



0000101456

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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

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

August 6, 2009

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

RECEIVED
2009 AUG - 6 P 3: 31
AZ CORP COMMISSION
DOCKET CONTROL

RE: APS COMPLIANCE WITH DECISION NO. 70667 – APS/PINNACLE WEST COMMUNICATIONS WITH CREDIT RATING AGENCIES
Docket No. E-01345A-08-0172

Attached please find copies of Arizona Public Service Company (APS) and Pinnacle West's available past communications with credit rating agencies as instructed per Decision No. 70667 (December 24th, 2008):

"Arizona Public Service Company shall file all currently existing communications within 10 days of the effective date of this Decision and shall file future communication on a monthly basis. The first such monthly report shall be due on February 1, 2009, and the monthly filing shall continue until the conclusion of Arizona Public Service Company's general rate case. Thereafter, Arizona Public Service Company shall make such filings on a six month basis, with the first filing due by January 1, 2010."

This monthly filing covers the communications with rating agencies from June 25, 2009 through August 4, 2009. If you have any questions or concerns please contact Susan Casady at (602)250-2709.

Sincerely,

Leland R. Snook

LS/dst

Attachments

CC: Steve Olea (redacted)
Brain Bozzo (unredacted)
Barbara Keene (unredacted)
Terri Ford (unredacted)

Arizona Corporation Commission
DOCKETED

AUG - 6 2009

DOCKETED BY

Rating Agency Communication Log

| Date | Person | APS/PNW Personnel | Subject | Comment |
|-------------|--------------------------|-------------------------------|--|----------------|
| 6/25/2009 | Tony Bettinelli, S&P | Jim McGill | E-mail from S&P regarding phone call | |
| 6/25/2009 | Tony Bettinelli, S&P | Jim McGill | Call with Tony responding to e-mail above. Call was to discuss rating committee meeting and affirmation of ratings | |
| 6/25/2009 | Tony Bettinelli, S&P | Jim McGill | E-mail from S&P with metrics calculations | Confidential |
| 6/25/2009 | Tony Bettinelli, S&P | Jim McGill | E-mail from S&P with draft article | |
| 7/13/2009 | Tony Bettinelli, S&P | Jim McGill | Left voice message with S&P regarding meeting dates | |
| 7/13/2009 | Tony Bettinelli, S&P | Jim McGill | E-mail from S&P regarding meeting dates | |
| 7/13/2009 | Tony Bettinelli, S&P | Jim McGill | Voice-mail from S&P regarding meeting dates | |
| 7/17/2009 | Laura Schumacher, Moodys | Karen Dolyniuk | E-mail to Moody's regarding Coconino letter of credit (LC) | |
| 7/17/2009 | Tony Bettinelli, S&P | Karen Dolyniuk | E-mail to S&P regarding Coconino letter of credit (LC) | |
| 7/17/2009 | Phil Smyth, Fitch | Karen Dolyniuk | E-mail to Fitch regarding Coconino letter of credit (LC) | |
| 7/17/2009 | Tony Bettinelli, S&P | Karen Dolyniuk | E-mail from S&P regarding Coconino letter of credit (LC) | |
| 7/21/2009 | Tony Bettinelli, S&P | Rufad Omanovic | E-mail to S&P regarding financial risk profile | |
| 7/21/2009 | Tony Bettinelli, S&P | Jim McGill and Rufad Omanovic | E-mail from S&P regarding financial risk profile and meeting dates | |
| 7/21/2009 | Tony Bettinelli, S&P | Rufad Omanovic | Voice-mail from S&P regarding financial risk profile | |
| 7/21/2009 | Tony Bettinelli, S&P | Rufad Omanovic | E-mail to S&P regarding financial risk profile | |
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| 7/21/2009 | Tony Bettinelli, S&P | Rufad Omanovic | E-mail from S&P regarding financial risk profile | |
| 7/21/2009 | Tony Bettinelli, S&P | Rufad Omanovic | E-mail to S&P regarding financial risk profile | |
| 7/21/2009 | Tara Mangaroo, Moodys | Karen Dolyniuk | Voice mail from Moody's regarding Coconino letter of credit (LC) | |
| 7/22/2009 | Laura Schumacher, Moodys | Karen Dolyniuk | E-mail to Moody's regarding Coconino letter of credit (LC) | |
| 7/22/2009 | Tara Mangaroo, Moodys | Karen Dolyniuk | Left voice mail at Moody's regarding Coconino letter of credit (LC) | |
| 7/22/2009 | Phil Smyth, Fitch | Karen Dolyniuk | E-mail to Fitch regarding Coconino letter of credit (LC) | |
| 7/22/2009 | Laura Schumacher, Moodys | Karen Dolyniuk | E-mail to Moody's regarding Coconino letter of credit (LC) | |

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| 7/22/2009 | Phil Smyth, Fitch | Karen Dolyniuk | E-mail to Fitch regarding Coconino letter of credit (LC) | |
| 7/22/2009 | Christine Scaperdas, S&P | Karen Dolyniuk | Phone call with S&P regarding Coconino letter of credit (LC) | |
| 7/23/2009 | Christine Scaperdas, S&P | Karen Dolyniuk | E-mail to S&P regarding Coconino letter of credit (LC) | |
| 7/27/2009 | Tony Bettinelli, S&P | Chris Froggatt | Phone call with S&P regarding meeting dates | |
| 8/4/2009 | Laura Schumacher, Moodys | Investor Relations | E-mail regarding second quarter 2009 earnings release | |
| 8/4/2009 | Phil Smyth, Fitch | Investor Relations | E-mail regarding second quarter 2009 earnings release | |
| 8/4/2009 | Tony Bettinelli, S&P | Investor Relations | E-mail regarding second quarter 2009 earnings release | |
| 8/4/2009 | Laura Schumacher, Moodys | Investor Relations | E-mail regarding earnings guidance | |
| 8/4/2009 | Phil Smyth, Fitch | Investor Relations | E-mail regarding earnings guidance | |
| 8/4/2009 | Tony Bettinelli, S&P | Investor Relations | E-mail regarding earnings guidance | |
| 8/4/2009 | Laura Schumacher, Moodys | Investor Relations | E-mail regarding second quarter 2009 10Q | |
| 8/4/2009 | Phil Smyth, Fitch | Investor Relations | E-mail regarding second quarter 2009 10Q | |
| 8/4/2009 | Tony Bettinelli, S&P | Investor Relations | E-mail regarding second quarter 2009 10Q | |

From Bettinelli, Antonio
To McGill, James T(Z71171)
Cc
Subject Call

Date Thursday, June 25, 2009 12:32:44 PM

Jim,

Do you have time for a quick call today?

Tony Bettinelli
Associate
U.S. Utilities & Infrastructure
Standard & Poor's Corporate Ratings
San Francisco, CA
(415) 371-5067
tony_bettinelli@sandp.com

The information contained in this message is intended only for the recipient, and may be a confidential attorney-client communication or may otherwise be privileged and confidential and protected from disclosure. If the reader of this message is not the intended recipient, or an employee or agent responsible for delivering this message to the intended recipient, please be aware that any dissemination or copying of this communication is strictly prohibited. If you have received this communication in error, please immediately notify us by replying to the message and deleting it from your computer. The McGraw-Hill Companies, Inc. reserves the right, subject to applicable local law, to monitor and review the content of any electronic message or information sent to or from McGraw-Hill employee e-mail addresses without informing the sender or recipient of the message.

From Bettinelli, Antonio

Date Thursday, June 25, 2009 4:06:31 PM

To McGill, James T(Z71171)

Cc

Subject Emailing: PNW 2008 Ratios.xls UPDATED w/Q1

 [PNW 2008 Ratios.xls](#) (29 KB HTML)

<<PNW 2008 Ratios.xls>> Jim,

Here is the additional detail for 2008 plus the Q1 2009 key metric (with backup calcs). Let me know if you have any further questions or concerns.

Tony

The message is ready to be sent with the following file or link attachments:

PNW 2008 Ratios.xls

Note: To protect against computer viruses, e-mail programs may prevent sending or receiving certain types of file attachments. Check your e-mail security settings to determine how attachments are handled.

The information contained in this message is intended only for the recipient, and may be a confidential attorney-client communication or may otherwise be privileged and confidential and protected from disclosure. If the reader of this message is not the intended recipient, or an employee or agent responsible for delivering this message to the intended recipient, please be aware that any dissemination or copying of this communication is strictly prohibited. If you have received this communication in error, please immediately notify us by replying to the message and deleting it from your computer. The McGraw-Hill Companies, Inc. reserves the right, subject to applicable local law, to monitor and review the content of any electronic message or information sent to or from McGraw-Hill employee e-mail addresses without informing the sender or recipient of the message.

Pinnacle West Capital Corp.
 Industry Sector: Electric

December 2008

(Mil. \$)

Revenues
 Net income from continuing operations
 Funds from operations (FFO)
 Capital expenditures
 Cash and short-term investments
 Debt
 Preferred stock
 Equity
 Debt and equity
 Adjusted ratios
 EBIT interest coverage (x)
 FFO int. cov. (x)
 FFO/debt (%)
 Discretionary cash flow/debt (%)
 Net Cash Flow / Capex (%)
 Debt/debt and equity (%)
 Return on common equity (%)
 Common dividend payout ratio (un-adj.) (%)
 *Fully adjusted (including postretirement obligations).

