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7. Common Stock and Treasury Stock

Our common stock and treasury stock activity during each of the three years 2009, 2008 and 2007 is as follows (dollars in thousands):

	Common Stock		Treasury Stock	
	Shares	Amount	Shares	Amount
Balance at December 31, 2006	99,961,066	$ 2,114,550	(2,419)	$ (449)
Common stock issuance	564,404	24,089	—	—
Purchase of treasury stock (a)	—	—	(47,218)	(1,964)
Reissuance of treasury stock for stock compensation	—	—	10,132	359
Other	—	(2,852)	—	—
Balance at December 31, 2007	100,525,470	2,135,787	(39,505)	(2,054)
Common stock issuance	422,966	10,845	—	—
Purchase of treasury stock (a)	—	—	(39,022)	(1,387)
Reissuance of treasury stock for stock compensation	—	—	18,700	587
Other	—	4,691	—	—
Balance at December 31, 2008	100,948,436	2,151,323	(59,827)	(2,854)
Common stock issuance	579,501	10,620	—	—
Purchase of treasury stock (a)	—	—	(66,173)	(2,156)
Reissuance of treasury stock for stock compensation	—	—	32,761	1,198
Other	—	(8,648)	—	—
Balance at December 31, 2009	101,527,937	$ 2,153,295	(93,239)	$ (3,812)

(a) Represents shares of common stock withheld from certain stock awards for tax purposes.

8. Retirement Plans and Other Benefits

Pinnacle West sponsors a qualified defined benefit and account balance pension plan and a non-qualified supplemental excess benefit retirement plan for the employees of Pinnacle West and its subsidiaries. All new employees participate in the account balance plan. Defined benefit plans specify the amount of benefits a plan participant is to receive using information about the participant. The pension plan covers nearly all employees. The supplemental excess benefit retirement plan covers officers of the Company and highly compensated employees designated for participation by the Board of Directors. Our employees do not contribute to the plans. Generally, we calculate the benefits based on age, years of service and pay.

We also sponsor other postretirement benefits for the employees of Pinnacle West and our subsidiaries. We provide medical and life insurance benefits to retired employees. Employees must retire to become eligible for these retirement benefits, which are based on years of service and age. For the medical insurance plans, retirees make contributions to cover a portion of the plan costs. For the life insurance plan, retirees do not make contributions. We retain the right to change or eliminate these benefits.

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Pinnacle West uses a December 31 measurement date each year for its pension and other postretirement benefit plans. The market-related value of our plan assets is their fair value at the measurement date. See Note 14 for discussion of how fair values are determined. Due to subjective and complex judgments, which may be required in determining fair values, actual results could differ from the results estimated through the application of these methods.

A significant portion of the changes in the actuarial gains and losses of our pension and postretirement plans is attributable to APS and therefore is recoverable in rates. Accordingly, these changes are recorded as a regulatory asset. In its 2009 retail rate case settlement, APS received approval to defer a portion of pension and other postretirement benefit cost increases incurred in 2011 and 2012.

The following table provides details of the plans' net periodic benefit costs and the portion of these costs charged to expense (including administrative costs and excluding amounts capitalized as overhead construction or billed to electric plant participants) (dollars in thousands):

	Pension			Other Benefits		
	2009	2008	2007	2009	2008	2007
Service cost-benefits earned during the period	$ 54,288	$ 54,576	$ 51,803	$ 18,285	$ 17,793	$ 18,491
Interest cost on benefit obligation	118,282	110,207	100,736	39,180	37,897	35,284
Expected return on plan assets	(116,535)	(118,309)	(107,165)	(34,428)	(43,609)	(42,177)
Amortization of:						
Transition obligation	—	—	—	3,005	3,005	3,005
Prior service cost (credit)	2,080	2,455	2,957	(125)	(125)	(125)
Net actuarial loss	14,216	11,145	16,331	10,320	2,372	3,929
Net periodic benefit cost	$ 72,331	$ 60,074	$ 64,662	$ 36,237	$ 17,333	$ 18,407
Portion of cost charged to expense	$ 36,484	$ 28,854	$ 28,063	$ 18,278	$ 8,325	$ 7,989
APS share of cost charged to expense	$ 34,850	$ 27,491	$ 26,548	$ 17,459	$ 7,932	$ 7,557

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The following table shows the plans' changes in the benefit obligations and funded status for the years 2009 and 2008 (dollars in thousands):

	Pension		Other Benefits	
	2009	2008	2009	2008
Change in Benefit Obligation				
Benefit obligation at January 1	$ 1,884,656	$ 1,720,844	$ 655,265	$ 605,125
Service cost	54,288	54,576	18,285	17,793
Interest cost	118,282	110,207	39,180	37,897
Benefit payments	(77,577)	(62,058)	(18,959)	(17,566)
Actuarial loss	94,482	61,087	6,764	12,016
Benefit obligation at December 31	2,074,131	1,884,656	700,535	655,265
Change in Plan Assets				
Fair value of plan assets at January 1	1,430,372	1,318,939	429,306	499,764
Actual return on plan assets	96,511	132,449	61,101	(64,364)
Employer contributions	—	35,000	15,506	10,972
Benefit payments	(65,075)	(56,016)	(15,458)	(17,066)
Fair value of plan assets at December 31	1,461,808	1,430,372	490,455	429,306
Funded Status at December 31	$ (612,323)	$ (454,284)	$ (210,080)	$ (225,959)

The following table shows the projected benefit obligation and the accumulated benefit obligation for the pension plan in excess of plan assets as of December 31, 2009 and 2008 (dollars in thousands):

	2009	2008
Projected benefit obligation	$ 2,074,131	$ 1,884,656
Accumulated benefit obligation	1,824,661	1,631,909
Fair value of plan assets	1,461,808	1,430,372

The following table shows the amounts recognized on the Consolidated Balance Sheets as of December 31, 2009 and 2008 (dollars in thousands):

	Pension		Other Benefits	
	2009	2008	2009	2008
Current asset	$ —	$ —	$ —	$ 1,221
Current liability	(11,065)	(5,676)	—	—
Noncurrent liability	(601,258)	(448,608)	(210,080)	(227,180)
Net amount recognized	$ (612,323)	$ (454,284)	$ (210,080)	$ (225,959)

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The following table shows the details related to accumulated other comprehensive loss as of December 31, 2009 and 2008 (dollars in thousands):

	Pension		Other Benefits	
	2009	2008	2009	2008
Net actuarial loss	$ 404,619	$ 304,335	$ 194,301	$ 224,624
Prior service cost (credit)	7,865	9,946	(794)	(920)
Transition obligation	—	—	9,015	12,019
APS' portion recorded as a regulatory asset	(336,728)	(245,235)	(195,389)	(227,490)
Income tax benefit	(29,902)	(27,239)	(2,095)	(2,493)
Accumulated other comprehensive loss	$ 45,854	$ 41,807	$ 5,038	$ 5,740

The following table shows the estimated amounts that will be amortized from accumulated other comprehensive loss and regulatory assets into net periodic benefit cost in 2010 (dollars in thousands):

	Pension	Other Benefits
Net actuarial loss	$ 18,557	$ 9,398
Prior service cost (credit)	1,840	(125)
Transition obligation	—	3,004
Total amounts estimated to be amortized from accumulated other comprehensive income and regulatory assets in 2010	$ 20,397	$ 12,277

The following table shows the weighted-average assumptions used for both the pension and other benefits to determine benefit obligations and net periodic benefit costs:

	Benefit Obligations As of December 31,		Benefit Costs For the Years Ended December 31,		
	2009	2008	2009	2008	2007
Discount rate-pension	5.90%	6.11%	6.11%	6.25%	5.90%
Discount rate-other benefits	6.00%	6.13%	6.13%	6.31%	5.93%
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%	4.00%
Expected long-term return on plan assets	N/A	N/A	8.25%	9.00%	9.00%
Initial health care cost trend rate	8.00%	8.00%	8.00%	8.00%	8.00%
Ultimate health care cost trend rate	5.00%	5.00%	5.00%	5.00%	5.00%
Number of years to ultimate trend rate	4	4	4	4	4

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In selecting the pretax expected long-term rate of return on plan assets we consider past performance and economic forecasts for the types of investments held by the plan. For the year 2010, we are assuming an 8.25% long-term rate of return on plan assets, which we believe is reasonable given our asset allocation in relation to historical and expected performance.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. In selecting our health care trend rate, we consider past performance and forecasts of health care costs. A one percentage point change in the assumed initial and ultimate health care cost trend rates would have the following effects (dollars in millions):

	1% Increase	1% Decrease
Effect on other postretirement benefits expense, after consideration of amounts capitalized or billed to electric plant participants	$ 8	$ (7)
Effect on service and interest cost components of net periodic other postretirement benefit costs	11	(9)
Effect on the accumulated other postretirement benefit obligation	110	(89)

Plan Assets

The Board of Directors has delegated oversight of the Plans' assets to an Investment Management Committee, which has adopted an investment policy. The investment policy's overall strategy is to achieve an adequate level of trust assets relative to the benefit obligation. To achieve this objective, the Plans' investment policies provide for a mix of investments in long-term fixed income assets and return-generating assets. Long-term fixed income assets are designed to offset changes in benefit obligations due to changes in discount rates and inflation. Return-generating assets are intended to provide a reasonable long-term rate of investment return with a prudent level of volatility. The determination of total allocation between return-generating and long-term fixed income assets is reviewed on at least an annual basis. Other investment strategies include the prohibition of investments in Pinnacle West securities and the external management of the Plans' assets.

Long-term fixed income assets consist primarily of fixed income debt securities issued by the U.S. Treasury, other government agencies, and corporations. Long-term fixed income assets may also include interest rate swaps, U.S. Treasury futures and other instruments. The investment policy does not provide for a specific mix of long-term fixed income assets, but does require the average credit rating of such assets to be considered upper medium grade or above. The 2009 year-end long-term fixed income asset strategy focused on investments in corporate bonds of primarily investment-grade U.S. issuers, with total long-term fixed income assets representing 45% of total pension plan assets and 40% of other benefit plans assets.

Return-generating assets in the pension plan and other benefit plans target a mix of approximately 64% U.S. equities, 27% international equities, and 9% alternative investments. The 2009 year-end U.S. equity holdings were invested primarily in large-cap companies in diverse industries. International equities include investments in emerging and developing markets. Return-generating assets also include investments in securities through commingled funds in common and collective trusts. Alternative investments primarily include investments in real estate. The 2009 year-end return-generating assets represented 55% of total pension plan assets and 60% of other benefit plans assets.

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See Note 14 for a discussion on the fair value hierarchy and how fair value methodologies are applied. The fair value of Pinnacle West's pension plan and other postretirement benefit plan assets at December 31, 2009, by asset category, are as follows (dollars in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Netting and Other (a)	Balance at December 31, 2009
Pension Plan:					
Assets:					
Cash and cash equivalents	$ 519	$ —	$ —	$ —	$ 519
Corporate debt securities	—	590,343	—	—	590,343
Other debt securities (b)	—	66,281	—	—	66,281
Interest rate swaps	—	20,512	—	(20,103)	409
Equities — U.S. Companies	341,318	—	—	—	341,318
Equities — International Companies	83,492	—	—	—	83,492
Other investments	—	6,747	—	10,177	16,924
Common and collective trusts:					
U.S. Equities	—	144,016	—	—	144,016
International Equities	—	132,168	—	—	132,168
Real estate	—	—	64,212	—	64,212
Short-term investments	—	22,126	—	—	22,126
Liabilities:					
Interest rate swaps	—	(20,103)	—	20,103	—
Total Pension Plan	$ 425,329	$ 962,090	$ 64,212	$ 10,177	$ 1,461,808
Other Benefits:					
Assets:					
Cash and cash equivalents	$ 156	$ —	$ —	$ —	$ 156
Corporate debt securities	—	173,895	—	—	173,895
Other debt securities (b)	—	20,280	—	—	20,280
Interest rate swaps	—	2,091	—	(2,049)	42
Equities — U.S. Companies	170,293	—	—	—	170,293
Equities — International Companies	9,721	—	—	—	9,721
Other investments	—	383	—	(785)	(402)
Common and collective trusts:					
U.S. Equities	—	49,363	—	—	49,363
International Equities	—	52,670	—	—	52,670
Real Estate	—	—	6,504	—	6,504
Short-term investments	—	7,933	—	—	7,933
Liabilities:					
Interest rate swaps	—	(2,049)	—	2,049	—
Total Other Benefits	$ 180,170	$ 304,566	$ 6,504	$ (785)	$ 490,455

(a) Represents netting under master netting arrangements and Plan receivables and payables.

(b) This category consists primarily of municipality issued debt securities, but also includes U.S. Treasuries and asset-backed securities such as collateralized mortgage obligations.

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The following table shows the changes in fair value for assets that are measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2009 (dollars in thousands):

Common and Collective Trusts - Real Estate	Pension	Other Benefits
Beginning balance at January 1, 2009	$ 88,379	$ 8,951
Actual return on assets still held at December 31, 2009	(29,590)	(2,991)
Actual return on assets sold during the period	58	6
Purchases, sales, and settlements	5,365	538
Transfers in and/or out of Level 3	—	—
Ending balance at December 31, 2009	$ 64,212	$ 6,504

Contributions

The required minimum contribution to our pension plan is zero in 2010 and approximately $100 million in 2011. In January 2010, we made a voluntary contribution of approximately $50 million to our pension plan and we expect to make an additional voluntary contribution of $50 million later in 2010. The contribution to our other postretirement benefit plans in 2010 is estimated to be approximately $15 million. APS and other subsidiaries fund their share of the contributions. APS' share is approximately 97% of both plans.

Estimated Future Benefit Payments

Benefit payments, which reflect estimated future employee service, for the next five years and the succeeding five years thereafter are estimated to be as follows (dollars in thousands):

Year	Pension	Other Benefits (a)
2010	$ 85,354	$ 21,471
2011	92,897	23,840
2012	104,313	26,271
2013	114,891	29,135
2014	122,120	31,977
Years 2015-2019	778,392	203,957

(a) The expected future other benefit payments take into account the Medicare Part D subsidy.

Employee Savings Plan Benefits

Pinnacle West sponsors a defined contribution savings plan for eligible employees of Pinnacle West and its subsidiaries. In 2009, costs related to APS' employees represented 97% of the total cost of this plan. In a defined contribution savings plan, the benefits a participant receives result from regular contributions participants make to their own individual account, the Company's matching contributions and earnings or losses on their investments. Under this plan, the Company matches a percentage of the participants' contributions in cash which is then invested in the same investment mix as participants elect to invest their own future contributions. Pinnacle West recorded expenses for this plan of approximately $9 million for 2009, $8 million for 2008 and $7 million for 2007.

9. Leases

In 1986, APS sold about 42% of its share of Palo Verde Unit 2 and certain common facilities in three separate sale leaseback transactions. APS accounts for these leases as operating leases. The gain resulting from the transaction of approximately $140 million was deferred and is being amortized to operations and maintenance expense over 29.5 years, the original term of the leases. There are options to renew the leases or to purchase the property for fair market value at the end of the lease terms. APS must give notice to the respective lessors between December 31, 2010 and December 31, 2012 if it wishes to exercise, or not exercise, either of these options. We are analyzing these options. Rent expense is calculated on a straight-line basis. See Note 20 for a discussion of VIEs, including the VIE's involved in the Palo Verde sale leaseback transactions.

In addition, we lease certain vehicles, land, buildings, equipment and miscellaneous other items through operating rental agreements with varying terms, provisions and expiration dates.

Total lease expense recognized in the Consolidated Statements of Income was $73 million in 2009, $74 million in 2008 and $73 million in 2007. APS' lease expense was $64 million in 2009, $67 million in 2008 and $66 million in 2007.

The amounts to be paid for the Palo Verde Unit 2 leases are approximately $49 million per year for the years 2010 to 2015.

Estimated future minimum lease payments for Pinnacle West's and APS' operating leases, excluding purchase power agreements, are approximately as follows (dollars in millions):

Year	Pinnacle West Consolidated	APS
2010	$ 77	$ 70
2011	73	67
2012	68	64
2013	64	61
2014	62	59
Thereafter	73	63
Total future lease commitments	$ 417	$ 384

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10. Jointly-Owned Facilities

APS shares ownership of some of its generating and transmission facilities with other companies. Our share of operations and maintenance expense and utility plant costs related to these facilities is accounted for using proportional consolidation. The following table shows APS' interests in those jointly-owned facilities recorded on the Consolidated Balance Sheets at December 31, 2009 (dollars in thousands):

	Percent Owned	Plant in Service	Accumulated Depreciation	Construction Work in Progress
Generating facilities:				
Palo Verde Units 1 and 3	29.1%	$ 2,013,822	$ 1,080,219	$ 61,469
Palo Verde Unit 2 (see Note 9)	17.0%	700,228	319,016	20,666
Four Corners Units 4 and 5	15.0%	167,684	106,306	7,572
Navajo Generating Station Units 1, 2 and 3	14.0%	260,248	156,400	7,855
Cholla common facilities (a)	63.2%(b)	138,301	45,878	1,655
Transmission facilities:				
ANPP 500KV System	35.8%(b)	85,321	25,927	2,531
Navajo Southern System	31.4%(b)	47,337	13,373	269
Palo Verde — Yuma 500KV System	23.9%(b)	9,408	4,027	518
Four Corners Switchyards	27.5%(b)	4,361	1,405	—
Phoenix — Mead System	17.1%(b)	39,015	6,463	220
Palo Verde — Estrella 500KV System	55.5%(b)	78,078	6,168	—
North Valley System	65.0%(b)	—	—	80,663
Round Valley System	50.0%(b)	—	—	14

(a) PacifiCorp owns Cholla Unit 4 and APS operates the unit for PacifiCorp. The common facilities at Cholla are jointly-owned.

(b) Weighted average of interests.

11. Commitments and Contingencies

Palo Verde Nuclear Generating Station

Spent Nuclear Fuel and Waste Disposal

Nuclear power plant operators are required to enter into spent fuel disposal contracts with the DOE, and the DOE is required to accept and dispose of all spent nuclear fuel and other high-level radioactive wastes generated by domestic power reactors. Although the Nuclear Waste Policy Act required the DOE to develop a permanent repository for the storage and disposal of spent nuclear fuel by 1998, the DOE has announced that the repository cannot be completed before at least 2017. In November 1997, the United States Court of Appeals for the District of Columbia Circuit (D.C. Circuit) issued a decision preventing the DOE from excusing its own delay, but refused to order the DOE to begin accepting spent nuclear fuel. Based on this decision and the DOE's delay, a number of utilities, including APS (on behalf of itself and the other Palo Verde owners), filed damages actions against the DOE in the Court of Federal Claims. APS is currently pursuing that damages claim. In August 2008, the United States Court of Appeals for the Federal Circuit issued decisions in three damages actions brought by other nuclear utilities that resulted in APS revising its damages claim prior to trial. The trial in the APS matter began on January 28, 2009, and closing arguments were heard in late May 2009. The court has not indicated when it will reach its decision in the matter. In January 2010, on appeal of another utility's damages case in which the DOE successfully raised the unavoidable delays defense, the Court of Appeals for the Federal Circuit reversed the lower court's decision and concluded that the Court of Federal Claims, the court handling the APS matter, is bound by the November 1997 D.C. Circuit decision that prevents the DOE from excusing its delay in performance.

APS currently estimates it will incur $132 million (in 2009 dollars) over the current life of Palo Verde for its share of the costs related to the on-site interim storage of spent nuclear fuel. At December 31, 2009, APS had a regulatory liability of $34 million that represents amounts recovered in retail rates in excess of amounts spent for on-site interim spent fuel storage.

Nuclear Insurance

The Palo Verde participants are insured against public liability for a nuclear incident up to $12.6 billion per occurrence. As required by the Price Anderson Nuclear Industries Indemnity Act, Palo Verde maintains the maximum available nuclear liability insurance in the amount of $375 million, which is provided by commercial insurance carriers. The remaining balance of $12.2 billion is provided through a mandatory industry wide retrospective assessment program. If losses at any nuclear power plant covered by the program exceed the accumulated funds, APS could be assessed retrospective premium adjustments. The maximum assessment per reactor under the program for each nuclear incident is approximately $118 million, subject to an annual limit of $18 million per incident, to be periodically adjusted for inflation. Based on APS' interest in the three Palo Verde units, APS' maximum potential assessment per incident for all three units is approximately $103 million, with an annual payment limitation of approximately $15 million.

The Palo Verde participants maintain "all risk" (including nuclear hazards) insurance for property damage to, and decontamination of, property at Palo Verde in the aggregate amount of $2.75 billion, a substantial portion of which must first be applied to stabilization and decontamination. APS has also secured insurance against portions of any increased cost of generation or purchased power and business interruption resulting from a sudden and unforeseen accidental outage of any of the three units. The property damage, decontamination, and replacement power coverages are provided by Nuclear Electric Insurance Limited ("NEIL"). APS is subject to retrospective assessments under all NEIL policies if NEIL's losses in any policy year exceed accumulated funds. The maximum amount APS could incur under the current NEIL policies totals approximately $19 million for each retrospective assessment declared by NEIL's Board of Directors due to losses. In addition, NEIL policies contain rating triggers that would result in APS providing approximately $52 million of collateral assurance within 20 business days of a rating downgrade to non-investment grade. The insurance coverage discussed in this and the previous paragraph is subject to certain policy conditions and exclusions.

