

ORIGINAL **APS**



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Leland R. Snook  
Director  
State Regulation & Pricing

Tel. 602-250-3730  
Fax 602-250-3003  
e-mail Leland.Snook@aps.com

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Mail Station 9708  
PO Box 53999  
Phoenix, Arizona 85072-3999

ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL

March 27, 2009

Docket Control  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Arizona Corporation Commission  
**DOCKETED**

MAR 27 2009

DOCKETED BY	
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RE: Arizona Public Service Company's New Long-Term Debt Agreement  
Decision No. 69947  
Docket No. E-01345A-06-0779

Pursuant to Decision No. 69947, at page 18, line 21:

...on each occasion when Arizona Public Service Company enters into a long-term debt agreement, Arizona Public Service Company shall file with Docket Control as a compliance item in this docket, a description of the transaction and a demonstration that the rates and terms are consistent with those generally available to comparable entities at the time....

On February 23, 2009 Arizona Public Service (APS) priced \$500,000,000 of senior unsecured 10-year notes. The notes priced at a yield of 8.758% based on a 10-year U.S. Treasury note yield of 2.808% and a credit spread of 595 basis points (or 5.95%). The attached sheet demonstrates that these rates and terms are consistent with those generally available to comparable entities on February 23, 2009.

To determine the interest rates that comparable entities would have been able to obtain on 10 year notes issued on February 23, 2009, the attachment presents currently outstanding bonds that are included in the Barclays Capital 10 Year Utility Index. There are two categories of notes shown – those in the index with a Baa2 rating and those with a Baa3 (the Moody's rating equivalent to Standard and Poor's (S&P) BBB- rating). APS looks at both categories since APS' long-term senior unsecured ratings are Baa2/BBB- (Moody's/S&P), and the rates on APS notes should fall somewhere in between.

Note that the average credit spread (labeled OAS, or Option Adjusted Spread) for the Baa2 group was 478 basis points and the average spread for the Baa3 group was 602 basis points. These credit spreads represent the additional interest above rates that could be earned on U.S. Treasury notes that investors were requiring on February 23, 2009. Also note that the average maturity of the notes in the Baa2 group was 8.41 years and the average maturity of the notes in the Baa3 group was 8.76 years. Shorter maturities usually have lower spreads.

The "Comparisons" section of the attached sheet shows how this information is used to demonstrate that the yield on the \$500,000,000 of notes issued by APS is consistent with what was available to comparable entities on February 23, 2009. To complete the comparison, the Company adjusts each of the Baa2 and Baa3 utility credit spreads for maturity (since the 10 year maturity of the APS notes does not match the average maturities of the Baa2 and Baa3 groups). APS also adds a "New Issue Premium." This reflects additional interest required by investors to incent them to invest in new notes rather than currently outstanding notes. These adjustments result in "Indicative New Issue Equivalent" credit spreads of 543 basis points and 667 basis points for the Baa2 and Baa3 groups respectively. Comparing these spreads to the 595 basis point credit spread that APS paid on its issue demonstrates that the APS rates and terms were consistent with those generally available to comparable entities on February 23, 2009.

If you have any questions or concerns, please call Mr. Charles Miessner at 602-250-3081.

Sincerely,



Leland R. Snook

Attachments

LS/dst

CC: Brian Bozzo  
Ernest Johnson

**Arizona Public Service Company  
Barclays Capital 10-year Baa2 and Baa3 Unsecured  
Utility Indices**

Issuer	Index	Ratings		Amt (\$mm)	Coupon	Maturity	As of 2/23/09
		Moody's	S&P				OAS <sup>(1)</sup> (bp)
<b>Baa2 Group:</b>							
Progress Energy Inc	Baa2 /	Baa2 /	BBB	300	5.625%	01/15/16	+419
PPL Energy Supply	Baa2 /	Baa2 /	BBB	500	6.200%	05/15/16	+652
DTE Energy Co	Baa2 /	Baa2 /	BBB-	300	6.350%	06/01/16	+622
Ohio Edison	Baa2 /	Baa2 /	BBB	250	6.400%	07/15/16	+496
Arizona Public Service	Baa2 /	Baa2 /	BBB-	250	6.250%	08/01/16	+598
Baltimore G&E	Baa2 /	Baa2 /	BBB	300	5.900%	10/01/16	+488
Enerisis SA	Baa2 /	Baa3 /	BBB	350	7.400%	12/01/16	+481
Appalachian Power Corp	Baa2 /	Baa2 /	BBB	250	5.000%	06/01/17	+382
Jersey Central P&L	Baa2 /	Baa2 /	BBB	250	5.650%	06/01/17	+395
Pennsylvania Electric Co	Baa2 /	Baa2 /	BBB	300	6.050%	09/01/17	+459
American Water Capital Corp	Baa2 /	Baa2 /	BBB+	750	6.085%	10/15/17	+489
PPL Energy Supply	Baa2 /	Baa2 /	BBB	400	6.500%	05/01/18	+596
TransAlta Corp	Baa2 /	Baa2 /	BBB	500	6.650%	05/15/18	+542
Duke Energy Corp	Baa2 /	Baa2 /	BBB+	250	6.250%	06/15/18	+373
Metropolitan Edison	Baa2 /	Baa2 /	BBB	300	7.700%	01/15/19	+393
Jersey Central P&L	Baa2 /	Baa2 /	BBB	300	7.350%	02/01/19	+344
Indiana Michigan Power	Baa2 /	Baa2 /	BBB	475	7.000%	03/15/19	+388
<b>Average</b>						<b>8.41 years</b>	<b>+478</b>
<b>Baa3 Group:</b>							
Centerpoint Energy	Baa3 /	Ba1 /	BBB-	250	5.950%	02/01/17	+630
Cleveland Electric	Baa3 /	Baa3 /	BBB	250	5.700%	04/01/17	+474
Pepco Holdings	Baa3 /	Baa3 /	BBB-	250	6.125%	06/01/17	+497
Nisource Finance Corp	Baa3 /	Baa3 /	BBB-	450	5.250%	09/15/17	+730
Teco Finance	Baa3 /	Baa3 /	BB+	300	6.572%	11/01/17	+632
Nisource Finance Corp	Baa3 /	Baa3 /	BBB-	800	6.400%	03/15/18	+671
Ameren Energy Generating	Baa3 /	Baa3 /	NR	300	7.000%	04/15/18	+448
Centerpoint Energy	Baa3 /	Ba1 /	BBB-	300	6.500%	05/01/18	+596
Nisource Finance Corp	Baa3 /	Baa3 /	BBB-	500	6.800%	01/15/19	+741
<b>Average</b>						<b>8.76 years</b>	<b>+602</b>

**Comparisons**

**10-year Baa2- Utility Index**

	Average Maturity (yrs)	Option Adjusted Spread <sup>(1)</sup>
10-year Baa2- Utility Index	<b>8.41</b>	478 bps
Adjusted for Maturity <sup>(2)</sup>	<b>10.00</b>	<b>15 bps</b>
Adjusted for New Issue Premium <sup>(3)</sup>		<b>50 bps</b>
<b>Indicative New Issue Equivalent</b>		<b>543 bps</b>

**10-year Baa3- Utility Index**

	Average Maturity (yrs)	Option Adjusted Spread <sup>(1)</sup>
10-year Baa3- Utility Index	8.76	602 bps
Adjusted for Maturity <sup>(2)</sup>	<b>10.00</b>	<b>15 bps</b>
Adjusted for New Issue Premium <sup>(3)</sup>		<b>50 bps</b>
<b>Indicative New Issue Equivalent</b>		<b>667 bps</b>

Issuer	Index	Ratings		Amt (\$mm)	Coupon	Maturity	Spread
		Moody's	S&P				
Arizona Public Service	Baa2 /	Baa2 /	BBB-	500	8.750%	03/01/19	+595

**Notes:**

- (1) Option Adjusted Spread (or OAS) is the spread at which a security would be trading over a benchmark if it did not have embedded optionality (such as call or put options)
- (2) The adjustment reflects the additional spread investors would require to extend the maturity to 10 years
- (3) New issue premium estimate based on recent market trends for BBB-rated issuers

Source: Barclays Capital



## Arizona Public Service Company

### \$500,000,000 8.750% Notes due 2019

This is an offering by Arizona Public Service Company of \$500,000,000 of its 8.750% Notes due 2019, referred to in this prospectus supplement as the “notes.” Interest on the notes is payable on March 1 and September 1 of each year, beginning on September 1, 2009. The notes will mature on March 1, 2019. We may redeem some or all of the notes at any time at the applicable make-whole redemption price described under the caption “Description of the Notes—Optional Redemption” in this prospectus supplement, plus accrued and unpaid interest to the redemption date. The notes do not have sinking fund provisions. The notes will be issued only in denominations of \$1,000 and integral multiples of \$1,000. We do not intend to list the notes on any securities exchange or quotation system.

The notes will be our unsecured senior obligations and will rank equally with all of our other unsecured senior indebtedness from time to time outstanding.

**Investing in the notes involves risk. See “Risk Factors” on page S-4 of this prospectus supplement.**

	<u>Per Note</u>	<u>Total Notes</u>
Initial public offering price <sup>(1)</sup> . . . . .	99.945%	\$499,725,000
Underwriting discount . . . . .	0.650%	\$ 3,250,000
Proceeds, before expenses, to Arizona Public Service Company . . . . .	99.295%	\$496,475,000

(1) Plus accrued interest, if any, from February 26, 2009 to the date of delivery, if settlement occurs after that date.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

The underwriters expect to deliver the notes to purchasers in book-entry form only through the facilities of The Depository Trust Company against payment in New York, New York on or about February 26, 2009.

*Joint Bookrunning Managers*

**BARCLAYS CAPITAL      BNY MELLON CAPITAL MARKETS, LLC      CREDIT SUISSE**

*Co-Managers*

**KEYBANC CAPITAL MARKETS      MIZUHO SECURITIES USA INC.      WEDBUSH MORGAN SECURITIES INC.**

The date of this prospectus supplement is February 23, 2009.



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**You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus or to documents to which we have referred you. We have not authorized anyone to provide you with different information. We are not, and the underwriters are not, making an offer of the notes in any jurisdiction where the offer is not permitted. This document may only be used where it is legal to sell the notes. You should not assume that the information contained in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date on the front of this prospectus supplement.**

**This document is in two parts. The first part is this prospectus supplement, which describes the terms of the offering of the notes and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference into the accompanying prospectus. The second part is the accompanying prospectus, which gives more general information, some of which will not apply to the notes. If the description of the offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement.**

**The accompanying prospectus also contains information about Pinnacle West Capital Corporation and its securities, which does not apply to the notes. We are a wholly-owned subsidiary of Pinnacle West Capital Corporation. The notes are solely our obligations and not obligations of Pinnacle West Capital Corporation. Pinnacle West Capital Corporation is not guaranteeing or providing any credit support for the notes.**

**This prospectus supplement and the accompanying prospectus are part of a registration statement that we filed with the Securities and Exchange Commission (“SEC”) using a “shelf” registration process. Under the registration statement, we may sell securities, including the notes, of which this offering is a part.**

(INTENTIONALLY LEFT BLANK)

## SUMMARY

*This summary may not contain all of the information that may be important to you. You should read this prospectus supplement and the accompanying prospectus and the documents incorporated by reference into this prospectus supplement and the accompanying prospectus in their entirety before making an investment decision. The following material is qualified in its entirety by reference to the detailed information and financial statements included or incorporated by reference in this prospectus supplement.*

### The Company

We were incorporated in 1920 under the laws of the State of Arizona and are a wholly-owned subsidiary of Pinnacle West Capital Corporation ("Pinnacle West"). We are a vertically-integrated electric utility that provides either retail or wholesale electric service to most of the State of Arizona, with the major exceptions of about one-half of the Phoenix metropolitan area, the Tucson metropolitan area and Mohave County in northwestern Arizona. We currently have approximately 1.1 million customers. Our principal executive offices are located at 400 North Fifth Street, P.O. Box 53999, Phoenix, Arizona 85072-3999, and our telephone number is 602-250-1000.

### The Offering

Issuer . . . . .	Arizona Public Service Company.
Securities Offered . . . . .	\$500,000,000 of 8.750% Notes due 2019.
Maturity . . . . .	March 1, 2019.
Interest Rate . . . . .	8.750% per annum.
Interest Payment Dates . . . . .	March 1 and September 1 of each year, beginning September 1, 2009 (and including the date of maturity).
Record Date for Interest Payments . . . . .	The record date for interest payments on the notes will be February 15 for the March 1 interest payment date and August 15 for the September 1 interest payment date.
Use of Proceeds . . . . .	To repay outstanding short-term debt. See "Use of Proceeds" in this prospectus supplement. Certain of the underwriters and/or their respective affiliates are lenders to us under one or both of our committed revolving credit facilities that are expected to be ultimately repaid from the net proceeds from this offering.
Ratings . . . . .	BBB- by Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc. ("S&P"), Baa2 by Moody's Investors Service, Inc. ("Moody's") and BBB by Fitch, Inc. ("Fitch"). Note that a securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

Optional Redemption . . . . .	All or a portion of the notes may be redeemed at our option at any time or from time to time on at least 30 days but not more than 60 days notice. The redemption price for the notes to be redeemed on any redemption date will be equal to the greater of 100% of the principal amount of the notes being redeemed on the redemption date or the applicable make-whole price described under “Description of the Notes—Optional Redemption” in this prospectus supplement, plus, in each case, accrued and unpaid interest thereon to the redemption date.
Ranking . . . . .	The notes will be our unsecured senior obligations, will rank equally in right of payment with all of our other unsecured senior indebtedness from time to time outstanding and will be effectively subordinated to any secured debt we may issue in the future to the extent of the value of the collateral. As of December 31, 2008, we had approximately \$3.4 billion aggregate principal amount of unsecured senior indebtedness outstanding that would have ranked equally with the notes.
Covenants . . . . .	The notes will be subject to the limitation on liens covenant described under “Description of the Notes—Limitation on Liens” in this prospectus supplement. However, this covenant is subject to a number of important exceptions and qualifications, including an exception permitting secured debt in an amount that does not exceed 10% of Tangible Assets (as defined in that description), which, at December 31, 2008, was approximately \$1.0 billion. As of December 31, 2008, we had approximately \$1.3 million of outstanding secured debt.
Form of Notes . . . . .	The notes will be represented by one or more global securities held in the name of The Depository Trust Company (“DTC”) in a minimum denomination of \$1,000 and any integral multiple thereof.
Trustee . . . . .	The Bank of New York Mellon Trust Company, N.A. See “Description of the Notes—Regarding the Trustee” in this prospectus supplement.
Risk Factors . . . . .	See “Risk Factors” in this prospectus supplement for a discussion of factors you should carefully consider before you decide to invest in the notes.

**Selected Financial Data (thousands of dollars):**

The following selected financial data have been derived from our audited financial statements, which have been audited by Deloitte & Touche LLP, an independent registered public accounting firm. The financial data set forth below should be read in conjunction with our financial statements, related notes and other financial information incorporated by reference in this prospectus supplement. See "Where You Can Find More Information" in this prospectus supplement.