[REDACTED]

| March 2009 Key Ratio Calculations | |
|--|------------|
| | [REDACTED] |

[REDACTED]

| | Q1 08 | Q1 09 | 2008 | Q1 09 TTM |
|--|-------|-------|------|-----------|
| OPERATING ACTIVITIES | | | | |
| Income from continuing operations | | | | |
| D&A | | | | |
| Deferred taxes | | | | |
| Sale of PP&E and investments - gain/(loss) | | | | |
| AFUDCEQ (cash flow) | | | | |
| Funds from operations - other | | | | |
| Funds from operations, reported | | | | |
| Accounts receivable - decrease (increase) | | | | |
| Inventory - decrease (increase) | | | | |
| Accounts payable and accrued liabilities - increase (decrease) | | | | |
| Income taxes - accrued - increase (decrease) | | | | |
| Current assets and liabilities - other - net change | | | | |
| Working capital changes, reported | | | | |
| Cash flow from operating activities | | | | |
| Reported | | | | |

Reconciliation Of Pinnacle West Capital Corp. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. \$)*

-Fiscal year ended Dec. 31, 2009-

Pinnacle West Capital Corp. reported amounts

| | Operating income (before D&A) | Operating income (after D&A) | Interest expense | Cash flow from operations | Cash flow from operations | Capital expenditures |
|---|-------------------------------|------------------------------|------------------|---------------------------|---------------------------|----------------------|
| Reported | | | | | | |
| Standard & Poor's adjustments | | | | | | |
| Operating leases | | | | | | |
| Postretirement benefit obligations | | | | | | |
| Accrued interest not included in reported debt | | | | | | |
| Capitalized interest | | | | | | |
| Share-based compensation expense | | | | | | |
| Power purchase agreements | | | | | | |
| Reclassification of nonoperating income (expenses) | | | | | | |
| Reclassification of working-capital cash flow changes | | | | | | |
| US decommissioning fund contributions | | | | | | |
| Total adjustments | | | | | | |
| Standard & Poor's adjusted amounts | | | | | | |
| Adjusted | | | | | | |

ADDITIONAL INFO

Dividends
Prior Year's Equity
AFUDC Equity

Pinnacle West Capital Corp. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. \$)

-Rolling twelve month ended Mar. 31, 2009-

Pinnacle West Capital Corp. reported amounts

| | Operating income (before D&A) | Operating income (after D&A) | Interest expense | Cash flow from operations | Cash flow from operations | Capital expenditures |
|--|-------------------------------|------------------------------|------------------|---------------------------|---------------------------|----------------------|
| Reported | | | | | | |
| Standard & Poor's adjustments | | | | | | |
| Operating leases | | | | | | |
| Postretirement benefit obligations/deferred compensation | | | | | | |
| Accrued interest not included in reported debt | | | | | | |
| Capitalized interest | | | | | | |
| Share-based compensation expense | | | | | | |
| Power purchase agreements | | | | | | |
| Non-operating income (expense) | | | | | | |
| Working-capital cash flow changes | | | | | | |
| FX, monetary, and inflation restatement adjustments | | | | | | |
| U.S. decommissioning fund contributions | | | | | | |
| Other | | | | | | |
| Total adjustments | | | | | | |
| Standard & Poor's adjusted amounts | | | | | | |
| Adjusted | | | | | | |

FFO, adjusted (versions normalized)
Plus: Cash interest paid
Plus: Capitalized interest
Less: Nonrecourse interest
Less: Securitized interest
Plus: OLA interest
Plus: Trade receivables sold interest
Plus: Purchase power agreement interest
Less: OLA depreciation
FFO, adjusted + cash interest paid

FOR FFO/Int Calc

From Bettinelli, Antonio
To McGill, James T(Z71171)
Cc
Subject Emailing: 0109991Fx.pdf

Date Friday, June 26, 2009 10:03:37 AM

 **0109991Fx.pdf** (26 KB HTML)

<<0109991Fx.pdf>>

Jim,

We are sending this draft to you to give you an opportunity to bring to our attention any factual errors or inadvertent inclusion of confidential information in the report. If you have any questions or comments on our analysis that are not factual in nature, we ask that you discuss these matters with us. We will use our sole discretion in making editorial changes to the document, which represents our independent opinion. The information in the release is confidential and must not be disclosed or released to anyone prior to its official release by Standard & Poor's.

Tony

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Pinnacle West Capital Corp.

Primary Credit Analyst: Tony Bettinelli, San Francisco, (1) 415-371-5067;
antonio_bettinelli@standardandpoors.com

Auxiliary Deck

Business risk profile:

Strong

Financial risk profile:

Significant

Major Rating Factors

Strengths:

- Primarily regulated electric utility operations;
- Adequate liquidity in spite of high potential collateral postings due to low gas prices;
- A favorable power supply adjuster (PSA), which should minimize fuel and purchased power deferral balances going forward;
- An attractive service territory that, though currently weakened by a real estate cycle that is depressing new customer connections, is expected to experience above-average growth over the long run;
- A balanced power supply portfolio that includes a mixture of owned coal, nuclear, gas generation and purchases; Arizona Public Service (APS) is expected to increasingly rely on purchases, which underlines the importance of a strong PSA; and
- A manageable maturity schedule for both the parent and the utility.

Weaknesses:

- Heavy capital investment at APS, coupled with a lagged regulatory process in Arizona, that has pressured the consolidated financial profile of the company;
- Challenges managing regulatory relationships at the consumer-elected Arizona Corporation Commission (ACC), which is unfavorable for credit quality due to the company's ongoing need for rate relief;

- Consolidated free operating cash flows that are expected to be negative until 2010, based on the company's capital spending plan; and
- Losses at real estate subsidiary SunCor due a depressed real estate cycle, which have weakened financial results but pose a limited overall risk.

Rationale

The BBB-/Stable/A-3 corporate credit ratings assigned to **Pinnacle West Capital Corporation** (PWCC) and its utility subsidiary, **Arizona Public Service Co.** (APS), reflect consolidated credit quality. Consolidated operations consist primarily of regulated electric utility APS. APS serves about 1.1 million customers within its service territory, which spans roughly two-thirds of Arizona and includes about half of metropolitan Phoenix. APS provided the company with over 100% of its consolidated net income in 2008 due to losses of \$26 million at SunCor, PWCC's real estate development company. Due to the significant real estate slowdown in the southwest, it is unlikely SunCor will be a meaningful contributor of cash flows or income going forward. Other business units do not currently have a significant impact on PWCC's consolidated business or financial risk profiles.

We view the business risk profile of PWCC and APS as 'strong'. The company continues to benefit from a number of favorable business attributes, including a service territory that has experienced above-average growth rates and a balanced power supply portfolio of coal, nuclear, and natural gas generation and contract purchases that is backed by a power supply adjustment cost mechanism and a prudent hedging strategy. However, we expect APS will continue to face significant regulatory challenges managing regulatory relationships at the consumer-elected Arizona Corporation Commission (ACC). Regulatory lag, or the time that it takes to pass on higher costs to rate payers, has remained worse than sector averages, and is expected to persist as long as the company experiences high levels of capital investment.

Due to the growth in the company's service area, the utility has needed to file regular general rate cases to manage recovery of its investment. The use of a historical test year in Arizona, coupled with the fact that fully litigated rate cases take between 18 to 24 months to complete, is expected to result in no meaningful improvement in financial performance through 2009, depending on the timing and the outcome of the company's current case. A settlement is currently pending. The conclusion of APS' last general rate case in June 2007 (filed in November 2005 and revised in early

2006) provided the company with mechanisms to recover legacy deferrals and speed the recovery of fuel costs.

APS filed its pending general rate case in March 2008 and subsequently revised the request to \$225.2 million, or an 8.5% net increase to existing customers. On June 12, 2009, APS filed a settlement with the ACC for \$207.5 million. If the settlement is approved by the ACC, APS expects rates to become effective on or about Jan. 1, 2010, and because the majority of APS' sales occur in the summer months, the company's financial performance is likely to weaken in 2009. This weakening would have been more severe if the ACC had not approved an emergency interim rate increase of \$65 million in December 2008, subject to refund. The pending settlement would prohibit APS from filing another general rate case until 2011 making it unlikely that current investments will be fully reflected in rates until 2013. Three new commissioners joined the ACC in January due to term limits. As a result, a majority of commissioners will be new when an APS rate case ruling is rendered. Commissioners are popularly elected.

APS has a well-diversified power supply portfolio that consisted of the following energy sources in 2008: 37.4% coal, 24.2% nuclear, 18.1% owned gas generation, and the balance, about 20.3%, purchases. We would expect the company's purchased power obligations to steadily climb due to the fact that APS is under a self-build moratorium until 2015 and because solar energy is a top energy policy objective in Arizona. APS needs to meet a relatively stringent renewable portfolio standard (RPS) of 15% by 2025, with 30% of the total RPS coming from small-scale distributed resources by 2012. It has a surcharge to collect the costs of RPS compliance.

The company is highly exposed to nuclear power availability and operations at Palo Verde Nuclear Generating Station, its largest single generating resource. Palo Verde performance appears to have stabilized, as the company continues to address Nuclear Regulatory Commission (NRC) concerns. On March 24, 2009, the NRC informed APS that it was removing Palo Verde Unit 3 from the "multiple/repetitive degraded cornerstone" column, removing Units 1 and 2 from the "one degraded cornerstone" column, and returning all three units of the plant to routine inspection and oversight. We expect stable operations and reasonable availability.

We view the financial risk profile of PWCC and APS as 'significant', reflecting an average debt to total capitalization of just below 60% over the past two years (adjusted for items such as power purchase contracts, operating leases, and postretirement obligations), rising to 62.2% in the first quarter of 2009 due to increased borrowing and a thinner equity layer given impairment charges, heavy capital spending resulting in negative free operating cash

flow and a reliance on significant external debt financing coupled with an absence of equity issuance.

Because the bulk of cash flows from consolidated operations are derived from APS, financial performance will continue to be dependent on the management of regulatory risk in Arizona as well as capital planning and financing decisions. Adjusted funds from operations (FFO) to total debt were 18.9% annualized as of March 31, 2009, with FFO interest coverage at 4.6x. Lower income taxes and the collection of deferred power costs that exceeded new deferrals temporarily improved cash flows. The run-rate of adjusted FFO to total debt is expected to average at least 15%. The company's financial profile supports an investment-grade credit rating, but overall leverage may need to improve to maintain a 'significant' financial risk profile.

We expect APS to manage its capital spending program in a manner that does not weaken the consolidated balance sheet. The company spent \$959 million in 2008 and is currently forecasted to spend \$895 million in 2009 and \$684 million in 2010. Total expenditures, debt and equity issuances, and dividends should be managed such that total leverage does not rise. Higher debt leverage could result in a weaker financial profile and a lower rating. A troubled real estate market in Arizona's historically high-growth service area has increased uncertainty in planning but may temporarily mitigate spending pressure. Customer growth averaged 4% a year for the three years 2005 through 2007, but has remained flat since.

Short-term credit factors

APS and PWCC's short-term rating is 'A-3'. Liquidity is adequate. As of March 31, 2009, consolidated cash and cash equivalents totaled \$21 million, and available credit facilities totaled nearly \$740 million. As of March 31, 2009, PWCC had \$110 million available under its \$283 million unsecured revolving credit facility that expires in December 2010 and APS had \$630 million available under its two unsecured revolving credit facilities, \$377 million of which expires in December 2010, and \$489 million in September 2011. As of March 31, 2009, about \$219 million of collateral has been provided to counterparties due to hedging activities and low commodity values. The company is currently working to unwind an expired \$150 million nonrecourse credit facility at SunCor by liquidating real estate assets. SunCor's liquidity is not a factor in the company's overall liquidity position.

Discretionary cash flow is expected to be negative for 2009 due to APS' current capital expenditure plans, but the gap should narrow in 2010 due to lower projected spending and anticipated rate increases. Excluding the remarketing of APS'

pollution control debt, neither PWCC nor APS has any significant long-term debt obligations maturing until 2011.