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Fuel and Purchased Power Commitments

Pinnacle West and APS are parties to various fuel and purchased power contracts with terms expiring between 2010 and 2042 that include required purchase provisions. Pinnacle West and APS estimate the contract requirements to be approximately $444 million in 2010; $336 million in 2011; $351 million in 2012; $457 million in 2013; $490 million in 2014; and $6.4 billion thereafter. However, these amounts may vary significantly pursuant to certain provisions in such contracts that permit us to decrease required purchases under certain circumstances.

Of the various fuel and purchased power contracts mentioned above, some of those contracts have take-or-pay provisions. The contracts APS has for its coal supply include take-or-pay provisions. The current take-or-pay coal contracts have terms that expire in 2024.

The following table summarizes our actual and estimated take-or-pay commitments (dollars in millions):

	Actual			Estimated (a)					
	2007	2008	2009	2010	2011	2012	2013	2014	Thereafter
Coal take-or-pay commitments	$ 70	$ 81	$ 93	$ 74	$ 79	$ 82	$ 84	$ 86	$ 316

(a) Total take-or-pay commitments are approximately $721 million. The total net present value of these commitments is approximately $501 million.

Renewable Energy Credits

APS has entered into contracts to purchase renewable energy credits to comply with the Renewable Energy Standard. APS estimates the contract requirements to be approximately $48 million in 2010; $15 million in 2011; $15 million in 2012; $15 million in 2013; $15 million in 2014; and $142 million thereafter.

Coal Mine Reclamation Obligations

APS must reimburse certain coal providers for amounts incurred for coal mine reclamation. APS' coal mine reclamation obligation was approximately $92 million at December 31, 2009 and $91 million at December 31, 2008.

California Energy Market Issues and Refunds in the Pacific Northwest

In July 2001, the FERC ordered an expedited fact-finding hearing to calculate refunds for spot market transactions in California during a specified time frame. APS was a seller and a purchaser in the California markets at issue and, to the extent that refunds are ordered, APS should be a recipient as well as a payor of such amounts. In addition, on March 19, 2002, the State of California filed a complaint with the FERC alleging that wholesale sellers of power and energy, including APS, failed to properly file rate information at the FERC in connection with sales to California from 2000 to March 2002 under market-based rates. Since 2004, the Ninth Circuit and the FERC have issued various decisions and orders involving the aforementioned issues, including decisions related to: entities subject to FERC jurisdiction and, therefore, potentially owing refunds; applicable refund methodologies; the temporal scope and types of transactions that are properly subject to the refund orders; and the appropriate standard of review at the FERC on wholesale power contracts in the refund proceedings. A settlement, resolving APS' issues with certain California parties for the current refund period, was approved by the FERC in an order issued on June 30, 2008. The resolution of the claims related to the parties involved in this settlement had no material adverse impact on our financial position, results of operations or cash flows. We currently believe the refund claims at the FERC related to the parties not involved in this settlement will have no material adverse impact on our financial position, results of operations or cash flows.

On July 25, 2001, the FERC also ordered an evidentiary proceeding to discuss and evaluate possible refunds for wholesale sales in the Pacific Northwest. The FERC affirmed the administrative law judge's conclusion that the prices in the Pacific Northwest were not unreasonable or unjust and refunds should not be ordered in this proceeding. This decision was appealed to the U.S. Court of Appeals for the Ninth Circuit. On August 24, 2007, the Ninth Circuit issued an opinion that remanded the proceeding to the FERC for further consideration. Although the FERC has not yet determined whether any refunds will ultimately be required, we do not expect that the resolution of these issues will have a material adverse impact on our financial position, results of operations or cash flows.

Superfund

Superfund establishes liability for the cleanup of hazardous substances found contaminating the soil, water or air. Those who generated, transported or disposed of hazardous substances at a contaminated site are among those who are PRPs. PRPs may be strictly, and often are jointly and severally, liable for clean-up. On September 3, 2003, the EPA advised APS that the EPA considers APS to be a PRP in the Motorola 52nd Street Superfund Site, Operable Unit 3 (OU3) in Phoenix, Arizona. APS has facilities that are within this Superfund site. APS and Pinnacle West have agreed with the EPA to perform certain investigative activities of the APS facilities within OU3. In addition, on September 23, 2009, APS agreed with the EPA and one other PRP to voluntarily assist with the funding and management of the site-wide groundwater remedial investigation and feasibility study work plan. We estimate that our costs related to this investigation and study will be approximately $1.2 million, which is reserved as a liability on our financial statements. We anticipate incurring additional expenditures in the future, but because the overall investigation is not complete and ultimate remediation requirements are not yet finalized, at the present time we cannot accurately estimate our total expenditures.

Landlord Bankruptcy

On April 16, 2009, the landlord for our corporate headquarters building announced that it is seeking relief under Chapter 11 of the United States Bankruptcy Code. We currently have several assets on our books related to our landlord, the most significant of which is an asset related to levelized rent payments for the building of approximately $66 million. This amount will continue to increase to approximately $94 million as a result of the lease terms until 2015, when this amount will begin to decrease over the remaining life of the lease. We are monitoring this matter and, while there can be no assurances as to the ultimate outcome of the matter due to the complexity of the bankruptcy proceedings, we currently do not expect that it will have a material adverse effect on our financial position, results of operations, or cash flows.

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12. Asset Retirement Obligations and Nuclear Decommissioning Trust

APS has asset retirement obligations for its Palo Verde nuclear facilities and certain other generation, transmission and distribution assets. The Palo Verde asset retirement obligation primarily relates to final plant decommissioning. This obligation is based on the NRC's requirements for disposal of radiated property or plant and agreements APS reached with the ACC for final decommissioning of the plant. The non-nuclear generation asset retirement obligations primarily relate to requirements for removing portions of those plants at the end of the plant life or lease term.

Some of APS' transmission and distribution assets have asset retirement obligations because they are subject to right of way and easement agreements that require final removal. These agreements have a history of uninterrupted renewal that APS expects to continue. As a result, APS cannot reasonably estimate the fair value of the asset retirement obligation related to such distribution and transmission assets.

Additionally, APS has aquifer protection permits for some of its generation sites that require the closure of certain facilities at those sites. The generation sites are strategically located to serve APS Native Load customers. The asset retirement obligations associated with our non-regulated assets are immaterial.

The following schedule shows the change in our asset retirement obligations for 2009 and 2008 (dollars in millions):

	2009	2008
Asset retirement obligations at the beginning of year	$ 276	$ 282
Changes attributable to:		
Liabilities settled	(1)	(2)
Accretion expense	20	19
Estimated cash flow revisions	7	(23)
Asset retirement obligations at the end of year	$ 302	$ 276

In accordance with regulatory accounting, APS accrues removal costs for its regulated utility assets, even if there is no legal obligation for removal. See detail of regulatory liabilities in Note 1.

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To fund the costs APS expects to incur to decommission Palo Verde, APS established external decommissioning trusts in accordance with NRC regulations. Third-party investment managers are authorized to buy and sell securities per their stated investment guidelines. The trust funds are invested in a tax efficient manner in fixed income securities and domestic equity securities. APS classifies investments in decommissioning trust funds as available for sale. As a result, we record the decommissioning trust funds at their fair value on our Consolidated Balance Sheets. Because of the ability of APS to recover decommissioning costs in rates and in accordance with the regulatory treatment for decommissioning trust funds, we have recorded the offsetting amount of gains or losses on investment securities in other regulatory liabilities or assets . The following table summarizes the fair value of APS' nuclear decommissioning trust fund assets at December 31, 2009 and December 31, 2008 (dollars in millions):

	Fair Value	Total Unrealized Gains	Total Unrealized Losses
2009			
Equity securities	$ 167	$ 37	$ (6)
Fixed income securities	247	11	(1)
Net receivables (a)	1	—	—
Total	$ 415	$ 48	$ (7)

(a) Net receivables relate to pending securities sales and purchases.

	Fair Value	Total Unrealized Gains	Total Unrealized Losses
2008			
Equity securities	$ 113	$ 18	$ (18)
Fixed income securities	228	10	(5)
Net receivables (a)	2	—	—
Total	$ 343	$ 28	$ (23)

(a) Net receivables relate to pending securities sales and purchases.

The costs of securities sold are determined on the basis of specific identification. The following table sets forth approximate gains and losses and proceeds from the sale of securities by the nuclear decommissioning trust funds (dollars in millions):

	Year Ended December 31,		
	2009	2008	2007
Realized gains	$ 10	$ 7	$ 3
Realized losses	(7)	(8)	(4)
Proceeds from the sale of securities (a)	441	318	259

(a) Proceeds are reinvested in the trust.

The fair value of fixed income securities, summarized by contractual maturities, at December 31, 2009 is as follows (dollars in millions):

	Fair Value
Less than one year	$ 14
1 year - 5 years	68
5 years - 10 years	64
Greater than 10 years	101
Total	$ 247

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See Note 14 for a discussion of Fair Value Measurements.

13. Selected Quarterly Financial Data (Unaudited)

Consolidated quarterly financial information for 2009 and 2008 is as follows (dollars in thousands, except per share amounts):

	2009 Quarter Ended				2009
	March 31,	June 30,	September 30,	December 31,	Total
As originally reported:					
Operating revenues	$ 629,393	$840,055	$ 1,143,077		
Operations and maintenance	207,531	226,245	208,769		
Operating income (loss)	(207,629)	157,103	344,511		
Income taxes	(96,174)	37,600	103,061		
Income (loss) from continuing operations	(167,796)	70,993	187,380		
Net income (loss) attributable to common shareholders	(156,510)	68,347	186,652		
SunCor reclassifications (see Note 22):					
Operating revenues	$ (3,526)	$ (4,083)	$ (872)		
Operations and maintenance	—	—	—		
Operating income (loss)	2,706	4,904	886		
Income taxes	1,170	1,979	446		
Income (loss) from continuing operations	1,803	3,034	685		
Net income (loss) attributable to common shareholders	—	—	—		
After SunCor reclassifications:					
Operating revenues	$ 625,867	$835,972	$ 1,142,205	$ 693,057	$3,297,101
Operations and maintenance	207,531	226,245	208,769	232,812	875,357
Operating income (loss)	(204,923)	162,007	345,397	19,292	321,773
Income taxes	(95,004)	39,579	103,507	(10,255)	37,827
Income (loss) from continuing operations	(165,993)	74,027	188,065	(28,868)	67,231
Net income (loss) attributable to common shareholders	(156,510)	68,347	186,652	(30,159)	68,330

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	2008 Quarter Ended				2008
	March 31,	June 30,	September 30,	December 31,	Total
As originally reported:					
Operating revenues	$ 688,256	$884,513	$ 1,070,088	$ 686,415	$3,329,272
Operations and maintenance	193,023	193,700	211,332	209,797	807,852
Operating income (loss)	36,228	176,128	275,892	(17,526)	470,722
Income taxes	(1,541)	16,025	76,592	(28,373)	62,703
Income (loss) from continuing operations	(6,187)	112,807	151,468	(48,706)	209,382
Net income (loss) attributable to common shareholders	(4,473)	133,862	151,586	(38,850)	242,125
SunCor reclassifications (see Note 22):					
Operating revenues	$ (5,546)	$ (3,859)	$ (1,289)	$ (8,020)	$ (18,714)
Operations and maintenance	—	—	—	—	—
Operating income (loss)	(918)	(173)	685	34,892	34,486
Income taxes	(234)	116	428	13,884	14,194
Income (loss) from continuing operations	(361)	179	659	21,445	21,922
Net income (loss) attributable to common shareholders	—	—	—	—	—
After SunCor reclassifications:					
Operating revenues	$ 682,710	$880,654	$ 1,068,799	$ 678,395	$3,310,558
Operations and maintenance	193,023	193,700	211,332	209,797	807,852
Operating income	35,310	175,955	276,577	17,366	505,208
Income taxes	(1,775)	16,141	77,020	(14,489)	76,897
Income (loss) from continuing operations	(6,548)	112,986	152,127	(27,261)	231,304
Net income (loss) attributable to common shareholders	(4,473)	133,862	151,586	(38,850)	242,125

Earnings per share:

	2009 Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
As originally reported — Basic earnings per share:				
Income (loss) from continuing operations	$ (1.52)	$ 0.70	$ 1.86	
Net income (loss) attributable to common shareholders	(1.55)	0.68	1.84	
After SunCor reclassifications — Basic earnings per share:				
Income (loss) from continuing operations	$ (1.50)	$ 0.73	$ 1.86	$ (0.29)
Net income (loss) attributable to common shareholders	(1.55)	0.68	1.84	(0.30)
As originally reported — Diluted earnings per share:				
Income (loss) from continuing operations	$ (1.52)	$ 0.70	$ 1.85	
Net income (loss) attributable to common shareholders	(1.55)	0.68	1.84	
After SunCor reclassifications — Diluted earnings per share:				
Income (loss) from continuing operations	$ (1.50)	$ 0.74	$ 1.86	$ (0.29)
Net income (loss) attributable to common shareholders	(1.55)	0.68	1.84	(0.30)

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	2008 Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
As originally reported — Basic earnings per share:				
Income (loss) from continuing operations	$ (0.06)	$ 1.12	$ 1.50	$ (0.48)
Net income (loss) attributable to common shareholders	(0.04)	1.33	1.50	(0.39)
After SunCor reclassifications — Basic earnings per share:				
Income (loss) from continuing operations	$ (0.07)	$ 1.12	$ 1.50	$ (0.27)
Net income (loss) attributable to common shareholders	(0.04)	1.33	1.50	(0.39)
As originally reported — Diluted earnings per share:				
Income (loss) from continuing operations	$ (0.06)	$ 1.12	$ 1.50	$ (0.48)
Net income (loss) attributable to common shareholders	(0.04)	1.33	1.50	(0.39)
After SunCor reclassifications — Diluted earnings per share:				
Income (loss) from continuing operations	$ (0.07)	$ 1.12	$ 1.50	$ (0.27)
Net income (loss) attributable to common shareholders	(0.04)	1.33	1.50	(0.39)

14. Fair Value Measurements

We disclose the fair value of certain assets and liabilities according to a fair value hierarchy. This hierarchy ranks the quality and reliability of the inputs used to determine fair values, which are then classified and disclosed in one of three categories. The three levels of the fair value hierarchy are:

Level 1 — Quoted prices in active markets for identical assets or liabilities. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide information on an ongoing basis. This category includes derivative instruments that are exchange-traded such as futures, cash equivalents invested in exchange-traded money market funds, exchange-traded equities, and nuclear decommissioning trust investments in Treasury securities.

Level 2 — Quoted prices in active markets for similar assets or liabilities; quoted prices in markets that are not active; and model-derived valuations whose inputs are observable. Derivative instruments in this category include nonexchange-traded contracts such as forwards, options, and swaps. This category also includes investments, in common and commingled funds that are redeemable and valued based on the funds' net asset values. We consider broker quotes observable inputs when the quote is binding on the broker, we can validate the quote with market transactions, or we can determine that the inputs the broker used to arrive at the quoted price are observable.

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Level 3 — Model-derived valuations with unobservable inputs that are supported by little or no market activity. Instruments in this category include long-dated derivative transactions where models are required due to the length of the transaction, options, transactions in locations where observable market data does not exist, and common and collective trusts with significant restrictions on our ability to transact in the fund. The valuation models we employ utilize spot prices, forward prices, historical market data and other factors to forecast future prices. The primary valuation technique we use to calculate the fair value of contracts where price quotes are not available is based on the extrapolation of forward pricing curves using observable market data for more liquid delivery points in the same region and actual transactions at the more illiquid delivery points.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. We maximize the use of observable inputs and minimize the use of unobservable inputs. If market data is not readily available, inputs may reflect our own assumptions about the inputs market participants would use. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. Thus, a valuation may be classified in Level 3 even though the valuation may include significant inputs that are readily observable. We assess whether a market is active by obtaining observable broker quotes, reviewing actual market transactions, and assessing the volume of transactions.

For non-exchange traded contracts, we calculate fair market value based on the average of the bid and offer price, discounted to reflect net present value. We maintain certain valuation adjustments for a number of risks associated with the valuation of future commitments. These include valuation adjustments for liquidity and credit risks based on the financial condition of counterparties. The liquidity valuation adjustment represents the cost that would be incurred if all unmatched positions were closed-out or hedged.

The credit valuation adjustment represents estimated credit losses on our overall exposure to counterparties, taking into account netting arrangements, expected default experience for the credit rating of the counterparties and the overall diversification of the portfolio. Counterparties in the portfolio consist principally of major energy companies, municipalities, local distribution companies and financial institutions. We maintain credit policies that management believes minimize overall credit risk. Determination of the credit quality of counterparties is based upon a number of factors, including credit ratings, financial condition, project economics and collateral requirements. When applicable, we employ standardized agreements that allow for the netting of positive and negative exposures associated with a single counterparty.

We apply recurring fair value measurements to derivative instruments, nuclear decommissioning trusts, certain cash equivalents and plan assets held in our retirement and other benefit plans (see Note 8). We may be required to record other assets at fair value on a nonrecurring basis. These nonrecurring fair value measurements typically involve write-downs of individual assets due to impairment.

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Some of our derivative instrument transactions are valued based on unobservable inputs due to the long-term nature of contracts or the unique location of the transactions. Our long-dated energy transactions consist of observable valuations for the near term portion and unobservable valuations for the long-term portions of the transaction. When the unobservable portion is significant to the overall valuation of the transaction, the entire transaction is classified as Level 3. Our classification of instruments as Level 3 is primarily reflective of the long-term nature of our energy transactions, and is not reflective of material inactive markets.

The nuclear decommissioning trust invests in fixed income securities directly and equity securities indirectly through commingled funds. The commingled equity funds are valued based on the fund's net asset value ("NAV") and are classified within Level 2. We may transact in the fund on a semi-monthly basis. Our trustee provides valuation of our nuclear decommissioning trust assets by using pricing services to determine fair market value. We assess these valuations and verify that pricing can be supported by actual recent market transactions. The trust fund investments have been established to satisfy APS' nuclear decommissioning obligations (see Note 12).

The following table presents the fair value at December 31, 2009 of our assets and liabilities that are measured at fair value on a recurring basis (dollars in millions):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty Netting & Other (a)	Balance at December 31, 2009
Assets					
Cash equivalents	$ 97	$ —	$ —	$ —	$ 97
Risk management activities	1	100	42	(64)	79
Nuclear decommissioning trust:					
U.S. Treasury debt securities	55	—	—	—	55
Commingled U.S. equity funds	—	167	—	—	167
Corporate debt securities	—	62	—	—	62
Mortgage-backed securities	—	60	—	—	60
Municipality debt securities	—	49	—	—	49
Other	—	21	—	1	22
Total	$ 153	$ 459	$ 42	$ (63)	$ 591
Liabilities					
Risk management activities	$ (14)	$ (246)	$ (52)	$ 194	$ (118)

(a) Primarily represents netting under master netting arrangements, including margin and collateral. See Note 18.

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The following table presents the fair value at December 31, 2008 of our assets and liabilities that are measured at fair value on a recurring basis (dollars in millions):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty Netting & Other (a)	Balance at December 31, 2008
Assets					
Cash equivalents	$ 75	$ —	$ —	$ —	$ 75
Risk management activities	31	76	51	(92)	66
Nuclear decommissioning trust:					
U.S. Treasury debt securities	33	—	—	—	33
Commingled U.S. equity funds	—	113	—	—	113
Corporate debt securities	—	33	—	—	33
Mortgage-backed securities	—	73	—	—	73
Municipality debt securities	—	67	—	—	67
Other	—	22	—	2	24
Total	$ 139	$ 384	$ 51	$ (90)	$ 484
Liabilities					
Risk management activities	$ (85)	$ (297)	$ (58)	$ 244	$ (196)

(a) Primarily represents netting under master netting arrangements, including margin and collateral. See Note 18.

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The following table shows the changes in fair value for assets and liabilities that are measured at fair value on a recurring basis using Level 3 inputs for the years ended December 31, 2009 and 2008 (dollars in millions):

	Year Ended December 31, 2009	Year Ended December 31, 2008
Net risk management activities at beginning of period	$ (7)	$ 8
Total net gains (losses) realized/unrealized:		
Included in earnings (a)	3	15
Included in OCI	(2)	(1)
Deferred as a regulatory asset or liability	19	(39)
Purchases, issuances, and settlements	(2)	—
Level 3 transfers (b)	(21)	10
Net risk management activities at end of period	$ (10)	$ (7)
Net unrealized losses included in earnings related to instruments still held at end of period	$ 3	$ 44

(a) Earnings are recorded in regulated electricity segment revenue or regulated electricity segment fuel and purchased power.

(b) Transfers in or out of Level 3 reflect the fair market value at the beginning of the period. Transfers are generally triggered by a change in the lowest significant input and are typically related to our long-dated energy transactions that extend beyond available quoted periods.

