate Class	Competition Transition Charges Effective January 1 of 1999	2000	2001	2002	2003	2004
1	Residential, DA-R1 (per kWh)	$ 0.0093	$ 0.0084	$ 0.0063	$ 0.0056	$ 0.0050	$ 0.0036
2	Under 3 mW, DA-GS1, (per kW/mo.)	$ 2.43	$ 2.20	$ 1.66	$ 1.46	$ 1.30	$ 0.94
3	3 mW and Above, DA-GS10 (per kW/mo.)	$ 2.82	$ 2.55	$ 1.89	$ 1.72	$ 1.51	$ 1.09
4	BHP Copper (per kW/mo.)	$ 1.54	$ 1.53	$ 1.06	$ 0.95	$ 0.83	$ 0.61
5	Cyprus Copper (per kW/mo.)	$ 1.34	$ 1.46	$ 1.05	$ 0.94	$ 0.82	$ 0.61
6	Ralston Purina (per kW/mo.)	$ 1.86	$ 1.98	$ 1.50	$ 1.34	$ 1.18	$ 0.87
7	Average Retail (per kWh)	$ 0.0067	$ 0.0061	$ 0.0054	$ 0.0048	$ 0.0043	$ 0.0031

Charges are based upon recovery of $350 million NPV derived from APS' Compliance Filing of 8/21/98 as adjusted to synchronize Direct Access and Standard Offer revenue decreases.

DOCKET NO. E-01345A-98-0473 ET AL.

ARIZONA PUBLIC SERVICE COMPANY

Exhibit
5/13/9>
Schedule B

Distribution Charges
By Direct Access Rate Classes

Line #	Direct Access Rate Class	Distribution Charges Effective January 1 of 1999	2000	2001	2002	2003	2004 [1]
	Residential, DA-R1						
1	Summer per kWh	$ 0.04158	$ 0.04041	$ 0.03934	$ 0.03837	$ 0.03748	$ 0.03689
2	Winter per kWh	$ 0.03518	$ 0.03419	$ 0.03329	$ 0.03247	$ 0.03172	$ 0.03122
	DA-GS1 (Under 3 mW)						
	Summer Rates						
3	per kW for all kW over 5	$ 0.721	$ 0.691	$ 0.663	$ 0.638	$ 0.615	$ 0.600
4	per kWh for the first 2,500 kWh	$ 0.04255	$ 0.04075	$ 0.03912	$ 0.03763	$ 0.03627	$ 0.03537
5	per kWh for the next 100 kWh per kW over 5	$ 0.04255	$ 0.04075	$ 0.03912	$ 0.03763	$ 0.03627	$ 0.03537
6	per kWh for the next 42,000 kWh	$ 0.02901	$ 0.02779	$ 0.02667	$ 0.02565	$ 0.02473	$ 0.02411
7	per kWh for all additional kWh	$ 0.01811	$ 0.01735	$ 0.01665	$ 0.01602	$ 0.01544	$ 0.01506
	Winter Rates						
8	per kW for all kW over 5	$ 0.652	$ 0.624	$ 0.599	$ 0.576	$ 0.555	$ 0.541
9	per kWh for the first 2,500 kWh	$ 0.03827	$ 0.03666	$ 0.03519	$ 0.03385	$ 0.03263	$ 0.03182
10	per kWh for the next 100 kWh per kW over 5	$ 0.03827	$ 0.03666	$ 0.03519	$ 0.03385	$ 0.03263	$ 0.03182
11	per kWh for the next 42,000 kWh	$ 0.02600	$ 0.02490	$ 0.02390	$ 0.02299	$ 0.02216	$ 0.02161
12	per kWh for all additional kWh	$ 0.01614	$ 0.01546	$ 0.01484	$ 0.01427	$ 0.01376	$ 0.01342
	Voltage Discounts						
13	Primary Voltage	11.6%	12.1%	12.6%	13.1%	13.6%	13.9%
14	Transmission Voltage	52.6%	54.9%	57.2%	59.5%	61.7%	63.3%
	DA-GS10 (3 mW and Above)						
15	per kW	$ 3.53	$ 3.33	$ 3.15	$ 2.98	$ 2.83	$ 2.73
16	per kWh	$ 0.00999	$ 0.00943	$ 0.00892	$ 0.00845	$ 0.00802	$ 0.00774
	Voltage Discounts						
17	Primary Voltage Discount	4.8%	5.1%	5.3%	5.6%	5.9%	6.2%
18	Transmission Voltage Discount	36.7%	38.9%	41.1%	43.4%	45.8%	47.4%
	DA-GS11 (Ralston Purina)						
19	per kW	$ 2.58	$ 2.71	$ 2.57	$ 2.44	$ 2.32	$ 2.25
20	per kWh	$ 0.00732	$ 0.00767	$ 0.00727	$ 0.00691	$ 0.00657	$ 0.00635
	DA-GS12 (DIIP Copper)						
21	Primary Voltage Delivery - per kW	$ 2.35	$ 2.30	$ 2.16	$ 2.07	$ 1.99	$ 1.93
22	per kWh	$ 0.00665	$ 0.00651	$ 0.00611	$ 0.00585	$ 0.00561	$ 0.00546
23	Transmission Voltage Delivery - per kW	$ 1.22	$ 1.17	$ 1.03	$ 0.94	$ 0.85	$ 0.80
24	per kWh	$ 0.00346	$ 0.00332	$ 0.00292	$ 0.00266	$ 0.00242	$ 0.00227
	DA-GS13 (Cyprus Bagdad)						
25	per kW	$ 1.05	$ 1.21	$ 1.03	$ 0.94	$ 0.85	$ 0.80
26	per kWh	$ 0.00297	$ 0.00343	$ 0.00292	$ 0.00266	$ 0.00242	$ 0.00227

[1] Transmission voltage customers will not pay Distribution Charges after June 30, 2004

DOCKET NO. E-01345A-98-0473 ET AL.

DECISION NO. 61973

Exhibit A
5/14/99
Schedule C

ARIZONA PUBLIC SERVICE COMPANY

Regulatory Asset Amortization Schedule
(Millions of Dollars)

1999	2000	2001	2002	2003	1/1 - 6/30 2004 [1]	Total [2]
164	158	145	115	86	18	686

[1] Amortization ends 6/30/2004

[2] Includes the disallowance from Section 3.3

DECISION NO. 61973

DOCKET NO. E-01345A-98-0473 ET AL.

EXHIBIT C

Generation assets include, but are not limited to, APS' interest in the following generating stations:

Palo Verde
Four Corners
Navajo
Cholla
Saguaro
Ocotillo
West Phoenix
Yucca
Douglas
Childs
Irving

including allocated common and general plant, support assets, associated land, fuel supplies and contracts, etc. Generation assets will not include facilities included in APS' FERC transmission rates.

Exh[illegible]

Annual ACC Jurisdictional Sales of Delivered kWh or kW[1] x % then Eligible for Access x Applicable CTC (¢/kWh or $/kW[2]) = Annual Recovery[3]

1999	Residential	20	.93
	General Service less than 3MW	20	2.43
	General Service greater than 3MW	20	2.82
	BHP Copper	20	1.54
	Cyprus Copper	20	1.34
	Ralston Purina	20	1.86
2000	Residential	20	.84
	General Service less than 3MW	20	2.20
	General Service greater than 3MW	20	2.55
	BHP Copper	20	1.53
	Cyprus Copper	20	1.46
	Ralston Purina	20	1.98
2001	Residential	100	.63
	General Service less than 3MW	100	1.66
	General Service greater than 3MW	100	1.89
	BHP Copper	100	1.06
	Cyprus Copper	100	1.05
	Ralston Purina	100	1.50
2002	Residential	100	.56
	General Service less than 3MW	100	1.46
	General Service greater than 3MW	100	1.72
	BHP Copper	100	.95
	Cyprus Copper	100	.94
	Ralston Purina	100	1.34
2003	Residential	100	.50
	General Service less than 3MW	100	1.30
	General Service greater than 3MW	100	1.51
	BHP Copper	100	.83
	Cyprus Copper	100	.82
	Ralston Purina	100	1.18
2004	Residential	100	.36
	General Service less than 3MW	100	.94
	General Service greater than 3MW	100	1.09
	BHP Copper	100	.61
	Cyprus Copper	100	.61
	Ralston Purina	100	.87

[1] This formula assumes no change in APS' distribution service territory. In the event of any material change (e.g. by purchase, sale, expansion, condemnation, etc.) the formula will be adjusted such that APS receives the same opportunity to recover the agreed upon level of costs.

[2] General Service unmetered loads will have a demand calculated for CTC purposes based on contract energy.

[3] At the end of 2004 the net present value will be calculated to compare to the $350 million.

DOCKET NO. E-01345A-98-0473 ET AL.

EXHIBIT D

Affiliate Rules Waivers

R14-2-801(5) and R14-2-803, such that the term "reorganization" does not include, and no Commission approval is required for, corporate restructuring that does not directly involve the utility distribution company ("UDC") in the holding company. For example, the holding company may reorganize, form, buy or sell non-UDC affiliates, acquire or divest interests in non-UDC affiliates, etc., without Commission approval.

R14-2-804(A)

R14-2-805(A) shall apply only to the UDC

R14-2-805(A)(2)

R14-2-805(A)(6)

R14-2-805(A)(9), (10), and (11)

Recision of Prior Commission Orders

Section X.C of the "Cogeneration and Small Power Production Policy" attached to Decision No. 52345 (July 27, 1981) regarding reporting requirements for cogeneration information.