	Year Ended December 31,		
	2008	2007	2006
Electric Operating Revenues .....	<u>\$3,133,496</u>	<u>\$2,936,277</u>	<u>\$2,658,513</u>
Net Income .....	<u>\$ 262,344</u>	<u>\$ 283,940</u>	<u>\$ 269,730</u>

	As of	As Adjusted(1)	
	December 31, 2008	Amount	Percentage
Long-term Debt (including current maturities)(2) .....	\$2,851,116	\$3,351,116	49.9%
Short-term Debt .....	521,684	26,504	0.4
Common Stock Equity .....	<u>3,339,150</u>	<u>3,339,150</u>	<u>49.7</u>
Total Capitalization .....	<u>\$6,711,950</u>	<u>\$6,716,770</u>	<u>100.0%</u>

(1) Adjusted for the issuance of the notes and the application of the net proceeds therefrom. See "Use of Proceeds" in this prospectus supplement.

(2) Includes unamortized debt discount of approximately \$7.9 million.

## RISK FACTORS

See the discussion of risk factors contained in Part I, Item 1A, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 (the "2008 Form 10-K"), which is incorporated by reference in this prospectus supplement and the accompanying prospectus, to read about certain risks, in addition to the risk described below, relating to our business and an investment in the notes.

An investment in the notes involves a significant degree of risk. Before investing in the notes, you should carefully consider the discussion of those risks and the other information included or incorporated by reference in this prospectus supplement and the accompanying prospectus, including the information under the heading "Forward-Looking Statements" in this prospectus supplement. Although we try to discuss material risks in the risk factor description, please be aware that other risks may prove to be important in the future. New risks may emerge at any time and we cannot predict these risks or estimate the extent to which they may affect our business, financial condition, cash flows or operating results.

### **If the ratings of the notes are lowered or withdrawn, the market value of the notes could decrease.**

A rating is not a recommendation to purchase, hold or sell the notes, inasmuch as the rating does not comment as to market price or suitability for a particular investor. The ratings of the notes address the likelihood of the timely payment of interest and the ultimate repayment of principal of the notes pursuant to their respective terms. There is no assurance that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by a rating agency if in its judgment circumstances in the future so warrant. In the event that any of the ratings initially assigned to the notes is subsequently lowered or withdrawn for any reason, you may not be able to resell your notes without a substantial discount.

## FORWARD-LOOKING STATEMENTS

The forward-looking statements disclaimer set forth below supersedes any similarly entitled forward-looking statements disclaimer contained in the accompanying prospectus.

This prospectus supplement, the accompanying prospectus and the information incorporated by reference in this prospectus supplement may contain forward-looking statements based on current expectations, and we do not assume any obligation to update these statements or make any further statements on any of these issues, except as required by applicable law. These forward-looking statements are often identified by words such as "estimate," "predict," "hope," "may," "believe," "anticipate," "plan," "expect," "require," "intend," "assume" and similar words. Because actual results may differ materially from expectations, we caution readers not to place undue reliance on these statements. A number of factors could cause future results to differ materially from historical results, or from results or outcomes currently expected or sought by us. In addition to the Risk Factors described in Part I, Item 1A, of the 2008 Form 10-K, these factors include, but are not limited to:

- state and federal regulatory and legislative decisions and actions, including the outcome or timing of the pending rate case;
- increases in our capital expenditures and operating costs and our ability to achieve timely and adequate rate recovery of these increased costs;
- our ability to reduce capital expenditures and other costs while maintaining reliability and customer service levels, and unexpected developments that would limit us from achieving all or some of our planned capital expenditure reductions;
- volatile fuel and purchased power costs, including fluctuations in market prices for natural gas, coal, uranium and other fuels used in our generating facilities, availability of supplies of such commodities, and our ability to recover the costs of such commodities;

- the outcome and resulting costs of regulatory, legislative and judicial proceedings, both current and future, including those related to environmental matters and climate change;
- the availability of sufficient water supplies to operate our generation facilities, including as the result of drought conditions;
- the potential for additional restructuring of the electric industry, including decisions impacting wholesale competition and the introduction of retail electric competition in Arizona;
- regional, national and international economic and market conditions, including the strength of the housing, credit and financial markets;
- the potential adverse impact of current economic conditions on our results of operations;
- the cost of debt and equity capital and access to capital markets;
- restrictions on dividends or other burdensome provisions in new or existing credit agreements;
- our ability to meet debt service obligations;
- current credit ratings remaining in effect for any given period of time;
- the performance of the stock market and the changing interest rate environment, which affect the value of our nuclear decommissioning trust, pension and other postretirement benefit plan assets, the amount of required contributions to the pension plan and contributions to our nuclear decommissioning trust funds, as well as the reported costs of providing pension and other postretirement benefits and our ability to recover such costs;
- volatile market liquidity, any deteriorating counterparty credit and the use of derivative contracts in our business (including the interpretation of the subjective and complex accounting rules related to these contracts);
- changes in accounting principles generally accepted in the United States of America, the interpretation of those principles, and the impact of the adoption of new accounting standards;
- customer growth and energy usage;
- weather variations affecting local and regional customer energy usage;
- power plant performance and outages;
- transmission outages and constraints;
- the completion of generation and transmission construction in the region, which could affect customer growth and the cost of power supplies;
- risks inherent in the operation of nuclear facilities, such as environmental, regulatory, health and financial risks, risk of terrorist attack, planned and unplanned outages, and unfunded decommissioning costs;
- the ability of our power plant participants to meet contractual or other obligations;
- technological developments in the electric industry;
- the results of litigation and other proceedings resulting from the California and Pacific Northwest energy situations; and
- other uncertainties, all of which are difficult to predict and many of which are beyond our control.

We claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for our forward-looking statements contained in this prospectus supplement and the accompanying prospectus.

## WHERE YOU CAN FIND MORE INFORMATION

### Available Information

We file annual, quarterly and current reports and other information with the SEC under File No. 1-4473. Our SEC filings are available to the public over the Internet at the SEC's website: <http://www.sec.gov>. You may also read and copy any materials we file with the SEC at the SEC's public reference room, at 100 F Street, N.E., Washington D.C. 20549. You may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. Our filings with the SEC are also available on Pinnacle West's website at <http://www.pinnaclewest.com>. The other information on Pinnacle West's website is not part of this prospectus supplement or the accompanying prospectus.

### Incorporation by Reference

The SEC allows us to incorporate by reference the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus supplement and the accompanying prospectus, except for information superseded by information in this prospectus supplement and the accompanying prospectus, and later information that we file with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings we make with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, excluding, in each case, information deemed furnished and not filed, until all of the notes offered by this prospectus supplement are sold.

- Annual Report on Form 10-K for the fiscal year ended December 31, 2008; and
- Current Report on Form 8-K filed on January 26, 2009.

These documents contain important information about us and our finances.

We will provide to each person, including any beneficial owner, to whom a prospectus supplement and the accompanying prospectus is delivered, a copy of any or all of the information that has been incorporated by reference in this prospectus supplement and the accompanying prospectus but not delivered with this prospectus supplement and the accompanying prospectus. You may request a copy of these filings, at no cost, by writing, telephoning or contacting us through our website at the following address:

Arizona Public Service Company  
Office of the Secretary  
Station 9046  
P.O. Box 53999  
Phoenix, Arizona 85072-3999  
(602) 250-3252  
Or online at [www.pinnaclewest.com](http://www.pinnaclewest.com)

### USE OF PROCEEDS

We will use the net proceeds from the sale of the notes to repay amounts of short-term borrowings under our two committed revolving credit facilities (with an aggregate principal amount outstanding of \$649.6 million and estimated weighted average interest rate of 0.9528% as of February 23, 2009) incurred to fund capital expenditures and for general corporate purposes. Certain of the underwriters and/or their respective affiliates are lenders under one or both of these committed revolving credit facilities. Until we use the proceeds for these purposes, we will temporarily invest the proceeds in U.S. government or agency obligations, commercial paper, bank certificates of deposit, or repurchase agreements collateralized by U.S. government or agency obligations, institutional money market mutual funds, or other tax-exempt securities or deposit the proceeds with banks.

## RATIOS OF EARNINGS TO FIXED CHARGES

The following table sets forth the historical ratio of our earnings to fixed charges for each of the indicated periods:

Year Ended December 31,				
<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
2.73	3.15	3.13	2.50	2.76

For the purposes of computing our ratios of earnings to fixed charges, earnings are divided by fixed charges. "Earnings" represent the aggregate of income (loss) from continuing operations before income taxes and fixed charges. "Fixed charges" represent interest expense, the amortization of debt discount and the interest portion of rentals.

Our pro forma ratio of earnings to fixed charges for the year ended December 31, 2008 was 2.37. The pro forma ratio of earnings to fixed charges reflects the issuance of the notes offered by this prospectus supplement and the application of the net proceeds from the notes as described under "Use of Proceeds."

## DESCRIPTION OF THE NOTES

*The notes will be issued as a separate series of debt securities under the indenture dated as of January 15, 1998, between us and The Bank of New York Mellon Trust Company, N.A., successor to JPMorgan Chase Bank, N.A. (formerly known as The Chase Manhattan Bank), as trustee. The following description of specific terms of the notes supplements the description of the general terms and provisions of the debt securities in the accompanying prospectus under "Description of APS Debt Securities." Because this is a summary, it does not contain all the information that may be important to you.*

### General

The specific financial and legal terms of the notes are set forth below:

- **Title:** 8.750% Notes due 2019.
- **Total principal amount being issued:** \$500,000,000.
- **Due date for principal:** March 1, 2019.
- **Interest rate:** 8.750% per annum.
- **Date interest starts accruing:** February 26, 2009.
- **Interest payment dates:** March 1 and September 1 of each year (including the date of maturity). In the event that any interest payment date is not a business day, then payment of interest will be made on the succeeding business day.
- **First interest payment date:** September 1, 2009.
- **Regular record dates for interest payment dates:** February 15 for the March 1 interest payment date and August 15 for the September 1 interest payment date.
- **Computation of interest:** On the basis of a 360-day year of twelve 30-day months.
- **Form of notes:** The notes will be represented by one or more global securities in denominations of \$1,000 and any integral multiples thereof. We will deposit each global security with or on behalf of DTC. See "Description of APS Debt Securities—Global Securities" in the accompanying prospectus. We may allow exchange of each global security for registered notes and transfer of each global security to a person other than DTC in additional circumstances that we agree to other than those described under that heading.

- **Sinking fund:** The notes will not be subject to any sinking fund.

The notes will constitute a separate series of our unsecured senior debt securities under the indenture relating to the notes. The notes will rank equally in right of payment with all of our existing and future senior unsecured debt and senior to all of our existing and future subordinated debt and will be effectively subordinated to any secured debt we may issue in the future to the extent of the value of the collateral. As of December 31, 2008, we had approximately \$1.3 million of outstanding secured debt. The limitation on liens covenant described under “—Limitation on Liens” below will limit our ability to create liens on our operating property to secure indebtedness. However, this covenant is subject to a number of important exceptions and qualifications, including an exception permitting secured debt in an amount that does not exceed 10% of Tangible Assets (as defined therein), which, at December 31, 2008, was approximately \$1.0 billion. The prospectus that accompanies this prospectus supplement further describes our debt securities under “Description of APS Debt Securities.”

As of December 31, 2008, we had approximately \$3.4 billion of senior debt outstanding, of which approximately \$2.2 billion was outstanding under the indenture relating to the notes offered hereby.

#### **Additional Notes**

We may from time to time, without notice to, or the consent of, the then existing registered holders of the notes, create and issue additional notes equal in rank and having the same maturity, payment terms, redemption features, and other terms as the notes offered by this prospectus supplement, except for the issue date of the additional notes, the public offering price of the additional notes, the payment of interest accruing prior to the issue date of the additional notes and (under some circumstances) the first payment of interest following the issue date of the additional notes. These additional notes may be consolidated and form a single series with the notes offered by this prospectus supplement.

#### **Optional Redemption**

All or a portion of the notes may be redeemed at our option at any time or from time to time. The redemption price for the notes to be redeemed on any redemption date will be equal to the greater of the following amounts:

- 100% of the principal amount of the notes being redeemed on the redemption date; or
- the sum of the present values of the remaining scheduled payments of principal of and interest on the notes being redeemed on that redemption date (not including any portion of any payments of interest accrued to the redemption date) discounted to the redemption date on a semiannual basis at the Adjusted Treasury Rate (as defined below), plus 50 basis points, as determined by a Reference Treasury Dealer (as defined below) appointed by us for such purpose;

plus, in each case, accrued and unpaid interest on the notes being redeemed to the redemption date. Notwithstanding the foregoing, installments of interest on notes that are due and payable on interest payment dates falling on or prior to a redemption date will be payable on the interest payment date to the registered holders as of the close of business on the relevant record date according to the notes and the related indenture. The redemption price will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

If less than all of the notes will be redeemed, the trustee will select the particular notes to be redeemed by such method as the trustee shall deem fair and appropriate and which may provide for the selection for redemption of a portion of the principal amount of any note. However, the unredeemed portion of the principal amount of any note must be in an authorized denomination.

We will mail notice of any redemption at least 30 days but not more than 60 days before the redemption date to each registered holder of the notes to be redeemed. However, we will not know the

exact redemption price until three business days before the redemption date. Therefore, the notice of redemption will only describe how the redemption price will be calculated. Unless we default in payment of the redemption price, on and after the redemption date, interest will cease to accrue on the notes or portions thereof called for redemption.

“Adjusted Treasury Rate” means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue (as defined below), assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price (as defined below) for such redemption date.

“Comparable Treasury Issue” means the U.S. Treasury security selected by a Reference Treasury Dealer appointed by us for such purpose as having a maturity comparable to the remaining term of the notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such notes.

“Comparable Treasury Price” means, with respect to any redemption date, (A) if we obtain three or more Reference Treasury Dealer Quotations (as defined below), the average of such Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, (B) if we obtain two such Reference Treasury Dealer Quotations, the average of such quotations, or (C) if only one Reference Treasury Dealer Quotation is received, such quotation.

“Primary Treasury Dealer” means a primary U.S. Government securities dealer in the United States.

“Reference Treasury Dealer” means (A) Barclays Capital Inc., BNY Mellon Capital Markets, LLC and Credit Suisse Securities (USA) LLC (or their respective affiliates that are Primary Treasury Dealers), and their respective successors; provided, however, that if any of the foregoing shall cease to be a Primary Treasury Dealer, we will substitute therefor another Primary Treasury Dealer; and (B) any other Primary Treasury Dealer(s) selected by us.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date, the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the trustee by such Reference Treasury Dealer at 5:00 p.m. (New York City time) on the third business day preceding such redemption date.

#### **Defeasance**

The provisions described in the accompanying prospectus under the caption “Description of APS Debt Securities—Defeasance and Covenant Defeasance” are applicable to the notes.