The following table represents the carrying amount and estimated fair value of our debt which is not carried at fair value on the balance sheet. The carrying value of our cash, net accounts receivable, accounts payable and short-term borrowings approximate fair value. Certain of our debt instruments contain third-party credit enhancements and, in accordance with GAAP, we do not consider the effect of these credit enhancements when determining fair value. Our debt fair value estimates are based on quoted market prices of the same or similar issues (dollars in millions):

	As of December 31, 2009		As of December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Pinnacle West	$ 175	$ 180	$ 175	$ 169
APS	3,378	3,499	2,851	2,466
SunCor	95	95	183	183
Total	$ 3,648	$ 3,774	$ 3,209	$ 2,818

We adopted guidance on fair value measurements and disclosures, for our nonfinancial assets and liabilities on January 1, 2009, and it did not have a material impact on our financial statements. We apply nonrecurring fair value measurements to certain real estate assets. These adjustments to fair value are the result of write-downs of individual assets due to impairment. Certain of our real estate assets have been impaired due to the distressed real estate market. We determine fair value for our real estate assets primarily based on the future cash flows that we estimate will be generated by each asset discounted for market risk. These fair value determinations require significant judgment regarding key assumptions. Due to these unobservable inputs, the valuation of real estate assets are considered Level 3 measurements.

As of December 31, 2009, the fair value of our impaired real estate assets that are measured at fair value on a nonrecurring basis was $46 million, all of which was valued using significant unobservable inputs (Level 3). Total impairment charges included in net income for the year ended December 31, 2009 were approximately $280 million (including net loss attributable to noncontrolling interests of $14 million before income taxes). Total impairment charges for the year ended December 31, 2008 were approximately $53 million. See Note 23 for additional information.

15. Earnings Per Share

The following table presents earnings per weighted-average common share outstanding for the years ended December 31, 2009, 2008 and 2007:

	2009	2008	2007
Basic earnings per share:			
Income from continuing operations attributable to common shareholders	$ 0.81	$ 2.30	$ 3.00
Income (loss) from discontinued operations	(0.13)	0.10	0.06
Earnings per share — basic	$ 0.68	$ 2.40	$ 3.06
Diluted earnings per share:			
Income from continuing operations attributable to common shareholders	$ 0.81	$ 2.29	$ 2.98
Income (loss) from discontinued operations	(0.14)	0.11	0.07
Earnings per share — diluted	$ 0.67	$ 2.40	$ 3.05

Dilutive stock options and performance shares (which are contingently issuable) increased average common shares outstanding by approximately 103,000 shares in 2009, 274,000 shares in 2008 and 579,000 shares in 2007. Total average common shares outstanding for the purposes of calculating diluted earnings per share were 101,263,795 shares in 2009, 100,964,920 shares in 2008 and 100,834,871 shares in 2007.

Options to purchase 572,301 shares of common stock at December 31, 2009 were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares. Options to purchase shares of common stock that were not included in the computation of diluted earnings per share were 687,375 at December 31, 2008 and 114,213 at December 31, 2007.

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16. Stock-Based Compensation

We have a 2007 long-term incentive plan ("2007 Plan") that allows the Company to grant restricted stock, restricted stock units, performance shares, stock grants, incentive and stock options, stock appreciation rights, performance share units, performance cash awards, dividend equivalents and stock to eligible individuals.

Restricted Stock Unit Awards and Stock Grants

Stock grants were issued to non-officer members of the Board of Directors in 2009, 2008 and 2007 under the 2007 Plan and were paid in fully transferable shares of stock. Restricted stock unit awards were granted to officers and key employees in 2009, 2008 and 2007 under the 2007 Plan. Officers and key employees elected to receive payment in either cash or in fully transferable shares of stock, in exchange for each restricted stock unit on pre-established valuation dates. Each restricted stock unit payable in cash represents the right to receive a cash payment equal to the fair market value of one share of Pinnacle West's common stock. Restricted stock unit awards vest and settle in annual installments over a four-year period. In addition, officers and key employees will receive a cash payment equal to the amount of dividends that they would have received if they had owned the stock to which the restricted stock units relate from the date of grant to the date of payment plus interest. For any employee that was eligible to retire before the settlement date, the employee's restricted stock unit awards vest by retirement date and the compensation expense is recognized by retirement eligibility. As the restricted stock unit award is accounted for as a liability award, compensation costs, initially measured based on the Company's stock price on the grant date, are remeasured at each balance sheet date, using Pinnacle West's closing stock price.

Restricted stock unit awards were granted to a selected set of key employees of Pinnacle West on October 21, 2008, February 18, 2009, March 18, 2009, April 13, 2009 and July 29, 2009 under the 2007 Plan. The award of the restricted stock unit awards follows the same vesting schedule as the 2007 and 2008 restricted stock unit awards.

The following table is a summary of granted restricted stock units and stock grants and the weighted average fair value for the three years ended 2009, 2008 and 2007:

	2009	2008	2007
Units granted	261,006	224,658	136,917
Grant date fair value (a)	$ 30.25	$ 36.26	$ 46.51

(a) weighted average fair value

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The following table is a summary of the status of restricted stock units and stock grants, as of December 31, 2009 and changes during the year. This table represents only the stock portion of restricted stock units, per the election on payment discussed in the paragraph above:

Nonvested shares	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2009	80,345	$ 38.11
Granted	108,450	30.79
Vested	40,684	35.06
Forfeited	2,772	34.52
Nonvested at December 31, 2009	145,339	33.57

The amount of cash required to settle the payment for the 2007 grant on February 20, 2009 and February 20, 2008 was $0.8 million and $1.0 million respectively. The amount of cash required to settle the payment for the 2008 grant on February 20, 2009 was $1.3 million.

Performance Share Awards

Performance share awards were granted to officers and key employees in 2009 and 2008 under the 2007 Plan. Performance share awards for 2008 contain performance criteria that affect the number of shares ultimately received. Generally, each recipient of performance shares is entitled to receive shares of common stock after the end of a three-year performance period. The number of shares each recipient ultimately receives, if any, is based upon the percentile ranking of Pinnacle West’s earnings per share growth rate at the end of the three-year period as compared with the earnings per share growth rate of all relevant companies in a specified utilities index. Performance share awards for 2009 also contain performance criteria that affect the number of shares that ultimately vest, 50% of the award is based on the same percentile ranking as the 2008 award and the other 50% of the award is based on six separate performance metrics. For any employee that was eligible to retire before the settlement date, the employee’s performance share awards vest by retirement date and the compensation expense is recognized by retirement eligibility. As the performance share award is accounted for as a liability award, compensation costs, initially measured based on the Company’s stock price on the grant date, are remeasured at each balance sheet date, using Pinnacle West’s closing stock price. Management also evaluates the probability of meeting the performance criteria at each balance sheet date and related compensation cost is amortized over the performance period on a straight-line basis. If the goals are not achieved, no compensation cost is recognized and any previously recognized compensation cost is reversed.

Performance shares were granted to officers and key employees of Pinnacle West on October 21, 2008, February 18, 2009, March 18, 2009, April 13, 2009 and July 29, 2009 under the 2007 Plan. This award of performance shares follows the same vesting schedule as the prior performance shares awarded.

The following table is a summary of the Performance shares granted and the weighted average fair value for the three years ended 2009, 2008 and 2007:

	2009	2008	2007
Units granted	240,624	226,242	134,917
Grant date fair value (a)	$ 30.19	$ 36.24	$ 48.42

(a) weighted average grant date fair value

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The following table is a summary of the status of performance shares, as of December 31, 2009 and changes during the year:

Nonvested shares	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2009	210,548	$ 40.69
Granted	240,624	30.12
Vested	—	—
Forfeited	92,229	46.96
Nonvested at December 31, 2009	358,943	32.34

Retention Units

Retention unit awards were granted to key employees in 2006 and 2007. Each retention unit award represents the right to receive a cash payment equal to the fair market value of one share of Pinnacle West's common stock, determined on pre-established valuation dates. Each retention unit award vests and settles in equal annual installments over a four-year period. In addition, the employee will receive a cash payment equal to the amount of dividends that the employee would have received if the employee had owned the stock from the date of grant to the date of payment plus interest. The retention unit awards have fully vested and settled on January 4, 2010; for any employee that was eligible to retire before that date, the employee's retention units vested by retirement date and the compensation expense was recognized by retirement eligibility. As this award is accounted for as a liability award, compensation costs, initially measured based on the Company's stock price on the grant date, were remeasured at each balance sheet date, using Pinnacle West's closing stock price.

The amount of cash to settle the payment on the first business day of 2009 was $1.1 million, 2008 was $1.3 million and 2007 was $1.6 million.

Incentive Shares

On January 21, 2009, the Human Resources Committee approved under the 2007 Plan payment of 2008 incentive awards to officers in the form of a Pinnacle West common stock grant. A total of 138,756 shares were issued for this stock grant with a grant date fair value of $32.58 per share. The stock grant was included in stock compensation expense in 2008.

Stock Options

We have issued stock options in the past, but have not granted stock options since 2004. The term of outstanding options cannot be longer than 10 years and options cannot be repriced during their terms.

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The following table summarizes the option activity under our equity incentive plans for the year ended December 31, 2009:

Options	Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (dollars in thousands)
Outstanding at January 1, 2009	696	$ 39.81		
Exercised	86	32.29		
Forfeited or expired	177	40.07		
Outstanding at December 31, 2009	433	41.20	1.8	$ 115
Exercisable at December 31, 2009	433	41.20	1.8	$ 115

Cash received from options exercised under our share-based payment arrangements was $3 million for 2009, zero for 2008 and $8 million for 2007. The tax benefit realized for the tax deductions from option exercises of the share-based payment arrangements were immaterial for 2009, zero for 2008 and $1 million for 2007.

The intrinsic value of options exercised was immaterial for 2009, zero for 2008 and $2 million for 2007.

As of December 31, 2009, there was $12 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the plans. That cost is expected to be recognized over a weighted-average period of 2.2 years. The total fair value of shares vested during 2009 was $10 million, 2008 was $5 million and $6 million for 2007.

We have reserved 8 million shares of common stock for issuance under the 2007 Plan. Under the 2007 Plan, any shares of stock that are potentially deliverable under the 2002 long term incentive plan will be added to the number of shares available for grant under the 2007 Plan if the award is cancelled, forfeited, or terminated such that those shares are returned to the Company.

The compensation cost that has been charged against Pinnacle West's income for share-based compensation plans was $5 million in 2009, $8 million in 2008 and $6 million in 2007. The compensation cost that Pinnacle West has capitalized was immaterial in 2009, 2008 and 2007. Pinnacle West's total income tax benefit recognized in the Consolidated Statements of Income for share-based compensation arrangements was $2 million in 2009, $3 million in 2008 and $2 million in 2007. APS' share of compensation cost that has been charged against income was $4 million in 2009, $7 million in 2008 and $6 million in 2007.

Pinnacle West's current policy is to issue new shares to satisfy share requirements for stock compensation plans and it does not expect to repurchase any shares except to satisfy tax withholding obligations upon the vesting of restricted stock during 2010.

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. Business Segments

Pinnacle West's two reportable business segments are:

- our regulated electricity segment, which consists of traditional regulated retail and wholesale electricity businesses (primarily electricity service to Native Load customers) and related activities and includes electricity generation, transmission and distribution; and

- our real estate segment, which consists of SunCor's real estate development and investment activities.

Financial data for 2009, 2008 and 2007 is provided as follows (dollars in millions):

	Business Segments for the Year Ended December 31, 2009			
	Regulated Electricity Segment	Real Estate Segment (a)	All other (b)	Total
Operating revenues	$ 3,149	$ 103	$ 45	$ 3,297
Purchased power and fuel costs	1,179	—	—	1,179
Other operating expenses	987	361	44	1,392
Operating margin	983	(258)	1	726
Depreciation and amortization	400	2	2	404
Interest expense	214	8	1	223
Other expense (income)	(16)	—	10	(6)
Income (loss) from continuing operations before income taxes	385	(268)	(12)	105
Income taxes	142	(100)	(4)	38
Income (loss) from continuing operations	243	(168)	(8)	67
Loss from discontinued operations — net of income tax benefit of $9 million (see Note 22)	—	(14)	—	(14)
Net income (loss)	243	(182)	(8)	53
Less: Net loss attributable to noncontrolling interests	—	(15)	—	(15)
Net income (loss) attributable to common shareholders	$ 243	$ (167)	$ (8)	$ 68
Total assets	$ 11,513	$ 161	$ 134	$ 11,808
Capital expenditures	$ 732	$ 7	$ 6	$ 745

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Business Segments for the Year Ended December 31, 2008			
	Regulated Electricity Segment	Real Estate Segment (a)	All other (b)	Total
Operating revenues	$ 3,127	$ 74	$ 109	$ 3,310
Purchased power and fuel costs	1,284	—	46	1,330
Other operating expenses	927	118	40	1,085
Operating margin	916	(44)	23	895
Depreciation and amortization	383	5	2	390
Interest expense	189	6	2	197
Other expense (income)	(4)	(4)	8	—
Income (loss) from continuing operations before income taxes	348	(51)	11	308
Income taxes	92	(19)	4	77
Income (loss) from continuing operations	256	(32)	7	231
Income from discontinued operations — net of income tax expense of $7 million (see Note 22)	—	6	5	11
Net income (loss) attributable to common shareholders	$ 256	$ (26)	$ 12	$ 242
Total assets	$ 10,951	$ 523	$ 146	$ 11,620
Capital expenditures	$ 856	$ 41	$ 7	$ 904

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Business Segments for the Year Ended December 31, 2007			
	Regulated Electricity Segment	Real Estate Segment (a)	All other (b)	Total
Operating revenues	$ 2,918	$ 189	$ 187	$ 3,294
Purchased power and fuel costs	1,141	—	100	1,241
Other operating expenses	836	169	60	1,065
Operating margin	941	20	27	988
Depreciation and amortization	366	4	2	372
Interest expense	180	4	1	185
Other expense (income)	(18)	(11)	8	(21)
Income from continuing operations before income taxes	413	23	16	452
Income taxes	139	8	5	152
Income from continuing operations	274	15	11	300
Income (loss) from discontinued operations — net of income tax expense of $5 million (see Note 22)	—	8	(1)	7
Net income (loss) attributable to common shareholders	$ 274	$ 23	$ 10	$ 307
Capital expenditures	$ 900	$ 161	$ 3	$ 1,064

(a) Due to the current and anticipated continuing distressed conditions in the real estate and credit markets, in 2009 our real estate subsidiary, SunCor, began disposing of its homebuilding operations, master-planned communities, land parcels, commercial assets and golf courses in order to reduce its outstanding debt (see Note 23). As a part of this plan to sell substantially all of SunCor's assets, the real estate segment may no longer be a reporting segment in the future.

(b) All other activities relate to APSES, Silverhawk and El Dorado. Income from discontinued operations for 2008 is primarily related to the resolution of certain tax issues associated with the sale of Silverhawk in 2005. None of these segments is a reportable segment.

18. Derivative Accounting

We are exposed to the impact of market fluctuations in the commodity price and transportation costs of electricity, natural gas, coal, emissions allowances and in interest rates. We manage risks associated with these market fluctuations by utilizing various derivative instruments, including futures, forwards, options and swaps. As part of our overall risk management program, we may use such instruments to hedge purchases and sales of electricity, fuels, and emissions allowances and credits. Derivative instruments that are designated as cash flow hedges are used to limit our exposure to cash flow variability on forecasted transactions. The changes in market value of such contracts have a high correlation to price changes in the hedged transactions. We may also invest in derivative instruments for trading purposes; however, for the year ended December 31, 2009, there was no material trading activity.

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Our derivative instruments are accounted for at fair value; see Note 14 for a discussion of fair value measurements. Derivative instruments for the physical delivery of purchase and sale quantities transacted in the normal course of business qualify for the normal purchase and sales scope exception and are accounted for under the accrual method of accounting. Due to the scope exception, these derivative instruments are excluded from our derivative instrument discussion and disclosures below.

We enter into derivative instruments for economic hedging purposes. While we believe the economic hedges mitigate exposure to fluctuations in commodity prices, some of these instruments may not meet the specific hedge accounting requirements and are not designated as accounting hedges. Economic hedges not designated as accounting hedges are recorded at fair value on our balance sheet with changes in fair value recognized in the statement of income as incurred. These instruments are included in the "non-designated hedges" discussion and disclosure below.

Hedge effectiveness is the degree to which the derivative instrument contract and the hedged item are correlated and is measured based on the relative changes in fair value between the derivative instrument contract and the hedged item over time. We assess hedge effectiveness both at inception and on a continuing basis. These assessments exclude the time value of certain options. For accounting hedges that are deemed an effective hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive income ("AOCI") and reclassified into earnings in the same period during which the hedged transaction affects earnings. We recognize in current earnings the gains and losses representing hedge ineffectiveness, and the gains and losses on any hedge components which are excluded from our effectiveness assessment. As of December 31, 2009, we hedged the majority of certain exposures to the price variability of commodities for a maximum of 39 months.

In the electricity business, some contracts to purchase energy are netted against other contracts to sell energy. This is called "book-out" and usually occurs in contracts that have the same terms (quantities and delivery points) and for which power does not flow. We net these book-outs, which reduces both revenues and fuel and purchased power costs in our Consolidated Statements of Income, but this does not impact our financial condition, net income or cash flows.

For its regulated operations, APS defers for future rate treatment approximately 90% of unrealized gains and losses on certain derivatives pursuant to the PSA mechanism that would otherwise be recognized in income. Realized gains and losses on derivatives are deferred in accordance with the PSA to the extent the amounts are above or below the Base Fuel Rate (see Note 3). Gains and losses from derivatives in the following tables represent the amounts reflected in income before the effect of PSA deferrals.

As of December 31, 2009, we had the following outstanding gross notional amount of derivatives, which represent both purchases and sales (does not reflect net position):

Commodity	Quantity	
Power	16,467,388	megawatt hours
Gas	161,999,632	MMBTU (a)

(a) "MMBTU" is one million British thermal units

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Derivative Instruments in Designated Accounting Hedging Relationships

The following table provides information about gains and losses from derivative instruments in designated accounting hedging relationships and their impact on our Consolidated Statements of Income during the year ended December 31, 2009 (dollars in thousands):

Commodity Contracts	Financial Statement Location	Year Ended December 31, 2009
Amount of Loss Recognized in AOCI on Derivative Instruments (Effective Portion)	Accumulated other comprehensive loss-derivative instruments	$ (155,325)
Amount of Loss Reclassified from AOCI into Income (Effective Portion Realized)	Regulated electricity segment fuel and purchased power	(185,329)
Amount of Loss Recognized in Income from Derivative Instruments (Ineffective Portion and Amount Excluded from Effectiveness Testing) (a)	Regulated electricity segment fuel and purchased power	(19,902)

(a) During the year ended December 31, 2009, $192 thousand was reclassified from AOCI to earnings related to discontinued cash flow hedges.

During the next twelve months, we estimate that a net loss of $68 million before income taxes will be reclassified from accumulated other comprehensive income as an offset to the effect of market price changes for the related hedged transactions. In accordance with the PSA, certain of these amounts will be recorded as either a regulatory asset or liability and have no effect on earnings.

Derivative Instruments Not Designated as Accounting Hedges

The following table provides information about gains and losses from derivative instruments not designated as accounting hedging instruments and their impact on our Consolidated Statements of Income during the year ended December 31, 2009 (dollars in thousands):

Commodity Contracts	Financial Statement Location	Year Ended December 31, 2009
Amount of Net Gain Recognized in Income from Derivative Instruments	Regulated electricity segment revenue	$ 2,484
Amount of Net Loss Recognized in Income from Derivative Instruments	Regulated electricity segment fuel and purchased power expense	(16,740)
Total		$ (14,256)

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fair Values of Derivative Instruments in the Consolidated Balance Sheets

The following table provides information about the fair value of our derivative instruments, margin account and cash collateral reported on a gross basis. Transactions with counterparties that have master netting arrangements are reported net on the balance sheet. These amounts are located in the assets and liabilities from risk management activities lines of our Consolidated Balance Sheets. Amounts are as of December 31, 2009 (dollars in thousands):

Commodity Contracts	Current Assets	Investments and Other Assets	Current Liabilities	Deferred Credits and Other	Total Assets (Liabilities)
Derivatives designated as accounting hedging instruments:					
Assets	$ 329	$ —	$ 3,242	$ 75	$ 3,646
Liabilities	(3,436)	(256)	(72,899)	(77,953)	(154,544)
Total hedging instruments	(3,107)	(256)	(69,657)	(77,878)	(150,898)
Derivatives not designated as accounting hedging instruments:					
Assets	31,220	29,807	34,645	44,631	140,303
Liabilities	(4,123)	(696)	(81,722)	(71,408)	(157,949)
Total non-hedging instruments	27,097	29,111	(47,077)	(26,777)	(17,646)
Total derivatives	23,990	28,855	(116,734)	(104,655)	(168,544)
Margin account	8,643	—	12,464	104	21,211
Collateral provided to counterparties	17,986	—	49,412	42,108	109,506
Collateral provided from counterparties	—	—	(1,050)	—	(1,050)
Balance Sheet Total	$ 50,619	$ 28,855	$ (55,908)	$ (62,443)	$ (38,877)

Credit Risk and Credit Related Contingent Features

We are exposed to losses in the event of nonperformance or nonpayment by counterparties. We have risk management contracts with many counterparties, including one counterparty for which our exposure represents approximately 31% of Pinnacle West's $79 million of risk management assets as of December 31, 2009. This exposure relates to a long-term traditional wholesale contract with a counterparty that has very high credit quality. Our risk management process assesses and monitors the financial exposure of all counterparties. Despite the fact that the great majority of trading counterparties' debt is rated as investment grade by the credit rating agencies, there is still a possibility that one or more of these companies could default, resulting in a material impact on consolidated earnings for a given period. Counterparties in the portfolio consist principally of financial institutions, major energy companies, municipalities and local distribution companies. We maintain credit policies that we believe minimize overall credit risk to within acceptable limits. Determination of the credit quality of our counterparties is based upon a number of factors, including credit ratings and our evaluation of their financial condition. To manage credit risk, we employ collateral requirements and standardized agreements that allow for the netting of positive and negative exposures associated with a single counterparty. Valuation adjustments are established representing our estimated credit losses on our overall exposure to counterparties.