Outlook

The stable outlook is premised on slow but adequate rate relief, expected improvement in financial performance, and a de-levering of the balance sheet in order to maintain the current financial risk profile. Ratings could be lowered to speculative grade if the company is unable to overcome the challenge of ensuring timely recovery of its prudently incurred costs through rate increases, improve its current capital structure, maintain adequate liquidity, or to complete necessary external financings. Adjusted debt leverage has minimized the margin of error necessary to trigger a negative outlook. We currently see little potential for positive movement in the ratings.

Rating Methodology

The ratings on PWCC and its subsidiaries are determined based on Standard & Poor's consolidated ratings methodology. The application of this approach reflects significant financial and operational inter-relationships among the rated entities and captures the relative contribution to business risk and cash flow of the operating segments. In the absence of meaningful regulatory measures that can restrict the flow of funds within the company, Standard & Poor's considers PWCC's consolidated financial profile, while still analyzing the financial profiles of the standalone entities, to be the best indicator of credit quality of the parent and its subsidiaries, including APS.

Accounting

PWCC reports its financial statements in accordance with U.S. GAAP. These statements received an unqualified opinion by PWCC's independent auditor, Deloitte and Touche LLC, in the most recent annual audited period.

The company benefits from the use of regulatory accounting SFAS 71 (accounting for the effects of certain types of regulation), under which some incurred costs or benefits that will probably be recovered or refunded in customer rates are deferred and recorded as regulatory assets or liabilities. As of Dec. 31, 2008, PWCC's consolidated balance sheet contained total regulatory assets and total regulatory liabilities of \$795 million and \$588 million,

respectively, reflecting assets expected to be recovered and liabilities expected to be settled in future rates.

PWCC's reported consolidated results included \$211.3 million and \$53.3 million of pre-tax real estate impairment charges for the quarter ended March 31, 2009, and year ended Dec. 31, 2008, respectively.

Standard & Poor's makes adjustments for certain off-balance-sheet items, capitalizing operating leases, purchase-power agreements and the shortfall in pension funding. As of Dec. 31, 2008, Standard & Poor's added \$398.6 million on account of capitalization of operating leases, \$282.4 million on account of power purchased obligations, and \$442.2 million for the shortfall in pension funding. These three items represent approximately 29% of PWCC's reported total debt as of Dec. 31, 2008.

Standard & Poor's also makes an analytical adjustment for allowance for funds used during construction (AFUDC) charges capitalized by the company and treats the charges as a part of operating expenses. The AFUDC charge is backed out to arrive at cash flows from operations. Adjustment for AFUDC debt in fiscal 2008 was \$18.8 million.

McGill, James T(Z71171)

From: Bettinelli, Antonio [Antonio_Bettinelli@standardandpoors.com]
Sent: Monday, July 13, 2009 10:42 AM
To: McGill, James T(Z71171)
Subject: Meeting

I'll call you tomorrow. I need to check with everyone.

Tony

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McGill, James T(Z71171)

From: Dolyniuk, Karen E(J97440)
Sent: Friday, July 17, 2009 7:06 AM
To: 'laura.schumacher@moodys.com'
Cc: McGill, James T(Z71171)
Subject: APS - Coconino Bonds

Laura, as you are probably aware, last September, APS bought in two series of tax exempt bonds - Coconino 1996 and Coconino 1999. The intention was always to find a bank(s) to provide a letter of credit. We are beginning the process of putting an LC and reimbursement agreement in place to support these bonds.

Would you direct me to the person at Moody's who would be reviewing documents and doing the analysis. I would like to find out about the process and the length of time needed in order to build this into our timeline.

Thanks!

Karen E. Dolyniuk, CTP
Manager, Treasury Operations
Pinnacle West Capital Corporation
Phone: 602-250-5630

McGill, James T(Z71171)

From: Dolyniuk, Karen E(J97440)
Sent: Friday, July 17, 2009 7:10 AM
To: 'Bettinelli, Antonio'
Cc: McGill, James T(Z71171)
Subject: APS - Coconino Bonds

Tony, as you are probably aware, last September, APS bought in two series of tax exempt bonds - Coconino 1996 and Coconino 1999. The intention was always to find a bank(s) to provide a letter of credit. We are beginning the process of putting an LC and reimbursement agreement in place to support these bonds.

Would you direct me to the person at S&P who would be reviewing documents and doing the analysis. I would like to find out about the process and the length of time needed in order to build this into our timeline.

Thanks!

Karen E. Dolyniuk, CTP
Manager, Treasury Operations
Pinnacle West Capital Corporation
Phone: 602-250-5630

McGill, James T(Z71171)

From: Dolyniuk, Karen E(J97440)
Sent: Friday, July 17, 2009 7:11 AM
To: 'philip.smyth@fitchratings.com'
Cc: McGill, James T(Z71171)
Subject: APS - Coconino Bonds

Phil, as you are probably aware, last September, APS bought in two series of tax exempt bonds - Coconino 1996 and Coconino 1999. The intention was always to find a bank(s) to provide a letter of credit. We are beginning the process of putting an LC and reimbursement agreement in place to support these bonds.

Would you direct me to the person at Fitch who would be reviewing documents and doing the analysis. I would like to find out about the process and the length of time needed in order to build this into our timeline.

Thanks!

Karen E. Dolyniuk, CTP
Manager, Treasury Operations
Pinnacle West Capital Corporation
Phone: 602-250-5630

McGill, James T(Z71171)

To: Dolyniuk, Karen E(J97440)
Subject: RE: APS - Coconino Bonds

From: Bettinelli, Antonio [mailto:Antonio_Bettinelli@standardandpoors.com]
Sent: Friday, July 17, 2009 11:12 AM
To: Dolyniuk, Karen E(J97440)
Subject: RE: APS - Coconino Bonds

I'm checking.

From: Karen.Dolyniuk@aps.com [mailto:Karen.Dolyniuk@aps.com]
Sent: Friday, July 17, 2009 7:10 AM
To: Bettinelli, Antonio
Cc: James.McGill@pinnaclewest.com
Subject: APS - Coconino Bonds

Tony, as you are probably aware, last September, APS bought in two series of tax exempt bonds - Coconino 1996 and Coconino 1999. The intention was always to find a bank(s) to provide a letter of credit. We are beginning the process of putting an LC and reimbursement agreement in place to support these bonds.

Would you direct me to the person at S&P who would be reviewing documents and doing the analysis. I would like to find out about the process and the length of time needed in order to build this into our timeline.

Thanks!

Karen E. Dolyniuk, CTP
Manager, Treasury Operations
Pinnacle West Capital Corporation
Phone: 602-250-5630

Email Firewall made the following annotations

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McGill, James T(Z71171)

From: Omanovic, Rufad (Z72366)
Sent: Tuesday, July 21, 2009 7:57 AM
To: 'Bettinelli, Antonio'
Cc: McGill, James T(Z71171)
Subject: PNW's Financial Risk Profile

Hi Tony,

In your latest write-up on PNW you state that our Financial Risk Profile is 'significant'. S&P's matrix on Business and Financial Risk Profiles does not have 'significant' as a category. Our Financial Risk Profile has been 'aggressive'. Have you changed the matrix and if so, can we have a copy of your publication where the change was announced?

Thank you,

Rufad Omanović
Pinnacle West Capital Corp.
Corporate Finance
Tel. (602) 250-5623, Fax (602) 250-5640
rufad.omanovic@pinnaclewest.com

McGill, James T(Z71171)

From: Bettinelli, Antonio [Antonio_Bettinelli@standardandpoors.com]
Sent: Tuesday, July 21, 2009 9:16 AM
To: Omanovic, Rufad (Z72366)
Cc: McGill, James T(Z71171)
Subject: RE: PNW's Financial Risk Profile
Attachments: 2009 BP FP Matrix.pdf; 2009 Revised Profiles.pdf

Rufad: The expanded matrix was applied to the electric utility sector on June 8th. The updated profiles were disseminated via My Credit Profile.

Jim: Let me know about the meeting dates.

Tony Bettinelli
Associate
U.S. Utilities & Infrastructure
Standard & Poor's Corporate Ratings
San Francisco, CA
(415) 371-5067
tony_bettinelli@sandp.com

From: Rufad.Omanovic@aps.com [mailto:Rufad.Omanovic@aps.com]
Sent: Tuesday, July 21, 2009 7:57 AM
To: Bettinelli, Antonio
Cc: James.McGill@pinnaclewest.com
Subject: PNW's Financial Risk Profile

Hi Tony,

In your latest write-up on PNW you state that our Financial Risk Profile is 'significant'. S&P's matrix on Business and Financial Risk Profiles does not have 'significant' as a category. Our Financial Risk Profile has been 'aggressive'. Have you changed the matrix and if so, can we have a copy of your publication where the change was announced?

Thank you,

Rufad Omanovic
Pinnacle West Capital Corp.
Corporate Finance
Tel. (602) 250-5623, Fax (602) 250-5640
rufad.omanovic@pinnaclewest.com

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May 27, 2009

Criteria | Corporates | General:
**Criteria Methodology: Business
Risk/Financial Risk Matrix
Expanded**

Primary Credit Analysts:

Solomon B Samson, New York (1) 212-438-7653; sol_samson@standardandpoors.com

Emmanuel Dubois-Pelerin, Paris (33) 1-4420-6673; emmanuel_dubois-pelerin@standardandpoors.com

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Criteria | Corporates | General:

Criteria Methodology: Business Risk/Financial Risk Matrix Expanded

(Editor's Note: In the previous version of this article published on May 26, certain of the rating outcomes in the table 1 matrix were misspelled. A corrected version follows.)

Standard & Poor's Ratings Services is refining its methodology for corporate ratings related to its business risk/financial risk matrix, which we published as part of 2008 Corporate Ratings Criteria on April 15, 2008, on RatingsDirect at www.ratingsdirect.com and Standard & Poor's Web site at www.standardandpoors.com.

This article amends and supersedes the criteria as published in Corporate Ratings Criteria, page 21, and the articles listed in the "Related Articles" section at the end of this report.

This article is part of a broad series of measures announced last year to enhance our governance, analytics, dissemination of information, and investor education initiatives. These initiatives are aimed at augmenting our independence, strengthening the rating process, and increasing our transparency to better serve the global markets.

We introduced the business risk/financial risk matrix four years ago. The relationships depicted in the matrix represent an essential element of our corporate analytical methodology.

We are now expanding the matrix, by adding one category to both business and financial risks (see table 1). As a result, the matrix allows for greater differentiation regarding companies rated lower than investment grade (i.e., 'BB' and below).

