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PINNACLE WEST  
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CAPITAL CORPORATION

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July 26, 2006

AZ CORP COMMISSION  
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ARIZONA CORPORATION COMMISSION  
1200 West Washington  
Phoenix, AZ 85007

Arizona Corporation Commission  
DOCKETED

JUL 26 2006

DOCKETED BY  
nr

**Re: Recent Media Coverage of Pinnacle West and Arizona Public Service Company Earnings; Docket No. E-01345A-05-0816**

Dear Commissioners:

Recently, there have been a number of media reports that inaccurately characterize the company's second quarter earnings. One of those stories in the Saturday edition of The Arizona Republic was highly misleading with respect to both Pinnacle West's and APS' financial results, which their Monday edition "correction" did little to remedy. With respect to Pinnacle West, the media seems determined (I assume in the interest of a colorful headline) to ignore, among other facts, the most significant cause of the total increase in our reported results: a \$59 million (after tax) write-off a year ago related to the loss associated with the sale of the unregulated Silverhawk Power Station in Nevada.

As to APS itself, the first quarter financial information provided to Staff reflects a twelve-month ended return on equity ("ROE") of a meager 5.0 percent. Second quarter information that we will soon file will reflect a ROE of only 5.7 percent. Much of this modest improvement is attributable to record hot weather and one-time tax credits – events that will not be repeated soon if at all. Our allowed ROE, as you know, is 10.25 percent. This ROE deficit translates into a \$134 million earnings shortfall for just the past 12 months. Furthermore, our FFO/Debt ratio, a critical measure of creditworthiness, while improved somewhat as a result of recent Commission actions, is at 16.5 percent – significantly below the credit rating agencies' standard for an investment grade rating. Even taking into account the record June temperatures, the continuing record-setting weather into July, and one-time tax credits, we forecast that the FFO/Debt ratio, while continuing to improve somewhat, will still remain below the investment grade threshold through the end of 2006 and will fall further thereafter in 2007 absent rate relief.

July 26, 2006

Page 2

Regardless of whether one is a financial analyst or a journalist, the goal should be to communicate the story behind the numbers. We will continue to work with the media to clarify any misunderstandings that have occurred regardless of how or why they occurred.

Sincerely,

Donald E. Brandt/cmc

Donald E. Brandt

cc: Brian McNeil  
Ernest Johnson  
Christopher Kempley  
Lyn Farmer