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Certain of our derivative instrument contracts contain credit-risk-related contingent features including, among other things, investment grade credit rating provisions, credit-related cross default provisions, and adequate assurance provisions. Adequate assurance provisions allow a counterparty with reasonable grounds for uncertainty to demand additional collateral based on subjective events and/or conditions. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a liability position on December 31, 2009 was $283 million, for which we had posted collateral of $92 million in the normal course of business.

For those derivative instruments in a net liability position, with investment grade credit contingencies, the counterparties could demand additional collateral if our debt credit rating were to fall below investment grade (below BBB- for Standard & Poor's or Fitch or Baa3 for Moody's), which would be a violation of the credit rating provisions. If the investment grade contingent features underlying these agreements had been triggered on December 31, 2009, after off-setting asset positions under master netting arrangements we would have been required to post approximately an additional $100 million of collateral to our counterparties; this amount includes those contracts which qualify for scope exceptions, which are excluded from the derivative details in the above footnote. We also have energy related non-derivative instrument contracts with investment grade credit-related contingent features which could also require us to post additional collateral of approximately $200 million if our debt credit ratings were to fall below investment grade.

19. Other Income and Other Expense

The following table provides detail of other income and other expense for 2009, 2008 and 2007 (dollars in thousands):

	2009	2008	2007
Other income:			
Interest income	$ 1,660	$ 7,601	$ 11,656
SunCor other income	362	3,218	11,370
Investment gains — net	2,516	—	—
Miscellaneous	1,131	1,978	2,336
Total other income	$ 5,669	$ 12,797	$ 25,362
Other expense:			
Non-operating costs (a)	$ (6,593)	$ (13,030)	$ (13,993)
Investment losses — net	—	(17,702)	(2,341)
Miscellaneous	(7,676)	(844)	(9,523)
Total other expense	$ (14,269)	$ (31,576)	$ (25,857)

(a) Includes equity earnings from a real estate joint venture that is a pass-through entity for tax purposes.

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20. Variable-Interest Entities

See Note 2 for a discussion of the amended accounting guidance relating to VIEs adopted on January 1, 2010. Our December 31, 2009 financial statements and the following disclosure do not reflect the adoption of this new guidance.

In 1986, APS entered into agreements with three separate VIE lessors in order to sell and lease back interests in Palo Verde Unit 2. The leases are accounted for as operating leases. We are not the primary beneficiary of the Palo Verde VIEs and, accordingly, do not consolidate them (see Note 9).

APS is exposed to losses under the Palo Verde sale leaseback agreements upon the occurrence of certain events that APS does not consider to be reasonably likely to occur. Under certain circumstances (for example, the NRC issuing specified violation orders with respect to Palo Verde or the occurrence of specified nuclear events), APS would be required to assume the debt associated with the transactions, make specified payments to the equity participants, and take title to the leased Unit 2 interests, which, if appropriate, may be required to be written down in value. If such an event had occurred as of December 31, 2009, APS would have been required to assume approximately $152 million of debt and pay the equity participants approximately $153 million.

We have certain long-term purchase power agreements where we purchase substantially all of an entity’s output from a specified facility for a specified period. We have evaluated these arrangements under the variable interest accounting guidance and have determined that these agreements do not represent variable interests. If these agreements had been deemed variable interests in these entities, we would not be considered the primary beneficiary of these entities and therefore would not consolidate the entities.

SunCor is the primary beneficiary of certain land development arrangements and, accordingly, consolidates the variable interest entities. The assets and non-controlling interests reflected in our Consolidated Balance Sheets related to these arrangements were approximately $29 million at December 31, 2009 and December 31, 2008.

21. Guarantees

We have issued parental guarantees and letters of credit and obtained surety bonds on behalf of our subsidiaries.

Our parental guarantees for APS relate to commodity energy products. In addition, Pinnacle West has obtained approximately $8 million of surety bonds related to APS’ operations, which primarily relate to self-insured workers’ compensation. Our credit support instruments enable APSES to offer energy-related products. Non-performance or non-payment under the original contract by our subsidiaries would require us to perform under the guarantee or surety bond. No liability is currently recorded on the Consolidated Balance Sheets related to Pinnacle West’s current outstanding guarantees on behalf of our subsidiaries. At December 31, 2009, we had no guarantees that were in default. Our guarantees have no recourse or collateral provisions to allow us to recover amounts paid under the guarantees. The amounts and approximate terms of our guarantees and surety bonds for each subsidiary at December 31, 2009 are as follows (dollars in millions):

	Guarantees		Surety Bonds	
	Amount	Term (in years)	Amount	Term (in years)
APSES	$ 14	1	$ 19	1
APS	3	1	8	1
Total	$ 17		$ 27	

APS has entered into various agreements that require letters of credit for financial assurance purposes. At December 31, 2009, approximately $227 million of letters of credit were outstanding to support existing pollution control bonds of approximately $224 million. The letters of credit are available to fund the payment of principal and interest of such debt obligations and expire in 2010. APS has also entered into approximately $70 million of letters of credit to support certain equity lessors in the Palo Verde sale leaseback transactions (see Notes 9 and 20 for further details on the Palo Verde sale leaseback transactions). These letters of credit expire in 2010. APS intends to provide from either existing or new facilities for the extension, renewal or substitution of the letters of credit to the extent required.

We enter into agreements that include indemnification provisions relating to liabilities arising from or related to certain of our agreements; most significantly, APS has agreed to indemnify the equity participants and other parties in the Palo Verde sale leaseback transactions with respect to certain tax matters. Generally, a maximum obligation is not explicitly stated in the indemnification provisions and, therefore, the overall maximum amount of the obligation under such indemnification provisions cannot be reasonably estimated. Based on historical experience and evaluation of the specific indemnities, we do not believe that any material loss related to such indemnification provisions is likely.

22. Discontinued Operations

SunCor (real estate segment) **—** In 2007, 2008 and 2009, SunCor sold properties that are required to be reported as discontinued operations on Pinnacle West's Consolidated Statements of Income. Prior year income statement amounts related to these properties were reclassified from operations to discontinued operations. The asset sales resulted in no gain for 2009, a $24 million after tax gain in 2008 and a $10 million after tax gain in 2007. In addition, see Note 23 — Real Estate Impairment Charge.

Silverhawk — Includes activities related to the resolution of certain tax issues in 2008 associated with the sale of Silverhawk in 2005.

APSES (other) **—** Includes activities related to the APSES discontinued commodity-related energy services in 2008, and the associated revenues and costs that were reclassified to discontinued operations in 2008 and 2007.

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table provides revenue, income (loss) before income taxes and income (loss) after taxes classified as discontinued operations in Pinnacle West's Consolidated Statements of Income for the years ended December 31, 2009, 2008 and 2007 (dollars in millions):

	2009	2008	2007
Revenue:			
SunCor — commercial operations	$ 13	$ 57	$ 29
Other (primarily APSES) (a)	—	67	204
Total revenue	$ 13	$ 124	$ 233
Income (loss) before taxes:			
SunCor — commercial operations	$ (23)	$ 8	$ 12
Silverhawk	—	13	—
Other (primarily APSES)	—	(3)	(1)
Total income before taxes	$ (23)	$ 18	$ 11
Income (loss) after taxes:			
SunCor — commercial operations	$ (14)	$ 6	$ 8
Silverhawk	—	8	—
Other (primarily APSES)	—	(3)	(1)
Total income after taxes (b)	$ (14)	$ 11	$ 7

(a) APSES discontinued its commodity-related energy services in 2008 and the associated revenues and costs were reclassified to discontinued operations in 2008 and 2007.

(b) Includes a tax benefit recognized by the parent company in accordance with an intercompany tax sharing agreement of $9 million for the year ended December 31, 2009.

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

23. Real Estate Impairment Charge

During the first quarter of 2009, SunCor undertook and completed a review of its assets and strategies within its various markets as a result of the then current and anticipated continuing distressed conditions in real estate and credit markets. Based on the results of the review, on March 27, 2009, SunCor's Board of Directors authorized a series of strategic transactions to dispose of SunCor's homebuilding operations, master-planned communities, land parcels, commercial assets and golf courses in order to reduce SunCor's outstanding debt. During 2009 we recorded impairment charges of approximately $266 million pre-tax and $161 million after income taxes. Of the total $266 million impairment charge for 2009, approximately $244 million related to held and used assets as of December 31, 2009, and $22 million is included in discontinued operations and is related to assets sold during 2009. We believe that most of the assets to be sold, which are classified as "Real Estate Investments — Net" on the Consolidated Balance Sheets, do not meet the held for sale and discontinued operations criteria as of December 31, 2009 because of the uncertainties related to the current market conditions and obtaining necessary approvals, we cannot assert that a sale of these properties within the upcoming year is probable. We recorded pre-tax impairment charges in 2008 of approximately $53 million or $32 million after income taxes. The detail of the impairment charge is as follows (dollars in millions, and before income taxes):

	2009	2008
Homebuilding and master-planned communities	$ 161	$ 18
Land parcels and commercial assets	82	—
Golf courses	15	—
Subtotal	258	18
Discontinued operations	22	35
Less noncontrolling interests	(14)	—
Total	$ 266	$ 53

We estimate the fair value of our real estate assets primarily based on either the future cash flows that we estimate will be generated by each asset discounted at a rate we believe market participants would use, on independent appraisals, or other market information, including comparison to comparable properties. Our impairment assessments and fair value determinations require significant judgment regarding key assumptions such as future sales prices, future construction and land development costs, future sales timing, and discount rates. The assumptions are specific to each project and may vary among projects. The weighted average discount rates we used to estimate fair values during 2009 ranged from 11% to 29%. Due to the judgment and assumptions applied in the estimation process, with regard to impairments, it is possible that actual results could differ from those estimates.

SunCor also recorded in 2009 $8 million of pretax severance and other charges relating to these actions. Pinnacle West does not expect that any of the impairment charges will result in future cash expenditures, other than immaterial disposition costs.

See Notes 5 and 6 for a discussion of SunCor's debt and liquidity matters, and the impact of impairment charges on the SunCor Secured Revolver.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING (ARIZONA PUBLIC SERVICE COMPANY)

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f), for Arizona Public Service Company. Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control — Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2009. The effectiveness of our internal control over financial reporting as of December 31, 2009 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is included herein and also relates to the Company's financial statements.

February 19, 2010

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholder of
Arizona Public Service Company
Phoenix, Arizona

We have audited the accompanying balance sheets of Arizona Public Service Company (the "Company") as of December 31, 2009 and 2008, and the related statements of income, changes in common stock equity, and cash flows for each of the three years in the period ended December 31, 2009. Our audits also included the financial statement schedule listed in the Index at Item 15. We also have audited the Company's internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and financial statement schedule and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2009 and 2008and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ DELOITTE & TOUCHE LLP
Phoenix, Arizona
February 19, 2010

ARIZONA PUBLIC SERVICE COMPANY
STATEMENTS OF INCOME
(dollars in thousands)

	Year Ended December 31,		
	2009	2008	2007
ELECTRIC OPERATING REVENUES	$ 3,149,500	$ 3,133,496	$ 2,936,277
OPERATING EXPENSES			
Fuel and purchased power	1,178,620	1,289,883	1,151,392
Operations and maintenance	852,563	787,270	710,077
Depreciation and amortization	399,455	383,098	365,430
Income taxes (Notes 4 and S-1)	158,661	113,799	155,735
Other taxes	122,358	124,046	127,648
Total	2,711,657	2,698,096	2,510,282
OPERATING INCOME	437,843	435,400	425,995
OTHER INCOME (DEDUCTIONS)			
Income taxes (Notes 4 and S-1)	6,087	6,538	4,578
Allowance for equity funds used during construction	14,999	18,636	21,195
Other income (Note S-3)	10,808	6,231	16,727
Other expense (Note S-3)	(18,001)	(30,569)	(21,630)
Total	13,893	836	20,870
INTEREST DEDUCTIONS			
Interest on long-term debt	199,907	170,071	161,030
Interest on short-term borrowings	6,315	13,432	9,564
Debt discount, premium and expense	4,675	4,702	4,639
Allowance for borrowed funds used during construction	(10,386)	(14,313)	(12,308)
Total	200,511	173,892	162,925
NET INCOME	$ 251,225	$ 262,344	$ 283,940

See Notes to Pinnacle West's Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Financial Statements.

ARIZONA PUBLIC SERVICE COMPANY
BALANCE SHEETS
(dollars in thousands)

	December 31, 2009	December 31, 2008
ASSETS		
UTILITY PLANT (Notes 1, 6, 9 and 10)		
Electric plant in service and held for future use	$ 12,781,256	$ 12,198,010
Less accumulated depreciation and amortization	4,326,908	4,129,958
Net	8,454,348	8,068,052
Construction work in progress	460,748	571,977
Intangible assets, net of accumulated amortization of $293,450 and $280,633	164,183	131,243
Nuclear fuel, net of accumulated amortization of $64,544 and $55,343	118,243	89,323
Total utility plant	9,197,522	8,860,595
INVESTMENTS AND OTHER ASSETS		
Nuclear decommissioning trust (Note 12)	414,576	343,052
Assets from risk management activities (Note 18)	28,855	33,675
Other assets	68,839	60,604
Total investments and other assets	512,270	437,331
CURRENT ASSETS		
Cash and cash equivalents	120,798	71,544
Customer and other receivables	280,226	262,177
Accrued utility revenues	110,971	100,089
Allowance for doubtful accounts	(6,063)	(3,155)
Materials and supplies (at average cost)	176,020	173,252
Fossil fuel (at average cost)	39,245	29,752
Assets from risk management activities (Note 18)	50,619	32,181
Deferred income taxes (Notes 4 and S-1)	53,990	79,694
Other	25,724	19,866
Total current assets	851,530	765,400
DEFERRED DEBITS		
Deferred fuel and purchased power regulatory asset (Notes 1 and 3)	—	7,984
Other regulatory assets (Notes 1, 3, 4 and S-1)	781,714	787,506
Income tax receivable	65,498	—
Unamortized debt issue costs	20,959	22,026
Other	73,909	82,735
Total deferred debits	942,080	900,251
TOTAL ASSETS	$ 11,503,402	$ 10,963,577

See Notes to Pinnacle West’s Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company’s Financial Statements.

ARIZONA PUBLIC SERVICE COMPANY
BALANCE SHEETS
(dollars in thousands)

	December 31, 2009	December 31, 2008
LIABILITIES AND EQUITY		
CAPITALIZATION		
Common stock	$ 178,162	$ 178,162
Additional paid-in capital	2,126,863	2,117,789
Retained earnings	1,250,126	1,168,901
Accumulated other comprehensive income (loss):		
Pension and other postretirement benefits (Note 8)	(29,114)	(26,960)
Derivative instruments	(80,682)	(98,742)
Common stock equity	3,445,355	3,339,150
Long-term debt less current maturities (Note 6)	3,180,406	2,850,242
Total capitalization	6,625,761	6,189,392
CURRENT LIABILITIES		
Short-term borrowings	—	521,684
Current maturities of long-term debt (Note 6)	197,176	874
Accounts payable	213,833	233,529
Accrued taxes	158,051	219,129
Accrued interest	54,099	39,860
Customer deposits	70,780	77,452
Liabilities from risk management activities (Note 18)	55,908	69,585
Other	124,995	105,655
Total current liabilities	874,842	1,267,768
DEFERRED CREDITS AND OTHER		
Deferred income taxes (Notes 4 and S-1)	1,582,945	1,401,412
Deferred fuel and purchased power regulatory liability (Notes 1 and 3)	87,291	—
Other regulatory liabilities (Notes 1, 3, 4, and S-1)	679,072	587,586
Liability for asset retirements (Note 12)	301,783	275,970
Liabilities for pension and other postretirement benefits (Note 8)	766,378	635,327
Customer advances for construction	136,595	132,023
Liabilities from risk management activities (Note 18)	62,443	126,532
Coal mine reclamation	92,060	91,201
Unrecognized tax benefits	140,638	67,846
Other	153,594	188,520
Total deferred credits and other	4,002,799	3,506,417
COMMITMENTS AND CONTINGENCIES (SEE NOTES)		
TOTAL LIABILITIES AND EQUITY	$ 11,503,402	$ 10,963,577

See Notes to Pinnacle West's Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Financial Statements.

ARIZONA PUBLIC SERVICE COMPANY
STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Year Ended December 31,		
	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 251,225	$ 262,344	$ 283,940
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization including nuclear fuel	438,284	416,709	395,890
Deferred fuel and purchased power	(51,742)	(80,183)	(196,136)
Deferred fuel and purchased power amortization	147,018	183,126	231,106
Deferred fuel and purchased power regulatory disallowance	—	—	14,370
Allowance for equity funds used during construction	(14,999)	(18,636)	(21,195)
Deferred income taxes	192,914	145,157	(44,478)
Change in mark-to-market valuations	(6,939)	7,792	(6,758)
Changes in current assets and liabilities:			
Customer and other receivables	2,603	40,782	19,825
Accrued utility revenues	(10,882)	6,784	4,057
Materials, supplies and fossil fuel	(12,261)	(25,453)	(29,776)
Other current assets	(9,427)	128	(8,056)
Accounts payable	(22,129)	(5,915)	(2,797)
Accrued taxes	(61,078)	(12,377)	13,802
Other current liabilities	26,907	20,527	20,231
Change in margin and collateral accounts — assets	(13,206)	17,850	11,252
Change in margin and collateral accounts — liabilities	35,654	(132,416)	27,624
Change in regulatory liabilities	110,642	(12,129)	7,541
Change in long-term income tax receivable	(132,379)	—	—
Change in unrecognized tax benefits	137,478	(92,064)	27,773
Change in other long-term assets	(53,734)	14,340	(23,577)
Change in other long-term liabilities	4,770	48,894	41,177
Net cash flow provided by operating activities	958,719	785,260	765,815
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(754,301)	(910,189)	(924,166)
Contributions in aid of construction	53,525	60,292	41,809
Capitalized interest	(10,386)	(14,313)	(12,308)
Proceeds from sale of investment securities	—	—	69,225
Purchases of investment securities	—	—	(36,525)
Proceeds from nuclear decommissioning trust sales	441,242	317,619	259,026
Investment in nuclear decommissioning trust	(463,033)	(338,361)	(279,768)
Other	(4,667)	5,517	1,211
Net cash flow used for investing activities	(737,620)	(879,435)	(881,496)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of long-term debt	863,780	—	—
Short-term borrowings — net	(521,684)	303,684	218,000
Equity infusion	—	7,601	39,548
Dividends paid on common stock	(170,000)	(170,000)	(170,000)
Repayment and reacquisition of long-term debt	(343,941)	(27,717)	(1,586)
Net cash flow provided by (used for) financing activities	(171,845)	113,568	85,962
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	49,254	19,393	(29,719)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	71,544	52,151	81,870
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 120,798	$ 71,544	$ 52,151
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Income taxes, net of refunds	$ 13,555	$ 56,728	$ 186,183
Interest, net of amounts capitalized	$ 181,597	$ 167,592	$ 165,279

See Notes to Pinnacle West's Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Financial Statements.