#### **Limitation on Liens**

So long as any of the notes are outstanding, we will not issue, assume, guarantee or permit to exist any Debt (as defined below) secured by any mortgage, security interest, pledge, or lien (a “Mortgage”) of or upon any of our Operating Property (as defined below), whether owned at the date that the notes are issued or subsequently acquired, without effectively securing the notes (together with, if we so determine, any other indebtedness or obligations of us ranking senior to, or equally with, the notes) equally and ratably with such Debt (but only so long as that Debt is so secured). This restriction will not apply to Debt secured by any of the following:

- (1) Mortgages on any property existing at the time of acquisition of such property (which Mortgages may also extend to subsequent repairs, alterations and improvements to that property);

- (2) Mortgages on property of a corporation existing at the time such corporation is merged into or consolidated with us or at the time of a sale, lease, or other disposition of the properties of such corporation or a division thereof as an entirety or substantially as an entirety to us;
- (3) Mortgages on property to secure all or part of the cost of acquiring, constructing, developing, or substantially repairing, altering, or improving such property or to secure indebtedness incurred to provide funds for any such purpose or for reimbursement of funds previously expended for any such purpose, provided such Mortgages are created or assumed contemporaneously with, or within eighteen (18) months after, such acquisition or completion of construction, development, or substantial repair, alteration, or improvement;
- (4) Mortgages in favor of the United States of America or any State thereof, or any department, agency, instrumentality or political subdivision of the United States of America or any State thereof, or for the benefit of holders of securities issued by any such entity (or providers of credit enhancement with respect to those securities), to secure any Debt (including our obligations with respect to industrial development, pollution control or similar revenue bonds) incurred for the purpose of financing or refinancing all or any part of the purchase price or the cost of constructing, developing, or substantially repairing, altering, or improving our property;
- (5) Mortgages to compensate the trustee as provided in the indenture relating to the notes; or
- (6) any extension, renewal or replacement (or successive extensions, renewals, or replacements), in whole or in part, of any Mortgage referred to in the foregoing clauses (1) to (5), but the principal amount of Debt secured by such Mortgages and not otherwise authorized by said clauses (1) to (5) may not exceed the principal amount of Debt, plus any premium or fee payable in connection with any such extension, renewal, or replacement, so secured at the time of such extension, renewal, or replacement.

We may issue, assume, or guarantee or permit to exist Debt that is secured by Mortgages that would otherwise be subject to the restrictions that we describe above in connection with our existing sale and leaseback transactions relating to Unit 2 of the Palo Verde Nuclear Generating Station, including but not limited to Mortgages on the leased interests in Unit 2 of the Palo Verde Nuclear Generating Station and related rights if we reacquire ownership in any of those interests or acquire any of the equity or owner participants' interests in the trusts that hold title to such leased interests, whether or not we also directly assume the Sale Leaseback Obligation Bonds (as defined below), and Mortgages on our interests in the trusts that hold title to such leased interests and related rights in the event that we acquire any of the equity or owner participants' interests in such trusts pursuant to a "special transfer" under the Unit 2 sale and leaseback transactions. In addition, we may issue, assume, or guarantee or permit to exist Debt that is secured by Mortgages up to an aggregate principal amount that, together with the principal amount of all of our other Debt secured by Mortgages, does not at the time exceed ten percent (10%) of Tangible Assets (as defined below).

The following terms have the following meanings:

"Debt" means any of our outstanding debt for money borrowed evidenced by notes, debentures, bonds, or other securities, or guarantees of any thereof.

"Operating Property" means (i) any interest in real property owned by us and (ii) any asset owned by us that is depreciable in accordance with generally accepted accounting principles, excluding in any case any interest of us as lessee under any lease.

"Sale Leaseback Obligation Bonds" means PVNGS II Funding Corp.'s 8.00% Secured Lease Obligation Bonds, Series 1993, due 2015, any other bonds issued in connection with the Unit 2 sale and leaseback transactions and any refinancing or refunding of any of these obligations.

“Tangible Assets” means the amount shown as total assets on our most recent balance sheet, less: (i) intangible assets, including, but without limitation, goodwill, trademarks, trade names, patents, and unamortized debt discount and expense and (ii) appropriate adjustments, if any, on account of minority interests. However, if, subsequent to the date of our most recent balance sheet, we acquire any property, whether by acquisition (including by way of capital lease) from a third party, through merger or consolidation, through construction, development, or substantial repair, alteration or improvement of property, or by any other means, and such property is or becomes subject to any Mortgage securing Debt, we may prepare a pro forma balance sheet to include the value of such property in any calculation of Tangible Assets hereunder. Subject to the foregoing, Tangible Assets will be determined in accordance with generally accepted accounting principles and practices applicable to the type of business in which we are engaged and that are approved by the independent accountants regularly retained by us, and may be determined as of a date not more than 60 days prior to the happening of the event for which such determination is being made.

#### **Regarding the Trustee**

The Bank of New York Mellon Trust Company, N.A., successor to JPMorgan Chase Bank, N.A., is the trustee under the indenture relating to the notes. It is also the trustee under certain indentures relating to the sale and leaseback transactions that we entered into in 1986 with respect to a portion of our interest in Unit 2 of the Palo Verde Nuclear Generating Station and certain related common facilities. Its affiliate, The Bank of New York Mellon, is the trustee under various other indentures covering securities issued or that may be issued by us or our affiliates or on our or their behalf and also acts as auction agent for certain of that debt. We and our affiliates maintain normal commercial and banking relationships with The Bank of New York Mellon Trust Company, N.A. and its affiliates, including The Bank of New York Mellon serving as transfer agent and registrar for Pinnacle West’s common stock. In the future, The Bank of New York Mellon Trust Company, N.A. and its affiliates may provide banking, investment and other services to us and our affiliates.

#### **RATINGS**

S&P has assigned the notes a rating of BBB-, Moody’s has assigned the notes a rating of Baa2 and Fitch has assigned the notes a rating of BBB. Such ratings reflect only the views of such ratings agencies, and do not constitute a recommendation to buy, sell or hold securities. In general, ratings address credit risk. Each rating should be evaluated independently of any other rating. An explanation of the significance of such ratings may be obtained only from such rating agencies at the following addresses: Standard & Poor’s, 25 Broadway, New York, New York 10004; Moody’s Investors Service, Inc., 99 Church Street, New York, New York 10007; and Fitch, Inc., One State Street Plaza, New York, New York 10004. The security rating may be subject to revision or withdrawal at any time by the assigning rating organization, and, accordingly, there can be no assurance that such ratings will remain in effect for any period of time or that they will not be revised downward or withdrawn entirely by the rating agencies if, in their judgment, circumstances warrant. Neither we nor the underwriters have undertaken any responsibility to oppose any proposed downward revision or withdrawal of a rating on the notes. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the notes.

## UNDERWRITING

Barclays Capital Inc., BNY Mellon Capital Markets, LLC and Credit Suisse Securities (USA) LLC are acting as joint bookrunning managers and as representatives of the underwriters named below.

Subject to the terms and conditions stated in the underwriting agreement dated the date of this prospectus supplement, each underwriter named below has agreed to severally purchase, and we have agreed to sell to that underwriter, the principal amount of notes set forth opposite the underwriter's name below:

<u>Underwriters</u>	<u>Principal Amount of Notes</u>
Barclays Capital Inc. . . . .	\$111,667,000
BNY Mellon Capital Markets, LLC . . . . .	\$111,667,000
Credit Suisse Securities (USA) LLC . . . . .	\$111,666,000
KeyBanc Capital Markets Inc. . . . .	\$ 55,000,000
Mizuho Securities USA Inc. . . . .	\$ 55,000,000
Wedbush Morgan Securities Inc. . . . .	\$ 55,000,000
Total . . . . .	\$500,000,000

The underwriting agreement provides that the obligations of the underwriters to purchase the notes included in this offering are several and not joint and are subject to approval of legal matters by counsel and to other conditions. The underwriters are obligated to purchase all the notes if they purchase any of the notes.

The underwriters propose to offer the notes directly to the public at the public offering price set forth on the cover page of this prospectus supplement and may offer the notes to dealers at the public offering price less a concession not to exceed 0.400% of the principal amount of the notes. The underwriters may allow, and dealers may reallow, a concession not to exceed 0.250% of the principal amount of the notes on sales to other dealers. After the initial offering of the notes to the public, the representatives may change the public offering price and concessions.

The following table shows the underwriting discounts and commissions that we are to pay to the underwriters in connection with this offering (expressed as a percentage of the principal amount of the notes).

	<b>Paid by Arizona Public Service Company</b>
Per Note . . . . .	0.650%

The notes are a new issue of securities with no established trading market. We do not intend to apply for the notes to be listed on any securities exchange or to be quoted on any quotation system. One or more of the underwriters intend to make a secondary market for the notes. However, they are not obligated to do so and may discontinue making a secondary market at any time without notice. No assurance can be given as to how liquid the trading market for the notes will be.

In order to facilitate this offering of the notes, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the notes. These transactions may include over-allotment, syndicate covering transactions and stabilizing transactions. Over-allotment involves syndicate sales of notes in excess of the principal amount of notes to be purchased by the underwriters in this offering, which creates a syndicate short position. Syndicate covering transactions involve purchases of notes in the open market after the distribution has been completed in order to cover syndicate short positions. Stabilizing transactions consist of certain bids or purchases of the notes made for the purpose of preventing or retarding a decline in the market price of the notes while this offering is in progress.

The underwriters also may impose a penalty bid. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when the managing underwriters, in covering syndicate short positions or making stabilizing purchases, repurchase notes originally sold by that syndicate member.

Any of these activities may have the effect of preventing or retarding a decline in the market price of the notes. They may also cause the price of the notes to be higher than the price that otherwise would exist in the open market in the absence of these transactions. The underwriters may conduct these transactions in the over-the-counter market or otherwise. If the underwriters commence any of these transactions, they may discontinue them at any time.

Sales of the notes by BNY Mellon Capital Markets, LLC will be effected by Broadpoint Capital, Inc., as its distribution agent.

We estimate that our total expenses (excluding underwriting commissions) of this offering will be approximately \$1,295,000.

The underwriters and/or their affiliates have performed various investment banking, commercial banking and advisory services for us and our affiliates from time to time for which they have received customary fees and expenses. The Bank of New York Mellon Trust Company, N.A., an affiliate of BNY Mellon Capital Markets, LLC, acts as trustee under the indenture relating to the notes. Affiliates of the underwriters, other than Wedbush Morgan Securities Inc., are lenders to us under one or both of our committed revolving credit facilities and will receive a portion of the amount that will be repaid thereunder with the net proceeds of the sale of the notes. See "Use of Proceeds." Because more than 10% of the net proceeds of this offering may be paid to affiliates of members of the Financial Industry Regulatory Authority ("FINRA") who are participating in this offering, this offering is being conducted in compliance with Rule 5110(h) of the Conduct Rules of FINRA. The underwriters may, from time to time, engage in transactions with and perform services for us and our affiliates in the ordinary course of their business.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments the underwriters may be required to make because of any of those liabilities.

UnionBanc Investment Services, LLC, a member of FINRA and subsidiary of Union Bank, N.A., is being paid a referral fee by Wedbush Morgan Securities Inc. Union Bank, N.A. is a lender to us under one of our revolving credit facilities and will receive a portion of the amount that will be repaid thereunder with the net proceeds of the sale of the notes.

#### **EXPERTS**

The financial statements of Arizona Public Service Company, the related financial statement schedule and management's report on the effectiveness of internal control over financial reporting incorporated in this prospectus supplement by reference from Arizona Public Service Company's Annual Report on Form 10-K, have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report, which is incorporated herein by reference, and has been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

#### **LEGAL OPINIONS**

The validity of the notes offered hereby will be passed upon for Arizona Public Service Company by Snell & Wilmer L.L.P., One Arizona Center, Phoenix, Arizona 85004. Certain legal matters with respect to the offering of the notes will be passed upon for the underwriters by Pillsbury Winthrop Shaw Pittman LLP, 1540 Broadway, New York, New York 10036. In giving its opinion, Snell & Wilmer L.L.P. may rely as to all matters under the Public Utility Holding Company Act of 2005, as amended, and the Federal Power Act, as amended, upon the opinion of Morgan, Lewis & Bockius LLP, 1111 Pennsylvania Avenue, NW, Washington, DC 20004 and as to all matters of New York law upon the opinion of Pillsbury Winthrop Shaw Pittman LLP. Pillsbury Winthrop Shaw Pittman LLP may rely as to all matters of Arizona law upon the opinion of Snell & Wilmer L.L.P.

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**Prospectus**

**PINNACLE WEST CAPITAL CORPORATION**

**Debt Securities  
Preferred Stock  
Common Stock**

**ARIZONA PUBLIC SERVICE COMPANY**

**Debt Securities**

We may offer and sell these securities from time to time in one or more offerings. This prospectus provides you with a general description of the securities we may offer.

Each time we sell these securities, we will provide a supplement to this prospectus that contains specific information about the offering and the terms of the securities, including the plan of distribution for the securities. You should carefully read this prospectus and any supplement, as well as the documents incorporated by reference in this prospectus, before you invest in any of these securities.

**See "Risk Factors" on page 3 of this prospectus to read about where we will describe certain factors you should consider in making an investment decision.**

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Our principal executive offices are located at 400 North Fifth Street, Phoenix, AZ 85004. Our telephone number is (602) 250-1000.

Pinnacle West's common stock is listed on the New York Stock Exchange under the symbol "PNW." Unless otherwise indicated in a supplement to this prospectus, the other securities offered hereby will not be listed on a national securities exchange or on the Nasdaq Stock Market.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.**

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We may offer and sell these securities directly to purchasers, through agents, dealers, or underwriters as designated from time to time, or through a combination of these methods. If any agents, dealers or underwriters are involved in the sale of any securities, the relevant prospectus supplement will set forth any applicable commissions or discounts.

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The date of this prospectus is June 28, 2006

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## **RISK FACTORS**

We include a discussion of risk factors relating to our business and an investment in our securities in our Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q filed from time to time by us with the Securities and Exchange Commission (the "SEC"). These reports are incorporated by reference in this prospectus. See "Where You Can Find More Information." Additional risks related to our securities may be described in a prospectus supplement. Before purchasing our securities, you should carefully consider the risk factors we describe in those reports and in a prospectus supplement. Although we try to discuss key risks in those risk factor descriptions, please be aware that other risks may prove to be important in the future. New risks may emerge at any time and we cannot predict such risks or estimate the extent to which they may affect our financial performance.

## **ABOUT THIS PROSPECTUS**

This prospectus is part of a shelf registration statement that we filed with the SEC. By using a shelf registration statement, we may sell, from time to time, in one or more offerings, any combination of the securities described in this prospectus. In this prospectus we may refer to the debt securities, preferred stock and common stock that may be offered by Pinnacle West Capital Corporation ("Pinnacle West") and the debt securities that may be offered by Arizona Public Service Company ("APS") collectively as the "securities."

This prospectus provides you with a general description of the securities we may offer. Each time we offer securities, we will provide you with a prospectus supplement and, if applicable, a pricing supplement. The prospectus supplement and any applicable pricing supplement will describe the specific terms of the securities being offered. The prospectus supplement and any applicable pricing supplement may also add to, update or change the information in this prospectus. If there is any inconsistency between the information in this prospectus and in any supplement, you should rely on the information in the supplement. In addition, the registration statement we filed with the SEC includes exhibits that provide more details about the securities.