Decision No. 55118 (July 24, 1986) - Page 15, Lines 5-1/2 through 13-1/2; Finding of Fact No. 24 relating to reporting requirements under the abolished PPFAC.

Decision No. 55818 (December 14, 1987) in its entirety. This decision related to APS Schedule 9 (Industrial Development Rate) which was terminated by the Commission in Decision No. 59329 (October 11, 1995).

9th and 10th Ordering Paragraphs of Decision No. 56450 (April 13, 1989) regarding reporting requirements under the abolished PPFAC.

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DECISION NO. 61973

ARIZONA PUBLIC SERVICE COMPANY

Informational Unbundling for Standard Offer
Proposed Standard Offer Bill

Sample Summer Bill on Rate E-12 at the Proposed 7/1/99 Rate Level
1.5% Overall Residential Class Decrease (1.68% decrease in energy charges from 9/1/98 Rate Level)

The following information is proposed to be shown on the customer's monthly bill:

Page 1, Standard Offer Bill Calculation:

Your total energy usage this month is: 991 kWh

Basic Service Charge	$ 7.50
Charge for kWh used	100.09
Regulatory Assessment	0.20
Sales Tax	7.06
TOTAL	$ 114.85

Page 2, Informational Unbundling:

Your total energy usage for this month is: 991 kWh
You Standard Offer Bill is (see page 1): $ 114.85

If you choose to receive competitive services from an Electric Service Provider, your APS bill on Rate DA-R1 for delivery service would include:

Metering Service:	$ 1.30	
Meter Reading Service:	0.30	
Billing Service:	0.30	
Distribution Service:	49.30	
System Benefits:	1.14	
Competitive Transition Charge:	9.22	
Regulatory Assessment:	0.12	
Sales Tax:	4.04	
Total Charges for APS Delivery Service Only:		$ 65.72
Transmission and Ancillary Services billed to your Electric Service Provider:		$ 5.09
Generation Services:		$ 44.04
Shopping Credit to purchase competitively supplied Generation and Transmission Service, including any applicable taxes and regulatory assessments		$ 49.13 or, 4.96 ¢/kWh

ATTACHMENT 2

DOCKET NO. E-01345A-98-0473 ET AL.

BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
Chairman
JIM IRVIN
Commissioner
MARC SPITZER
Commissioner

Arizona Corporation Commission
DOCKETED

FEB 08 2001

DOCKETED BY

IN THE MATTER OF ARIZONA PUBLIC SERVICE COMPANY - APPLICATION FOR APPROVAL OF ENVIRONMENTAL PORTFOLIO SURCHARGE EPS-1

DOCKET NO. E-01345A-01-0034

DECISION NO. 63354

ORDER

Open Meeting
January 30 and 31, 2001
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Arizona Public Service Company (APS) is certificated to provide electric service as a public service corporation in the State of Arizona.

2. On January 10, 2001, APS filed an application for approval of a tariff, Environmental Portfolio Surcharge EPS-1. The proposed tariff would be dependent on the Commission's adoption of the proposed rules on the Environmental Portfolio Standard.

3. On August 2, 2000 (Decision No. 62762), the Commission issued a notice of proposed rulemaking for the Environmental Portfolio Standard. The proposed Environmental Portfolio Standard rules require a portion of electricity sold to be derived from solar resources or environmentally friendly renewable technologies. At least part of portfolio standard costs are to be recovered by an Environmental Portfolio Surcharge on customer bills. The surcharge is to be $0.000875 per kWh of retail electricity purchased by the customer. There is to be a surcharge cap of $0.35 per month for residential customers. The surcharge cap for nonresidential customers is to be $13 per month per meter, or per service if no meter is used, except for those nonresidential customers with demands of 3,000 kW or more for three consecutive months who will have a surcharge of $39.00 per month per meter. Customer bills are to have a line item entitled "Environmental Portfolio Surcharge, mandated by the Corporation Commission."

4. On January 2, 2001, a procedural order was issued in Docket Nos. RE-00000C-00-0377 and E-00000A-99-0205 that ordered Affected Utilities to file proposed surcharge tariffs on or before January 10, 2001. APS filed Environmental Portfolio Surcharge EPS-1 in response to the procedural order.

5. On January 17, 2001, the Hearing Officer issued a proposed order on RE-00000C-00-0377, suggesting certain modifications to the proposed Environmental Portfolio Standard rules.

6. Staff recommends the following:

a. The proposed tariff should be approved because its features conform to the surcharge requirements discussed above.

b. The surcharge should be applied to special contract service customers unless a previously approved special contract explicitly excluded any additional charges.

c. The proposed tariff should be approved on an interim basis, pending true-up in a rate review proceeding in which fair value findings are determined by the Commission. The reason Staff is recommending adoption of the surcharge on an interim basis is the urgent need for increased energy capacity in the western United States at this time. The proposed tariff would provide an incentive to the applicant to obtain solar resources and environmentally friendly generation capacity much sooner than would otherwise be possible. In a future rate review proceeding, the Commission could evaluate the actual costs of acquiring environmentally friendly generation capacity and whether the applicant used the surcharge funds appropriately.

d. If the applicant does not file an application for a rate review proceeding that would provide sufficient information for a fair value determination within 18 months of the date of implementation of this tariff, Staff recommends that the applicant file such information, including at minimum the following:

(i) A dollar amount representing its total revenue for the first twelve months after implementation of the surcharge.

(ii) Its total actual operating expenses for the first twelve months after implementation of the surcharge.

(iii) The value of all assets, listed by major category, used for the first twelve months after implementation of the surcharge to provide electric service to customers. The applicant should specifically identify the assets, and their value, acquired to comply with the Environmental Portfolio Standard.

With this information, the interim surcharge and its impact on the applicant's rates related to fair value can be reviewed and appropriate findings and rate determinations made by the Commission, including true-up, refund, or the setting of permanent rates.

e. The tariff should become effective with the first APS standard billing cycle no. 1 starting at least 45 days from the effective date of the Environmental Portfolio Standard rule.

f. Within the electric competition rules, R14-2-1615(A) requires generation assets to be separated from an Affected Utility prior to January 1, 2001. Staff recommends that the applicant be granted a waiver of R14-2-1615(A) as needed to allow the applicant to own "solar resources" and "environmentally friendly renewable electricity technologies" as those terms are described in the Environmental Portfolio Standard rules. The waiver would apply only to solar resources and environmentally friendly renewable electricity technologies.

g. The applicant should file annual reports within 60 days of the end of a calendar year. The reports should list the amount of funds collected through the surcharge during the year, the amount of surcharge funds spent during the year, and a brief description of the projects for which the funds were spent.

h. The applicant should be allowed up to 45 days to implement the tariff as necessary to prepare its billing system to accommodate the surcharge.

i. The tariff filed by the applicant should be modified to conform with the final Environmental Portfolio Standard rules adopted by the Commission.

CONCLUSIONS OF LAW

1. APS is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

2. The Commission has jurisdiction over APS and over the subject matter of the application.

3. The Commission, having reviewed the application and Staff's Memorandum dated January 12, 2001, concludes that it is in the public interest to approve the application.

ORDER

THEREFORE, IT IS ORDERED that the proposed tariff be and hereby is approved.

IT IS FURTHER ORDERED that the surcharge shall be applied to special contract service customers unless a previously approved special contract explicitly excluded any additional charges.

IT IS FURTHER ORDERED that the tariff is approved on an interim basis.

IT IS FURTHER ORDERED that if the applicant does not file an application for a rate review proceeding that would provide sufficient information for a fair value determination within 18 months of the date of implementation of this tariff, the applicant shall file the information described in Finding of Fact Nos. 5(c)(i) through 5(c)(iii).

IT IS FURTHER ORDERED that the tariff shall become effective with the first APS standard billing cycle no. 1 starting at least 45 days from the effective date of the Environmental Portfolio Standard rule.

IT IS FURTHER ORDERED that the applicant is granted a waiver of R14-2-1615(A) as needed to allow the applicant to own "solar resources" and "environmentally friendly renewable electricity technologies" as those terms are described in the Environmental Portfolio Standard rules.

IT IS FURTHER ORDERED that the applicant shall file annual reports as described in Finding of Fact No. 5(f).

IT IS FURTHER ORDERED that the applicant shall file tariff pages consistent with the terms of this Decision within 15 days from the effective date of the Decision.

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IT IS FURTHER ORDERED that the applicant shall modify its tariff to conform to the Commission's final Environmental Portfolio Standard rules.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN COMMISSIONER COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 5th day of February, 2001.

BRIAN C. McNEIL
Executive Secretary

DISSENT: _____

DRS:BEK:lhm

SERVICE LIST FOR: Arizona Public Service Company
DOCKET NO. E-01345A-01-0034

Ms. Jana Van Ness
Manager, State Regulations
Arizona Public Service Company
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Ms. Lyn Farmer
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Ms. Deborah Scott
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Arizona Corporation Commission
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46.44. "Universal Node Identifier" is a unique, permanent, identification number assigned to each service delivery point.

47.45. "Utility Distribution Company" (UDC) means the electric utility entity regulated by the Commission that operates, constructs, and maintains the distribution system for the delivery of power to the end user point of delivery on the distribution system.