Table 1

| Business And Financial Risk Profile Matrix | | | | | | |
|---|-------------------------------|---------------|---------------------|--------------------|-------------------|-------------------------|
| Business Risk Profile | Financial Risk Profile | | | | | |
| | Minimal | Modest | Intermediate | Significant | Aggressive | Highly Leveraged |
| Excellent | AAA | AA | A | A- | BBB | -- |
| Strong | AA | A | A- | BBB | BB | BB- |
| Satisfactory | A- | BBB+ | BBB | BB+ | BB- | B+ |
| Fair | -- | BBB- | BB+ | BB | BB- | B |
| Weak | -- | -- | BB | BB- | B+ | B- |
| Vulnerable | -- | -- | -- | B+ | B | CCC+ |

These rating outcomes are shown for guidance purposes only. Actual rating should be within one notch of indicated rating outcomes.

The rating outcomes refer to issuer credit ratings. The ratings indicated in each cell of the matrix are the midpoints of a range of likely rating possibilities. This range would ordinarily span one notch above and below the indicated rating.

Business Risk/Financial Risk Framework

Our corporate analytical methodology organizes the analytical process according to a common framework, and it divides the task into several categories so that all salient issues are considered. The first categories involve fundamental business analysis; the financial analysis categories follow.

Our ratings analysis starts with the assessment of the business and competitive profile of the company. Two companies with identical financial metrics can be rated very differently, to the extent that their business challenges and prospects differ. The categories underlying our business and financial risk assessments are:

Business risk

- Country risk
- Industry risk
- Competitive position
- Profitability/Peer group comparisons

Financial risk

- Accounting
- Financial governance and policies/risk tolerance
- Cash flow adequacy
- Capital structure/asset protection
- Liquidity/short-term factors

We do not have any predetermined weights for these categories. The significance of specific factors varies from situation to situation.

Updated Matrix

We developed the matrix to make explicit the rating outcomes that are typical for various business risk/financial risk combinations. It illustrates the relationship of business and financial risk profiles to the issuer credit rating.

We tend to weight business risk slightly more than financial risk when differentiating among investment-grade ratings. Conversely, we place slightly more weight on financial risk for speculative-grade issuers (see table 1, again). There also is a subtle compounding effect when both business risk and financial risk are aligned at extremes (i.e., excellent/minimal and vulnerable/highly leveraged.)

The new, more granular version of the matrix represents a refinement--not any change in rating criteria or standards--and, consequently, holds no implications for any changes to existing ratings. However, the expanded matrix should enhance the transparency of the analytical process.

Financial Benchmarks

Table 2

| Financial Risk Indicative Ratios (Corporates) | | | |
|---|-----------------|-----------------|------------------|
| | FFO/Debt (%) | Debt/EBITDA (x) | Debt/Capital (%) |
| Minimal | greater than 60 | less than 1.5 | less than 25 |
| Modest | 45-60 | 1.5-2 | 25-35 |
| Intermediate | 30-45 | 2-3 | 35-45 |
| Significant | 20-30 | 3-4 | 45-50 |
| Aggressive | 12-20 | 4-5 | 50-60 |
| Highly Leveraged | less than 12 | greater than 5 | greater than 60 |

How To Use The Matrix--And Its Limitations

The rating matrix indicative outcomes are what we typically observe--but are not meant to be precise indications or guarantees of future rating opinions. Positive and negative nuances in our analysis may lead to a notch higher or lower than the outcomes indicated in the various cells of the matrix.

In certain situations there may be specific, overarching risks that are outside the standard framework, e.g., a liquidity crisis, major litigation, or large acquisition. This often is the case regarding credits at the lowest end of the credit spectrum--i.e., the 'CCC' category and lower. These ratings, by definition, reflect some impending crisis or acute vulnerability, and the balanced approach that underlies the matrix framework just does not lend itself to such situations.

Similarly, some matrix cells are blank because the underlying combinations are highly unusual--and presumably would involve complicated factors and analysis.

The following hypothetical example illustrates how the tables can be used to better understand our rating process (see tables 1 and 2).

We believe that Company ABC has a satisfactory business risk profile, typical of a low investment-grade industrial issuer. If we believed its financial risk were intermediate, the expected rating outcome should be within one notch of 'BBB'. ABC's ratios of cash flow to debt (35%) and debt leverage (total debt to EBITDA of 2.5x) are indeed characteristic of intermediate financial risk.

It might be possible for Company ABC to be upgraded to the 'A' category by, for example, reducing its debt burden to the point that financial risk is viewed as minimal. Funds from operations (FFO) to debt of more than 60% and debt to EBITDA of only 1.5x would, in most cases, indicate minimal.

Conversely, ABC may choose to become more financially aggressive--perhaps it decides to reward shareholders by borrowing to repurchase its stock. It is possible that the company may fall into the 'BB' category if we view its financial risk as significant. FFO to debt of 20% and debt to EBITDA 4x would, in our view, typify the significant financial risk category.

Still, it is essential to realize that the financial benchmarks are guidelines, neither gospel nor guarantees. They can vary in nonstandard cases: For example, if a company's financial measures exhibit very little volatility, benchmarks may be somewhat more relaxed.

Moreover, our assessment of financial risk is not as simplistic as looking at a few ratios. It encompasses:

- a view of accounting and disclosure practices;
- a view of corporate governance, financial policies, and risk tolerance;
- the degree of capital intensity, flexibility regarding capital expenditures and other cash needs, including acquisitions and shareholder distributions; and
- various aspects of liquidity--including the risk of refinancing near-term maturities.

The matrix addresses a company's standalone credit profile, and does not take account of external influences, which would pertain in the case of government-related entities or subsidiaries that in our view may benefit or suffer from affiliation with a stronger or weaker group. The matrix refers only to local-currency ratings, rather than foreign-currency ratings, which incorporate additional transfer and convertibility risks. Finally, the matrix does not apply to project finance or corporate securitizations.

Related Articles

Industrials' Business Risk/Financial Risk Matrix--A Fundamental Perspective On Corporate Ratings, published April 7, 2005, on RatingsDirect.

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STANDARD
& POOR'S

RATINGS DIRECT®

June 8, 2009

Issuer Ranking:
**U.S. Regulated Electric Utilities,
Strongest To Weakest**

Primary Credit Analyst:

John W Whitlock, New York (1) 212-438-7678; john_whitlock@standardandpoors.com

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1

Issuer Ranking:

U.S. Regulated Electric Utilities, Strongest To Weakest

Standard & Poor's Ratings Services recently expanded its business risk/financial matrix to better communicate our analytic opinions to the global credit market. Please see the May 27, 2009 article published on RatingsDirect titled "Criteria /Methodology: Business Risk/Financial Risk Matrix Expanded."

The following list contains Standard & Poor's ratings, outlooks, and business and financial profiles for companies with a primary regulated electric utility focus. This list reflects the current ratings and outlooks as of June 8, 2009. The rankings in each rating/outlook grouping (e.g., BBB+/Stable/--) are based on relative business risk. We have incorporated the new corporate ratings matrix into the electric utility ranking list; changes to the ranking list have been identified by an asterisk (*).

A Standard & Poor's rating outlook assesses the potential direction of an issuer's long-term debt rating over the intermediate to longer term. In determining a rating outlook, we consider any changes in the economic and/or fundamental business conditions. An outlook is not necessarily a precursor of a rating change or future CreditWatch action. "Positive" indicates that we may raise a rating; "negative" means we may lower a rating; "stable" indicates that ratings will not likely change; and "developing" means we may raise or lower ratings.

We characterize utility business profiles as "Excellent," "Strong," "Satisfactory," "Fair," "Weak," or "Vulnerable" under the credit ratings methodology applied to all rated corporate entities at Standard & Poor's. To determine a utility's business profile, Standard & Poor's analyzes the following qualitative business or operating characteristics: markets and service area economy; competitive position; fuel and power supply; operations; asset concentration; regulation; and management. Issuer credit ratings, shown as long-term rating/outlook or CreditWatch/short-term rating, are local and foreign currency unless otherwise noted. A dash (--) indicates not rated.

For the related industry report card, please see "Industry Report Card: U.S. Electric Utility Sector Performed Well In First Quarter Of 2009," published March 30, 2009.

U.S. Regulated Electric Utilities

| Company | Corporate credit rating* | Business profile | Financial profile |
|---|--------------------------|------------------|-------------------|
| Madison Gas & Electric Co. | AA-/Stable/A-1+ | Excellent | Intermediate |
| - | | | |
| American Transmission Co. | A+/Stable/A-1 | Excellent | Intermediate |
| Midwest Independent Transmission System Operator Inc. | A+/Stable/-- | Excellent | Intermediate |
| NSTAR Electric Co. | A+/Stable/A-1 | Excellent | Intermediate |
| NSTAR Gas Co. | A+/Stable/-- | Excellent | Intermediate |
| NSTAR | A+/Stable/A-1 | Excellent | Intermediate |
| - | | | |
| Florida Power & Light Co. | A/Stable/A-1 | Excellent | Intermediate |
| KeySpan Energy Delivery Long Island | A/Stable/-- | Excellent | Intermediate |
| KeySpan Energy Delivery New York | A/Stable/-- | Excellent | Intermediate |
| Northern Natural Gas Co. | A/Stable/-- | Excellent | Intermediate |