You should rely only on the information contained or incorporated by reference in this prospectus and any prospectus supplement. See "Where You Can Find More Information." We have not authorized anyone to provide you with different information. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted.

You should assume that the information appearing in this prospectus and any supplement to this prospectus is accurate only as of the dates on their covers and that information incorporated by reference is accurate only as of the date of the report that is incorporated, unless, in either case, the information is given as of another specific date. Our business, financial condition, results of operations, and prospects may have changed since those dates.

## **FORWARD-LOOKING STATEMENTS**

This prospectus, any accompanying prospectus supplement, and the information contained or incorporated by reference in this prospectus may contain forward-looking statements based on current expectations, and we assume no obligation to update these statements or make any further statements on any of these issues, except as required by applicable law. These forward-looking statements are often identified by words such as "estimate," "predict," "hope," "may," "believe," "anticipate," "plan," "expect," "require," "intend," "assume" and similar words. Because actual results may differ materially from expectations, we caution readers not to place undue reliance on these statements. A number of factors could cause future results to differ materially from historical results, or from results or outcomes

currently expected or sought by us. In addition to the Risk Factors described above, these factors include, but are not limited to:

- state and federal regulatory and legislative decisions and actions, including the outcome and timing of APS' retail rate proceedings pending before the Arizona Corporation Commission;
- the timely recovery of deferrals under APS' power supply adjustor;
- the ongoing restructuring of the electric industry, including the introduction of retail electric competition in Arizona and decisions impacting wholesale competition;
- the outcome of regulatory, legislative and judicial proceedings, both current and future, relating to the restructuring;
- market prices for electricity and natural gas;
- power plant performance and outages;
- transmission outages and constraints;
- weather variations affecting local and regional customer energy usage;
- customer growth and energy usage;
- regional economic and market conditions, including the results of litigation and other proceedings resulting from the California energy situation, volatile fuel and purchased power costs and the completion of generation and transmission construction in the region, which could affect customer growth and the cost of power supplies;
- the cost of debt and equity capital and access to capital markets;
- current credit ratings remaining in effect for any given period of time;
- our ability to compete successfully outside traditional regulated markets (including the wholesale market);
- the performance of our marketing and trading activities due to volatile market liquidity and any deteriorating counterparty credit and the use of derivative contracts in our business (including the interpretation of the subjective and complex accounting rules related to these contracts);
- changes in accounting principles generally accepted in the United States of America and the interpretation of those principles;
- the performance of the stock market and the changing interest rate environment, which affect the amount of required contributions to Pinnacle West's pension plan and APS' nuclear decommissioning trust funds, as well as the reported costs of providing pension and other postretirement benefits;
- technological developments in the electric industry;
- the strength of the real estate market in the market areas of Pinnacle West's subsidiary, SunCor Development Company ("SunCor"), which include Arizona, Idaho, New Mexico and Utah; and
- other uncertainties, all of which are difficult to predict and many of which are beyond our control.

#### **WHERE YOU CAN FIND MORE INFORMATION**

##### **Available Information**

We file annual, quarterly, and current reports, and other information with the SEC. Our SEC filings are available to the public over the Internet at the SEC's web site: <http://www.sec.gov>. You may also read

and copy any document we file at the SEC's public reference room, which is located at 100 F Street, N.E., Washington, D.C. 20549. You may call the SEC at 1-800-SEC-0330 for further information on the public reference room. Reports and other information concerning Pinnacle West can also be inspected and copied at the offices of the New York Stock Exchange at 20 Broad Street, New York, New York 10005. Our filings with the SEC are also available on our own web site at <http://www.pinnaclewest.com>. The other information on our web site is not part of this prospectus or any prospectus supplement.

### **Incorporation by Reference**

The SEC allows us to incorporate by reference the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus, and later information that we file with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings we make with the SEC under Sections 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934 (SEC file No. 1-8962 for Pinnacle West and No. 1-4473 for APS) prior to the termination of this offering, excluding, in each case, information deemed furnished and not filed.

#### **Pinnacle West Capital Corporation:**

- Annual Report on Form 10-K for the fiscal year ended December 31, 2005;
- Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2006;
- Current Reports on Form 8-K filed on January 5, 2006, January 9, 2006, January 10, 2006, January 26, 2006, February 1, 2006, February 3, 2006, February 24, 2006, March 2, 2006, March 7, 2006, March 27, 2006, April 21, 2006, April 24, 2006, May 3, 2006, May 4, 2006, May 19, 2006 and May 31, 2006; and
- The description of Pinnacle West's common stock contained in the registration statement on Form 8-B filed with the SEC on July 25, 1985, and any amendment or report which we have filed (or will file after the date of this prospectus and prior to the termination of this offering) for the purpose of updating such description, including Pinnacle West's Current Report on Form 8-K filed with the SEC on April 19, 1999 and Exhibit 4.1 to Pinnacle West's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2002.

#### **Arizona Public Service Company:**

- Annual Report on Form 10-K for the fiscal year ended December 31, 2005;
- Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2006; and
- Current Reports on Form 8-K filed January 5, 2006, January 9, 2006, January 10, 2006, January 26, 2006, February 1, 2006, February 3, 2006, February 24, 2006, March 7, 2006, March 27, 2006, April 21, 2006, April 24, 2006, May 3, 2006, May 4, 2006 and May 31, 2006.

You may request a copy of these filings, at no cost, by writing or telephoning us at the following address:

Pinnacle West Capital Corporation  
Office of the Secretary  
Station 9068  
P.O. Box 53999  
Phoenix, Arizona 85072-3999  
(602) 250-3252

Arizona Public Service Company  
Office of the Secretary  
Station 9068  
P.O. Box 53999  
Phoenix, Arizona 85072-3999  
(602) 250-3252

## **THE COMPANIES**

Pinnacle West was incorporated in 1985 under the laws of the State of Arizona and owns all of the outstanding equity securities of APS, its major subsidiary. APS is a vertically-integrated electric utility that provides retail and wholesale electric service to most of the state of Arizona, with the major exceptions of about one-half of the Phoenix metropolitan area, the Tucson metropolitan area and Mohave County in northwestern Arizona. Pinnacle West's other significant subsidiaries are SunCor, which is engaged in real estate development and investment activities, and APS Energy Services, which provides competitive energy services and products in the western United States.

The principal executive offices of Pinnacle West and APS are located at 400 North Fifth Street, Phoenix, Arizona 85004, and the telephone number is 602-250-1000.

## **USE OF PROCEEDS**

Each of Pinnacle West and APS intends to use the proceeds from the sale of these securities for general corporate purposes, which may include the repayment of indebtedness, capital expenditures, the funding of working capital, and acquisitions, and in the case of Pinnacle West, for stock repurchases and/or capital infusions into one or more of its subsidiaries for any of those purposes. The specific use of proceeds from the sale of securities will be set forth in the prospectus supplement relating to each offering of these securities.

## **GENERAL DESCRIPTION OF THE SECURITIES**

Pinnacle West, directly or through agents, dealers or underwriters that it designates, may offer and sell, from time to time, an indeterminate amount of:

- its debt securities, in one or more series, which may be senior debt securities or subordinated debt securities, in each case consisting of notes or other unsecured evidences of indebtedness;
- shares of its preferred stock;
- shares of its common stock; or
- any combination of these securities.

APS, directly or through agents, dealers or underwriters that it designates, may offer and sell, from time to time, an indeterminate amount of its debt securities, in one or more series, which may be senior debt securities or subordinated debt securities, in each case consisting of notes or other unsecured evidences of indebtedness.

Pinnacle West and APS may offer and sell these securities either individually or as units consisting of one or more of these securities, each on terms to be determined at the time of sale. Pinnacle West may issue debt securities and/or shares of preferred stock that are exchangeable for and/or convertible into common stock or any of the other securities that it may sell under this prospectus. When particular securities are offered, a supplement to this prospectus will be delivered with this prospectus, which will describe the terms of the offering and sale of the offered securities.

## DESCRIPTION OF PINNACLE WEST DEBT SECURITIES

### General

The following description highlights the general terms of the debt securities that may be offered by Pinnacle West. When we use the terms "we," "us," "our," and like terms in this description, we are referring to Pinnacle West. When we offer debt securities in the future, the prospectus supplement will explain the particular terms of those securities and the extent to which any of these general provisions will not apply.

We can issue an unlimited amount of debt securities under the indentures listed below. We can issue debt securities from time to time and in one or more series as determined by us. In addition, we can issue debt securities of any series with terms different from the terms of debt securities of any other series and the terms of particular debt securities within any series may differ from each other, all without the consent of the holders of previously issued series of debt securities. From time to time, without notice to, or the consent of, the existing holders of any series of debt securities then outstanding, we may create and issue additional debt securities equal in rank and having the same maturity, payment terms, redemption features, and other terms as the debt securities of such series, except for payment of interest accruing prior to the issue date of the additional debt securities and (under some circumstances) for the first payment of interest following the issue date of the additional debt securities. The additional debt securities may be consolidated and form a single series with previously issued debt securities of the affected series.

The debt securities of each series will be our direct, unsecured obligations. The debt securities may be issued in one or more new series under:

- an Indenture, dated as of December 1, 2000, between The Bank of New York and us, as amended from time to time, in the case of senior debt securities; or
- an Indenture, dated as of December 1, 2000, as amended from time to time, between The Bank of New York and us, in the case of subordinated debt securities.

Because we are structured as a holding company, all existing and future indebtedness and other liabilities of our subsidiaries will be effectively senior in right of payment to our debt securities, whether senior debt securities or subordinated debt securities. Neither of the above Indentures limits our ability or the ability of our subsidiaries to incur additional indebtedness in the future. The assets and cash flows of our subsidiaries will be available, in the first instance, to service their own debt and other obligations and our ability to have the benefit of their assets and cash flows, particularly in the case of any insolvency or financial distress affecting our subsidiaries, would arise only through our equity ownership interests in our subsidiaries and only after their creditors had been satisfied.

We have summarized the material provisions of the Indentures below. We have filed the senior and subordinated Indentures as exhibits to the registration statement. You should read the Indentures in their entirety, including the definitions of certain terms, together with this prospectus and the prospectus supplement before you make any investment decision. Although separate Indentures are used for subordinated debt securities and senior debt securities, references to the "Indenture" and the description of the "Indenture" in this section apply to both Indentures, unless otherwise noted.

You should refer to the prospectus supplement attached to this prospectus for the following information about a new series of debt securities:

- title of the debt securities;
- the aggregate principal amount of the debt securities or the series of which they are a part;
- the date on which the debt securities mature;
- the interest rate;
- when the interest on the debt securities accrues and is payable;
- the record dates for the payment of interest;
- places where principal, premium, or interest will be payable;
- periods within which, and prices at which, we can redeem debt securities at our option;
- any obligation on our part to redeem or purchase debt securities pursuant to a sinking fund or at the option of the holder;
- denominations and multiples at which debt securities will be issued if other than \$1,000;
- any index or formula from which the amount of principal or any premium or interest may be determined;
- any allowance for alternative currencies and determination of value;
- whether the debt securities are defeasible under the terms of the Indenture;
- whether we are issuing the debt securities as global securities;
- any additional or different events of default and any change in the right of the trustee or the holders to declare the principal amount due and payable if there is any default;
- any addition to or change in the covenants in the Indenture; and
- any other terms.

We may sell the debt securities at a substantial discount below their principal amount. The prospectus supplement may describe special federal income tax considerations that apply to debt securities sold at an original issue discount or to debt securities that are denominated in a currency other than United States dollars.

Unless the applicable prospectus supplement specifies otherwise, the debt securities will not be listed on any securities exchange.

Other than the protections described in this prospectus and in the prospectus supplement, holders of debt securities would not be protected by the covenants in the Indenture from a highly-leveraged transaction.

### **Subordination**

The Indenture relating to the subordinated debt securities states that, unless otherwise provided in a supplemental indenture or a board resolution, the debt securities will be subordinate to all senior debt. This is true whether the senior debt is outstanding as of the date of the Indenture or is incurred afterwards. The balance of the information under this heading assumes that a supplemental indenture or a board resolution results in a series of debt securities being subordinated obligations.

The Indenture states that we cannot make payments of principal, premium, or interest on the subordinated debt if:

- the principal, premium or interest on senior debt is not paid when due and the applicable grace period for the default has ended and the default has not been cured or waived; or
- the maturity of any senior debt has been accelerated because of a default.

The Indenture provides that we must pay all senior debt in full before the holders of the subordinated debt securities may receive or retain any payment if our assets are distributed to our creditors upon any of the following:

- dissolution;
- winding-up;
- liquidation;
- reorganization, whether voluntary or involuntary;
- bankruptcy;
- insolvency;
- receivership; or
- any other proceedings.

The Indenture provides that when all amounts owing on the senior debt are paid in full, the holders of the subordinated debt securities will be subrogated to the rights of the holders of senior debt to receive payments or distributions applicable to senior debt.

The Indenture defines senior debt as the principal, premium, interest and any other payment due under any of the following, whether outstanding at the date of the Indenture or thereafter incurred, created or assumed:

- all of our debt evidenced by notes, debentures, bonds, or other securities we sell for money;
- all debt of others of the kinds described in the preceding bullet point that we assume or guarantee in any manner; and
- all renewals, extensions, or refundings of debt of the kinds described in either of the two preceding bullet points.

However, the preceding will not be considered senior debt if the document creating the debt or the assumption or guarantee of the debt states that it is not superior to or that it is on equal footing with the subordinated debt securities.

The Indenture does not limit the aggregate amount of senior debt that we may issue.

### **Form, Exchange, and Transfer**

Each series of debt securities will be issuable only in fully registered form and without coupons. In addition, unless otherwise specified in a prospectus supplement, the debt securities will be issued in denominations of \$1,000 and multiples of \$1,000. We, the trustee, and any of our agents may treat the registered holder of a debt security as the absolute owner for the purpose of making payments, giving notices, and for all other purposes.

The holders of debt securities may exchange them for any other debt securities of the same series, in authorized denominations and equal principal amount. However, this type of exchange will be subject to the terms of the Indenture and any limitations that apply to global securities.

A holder may transfer debt securities by presenting the endorsed security at the office of a security registrar or at the office of any transfer agent we designate. The holder will not be charged for any exchange or registration of transfer, but we may require payment to cover any tax or other governmental charge in connection with the transaction. We have appointed the trustee under each Indenture as security registrar. A prospectus supplement will name any transfer agent we designate for any debt securities if different from the security registrar. We may designate additional transfer agents or rescind the designation of any transfer agent or approve a change in the office through which any transfer agent acts at any time, except that we will maintain a transfer agent in each place of payment for debt securities.

If the debt securities of any series are to be redeemed in part, we will not be required to do any of the following:

- issue, register the transfer of, or exchange any debt securities of that series and/or tenor beginning 15 days before the day of mailing of a notice of redemption of any debt security that may be selected for redemption and ending at the close of business on the day of the mailing; or
- register the transfer of or exchange any debt security selected for redemption, except for an unredeemed portion of a debt security that is being redeemed in part.