48.46. "Utility Industry Group" (UIG) refers to a utility industry association that establishes national standards for data formats.

R14-2-1618. Environmental Portfolio Standard

A. Upon the effective implementation of a Commission-approved Environmental Portfolio Standard Surcharge tariff," ~~Starting on January 1, 2001,~~ any Load-Serving Entity ~~Electric Service Provider~~ selling electricity or aggregating customers for the purpose of selling electricity under the provisions of this Article must derive at least .2% of the total retail energy sold from new solar resources or environmentally-friendly renewable electricity technologies, whether that energy is purchased or generated by the seller. Solar resources include photovoltaic resources and solar thermal resources that generate electricity. New solar resources and environmentally-friendly renewable electricity technologies are those installed on or after January 1, 1997.

1. Electric Service Providers ~~Competitive ESPs~~, that are not UDCs, are exempt from portfolio requirements until 2004, but could voluntarily elect to participate. ESPs choosing to participate would receive a pro rata share of funds collected from the Environmental Portfolio Surcharge delineated in R14-2-1618.A.2 for portfolio purposes to acquire eligible portfolio systems or electricity generated from such systems.

2. Utility Distribution Companies would recover part of the costs of the portfolio standard through current System Benefits Charges, if they exist, including a re-allocation of demand side management funding to portfolio uses. Additional portfolio standard costs will be recovered by a customer Environmental Portfolio Surcharge on the customers' monthly bill. The Environmental Portfolio Surcharge shall be assessed monthly to every metered and/or non-metered retail electric service. This monthly assessment will be the lesser of $0.000375 per kWh or:

- Residential Customers: $.35 per service
- Non-Residential Customers: $13 per service
- Non-Residential Customers whose metered demand is 3,000 kW or more for 3 consecutive months: $39.00 per service.

In the case of unmetered services, the Load-Serving Entity shall, for purposes of billing the

Environmental Portfolio Standard Surcharge and subject to the caps set forth above, use the lesser of (i) the load profile or otherwise estimated kWh required to provide the service in question; or (ii) the service's contract kWh. ~~The Environmental Portfolio Surcharge shall be $.000875 per kWh of retail electricity purchased by the customer. There shall be a surcharge cap of $ .35 per month for residential customers. There shall be a surcharge cap of $13 per month per meter or per service if no meter is used for all non-residential customers, except for those non-residential customers whose meter's registered demand is 3000 kW or more for 3 consecutive months, who will be subject to a surcharge cap of $39.00 per month per meter.~~

3. Customer bills shall reflect a line item entitled "Environmental Portfolio Surcharge, mandated by the Corporation Commission."

4. Utility Distribution Companies or ESPs that do not currently have a renewables program may request a waiver or modification of this section due to extreme circumstances that may exist.

B. The portfolio percentage shall increase after December 31, 2000.

1. Starting January 1, 2001, the portfolio percentage shall increase annually and shall be set according to the following schedule:

YEAR	PORTFOLIO PERCENTAGE
2001	.2%
2002	.4%
2003	.6%
2004	.8%
2005	1.0%
2006	1.05%
2007-2012	1.1%

2. The Commission would continue the annual increase in the portfolio percentage after December 31, 2004 only if the cost of environmental portfolio electricity has declined to a Commission-approved cost/benefit point. The Director, Utilities Division shall establish, not later than January 1, 2003, an Environmental Portfolio Cost Evaluation Working Group to make recommendations to the Commission of an acceptable portfolio electricity cost/benefit point or portfolio kWh cost impact maximum that the Commission could use as a criteria for the decision to continue the increase in the portfolio percentage. The recommendations of the Working Group shall be presented to the Commission not later than June 30 ~~December 31~~, 2003. In no event, however, shall the Commission increase the surcharge caps as delineated in R14-2-1618.A.2 above.

3. The requirements for the phase-in of various technologies shall be:

a. In 2001, the Portfolio kWh makeup shall be at least 50 percent solar electric, and no more than 50 percent other environmentally-friendly renewable electricity technologies or solar hot water or R&D on solar electric resources, but with no more than 10 percent on R&D

b. In 2002 and 2003, the Portfolio kWh makeup shall be at least 50 percent solar electric, and no more than 50 percent other environmentally-friendly renewable electricity technologies or solar hot water or R&D on solar electric resources, but with no more than 5 percent on R&D.

~~e. In 2003, the Portfolio kWh makeup shall be at least 50 percent solar electric, and no more than 50 percent other environmentally-friendly renewable electricity technologies or solar hot water or R&D on solar electric resources, but with no more than 5 percent on R&D.~~

c.~~d.~~ In 2004, through 2012, the portfolio kWh makeup shall be at least 60 percent solar electric with no more than 40 percent solar hot water or other environmentally-friendly renewable electricity technologies.

~~C. The portfolio requirement shall apply to all retail electricity in the years 2001 and thereafter.~~

C.~~D.~~ Load-Serving Entities ~~Electric Service Providers~~ shall be eligible for a number of extra credit multipliers that may be used to meet the portfolio standard requirements. Extra credits may be used to meet portfolio requirements and extra credits from solar electric technologies will also count toward the solar electric fraction requirements in R14-2-1618B.3. With the exception of the Early Installation Extra Credit Multiplier, which has a five-year life from operational start-up, all other extra credit multipliers are valid for the life of the generating equipment.

1. Early Installation Extra Credit Multiplier: For new solar electric systems installed and operating prior to December 31, 2003, Load-Serving Entities ~~Electric Service Providers~~ would qualify for multiple extra credits for kWh produced for 5 years following operational start-up of the solar electric system. The 5-year extra credit would vary depending upon the year in which the system started up, as follows:

YEAR	EXTRA CREDIT MULTIPLIER
1997	.5
1998	.5
1999	.5
2000	.4
2001	.3
2002	.2
2003	.1

Eligibility to qualify for the ~~The~~ Early Installation Extra Credit Multiplier would end in 2003. However, any eligible system that was operational in 2003 or before would still be allowed the applicable extra credit for the full five years after operational start-up.

2. Solar Economic Development Extra Credit Multipliers: There are 2 equal parts to this multiplier, an in-state installation credit and an in-state content multiplier.

   a. In-State Power Plant Installation Extra Credit Multiplier: Solar electric power plants installed in Arizona shall receive a .5 extra credit multiplier.

   b. In-State Manufacturing and Installation Content Extra Credit Multiplier: Solar electric power plants shall receive up to a .5 extra credit multiplier related to the manufacturing and installation content that comes from Arizona. The percentage of Arizona content of the total installed plant cost shall be multiplied by .5 to determine the appropriate extra credit multiplier. So, for instance, if a solar installation included 80% Arizona content, the resulting extra credit multiplier would be .4 (which is .8 X .5).

3. Distributed Solar Electric Generator and Solar Incentive Program Extra Credit Multiplier: Any distributed solar electric generator that meets more than one of the eligibility conditions will be limited to only one .5 extra credit multiplier from this subsection. Appropriate meters will be attached to each solar electric generator and read at least once annually to verify solar performance.

   a. Solar electric generators installed at or on the customer premises in Arizona. Eligible customer premises locations will include both grid-connected and remote, non-grid-connected locations. In order for Load-Serving Entities ~~Electric Service Providers~~ to claim an extra credit multiplier, the Load-Serving Entity ~~Electric Service Provider~~ must have contributed at least 10% of the total installed cost or have financed at least 80% of the total installed cost.

   b. Solar electric generators located in Arizona that are included in any Load-Serving Entity's ~~Electric Service Provider's~~ Green Pricing program.

   c. Solar electric generators located in Arizona that are included in any Load-Serving Entity's ~~Electric Service Provider's~~ Net Metering or Net Billing program.

   d. Solar electric generators located in Arizona that are included in any Load-Serving Entity's ~~Electric Service Provider's~~ solar leasing program.

   e. All Green Pricing, Net Metering, Net Billing, and Solar Leasing programs must have been reviewed and approved by the Director, Utilities Division in order for the Load-Serving Entity ~~Electric Service Provider~~ to accrue extra credit multipliers from this subsection.

4. All multipliers are additive, allowing a maximum combined extra credit multiplier of 2.0 in years 1997-2003, for equipment installed and manufactured in Arizona and either installed at customer premises or

participating in approved solar incentive programs. So, if a ~~an~~ Load-Serving Entity ~~Electric Service Provider~~ qualifies for a 2.0 extra credit multiplier and it produces 1 solar kWh, the Load-Serving Entity ~~Electric Service Provider~~ would get credit for 3 solar kWh (1 produced plus 2 extra credit).