Issuer Ranking: U.S. Regulated Electric Utilities, Strongest To Weakest

| U.S. Regulated Electric Utilities (cont.) | | | |
|--|-----------------|-----------|--------------|
| Alabama Power Co. | A/Stable/A-1 | Excellent | Intermediate |
| Georgia Power Co. | A/Stable/A-1 | Excellent | Intermediate |
| Mississippi Power Co. | A/Stable/A-1 | Excellent | Intermediate |
| Gulf Power Co. | A/Stable/-- | Excellent | Intermediate |
| FPL Group Inc. | A/Stable/-- | Excellent | Intermediate |
| Southern Co. | A/Stable/A-1 | Excellent | Intermediate |
| Central Hudson Gas & Electric Corp. | A/Stable/-- | Excellent | Intermediate |
| - | | | |
| San Diego Gas & Electric Co. | A/Negative/A-1 | Excellent | Intermediate |
| - | | | |
| Duke Energy Indiana Inc. | A-/Positive/A-2 | Excellent | Intermediate |
| Duke Energy Carolinas LLC | A-/Positive/A-2 | Excellent | Intermediate |
| Duke Energy Ohio Inc. | A-/Positive/A-2 | Excellent | Intermediate |
| Duke Energy Kentucky Inc. | A-/Positive/-- | Excellent | Intermediate |
| Wisconsin Gas LLC | A-/Positive/A-2 | Excellent | Intermediate |
| Wisconsin Electric Power Co. | A-/Positive/A-2 | Excellent | Intermediate |
| Cinergy Corp. | A-/Positive/A-2 | Excellent | Intermediate |
| Duke Energy Corp. | A-/Positive/A-2 | Excellent | Intermediate |
| - | | | |
| California Independent System Operator Corp. | A-/Stable/-- | Excellent | Intermediate |
| Massachusetts Electric Co. | A-/Stable/A-2 | Excellent | Significant* |
| Narragansett Electric Co. | A-/Stable/A-2 | Excellent | Significant* |
| New England Power Co. | A-/Stable/A-2 | Excellent | Significant* |
| Connecticut Natural Gas Corp. | A-/Stable/-- | Excellent | Intermediate |
| Southern Connecticut Gas Co. | A-/Stable/-- | Excellent | Intermediate |
| Consolidated Edison Co. of New York Inc. | A-/Stable/A-2 | Excellent | Significant* |
| Orange and Rockland Utilities Inc. | A-/Stable/A-2 | Excellent | Significant* |
| Rockland Electric Co. | A-/Stable/-- | Excellent | Significant* |
| Consolidated Edison Inc. | A-/Stable/A-2 | Excellent | Significant* |
| Virginia Electric & Power Co. | A-/Stable/A-2 | Excellent | Significant* |
| Dayton Power & Light Co. | A-/Stable/-- | Excellent | Intermediate |
| Northern States Power Wisconsin | A-/Stable/-- | Excellent | Intermediate |
| Wisconsin Power & Light Co. | A-/Stable/A-2 | Excellent | Intermediate |
| Southern Indiana Gas & Electric Co. | A-/Stable/-- | Excellent | Intermediate |
| Niagara Mohawk Power Corp. | A-/Stable/A-2 | Excellent | Significant* |
| National Grid USA | A-/Stable/A-2 | Excellent | Aggressive |
| PacifiCorp | A-/Stable/A-2 | Excellent | Significant* |
| DPL Inc. | A-/Stable/-- | Excellent | Intermediate |
| MidAmerican Energy Co. | A-/Stable/A-2 | Excellent | Significant* |
| Dominion Resources Inc. | A-/Stable/A-2 | Excellent | Significant* |
| Energy East Corp. | A-/Stable/A-2 | Excellent | Aggressive |

Issuer Ranking: U.S. Regulated Electric Utilities, Strongest To Weakest

U.S. Regulated Electric Utilities (cont.)

| | | | |
|---|-------------------|--------------|--------------|
| - | | | |
| Wisconsin Public Service Corp. | A-/Negative/A-2 | Excellent | Aggressive |
| PPL Electric Utilities Corp. | A-/Negative/A-2 | Excellent | Significant* |
| - | | | |
| Wisconsin Energy Corp. | BBB+/Positive/A-2 | Excellent | Aggressive |
| - | | | |
| Oncor Electric Delivery Co. LLC | BBB+/Stable/-- | Excellent | Significant* |
| Public Service Co. of North Carolina Inc. | BBB+/Stable/A-2 | Excellent | Aggressive |
| Southern California Edison Co. | BBB+/Stable/A-2 | Excellent | Significant* |
| Pacific Gas & Electric Co. | BBB+/Stable/A-2 | Excellent | Significant* |
| The Berkshire Gas Co. | BBB+/Stable/-- | Excellent | Aggressive |
| Central Maine Power Co. | BBB+/Stable/-- | Excellent | Aggressive |
| South Carolina Electric & Gas Co. | BBB+/Stable/A-2 | Excellent | Aggressive |
| Florida Power Corp. d/b/a Progress Energy Florida Inc. | BBB+/Stable/A-2 | Excellent | Aggressive |
| Carolina Power & Light Co. d/b/a Progress Energy Carolinas Inc. | BBB+/Stable/A-2 | Excellent | Aggressive |
| Kentucky Utilities Co. | BBB+/Stable/A-2 | Excellent | Aggressive |
| Louisville Gas & Electric Co. | BBB+/Stable/-- | Excellent | Aggressive |
| Oklahoma Gas & Electric Co. | BBB+/Stable/A-2 | Excellent | Significant* |
| Public Service Co. of Colorado | BBB+/Stable/A-2 | Excellent | Significant* |
| Northern States Power Co. | BBB+/Stable/A-2 | Excellent | Significant* |
| Southwestern Public Service Co. | BBB+/Stable/A-2 | Excellent | Significant* |
| Interstate Power & Light Co. | BBB+/Stable/A-2 | Excellent | Significant* |
| New York State Electric & Gas Corp. | BBB+/Stable/A-2 | Excellent | Aggressive |
| Xcel Energy Inc. | BBB+/Stable/A-2 | Excellent | Significant* |
| Progress Energy Inc. | BBB+/Stable/A-2 | Excellent | Aggressive |
| MidAmerican Energy Holdings Co. | BBB+/Stable/-- | Excellent | Aggressive |
| SCANA Corp. | BBB+/Stable/-- | Excellent | Aggressive |
| Alliant Energy Corp. | BBB+/Stable/A-2 | Excellent | Significant* |
| PG&E Corp. | BBB+/Stable/-- | Excellent | Significant* |
| E.ON U.S. LLC | BBB+/Stable/-- | Excellent | Aggressive |
| OGE Energy Corp. | BBB+/Stable/A-2 | Strong | Significant* |
| Montana-Dakota Utilities Co. | BBB+/Stable/-- | Strong | Intermediate |
| Enogex LLC | BBB+/Stable/-- | Satisfactory | Significant* |
| - | | | |
| Peoples Gas Light & Coke Co. (The) | BBB+/Negative/A-2 | Excellent | Aggressive |
| North Shore Gas Co. | BBB+/Negative/-- | Excellent | Aggressive |
| Peoples Energy Corp. | BBB+/Negative/A-2 | Excellent | Aggressive |
| Integrus Energy Group Inc. | BBB+/Negative/A-2 | Excellent | Aggressive |
| ALLETE Inc. | BBB+/Negative/A-2 | Strong | Significant* |
| Portland General Electric Co. | BBB+/Negative/A-2 | Strong | Significant* |
| - | | | |
| International Transmission Co. | BBB/Stable/-- | Excellent | Aggressive |

Issuer Ranking: U.S. Regulated Electric Utilities, Strongest To Weakest

U.S. Regulated Electric Utilities (cont.)

| | | | |
|-------------------------------------|----------------|------------|--------------|
| ITC Holdings Corp. | BBB/Stable/-- | Excellent | Aggressive |
| ITC Midwest LLC | BBB/Stable/-- | Excellent | Aggressive |
| Michigan Electric Transmission Co. | BBB/Stable/-- | Excellent | Aggressive |
| Yankee Gas Services Co. | BBB/Stable/-- | Excellent | Aggressive |
| Michigan Consolidated Gas Co. | BBB/Stable/A-2 | Excellent | Aggressive |
| Tampa Electric Co. | BBB/Stable/A-2 | Excellent | Aggressive |
| Public Service Electric & Gas Co. | BBB/Stable/A-2 | Excellent | Aggressive |
| AEP Texas Central Co | BBB/Stable/-- | Excellent | Aggressive |
| AEP Texas North Co | BBB/Stable/-- | Excellent | Aggressive |
| Connecticut Light & Power Co. | BBB/Stable/-- | Excellent | Aggressive |
| Public Service Co. of New Hampshire | BBB/Stable/-- | Excellent | Aggressive |
| Jersey Central Power & Light Co. | BBB/Stable/-- | Excellent | Aggressive |
| Columbus Southern Power Co. | BBB/Stable/-- | Excellent | Aggressive |
| Ohio Power Co. | BBB/Stable/-- | Excellent | Aggressive |
| Appalachian Power Co. | BBB/Stable/-- | Excellent | Aggressive |
| NorthWestern Corp. | BBB/Stable/-- | Excellent | Aggressive |
| Western Massachusetts Electric Co. | BBB/Stable/-- | Excellent | Aggressive |
| Atlantic City Electric Co. | BBB/Stable/A-2 | Excellent | Significant* |
| Potomac Electric Power Co. | BBB/Stable/A-2 | Excellent | Significant* |
| Delmarva Power & Light Co. | BBB/Stable/A-2 | Excellent | Significant* |
| Green Mountain Power Corp. | BBB/Stable/-- | Excellent | Aggressive |
| Kentucky Power Co. | BBB/Stable/-- | Excellent | Aggressive |
| Public Service Co. of Oklahoma | BBB/Stable/-- | Excellent | Aggressive |
| Southwestern Electric Power Co. | BBB/Stable/-- | Excellent | Aggressive |
| Metropolitan Edison Co. | BBB/Stable/-- | Excellent | Aggressive |
| Pennsylvania Electric Co. | BBB/Stable/-- | Excellent | Aggressive |
| Cleveland Electric Illuminating Co. | BBB/Stable/-- | Excellent | Aggressive |
| Ohio Edison Co. | BBB/Stable/A-2 | Excellent | Aggressive |
| Pennsylvania Power Co. | BBB/Stable/-- | Excellent | Aggressive |
| Toledo Edison Co. | BBB/Stable/-- | Excellent | Aggressive |
| Rochester Gas & Electric Corp. | BBB/Stable/-- | Excellent | Aggressive |
| TECO Energy Inc. | BBB/Stable/-- | Excellent | Aggressive |
| Puget Sound Energy Inc. | BBB/Stable/A-2 | Excellent | Aggressive |
| American Electric Power Co. Inc. | BBB/Stable/A-2 | Excellent | Aggressive |
| Northeast Utilities | BBB/Stable/-- | Excellent | Aggressive |
| FirstEnergy Corp. | BBB/Stable/-- | Excellent | Aggressive |
| Cleco Power LLC | BBB/Stable/-- | Excellent* | Aggressive |
| Cleco Corp. | BBB/Stable/-- | Excellent* | Aggressive |
| Idaho Power Co. | BBB/Stable/A-2 | Excellent* | Aggressive |
| IDACORP Inc. | BBB/Stable/A-2 | Excellent* | Aggressive |
| El Paso Electric Co. | BBB/Stable/-- | Excellent* | Aggressive |
| Indiana Michigan Power Co. | BBB/Stable/-- | Strong | Aggressive |
| PEPCO Holdings Inc. | BBB/Stable/A-2 | Strong | Significant* |

Issuer Ranking: U.S. Regulated Electric Utilities, Strongest To Weakest

U.S. Regulated Electric Utilities (cont.)