ARIZONA PUBLIC SERVICE COMPANY
STATEMENTS OF CHANGES IN COMMON STOCK EQUITY
(dollars in thousands)

	Year Ended December 31, 2009	2008	2007
COMMON STOCK	$ 178,162	$ 178,162	$ 178,162
ADDITIONAL PAID-IN CAPITAL			
Balance at beginning of year	2,117,789	2,105,466	2,065,918
Equity Infusion	—	7,601	39,548
Other	9,074	4,722	—
Balance at end of year	2,126,863	2,117,789	2,105,466
RETAINED EARNINGS			
Balance at beginning of year	1,168,901	1,076,557	960,405
Net income	251,225	262,344	283,940
Common stock dividends	(170,000)	(170,000)	(170,000)
Cumulative effect of change in accounting for income taxes (Note S-1)	—	—	2,212
Balance at end of year	1,250,126	1,168,901	1,076,557
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)			
Balance at beginning of year	(125,702)	(8,744)	2,988
Pension and other postretirement benefits (Note 8):			
Unrealized actuarial loss, net of tax benefit of $(2,938), $(5,075) and $(15,126)	(4,571)	(7,597)	(23,304)
Prior service cost, net of tax benefit of $(463)	—	—	(713)
Amortization to income:			
Actuarial loss, net of tax benefit of $1,387, $1,393 and $1,238	2,126	2,130	1,908
Prior service cost, net of tax benefit of $190, $189 and $212	291	289	327
Derivative instruments:			
Net unrealized gain (loss), net of tax expense (benefit) of $(61,317), $(56,149) and $1,369	(94,008)	(85,670)	2,040
Reclassification of net realized (gains) losses to income, net of tax (expense) benefit of $73,261, $(16,890) and $5,164	112,068	(26,110)	8,010
Balance at end of year	(109,796)	(125,702)	(8,744)
TOTAL COMMON STOCK EQUITY	$ 3,445,355	$ 3,339,150	$ 3,351,441
COMPREHENSIVE INCOME			
Net income	$ 251,225	$ 262,344	$ 283,940
Other comprehensive income (loss)	15,906	(116,958)	(11,732)
Total comprehensive income	$ 267,131	$ 145,386	$ 272,208

See Notes to Pinnacle West's Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Financial Statements.

Certain notes to Arizona Public Service Company's financial statements are combined with the notes to Pinnacle West Capital Corporation's consolidated financial statements. Listed below are the consolidated notes to Pinnacle West Capital Corporation's consolidated financial statements, the majority of which also relate to Arizona Public Service Company's financial statements. In addition, listed below are the supplemental notes which are required disclosures for Arizona Public Service Company and should be read in conjunction with Pinnacle West Capital Corporation's Consolidated Notes.

ARIZONA PUBLIC SERVICE COMPANY
NOTES TO FINANCIAL STATEMENTS

S-1. Income Taxes

APS is included in Pinnacle West's consolidated tax return. However, when Pinnacle West allocates income taxes to APS, it is done based upon APS' taxable income computed on a stand-alone basis, in accordance with the tax sharing agreement.

Certain assets and liabilities are reported differently for income tax purposes than they are for financial statements purposes. The tax effect of these differences is recorded as deferred taxes. We calculate deferred taxes using the current income tax rates.

APS has recorded a regulatory asset and a regulatory liability related to income taxes on its Balance Sheets in accordance with accounting guidance for regulated operations. The regulatory asset is for certain temporary differences, primarily the allowance for equity funds used during construction. The regulatory liability relates to deferred taxes resulting primarily from pension and other postretirement benefits. APS amortizes these amounts as the differences reverse.

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits, excluding interest and penalties, at the beginning and end of the period that are included in accrued taxes and unrecognized tax benefits on the Balance Sheets (dollars in thousands):

	2009	2008
Total unrecognized tax benefits, January 1	$ 62,409	$ 154,473
Additions for tax positions of the current year	44,094	12,893
Additions for tax positions of prior years	98,269	32,481
Reductions for tax positions of prior years for:		
Changes in judgment	—	(4,547)
Settlements with taxing authorities	(4,089)	(35,812)
Lapses of applicable statute of limitations	(796)	(97,079)
Total unrecognized tax benefits, December 31	$ 199,887	$ 62,409

Included in both balances of unrecognized tax benefits at December 31, 2009 and 2008 were approximately $15 million of tax positions that, if recognized, would decrease our effective tax rate.

As of the balance sheet date, the tax year ended December 31, 2005 and all subsequent tax years remain subject to examination by the IRS. With few exceptions, we are no longer subject to state income tax examinations by tax authorities for years before 1999.

Within the next 12 months, it is reasonably possible that the Company will reach a settlement with the IRS with regard to the examination of tax returns for years ended December 31, 2005 through 2007. As a result of these anticipated settlements, and the expiration of certain statutes of limitations, the Company believes that it is reasonably possible that unrecognized tax benefits could be reduced by an amount up to $70 million.

We reflect interest and penalties, if any, on unrecognized tax benefits in the statement of income as income tax expense. The amount of interest recognized in the Statement of Income related to unrecognized tax benefits was a pre-tax expense of $2 million for 2009 and a pre-tax benefit of $51 million for 2008.

**ARIZONA PUBLIC SERVICE COMPANY
NOTES TO FINANCIAL STATEMENTS**

The total amount of accrued liabilities for interest recognized in the Balance Sheets related to unrecognized tax benefits was $8 million as of December 31, 2009 and $5 million as of December 31, 2008. To the extent that matters are settled favorably, this amount could reverse and decrease our effective tax rate. Additionally, as of December 31, 2009, we have recognized $1 million of interest expense to be paid on the underpayment of income taxes for certain adjustments that we have filed, or will file, with the IRS.

The components of APS' income tax expense are as follows (dollars in thousands):

	Year Ended December 31,		
	2009	2008	2007
Current:			
Federal	$ (8,667)	$ (54,719)	$ 168,607
State	(31,673)	16,823	27,028
Total current	(40,340)	(37,896)	195,635
Deferred	192,914	145,157	(44,478)
Total income tax expense	$ 152,574	$ 107,261	$ 151,157

On the APS Statements of Income, federal and state income taxes are allocated between operating income and other income.

ARIZONA PUBLIC SERVICE COMPANY
NOTES TO FINANCIAL STATEMENTS

The following chart compares APS' pretax income at the 35% federal income tax rate to income tax expense (dollars in thousands):

	Year Ended December 31,		
	2009	2008	2007
Federal income tax expense at 35% statutory rate	$ 141,330	$ 129,362	$ 152,284
Increases (reductions) in tax expense resulting from:			
State income tax net of federal income tax benefit	16,691	14,956	17,540
Credits and favorable adjustments related to prior years resolved in current year	—	(28,873)	(11,432)
Medicare Subsidy Part-D	(2,025)	(1,921)	(3,100)
Allowance for equity funds used during construction (see Note 1)	(4,265)	(5,755)	(6,900)
Other	843	(508)	2,765
Income tax expense	$ 152,574	$ 107,261	$ 151,157

The following table shows the net deferred income tax liability recognized on the APS Balance Sheets (dollars in thousands):

	December 31,	
	2009	2008
Current asset	$ 53,990	$ 79,694
Long-term liability	(1,582,945)	(1,401,412)
Accumulated deferred income taxes — net	$ (1,528,955)	$ (1,321,718)

ARIZONA PUBLIC SERVICE COMPANY
NOTES TO FINANCIAL STATEMENTS

The components of the net deferred income tax liability were as follows (dollars in thousands):

	December 31, 2009	December 31, 2008
DEFERRED TAX ASSETS		
Regulatory liabilities:		
Asset retirement obligation	$ 213,814	$ 194,326
Deferred fuel and purchased power	34,463	—
Other	21,613	13,986
Risk management activities	87,404	132,383
Pension and other postretirement liabilities	288,769	265,156
Deferred gain on Palo Verde Unit 2 sale-leaseback	11,836	12,665
Other	92,580	119,447
Total deferred tax assets	750,479	737,963
DEFERRED TAX LIABILITIES		
Plant-related	(1,951,262)	(1,709,872)
Risk management activities	(20,863)	(20,732)
Regulatory assets:		
Allowance for equity funds used during construction	(23,285)	(20,174)
Deferred fuel and purchased power — mark-to-market	(16,167)	(46,593)
Pension and other postretirement benefits	(210,080)	(186,916)
Other	(57,210)	(58,519)
Other	(567)	(16,875)
Total deferred tax liabilities	(2,279,434)	(2,059,681)
Accumulated deferred income taxes — net	$ (1,528,955)	$ (1,321,718)

ARIZONA PUBLIC SERVICE COMPANY
NOTES TO FINANCIAL STATEMENTS

S-2. Selected Quarterly Financial Data (Unaudited)

Quarterly financial information for 2009 and 2008 is as follows (dollars in thousands):

	2009 Quarter Ended,				2009
	March 31,	June 30,	September 30,	December 31,	Total
Operating revenues	$ 602,660	$ 812,587	$ 1,083,825	$ 650,428	$ 3,149,500
Operations and maintenance	201,100	221,128	203,446	226,889	852,563
Operating income	29,125	122,385	245,104	41,229	437,843
Net income	(15,479)	78,544	197,065	(8,905)	251,225

	2008 Quarter Ended,				2008
	March 31,	June 30,	September 30,	December 31,	Total
Operating revenues	$ 625,576	$ 831,083	$ 1,042,084	$ 634,753	$ 3,133,496
Operations and maintenance	188,135	187,819	206,526	204,790	787,270
Operating income	33,628	163,860	202,655	35,257	435,400
Net income	(6,364)	125,382	159,754	(16,428)	262,344

S-3. Other Income and Other Expense

The following table provides detail of APS' other income and other expense for 2009, 2008 and 2007 (dollars in thousands):

	2009	2008	2007
Other income:			
Interest income	$ 502	$ 3,863	$ 10,961
SO2 emission allowance sales and other (a)	1,439	392	1,001
Investment gains — net	6,673	—	2,429
Miscellaneous	2,194	1,976	2,336
Total other income	$ 10,808	$ 6,231	$ 16,727
Other expense:			
Non-operating costs (a)	$ (7,368)	$ (10,538)	$ (12,712)
Asset dispositions	(656)	(5,779)	(1,981)
Investment losses — net	—	(9,438)	—
Miscellaneous	(9,977)	(4,814)	(6,937)
Total other expense	$ (18,001)	$ (30,569)	$ (21,630)

(a) As defined by the FERC, includes below-the-line non-operating utility income and expense (items excluded from utility rate recovery).

PINNACLE WEST CAPITAL CORPORATION HOLDING COMPANY
SCHEDULE I — CONDENSED FINANCIAL INFORMATION OF REGISTRANT
CONDENSED STATEMENTS OF INCOME
(in thousands)

	Year Ended December 31,		
	2009	**2008**	**2007(a)**
Operating revenues	$ 1,156	$ 52	$ 6,708
Operating expenses			
Fuel and purchased power	—	(19,970)	(35,541)
Other operating expenses	11,004	9,016	5,659
Total	11,004	(10,954)	(29,882)
Operating income	(9,848)	11,006	36,590
Other			
Equity in earnings of subsidiaries	(37,214)	226,893	287,078
Other income	2,776	1,248	225
Total	(34,438)	228,141	287,303
Interest expense	14,129	17,550	17,190
Income from continuing operations	(58,415)	221,597	306,703
Income tax benefit (b)	(117,792)	(12,374)	(440)
Income from continuing operations — net of income taxes	59,377	233,971	307,143
Income from discontinued operations — net of income taxes	8,953	8,154	—
Net income	$ 68,330	$ 242,125	$ 307,143

(a) Pinnacle West Marketing & Trading began operations in early 2007. These operations were conducted by a division of Pinnacle West through the end of 2006. By the end of 2008, substantially all the contracts were transferred to APS or expired.

(b) In 2009, this is primarily the income tax benefit related to SunCor's real estate impairment charges.

PINNACLE WEST CAPITAL CORPORATION HOLDING COMPANY
SCHEDULE I — CONDENSED FINANCIAL INFORMATION OF REGISTRANT
CONDENSED BALANCE SHEETS
(in thousands)

	Balance at December 31, 2009	Balance at December 31, 2008
Assets		
Current assets		
Cash and cash equivalents	$ 17,284	$ 6,262
Customer and other receivables	77,570	65,576
Income tax receivable	64,317	—
Other current assets	49	367
Total current assets	159,220	72,205
Investments and other assets		
Investments in subsidiaries	3,490,148	3,709,099
Deferred income taxes	89,842	—
Other assets	22,520	20,029
Total investments and other assets	3,602,510	3,729,128
Total Assets	$ 3,761,730	$ 3,801,333
Liabilities and Common Stock Equity		
Current liabilities		
Accounts payable	$ 10,923	$ 6,310
Accrued taxes	5,157	(96,188)
Short-term borrowings	149,086	144,000
Other current liabilities	9,950	8,027
Total current liabilities	175,116	62,149
Long-term debt less current maturities	175,000	175,000
Deferred credits and other		
Deferred income taxes	—	18,027
Pension and other postretirement liabilities	29,343	27,300
Other	36,591	25,489
Total deferred credits and other	65,934	70,816
Common stock equity		
Common stock	2,149,483	2,148,469
Accumulated other comprehensive loss	(131,587)	(146,698)
Retained earnings	1,298,213	1,444,208
Total Pinnacle West Shareholders' equity	3,316,109	3,445,979
Noncontrolling real estate interests	29,571	47,389
Total Equity	3,345,680	3,493,368
Total Liabilities and Common Stock Equity	$ 3,761,730	$ 3,801,333

PINNACLE WEST CAPITAL CORPORATION HOLDING COMPANY
SCHEDULE I — CONDENSED FINANCIAL INFORMATION OF REGISTRANT
CONDENSED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2009	**2008**	**2007 (a)**
Cash flows from operating activities			
Net Income	$ 68,330	$ 242,125	$ 307,143
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in earnings of subsidiaries — net	37,214	(226,893)	(287,078)
Depreciation and amortization	127	210	320
Deferred income taxes	(106,536)	31,954	(24,192)
Change in mark-to-market valuations	—	(19,975)	53,228
Customer and other receivables	(2,303)	38,938	112,543
Accounts payable	466	(14,134)	(57,978)
Accrued taxes and income tax receivables — net	44,625	(5,230)	25,127
Change in margin and collateral accounts — net	—	—	(11,602)
Dividends received from subsidiaries	170,000	170,000	180,000
Other net	(2,379)	(7,914)	(104,968)
Net cash flow provided by operating activities	209,544	209,081	192,543
Cash flows from investing activities			
Investments in subsidiaries	(4,967)	(18,765)	(83,993)
Repayments of loans from subsidiaries	25,240	10,194	14,996
Advances of loans to subsidiaries	(21,587)	(22,554)	(19,796)
Net cash flow used for investing activities	(1,314)	(31,125)	(88,793)
Cash flows from financing activities			
Short-term borrowings and payments — net	4,566	28,729	87,371
Dividends paid on common stock	(205,076)	(204,247)	(210,473)
Repayment of long-term debt	—	—	(115)
Common stock equity issuance	3,302	3,687	19,593
Net cash flow used for financing activities	(197,208)	(171,831)	(103,624)
Net increase in cash and cash equivalents	11,022	6,125	126
Cash and cash equivalents at beginning of year	6,262	137	11
Cash and cash equivalents at end of year	$ 17,284	$ 6,262	$ 137

(a) Pinnacle West Marketing & Trading began operations in early 2007. These operations were conducted by a division of Pinnacle West through the end of 2006. By the end of 2008, substantially all the contracts were transferred to APS or expired.

PINNACLE WEST CAPITAL CORPORATION
SCHEDULE II — RESERVE FOR UNCOLLECTIBLES
(dollars in thousands)

Column A	Column B	Column C		Column D	Column E
		Additions			
Description	Balance at beginning of period	Charged to cost and expenses	Charged to other accounts	Deductions	Balance at end of period
Reserve for uncollectibles:					
2009	$ 3,383	$ 7,617	$ —	$ 4,847	$ 6,153
2008	4,782	6,177	—	7,576	3,383
2007	5,597	4,130	—	4,945	4,782

ARIZONA PUBLIC SERVICE COMPANY
SCHEDULE II — RESERVE FOR UNCOLLECTIBLES
(dollars in thousands)

Column A	Column B	Column C		Column D	Column E
		Additions			
Description	Balance at beginning of period	Charged to cost and expenses	Charged to other accounts	Deductions	Balance at end of period
Reserve for uncollectibles:					
2009	$ 3,155	$ 7,062	$ —	$ 4,154	$ 6,063
2008	4,265	5,924	—	7,034	3,155
2007	4,223	5,059	—	5,017	4,265

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

The term “disclosure controls and procedures” means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Securities Exchange Act of 1934 (the “Exchange Act”) (15 U.S.C. 78a *et seq* .) is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to a company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Pinnacle West’s management, with the participation of Pinnacle West’s Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of Pinnacle West’s disclosure controls and procedures as of December 31, 2009. Based on that evaluation, Pinnacle West’s Chief Executive Officer and Chief Financial Officer have concluded that, as of that date, Pinnacle West’s disclosure controls and procedures were effective.

APS’ management, with the participation of APS’ Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of APS’ disclosure controls and procedures as of December 31, 2009. Based on that evaluation, APS’ Chief Executive Officer and Chief Financial Officer have concluded that, as of that date, APS’ disclosure controls and procedures were effective.

(b) Management’s Annual Reports on Internal Control Over Financial Reporting

Reference is made to “Management’s Report on Internal Control Over Financial Reporting (Pinnacle West Capital Corporation)” on page 81 of this report and “Management’s Report on Internal Control Over Financial Reporting (Arizona Public Service Company)” on page 150 of this report.

(c) Attestation Reports of the Registered Public Accounting Firm

Reference is made to “Report of Independent Registered Public Accounting Firm” on page 82 of this report and “Report of Independent Registered Public Accounting Firm” on page 151 of this report on the internal control over financial reporting of Pinnacle West and APS, respectively.

(d) Changes In Internal Control Over Financial Reporting

The term “internal control over financial reporting” (defined in SEC Rule 13a-15(f)) refers to the process of a company that is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

No change in Pinnacle West's or APS' internal control over financial reporting occurred during the fiscal quarter ended December 31, 2009 that materially affected, or is reasonably likely to materially affect, Pinnacle West's or APS' internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE OF PINNACLE WEST

Reference is hereby made to "Information About Our Board and Corporate Governance," "Proposal 1 — Election of Directors" and to "Section 16(a) Beneficial Ownership Reporting Compliance" in the Pinnacle West Proxy Statement relating to the Annual Meeting of Shareholders to be held on May 19, 2010 (the "2010 Proxy Statement") and to the "Executive Officers of Pinnacle West" section in Part I of this report.

Pinnacle West has adopted a Code of Ethics for Financial Executives that applies to financial executives including Pinnacle West's Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer, Controller, Treasurer, and persons holding substantially equivalent positions at Pinnacle West's subsidiaries. The Code of Ethics for Financial Executives is posted on Pinnacle West's website at *www.pinnaclewest.com* . Pinnacle West intends to satisfy the requirements under Item 5.05 of Form 8-K regarding disclosure of amendments to, or waivers from, provisions of the Code of Ethics for Financial Executives by posting such information on Pinnacle West's website.

ITEM 11. EXECUTIVE COMPENSATION

Reference is hereby made to "Director Compensation," "Report of the Human Resources Committee," "Executive Compensation," "Overall Compensation Program" and "HR Committee Interlocks and Insider Participation" in the 2010 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Reference is hereby made to "Shares of Pinnacle West Stock Owned by Management and Large Shareholders" in the 2010 Proxy Statement.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth information as of December 31, 2009 with respect to our compensation plans and individual compensation arrangements under which our equity securities are authorized for issuance.

EQUITY COMPENSATION PLAN INFORMATION

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) [1]	Weighted-average exercise price of outstanding options, warrants and rights (b) [2]	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) [3]
Equity compensation plans approved by security holders	1,613,227	$ 41.20	6,436,058
Equity compensation plans not approved by security holders	—	—	—
Total	1,613,227	$ 41.20	6,436,058

1 This amount includes shares subject to outstanding options as well as shares subject to outstanding performance share awards and restricted stock unit awards at the maximum amount of shares issuable under such awards. However, payout of the performance share awards is contingent on the Company reaching certain levels of performance during a three-year performance period. If the performance criteria for these awards are not fully satisfied, the award recipient will receive less than the maximum number of shares available under these grants and may receive nothing from these grants.

2 The weighted average exercise price in this column does not take performance share awards or restricted stock unit awards into account, as those awards have no exercise price.

3 Awards can take the form of options, stock appreciation rights, restricted stock, performance shares, performance share units, performance cash, stock grants, dividend equivalents, and restricted stock units.

Equity Compensation Plans Approved By Security Holders

Amounts in column (a) in the table above include shares subject to awards outstanding under three equity compensation plans that were approved by our shareholders: (a) the Pinnacle West Capital Corporation 1994 Long-Term Incentive Plan, under which no new stock awards may be granted; (b) the Pinnacle West Capital Corporation 2002 Long-Term Incentive Plan (the “2002 Plan”), under which no new stock awards may be granted; and (c) the Pinnacle West Capital Corporation 2007 Long-Term Incentive Plan (the “2007 Plan”), which was approved by our shareholders at our 2007 annual meeting of shareholders. Although we cannot issue additional awards under the 2002 Plan, shares subject to outstanding awards under the 2002 Plan that expire or are cancelled or terminated will be available for issuance under the 2007 Plan. See Note 16 of the Notes to Consolidated Financial Statements for additional information regarding these plans.

Equity Compensation Plans Not Approved By Security Holders

The Company does not have any equity compensation plans under which shares can still be issued that have not been approved by shareholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Reference is hereby made to "Information About Our Board and Corporate Governance" and "Related Party Transactions" in the 2010 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Pinnacle West

Reference is hereby made to "Proposal 3 — Ratification of the Selection of Deloitte & Touche LLP as Independent Accountants of the Company — Audit Fees and — Pre-Approval Policies" in the 2010 Proxy Statement.