D.E. Load-Serving Entities ~~Electric Service Providers~~ selling electricity under the provisions of this Article shall provide reports on sales and portfolio power as required in this Article, clearly demonstrating the output of portfolio resources, the installation date of portfolio resources, and the transmission of energy from those portfolio resources to Arizona consumers. The Commission may conduct necessary monitoring to ensure the accuracy of these data. Reports shall be made according to the Reporting Schedule in R14-2-1615.B

E.F. If a ~~an~~ Load-Serving Entity ~~Electric Service Provider~~ selling electricity under the provisions of this Article fails to meet the requirements of this rule as modified by the Commission after consideration of the recommendations of the Environmental Portfolio Cost Evaluation Working Group, the Commission may ~~shall~~ impose a deficiency payment ~~penalty~~, beginning no earlier than January 1, 2004, on that Load-Serving Entity ~~Electric Service Provider~~ that the Load-Serving Entity ~~Electric Service Provider~~ pay an amount equal to 30¢ per kWh to the Solar Electric Fund for deficiencies in the provision of solar electricity. This deficiency payment, which is in lieu of any other monetary payment ~~penalty~~ which may be imposed by the Commission, may not be imposed for any calendar year prior to 2004. This Solar Electric Fund will be established and utilized to purchase solar electric generators or solar electricity in the following calendar year for the use by public entities in Arizona such as schools, cities, counties, or state agencies. Title to any equipment purchased by the Solar Electric Fund will be transferred to the public entity. In addition, if the provision of solar energy is consistently deficient, the Commission may void a ~~an~~ Load-Serving Entity's ~~Electric Service Provider's~~ contracts negotiated under this Article.

1. The Director, Utilities Division shall establish a Solar Electric Fund in 2004 to receive deficiency payments and finance solar electricity projects.
2. The Director, Utilities Division shall select an independent administrator for the selection of projects to be financed by the Solar Electric Fund. A portion of the Solar Electric Fund shall be used for administration of the Fund and a designated portion of the Fund will be set aside for ongoing operation and maintenance of projects financed by the Fund.

F.G. Photovoltaic or solar thermal electric resources that are located on the consumer's premises shall count toward the solar portfolio standard applicable to the current Load-Serving Entity ~~Electric Service Provider~~ serving that consumer.

G.H. Any solar electric generators installed by an Affected Utility to meet the environmental portfolio standard shall be counted toward meeting renewable resource goals for Affected Utilities established in Decision No. 58643.

H.~~I.~~ Any Load-Serving Entity ~~Electric Service Provider or independent solar electric generator~~ that produces or purchases any eligible ~~solar~~ kWh in excess of its annual portfolio requirements may save or bank those excess ~~solar~~ kWh for use or sale in future years. Any eligible ~~solar~~ kWh produced subject to this rule may be sold or traded to any Load-Serving Entity ~~Electric Service Provider~~ that is subject to this rule. Appropriate documentation, subject to Commission review, shall be given to the purchasing entity and shall be referenced in the reports of the Load-Serving Entity ~~Electric Service Provider~~ that is using the purchased kWh to meet its portfolio requirements.

I.~~J.~~ Environmental Portfolio Standard requirements shall be calculated on an annual basis, based upon electricity sold during the calendar year.

J.~~K.~~ A ~~An~~ Load-Serving Entity ~~Electric Service Provider~~ shall be entitled to receive a partial credit against the portfolio requirement if the Load-Serving Entity ~~Electric Service Provider~~ or its affiliate owns or makes a significant investment in any solar electric manufacturing plant that is located in Arizona. The credit will be equal to the amount of the nameplate capacity of the solar electric generators produced in Arizona and sold in a calendar year times 2,190 hours (approximating a 25% capacity factor).

1. The credit against the portfolio requirement shall be limited to the following percentages of the total portfolio requirement:

2001	Maximum of 50 % of the portfolio requirement
2002	Maximum of 25 % of the portfolio requirement
2003 and on	Maximum of 20 % of the portfolio requirement

2. No extra credit multipliers will be allowed for this credit. In order to avoid double-counting of the same equipment, solar electric generators that are used by other Load-Serving Entities ~~Electric Service Providers~~ to meet their Arizona portfolio requirements will not be allowable for credits under this Section for the manufacturer/Electric Service Provider to meet its portfolio requirements.

K.~~L.~~ The Director, Utilities Division shall develop appropriate safety, durability, reliability, and performance standards necessary for solar generating equipment and environmentally-friendly renewable electricity technologies and to qualify for the portfolio standard. Standards requirements will apply only to facilities constructed or acquired after the standards are publicly issued.

L.~~M.~~ A ~~An~~ Load-Serving Entity ~~Electric Service Provider~~ shall be entitled to meet up to 20% of the portfolio requirement with solar water heating systems or solar air conditioning systems purchased by the Load-Serving Entity ~~Electric Service Provider~~ for use by its customers, or purchased by its customers and paid for by the Load-Serving Entity ~~Electric Service Provider~~ through bill credits or other similar mechanisms. The solar water heaters must replace or supplement the use of electric water heaters for residential, commercial, or industrial water heating purposes. For the purposes of this rule, solar water heaters will be credited with 1 kWh of

electricity produced for each 3,415 British Thermal Units of heat produced by the solar water heater and solar air conditioners shall be credited with kWhs equivalent to those needed to produce a comparable cooling load reduction. Solar water heating systems and solar air conditioning systems shall be eligible for Early Installation Extra Credit Multipliers as defined in R14-2-1618 C~~D~~.1 and Solar Economic Development Extra Credit Multipliers as defined in R14-2-1618 C~~D~~.2.b.

M.~~N.~~ A ~~An~~ Load-Serving Entity ~~Electric Service Provider~~ shall be entitled to meet the portfolio requirement with electricity produced in Arizona by environmentally-friendly renewable electricity technologies that are defined as in-state landfill gas generators, wind generators, and biomass generators, consistent with the phase-in schedule in R14-2-1618 B.3. Systems using such technologies shall be eligible for Early Installation Extra Credit Multipliers as defined in R14-2-1618 C~~D~~.1 and Solar Economic Development Extra Credit Multipliers as defined in R14-2-1618 C~~D~~.2.b.

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Morgan, Lewis
& Bockius LLP
COUNSELORS AT LAW

May 11, 2001

Snell & Wilmer L.L.P.
One Arizona Center
Phoenix, Arizona 85004

Re: Pinnacle West Capital Corporation Form U-1 Application (File No. 070-09745)

Ladies and Gentlemen:

Morgan, Lewis & Bockius LLP serves as special counsel to Pinnacle West Capital Corporation ("PNW") and its subsidiaries, Arizona Public Service Company ("APS") and Pinnacle West Energy Corporation ("PWE"), on certain federal regulatory matters involving their electric utility operations, exempt wholesale generators ("EWG"), and power marketing activities. We are familiar with the "Development Activities," as such term is defined in the Form U-1 Application (File No. 070-09745) filed with the Securities and Exchange Commission (the "SEC") by PNW on September 12, 2000, as amended on December 8, 2000, January 17, 2001, and April 27, 2001 (the "Application"). We have been asked to provide an opinion that the regulatory applications and approvals that are required under the Public Utility Holding Company Act of 1935, as amended ("PUHCA"), and the Federal Power Act, as amended ("FPA"), in connection with the Development Activities have been obtained from the SEC or the Federal Energy Regulatory Commission ("FERC"), as appropriate.

Capitalized terms used herein and not otherwise defined will have the meanings given in the Application. The term "Associate Companies," when used herein, will have the meaning given in Section 2(a)(10) of PUHCA.

As described in the Application, the Development Activities involve PWE's operation of its West Phoenix Unit No. 4 as a non-EWG under PUHCA. The Development Activities were completed on May 2, 2001, when PWE filed a Notice of Withdrawal of its Application for Determination of Exempt Wholesale Generator Status with FERC. Due to its ownership and operation as a non-EWG of facilities used for the generation of electric energy for sale (i.e., the West Phoenix Unit No. 4 generating facility), PWE is now an "electric utility company" and a "public-utility company," as those terms are defined in Sections 2(a)(3) and 2(a)(5) of PUHCA.

In preparing this opinion we have examined and relied solely upon:

1. The Application for Authorization to Transfer Jurisdictional Facilities filed by Arizona Public Service Company, Pinnacle West Capital Corporation, and Pinnacle West Energy Corporation in Docket No. EC00-118-000 and FERC's Order Authorizing Disposition of Jurisdictional Facilities reported at 93 FERC ¶ 61,216 (2000);

2. The Application filed with the SEC and the SEC's Order Authorizing the Acquisition of a Public Utility Company Subsidiary by an Exempt Holding Company, Holding Company Act Release No. 35-27386 (April 27, 2001);

3. The Notice of Withdrawal filed by PWE on May 2, 2001, with FERC in Docket No. EG01-163-000;

4. In addition, we have examined the originals, or copies certified to our satisfaction, of such corporate records of PNW, APS and PWE and agreements, instruments, and other documents, as we have deemed necessary as a basis for the opinions expressed below.

As to questions of fact material to our opinion, we have, relied upon the statements set forth in the various regulatory filings and corporate documents we examined. We have assumed that such documents accurately describe and contain the understanding of the parties, and that there are no oral or written statements or agreements that modify, amend, or vary, or purport to modify, amend, or vary, any of the terms of such documents.

Based upon the foregoing, and subject to the assumptions and conditions set forth herein, we are of the opinion that all of the regulatory approvals required under PUHCA and the FPA to effect the Reorganization have been obtained.

The opinion expressed herein is limited to the FPA and PUHCA, as interpreted and implemented by the decisions, rules and regulations of the SEC and FERC. We express no opinion on any other statute, or the laws of any other jurisdiction. The opinion expressed herein is based upon the law in effect on the date hereof, and we assume no obligation to revise or supplement this opinion should such law be changed by legislative action, judicial decision, or in any other manner, or otherwise to notify you of any changes in law or fact relevant to the opinion expressed herein. This opinion letter is rendered solely for the benefit of Snell & Wilmer L.L.P. in connection with the transactions described above, and this opinion letter is not to be used, circulated, quoted, or otherwise referred to for any other purpose.