| | | | |
|---|-------------------|--------------|--------------|
| CenterPoint Energy Houston Electric LLC | BBB/Negative/-- | Excellent | Aggressive |
| Kansas City Power & Light Co. | BBB/Negative/A-3 | Excellent | Aggressive |
| KCP&L Greater Missouri Operations Co. | BBB/Negative/-- | Excellent | Aggressive |
| Great Plains Energy Inc. | BBB/Negative/-- | Excellent | Aggressive |
| CenterPoint Energy Inc. | BBB/Negative/A-3 | Excellent | Aggressive |
| CenterPoint Energy Resources Corp. | BBB/Negative/A-3 | Excellent | Aggressive |
| Entergy Arkansas Inc. | BBB/Negative/-- | Excellent* | Aggressive |
| Entergy Louisiana LLC | BBB/Negative/-- | Excellent* | Aggressive |
| Entergy Mississippi Inc. | BBB/Negative/-- | Excellent* | Aggressive |
| Entergy Gulf States Louisiana LLC | BBB/Negative/-- | Excellent* | Aggressive |
| Entergy Texas Inc. | BBB/Negative/-- | Excellent* | Aggressive |
| Entergy Corp. | BBB/Negative/-- | Excellent* | Aggressive |
| System Energy Resources Inc. | BBB/Negative/-- | Excellent* | Aggressive |
| Hawaiian Electric Co. Inc. | BBB/Negative/A-3 | Strong | Significant* |
| Hawaiian Electric Industries Inc. | BBB/Negative/A-3 | Strong | Significant* |
| Detroit Edison Co. | BBB/Negative/A-3 | Strong | Significant* |
| DTE Energy Co. | BBB/Negative/A-3 | Strong | Significant* |
| PECO Energy Co. | BBB/Watch Neg/A-2 | Excellent | Aggressive |
| Baltimore Gas & Electric Co. | BBB/Watch Neg/A-2 | Strong | Intermediate |
| Westar Energy Inc. | BBB-/Positive/-- | Excellent | Aggressive |
| Kansas Gas & Electric Co. | BBB-/Positive/-- | Excellent | Aggressive |
| Potomac Edison Co. | BBB-/Stable/-- | Excellent | Aggressive |
| West Penn Power Co. | BBB-/Stable/-- | Excellent | Aggressive |
| Monongahela Power Co. | BBB-/Stable/-- | Excellent | Aggressive |
| Consumers Energy Co. | BBB-/Stable/-- | Excellent | Aggressive |
| CMS Energy Corp. | BBB-/Stable/A-3 | Excellent | Aggressive |
| Union Electric Co. d/b/a AmerenUE | BBB-/Stable/A-3 | Excellent | Significant* |
| Empire District Electric Co. | BBB-/Stable/A-3 | Excellent* | Aggressive |
| Avista Corp. | BBB-/Stable/A-3 | Excellent* | Aggressive |
| Edison International | BBB-/Stable/-- | Strong | Aggressive |
| Black Hills Power Inc. | BBB-/Stable/-- | Strong | Significant* |
| Arizona Public Service Co. | BBB-/Stable/A-3 | Strong | Significant* |
| Pinnacle West Capital Corp. | BBB-/Stable/A-3 | Strong | Significant* |
| Allegheny Energy Inc. | BBB-/Stable/A-3 | Strong | Aggressive |
| Central Illinois Public Service Co. | BBB-/Stable/-- | Strong | Significant* |
| Illinois Power Co. | BBB-/Stable/-- | Strong | Significant* |
| Ohio Valley Electric Corp. | BBB-/Stable/-- | Strong | Aggressive |
| Central Illinois Light Co. | BBB-/Stable/-- | Satisfactory | Significant* |

Issuer Ranking: U.S. Regulated Electric Utilities, Strongest To Weakest

| U.S. Regulated Electric Utilities (cont.) | | | |
|---|--------------------|--------------|------------------|
| CILCORP Inc. | BBB-/Stable/-- | Satisfactory | Significant* |
| Ameren Corp. | BBB-/Stable/A-3 | Satisfactory | Significant* |
| Black Hills Corp. | BBB-/Stable/-- | Satisfactory | Significant* |
| Otter Tail Corp. | BBB-/Stable/-- | Satisfactory | Significant* |
| - | | | |
| Duquesne Light Co. | BBB-/Negative/-- | Excellent | Highly leveraged |
| Northern Indiana Public Service Co. | BBB-/Negative/-- | Excellent | Aggressive |
| Duquesne Light Holdings Inc. | BBB-/Negative/-- | Excellent | Highly leveraged |
| Entergy New Orleans Inc. | BBB-/Negative/-- | Strong* | Aggressive |
| - | | | |
| Commonwealth Edison Co. | BBB-/Watch Neg/A-3 | Strong | Aggressive |
| - | | | |
| Central Vermont Public Service Corp. | BB+/Stable/-- | Excellent | Highly leveraged |
| Indianapolis Power & Light Co. | BB+/Stable/-- | Excellent | Highly leveraged |
| IPALCO Enterprises Inc. | BB+/Stable/-- | Excellent | Highly leveraged |
| Puget Energy Inc. | BB+/Stable/-- | Excellent | Aggressive |
| Tucson Electric Power Co. | BB+/Stable/B-2 | Strong | Highly leveraged |
| - | | | |
| Nevada Power Co. | BB/Stable/-- | Excellent | Highly leveraged |
| Sierra Pacific Power Co. | BB/Stable/-- | Excellent | Highly leveraged |
| NV Energy Inc. | BB/Stable/B-2 | Excellent | Highly leveraged |
| - | | | |
| Texas-New Mexico Power Co. | BB-/Negative/-- | Satisfactory | Highly leveraged |
| Public Service Co. of New Mexico | BB-/Negative/B-2 | Satisfactory | Highly leveraged |
| PNM Resources Inc. | BB-/Negative/B-2 | Satisfactory | Highly leveraged |

*As of June 8, 2009.

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McGill, James T(Z71171)

From: Omanovic, Rufad (Z72366)
Sent: Tuesday, July 21, 2009 9:22 AM
To: 'Bettinelli, Antonio'
Cc: McGill, James T(Z71171)
Subject: RE: PNW's Financial Risk Profile

Thank you Tony!

From: Bettinelli, Antonio [mailto:Antonio_Bettinelli@standardandpoors.com]
Sent: Tuesday, July 21, 2009 09:16
To: Omanovic, Rufad (Z72366)
Cc: McGill, James T(Z71171)
Subject: RE: PNW's Financial Risk Profile

Rufad: The expanded matrix was applied to the electric utility sector on June 8th. The updated profiles were disseminated via My Credit Profile.

Jim: Let me know about the meeting dates.

Tony Bettinelli
Associate
U.S. Utilities & Infrastructure
Standard & Poor's Corporate Ratings
San Francisco, CA
(415) 371-5067
tony_bettinelli@sandp.com

From: Rufad.Omanovic@aps.com [mailto:Rufad.Omanovic@aps.com]
Sent: Tuesday, July 21, 2009 7:57 AM
To: Bettinelli, Antonio
Cc: James.McGill@pinnaclewest.com
Subject: PNW's Financial Risk Profile

Hi Tony,

In your latest write-up on PNW you state that our Financial Risk Profile is 'significant'. S&P's matrix on Business and Financial Risk Profiles does not have 'significant' as a category. Our Financial Risk Profile has been 'aggressive'. Have you changed the matrix and if so, can we have a copy of your publication where the change was announced?

Thank you,

Rufad Omanovic
Pinnacle West Capital Corp.
Corporate Finance
Tel. (602) 250-5623, Fax (602) 250-5640
rufad.omanovic@pinnaclewest.com

Email Firewall made the following annotations

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McGill, James T(Z71171)

From: Omanovic, Rufad (Z72366)
Sent: Tuesday, July 21, 2009 12:41 PM
To: 'Bettinelli, Antonio'
Cc: McGill, James T(Z71171)
Subject: RE: PNW's Financial Risk Profile

Hi Tony,

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Thanks,

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McGill, James T(Z71171)

From: Bettinelli, Antonio [Antonio_Bettinelli@standardandpoors.com]
Sent: Tuesday, July 21, 2009 2:59 PM
To: Omanovic, Rufad (Z72366)
Cc: McGill, James T(Z71171)
Subject: RE: PNW's Financial Risk Profile

The article was for corporate issuers in general, including utilities, but I don't think Debt-to-EBITDA will be near the top of the list of ratios we look at for utilities. Our models still calculate FFO/Int, although there were no specifics on this in the article. If I can find any further guidance on this, I'll let you know tomorrow.

From: Rufad.Omanovic@aps.com [mailto:Rufad.Omanovic@aps.com]
Sent: Tuesday, July 21, 2009 12:41 PM
To: Bettinelli, Antonio
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Sent: Tuesday, July 21, 2009 09:16
To: Omanovic, Rufad (Z72366)
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McGill, James T(Z71171)

From: Omanovic, Rufad (Z72366)
Sent: Tuesday, July 21, 2009 3:01 PM
To: 'Bettinelli, Antonio'
Cc: McGill, James T(Z71171)
Subject: RE: PNW's Financial Risk Profile

Thank you!

From: Bettinelli, Antonio [mailto:Antonio_Bettinelli@standardandpoors.com]
Sent: Tuesday, July 21, 2009 14:59
To: Omanovic, Rufad (Z72366)
Cc: McGill, James T(Z71171)
Subject: RE: PNW's Financial Risk Profile

The article was for corporate issuers in general, including utilities, but I don't think Debt-to-EBITDA will be near the top of the list of ratios we look at for utilities. Our models still calculate FFO/Int, although there were no specifics on this in the article. If I can find any further guidance on this, I'll let you know tomorrow.

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Subject: RE: PNW's Financial Risk Profile

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tony_bettinelli@sandp.com

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rufad.omanovic@pinnaclewest.com

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McGill, James T(Z71171)

From: Dolyniuk, Karen E(J97440)
Sent: Wednesday, July 22, 2009 7:10 AM
To: 'Schumacher, Laura'
Cc: McGill, James T(Z71171)
Subject: FW: APS - Coconino Bonds

Hi Laura! Any luck figuring out who I need to talk to at Moody's regarding the note below?

Karen E. Dolyniuk, CTP
Manager, Treasury Operations
Pinnacle West Capital Corporation
Phone: 602-250-5630

From: Dolyniuk, Karen E(J97440)
Sent: Friday, July 17, 2009 7:06 AM
To: 'laura.schumacher@moodys.com'
Cc: McGill, James T(Z71171)
Subject: APS - Coconino Bonds

Laura, as you are probably aware, last September, APS bought in two series of tax exempt bonds - Coconino 1996 and Coconino 1999. The intention was always to find a bank(s) to provide a letter of credit. We are beginning the process of putting an LC and reimbursement agreement in place to support these bonds.

Would you direct me to the person at Moody's who would be reviewing documents and doing the analysis. I would like to find out about the process and the length of time needed in order to build this into our timeline.

Thanks!