APS

The following fees were paid to APS' independent registered public accountants, Deloitte & Touche LLP, for the last two fiscal years:

Type of Service	2008	2009
Audit Fees (1)	$ 1,935,056	$ 1,698,325
Audit-Related Fees (2)	233,025	380,695
Tax Fees (3)	8,400	—

(1) The aggregate fees billed for services rendered for the audit of annual financial statements and for review of financial statements included in Reports on Form 10-Q.

(2) The aggregate fees billed for assurance services that are reasonably related to the performance of the audit or review of the financial statements that are not included in Audit Fees reported above, which primarily consist of fees for an International Financial Reporting Standards Assessment for work performed in 2009 and employee benefit plan audits for work performed in 2008 and 2009.

(3) The aggregate fees billed primarily for tax compliance and tax planning.

Pinnacle West's Audit Committee pre-approves each audit service and non-audit service to be provided by APS' registered public accounting firm. The Audit Committee has delegated to the Chairman of the Audit Committee the authority to pre-approve audit and non-audit services to be performed by the independent public accountants if the services are not expected to cost more than $50,000. The Chairman must report any pre-approval decisions to the Audit Committee at its next scheduled meeting. All of the services performed by Deloitte & Touche LLP for APS were pre-approved by the Audit Committee.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Financial Statements and Financial Statement Schedules

See the Index to Financial Statements and Financial Statement Schedule in Part II, Item 8.

Exhibits Filed

The documents listed below are being filed or have previously been filed on behalf of Pinnacle West or APS and are incorporated herein by reference from the documents indicated and made a part hereof. Exhibits not identified as previously filed are filed herewith.

Exhibit No.	*Registrant(s)*	*Description*	*Previously Filed as Exhibit:* [a]	*Date Filed*
3.1	Pinnacle West	Articles of Incorporation, restated as of May 21, 2008	3.1 to Pinnacle West/APS June 30, 2008 Form 10-Q Report, File Nos. 1-8962 and 1-4473	8-7-08
3.2	Pinnacle West	Pinnacle West Capital Corporation Bylaws, amended as of January 21, 2009	3.2 to Pinnacle West/APS December 31, 2008 Form 10-K Report, File Nos. 1-8962 and 1-4473	2-20-09
3.3	APS	Articles of Incorporation, restated as of May 25, 1988	4.2 to APS' Form 18 Registration Nos. 33-33910 and 33-55248 by means of September 24, 1993 Form 8-K Report, File No. 1-4473	9-29-93
3.4	APS	Arizona Public Service Company Bylaws, amended as of December 16, 2008	3.4 to Pinnacle West/APS December 31, 2008 Form 10-K, File No. 1-4473	2-20-09
4.1	Pinnacle West	Specimen Certificate of Pinnacle West Capital Corporation Common Stock, no par value	4.12 to Pinnacle West April 29, 2005 Form 8-K Report, File No. 1-8962	5-2-05

Exhibit No.	*Registrant(s)*	*Description*	*Previously Filed as Exhibit:* [a]	*Date Filed*
4.2	Pinnacle West APS	Indenture dated as of January 1, 1995 among APS and The Bank of New York Mellon, as Trustee	4.6 to APS' Registration Statement Nos. 33-61228 and 33-55473 by means of January 1, 1995 Form 8-K Report, File No. 1-4473	1-11-95
4.2a	Pinnacle West APS	First Supplemental Indenture dated as of January 1, 1995	4.4 to APS' Registration Statement Nos. 33-61228 and 33-55473 by means of January 1, 1995 Form 8-K Report, File No. 1-4473	1-11-95
4.3	Pinnacle West APS	Indenture dated as of November 15, 1996 between APS and The Bank of New York, as Trustee	4.5 to APS' Registration Statements Nos. 33-61228, 33-55473, 33-64455 and 333- 15379 by means of November 19, 1996 Form 8-K Report, File No. 1-4473	11-22-96
4.3a	Pinnacle West APS	First Supplemental Indenture dated as of November 15, 1996	4.6 to APS' Registration Statements Nos. 33-61228, 33-55473, 33-64455 and 333-15379 by means of November 19, 1996 Form 8-K Report, File No. 1-4473	11-22-96
4.3b	Pinnacle West APS	Second Supplemental Indenture dated as of April 1, 1997	4.10 to APS' Registration Statement Nos. 33-55473, 33-64455 and 333-15379 by means of April 7, 1997 Form 8-K Report, File No. 1-4473	4-9-97
4.3c	Pinnacle West APS	Third Supplemental Indenture dated as of November 1, 2002	10.2 to Pinnacle West's March 31, 2003 Form 10-Q Report, File No. 1-8962	5-15-03

Exhibit No.	***Registrant(s)***	***Description***	***Previously Filed as Exhibit:*** [a]	***Date Filed***
4.4	Pinnacle West	Indenture dated as of December 1, 2000 between the Company and The Bank of New York, as Trustee, relating to Senior Unsecured Debt Securities	4.1 to Pinnacle West's Registration Statement No. 333-52476	12-21-00
4.5	Pinnacle West	Indenture dated as of December 1, 2000 between the Company and The Bank of New York, as Trustee, relating to Subordinated Unsecured Debt Securities	4.2 to Pinnacle West's Registration Statement No. 333-52476	12-21-00
4.6	Pinnacle West APS	Indenture dated as of January 15, 1998 between APS 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	4.10 to APS' Registration Statement Nos. 333-15379 and 333-27551 by means of January 13, 1998 Form 8-K Report, File No. 1-4473	1-16-98
4.6a	Pinnacle West APS	Fifth Supplemental Indenture dated as of October 1, 2001	4.1 to APS' September 30, 2001 Form 10-Q, File No. 1-4473	11-6-01
4.6b	Pinnacle West APS	Sixth Supplemental Indenture dated as of March 1, 2002	4.1 to APS' Registration Statement Nos. 333-63994 and 333-83398 by means of February 26, 2002 Form 8-K Report, File No. 1-4473	2-28-02
4.6c	Pinnacle West APS	Seventh Supplemental Indenture dated as of May 1, 2003	4.1 to APS' Registration Statement No. 333-90824 by means of May 7, 2003 Form 8-K Report, File No. 1-4473	5-9-03

Exhibit No.	*Registrant(s)*	*Description*	*Previously Filed as Exhibit:* [a]	*Date Filed*
4.6d	Pinnacle West APS	Eighth Supplemental Indenture dated as of June 15, 2004	4.1 to APS' Registration Statement No. 333-106772 by means of June 24, 2004 Form 8-K Report, File No. 1-4473	6-28-04
4.6e	Pinnacle West APS	Ninth Supplemental Indenture dated as of August 15, 2005	4.1 to APS' Registration Statements Nos. 333-106772 and 333-121512 by means of August 17, 2005 Form 8-K Report, File No. 1-4473	8-22-05
4.6f	APS	Tenth Supplemental Indenture dated as of August 1, 2006	4.1 to APS' July 31, 2006 Form 8-K Report, File No. 1-4473	8-3-06
4.6g	Pinnacle West APS	Eleventh Supplemental Indenture dated as of February 26, 2009	4.1 to APS' February 23, 2009 Form 8-K Report, File Nos. 1-8962 and 1-4473	2-25-09
4.7	Pinnacle West	Amended and Restated Rights Agreement, dated as of March 26, 1999, between Pinnacle West Capital Corporation and BankBoston, N.A., as Rights Agent, including (i) as Exhibit A thereto the form of Amended Certificate of Designation of Series A Participating Preferred Stock of Pinnacle West Capital Corporation, (ii) as Exhibit B thereto the form of Rights Certificate and (iii) as Exhibit C thereto the Summary of Right to Purchase Preferred Shares	4.1 to Pinnacle West's March 22, 1999 Form 8-K Report, File No. 1-8962	4-19-99

Exhibit No.	*Registrant(s)*	*Description*	*Previously Filed as Exhibit:* [a]	*Date Filed*
4.7a	Pinnacle West	Amendment to Rights Agreement, effective as of January 1, 2002	4.1 to Pinnacle West's March 31, 2002 Form 10-Q Report, File No. 1-8962	5-15-02
4.8	Pinnacle West	Second Amended and Restated Investor's Advantage Plan dated as of June 23, 2004	4.4 to Pinnacle West's June 23, 2004 Form 8-K Report, File No. 1-8962	8-9-04
4.8a	Pinnacle West	Third Amended and Restated Investors Advantage Plan dated as of November 25, 2008	4.1 to Pinnacle West's Form 18 Registration Statement No. 333-155641	11-25-08
4.9	Pinnacle West	Agreement, dated March 29, 1988, relating to the filing of instruments defining the rights of holders of long-term debt not in excess of 10% of the Company's total assets	4.1 to Pinnacle West's 1987 Form 10-K Report, File No. 1-8962	3-30-88
4.9a	Pinnacle West APS	Agreement, dated March 21, 1994, relating to the filing of instruments defining the rights of holders of APS long-term debt not in excess of 10% of APS' total assets	4.1 to APS' 1993 Form 10-K Report, File No. 1-4473	3-30-94
10.1.1	Pinnacle West APS	Two separate Decommissioning Trust Agreements (relating to PVNGS Units 1 and 3, respectively), each dated July 1, 1991, between APS and Mellon Bank, N.A., as Decommissioning Trustee	10.2 to APS' September 30, 1991 Form 10-Q Report, File No. 1-4473	11-14-91

Exhibit No.	*Registrant(s)*	*Description*	*Previously Filed as Exhibit:* [a]	*Date Filed*
10.1.1a	Pinnacle West APS	Amendment No. 1 to Decommissioning Trust Agreement (PVNGS Unit 1), dated as of December 1, 1994	10.1 to APS' 1994 Form 10- K Report, File No. 1-4473	3-30-95
10.1.1b	Pinnacle West APS	Amendment No. 1 to Decommissioning Trust Agreement (PVNGS Unit 3), dated as of December 1, 1994	10.2 to APS' 1994 Form 10-K Report, File No. 1-4473	3-30-95
10.1.1c	Pinnacle West APS	Amendment No. 2 to APS Decommissioning Trust Agreement (PVNGS Unit 1) dated as of July 1, 1991	10.4 to APS' 1996 Form 10-K Report, File No. 1-4473	3-28-97
10.1.1d	Pinnacle West APS	Amendment No. 2 to APS Decommissioning Trust Agreement (PVNGS Unit 3) dated as of July 1, 1991	10.6 to APS' 1996 Form 10-K Report, File No. 1-4473	3-28-97
10.1.1e	Pinnacle West APS	Amendment No. 3 to the Decommissioning Trust Agreement (PVNGS Unit 1), dated as of March 18, 2002	10.2 to Pinnacle West's March 31, 2002 Form 10-Q Report, File No. 1-8962	5-15-02
10.1.1f	Pinnacle West APS	Amendment No. 3 to the Decommissioning Trust Agreement (PVNGS Unit 3), dated as of March 18, 2002	10.4 to Pinnacle West's March 2002 Form 10-Q Report, File No. 1-8962	5-15-02
10.1.1g	Pinnacle West APS	Amendment No. 4 to the Decommissioning Trust Agreement (PVNGS Unit 1), dated as of December 19, 2003	10.3 to Pinnacle West's 2003 Form 10-K Report, File No. 1-8962	3-15-04

Exhibit No.	*Registrant(s)*	*Description*	*Previously Filed as Exhibit:* [a]	*Date Filed*
10.1.1h	Pinnacle West APS	Amendment No. 4 to the Decommissioning Trust Agreement (PVNGS Unit 3), dated as of December 19, 2003	10.5 to Pinnacle West's 2003 Form 10-K Report, File No. 1-8962	3-15-04
10.1.1i	Pinnacle West APS	Amendment No. 5 to the Decommissioning Trust Agreement (PVNGS Unit 1), dated as of May 1, 2007	10.1 to Pinnacle West/APS March 31, 2007 Form 10-Q Report, File Nos. 1-8962 and 1-4473	5-9-07
10.1.1j	Pinnacle West APS	Amendment No. 5 to the Decommissioning Trust Agreement (PVNGS Unit 3), dated as of May 1, 2007	10.2 to Pinnacle West/APS March 31, 2007 Form 10-Q Report, File Nos. 1-8962 and 104473	5-9-07
10.1.2	Pinnacle West APS	Amended and Restated Decommissioning Trust Agreement (PVNGS Unit 2) dated as of January 31, 1992, among APS, Mellon Bank, N.A., as Decommissioning Trustee, and State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee under two separate Trust Agreements, each with a separate Equity Participant, and as Lessor under two separate Facility Leases, each relating to an undivided interest in PVNGS Unit 2	10.1 to Pinnacle West's 1991 Form 10-K Report, File No. 1-8962	3-26-92

Exhibit No.	*Registrant(s)*	*Description*	*Previously Filed as Exhibit:* [a]	*Date Filed*
10.1.2a	Pinnacle West APS	First Amendment to Amended and Restated Decommissioning Trust Agreement (PVNGS Unit 2), dated as of November 1, 1992	10.2 to APS' 1992 Form 10-K Report, File No. 1-4473	3-30-93
10.1.2b	Pinnacle West APS	Amendment No. 2 to Amended and Restated Decommissioning Trust Agreement (PVNGS Unit 2), dated as of November 1, 1994	10.3 to APS' 1994 Form 10-K Report, File No. 1-4473	3-30-95
10.1.2c	Pinnacle West APS	Amendment No. 3 to Amended and Restated Decommissioning Trust Agreement (PVNGS Unit 2), dated as of June 20, 1996	10.1 to APS' June 30, 1996 Form 10-Q Report, File No. 1-4473	8-9-96
10.1.2d	Pinnacle West APS	Amendment No. 4 to Amended and Restated Decommissioning Trust Agreement (PVNGS Unit 2) dated as of December 16, 1996	APS 10.5 to APS' 1996 Form 10-K Report, File No. 1-4473	3-28-97
10.1.2e	Pinnacle West APS	Amendment No. 5 to the Amended and Restated Decommissioning Trust Agreement (PVNGS Unit 2), dated as of June 30, 2000	10.1 to Pinnacle West's March 31, 2002 Form 10-Q Report, File No. 1-8962	5-15-02
10.1.2f	Pinnacle West APS	Amendment No. 6 to the Amended and Restated Decommissioning Trust Agreement (PVNGS Unit 2), dated as of March 18, 2002	10.3 to Pinnacle West's March 31, 2002 Form 10-Q Report, File No. 1-8962	5-15-02

Exhibit No.	*Registrant(s)*	*Description*	*Previously Filed as Exhibit:* [a]	*Date Filed*
10.1.2g	Pinnacle West APS	Amendment No. 7 to the Amended and Restated Decommissioning Trust Agreement (PVNGS Unit 2), dated as of December 19, 2003	10.4 to Pinnacle West's 2003 Form 10-K Report, File No. 1-8962	3-15-04
10.1.2h	Pinnacle West APS	Amendment No. 8 to the Amended and Restated Decommissioning Trust Agreement (PVNGS Unit 2), dated as of April 1, 2007	10.1.2h to Pinnacle West's 2007 Form 10-K Report, File No. 1-8962	2-27-08
10.2.1 [b]	Pinnacle West APS	Arizona Public Service Company Deferred Compensation Plan, as restated, effective January 1, 1984, and the second and third amendments thereto, dated December 22, 1986, and December 23, 1987 respectively	10.4 to APS' 1988 Form 10-K Report, File No. 1-4473	3-8-89
10.2.1a [b]	Pinnacle West APS	Third Amendment to the Arizona Public Service Company Deferred Compensation Plan, effective as of January 1, 1993	10.3A to APS' 1993 Form 10-K Report, File No. 1-4473	3-30-94
10.2.1b [b]	Pinnacle West APS	Fourth Amendment to the Arizona Public Service Company Deferred Compensation Plan effective as of May 1, 1993	10.2 to APS' September 30, 1994 Form 10-Q Report, File No. 1-4473	11-10-94

Exhibit No.	*Registrant(s)*	*Description*	*Previously Filed as Exhibit:* [a]	*Date Filed*
10.2.1c [b]	Pinnacle West APS	Fifth Amendment to the Arizona Public Service Company Deferred Compensation Plan effective January 1, 1997	10.3A to APS' 1996 Form 10-K Report, File No. 1-4473	3-28-97
10.2.1d [b]	Pinnacle West APS	Sixth Amendment to the Arizona Public Service Company Deferred Compensation Plan effective January 1, 2001	10.8A to Pinnacle West's 2000 Form 10-K Report, File No. 1-8962	3-14-01
10.2.2 [b]	Pinnacle West APS	Directors' Deferred Compensation Plan, as restated, effective January 1, 1986	10.1 to APS' June 30, 1986 Form 10-Q Report, File No. 1-4473	8-13-86
10.2.2a [b]	Pinnacle West APS	Second Amendment to the Arizona Public Service Company Directors' Deferred Compensation Plan, effective as of January 1, 1993	10.2A to APS' 1993 Form 10-K Report, File No. 1-4473	3-30-94
10.2.2b [b]	Pinnacle West APS	Third Amendment to the Arizona Public Service Company Directors' Deferred Compensation Plan, effective as of May 1, 1993	10.1 to APS' September 30, 1994 Form 10-Q Report, File No. 1-4473	11-10-94
10.2.2c [b]	Pinnacle West APS	Fourth Amendment to the Arizona Public Service Company Directors Deferred Compensation Plan, effective as of January 1, 1999	10.8A to Pinnacle West's 1999 Form 10-K Report, File No. 1-8962	3-30-00

Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: [a]	Date Filed
10.2.3 [b]	Pinnacle West APS	Trust for the Pinnacle West Capital Corporation, Arizona Public Service Company and SunCor Development Company Deferred Compensation Plans dated August 1, 1996	10.14A to Pinnacle West's 1999 Form 10-K Report, File No. 1-8962	3-30-00
10.2.3a [b]	Pinnacle West APS	First Amendment dated December 7, 1999 to the Trust for the Pinnacle West Capital Corporation, Arizona Public Service Company and SunCor Development Company Deferred Compensation Plans	10.15A to Pinnacle West's 1999 Form 10-K Report, File No. 1-8962	3-30-00
10.2.4 [b]	Pinnacle West APS	Pinnacle West Capital Corporation, Arizona Public Service Company, SunCor Development Company and El Dorado Investment Company Deferred Compensation Plan as amended and restated effective January 1, 1996	10.10A to APS' 1995 Form 10-K Report, File No. 1-4473	3-29-96
10.2.4a [b]	Pinnacle West APS	First Amendment effective as of January 1, 1999, to the Pinnacle West Capital Corporation, Arizona Public Service Company, SunCor Development Company and El Dorado Investment Company Deferred Compensation Plan	10.7A to Pinnacle West's 1999 Form 10-K Report, File No. 1-8962	3-30-00

Exhibit No.	*Registrant(s)*	*Description*	*Previously Filed as Exhibit:* [a]	*Date Filed*
10.2.4b [b]	Pinnacle West APS	Second Amendment effective January 1, 2000 to the Pinnacle West Capital Corporation, Arizona Public Service Company, SunCor Development Company and El Dorado Investment Company Deferred Compensation Plan	10.10A to Pinnacle West's 1999 Form 10-K Report, File No. 1-8962	3-30-00
10.2.4c [b]	Pinnacle West APS	Third Amendment to the Pinnacle West Capital Corporation, Arizona Public Service Company, SunCor Development Company and El Dorado Investment Company Deferred Compensation Plan, effective as of January 1, 2002	10.3 to Pinnacle West's March 31, 2003 Form 10-Q Report, File No. 1-8962	5-15-03
10.2.4d [b]	Pinnacle West APS	Fourth Amendment to the Pinnacle West Capital Corporation, Arizona Public Service Company, SunCor Development Company and El Dorado Investment Company Deferred Compensation Plan, effective January 1, 2003	10.64 to Pinnacle West/APS 2005 Form 10-K Report, File Nos. 1-8962 and 1-4473	3-13-06
10.2.5 [b]	Pinnacle West APS	Schedules of William J. Post and Jack E. Davis to Arizona Public Service Company Deferred Compensation Plan, as amended	10.3A to Pinnacle West 2002 Form 10-K Report, File No. 1-8962	3-31-03

Exhibit No.	*Registrant(s)*	*Description*	*Previously Filed as Exhibit:* [a]	*Date Filed*
10.2.6 [b]	Pinnacle West APS	Deferred Compensation Plan of 2005 for Employees of Pinnacle West Capital Corporation and Affiliates	10.2.6 to Pinnacle West/APS 2008 Form 10-K Report, File Nos. 1-8962 and 1-4473	2-20-09
10.2.6a [b]	Pinnacle West APS	First Amendment to the Deferred Compensation Plan of 2005 for Employees of Pinnacle West Capital Corporation and Affiliates		
10.3.1 [b]	Pinnacle West APS	Pinnacle West Capital Corporation Supplement Excess Benefit Retirement Plan, amended and restated as of January 1, 2003	10.7A to Pinnacle West's 2003 Form 10-K Report, File No. 1-8962	3-15-04
10.3.1a [b]	Pinnacle West APS	Pinnacle West Capital Corporation Supplemental Excess Benefit Retirement Plan, as amended and restated, dated December 18, 2003	10.48b to Pinnacle West/APS 2005 Form 10-K Report, File Nos. 1-8962 and 1-4473	3-13-06
10.3.2 [b]	Pinnacle West APS	Pinnacle West Capital Corporation Supplemental Excess Benefit Retirement Plan of 2005	10.3.2 to Pinnacle West/APS 2008 Form 10-K Report, File Nos. 1-8962 and 1-4473	2-20-09
10.4.1 [b]	Pinnacle West APS	Letter Agreement dated December 21, 1993, between APS and William L. Stewart	10.6A to APS' 1994 Form 10-K Report, File No. 1-4473	3-30-95
10.4.2 [b]	Pinnacle West APS	Letter Agreement dated August 16, 1996 between APS and William L. Stewart	10.8 to APS' 1996 Form 10-K Report, File No. 1-4473	3-28-97