We hereby consent to the use of this opinion as an attachment to an exhibit to the Application.

Very truly yours,

MORGAN, LEWIS & BOCKIUS LLP

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[PRELIMINARY – TRANSFER TRANSACTION]

April 25, 2001

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: Pinnacle West Capital Corporation Form U-1 Application / Declaration
(File No. 070-09745)

Ladies and Gentlemen:

We are Arizona counsel for Pinnacle West Capital Corporation, an Arizona corporation (the "***Company***"), and are familiar with the matters relating to the "***Transfer Transaction***," as such term is defined in the Form U-1 Application / Declaration (File No. 070-09745) under the Public Utility Holding Company Act of 1935, as amended (the "***Act***"), filed with the Securities and Exchange Commission (the "***Commission***") by the Company on September 12, 2000, as amended by filings made on December 8, 2000, January 17, 2001 and April, 2001 (the "***Application***"). Capitalized terms used herein and not otherwise defined will have the meanings given in the Application. The term "***Assets***," when used herein will mean those assets actually contributed to Transitory Subsidiary in the Transfer Transaction, as contemplated in the Application. The term "***Assumed Debt***," when used herein, will mean the indebtedness of APS actually assumed or agreed to be assumed by Transitory Subsidiary and ultimately by PWE in the Transfer Transaction, as contemplated in the Application. Insofar as the fossil assets of APS may be acquired by PWE at different times, it is understood that the term "***Transfer Transaction***," when used herein, will refer only to the first transaction described herein and in the Application whereby PWE acquires Assets of APS. As described in the Application, the Transfer Transaction involves the following:

1. The formation of Transitory Subsidiary as a wholly-owned subsidiary of APS (the "***Formation***");

2. The contribution of the Assets and the Assumed Debt by APS to Transitory Subsidiary in exchange for the common stock of Transitory Subsidiary and the assumption of or agreement to assume the Assumed Debt (the "***Capitalization***");

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3. The distribution of the stock of Transitory Subsidiary by APS to the Company (the "***Spin-off***"); and

4. The merger of Transitory Subsidiary into PWE, with PWE surviving (the "***Merger***").

Among other things, we have examined:

(a) The Application;

(b) The parties' corporate proceedings and the proceedings before the Arizona Corporation Commission (the "***ACC***") relative to the Transfer Transaction and related matters; and

(c) Such other documents and certificates (including those being delivered to you concurrently herewith) and such statutes, rules, and regulations as we have deemed relevant.

In our examination of the documents referred to above, we have assumed (i) the genuineness of the signatures not witnessed, the authenticity of documents submitted to us as originals, and the conformity to originals of documents submitted to us as copies; (ii) the legal capacity of all natural persons executing such documents; (iii) that such documents accurately describe and contain the mutual understanding of the parties, and that there are no oral or written statements or agreements that modify, amend, or vary, or purport to modify, amend, or vary, any of the terms of such documents; (iv) with respect to the Assumed Debt, that each such entity (other than APS, PWE, and Transitory Subsidiary), and with respect to all such other documents, that each such entity, had the power to enter into and perform its obligations under such documents, and that such documents have been duly authorized, executed, and delivered by, and are valid, binding upon, and enforceable against, such entities; (v) that the parties to such documents will receive no interest, charges, fees, or other benefits or compensation in the nature of interest in connection with the transactions other than those that the Company has agreed in writing in such documents to pay; and (vi) that no fraud has occurred in connection with such transactions.

Based upon the foregoing, and subject to the assumptions and conditions set forth herein, we are of the opinion that, in the event that the Transfer Transaction is consummated in accordance with the Application:

1. All laws of the State of Arizona applicable to the Company's acquisition of PWE as a public utility company through the Transfer Transaction will have been complied with.

2. Following the Formation and the Capitalization, Transitory Subsidiary will be validly organized and duly existing.

3. The common stock of Transitory Subsidiary issued to APS in the Formation and the Capitalization will be validly issued, fully paid and non-assessable, and APS, as the holder of such stock following the Formation and the Capitalization, and the Company, as the holder of such stock immediately following the Spin-off, will be entitled to the rights and privileges appertaining thereto set forth in the articles of incorporation of Transitory Subsidiary.

4. PWE is validly organized and duly existing.

5. The common stock of PWE held by the Company is validly issued, fully paid and non-assessable, and the Company legally acquired such stock and is entitled to the rights and privileges appertaining thereto set forth in the articles of incorporation of PWE.

6. The common stock of PWE to be held by the Company following the Transfer Transaction will be validly issued, fully paid and non-assessable, and the Company, as the holder of such stock immediately following the Merger, will be entitled to the rights and privileges appertaining thereto set forth in the articles of incorporation of PWE.

7. Following the Capitalization, the Assumed Debt that is assumed effective as of the date of the Capitalization will be the valid and binding obligation of Transitory Subsidiary in accordance with its terms. Upon the effective time of the Merger, the Assumed Debt that is assumed effective as of the date of the Merger be the valid and binding obligation of PWE in accordance with its terms.

8. Upon the effective time of the Spin-off, the Company will legally acquire the common stock of Transitory Subsidiary issued in the Capitalization.

9. The consummation of the Transfer Transaction will not violate the legal rights of the holders of any securities issued by the Company or any "associate company," as defined in the Act, thereof.

The opinions expressed above are subject to the following assumptions and conditions:

(a) The Transfer Transaction, as contemplated by the Application, will be authorized by the Commission. The Commission will duly enter an appropriate order or orders with respect to the Transfer Transaction, as described in the Application, granting and permitting the Application to become effective under the Act and the

rules and regulations thereunder and the Transfer Transaction will be consummated in accordance with the Application.

(b) The Transfer Transaction will be duly authorized and approved to the extent required by the governing documents and applicable federal and state laws, by the board of directors of each of APS, Transitory Subsidiary and PWE, and by the Company as the sole shareholder of APS, Transitory Subsidiary and PWE, and such authorizations and approvals remain in full force and effect.

(c) Without limitation of paragraph (b) above, the board of directors of Transitory Subsidiary will authorize the issuance of the common stock to APS in the Capitalization in accordance with Arizona law, and the number of shares so issued will be authorized in the articles of incorporation of Transitory Subsidiary.

(d) The Spin-off will be effected in accordance with Arizona law and the amount thereof will not exceed any limitation contained in APS' articles of incorporation.

(e) Instruments of merger will be duly and validly filed with the ACC, and such other corporate formalities as are required by the laws of the State of Arizona for the consummation of the Merger will be taken, and the Merger will become effective in accordance with the laws of the State of Arizona.

(f) None of the Capitalization, the Spin-off or the Merger will constitute a fraudulent conveyance and APS will not be rendered insolvent as a result of the Transfer Transaction.

(g) All required approvals, authorizations, consents, certificates, and orders of, and all filings and registrations with, all applicable federal and state commissions and regulatory authorities with respect to the Transfer Transaction will be obtained or made, as the case may be, and remain in effect (including the approval and authorization of the Commission under the Act, the Federal Energy Regulatory Commission under the Federal Power Act, as amended, and the rules and regulations thereunder, and the ACC under the applicable laws of the State of Arizona), and the Transfer Transaction will be accomplished in accordance with all such approvals, authorizations, consent, certificates, orders, filings and registrations. APS will not utilize utility funds to form Transitory Subsidiary or to divest itself of Transitory Subsidiary.

(h) The parties will comply with, or obtain all consents, waivers and releases, if any, required for the Transfer Transaction under all applicable governing corporate documents, contracts, agreements, debt instruments, indentures, franchises,

licenses, and permits to be listed on a schedule to be provided by the Company and/or any of its associate companies.

(i) Our opinions herein are given solely with respect to the actual effectuation of the Transfer Transaction, including with respect to consents, licenses, permits, filings with and approvals of governmental authorities that are required to effect the Transfer Transaction, and no opinion is given as to whether APS, the Company, Transitory Subsidiary, or PWE or their businesses or operations are currently in compliance with any laws or will be after the Transfer Transaction or as to any consents, licenses, permits, filings with or approvals of any governmental body or agency or other person required for the ownership or operation of the Assets before or following the Transfer Transaction.

(j) The opinions set forth in paragraph 7 herein are subject to, and limited by, the following:

(i) the effect of any applicable bankruptcy, insolvency, reorganization, arrangement, moratorium or other similar laws relating to or affecting creditors rights generally;

(ii) the effect of general principles of equity, including (without limitation) concepts of materiality, reasonableness, good faith and fair dealing (regardless of whether considered in a proceeding in equity or at law);

(iii) the qualification that certain waivers, procedures, remedies, and other provisions of the documents governing the Assumed Debt may be unenforceable under or limited by the law of the State of Arizona; however, such law does not, in our opinion, substantially prevent the practical realization of the benefits intended by such documents; and

(iv) we express no opinion as to the effect of the law of any jurisdiction other than the State of Arizona wherein any creditor may be located or wherein enforcement of the Assumed Debt may be sought which limits the rates of interest legally chargeable or collectible.

(k) No act or event other than as described herein shall have occurred subsequent to the date hereof that would change the opinions expressed herein.

(l) The Transfer Transaction will be consummated as described in the Application or with such changes as we have approved, and all legal matters incident thereto will be satisfactory to us. With respect to required approvals of the ACC, we note that two parties have filed legal actions challenging the validity of the Settlement as

approved by the ACC. However, under Arizona law, an ACC order remains in effect pending appeal.