Karen E. Dolyniuk, CTP
Manager, Treasury Operations
Pinnacle West Capital Corporation
Phone: 602-250-5630

McGill, James T(Z71171)

From: Dolyniuk, Karen E(J97440)
Sent: Wednesday, July 22, 2009 7:11 AM
To: 'philip.smyth@fitchratings.com'
Cc: McGill, James T(Z71171)
Subject: FW: APS - Coconino Bonds

Hi Phil! Any luck figuring out who I need to talk to at Fitch regarding the note below?

Karen E. Dolyniuk, CTP
Manager, Treasury Operations
Pinnacle West Capital Corporation
Phone: 602-250-5630

From: Dolyniuk, Karen E(J97440)
Sent: Friday, July 17, 2009 7:11 AM
To: 'philip.smyth@fitchratings.com'
Cc: McGill, James T(Z71171)
Subject: APS - Coconino Bonds

Phil, as you are probably aware, last September, APS bought in two series of tax exempt bonds - Coconino 1996 and Coconino 1999. The intention was always to find a bank(s) to provide a letter of credit. We are beginning the process of putting an LC and reimbursement agreement in place to support these bonds.

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Thanks!

Karen E. Dolyniuk, CTP
Manager, Treasury Operations
Pinnacle West Capital Corporation
Phone: 602-250-5630

McGill, James T(Z71171)

From: Dolyniuk, Karen E(J97440)
Sent: Wednesday, July 22, 2009 7:12 AM
To: Dolyniuk, Karen E(J97440); 'Schumacher, Laura'
Cc: McGill, James T(Z71171)
Subject: RE: APS - Coconino Bonds

Please disregard - I did get a call from Tara.

Karen E. Dolyniuk, CTP
Manager, Treasury Operations
Pinnacle West Capital Corporation
Phone: 602-250-5630

From: Dolyniuk, Karen E(J97440)
Sent: Wednesday, July 22, 2009 7:10 AM
To: 'Schumacher, Laura'
Cc: McGill, James T(Z71171)
Subject: FW: APS - Coconino Bonds

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Karen E. Dolyniuk, CTP
Manager, Treasury Operations
Pinnacle West Capital Corporation
Phone: 602-250-5630

From: Dolyniuk, Karen E(J97440)
Sent: Friday, July 17, 2009 7:06 AM
To: 'laura.schumacher@moodys.com'
Cc: McGill, James T(Z71171)
Subject: APS - Coconino Bonds

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Thanks!

Karen E. Dolyniuk, CTP
Manager, Treasury Operations
Pinnacle West Capital Corporation
Phone: 602-250-5630

McGill, James T(Z71171)

From: Dolyniuk, Karen E(J97440)
Sent: Wednesday, July 22, 2009 7:16 AM
To: 'Bettinelli, Antonio'
Cc: McGill, James T(Z71171)
Subject: RE: APS - Coconino Bonds

Tony, any luck finding the person I need to talk with regarding the note below?

Karen E. Dolyniuk, CTP
Manager, Treasury Operations
Pinnacle West Capital Corporation
Phone: 602-250-5630

From: Bettinelli, Antonio [mailto:Antonio_Bettinelli@standardandpoors.com]
Sent: Friday, July 17, 2009 11:12 AM
To: Dolyniuk, Karen E(J97440)
Subject: RE: APS - Coconino Bonds

I'm checking.

From: Karen.Dolyniuk@aps.com [mailto:Karen.Dolyniuk@aps.com]
Sent: Friday, July 17, 2009 7:10 AM
To: Bettinelli, Antonio
Cc: James.McGill@pinnaclewest.com
Subject: APS - Coconino Bonds

Tony, as you are probably aware, last September, APS bought in two series of tax exempt bonds - Coconino 1996 and Coconino 1999. The intention was always to find a bank(s) to provide a letter of credit. We are beginning the process of putting an LC and reimbursement agreement in place to support these bonds.

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McGill, James T(Z71171)

Subject: FW: APS - Coconino Bonds

-----Original Message-----

From: Philip.Smyth@fitchratings.com [mailto:Philip.Smyth@fitchratings.com]
Sent: Wednesday, July 22, 2009 7:19 AM
To: Dolyniuk, Karen E(J97440)
Subject: Re: FW: APS - Coconino Bonds

Karen,

Thanks for the follow up. I will get back to you shortly.

Best Regards,

Phil

Karen.Dolyniuk@aps.com

07/22/2009 10:10 AM

philip.smyth@fitchratings.com To
James.McGill@pinnaclewest.com cc
FW: APS - Coconino Bonds Subject

Hi Phil! Any luck figuring out who I need to talk to at Fitch regarding the note below?

Karen E. Dolyniuk, CTP
Manager, Treasury Operations
Pinnacle West Capital Corporation
Phone: 602-250-5630

From: Dolyniuk, Karen E(J97440)
Sent: Friday, July 17, 2009 7:11 AM
To: 'philip.smyth@fitchratings.com'
Cc: McGill, James T(Z71171)
Subject: APS - Coconino Bonds

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analysis. I would like to find out about the process and the length of time needed in order to build this into our timeline.

Thanks!

Karen E. Dolyniuk, CTP
Manager, Treasury Operations
Pinnacle West Capital Corporation
Phone: 602-250-5630

Email Firewall made the following annotations

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s.com

07/22/2009 10:10
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James.McGill@pinnaclewest.com cc
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McGill, James T(Z71171)

Subject: FW: PNW's Financial Risk Profile

From: Bettinelli, Antonio [mailto:Antonio_Bettinelli@standardandpoors.com]
Sent: Wednesday, July 22, 2009 09:57
To: Omanovic, Rufad (Z72366)
Subject: RE: PNW's Financial Risk Profile

We have no further FFO/Interest guidance at this time. Hopefully, we can provide a clearer picture in the future. You might be able to extrapolate guidance based on the FFO/Debt benchmarks.

Tony

From: Rufad.Omanovic@aps.com [mailto:Rufad.Omanovic@aps.com]
Sent: Tuesday, July 21, 2009 3:01 PM
To: Bettinelli, Antonio
Cc: James.McGill@pinnaclewest.com
Subject: RE: PNW's Financial Risk Profile

Thank you!

From: Bettinelli, Antonio [mailto:Antonio_Bettinelli@standardandpoors.com]
Sent: Tuesday, July 21, 2009 14:59
To: Omanovic, Rufad (Z72366)
Cc: McGill, James T(Z71171)
Subject: RE: PNW's Financial Risk Profile

The article was for corporate issuers in general, including utilities, but I don't think Debt-to-EBITDA will be near the top of the list of ratios we look at for utilities. Our models still calculate FFO/Int, although there were no specifics on this in the article. If I can find any further guidance on this, I'll let you know tomorrow.

From: Rufad.Omanovic@aps.com [mailto:Rufad.Omanovic@aps.com]
Sent: Tuesday, July 21, 2009 12:41 PM
To: Bettinelli, Antonio
Cc: James.McGill@pinnaclewest.com
Subject: RE: PNW's Financial Risk Profile

Hi Tony,

It looks like S&P replaced FFO Interest Coverage with Debt-to-EBITDA. Is that correct? Also, in Debt-to-EBITDA do you use balance sheet debt or imputed debt? Are there any special adjustments you make to the EBITDA number?

Thanks,

Rufad

From: Bettinelli, Antonio [mailto:Antonio_Bettinelli@standardandpoors.com]
Sent: Tuesday, July 21, 2009 09:16
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Cc: McGill, James T(Z71171)
Subject: RE: PNW's Financial Risk Profile

Rufad: The expanded matrix was applied to the electric utility sector on June 8th. The updated profiles were disseminated via My Credit Profile.

Jim: Let me know about the meeting dates.

Tony Bettinelli
Associate
U.S. Utilities & Infrastructure
Standard & Poor's Corporate Ratings
San Francisco, CA
(415) 371-5067
tony_bettinelli@sandp.com

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Hi Tony,

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Thank you,

Rufad Omanović
Pinnacle West Capital Corp.
Corporate Finance
Tel. (602) 250-5623, Fax (602) 250-5640
rufad.omanovic@pinnaclewest.com

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McGill, James T(Z71171)

From: Omanovic, Rufad (Z72366)
Sent: Wednesday, July 22, 2009 10:04 AM
To: 'Bettinelli, Antonio'
Cc: McGill, James T(Z71171)
Subject: RE: PNW's Financial Risk Profile

Ok, thanks!

From: Bettinelli, Antonio [mailto:Antonio_Bettinelli@standardandpoors.com]
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McGill, James T(Z71171)

Subject: FW: APS - Coconino Bonds

-----Original Message-----

From: Philip.Smyth@fitchratings.com [mailto:Philip.Smyth@fitchratings.com]
Sent: Wednesday, July 22, 2009 10:31 AM
To: Dolyniuk, Karen E(J97440)
Cc: McGill, James T(Z71171)
Subject: Fw: APS - Coconino Bonds

Hi Karen,

The person to speak with regarding the tax-exempt Coconino bonds referenced below is Trudy Zibit. Trudy is a managing director in the municipal public finance group at Fitch Ratings. Her telephone number is 212 908 0689. Her email address is trudy.zibit@fitchratings.com. It is probably best for you to contact her directly to discuss the process. I have spoken with Trudy and she will be expecting to hear from you. Please do not hesitate to contact me if you need anything further from me.

Sincerely,

Phil

Philip W. Smyth, CFA
Fitch Ratings
212 908 0531

----- Forwarded by Philip Smyth/CF/NYC/F-I on 07/22/2009 01:10 PM -----

<Karen.Dolyniuk@ps.com>

07/22/2009 10:24 AM

<Philip.Smyth@fitchratings.com>

To

cc

Subject

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Karen E. Dolyniuk, CTP
Manager, Treasury Operations
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Phone: 602-250-5630

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McGill, James T(Z71171)

Subject: FW: Coconino Bonds

From: Dolyniuk, Karen E(J97440)
Sent: Thursday, July 23, 2009 12:36 PM
To: 'christine_scaperdas@standardandpoors.com'
Subject: Coconino Bonds

Hi Christine! We spoke yesterday regarding our desire to put an LC as enhancement on two of our bond series.

The CUSIPs and deal names for the series are as follows:

191855AT Coconino County, Arizona Pollution Control Corporation Pollution Control Revenue Refunding Bonds (Arizona Public Service Company) 1999 Series

191855AN Coconino County, Arizona Pollution Control Corporation Pollution Control Revenue Refunding Bonds (Arizona Public Service Company) 1996A Series

We will combining these two bonds into one series and will have one LC. Please let me know if you need anything else at this point.

Thank you!