Exhibit No.	*Registrant(s)*	*Description*	*Previously Filed as Exhibit:* [a]	*Date Filed*
10.4.3 [b]	Pinnacle West APS	Letter Agreement dated October 3, 1997 between APS and William L. Stewart	10.2 to APS' September 30, 1997 Form 10-Q Report, File No. 1-4473	11-12-97
10.4.4 [b]	Pinnacle West APS	Letter Agreement dated December 13, 1999 between APS and William L. Stewart	10.9A to Pinnacle West's 1999 Form 10-K Report, File No. 1-8962	3-30-00
10.4.4a [b]	Pinnacle West APS	Amendment to Letter Agreement, effective as of January 1, 2002, between APS and William L. Stewart	10.1 to Pinnacle West's June 30, 2002 Form 10-Q Report, File No. 1-8962	8-13-02
10.4.5 [b]	Pinnacle West APS	Letter Agreement dated June 28, 2001 between Pinnacle West Capital Corporation and Steve Wheeler	10.4A to Pinnacle West's 2002 Form 10-K Report, File No. 1-8962	3-31-03
10.4.6 [b]	APS	Letter Agreement dated December 20, 2006 between APS and Randall K. Edington	10.78 to Pinnacle West/APS 2006 Form 10-K Report, File Nos. 1-8962 and 1-4473	2-28-07
10.4.7 [b]	APS	Letter Agreement dated July 22, 2008 between APS and Randall K. Edington	10.3 to Pinnacle West/APS June 30, 2008 Form 10-Q Report, File No. 1-4473	8-07-08
10.4.8 [b]	Pinnacle West APS	Letter Agreement dated June 17, 2008 between Pinnacle West/APS and James R. Hatfield	10.1 to Pinnacle West/APS June 30, 2008 Form 10-Q Report, File Nos. 1-8962 and 1-4473	8-07-08
10.4.9 [b]	APS	Description of 2008 Palo Verde Specific Compensation Opportunity for Randall K. Edington	10.7 to Pinnacle West/APS June 30, 2008 Form 10-Q Report, File No. 1-4473	8-07-08

Exhibit No.	*Registrant(s)*	*Description*	*Previously Filed as Exhibit:* [a]	*Date Filed*
10.4.10 [b]	APS	Supplemental Agreement dated December 26, 2008 between APS and Randall K. Edington	10.4.10 to Pinnacle West/APS 2008 Form 10-K Report, File No. 1-4473	2-20-09
10.4.11 [b]	APS	Description of 2009 Palo Verde Specific Compensation Opportunity for Randall K. Edington	10.2 to Pinnacle West/APS March 31, 2009 Form 10-Q Report, File No. 1-4473	5-5-09
10.4.12 [b]	Pinnacle West APS	Career Recognition Award Agreement dated April 14, 2009 between Pinnacle West Capital Corporation and William J. Post	10.1 to Pinnacle West/APS March 31, 2009 Form 10-Q Report, File Nos. 1-8962 and 1-4473	5-5-09
10.4.13 [b]	APS	Description of 2010 Palo Verde Specific Compensation Opportunity for Randall K. Edington		
10.5.1 [bd]	Pinnacle West APS	Key Executive Employment and Severance Agreement between Pinnacle West and certain executive officers of Pinnacle West and its subsidiaries	10.77 to Pinnacle West/APS 2005 Form 10-K Report, File Nos. 1-8962 and 1-4473	3-13-06
10.5.1a [bd]	Pinnacle West APS	Form of Amended and Restated Key Executive Employment and Severance Agreement between Pinnacle West and certain officers of Pinnacle West and its subsidiaries	10.4 to Pinnacle West/APS September 30, 2007 Form 10-Q Report, File Nos. 1-8962 and 1-4473	11-5-07

Exhibit No.	*Registrant(s)*	*Description*	*Previously Filed as Exhibit:* [a]	*Date Filed*
10.5.2 [bd]	Pinnacle West APS	Form of Key Executive Employment and Severance Agreement between Pinnacle West and certain officers of Pinnacle West and its subsidiaries	10.3 to Pinnacle West/APS September 30, 2007 Form 10-Q Report, File Nos. 1-8962 and 1-4473	11-5-07
10.5.3 [bd]	Pinnacle West APS	Form of Key Executive Employment and Severance Agreement between Pinnacle West and certain officers of Pinnacle West and its subsidiaries		
10.6.1 [b]	Pinnacle West APS	Pinnacle West Capital Corporation 1994 Long- Term Incentive Plan, effective as of March 23, 1994	Appendix A to the Proxy Statement for the Plan Report for Pinnacle West's 1994 Annual Meeting of Shareholders, File No. 1-8962	4-15-94
10.6.1a [b]	Pinnacle West APS	First Amendment dated December 7, 1999 to the Pinnacle West Capital Corporation 1994 Long-Term Incentive Plan	10.12A to Pinnacle West's 1999 Form 10-K Report, File No. 1-8962	3-30-00
10.6.2 [b]	Pinnacle West APS	Pinnacle West Capital Corporation 2002 Long-Term Incentive Plan	10.5A to Pinnacle West's 2002 Form 10-K Report	3-31-03
10.6.2a [bd]	Pinnacle West APS	Performance Share Agreement under the Pinnacle West Capital Corporation 2002 Long-Term Incentive Plan	10.1 to Pinnacle West/APS December 9, 2005 Form 8-K Report, File Nos. 1-8962 and 1-4473	12-15-05

Exhibit No.	*Registrant(s)*	*Description*	*Previously Filed as Exhibit:* [a]	*Date Filed*
10.6.2b [bd]	Pinnacle West APS	Performance Share Agreement under the Pinnacle West Capital Corporation 2002 Long-Term Incentive Plan	10.1 to Pinnacle West/APS December 31, 2005 Form 8-K Report, File Nos. 1-8962 and 1-4473	2-1-06
10.6.2c [d]	Pinnacle West APS	Performance Accelerated Stock Option Agreement under Pinnacle West Capital Corporation 2002 Long-Term Incentive Plan	10.98 to Pinnacle West/APS 2004 Form 10-K Report, File Nos. 1-8962 and 1-4473	3-16-05
10.6.2d [bd]	Pinnacle West APS	Stock Ownership Incentive Agreement under Pinnacle West Capital Corporation 2002 Long-Term Incentive Plan	10.99 to Pinnacle West/APS 2004 Form 10-K Report, File Nos. 1-8962 and 1-4473	3-16-05
10.6.2e [bd]	Pinnacle West APS	Performance Share Agreement under the Pinnacle West Capital Corporation 2002 Long-Term Incentive Plan	10.91 to Pinnacle West/APS 2005 Form 10-K Report, File Nos. 1-8962 and 1-4473	3-13-06
10.6.2f [bd]	Pinnacle West APS	Performance Share Agreement under the Pinnacle West Capital Corporation 2007 Long-Term Incentive Plan	10.3 to Pinnacle West/APS March 31, 2009 Form 10-Q Report, File Nos. 1-8962 and 1-4473	5-5-09
10.6.3 [b]	Pinnacle West	Pinnacle West Capital Corporation 2000 Director Equity Plan	99.1 to Pinnacle West's Registration Statement on Form S-8 (No. 333-40796), File No. 1-8962)	7-3-00
10.6.4 [b]	Pinnacle West	Pinnacle West Capital Corporation 2007 Long-Term Incentive Plan	Appendix B to the Proxy Statement for Pinnacle West's 2007 Annual Meeting of Shareholders, File No. 1-8962	4-20-07

Exhibit No.	*Registrant(s)*	*Description*	*Previously Filed as Exhibit:* [a]	*Date Filed*
10.6.4a [b]	Pinnacle West	First Amendment to the Pinnacle West Capital Corporation 2007 Long-Term Incentive Plan	10.2 to Pinnacle West/APS April 18, 2007 Form 8-K Report, File No. 1-8962	4-20-07
10.6.4b [b]	Pinnacle West	Description of Annual Stock Grants to Non-Employee Directors	10.1 to Pinnacle West/APS September 30, 2007 Form 10-Q Report, File No. 1-8962	11-5-07
10.6.4c [b]	Pinnacle West	Description of Stock Grant to W. Douglas Parker	10.2 to Pinnacle West/APS September 30, 2007 Form 10-Q Report, File No. 1-8962	11-5-07
10.6.4d [b]	Pinnacle West	Description of Annual Stock Grants to Non-Employee Directors	10.2 to Pinnacle West/APS June 30, 2008 Form 10-Q Report, File No. 1-8962	8-07-08
10.6.5 [bd]	Pinnacle West APS	Summary of 2010 CEO Variable Incentive Plan and Officer Variable Incentive Plan		
10.7.1	Pinnacle West APS	Indenture of Lease with Navajo Tribe of Indians, Four Corners Plant	5.01 to APS' Form S-7 Registration Statement, File No. 2-59644	9-1-77
10.7.1a	Pinnacle West APS	Supplemental and Additional Indenture of Lease, including amendments and supplements to original lease with Navajo Tribe of Indians, Four Corners Plant	5.02 to APS' Form S-7 Registration Statement, File No. 2-59644	9-1-77
10.7.1b	Pinnacle West APS	Amendment and Supplement No. 1 to Supplemental and Additional Indenture of Lease Four Corners, dated April 25, 1985	10.36 to Pinnacle West's Registration Statement on Form 8-B Report, File No. 1-8962	7-25-85

Exhibit No.	*Registrant(s)*	*Description*	*Previously Filed as Exhibit:* [a]	*Date Filed*
10.7.2	Pinnacle West APS	Application and Grant of multi-party rights-of-way and easements, Four Corners Plant Site	5.04 to APS' Form S-7 Registration Statement, File No. 2-59644	9-1-77
10.7.2a	Pinnacle West APS	Application and Amendment No. 1 to Grant of multi-party rights-of-way and easements, Four Corners Power Plant Site dated April 25, 1985	10.37 to Pinnacle West's Registration Statement on Form 8-B, File No. 1-8962	7-25-85
10.7.3	Pinnacle West APS	Application and Grant of Arizona Public Service Company rights- of-way and easements, Four Corners Plant Site	5.05 to APS' Form S-7 Registration Statement, File No. 2-59644	9-1-77
10.7.3a	Pinnacle West APS	Application and Amendment No. 1 to Grant of Arizona Public Service Company rights-of-way and easements, Four Corners Power Plant Site dated April 25, 1985	10.38 to Pinnacle West's Registration Statement on Form 8-B, File No. 1-8962	7-25-85
10.7.4	Pinnacle West APS	Four Corners Project Co-Tenancy Agreement Amendment No. 6	10.7 to Pinnacle West's 2000 Form 10-K Report, File No. 1-8962	3-14-01
10.8.1	Pinnacle West APS	Indenture of Lease, Navajo Units 1, 2, and 3	5(g) to APS' Form S-7 Registration Statement, File No. 2-36505	3-23-70
10.8.2	Pinnacle West APS	Application of Grant of rights-of-way and easements, Navajo Plant	5(h) to APS Form S-7 Registration Statement, File No. 2-36505	3-23-70

Exhibit No.	*Registrant(s)*	*Description*	*Previously Filed as Exhibit:* [a]	*Date Filed*
10.8.3	Pinnacle West APS	Water Service Contract Assignment with the United States Department of Interior, Bureau of Reclamation, Navajo Plant	5(l) to APS' Form S-7 Registration Statement, File No. 2-394442	3-16-71
10.8.4	Pinnacle West APS	Navajo Project Co-Tenancy Agreement dated as of March 23, 1976, and Supplement No. 1 thereto dated as of October 18, 1976, Amendment No. 1 dated as of July 5, 1988, and Amendment No. 2 dated as of June 14, 1996; Amendment No. 3 dated as of February 11, 1997; Amendment No. 4 dated as of January 21, 1997; Amendment No. 5 dated as of January 23, 1998; Amendment No. 6 dated as of July 31, 1998	10.107 to Pinnacle West/APS 2005 Form 10-K Report, File Nos. 1-8962 and 1-4473	3-13-06
10.8.5	Pinnacle West APS	Navajo Project Participation Agreement dated as of September 30, 1969, and Amendment and Supplement No. 1 dated as of January 16, 1970, and Coordinating Committee Agreement No. 1 dated as of September 30, 1971	10.108 to Pinnacle West/APS 2005 Form 10-K Report, File Nos. 1-8962 and 1-4473	3-13-06

Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit: [a]	Date Filed
10.9.1	Pinnacle West APS	Arizona Nuclear Power Project Participation Agreement, dated August 23, 1973, among APS Salt River Project Agricultural Improvement and Power District, Southern California Edison Company, Public Service Company of New Mexico, El Paso Electric Company, Southern California Public Power Authority, and Department of Water and Power of the City of Los Angeles, and amendments 1-12 thereto	10. 1 to APS' 1988 Form 10-K Report, File No. 1-4473	3-8-89
10.9.1a	Pinnacle West APS	Amendment No. 13, dated as of April 22, 1991, to Arizona Nuclear Power Project Participation Agreement, dated August 23, 1973, among APS, Salt River Project Agricultural Improvement and Power District, Southern California Edison Company, Public Service Company of New Mexico, El Paso Electric Company, Southern California Public Power Authority, and Department of Water and Power of the City of Los Angeles	10.1 to APS' March 31, 1991 Form 10-Q Report, File No. 1-4473	5-15-91

Exhibit No.	*Registrant(s)*	*Description*	*Previously Filed as Exhibit:* [a]	*Date Filed*
10.9.1b	Pinnacle West APS	Amendment No. 14 to Arizona Nuclear Power Project Participation Agreement, dated August 23, 1973, among APS, Salt River Project Agricultural Improvement and Power District, Southern California Edison Company, Public Service Company of New Mexico, El Paso Electric Company, Southern California Public Power Authority, and Department of Water and Power of the City of Los Angeles	99.1 to Pinnacle West's June 30, 2000 Form 10-Q Report, File No. 1-8962	8-14-00
10.10.1	Pinnacle West APS	Asset Purchase and Power Exchange Agreement dated September 21, 1990 between APS and PacifiCorp, as amended as of October 11, 1990 and as of July 18, 1991	10.1 to APS' June 30, 1991 Form 10-Q Report, File No. 1-4473	8-8-91
10.10.2	Pinnacle West APS	Long-Term Power Transaction Agreement dated September 21, 1990 between APS and PacifiCorp, as amended as of October 11, 1990, and as of July 8, 1991	10.2 to APS' June 30, 1991 Form 10-Q Report, File No. 1-4473	8-8-91

Exhibit No.	*Registrant(s)*	*Description*	*Previously Filed as Exhibit:* [a]	*Date Filed*
10.10.2a	Pinnacle West APS	Amendment No. 1 dated April 5, 1995 to the Long-Term Power Transaction Agreement and Asset Purchase and Power Exchange Agreement between PacifiCorp and APS	10.3 to APS' 1995 Form 10-K Report, File No. 1-4473	3-29-96
10.10.3	Pinnacle West APS	Restated Transmission Agreement between PacifiCorp and APS dated April 5, 1995	10.4 to APS' 1995 Form 10-K Report, File No. 1-4473	3-29-96
10.10.4	Pinnacle West APS	Contract among PacifiCorp, APS and United States Department of Energy Western Area Power Administration, Salt Lake Area Integrated Projects for Firm Transmission Service dated May 5, 1995	10.5 to APS' 1995 Form 10-K Report, File No. 1-4473	3-29-96
10.10.5	Pinnacle West APS	Reciprocal Transmission Service Agreement between APS and PacifiCorp dated as of March 2, 1994	10.6 to APS' 1995 Form 10-K Report, File No. 1-4473	3-29-96
10.11.1	Pinnacle West APS	Amended and Restated Reimbursement Agreement among APS, the Banks party thereto, and JPMorgan Chase Bank, as Administrative Agent and Issuing Bank, dated as of July 22, 2002	10.100 to Pinnacle West/APS 2004 Form 10-K Report, File Nos. 1-8962 and 1-4473	3-16-05

Exhibit No.	*Registrant(s)*	*Description*	*Previously Filed as Exhibit:* [a]	*Date Filed*
10.11.2	Pinnacle West APS	Three-Year Credit Agreement dated as of May 21, 2004 between APS as Borrower, and the banks, financial institutions and other institutional lenders and initial issuing banks listed on the signature pages thereof	10.101 to Pinnacle West/APS 2004 Form 10-K Report, File Nos. 1-8962 and 1-4473	3-16-05
10.11.3	Pinnacle West APS	Three-Year Credit Agreement dated as of February 12, 2010 between APS, as Borrower, Wells Fargo Bank, National Association, as Agent, and the lenders and other parties thereto		
10.11.4	Pinnacle West	$200,000,000 Senior Notes Uncommitted Master Shelf Agreement dated as of February 28, 2006	10.96 to Pinnacle West 2005 Form 10-K Report, File No. 1-8962	3-13-06
10.11.5	Pinnacle West	Three-Year Credit Agreement dated as of February 12, 2010 among Pinnacle West Capital Corporation, as Borrower, Bank of America, N.A, as Agent, and the lenders and other parties thereto		

Exhibit No.	*Registrant(s)*	*Description*	*Previously Filed as Exhibit:* [a]	*Date Filed*
10.11.5a	Pinnacle West	First Amendment to Amended and Restated Credit Agreement, dated as of May 15, 2006, supplementing and amending the Amended and Restated Credit Agreement, dated as of December 9, 2005, among Pinnacle West Capital Corporation, as Borrower, JPMorgan Chase Bank, N.A. as Agent and the other parties thereto	10.1 to Pinnacle West's June 30, 2006 Form 10-Q Report, File No. 1-8962	8-8-06
10.11.6	Pinnacle West APS	Credit Agreement dated as of October 19, 2004 among Pinnacle West, other lenders, and JPMorgan Chase Bank, as Administrative Agent	10.1 to Pinnacle West's September 30, 2004 Form 10-Q Report, File No. 1-8962	11-8-04
10.11.7	APS	$500,000,000 Five-Year Credit Agreement dated as of September 28, 2006 among Arizona Public Service Company as Borrower, Bank of America, N.A. as Administrative Agent and Issuing Bank, The Bank of New York as Syndication Agent and Issuing Bank and the other parties thereto	10.1 to APS' September 2006 Form 10-Q Report, File No. 1-4473	11-8-06

Exhibit No.	*Registrant(s)*	*Description*	*Previously Filed as Exhibit:* [a]	*Date Filed*
10.11.8	Pinnacle West APS	Amended and Restated Reimbursement Agreement among Arizona Public Service Company, The Banks party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent and Issuing Bank, and Barclays Bank PLC, as Syndication Agent, dated as of May 19, 2005	99.6 to PinnacleWest/APS June 30, 2005 Form 10-Q Report, File Nos. 1-8962 and 1-4473	8-9-05
10.12.1 [c]	Pinnacle West APS	Facility Lease, dated as of August 1, 1986, between U.S. Bank National Association, successor to State Street Bank and Trust Company, as successor to The First National Bank of Boston, in its capacity as Owner Trustee, as Lessor, and APS, as Lessee	4.3 to APS' Form 18 Registration Statement, File No. 33-9480	10-24-86
10.12.1a [c]	Pinnacle West APS	Amendment No. 1, dated as of November 1, 1986, to Facility Lease, dated as of August 1, 1986, between U.S. Bank National Association, successor to State Street Bank and Trust Company, as successor to The First National Bank of Boston, in its capacity as Owner Trustee, as Lessor, and APS, as Lessee	10.5 to APS' September 30, 1986 Form 10-Q Report by means of Amendment No. 1 on December 3, 1986 Form 8, File No. 1-4473	12-4-86

Exhibit No.	*Registrant(s)*	*Description*	*Previously Filed as Exhibit:* [a]	*Date Filed*
10.12.1b [c]	Pinnacle West APS	Amendment No. 2 dated as of June 1, 1987 to Facility Lease dated as of August 1, 1986 between U.S. Bank National Association, successor to State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Lessor, and APS, as Lessee	10.3 to APS' 1988 Form 10-K Report, File No. 1-4473	3-8-89
10.12.1c [c]	Pinnacle West APS	Amendment No. 3, dated as of March 17, 1993, to Facility Lease, dated as of August 1, 1986, between U.S. Bank National Association, successor to State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Lessor, and APS, as Lessee	10.3 to APS' 1992 Form 10-K Report, File No. 1-4473	3-30-93
10.12.2	Pinnacle West APS	Facility Lease, dated as of December 15, 1986, between U.S. Bank National Association, successor to State Street Bank and Trust Company, as successor to The First National Bank of Boston, in its capacity as Owner Trustee, as Lessor, and APS, as Lessee	10.1 to APS' November 18, 1986 Form 8-K Report, File No. 1-4473	1-20-87