### **Payment and Paying Agents**

Unless otherwise indicated in the applicable prospectus supplement, we will pay interest on a debt security on any interest payment date to the person in whose name the debt security is registered.

Unless otherwise indicated in the applicable prospectus supplement, the principal, premium, and interest on the debt securities of a particular series will be payable at the office of the paying agents that we may designate. However, we may pay any interest by check mailed to the address, as it appears in the security register, of the person entitled to that interest. Also, unless otherwise indicated in the applicable prospectus supplement, the corporate trust office of the trustee in The City of New York will be our sole paying agent for payments with respect to debt securities of each series. Any other paying agent that we initially designate for the debt securities of a particular series will be named in the applicable prospectus supplement. We may at any time designate additional paying agents or rescind the designation of any paying agent or approve a change in the office through which any paying agent acts, except that we will maintain a paying agent in each place of payment for the debt securities of a particular series.

All money that we pay to a paying agent for the payment of the principal, premium, or interest on any debt security that remains unclaimed at the end of two years after the principal, premium, or interest has become due and payable will be repaid to us, and the holder of the debt security may look only to us for payment.

### **Consolidation, Merger, and Sale of Assets**

Unless otherwise indicated in the applicable prospectus supplement, we may not:

- consolidate with or merge into any other entity;
- convey, transfer, or lease our properties and assets substantially as an entirety to any entity; or
- permit any entity to consolidate with or merge into us or convey, transfer, or lease its properties and assets substantially as an entirety to us,

unless the following conditions are met:

- the successor entity is a corporation, partnership, unincorporated organization or trust, organized and validly existing under the laws of any domestic jurisdiction and assumes our obligations on the debt securities and under the Indenture;

- immediately after giving effect to the transaction, no event of default, and no event which, after notice or lapse of time or both, would become an event of default, shall have occurred and be continuing; and
- other conditions are met.

Upon any such merger, consolidation, or transfer or lease of properties, the successor person will be substituted for us under the Indenture, and, thereafter, except in the case of a lease, we will be relieved of all obligations and covenants under the Indenture and the debt securities.

### **Events of Default**

Each of the following will be an event of default under the Indenture with respect to debt securities of any series:

- our failure to pay principal of or any premium on any debt security of that series when due;
- our failure to pay any interest on any debt securities of that series when due, and the continuance of that failure for 30 days;
- our failure to deposit any sinking fund payment, when due, in respect of any debt securities of that series;
- our failure to perform any of our other covenants in the Indenture relating to that series and the continuance of that failure for 90 days after written notice has been given by the trustee or the holders of at least 25% in principal amount of the outstanding debt securities of that series;
- bankruptcy, insolvency, or reorganization events involving us; and
- any other event of default for that series described in the applicable prospectus supplement.

If an event of default occurs and is continuing, other than an event of default relating to bankruptcy, insolvency, or reorganization, either the trustee or the holders of at least 25% in aggregate principal amount of the outstanding debt securities of the affected series may declare the principal amount of the debt securities of that series to be due and payable immediately. In the case of any debt security that is an original issue discount security or the principal amount of which is not then determinable, the trustee or the holders of at least 25% in aggregate principal amount of the outstanding debt securities of that series may declare the portion of the principal amount of the debt security specified in the terms of such debt security to be immediately due and payable upon an event of default.

If an event of default involving bankruptcy, insolvency, or reorganization occurs, the principal amount of all the debt securities of the affected series will automatically, and without any action by the trustee or any holder, become immediately due and payable. After any acceleration, but before a judgment or decree based on acceleration, the holders of a majority in aggregate principal amount of the outstanding debt securities of that series may rescind and annul the acceleration if all events of default, other than the non-payment of accelerated principal, have been cured or waived as provided in the Indenture.

The trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request or direction of any of the holders, unless the holders have offered the trustee reasonable indemnity. Subject to provisions for the indemnification of the trustee, the holders of a majority in principal amount of the outstanding debt securities of any series will have the right to direct the time, method, and place of conducting any proceeding for any remedy available to the trustee, or exercising any trust or power conferred on the trustee, with respect to the debt securities of that series.

No holder of a debt security of any series will have any right to institute any proceeding under the Indenture, or for the appointment of a receiver or a trustee, or for any other remedy under the Indenture, unless:

- the holder has previously given the trustee written notice of a continuing event of default with respect to the debt securities of that series;
- the holders of at least 25% in aggregate principal amount of the outstanding debt securities of that series have made written request, and the holder or holders have offered reasonable indemnity, to the trustee to institute the proceeding as trustee; and
- the trustee has failed to institute the proceeding, and has not received from the holders of a majority in aggregate principal amount of the outstanding debt securities of that series a direction inconsistent with the request within 60 days after the notice, request, and offer of indemnity.

The limitations provided above do not apply to a suit instituted by a holder of a debt security for the enforcement of payment of the principal, premium, or interest on the debt security on or after the applicable due date.

We are required to furnish to the trustee annually a certificate of various officers stating whether or not we are in default in the performance or observance of any of the terms, provisions, and conditions of the Indenture and, if so, specifying all known defaults.

### **Modification and Waiver**

In limited cases, we and the trustee may make modifications and amendments to the Indenture without the consent of the holders of any series of debt securities. We and the trustee may also make modifications and amendments to the Indenture with the consent of the holders of not less than 66 $\frac{2}{3}$ % in aggregate principal amount of the outstanding debt securities of each series affected by the modification or amendment. However, without the consent of the holder of each outstanding debt security affected, no modification or amendment may:

- reduce the principal amount of, or any premium or interest on, any debt security;
- reduce the amount of principal of an original issue discount security or any other debt security payable upon acceleration of the maturity of the security;
- change the stated maturity of the principal of, or any installment of principal of or interest on, any debt security;
- change the place or currency of payment of principal of, or any premium or interest on, any debt security;
- impair the right to institute suit for the enforcement of any payment on or with respect to any debt security; or
- reduce the percentage in principal amount of outstanding debt securities of any series, the consent of whose holders is required for modification or amendment of the Indenture or is necessary for waiver of compliance with certain provisions of the Indenture or of certain defaults, or modify the provisions of the Indenture relating to modification and waiver.

In general, compliance with certain restrictive provisions of the Indenture may be waived by the holders of not less than 66 $\frac{2}{3}$ % in aggregate principal amount of the outstanding debt securities of any series. The holders of a majority in aggregate principal amount of the outstanding debt securities of any series may waive any past default under the Indenture, except:

- a default in the payment of principal, premium, or interest; and
- a default under covenants and provisions of the Indenture which cannot be amended without the consent of the holder of each outstanding debt security of the affected series.

In determining whether the holders of the requisite principal amount of the outstanding debt securities have given or taken any direction, notice, consent, waiver, or other action under the Indenture as of any date:

- the principal amount of an outstanding original issue discount security will be the amount of the principal that would be due and payable upon acceleration of the maturity on that date,
- if the principal amount payable at the stated maturity of a debt security is not determinable, the principal amount of the outstanding debt security will be an amount determined in the manner prescribed for the debt security; and
- the principal amount of an outstanding debt security denominated in one or more foreign currencies will be the U.S. dollar equivalent of the principal amount of the debt security or, in the case of a debt security described in the previous bullet point above, the amount described in that bullet point.

If debt securities have been fully defeased or if we have deposited money with the trustee to redeem debt securities, they will not be considered outstanding.

Except in limited circumstances, we will be entitled to set any day as a record date for the purpose of determining the holders of outstanding debt securities of any series entitled to give or take any direction, notice, consent, waiver, or other action under the Indenture. In limited circumstances, the trustee will be entitled to set a record date for action by holders. If a record date is set for any action to be taken by holders of a particular series, the action may be taken only by persons who are holders of outstanding debt securities of that series on the record date. To be effective, the action must be taken by holders of the requisite principal amount of the debt securities within a specified period following the record date. For any particular record date, this period will be 180 days or any other shorter period that we may specify. The period may be shortened or lengthened, but not beyond 180 days.

### **Defeasance and Covenant Defeasance**

We may elect to have the provisions of the Indenture relating to defeasance and discharge of indebtedness, or defeasance of restrictive covenants in the Indenture, applied to the debt securities of any series, or to any specified part of a series. The prospectus supplement used in connection with the offering of any debt securities will state whether we can make these elections for that series.

### ***Defeasance and Discharge***

We will be discharged from all of our obligations with respect to the debt securities of a series if we deposit with the trustee money in an amount sufficient to pay the principal, premium, and interest on the debt securities of that series when due in accordance with the terms of the Indenture and the debt securities. We can also deposit securities that will provide the necessary monies. However, we will not be discharged from the obligations to exchange or register the transfer of debt securities, to replace stolen, lost, or mutilated debt securities, to maintain paying agencies, and to hold moneys for payment in trust. The defeasance or discharge may occur only if we deliver to the trustee an opinion of counsel stating that

we have received from, or there has been published by, the United States Internal Revenue Service a ruling, or there has been a change in tax law, in either case to the effect that holders of such debt securities:

- will not recognize gain or loss for federal income tax purposes as a result of the deposit, defeasance, and discharge; and
- will be subject to federal income tax on the same amount, in the same manner, and at the same times as would have been the case if the deposit, defeasance, and discharge were not to occur.

#### ***Defeasance of Covenants***

We may elect to omit compliance with restrictive covenants in the Indenture and any additional covenants that may be described in the applicable prospectus supplement for a series of debt securities. This election will preclude some actions from being considered defaults under the Indenture for the applicable series. In order to exercise this option, we will be required to deposit, in trust for the benefit of the holders of debt securities, funds in an amount sufficient to pay the principal, premium and interest on the debt securities of the applicable series. We may also deposit securities that will provide the necessary monies. We will also be required to deliver to the trustee an opinion of counsel to the effect that holders of the debt securities will not recognize gain or loss for federal income tax purposes as a result of such deposit and defeasance of certain obligations and will be subject to federal income tax on the same amount, in the same manner and at the same times as would have been the case if the deposit and defeasance were not to occur. If we exercise this option with respect to any debt securities and the debt securities are declared due and payable because of the occurrence of any event of default, the amount of funds deposited in trust would be sufficient to pay amounts due on the debt securities at the time of their respective stated maturities but may not be sufficient to pay amounts due on the debt securities on any acceleration resulting from an event of default. In that case, we would remain liable for the additional payments.

#### **Governing Law**

The law of the State of New York will govern the Indenture and the debt securities.

#### **Global Securities**

Some or all of the debt securities of any series may be represented, in whole or in part, by one or more global securities, which will have an aggregate principal amount equal to that of the debt securities they represent. We will register each global security in the name of a depository or nominee identified in a prospectus supplement and deposit the global security with the depository or nominee. Each global security will bear a legend regarding the restrictions on exchanges and registration of transfer referred to below and other matters specified in a supplemental indenture to the Indenture.

No global security may be exchanged for debt securities registered, and no transfer of a global security may be registered, in the name of any person other than the depository for the global security or any nominee of the depository, unless:

- the depository has notified us that it is unwilling or unable to continue as depository for the global security or has ceased to be qualified to act as depository;
- a default has occurred and is continuing with respect to the debt securities represented by the global security; or
- any other circumstances exist that may be described in the applicable supplemental indenture and prospectus supplement.

We will register all securities issued in exchange for a global security or any portion of a global security in the names specified by the depository.

As long as the depositary or its nominee is the registered holder of a global security, the depositary or nominee will be considered the sole owner and holder of the global security and the debt securities that it represents. Except in the limited circumstances referred to above, owners of beneficial interests in a global security will not:

- be entitled to have the global security or debt securities registered in their names;
- receive or be entitled to receive physical delivery of certificated debt securities in exchange for a global security; and
- be considered to be the owners or holders of the global security or any debt securities for any purpose under the Indenture.

We will make all payments of principal, premium, and interest on a global security to the depositary or its nominee. The laws of some jurisdictions require that purchasers of securities take physical delivery of securities in definitive form. These laws make it difficult to transfer beneficial interests in a global security.

Ownership of beneficial interests in a global security will be limited to institutions that have accounts with the depositary or its nominee, referred to as Participants, and to persons that may hold beneficial interests through Participants. In connection with the issuance of any global security, the depositary will credit, on its book-entry registration and transfer system, the respective principal amounts of debt securities represented by the global security to the accounts of its Participants. Ownership of beneficial interests in a global security will only be shown on records maintained by the depositary or the Participant. Likewise, the transfer of ownership interests will be effected only through the same records. Payments, transfers, exchanges, and other matters relating to beneficial interests in a global security may be subject to various policies and procedures adopted by the depositary from time to time. Neither we, the trustee, nor any of our agents will have responsibility or liability for any aspect of the depositary's or any Participant's records relating to, or for payments made on account of, beneficial interests in a global security, or for maintaining, supervising, or reviewing any records relating to the beneficial interests.

#### **Regarding the Trustee**

The Bank of New York is the trustee under our Indentures relating to the senior debt securities and the subordinated debt securities. It is also trustee of our pension plan and under various indentures covering securities issued by APS or on APS' behalf. The Bank of New York also acts as transfer agent for our common stock. We and our affiliates maintain normal commercial and banking relationships with The Bank of New York. In the future The Bank of New York and its affiliates may provide banking, investment and other services to us and our affiliates.

## DESCRIPTION OF PINNACLE WEST PREFERRED STOCK

Pinnacle West may issue, from time to time, shares of one or more series of its preferred stock. When we use the terms “we,” “us,” “our,” and like terms in this description, we are referring to Pinnacle West. The following description sets forth certain general terms and provisions of the preferred stock to which any prospectus supplement may relate. The particular terms of any series of preferred stock and the extent, if any, to which these general provisions may apply to the series of preferred stock offered will be described in the prospectus supplement relating to that preferred stock.

The following summary of provisions of the preferred stock does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the provisions of our articles of incorporation, bylaws, and the amendment to our articles relating to a specific series of the preferred stock (the “statement of preferred stock designations”), which will be in the form filed as an exhibit to, or incorporated by reference in, the registration statement of which this prospectus is a part. Before investing in any series of our preferred stock, you should read our articles, bylaws and the relevant statement of preferred stock designations.

### General

Under our articles of incorporation, we have the authority to issue up to 10,000,000 shares of preferred stock. As of June 28, 2006, no shares of preferred stock were outstanding. 4,400,000 shares of preferred stock are reserved for issuance under our shareholders rights plan. See “Description of Pinnacle West Common Stock—Certain Anti-takeover Effects—Shareholder Rights Plan.” Our Board of Directors is authorized to issue shares of preferred stock, in one or more series, and to fix for each series voting powers and those preferences and relative, participating, optional or other special rights and those qualifications, limitations or restrictions as are permitted by the Arizona Business Corporation Act (the “ABCA”). For a description of provisions in our articles and bylaws or under Arizona law that could delay, defer or prevent a change in control, see “Description of Pinnacle West Common Stock—Certain Anti-takeover Effects.”