(m) In giving the final opinion required by the Commission in connection with the Transfer Transaction in the event that the Transfer Transaction occurs prior to the Development Activities and relinquishment by PWE of EWG status in connection therewith as described in the Application, we may rely exclusively upon opinions of other counsel to the Company as to certain matters, or such other counsel may provide certain of such opinions in separate opinion letters provided to the Commission concurrently with our final opinion.

The opinions expressed herein are limited to the laws of the State of Arizona and, except with respect to paragraphs 1, 2, and 4, the federal law of the United States of America and we express no opinion on the laws of any other jurisdiction. Without limiting the foregoing, opinions herein relating to labor/employment or employee benefit matters, environmental matters, tax matters, and real estate matters are limited to the laws of the State of Arizona. The opinions expressed herein are based upon the law in effect on the date hereof, and we assume no obligation to revise or supplement this opinion should such law be changed by legislative action, judicial decision, or in any other manner, or otherwise to notify you of any changes in law or fact relevant to the opinions expressed herein. This opinion letter is rendered solely for your benefit in connection with the transactions described above, and this opinion letter is not to be used, circulated, quoted, or otherwise referred to for any other purpose.

We hereby consent to the use of this opinion as an exhibit to the Application.

Very truly yours,

Snell & Wilmer L.L.P.

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[PRELIMINARY – DEVELOPMENT ACTIVITIES]

April 25, 2001

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: Pinnacle West Capital Corporation Form U-1 Application / Declaration
(File No. 070-09745)

Ladies and Gentlemen:

We are Arizona counsel for Pinnacle West Capital Corporation, an Arizona corporation (the "***Company***"), and are familiar with the matters relating to the "***Development Activities***," as such term is defined in the Form U-1 Application / Declaration (File No. 070-09745) under the Public Utility Holding Company Act of 1935, as amended (the "***Act***"), filed with the Securities and Exchange Commission (the "***Commission***") by the Company on September 12, 2000, as amended by filings made on December 8, 2000, January 17, 2001 and April, 2001 (the "***Application***"). Capitalized terms used herein and not otherwise defined will have the meanings given in the Application.

Among other things, we have examined:

(a) The Application; and

(b) Such other documents and certificates (including those being delivered to you concurrently herewith) and such statutes, rules, and regulations as we have deemed relevant.

In our examination of the documents referred to above, we have assumed (i) the genuineness of the signatures not witnessed, the authenticity of documents submitted to us as originals, and the conformity to originals of documents submitted to us as copies; (ii) the legal capacity of all natural persons executing such documents; (iii) that such documents accurately describe and contain the mutual understanding of the parties, and that there are no oral or written statements or agreements that modify, amend, or vary, or purport to modify, amend, or vary, any of the terms of such documents; (iv) that each such party had the power to enter into and perform

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its obligations under such documents, and that such documents have been duly authorized, executed, and delivered by, and are valid, binding upon, and enforceable against, such party; (v) that the parties to such documents will receive no interest, charges, fees, or other benefits or compensation in the nature of interest in connection with the transactions other than those that the Company has agreed in writing in such documents to pay; and (vi) that no fraud has occurred in connection with such transactions.

Based upon the foregoing, and subject to the assumptions and conditions set forth herein, we are of the opinion that, in the event that the Development Activities are consummated in accordance with the Application:

1. All laws of the State of Arizona applicable to the Company's acquisition of PWE as a public utility company through the Development Activities will have been complied with.

2. PWE is validly organized and duly existing.

3. The common stock of PWE held by the Company is validly issued, fully paid and non-assessable, and the Company legally acquired such stock and is entitled to the rights and privileges appertaining thereto set forth in the articles of incorporation of PWE.

4. The consummation of the Development Activities will not violate the legal rights of the holders of any securities issued by the Company or any "associate company," as defined in the Act, thereof.

The opinions expressed above are subject to the following assumptions and conditions:

(a) The Development Activities, as contemplated by the Application, will be authorized by the Commission. The Commission will duly enter an appropriate order or orders with respect to the Development Activities, as described in the Application, granting and permitting the Application to become effective under the Act and the rules and regulations thereunder and the Development Activities will be consummated in accordance with the Application.

(b) The Development Activities will be duly authorized and approved to the extent required by the governing documents and applicable federal and state laws, by the board of directors of PWE, and such authorizations and approvals remain in full force and effect.

(c) All required approvals, authorizations, consents, certificates, and orders of, and all filings and registrations with, all applicable federal and state commissions and

regulatory authorities with respect to the Development Activities will be obtained or made, as the case may be, and remain in effect (including the approval and authorization of the Commission under the Act, and any required approvals of the Federal Energy Regulatory Commission under the Federal Power Act, as amended, and the rules and regulations thereunder, and the Arizona Corporation Commission under the applicable laws of the State of Arizona), and the Development Activities will be accomplished in accordance with all such approvals, authorizations, consent, certificates, orders, filings and registrations.

(d) The parties will comply with, or obtain all consents, waivers and releases, if any, required for the Development Activities under all applicable governing corporate documents, contracts, agreements, debt instruments, indentures, franchises, licenses, and permits to be listed on a schedule to be provided by the Company and/or any of its associate companies.

(e) Our opinions herein are given solely with respect to the actual effectuation of the Development Activities, including with respect to consents, licenses, permits, filings with and approvals of governmental authorities that are required to effect the Development Activities, and no opinion is given as to whether APS, the Company, or PWE or their businesses or operations are currently in compliance with any other laws or will be after the Development Activities.

(f) No act or event other than as described herein shall have occurred subsequent to the date hereof that would change the opinions expressed herein.

(g) The Development Activities will be consummated as described in the Application or with such changes as we have approved, and all legal matters incident thereto will be satisfactory to us.

(h) In giving the final opinion required by the Commission in connection with the Development Activities in the event that the Development Activities and the relinquishment by PWE of EWG status in connection therewith occurs prior to the Transfer Transaction as described in the Application, we may rely exclusively upon opinions of other counsel to the Company (including in-house counsel) as to certain matters, or such other counsel may provide certain of such opinions in separate opinion letters provided to the Commission concurrently with our final opinion.

The opinions expressed herein are limited to the laws of the State of Arizona and, with respect to paragraphs 3 and 4, the federal law of the United States of America and we express no opinion on the laws of any other jurisdiction. Without limiting the foregoing, opinions herein relating to labor/employment or employee benefit matters, environmental matters, tax matters,

and real estate matters are limited to the laws of the State of Arizona. The opinions expressed herein are based upon the law in effect on the date hereof, and we assume no obligation to revise or supplement this opinion should such law be changed by legislative action, judicial decision, or in any other manner, or otherwise to notify you of any changes in law or fact relevant to the opinions expressed herein. This opinion letter is rendered solely for your benefit in connection with the transactions described above, and this opinion letter is not to be used, circulated, quoted, or otherwise referred to for any other purpose.

We hereby consent to the use of this opinion as an exhibit to the Application.

Very truly yours,

Snell & Wilmer L.L.P.

THE LAW FIRM OF
KELEHER
&McLEOD
A PROFESSIONAL ASSOCIATION

Susan M. McCormack
Attorney at Law
Direct Dial: 505-346-9136
E-MAIL smm@keleher-law.com

April 26, 2001

Via Facsimile (202)467-7176
and Overnight Courier

Mary Ann Huntington
Morgan, Lewis & Bockius LLP
1800 M Street, NW
Washington, DC 20036

Re: Pinnacle West Capital Corporation
Form U-1 Application/Declaration
(File No. 070-09745), as amended (the "Application")

Dear Ms. Huntington:

Enclosed please find one executed original and one copy of our revised preliminary opinion dated April 26, 2001, which we understand will be filed together with recent amendments to the Application.

Very truly yours,

KELEHER & McLEOD, P.A.

By: Susan McCormack
Susan M. McCormack

SMM/sls0822
Enclosure

cc: Betsy Pregulman, Esq.
Herbert Zinn, Esq.
Charles L. Moore, Esq.

W. A. Keleher *(1886-1972)*
A.H. McLeod *(1902-1976)*

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[PRELIMINARY]

April 26, 2001

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: Pinnacle West Capital Corporation
Form U-1 Application/Declaration
(File No. 070-09745)

Ladies and Gentlemen:

We are special New Mexico counsel for Pinnacle West Capital Corporation, an Arizona corporation (the "**Company**"), in regard to certain matters relating to the "**Reorganization,**" as such term is defined in the Form U-1 Application/Declaration (File No. 070-09745) under the Public Utility Holding Company Act of 1935, as amended (the "**Act**"), filed with the Securities and Exchange Commission (the "**Commission**") by the Company on September 12, 2000, as amended by filings made on December 8, 2001, January 17, 2001 and April, 2001 (the "**Application**"). Capitalized terms used herein and not otherwise defined will have the meanings given in the Application, which we have examined. The term "**Four Corners Transfer,**" when used herein, will mean the transfer of the Four Corners Power Plant from APS, an Arizona corporation, to PWE, an Arizona corporation, pursuant to the Reorganization, as contemplated in the Application.

We understand that the Company was formed in 1985 under the laws of Arizona as a holding company owning APS and certain other subsidiaries. We also understand that the Company formed PWE in 1999 under the laws of Arizona, as a wholly owned subsidiary of the Company.