Karen E. Dolyniuk, CTP
Manager, Treasury Operations
Pinnacle West Capital Corporation
Phone: 602-250-5630

McGill, James T(Z71171)

From: Higuchi, Dene C(Z05435) on behalf of Hickman, Rebecca (Z46875)
Sent: Tuesday, August 04, 2009 5:20 AM
Subject: PNW/APS: Second Quarter 2009 Earnings Release

Attachments: Microsoft Office Word Document; Microsoft Office Word Document; PNW 2Q09 Income Stmt.pdf; Q2 2009 PNW Earnings release presentation.pdf; Q2_2009_ Complete Earnings Release and Analysis Packet.pdf

Attachments: Earnings packet and slides

This morning, we released our second quarter 2009 earnings and filed a Form 8-K. The 8-K includes our 2009 and 2010 earnings outlook (which has not changed) and supplemental information on quarterly operating statistics. For your convenience, we've attached a Complete Earnings Release and Analysis Packet. This information is also available on our website, www.pinnaclewest.com/investors.

The text of our earnings release is included below in this message. The 8-K related to our earnings outlook will be sent separately to limit the size of this message.

Conference Call and Webcast Access

We will host an earnings webcast and conference call today at 12:00 p.m. (ET). The live webcast can be accessed at www.pinnaclewest.com/presentations and will remain on the website for 30 days. To access the live conference call by telephone, dial (877) 356-3961 and enter conference ID 16241469. A replay of the call will also be available through Tuesday, August 11, 2009, by calling (800) 642-1687 in the U.S. and Canada or (706) 645-9291 internationally and entering the same conference ID number.

We plan to use slides during our conference call and webcast. For your convenience, a PDF file of the slides is also attached.

As always, if you need information about our company, please contact me or Lisa Malagon (602-250-5671).

Sincerely,

Becky

Rebecca L. Hickman
Director of Investor Relations | Pinnacle West Capital Corporation
400 North 5th Street | Station 9998 | Phoenix, AZ 85004
Office 602-250-5668 | Fax 602-250-2789 | E-mail rhickman@pinnaclewest.com

PINNACLE WEST REPORTS LOWER SECOND-QUARTER EARNINGS

PHOENIX – Pinnacle West Capital Corporation (NYSE: PNW) today reported consolidated net income attributable to common shareholders of \$68.3 million, or \$0.68 per diluted share of common stock, for the quarter ended June 30, 2009. These results compare with net income attributable to common shareholders of \$133.9 million, or \$1.33 per diluted share, for the same period a year ago.

The Company's on-going consolidated earnings in the 2009 second quarter were \$77.3 million, or \$0.77 per share, compared with \$89.2 million, or \$0.88 per share in the comparable 2008 quarter. On-going earnings for both quarters exclude results for the Company's real estate segment. Second-quarter 2008 on-going earnings also exclude income tax credits related to prior years of \$30 million.

Arizona Public Service Co. (APS) reported a decrease in on-going earnings, recording income of \$78.5 million for the 2009 second quarter, compared with \$96.1 million in the 2008 like period. Rising costs incurred by APS to maintain reliability and expand its electric service were the primary factor driving the lower results. These costs included: seasonal power plant overhauls and system maintenance; increased expenses related to infrastructure additions; and lower mark-to-market valuations of fuel contracts. A decrease in kilowatt-hour sales, principally from commercial and industrial

customers, also contributed to the diminished quarterly results. An interim retail rate increase implemented in January 2009 and modest customer growth partially offset the negative factors.

"The bottom line is our current electricity prices do not reflect our real cost of doing business," said Pinnacle West Chairman Don Brandt. "We must continue working with our regulators to better match our prices and costs while continuing to control costs. Cost management alone will not provide the financial strength necessary for APS to reliably serve our customers and provide a fair return for our investors."

Brandt cited APS' proposed retail rate settlement pending before the Arizona Corporation Commission as an example of the progress being achieved on the regulatory front. "Our Company is focused on working with the Commission and other interested parties to find positive solutions to complex and difficult energy issues facing our customers now and going forward," he said. "If approved as proposed, the settlement will provide a measure of price stability for APS customers, and enable APS to attract the capital that is critical to support a sustainable energy future for the state of Arizona."

The settlement not only addresses pricing and earnings issues, added Brandt, it also promotes renewable resources, energy efficiency and environmental stewardship that provide the building blocks for a recovery of economic vitality for the state of Arizona.

For more information on Pinnacle West's operating statistics and earnings, please visit www.pinnaclewest.com/investors.

Pinnacle West is a Phoenix-based company with consolidated assets of about \$11.9 billion. Through its subsidiaries, the Company generates, sells and delivers electricity and sells energy-related products and services to retail and wholesale customers in the western United States.

PINNACLE WEST CAPITAL CORPORATION
ARIZONA PUBLIC SERVICE COMPANY
NON-GAAP FINANCIAL MEASURE RECONCILIATION
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS
(GAAP MEASURE) TO ON-GOING EARNINGS (NON-GAAP FINANCIAL MEASURE)

| | Three Months Ended June 30, 2009 | | Three Months Ended June 30, 2008 | |
|--|-------------------------------------|----------------|-------------------------------------|----------------|
| | \$ in Millions | Diluted EPS | \$ in Millions | Diluted EPS |
| PINNACLE WEST CAPITAL CORPORATION | | | | |
| Net Income attributable to common shareholders | \$ 68.3 | \$ 0.68 | \$ 133.9 | \$ 1.33 |
| Adjustments: | | | | |
| Real estate segment | 9.0 | 0.09 | (14.7) | (0.15) |
| Income tax credits related to prior years | -- | -- | (30.0) | (0.30) |
| On-going Earnings | <u>\$ 77.3</u> | <u>\$ 0.77</u> | <u>\$ 89.2</u> | <u>\$ 0.88</u> |
| ARIZONA PUBLIC SERVICE COMPANY | | | | |
| Net Income | \$ 78.5 | | \$ 125.4 | |
| Adjustment: | | | | |
| Income tax credits related to prior years | -- | | (29.3) | |
| On-going Earnings | <u>\$ 78.5</u> | | <u>\$ 96.1</u> | |

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McGill, James T(Z71171)

From: Higuchi, Dene C(Z05435) on behalf of Hickman, Rebecca (Z46875)
Sent: Tuesday, August 04, 2009 5:20 AM
Subject: PNW/APS: Form 8-K Regarding Earnings Guidance

This morning, we filed a Form 8-K that includes, among other things, our 2009 and 2010 earnings guidance, which has not changed. The text of the 8-K regarding our earnings guidance is included below in this message. We have also attached a PDF file with earnings outlook reconciliations.

As always, please contact me or Lisa Malagon (602-250-5671) if you have any questions or need information about our company.

Sincerely,

Becky

Rebecca L. Hickman
Director of Investor Relations | Pinnacle West Capital Corporation
400 North 5th Street | Station 9998 | Phoenix, AZ 85004
Office 602-250-5668 | Fax 602-250-2789 | E-mail rhickman@pinnaclewest.com

TEXT OF FORM 8-K

Item 7.01. Regulation FD Disclosure

2009 Earnings Outlook

In this discussion, earnings per share amounts are after income taxes and are based on diluted common shares outstanding. The earnings guidance in this Form 8-K supersedes all previous earnings guidance provided by Pinnacle West.

Our earnings forecasts are subject to numerous risks, including those described under "Forward-Looking Statements" below and under "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

We estimate that our consolidated earnings for 2009 will be within a reasonable range around \$2.30 per share, excluding the impact of SunCor Development Company ("SunCor"). This guidance takes into account the effects of milder weather in the first quarter, as well as the 2009 portion of the annualized pretax cost savings identified in our March 2009 report to the Arizona Corporation Commission (the "ACC"), as required by the ACC's interim rate decision in December 2008.

We estimate that Arizona Public Service Company's ("APS") earnings contribution included in such consolidated earnings will be within a reasonable range around \$2.35 per share (equivalent to a return on APS' average common equity of about 7%). This estimate assumes that the interim base rate surcharge will remain in effect throughout 2009. We currently estimate that holding company expenses and other items, net, will be a net loss within a reasonable range around \$0.05 per share. For additional details regarding the major factors affecting our consolidated earnings outlook for 2009, see Exhibit 99.4 attached hereto.

2010 Earnings Outlook

Assuming APS' proposed general retail rate settlement is approved as proposed and is effective for the entire year, we estimate that our consolidated earnings for 2010, with negligible impact from SunCor, if any, will be within a reasonable range around \$3.00 per share. We estimate that APS' earnings contribution included in such 2010 consolidated earnings will be within a reasonable range around \$3.00 per share (equivalent to a return on APS' average common equity of about 9%). We currently estimate that holding company expenses and other items, net, will not have any meaningful impact on our 2010 consolidated financial results. For additional details regarding major factors affecting our consolidated earnings outlook for 2010, see Exhibit 99.5 attached hereto.

Forward-Looking Statements

This Form 8-K contains forward-looking statements regarding our 2009 and 2010 earnings outlook. Neither Pinnacle West nor APS assumes 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 Pinnacle West or APS. In addition to the Risk Factors described in Item 1A of the Pinnacle West/APS Annual Report on Form 10-K for the fiscal year ended December 31, 2008, 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 of APS; 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 real estate, 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; changes in the market price of our common stock; restrictions on dividends or other burdensome provisions in new or existing credit agreements; our ability, or the ability of our subsidiaries, 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 Pinnacle West's pension plan and contributions to APS' 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); the potential shortfall in insurance coverage for a loss resulting from an insurer failing to meet, or being unwilling to meet, its obligations under our insurance policies, or from our commercially reasonable levels of insurance failing to fully cover the loss incurred; 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; the performance of Pinnacle West's subsidiaries and any resulting effects on its cash flow; the strength of the real estate and credit markets and economic and other conditions affecting the real estate and credit markets in SunCor's market areas, which include Arizona, Idaho, New Mexico and Utah; and other uncertainties, all of which are difficult to predict and many of which are beyond the control of Pinnacle West and APS.

McGill, James T(Z71171)

From: Higuchi, Dene C(Z05435) on behalf of Hickman, Rebecca (Z46875)
Sent: Tuesday, August 04, 2009 5:20 AM
Subject: PNW/APS: Second Quarter 2009 Form 10-Q

Attachments: PNW 2nd Qtr Form 10Q 2009.pdf

The PDF file of the combined Pinnacle West and APS second quarter 2009 Form 10-Q is attached for your use. If you would like to receive a printed copy of the report, please let me know and we will be happy to mail it to you.

As always, please contact me or Lisa Malagon (602-250-5671) if you need information about our company.

Sincerely,

Becky

Rebecca L. Hickman
Director of Investor Relations | Pinnacle West Capital Corporation
400 North 5th Street | Station 9998 | Phoenix, AZ 85004
Office 602-250-5668 | Fax 602-250-2789 | E-mail rhickman@pinnaclewest.com



PNW 2nd Qtr Form
10Q 2009.pdf ...