Our Board of Directors is authorized to determine the terms for each series of preferred stock, and the prospectus supplement will describe the terms of any series of preferred stock being offered, including:

- the designation of the shares and the number of shares that constitute the series;
- the dividend rate (or the method of calculation thereof), if any, on the shares of the series and the priority as to payment of dividends with respect to other classes or series of our capital stock;
- the dividend periods (or the method of calculation thereof);
- the voting rights of the shares;
- the liquidation preference and the priority as to payment of the liquidation preference with respect to other classes or series of our capital stock and any other rights of the shares of the series upon our liquidation or winding-up;
- whether and on what terms the shares of the series will be subject to redemption or repurchase at our option or at the option of the holders thereof;
- whether and on what terms the shares of the series will be convertible into or exchangeable for other securities;
- whether the shares of the series of preferred stock will be listed on a securities exchange;
- any special United States federal income tax considerations applicable to the series; and
- the other rights and privileges and any qualifications, limitations or restrictions of the rights or privileges of the series.

## **Dividends**

Holders of shares of preferred stock shall be entitled to receive, when and as declared by our Board of Directors out of our funds legally available therefor, a cash dividend payable at the dates and at the rates, if any, per share as set forth in the applicable prospectus supplement.

## **Convertibility**

No series of preferred stock will be convertible into, or exchangeable for, other securities or property except as set forth in the applicable prospectus supplement.

## **Redemption and Sinking Fund**

No series of preferred stock will be redeemable or receive the benefit of a sinking fund except as set forth in the applicable prospectus supplement.

## **Liquidation Rights**

Unless otherwise set forth in the applicable prospectus supplement, in the event of our liquidation, dissolution or winding up, the holders of shares of each series of preferred stock are entitled to receive distributions out of our assets available for distribution to shareholders, before any distribution of assets is made to holders of (i) any other shares of preferred stock ranking junior to that series of preferred stock as to rights upon liquidation and (ii) shares of common stock. The amount of liquidating distributions received by holders of preferred stock will generally equal the liquidation preference specified in the applicable prospectus supplement for that series of preferred stock, plus any dividends accrued and accumulated but unpaid to the date of final distribution. The holders of each series of preferred stock will not be entitled to receive the liquidating distribution of, plus such dividends on, those shares until the liquidation preference of any shares of our capital stock ranking senior to that series of the preferred stock as to the rights upon liquidation shall have been paid or set aside for payment in full.

If upon our liquidation, dissolution or winding up, the amounts payable with respect to the preferred stock, and any other preferred stock ranking as to any distribution on a parity with the preferred stock are not paid in full, then the holders of the preferred stock and the other parity preferred stock will share ratably in any distribution of assets in proportion to the full respective preferential amount to which they are entitled. Unless otherwise specified in a prospectus supplement for a series of preferred stock, after payment of the full amount of the liquidating distribution to which they are entitled, the holders of shares of preferred stock will not be entitled to any further participation in any distribution of our assets. Neither a consolidation or merger of us with another corporation nor a sale of securities shall be considered a liquidation, dissolution or winding up of us.

## **Voting Rights**

The holders of each series of preferred stock we may issue will have no voting rights, except as required by law and as described below or in the applicable prospectus supplement. Our Board of Directors may, upon issuance of a series of preferred stock, grant voting rights to the holders of that series, including rights to elect additional board members if we fail to pay dividends in a timely fashion.

Arizona law provides for certain voting rights for holders of a class of stock, even if the stock does not have other voting rights. Thus, the holders of all shares of a class, would be entitled to vote on any amendment to our articles of incorporation that would:

- increase or decrease the aggregate number of authorized shares of the class;
- effect an exchange or reclassification of all or part of the shares of the class into shares of another class;
- effect an exchange or reclassification, or create the right of exchange of all or part of the shares of another class into shares of the class;
- change the designations, rights, obligations, preferences, or limitations of all or part of the shares of the class;
- change the shares of all or part of the class into a different number of shares of the same class;
- create a new class of shares having rights or preferences with respect to distributions or to dissolution that are prior, superior or substantially equal to the shares of the class;
- increase rights, preferences or number of authorized shares of any class that, after giving effect to the amendment, have rights or preferences with respect to distributions or to dissolution that are prior, superior or substantially equal to the shares of the class;
- limit or deny an existing preemptive right of all or part of the class; and
- cancel or otherwise affect rights to distributions or dividends that have accumulated but have not yet been declared on all or part of the shares of the class.

If the proposed amendment would affect a series of the class, but not the entire class, in one or more of the ways described in the bullets above, then the shares of the affected series will have the right to vote on the amendment as a separate voting group. However, if a proposed amendment that would entitle two or more series of the class to vote as separate voting groups would affect those series in the same or a substantially similar way, the shares of all the series so affected must vote together as a single voting group on the proposed amendment.

Unless the articles of incorporation, Arizona law or the Board of Directors would require a greater vote or unless the articles or Arizona law would require a different quorum, if an amendment to the articles would allow the preferred stock or one or more series of the preferred stock to vote as voting groups, the vote required by each voting group would be:

- a majority of the votes entitled to be cast by the voting group, if the amendment would create dissenters' rights for that voting group; and
- in any other case, if a quorum is present in person or by proxy consisting of a majority of the votes entitled to be cast on the matter by the voting group, the votes cast by the voting group in favor of the amendment must exceed the votes cast against the amendment by the voting group.

Arizona law may also require that the preferred stock be entitled to vote on certain other extraordinary transactions.

### **Miscellaneous**

The holders of our preferred stock will have no preemptive rights. All shares of preferred stock being offered by the applicable prospectus supplement will be fully paid and not liable to further calls or assessment by us. If we should redeem or otherwise reacquire shares of our preferred stock, then these shares will resume the status of authorized and unissued shares of preferred stock undesignated as to series, and will be available for subsequent issuance. There are no restrictions on repurchase or

redemption of the preferred stock while there is any arrearage on sinking fund installments except as may be set forth in an applicable prospectus supplement. Payment of dividends on any series of preferred stock may be restricted by loan agreements, indentures and other transactions entered into by us. Any material contractual restrictions on dividend payments that exist at the time of the offer of any preferred stock will be described or incorporated by reference in the applicable prospectus supplement.

When we offer to sell a series of preferred stock, we will describe the specific terms of the series in the applicable prospectus supplement. If any particular terms of a series of preferred stock described in a prospectus supplement differ from any of the terms described in this prospectus, then the terms described in the applicable prospectus supplement will be deemed to supersede the terms described in this prospectus.

#### **No Other Rights**

The shares of a series of preferred stock will not have any preferences, voting powers or relative, participating, optional or other special rights except as set forth above or in the applicable prospectus supplement, our articles of incorporation or the applicable statement of preferred stock designations or as otherwise required by law.

#### **Transfer Agent and Registrar**

The transfer agent and registrar for each series of preferred stock will be designated in the applicable prospectus supplement.

### **DESCRIPTION OF PINNACLE WEST COMMON STOCK**

Pinnacle West may issue, from time to time, shares of its common stock, the general terms and provisions of which are summarized below. When we use the terms "we," "us," "our," and like terms in this description, we are referring to Pinnacle West. This summary does not purport to be complete and is subject to, and is qualified in its entirety by express reference to, the provisions of our articles of incorporation, bylaws and the applicable prospectus supplement.

#### **Authorized Shares**

Under our articles of incorporation, we have the authority to issue 150,000,000 shares of common stock.

#### **Dividends**

Subject to any preferential rights of any series of preferred stock, holders of shares of common stock will be entitled to receive dividends on the stock out of assets legally available for distribution when, as and if authorized and declared by our Board of Directors. The payment of dividends on the common stock will be a business decision to be made by our Board of Directors from time to time based upon results of our operations and our financial condition and any other factors as our Board of Directors considers relevant. Payment of dividends on the common stock may be restricted by loan agreements, indentures and other transactions entered into by us from time to time. Any material contractual restrictions on dividend payments that exist at the time of the offer of any common stock will be described in the applicable prospectus supplement.

#### **Voting Rights**

Holders of common stock are entitled to one vote per share on all matters voted on generally by the shareholders, including the election of directors, and, except as otherwise required by law or except as provided with respect to any series of preferred stock, the holders of the shares possess all voting power.

Arizona law provides for cumulative voting for the election of directors. As a result, any shareholder may cumulate his or her votes by casting them all for any one director nominee or by distributing them among two or more nominees.

### **Staggered Terms of Directors**

Our Board of Directors is elected in three classes with staggered three-year terms. One class of directors is elected each year for a three-year term. Election of directors with staggered terms lessens the effectiveness of cumulative voting rights by reducing the number of directors who are elected in any given year.

### **Liquidation Rights**

Subject to any preferential rights of any series of preferred stock, holders of shares of common stock are entitled to share ratably in our assets legally available for distribution to our shareholders in the event of our liquidation, dissolution or winding up.

### **Absence of Other Rights**

Holders of our common stock have no preferential, preemptive, conversion or exchange rights.

### **Miscellaneous**

All shares of common stock being offered by the applicable prospectus supplement will be fully paid and not liable to further calls or assessment by us.

### **Transfer Agent and Registrar**

The Bank of New York is the principal transfer agent and registrar for the common stock.

### **Preferred Stock**

Our Board of Directors has the authority, without any further action by our shareholders, to issue from time to time shares of preferred stock, in one or more series and to fix the designations, preferences, rights, qualifications, limitations and restrictions thereof, including voting rights, dividend rights, dividend rates, conversion rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series. The issuance of preferred stock with voting rights could have an adverse effect on the voting power of holders of common stock by increasing the number of outstanding shares having voting rights. In addition, if our board of directors authorizes preferred stock with conversion rights, the number of shares of common stock outstanding could potentially be increased up to the authorized amount. The issuance of preferred stock could decrease the amount of earnings and assets available for distribution to holders of common stock. Any such issuance could also have the effect of delaying, deterring or preventing a change in control of us and may adversely affect the rights of holders of our common stock. See also "Description of Pinnacle West Preferred Stock" above.

### **Certain Anti-takeover Effects**

*General.* Certain provisions of our articles of incorporation, bylaws, and the Arizona Revised Statutes ("ARS"), as well as our shareholder rights plan, may have an anti-takeover effect and may delay or prevent a tender offer or other acquisition transaction that a shareholder might consider to be in his or her best interest, including a transaction that results in a premium over the market price of the common stock. The summary of the provisions of our articles, bylaws, shareholder rights plan, and the ARS set forth below does not purport to be complete and is qualified in its entirety by reference to our articles, bylaws, shareholder rights plan, and the ARS.

*Business Combinations.* ARS § 10-2741 through 2743 and Article XII of our bylaws restrict a wide range of transactions (collectively, “business combinations”) between us or, in certain cases, one of our subsidiaries, and an interested shareholder (or any affiliate or associate of the interested shareholder). An “interested shareholder” is, generally, any person who beneficially owns, directly or indirectly, 10% or more of our outstanding voting power or any of our affiliates or associates who at any time within the prior three years was such a beneficial owner. The statute broadly defines “business combinations” to include, among other things and with certain exceptions:

- mergers and consolidations with an interested shareholder or an affiliate or associate of the interested shareholder;
- share exchanges with an interested shareholder or an affiliate or associate of the interested shareholder;
- any sale, lease, exchange, mortgage, pledge, transfer or other disposition of assets to an interested shareholder or an affiliate or associate of the interested shareholder, representing 10% or more of (i) the aggregate market value of all of our consolidated assets as of the end of the most recent fiscal quarter, (ii) the aggregate market value of all our outstanding shares, or (iii) our consolidated revenues or net income for the four most recent fiscal quarters;
- the issuance or transfer of shares of stock having an aggregate market value of 5% or more of the aggregate market value of all of our outstanding shares to an interested shareholder or an affiliate or associate of the interested shareholder;
- the adoption of a plan or proposal for our liquidation or dissolution or reincorporation in another state or jurisdiction pursuant to an agreement or arrangement with an interested shareholder or an affiliate or associate of the interested shareholder;
- corporate actions, such as stock splits and stock dividends, and other transactions resulting in an increase in the proportionate share of the outstanding shares of any series or class of stock of us or any of our subsidiaries owned by an interested shareholder or an affiliate or associate of the interested shareholder; and
- the receipt by an interested shareholder or an affiliate or associate of the interested shareholder of the benefit (other than proportionately as a shareholder) of any loans, advances, guarantees, pledges or other financial assistance or any tax credits or other tax advantages provided by or through us or any of our subsidiaries.

The ARS and our bylaws provide that, subject to certain exceptions, we may not engage in a business combination with an interested shareholder (or any affiliate or associate of the interested shareholder) or authorize one of our subsidiaries to do so, for a period of three years after the date on which the interested shareholder first acquired the shares that qualify such person as an interested shareholder (the “share acquisition date”), unless either the business combination or the interested shareholder’s acquisition of shares on the share acquisition date is approved by a committee of our Board of Directors (comprised solely of disinterested directors or other disinterested persons) prior to the interested shareholder’s share acquisition date.

In addition, after such three-year period, the ARS and our bylaws prohibit us from engaging in any business combination with an interested shareholder (or any affiliate or associate of the interested shareholder), subject to certain exceptions, unless:

- the business combination or acquisition of shares by the interested shareholder on the share acquisition date was approved by our Board of Directors prior to the share acquisition date;
- the business combination is approved by holders of a majority of our outstanding shares (excluding shares beneficially owned by the interested shareholder or any affiliate or associate of the interested shareholder) at a meeting called after such three-year period; or

- the business combination satisfies specified price and other requirements.

*Anti-Greenmail Provisions.* ARS § 10-2704 and Article XIII of our bylaws prohibit us from purchasing any shares of our voting stock from any beneficial owner (or group of beneficial owners acting together to acquire, own or vote our shares) of more than 5% of the voting power of our outstanding shares at a price per share in excess of the average closing sale price during the 30 trading days preceding the purchase or if the person or persons have commenced a tender offer or announced an intention to seek control of us, during the 30 trading days prior to the commencement of the tender offer or the making of the announcement, unless

- the 5% beneficial owner has beneficially owned the shares to be purchased for a period of at least three years;
- holders of a majority of our voting power (excluding shares held by the 5% beneficial owner or its affiliates or associates or by any of our officers and directors) approve the purchase; or
- we make the repurchase offer available to all holders of the class or series of securities to be purchased and to all holders of other securities convertible into that class or series.

*Control Share Acquisition Statute.* Through a provision in our bylaws, we have opted out of ARS § 10-2721 through 2727, the Arizona statutory provisions regulating control share acquisitions. As a result, potential acquirors are not subject to the limitations imposed by that statute.

*Shareholder Rights Plan.* We have adopted a shareholder rights plan under which one preferred share purchase right is attached to each outstanding share of our common stock. The rights become exercisable and will be separated from the common stock on the Distribution Date, as such term is defined in the plan. Generally, subject to specified exceptions, the Distribution Date will occur on the earlier of:

- 10 days following a public announcement that a person or group of affiliated or associated persons (an “acquiring person”) has acquired beneficial ownership of 15% or more of our outstanding common stock, or
- 10 business days following the commencement of, or announcement of an intention to make, a tender offer or exchange offer that would result in the beneficial ownership by a person or group of 15% or more of our outstanding common stock.