We have relied upon the following representations made to us by the Company:

(A) The Company, itself, is not engaged in any business in the State of New Mexico, except that from October 1, 2000 to the present, the Company has been engaged in the purchase and sale of power and energy, at wholesale, from the switchyard of the Four Corners Power Plant, located within the boundaries of the Navajo Reservation; and

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A.H. McLeod (1902-1976)

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Running Horses © Gray Mercer 1989, provided for the City of Albuquerque Public Art Collection in 1991.

(B) Only two subsidiaries of the Company conduct business in the State of New Mexico: (1) SunCor Development Company, an Arizona corporation, which owns and operates certain residential or commercial real estate properties in New Mexico; and (2) APS.

APS has represented to us, and we have relied upon such representation, that the only business in which it is engaged in the State of New Mexico consists of and is limited to ownership and operation of electric generating units (or undivided interests therein) and electric transmission lines, sales of electricity at retail to BHP Navajo Coal Company ("**BHP**") solely for its conduct of coal mining operations on the Navajo Reservation which provides coal to the Four Corners Power Plant for the generation of electricity ("**BHP Contract**"), transmission of electricity from Tucson Electric Power Company to the Navajo Tribal Utility Authority for resale, and wholesale transactions with other utilities.

APS and PWE have represented to us, and we have relied upon such representation, that the only asset located in the State of New Mexico that is being transferred from APS to PWE pursuant to the Reorganization is the Four Corners Power Plant.

PWE has represented to us, and we have relied upon such representation, that it is not currently engaged in any business in the State of New Mexico, and that the only business in which it will be engaged in the State of New Mexico immediately following the Reorganization consists of and is limited to ownership and operation of electric generating units (or undivided interests therein) at the Four Corners Power Plant and the sale of power and energy at wholesale from the Four Corners Power Plant.

Our opinions herein are given solely with respect to the actual effectuation of the Four Corners Transfer, and no opinion is given as to whether APS, the Company, Transitory Subsidiary or PWE, or their businesses or operations, are currently in compliance with any laws, or will be after the Reorganization, or as to any consents, licenses, permits, filings with or approvals of any governmental body or agency or other person required for the ownership or operation of the Four Corners Power Plant before or following the Reorganization.

Our opinions relate only to the Four Corners Transfer. In respect only of the laws of New Mexico, and subject to the qualifications and limitations with respect to this opinion letter set forth above, we are of the opinion that:

1. The activities of APS in the State of New Mexico to date do not constitute it a "public utility" as that term is defined in the relevant laws of the State of New Mexico, and accordingly, no approval, authorization, or consent of the New Mexico Public Regulation Commission is required by APS for the Four Corners Transfer contemplated in the Application. In addition, the rates and charges pursuant to the BHP Contract between APS and BHP are not subject to regulation by the New Mexico Public Regulation Commission.

2. The activities of PWE in the State of New Mexico to date do not, and immediately following the Reorganization will not, constitute it a "public utility" as that term is defined in the relevant laws of the State of New Mexico, and accordingly, no approval, authorization, or consent of the New Mexico Public Regulation Commission is required by PWE for the Four Corners Transfer contemplated in the Application.

3. The activities of the Company in the State of New Mexico to date do not constitute it a "public utility" as that term is defined in the relevant laws of the State of New Mexico, and accordingly, no approval authorization, or consent of the New Mexico Public Regulation Commission is required by the Company for the Four Corners Transfer contemplated in the Application.

4. All laws of the State of New Mexico applicable to PWE becoming, pursuant to the Reorganization, a "public utility company" under the Act and to the Company then holding, pursuant to the Reorganization, two such "public utility companies", APS and PWE, if any, have been complied with.

The opinions expressed herein are limited to the laws of the State of New Mexico and we express no opinion about the laws of any other jurisdiction. The opinions expressed herein are based upon the law in effect on the date hereof, and we assume no obligation to revise or supplement this opinion should such law be changed by legislative action, judicial decision, or in any other manner, or otherwise to notify you of any changes in law or fact relevant to the opinions expressed herein. Without limitation of the foregoing, we express no opinion on the requirements that might become applicable upon the implementation of open access in New Mexico, currently scheduled to begin January 1, 2007. This opinion letter is rendered solely for your benefit in connection with the Four Corners Transfer described above, and this opinion letter is not to be used, circulated, quoted, or otherwise referred to for any other purpose.

We hereby consent to the use of this opinion as an exhibit to the Application.

Yours truly,

KELEHER & MCLEOD, P.A.

By: Susan McCormack
Susan M. McCormack

sls0801:ver2

THE LAW FIRM OF
KELEHER
&McLEOD
A PROFESSIONAL ASSOCIATION

[PRELIMINARY]

April 26, 2001

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: Pinnacle West Capital Corporation
Form U-1 Application/Declaration
(File No. 070-09745)

Ladies and Gentlemen:

We are special New Mexico counsel for Pinnacle West Capital Corporation, an Arizona corporation (the "**Company**"), in regard to certain matters relating to the "**Reorganization,**" as such term is defined in the Form U-1 Application/Declaration (File No. 070-09745) under the Public Utility Holding Company Act of 1935, as amended (the "**Act**"), filed with the Securities and Exchange Commission (the "**Commission**") by the Company on September 12, 2000, as amended by filings made on December 8, 2001, January 17, 2001 and April, 2001 (the "**Application**"). Capitalized terms used herein and not otherwise defined will have the meanings given in the Application, which we have examined. The term "**Four Corners Transfer,**" when used herein, will mean the transfer of the Four Corners Power Plant from APS, an Arizona corporation, to PWE, an Arizona corporation, pursuant to the Reorganization, as contemplated in the Application.

We understand that the Company was formed in 1985 under the laws of Arizona as a holding company owning APS and certain other subsidiaries. We also understand that the Company formed PWE in 1999 under the laws of Arizona, as a wholly owned subsidiary of the Company.

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(A) The Company, itself, is not engaged in any business in the State of New Mexico, except that from October 1, 2000 to the present, the Company has been engaged in the purchase and sale of power and energy, at wholesale, from the switchyard of the Four Corners Power Plant, located within the boundaries of the Navajo Reservation; and

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APS and PWE have represented to us, and we have relied upon such representation, that the only asset located in the State of New Mexico that is being transferred from APS to PWE pursuant to the Reorganization is the Four Corners Power Plant.

PWE has represented to us, and we have relied upon such representation, that it is not currently engaged in any business in the State of New Mexico, and that the only business in which it will be engaged in the State of New Mexico immediately following the Reorganization consists of and is limited to ownership and operation of electric generating units (or undivided interests therein) at the Four Corners Power Plant and the sale of power and energy at wholesale from the Four Corners Power Plant.

Our opinions herein are given solely with respect to the actual effectuation of the Four Corners Transfer, and no opinion is given as to whether APS, the Company, Transitory Subsidiary or PWE, or their businesses or operations, are currently in compliance with any laws, or will be after the Reorganization, or as to any consents, licenses, permits, filings with or approvals of any governmental body or agency or other person required for the ownership or operation of the Four Corners Power Plant before or following the Reorganization.

Our opinions relate only to the Four Corners Transfer. In respect only of the laws of New Mexico, and subject to the qualifications and limitations with respect to this opinion letter set forth above, we are of the opinion that:

1. The activities of APS in the State of New Mexico to date do not constitute it a "public utility" as that term is defined in the relevant laws of the State of New Mexico, and accordingly, no approval, authorization, or consent of the New Mexico Public Regulation Commission is required by APS for the Four Corners Transfer contemplated in the Application. In addition, the rates and charges pursuant to the BHP Contract between APS and BHP are not subject to regulation by the New Mexico Public Regulation Commission.

2. The activities of PWE in the State of New Mexico to date do not, and immediately following the Reorganization will not, constitute it a "public utility" as that term is defined in the relevant laws of the State of New Mexico, and accordingly, no approval, authorization, or consent of the New Mexico Public Regulation Commission is required by PWE for the Four Corners Transfer contemplated in the Application.

3. The activities of the Company in the State of New Mexico to date do not constitute it a "public utility" as that term is defined in the relevant laws of the State of New Mexico, and accordingly, no approval authorization, or consent of the New Mexico Public Regulation Commission is required by the Company for the Four Corners Transfer contemplated in the Application.

4. All laws of the State of New Mexico applicable to PWE becoming, pursuant to the Reorganization, a "public utility company" under the Act and to the Company then holding, pursuant to the Reorganization, two such "public utility companies", APS and PWE, if any, have been complied with.

The opinions expressed herein are limited to the laws of the State of New Mexico and we express no opinion about the laws of any other jurisdiction. The opinions expressed herein are based upon the law in effect on the date hereof, and we assume no obligation to revise or supplement this opinion should such law be changed by legislative action, judicial decision, or in any other manner, or otherwise to notify you of any changes in law or fact relevant to the opinions expressed herein. Without limitation of the foregoing, we express no opinion on the requirements that might become applicable upon the implementation of open access in New Mexico, currently scheduled to begin January 1, 2007. This opinion letter is rendered solely for your benefit in connection with the Four Corners Transfer described above, and this opinion letter is not to be used, circulated, quoted, or otherwise referred to for any other purpose.

We hereby consent to the use of this opinion as an exhibit to the Application.

Yours truly,

KELEHER & MCLEOD, P.A.