Each right entitles the registered holder to purchase from us one one-hundredth of a share of Series A Participating Preferred Stock (the “Series A Preferred Stock”) at an exercise price of \$130, subject to adjustment under specified circumstances. However, after any person has become an acquiring person (a “Flip-In Event”), upon exercise of the right, the holder will be entitled to receive common stock valued at twice the exercise price of the right. In other words, a rights holder may purchase common stock at a 50% discount. In some circumstances, the holder will receive cash, property or other securities instead of common stock. Upon the occurrence of a Flip-In Event, any rights owned by an acquiring person, its affiliates and associates and certain of its transferees will become null and void.

In the event that a person becomes an acquiring person, we are then merged, and the common stock is exchanged or converted in the merger, then each right (other than those formerly held by the acquiring person, which became void) would “flip-over” and be exercisable for a number of shares of common stock of the acquiring company having a market value of two times the exercise price of the right. In other words, a rights holder may purchase the acquiring company’s common stock at a 50% discount.

After a Flip-In Event but before a “flip-over” event (as described above) occurs and before an acquiring person becomes the owner of 50% or more of the common stock, the Board may cause the rights (either in whole or in part) to be exchanged for shares of common stock (or fractional interests in Series A Preferred Stock, or equivalent securities, of equal value) at a one-to-one exchange ratio. Rights held by the acquiring person, however, which became void upon the Flip-In Event, would not be entitled to participate in such exchange.

We may redeem the rights for \$0.01 per right at any time prior to the date on which a person becomes an acquiring person. The shareholder rights plan and the rights expire in March 2009, subject to extension.

For so long as the rights are redeemable, the terms of the rights may be amended or supplemented by the Board of Directors at any time and from time to time without the consent of the holders of the rights. At any time when the rights are not redeemable, the Board of Directors may amend or supplement the terms of the rights, provided that such amendment does not adversely affect the interests of the holders of the rights. In no event may any amendment or supplement be made which changes the redemption price.

Until a right is exercised, the holder thereof will have no rights as a shareholder, including, without limitation, the right to vote or to receive dividends, except as holder of the common stock to which the right is attached.

For information on the terms of the Series A Preferred Stock, see the certificate of designation for the Series A Preferred Stock, the form of which is attached as Exhibit A to the Amended and Restated Rights Agreement, dated as of March 26, 1999, filed as an exhibit to our Current Report on Form 8-K filed with the SEC on April 19, 1999, which is incorporated herein by reference.

*Special Meetings of Shareholders.* Pursuant to ARS § 10-702, except with respect to certain business combinations, as required by Arizona law, a special meeting of shareholders may be called by a corporation's Board of Directors or any other person authorized to do so in its articles of incorporation or bylaws. Our bylaws provide that, except as required by law, special meetings of shareholders may only be called by a majority of our Board of Directors, the Chairman of the Board, or the President.

*Election and Removal of Directors.* Our Board of Directors is divided into three classes. The directors in each class serve for a three year term, with one class being elected each year by our shareholders. The classification of our Board of Directors generally makes it more difficult for shareholders to effect a change in control because at least two shareholder meetings are required to elect a majority of our Board. Arizona law provides for cumulative voting in the election of directors, which may make it more difficult for shareholders to elect a majority of the Board of Directors.

Our bylaws provide that any director may be removed with or without cause, but only at a special meeting of shareholders called for that purpose, if the votes cast in favor of such removal exceed the votes cast against such removal. However, if less than the entire Board of Directors is to be removed, no one director may be removed if the votes cast against the director's removal would be sufficient to elect the director if then cumulatively voted at an election of the class of directors of which the director is a part.

*Shareholder Proposals and Director Nominations.* A shareholder can submit shareholder proposals and nominate candidates for election to our Board of Directors if he or she follows the advance notice provisions set forth in our bylaws.

With respect to shareholder proposals to bring business before the annual meeting, shareholders must submit a written notice to the Secretary of Pinnacle West not fewer than 90 nor more than 120 days prior to the first anniversary of the date of our previous year's annual meeting of shareholders. However, if we have changed the date of the annual meeting by more than 30 days from the date of the previous year's annual meeting, the written notice must be submitted no earlier than 120 days before the annual meeting and not later than 90 days before the annual meeting or ten days after the day we make public the date of the annual meeting. The written notice must briefly describe the business the shareholder desires to bring before the meeting, the text of the proposal or business, the reasons for conducting such business at the meeting, and any material interest in the proposal of the shareholder and the beneficial owner, if any, on whose behalf the proposal is made.

With respect to director nominations, shareholders must submit written notice to the Secretary of Pinnacle West at least 180 days prior to the date of the annual meeting. This requirement is also contained in our articles of incorporation. Our bylaws require that the written notice must contain all information relating to the director nominee that is required to be included in a proxy statement pursuant to Regulation 14A under the Securities Exchange Act of 1934, as well as the written consent of the proposed nominee to be named in the proxy statement as a nominee and to serving as a director if elected.

All written notices delivered pursuant to the advance notice provisions of our bylaws are required to state (i) the name and address as they appear on our books of the sponsoring shareholder and the beneficial owner, if any, on whose behalf the proposal or nomination is made, (ii) the class and number of shares that are owned beneficially and of record by the shareholder and such beneficial owner, (iii) a representation that the shareholder is a holder of record entitled to vote at the meeting and intends to appear in person or by proxy at the meeting to propose such business or nomination, and (iv) whether the shareholder or beneficial owner intends or is part of a group that intends to deliver a proxy statement to holders of at least the number of shares required to adopt the proposal or elect the nominee or otherwise solicit proxies in favor of the proposal or nomination.

Shareholder proposals and director nominations that are late or that do not include all required information may be rejected. This could prevent shareholders from bringing certain matters before an annual meeting, including proposing the election of non-incumbent directors.

A shareholder must also comply with all applicable laws in proposing business to be conducted and in nominating directors. The notice provisions of the bylaws do not affect rights of shareholders to request inclusion of proposals in our proxy statement pursuant to Rule 14a-8 of the Securities Exchange Act of 1934.

*Additional Authorized Shares of Capital Stock.* The authorized but unissued shares of common stock and preferred stock available for issuance under our articles of incorporation could be issued at such times, under such circumstances, and with such terms and conditions as to impede an acquisition transaction.

*Amendment to Articles of Incorporation and Bylaws.* ARS § 10-1001 through 1003 generally provide that both the Board of Directors and the shareholders must approve amendments to an Arizona corporation's articles of incorporation, except that the Board of Directors may adopt specified ministerial amendments without shareholder approval. Unless the articles of incorporation, Arizona law or the Board of Directors would require a greater vote or unless the articles or Arizona law would require a different quorum, the vote required by each voting group allowed or required to vote on the amendment would be:

- a majority of the votes entitled to be cast by the voting group, if the amendment would create dissenters' rights for that voting group; and
- in any other case, if a quorum is present in person or by proxy consisting of a majority of the votes entitled to be cast on the matter by the voting group, the votes cast by the voting group in favor of the amendment must exceed the votes cast against the amendment by the voting group.

Our articles of incorporation require the approval of at least two-thirds of the total voting power of all outstanding shares of our voting stock to amend the provisions in Article Third relating to serial preferred stock, Article Fifth relating to the election of our directors, including number, classification, term, and nomination procedure, and Article Tenth relating to this voting requirement.

ARS § 10-1020 provides that the Board of Directors may amend the corporation's bylaws unless either: (i) the articles or applicable law reserves this power exclusively to shareholders in whole or in part or (ii) the shareholders in amending or repealing a particular bylaw provide expressly that the Board may not amend or repeal that bylaw. An Arizona corporation's shareholders may amend the corporation's bylaws even though they may also be amended by the Board of Directors. Our bylaws may not be amended or repealed without the vote of a majority of the Board of Directors or the affirmative vote of a majority of votes cast on the matter at a meeting of shareholders.

## DESCRIPTION OF APS DEBT SECURITIES

### General

The following description highlights the general terms of the debt securities that may be offered by APS. When we use the terms "we," "us," "our," and like terms in this description, we are referring to APS. When we offer debt securities in the future, the prospectus supplement will explain the particular terms of those securities and the extent to which any of these general provisions will not apply.

We can issue an unlimited amount of debt securities under the indentures listed below. We can issue debt securities from time to time and in one or more series as determined by us. In addition, we can issue debt securities of any series with terms different from the terms of debt securities of any other series and the terms of particular debt securities within any series may differ from each other, all without the consent of the holders of previously issued series of debt securities. From time to time, without notice to, or the consent of, the existing holders of any series of debt securities then outstanding, we may create and issue additional debt securities equal in rank and having the same maturity, payment terms, redemption features, and other terms as the debt securities of such series, except for payment of interest accruing prior to the issue date of the additional debt securities and (under some circumstances) for the first payment of interest following the issue date of the additional debt securities. The additional debt securities may be consolidated and form a single series with previously issued debt securities of the affected series.

The debt securities will be our direct, unsecured obligations. The debt securities may be issued in one or more new series under:

- an Indenture, dated as of January 15, 1998, as amended from time to time, between JPMorgan Chase Bank, N.A. and us, in the case of senior debt securities; or
- an Indenture, dated as of January 1, 1995, as amended from time to time, between The Bank of New York and us, in the case of subordinated debt securities.

We have summarized the material provisions of the Indentures below. We have filed the Indentures as exhibits to the registration statement. You should read the Indentures in their entirety, including the definitions, together with this prospectus and the prospectus supplement before you make any investment decision. Although separate Indentures are used for subordinated debt securities and senior debt securities, references to the "Indenture" and the description of the "Indenture" in this section apply to both Indentures, unless otherwise noted.

You should refer to the prospectus supplement attached to this prospectus for the following information about a new series of debt securities:

- title of the debt securities;
- the aggregate principal amount of the debt securities or the series of which they are a part;

- the date on which the debt securities mature;
- the interest rate;
- when the interest on the debt securities accrues and is payable;
- the record dates for the payment of interest;
- places where principal, premium, or interest will be payable;
- periods within which, and prices at which, we can redeem debt securities at our option;
- any obligation on our part to redeem or purchase debt securities pursuant to a sinking fund or at the option of the holder;
- denominations and multiples at which debt securities will be issued if other than \$1,000;
- any index or formula from which the amount of principal or any premium or interest may be determined;
- any allowance for alternative currencies and determination of value;
- whether the debt securities are defeasible under the terms of the Indenture;
- whether we are issuing the debt securities as global securities;
- any additional or different events of default and any change in the right of the trustee or the holders to declare the principal amount due and payable if there is any default;
- any addition to or change in the covenants in the Indenture; and
- any other terms.

We may sell the debt securities at a substantial discount below their principal amount. The prospectus supplement may describe special federal income tax considerations that apply to debt securities sold at an original issue discount or to debt securities that are denominated in a currency other than United States dollars.

We must obtain the approval of the Arizona Corporation Commission (“ACC”), before incurring long-term debt. An existing ACC order allows us to have approximately \$2.7 billion in principal amount of long-term debt outstanding at any one time, not including \$500 million of long-term debt we issued on May 12, 2003, pursuant to a separate ACC order. We do not expect these orders to limit our ability to meet our capital requirements.

Unless the applicable prospectus supplement specifies otherwise, the debt securities will not be listed on any securities exchange.

Other than the protections described in this prospectus and in the related prospectus supplement, holders of debt securities would not be protected by the covenants in the Indenture from a highly-leveraged transaction.

### **Subordination**

The Indenture relating to the subordinated debt securities states that, unless otherwise provided in a supplemental indenture or a board resolution, the debt securities will be subordinate to all senior debt. This is true whether the senior debt is outstanding as of the date of the Indenture or is incurred afterwards. The balance of the information under this heading assumes that a supplemental indenture or a board resolution results in a series of debt securities being subordinated obligations.

The Indenture states that we cannot make payments of principal, premium, or interest on the subordinated debt if:

- the principal, premium or interest on senior debt is not paid when due and the applicable grace period for the default has ended and the default has not been cured or waived; or
- the maturity of any senior debt has been accelerated because of a default.

The Indenture provides that we must pay all senior debt in full before the holders of the subordinated debt securities may receive or retain any payment if our assets are distributed to our creditors upon any of the following:

- dissolution;
- winding-up;
- liquidation;
- reorganization, whether voluntary or involuntary;
- bankruptcy;
- insolvency;
- receivership; or
- any other proceedings.

The Indenture provides that when all amounts owing on the senior debt are paid in full, the holders of the subordinated debt securities will be subrogated to the rights of the holders of senior debt to receive payments or distributions applicable to senior debt.

The Indenture defines senior debt as the principal, premium, interest and any other payment due under any of the following, whether outstanding at the date of the Indenture or thereafter incurred, created or assumed:

- all of our debt evidenced by notes, debentures, bonds, or other securities we sell for money;
- all debt of others of the kinds described in the preceding bullet point that we assume or guarantee in any manner; and
- all renewals, extensions, or refundings of debt of the kinds described in either of the two preceding bullet points.

However, the preceding will not be considered senior debt if the document creating the debt or the assumption or guarantee of the debt states that it is not superior to, or that it is on equal footing with, our subordinated debt securities.

The Indenture does not limit the aggregate amount of senior debt that we may issue.

### **Form, Exchange, and Transfer**

Each series of debt securities will be issuable only in fully registered form and without coupons. In addition, unless otherwise specified in a prospectus supplement, the debt securities will be issued in denominations of \$1,000 and multiples of \$1,000. We, the trustee, and any of our agents may treat the registered holder of a debt security as the absolute owner for the purpose of making payments, giving notices, and for all other purposes.

The holders of debt securities may exchange them for any other debt securities of the same series, in authorized denominations, and equal principal amount. However, this type of exchange will be subject to the terms of the Indenture and any limitations that apply to global securities.

A holder may transfer debt securities by presenting the endorsed security at the office of a security registrar or at the office of any transfer agent we designate. The holder will not be charged for any exchange or registration of transfer, but we may require payment to cover any tax or other governmental charge in connection with the transaction. We have appointed the trustee under each Indenture as security registrar. A prospectus supplement will name any transfer agent we designate for any debt securities if different from the security registrar. We may designate additional transfer agents or rescind the designation of any transfer agent or approve a change in the office through which any transfer agent acts at any time, except that we will maintain a transfer agent in each place of payment for debt securities.

If the debt securities of any series are to be redeemed in part, we will not be required to do any of the following:

- issue, register the transfer of, or exchange any debt securities of that series and/or tenor beginning 15 days before the day of mailing of a notice of redemption of any debt security that may be selected for redemption and ending at the close of business on the day of the mailing; or
- register the transfer of or exchange any debt security selected for redemption, except for an unredeemed portion of a debt security that is being redeemed in part.

### **Payment and Paying Agents**

Unless otherwise indicated in the applicable prospectus supplement, we will pay interest on a debt security on any interest payment date to the person in whose name the debt security is registered.

Unless otherwise indicated in the applicable prospectus supplement, the principal, premium, and interest on the debt securities of a particular series will be payable at the office of the paying agents that we may designate. However, we may pay any interest by check mailed to the address, as it appears in the security register, of the person entitled to that interest. Also, unless otherwise indicated in the applicable prospectus supplement, the corporate trust office of the trustee in The City of New York will be our sole paying agent for payments with respect to debt securities of each series. Any other paying agent that we initially designate for the debt securities of a particular series will be named in the applicable prospectus supplement. We may at any time designate additional paying agents or rescind the designation of any paying agent or approve a change in the office through which any paying agent acts, except that we will maintain a paying agent in each place of payment for the debt securities of a particular series.

All money that we pay to a paying agent for the payment of the principal, premium, or interest on any debt security that remains unclaimed at the end of two years after the principal, premium, or interest has become due and payable will be repaid to us, and the holder of the debt security may look only to us for payment.

### **Consolidation, Merger, and Sale of Assets**

Unless otherwise indicated in the applicable prospectus supplement, we may not:

- consolidate with or merge into any other entity;
- convey, transfer, or lease our properties and assets substantially as an entirety to any entity; or
- permit any entity to consolidate with or merge into us or convey, transfer, or lease its properties and assets substantially as an entirety to us,

unless the following conditions are met:

- the successor entity is a corporation, partnership, unincorporated organization or trust organized and validly existing under the laws of any domestic jurisdiction and assumes our obligations on the debt securities and under the Indenture;
- immediately after giving effect to the transaction, no event of default, and no event which, after notice or lapse of time or both, would become an event of default, shall have occurred and be continuing; and
- other conditions are met.

Upon any such merger, consolidation, or transfer or lease of properties, the successor person will be substituted for us under the Indenture, and, thereafter, except in the case of a lease, we will be relieved of all obligations and covenants under the Indenture and the debt securities.

### **Events of Default**

Each of the following will be an event of default under the Indenture with respect to debt securities of any series:

- our failure to pay principal of or any premium on any debt security of that series when due;
- our failure to pay any interest on any debt securities of that series when due, and the continuance of that failure for 30 days;
- our failure to deposit any sinking fund payment, when due, in respect of any debt securities of that series;
- our failure to perform any of our other covenants in the Indenture relating to that series and the continuance of that failure for 90 days after written notice has been given by the trustee or the holders of at least 25% in principal amount of the outstanding debt securities of that series;
- bankruptcy, insolvency, or reorganization events involving us; and
- any other event of default for that series described in the applicable prospectus supplement.

If an event of default occurs and is continuing, other than an event of default relating to bankruptcy, insolvency, or reorganization, either the trustee or the holders of at least 25% in aggregate principal amount of the outstanding debt securities of the affected series may declare the principal amount of the debt securities of that series to be due and payable immediately. In the case of any debt security that is an original issue discount security or the principal amount of which is not then determinable, the trustee or the holders of at least 25% in aggregate principal amount of the outstanding debt securities of that series may declare the portion of the principal amount of the debt security specified in the terms of such debt security to be immediately due and payable upon an event of default.

If an event of default involving bankruptcy, insolvency, or reorganization occurs, the principal amount of all the debt securities of the affected series will automatically, and without any action by the trustee or any holder, become immediately due and payable. After any acceleration, but before a judgment or decree

based on acceleration, the holders of a majority in aggregate principal amount of the outstanding debt securities of that series may rescind and annul the acceleration if all events of default, other than the non-payment of accelerated principal, have been cured or waived as provided in the Indenture.

The trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request or direction of any of the holders, unless the holders have offered the trustee reasonable indemnity. Subject to provisions for the indemnification of the trustee, the holders of a majority in principal amount of the outstanding debt securities of any series will have the right to direct the time, method, and place of conducting any proceeding for any remedy available to the trustee, or exercising any trust or power conferred on the trustee, with respect to the debt securities of that series.

No holder of a debt security of any series will have any right to institute any proceeding under the Indenture, or for the appointment of a receiver or a trustee, or for any other remedy under the Indenture, unless:

- the holder has previously given the trustee written notice of a continuing event of default with respect to the debt securities of that series;
- the holders of at least 25% in aggregate principal amount of the outstanding debt securities of that series have made written request, and the holder or holders have offered reasonable indemnity, to the trustee to institute the proceeding as trustee; and
- the trustee has failed to institute the proceeding, and has not received from the holders of a majority in aggregate principal amount of the outstanding debt securities of that series a direction inconsistent with the request within 60 days after the notice, request, and offer of indemnity.

The limitations provided above do not apply to a suit instituted by a holder of a debt security for the enforcement of payment of the principal, premium, or interest on the debt security on or after the applicable due date.

We are required to furnish to the trustee annually a certificate of various officers stating whether or not we are in default in the performance or observance of any of the terms, provisions, and conditions of the Indenture and, if so, specifying all known defaults.

### **Modification and Waiver**

In limited cases we and the trustee may make modifications and amendments to the Indenture without the consent of the holders of any series of debt securities. We and the trustee may also make modifications and amendments to the Indenture with the consent of the holders of not less than 66 $\frac{2}{3}$ % in aggregate principal amount of the outstanding debt securities of each series affected by the modification or amendment. However, without the consent of the holder of each outstanding debt security affected, no modification or amendment may:

- change the stated maturity of the principal of, or any installment of principal of or interest on, any debt security;
- reduce the principal amount of, or any premium or interest on, any debt security;
- reduce the amount of principal of an original issue discount security or any other debt security payable upon acceleration of the maturity of the security;
- change the place or currency of payment of principal of, or any premium or interest on, any debt security;
- impair the right to institute suit for the enforcement of any payment on or with respect to any debt security; or

- reduce the percentage in principal amount of outstanding debt securities of any series, the consent of whose holders is required for modification or amendment of the Indenture or is necessary for waiver of compliance with certain provisions of the Indenture or of certain defaults, or modify the provisions of the Indenture relating to modification and waiver.

In general, compliance with certain restrictive provisions of the Indenture may be waived by the holders of not less than 66 $\frac{2}{3}$ % in aggregate principal amount of the outstanding debt securities of any series. The holders of a majority in aggregate principal amount of the outstanding debt securities of any series may waive any past default under the Indenture, except:

- a default in the payment of principal, premium, or interest; and
- a default under covenants and provisions of the Indenture which cannot be amended without the consent of the holder of each outstanding debt security of the affected series.

In determining whether the holders of the requisite principal amount of the outstanding debt securities have given or taken any direction, notice, consent, waiver, or other action under the Indenture as of any date:

- the principal amount of an outstanding original issue discount security will be the amount of the principal that would be due and payable upon acceleration of the maturity on that date,
- if the principal amount payable at the stated maturity of a debt security is not determinable, the principal amount of the outstanding debt security will be an amount determined in the manner prescribed for the debt security; and
- the principal amount of an outstanding debt security denominated in one or more foreign currencies will be the U.S. dollar equivalent of the principal amount of the debt security or, in the case of a debt security described in the previous bullet point above, the amount described in that bullet point.

If debt securities have been fully defeased or if we have deposited money with the trustee to redeem debt securities, they will not be considered outstanding.

Except in limited circumstances, we will be entitled to set any day as a record date for the purpose of determining the holders of outstanding debt securities of any series entitled to give or take any direction, notice, consent, waiver, or other action under the Indenture. In limited circumstances, the trustee will be entitled to set a record date for action by holders. If a record date is set for any action to be taken by holders of a particular series, the action may be taken only by persons who are holders of outstanding debt securities of that series on the record date. To be effective, the action must be taken by holders of the requisite principal amount of the debt securities within a specified period following the record date. For any particular record date, this period will be 180 days or any other shorter period that we may specify. The period may be shortened or lengthened, but not beyond 180 days.

#### **Defeasance and Covenant Defeasance**

We may elect to have the provisions of the Indenture relating to defeasance and discharge of indebtedness, or defeasance of restrictive covenants in the Indenture, applied to the debt securities of any series, or to any specified part of a series. The prospectus supplement used in connection with the offering of any debt securities will state whether we can make these elections for that series.

#### **Defeasance and Discharge**

We will be discharged from all of our obligations with respect to the debt securities of a series if we deposit with the trustee money in an amount sufficient to pay the principal, premium, and interest on the debt securities of that series when due in accordance with the terms of the Indenture and the debt

securities. We can also deposit securities that will provide the necessary monies. However, we will not be discharged from the obligations to exchange or register the transfer of debt securities, to replace stolen, lost, or mutilated debt securities, to maintain paying agencies, and to hold moneys for payment in trust. The defeasance or discharge may occur only if we deliver to the trustee an opinion of counsel stating that we have received from, or there has been published by, the United States Internal Revenue Service a ruling, or there has been a change in tax law, in either case to the effect that holders of such debt securities:

- will not recognize gain or loss for federal income tax purposes as a result of the deposit, defeasance, and discharge; and
- will be subject to federal income tax on the same amount, in the same manner, and at the same times as would have been the case if the deposit, defeasance, and discharge were not to occur.

### **Defeasance of Covenants**

We may elect to omit compliance with restrictive covenants in the Indenture and any additional covenants that may be described in the applicable prospectus supplement for a series of debt securities. This election will preclude some actions from being considered defaults under the Indenture for the applicable series. In order to exercise this option, we will be required to deposit, in trust for the benefit of the holders of debt securities, funds in an amount sufficient to pay the principal, premium and interest on the debt securities of the applicable series. We may also deposit securities that will provide the necessary monies. We will also be required to deliver to the trustee an opinion of counsel to the effect that holders of the debt securities will not recognize gain or loss for federal income tax purposes as a result of such deposit and defeasance of certain obligations and will be subject to federal income tax on the same amount, in the same manner and at the same times as would have been the case if the deposit and defeasance were not to occur. If we exercise this option with respect to any debt securities and the debt securities are declared due and payable because of the occurrence of any event of default, the amount of funds deposited in trust would be sufficient to pay amounts due on the debt securities at the time of their respective stated maturities but may not be sufficient to pay amounts due on the debt securities on any acceleration resulting from an event of default. In that case, we would remain liable for the additional payments.

### **Governing Law**

The law of the State of New York will govern the Indenture and the debt securities.

### **Global Securities**

Some or all of the debt securities of any series may be represented, in whole or in part, by one or more global securities, which will have an aggregate principal amount equal to that of the debt securities they represent. We will register each global security in the name of a depository or nominee identified in a prospectus supplement and deposit the global security with the depository or nominee. Each global security will bear a legend regarding the restrictions on exchanges and registration of transfer referred to below and other matters specified in a supplemental indenture to the Indenture.

No global security may be exchanged for debt securities registered, and no transfer of a global security may be registered, in the name of any person other than the depository for the global security or any nominee of the depository, unless:

- the depository has notified us that it is unwilling or unable to continue as depository for the global security or has ceased to be qualified to act as depository;
- a default has occurred and is continuing with respect to the debt securities represented by the global security; or

- any other circumstances exist that may be described in the applicable supplemental indenture and prospectus supplement.

We will register all securities issued in exchange for a global security or any portion of a global security in the names specified by the depositary.

As long as the depositary or its nominee is the registered holder of a global security, the depositary or nominee will be considered the sole owner and holder of the global security and the debt securities that it represents. Except in the limited circumstances referred to above, owners of beneficial interests in a global security will not:

- be entitled to have the global security or debt securities registered in their names;
- receive or be entitled to receive physical delivery of certificated debt securities in exchange for a global security; and
- be considered to be the owners or holders of the global security or any debt securities for any purpose under the Indenture.

We will make all payments of principal, premium, and interest on a global security to the depositary or its nominee. The laws of some jurisdictions require that purchasers of securities take physical delivery of securities in definitive form. These laws make it difficult to transfer beneficial interests in a global security.

Ownership of beneficial interests in a global security will be limited to institutions that have accounts with the depositary or its nominee, referred to as Participants, and to persons that may hold beneficial interests through Participants. In connection with the issuance of any global security, the depositary will credit, on its book-entry registration and transfer system, the respective principal amounts of debt securities represented by the global security to the accounts of its Participants. Ownership of beneficial interests in a global security will only be shown on records maintained by the depositary or the Participant. Likewise, the transfer of ownership interests will be effected only through the same records. Payments, transfers, exchanges, and other matters relating to beneficial interests in a global security may be subject to various policies and procedures adopted by the depositary from time to time. Neither we, the trustee, nor any of our agents will have responsibility or liability for any aspect of the depositary's or any Participant's records relating to, or for payments made on account of, beneficial interests in a global security, or for maintaining, supervising, or reviewing any records relating to the beneficial interests.

#### **Regarding the Trustee**

JPMorgan Chase Bank, N. A. is the trustee under the Indenture relating to the senior debt securities. We and our affiliates maintain normal commercial and banking relationships with JPMorgan Chase Bank, N.A. In addition, an affiliate of JPMorgan Chase Bank, N.A. is the owner participant under a trust to which we sold and leased back a portion of Palo Verde Unit 2. In the future JPMorgan Chase Bank, N.A. and its affiliates may provide banking, investment and other services to us and our affiliates.

The Bank of New York is the trustee under the Indenture relating to the subordinated debt securities. It is also trustee of Pinnacle West's pension plan and under various indentures covering securities issued by our affiliates or on our behalf. We and our affiliates maintain normal commercial and banking relationships with The Bank of New York, including The Bank of New York serving as transfer agent and registrar for Pinnacle West's common stock. In the future The Bank of New York and its affiliates may provide banking, investment and other services to us and our affiliates.

#### **EXPERTS**

The consolidated financial statements, the related consolidated financial statement schedule, and management's report on the effectiveness of internal control over financial reporting incorporated in this prospectus by reference from the Pinnacle West Capital Corporation Annual Report on Form 10-K have

been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report, which is incorporated herein by reference, and has been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The financial statements, the related financial statement schedule, and management's report on the effectiveness of internal control over financial reporting incorporated in this prospectus by reference from the Arizona Public Service Company Annual Report on Form 10-K have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report, which is incorporated herein by reference, and has been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

#### **LEGAL OPINIONS**

Snell & Wilmer L.L.P., One Arizona Center, Phoenix, Arizona 85004, will opine on the validity of the offered securities. We currently anticipate that Pillsbury Winthrop Shaw Pittman LLP, 1540 Broadway, New York, New York 10036, will pass on certain legal matters with respect to the offered securities for any underwriters. Snell & Wilmer L.L.P. may rely as to all matters of New York law upon the opinion of Pillsbury Winthrop Shaw Pittman LLP. Pillsbury Winthrop Shaw Pittman LLP may rely as to all matters of Arizona law upon the opinion of Snell & Wilmer L.L.P.



**Arizona Public Service Company**

**\$500,000,000 8.750% Notes due 2019**

**PROSPECTUS SUPPLEMENT**

**BARCLAYS CAPITAL  
BNY MELLON CAPITAL MARKETS, LLC  
CREDIT SUISSE**

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**KEYBANC CAPITAL MARKETS  
MIZUHO SECURITIES USA INC.  
WEDBUSH MORGAN SECURITIES INC.**

**February 23, 2009**

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