By: Susan M. McCormack
Susan M. McCormack

sls0801:ver2

As filed with the Securities and Exchange Commission on May 11, 2001

File No. 070-9745

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 4 TO
FORM U-1
APPLICATION
UNDER
THE PUBLIC UTILITY HOLDING COMPANY ACT OF 1935

PINNACLE WEST CAPITAL CORPORATION
400 East Van Buren Street, Suite 700
Phoenix, Arizona 85004

(Name of company filing this statement and address of principal executive offices)

None

(Name of top registered holding company parent)

Herbert I. Zinn	**Mary Ann K. Huntington**
Pinnacle West Capital Corporation	**Morgan, Lewis & Bockius LLP**
400 North Fifth Street	**1800 M Street, N.W.**
Mail Station 8695	**Washington, D.C. 20036**
Phoenix, Arizona 85004	

(Name and address of agents for service)

The Commission is requested to send copies of all notices, orders, and communications in connection with this Application to:

Herbert I. Zinn	**Mary Ann K. Huntington**
Pinnacle West Capital Corporation	**Morgan, Lewis & Bockius LLP**
400 North Fifth Street	**1800 M Street, N.W.**
Mail Station 8695	**Washington, D.C. 20036**
Phoenix, Arizona 85004	

Certificate Pursuant to Rule 24

Pinnacle West Capital Corporation (PNW) hereby files this Certificate of Notification (the Certificate) in connection with the transactions proposed in the Form U-1 Application dated September 12, 2000, as amended by filings made on December 8, 2000, January 17, 2001 and April 27, 2001, filed by PNW in File No. 70-9745. These transactions were authorized by order of the Securities and Exchange Commission (the Commission) dated April 27, 2001 (Order). PNW hereby certifies the matters set forth below pursuant to 17 C.F.R. 250.24 of the Commission's regulations under the Public Utility Holding Company Act of 1935:

1. On May 2, 2001, Pinnacle West Energy Corporation (PWE), a wholly-owned subsidiary of PNW, filed with the Federal Energy Regulatory Commission (FERC) a Notice of Withdrawal of its Application for Determination of Exempt Wholesale Generator (EWG) Status.

2. The Development Activities, as that term is defined in the Application, were carried out in accordance with the terms and conditions of and for the purposes represented by the Application of PNW to the Commission dated September 12, 2000, as amended, and by the Order of the Commission, dated April 27, 2001 (Release No. 35-27386).

3. Pursuant to paragraph F.(2) of the instructions as to exhibits for Form U-1, filed herewith as Exhibit F-2 to the Application are the "past tense" opinions of counsel.

Dated May 11, 2001.

PINNACLE WEST CAPITAL CORPORATION

BY: Barbara M. Gomez
Treasurer

Snell & Wilmer
L.L.P.
LAW OFFICES

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[FINAL – DEVELOPMENT ACTIVITIES]

PHOENIX, ARIZONA
TUCSON, ARIZONA
IRVINE, CALIFORNIA
SALT LAKE CITY, UTAH
DENVER, COLORADO

May 11, 2001

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: Pinnacle West Capital Corporation Form U-1 Application / Declaration
(File No. 070-09745)

Ladies and Gentlemen:

We are Arizona counsel for Pinnacle West Capital Corporation, an Arizona corporation (the "***Company***"), and are familiar with the matters relating to the "***Development Activities***," as such term is defined in the Form U-1 Application / Declaration (File No. 070-09745) (the "***Original Application***"), under the Public Utility Holding Company Act of 1935, as amended (the "***Act***"), filed with the Securities and Exchange Commission (the "***Commission***") by the Company on September 12, 2000, as amended by filings made by the Company with the Commission on December 8, 2000, January 17, 2001 and April 27, 2001 (the Original Application, as so amended, being referred to herein as the "***Application***"). The term "Associate Company" has the meaning given in the Act. Capitalized terms used herein and not otherwise defined will have the meanings given in the Application.

Among other things, we have examined:

(a) The Application; and

(b) Such other documents and certificates (including those being delivered to you concurrently herewith) and such statutes, rules, and regulations as we have deemed relevant.

In giving the opinions herein, we have relied upon a certification by an appropriate officer of the Company as to the securities issued by the Company and each Associate Company of the Company in connection with the Development Activities and the documents evidencing the same (the "***Securities Documents***"). We have examined the originals, or copies certified to our satisfaction, of the Securities Documents. In addition, we have examined the originals, or copies certified to our satisfaction, of such corporate records of the Company and PWE, certificates of public officials and of officers of the Company or any of the Associate Companies, and agreements, instruments, and other documents, as we have deemed necessary as a basis for the opinions expressed below. As to questions of fact material to such opinions, we have, when relevant facts were not independently established by us, relied upon certificates of appropriate officers of the Company or an Associate Company or of public officials.

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(c) In giving the opinion in paragraphs 1 and 5 hereof, we have relied solely on the opinion of Nancy Loftin, the General Counsel of the Company, filed concurrently herewith, and no other investigation of such matters has been made.

The opinions expressed herein are limited to the laws of the State of Arizona and, with respect to paragraphs 3, 4 and 5 herein, the federal law of the United States of America and we express no opinion on the laws of any other jurisdiction. The opinions expressed herein are based upon the law in effect on the date hereof, and we assume no obligation to revise or supplement this opinion should such law be changed by legislative action, judicial decision, or in any other manner, or otherwise to notify you of any changes in law or fact relevant to the opinions expressed herein. This opinion letter is rendered solely for your benefit in connection with the transactions described above, and this opinion letter is not to be used, circulated, quoted, or otherwise referred to for any other purpose.

We hereby consent to the use of this opinion as an exhibit to the Application.

Very truly yours,

Snell & Wilmer LLP

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05-10-01 15:19 APS / PNW CC ID=602 250 3701 P.02

PINNACLE WEST
CAPITAL CORPORATION

Nancy C. Loftin
Vice President and
General Counsel

May 11, 2001

Snell & Wilmer
400 East Van Buren
Phoenix, Arizona 85004

Re: Pinnacle West Capital Corporation Form U-1 Application/Declaration
(File No. 070-09745)

Ladies and Gentlemen:

The Pinnacle West Capital Corporation Law Department provides and coordinates legal services for Pinnacle West Capital Corporation, an Arizona corporation (the "***Company***"), and is familiar with the matters relating to the "***Development Activities***," as such term is defined in the Form U-1 Application/Declaration (File No. 070-09745) (the "***Original Application***"), under the Public Utility Holding Company Act of 1935, as amended (the "***Act***"), filed with the Securities and Exchange Commission (the "***Commission***") by the Company on September 12, 2000, as amended by filings made by the Company with the Commission on December 8, 2000, January 17, 2001 and April 27, 2001 (the Original Application, as so amended, being referred to herein as the "***Application***"). The term "Associate Company" has the meaning given in the Act. Capitalized terms used herein and not otherwise defined will have the meanings given in the Application.

Among other things, we have examined:

(a) The Application; and

(b) Such other documents and certificates (including those being delivered to you concurrently herewith) and such statutes, rules, and regulations as we have deemed relevant.

In addition, we have examined the originals, or copies certified to our satisfaction, of such corporate records of the Company and PWE, certificates of public officials and of officers of the Company or any of the Associate Companies, and agreements, instruments,

P.O. Box 53999 Station 9068 Phoenix, AZ 85072-3999 602-250-3252 Fax 602-250-3002 E-Mail: nloftin@apsc.com

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relevant to the opinions expressed herein. This opinion letter is rendered solely for your benefit in connection with the rendering of your final legal opinion to the Securities and Exchange Commission as it relates to the transactions described above, and this opinion letter is not to be used, circulated, quoted, or otherwise referred to for any other purpose.

We hereby consent to the use of this opinion as an exhibit to the Application.

Very truly yours,

PINNACLE WEST CAPITAL
CORPORATION
LAW DEPARTMENT

Nancy C. Loftin
Vice President & General Counsel

NCL:HIZ:llc

THE LAW FIRM OF
KELEHER
&McLEOD
A PROFESSIONAL ASSOCIATION

May 7, 2001

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: Pinnacle West Capital Corporation
Form U-1 Application/Declaration
(File No. 070-09745)

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1. The activities of APS in the State of New Mexico to date do not constitute it a "public utility" as that term is defined in the relevant laws of the State of New Mexico, and accordingly, no approval, authorization, or consent of the New Mexico Public Regulation Commission is required by APS for the Four Corners Transfer contemplated in the Application. In addition, the rates and charges pursuant to the BHP Contract between APS and BHP are not subject to regulation by the New Mexico Public Regulation Commission.

2. The activities of PWE in the State of New Mexico to date do not, and immediately following the Reorganization will not, constitute it a "public utility" as that term is defined in the relevant laws of the State of New Mexico, and accordingly, no approval, authorization, or consent of the New Mexico Public Regulation Commission is required by PWE for the Four Corners Transfer contemplated in the Application.

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4. All laws of the State of New Mexico applicable to PWE becoming, pursuant to the Reorganization, a "public utility company" under the Act and to the Company then holding, pursuant to the Reorganization, two such "public utility companies", APS and PWE, if any, have been complied with.

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We hereby consent to the use of this opinion as an exhibit to the Application.

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KELEHER & MCLEOD, P.A.

By: Susan McCormack
Susan M. McCormack

sls0801:ver3