Exhibit No.	*Registrant(s)*	*Description*	*Previously Filed as Exhibit:* [a]	*Date Filed*
10.12.2a	Pinnacle West APS	Amendment No. 1, dated as of August 1, 1987, to Facility Lease, dated as of December 15, 1986, between U.S. Bank National Association, successor to State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Lessor, and APS, as Lessee	4.13 to APS' Form 18 Registration Statement No. 33-9480 by means of August 1, 1987 Form 8-K Report, File No. 1-4473	8-24-87
10.12.2b	Pinnacle West APS	Amendment No. 2, dated as of March 17, 1993, to Facility Lease, dated as of December 15, 1986, between U.S. Bank National Association, successor to State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Lessor, and APS, as Lessee	10.4 to APS' 1992 Form 10-K Report, File No. 1-4473	3-30-93
10.13.1	Pinnacle West APS	Agreement No. 13904 (Option and Purchase of Effluent) with Cities of Phoenix, Glendale, Mesa, Scottsdale, Tempe, Town of Youngtown, and Salt River Project Agricultural Improvement and Power District, dated April 23, 1973	10.3 to APS' 1991 Form 10-K Report, File No. 1-4473	3-19-92

Exhibit No.	*Registrant(s)*	*Description*	*Previously Filed as Exhibit:* [a]	*Date Filed*
10.13.2	Pinnacle West APS	Agreement between Pinnacle West Energy Corporation and Arizona Public Service Company for Transportation and Treatment of Effluent by and between Pinnacle West Energy Corporation and APS dated as of the 10 th day of April, 2001	10.102 to Pinnacle West/APS 2004 Form 10-K Report, File Nos. 1-8962 and 1-4473	3-16-05
10.13.3	Pinnacle West APS	Agreement for the Transfer and Use of Wastewater and Effluent by and between APS, SRP and PWE dated June 1, 2001	10.103 to Pinnacle West/APS 2004 Form 10-K Report, File Nos. 1-8962 and 1-4473	3-16-05
10.13.4	Pinnacle West APS	Agreement for the Sale and Purchase of Wastewater Effluent dated November 13, 2000, by and between the City of Tolleson, Arizona, APS and SRP	10.104 to Pinnacle West/APS 2004 Form 10-K Report, File Nos. 1-8962 and 1-4473	3-16-05
10.13.5	Pinnacle West APS	Operating Agreement for the Co-Ownership of Wastewater Effluent dated November 16, 2000 by and between APS and SRP	10.105 to Pinnacle West/APS 2004 Form 10-K Report, File Nos. 1-8962 and 1-4473	3-16-05

Exhibit No.	*Registrant(s)*	*Description*	*Previously Filed as Exhibit:* [a]	*Date Filed*
10.13.6	Pinnacle West APS	Agreement for the Sale and Purchase of Wastewater Effluent with City of Tolleson and Salt River Agricultural Improvement and Power District, dated June 12, 1981, including Amendment No. 1 dated as of November 12, 1981 and Amendment No. 2 dated as of June 4, 1986	10.4 to APS' 1991 Form 10-K Report, File 1-4473	3-19-92
10.14.1	Pinnacle West APS	Contract, dated July 21, 1984, with DOE providing for the disposal of nuclear fuel and/or high-level radioactive waste, ANPP	10.31 to Pinnacle West's Form S-14 Registration Statement, File No. 2-96386	3-13-85
10.15.1	Pinnacle West APS	Territorial Agreement between APS and Salt River Project	10.1 to APS' March 31, 1998 Form 10-Q Report, File No. 1-4473	5-15-98
10.15.2	Pinnacle West APS	Power Coordination Agreement between APS and Salt River Project	10.2 to APS' March 31, 1998 Form 10-Q Report, File No. 1-4473	5-15-98
10.15.3	Pinnacle West APS	Memorandum of Agreement between APS and Salt River Project	10.3 to APS' March 31, 1998 Form 10-Q Report, File No. 1-4473	5-15-98
10.15.3a	Pinnacle West APS	Addendum to Memorandum of Agreement between APS and Salt River Project dated as of May 19, 1998	10.2 to APS' May 19, 1998 Form 8-K Report, File No. 1-4473	6-26-98
12.1	Pinnacle West	Ratio of Earnings to Fixed Charges		

Exhibit No.	*Registrant(s)*	*Description*	*Previously Filed as Exhibit:* [a]	*Date Filed*
12.2	APS	Ratio of Earnings to Fixed Charges		
12.3	Pinnacle West	Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividend Requirements		
21.1	Pinnacle West	Subsidiaries of Pinnacle West		
23.1	Pinnacle West	Consent of Deloitte & Touche LLP		
23.2	APS	Consent of Deloitte & Touche LLP		
31.1	Pinnacle West	Certificate of Donald E. Brandt, Chief Executive Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended		
31.2	Pinnacle West	Certificate of James R. Hatfield, Chief Financial Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended		
31.3	APS	Certificate of Donald E. Brandt, Chief Executive Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended		

Exhibit No.	*Registrant(s)*	*Description*	*Previously Filed as Exhibit:* [a]	*Date Filed*
31.4	APS	Certificate of James R. Hatfield, Chief Financial Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended		
32.1	Pinnacle West	Certification of Chief Executive Officer and Chief Financial Officer, pursuant to 18 U.S.C. Section 1850, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002		
32.2	APS	Certification of Chief Executive Officer and Chief Financial Officer, pursuant to 18 U.S.C. Section 1850, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002		
99.1	Pinnacle West APS	Collateral Trust Indenture among PVNGS II Funding Corp., Inc., APS and Chemical Bank, as Trustee	4.2 to APS' 1992 Form 10-K Report, File No. 1-4473	3-30-93
99.1a	Pinnacle West APS	Supplemental Indenture to Collateral Trust Indenture among PVNGS II Funding Corp., Inc., APS and Chemical Bank, as Trustee	4.3 to APS' 1992 Form 10-K Report, File No. 1-4473	3-30-93

Exhibit No.	***Registrant(s)***	***Description***	***Previously Filed as Exhibit:*** [a]	***Date Filed***
99.2 [c]	Pinnacle West APS	Participation Agreement, dated as of August 1, 1986, among PVNGS Funding Corp., Inc., Bank of America National Trust and Savings Association, State Street Bank and Trust Company, as successor to The First National Bank of Boston, in its individual capacity and as Owner Trustee, Chemical Bank, in its individual capacity and as Indenture Trustee, APS, and the Equity Participant named therein	28.1 to APS' September 30, 1992 Form 10-Q Report, File No. 1-4473	11-9-92
99.2a [c]	Pinnacle West APS	Amendment No. 1 dated as of November 1, 1986, to Participation Agreement, dated as of August 1, 1986, among PVNGS Funding Corp., Inc., Bank of America National Trust and Savings Association, State Street Bank and Trust Company, as successor to The First National Bank of Boston, in its individual capacity and as Owner Trustee, Chemical Bank, in its individual capacity and as Indenture Trustee, APS, and the Equity Participant named therein	10.8 to APS' September 30, 1986 Form 10-Q Report by means of Amendment No. 1, on December 3, 1986 Form 8, File No. 1-4473	12-4-86

Exhibit No.	*Registrant(s)*	*Description*	*Previously Filed as Exhibit:* [a]	*Date Filed*
99.2b [c]	Pinnacle West APS	Amendment No. 2, dated as of March 17, 1993, to Participation Agreement, dated as of August 1, 1986, among PVNGS Funding Corp., Inc., PVNGS II Funding Corp., Inc., State Street Bank and Trust Company, as successor to The First National Bank of Boston, in its individual capacity and as Owner Trustee, Chemical Bank, in its individual capacity and as Indenture Trustee, APS, and the Equity Participant named therein	28.4 to APS' 1992 Form 10-K Report, File No. 1-4473	3-30-93
99.3 [c]	Pinnacle West APS	Trust Indenture, Mortgage, Security Agreement and Assignment of Facility Lease, dated as of August 1, 1986, between State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee, and Chemical Bank, as Indenture Trustee	4.5 to APS' Form 18 Registration Statement, File No. 33-9480	10-24-86

Exhibit No.	*Registrant(s)*	*Description*	*Previously Filed as Exhibit:* [a]	*Date Filed*
99.3a [c]	Pinnacle West APS	Supplemental Indenture No. 1, dated as of November 1, 1986 to Trust Indenture, Mortgage, Security Agreement and Assignment of Facility Lease, dated as of August 1, 1986, between State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee, and Chemical Bank, as Indenture Trustee	10.6 to APS' September 30, 1986 Form 10-Q Report by means of Amendment No. 1 on December 3, 1986 Form 8, File No. 1-4473	12-4-86
99.3b [c]	Pinnacle West APS	Supplemental Indenture No. 2 to Trust Indenture, Mortgage, Security Agreement and Assignment of Facility Lease, dated as of August 1, 1986, between State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee, and Chemical Bank, as Lease Indenture Trustee	4.4 to APS' 1992 Form 10-K Report, File No. 1-4473	3-30-93
99.4 [c]	Pinnacle West APS	Assignment, Assumption and Further Agreement, dated as of August 1, 1986, between APS and State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee	28.3 to APS' Form 18 Registration Statement, File No. 33-9480	10-24-86

Exhibit No.	*Registrant(s)*	*Description*	*Previously Filed as Exhibit:* [a]	*Date Filed*
99.4a [c]	Pinnacle West APS	Amendment No. 1, dated as of November 1, 1986, to Assignment, Assumption and Further Agreement, dated as of August 1, 1986, between APS and State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee	10.10 to APS' September 30, 1986 Form 10-Q Report by means of Amendment No. l on December 3, 1986 Form 8, File No. 1-4473	12-4-86
99.4b [c]	Pinnacle West APS	Amendment No. 2, dated as of March 17, 1993, to Assignment, Assumption and Further Agreement, dated as of August 1, 1986, between APS and State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee	28.6 to APS' 1992 Form 10-K Report, File No. 1-4473	3-30-93
99.5	Pinnacle West APS	Participation Agreement, dated as of December 15, 1986, among PVNGS Funding Report Corp., Inc., State Street Bank and Trust Company, as successor to The First National Bank of Boston, in its individual capacity and as Owner Trustee, Chemical Bank, in its individual capacity and as Indenture Trustee under a Trust Indenture, APS, and the Owner Participant named therein	28.2 to APS' September 30, 1992 Form 10-Q Report, File No. 1-4473	11-9-92

Exhibit No.	***Registrant(s)***	***Description***	***Previously Filed as Exhibit: [a]***	***Date Filed***
99.5a	Pinnacle West APS	Amendment No. 1, dated as of August 1, 1987, to Participation Agreement, dated as of December 15, 1986, among PVNGS Funding Corp., Inc. as Funding Corporation, State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee, Chemical Bank, as Indenture Trustee, APS, and the Owner Participant named therein	28.20 to APS' Form 18 Registration Statement No. 33-9480 by means of a November 6, 1986 Form 8-K Report, File No. 1-4473	8-10-87
99.5b	Pinnacle West APS	Amendment No. 2, dated as of March 17, 1993, to Participation Agreement, dated as of December 15, 1986, among PVNGS Funding Corp., Inc., PVNGS II Funding Corp., Inc., State Street Bank and Trust Company, as successor to The First National Bank of Boston, in its individual capacity and as Owner Trustee, Chemical Bank, in its individual capacity and as Indenture Trustee, APS, and the Owner Participant named therein	28.5 to APS' 1992 Form 10-K Report, File No. 1-4473	3-30-93

Exhibit No.	*Registrant(s)*	*Description*	*Previously Filed as Exhibit:* [a]	*Date Filed*
99.6	Pinnacle West APS	Trust Indenture, Mortgage Security Agreement and Assignment of Facility Lease, dated as of December 15, 1986, between State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee, and Chemical Bank, as Indenture Trustee	10.2 to APS' November 18, 1986 Form 10-K Report, File No. 1-4473	1-20-87
99.6a	Pinnacle West APS	Supplemental Indenture No. 1, dated as of August 1, 1987, to Trust Indenture, Mortgage, Security Agreement and Assignment of Facility Lease, dated as of December 15, 1986, between State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee, and Chemical Bank, as Indenture Trustee	4.13 to APS' Form 18 Registration Statement No. 33-9480 by means of August 1, 1987 Form 8-K Report, File No. 1-4473	8-24-87

Exhibit No.	*Registrant(s)*	*Description*	*Previously Filed as Exhibit:* [a]	*Date Filed*
99.6b	Pinnacle West APS	Supplemental Indenture No. 2 to Trust Indenture Mortgage, Security Agreement and Assignment of Facility Lease, dated as of December 15, 1986, between State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee, and Chemical Bank, as Lease Indenture Trustee	4.5 to APS' 1992 Form 10-K Report, File No. 1-4473	3-30-93
99.7	Pinnacle West APS	Assignment, Assumption and Further Agreement, dated as of December 15, 1986, between APS and State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee	10.5 to APS' November 18, 1986 Form 8-K Report, File No. 1-4473	1-20-87
99.7a	Pinnacle West APS	Amendment No. 1, dated as of March 17, 1993, to Assignment, Assumption and Further Agreement, dated as of December 15, 1986, between APS and State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee	28.7 to APS' 1992 Form 10-K Report, File No. 1-4473	3-30-93
99.8 [c]	Pinnacle West APS	Indemnity Agreement dated as of March 17, 1993 by APS	28.3 to APS' 1992 Form 10-K Report, File No. 1-4473	3-30-93

Exhibit No.	*Registrant(s)*	*Description*	*Previously Filed as Exhibit:* [a]	*Date Filed*
99.9	Pinnacle West APS	Extension Letter, dated as of August 13, 1987, from the signatories of the Participation Agreement to Chemical Bank	28.20 to APS' Form 18 Registration Statement No. 33-9480 by means of a November 6, 1986 Form 8-K Report, File No. 1-4473	8-10-87
99.10	Pinnacle West APS	Arizona Corporation Commission Order, Decision No. 61969, dated September 29, 1999, including the Retail Electric Competition Rules	10.2 to APS' September 30, 1999 Form 10-Q Report, File No. 1-4473	11-15-99
99.11	Pinnacle West	Purchase Agreement by and among Pinnacle West Energy Corporation and GenWest, L.L.C. and Nevada Power Company, dated June 21, 2005	99.5 to Pinnacle West/APS June 30, 2005 Form 10-Q Report, File Nos. 1-8962 and 1-4473	8-9-05

[a] Reports filed under File No. 1-4473 and 1-8962 were filed in the office of the Securities and Exchange Commission located in Washington, D.C.

[b] Management contract or compensatory plan or arrangement to be filed as an exhibit pursuant to Item 15(b) of Form 10-K.

[c] An additional document, substantially identical in all material respects to this Exhibit, has been entered into, relating to an additional Equity Participant. Although such additional document may differ in other respects (such as dollar amounts, percentages, tax indemnity matters, and dates of execution), there are no material details in which such document differs from this Exhibit.

[d] Additional agreements, substantially identical in all material respects to this Exhibit have been entered into with additional persons. Although such additional documents may differ in other respects (such as dollar amounts and dates of execution), there are no material details in which such agreements differ from this Exhibit.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PINNACLE WEST CAPITAL CORPORATION
(Registrant)

Date: February 19, 2010

/s/ Donald E. Brandt
(Donald E. Brandt,
Chairman of the Board of Directors, President and
Chief Executive Officer)

Power of Attorney

We, the undersigned directors and executive officers of Pinnacle West Capital Corporation, hereby severally appoint James R. Hatfield and David P. Falck, and each of them, our true and lawful attorneys with full power to them and each of them to sign for us, and in our names in the capacities indicated below, any and all amendments to this Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Donald E. Brandt (Donald E. Brandt, Chairman of the Board of Directors, President and Chief Executive Officer)	Principal Executive Officer and Director	February 19, 2010
/s/ James R. Hatfield (James R. Hatfield, Senior Vice President and Chief Financial Officer)	Principal Financial Officer	February 19, 2010
/s/ Barbara M. Gomez (Barbara M. Gomez, Vice President, Controller and Chief Accounting Officer, position at December 31, 2009)	Principal Accounting Officer (position at December 31, 2009)	February 19, 2010

Signature	Title	Date
/s/ Edward N. Basha, Jr. (Edward N. Basha, Jr.)	Director	February 19, 2010
/s/ Susan Clark-Johnson (Susan Clark-Johnson)	Director	February 19, 2010
/s/ Denis A. Cortese (Denis A. Cortese)	Director	February 19, 2010
/s/ Michael L. Gallagher (Michael L. Gallagher)	Director	February 19, 2010
/s/ Pamela Grant (Pamela Grant)	Director	February 19, 2010
/s/ Roy A. Herberger, Jr. (Roy A. Herberger, Jr.)	Director	February 19, 2010
/s/ William S. Jamieson (William S. Jamieson)	Director	February 19, 2010
/s/ Humberto S. Lopez (Humberto S. Lopez)	Director	February 19, 2010
/s/ Kathryn L. Munro (Kathryn L. Munro)	Director	February 19, 2010
/s/ Bruce J. Nordstrom (Bruce J. Nordstrom)	Director	February 19, 2010
/s/ W. Douglas Parker (W. Douglas Parker)	Director	February 19, 2010
/s/ William J. Post (William J. Post)	Director	February 19, 2010
/s/ William L. Stewart (William L. Stewart)	Director	February 19, 2010

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ARIZONA PUBLIC SERVICE COMPANY
(Registrant)

Date: February 19, 2010

/s/ Donald E. Brandt
(Donald E. Brandt,
Chairman of the Board of Directors and
Chief Executive Officer)

Power of Attorney

We, the undersigned directors and executive officers of Arizona Public Service Company, hereby severally appoint James R. Hatfield and David P. Falck, and each of them, our true and lawful attorneys with full power to them and each of them to sign for us, and in our names in the capacities indicated below, any and all amendments to this Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Donald E. Brandt (Donald E. Brandt, Chairman of the Board of Directors and Chief Executive Officer)	Principal Executive Officer and Director	February 19, 2010
/s/ James R. Hatfield (James R. Hatfield, Senior Vice President and Chief Financial Officer)	Principal Financial Officer and Principal Accounting Officer	February 19, 2010

Signature	Title	Date
/s/ Edward N. Basha, Jr. (Edward N. Basha, Jr.)	Director	February 19, 2010
/s/ Susan Clark-Johnson (Susan Clark-Johnson)	Director	February 19, 2010
/s/ Denis A. Cortese (Denis A. Cortese)	Director	February 19, 2010
/s/ Michael L. Gallagher (Michael L. Gallagher)	Director	February 19, 2010
/s/ Pamela Grant (Pamela Grant)	Director	February 19, 2010
/s/ Roy A. Herberger, Jr. (Roy A. Herberger, Jr.)	Director	February 19, 2010
/s/ William S. Jamieson (William S. Jamieson)	Director	February 19, 2010
/s/ Humberto S. Lopez (Humberto S. Lopez)	Director	February 19, 2010
/s/ Kathryn L. Munro (Kathryn L. Munro)	Director	February 19, 2010
/s/ Bruce J. Nordstrom (Bruce J. Nordstrom)	Director	February 19, 2010
/s/ W. Douglas Parker (W. Douglas Parker)	Director	February 19, 2010
/s/ William J. Post (William J. Post)	Director	February 19, 2010
/s/ William L. Stewart (William L. Stewart)	Director	February 19, 2010

Exhibit 10.2.6a

FIRST AMENDMENT

TO THE

DEFERRED COMPENSATION PLAN OF 2005 FOR EMPLOYEES OF

PINNACLE WEST CAPITAL CORPORATION AND AFFILIATES

Effective as of January 1, 2005, Pinnacle West Capital Corporation (the "Company") adopted the Deferred Compensation Plan of 2005 for Employees of Pinnacle West Capital Corporation and Affiliates (the "Plan"). By this instrument, the Company now desires to amend the Plan as described below. Defined terms used herein shall have the meanings specified in the Plan.

1. This First Amendment shall be effective as of January 1, 2009.

2. This First Amendment amends only the provisions of the Plan noted below. Those provisions not expressly amended shall be considered in full force and effect. This First Amendment also supersedes the other provisions of the Plan to the extent those provisions are inconsistent with the provisions and intent of this First Amendment.

3. Section 1.1 ("Account Balance") of the Plan is amended and restated in its entirety to read as follows:

> 1.1 "Account Balance" shall mean the sum of (i) the Deferral Amount and (ii) interest credited in accordance with all the applicable interest crediting provisions of the Plan, reduced by all Short-Term Payouts and other distributions, if any. The term "Account Balance" does not include any Discretionary Credits allocated to the Participant in accordance with Section 3.9. This account shall be a bookkeeping entry only and shall be utilized solely as a device for the measurement and determination of the amounts to be paid to the Participant pursuant to this Plan.

4. Section 1.7 ("Bonus Rate") of the Plan is amended and restated in its entirety to read as follows:

> 1.7 "Supplemental Rate" for a Plan Year shall mean an interest rate determined for each Plan Year by the Committee, in its sole discretion, which rate shall be determined on or before the first business day of the month that precedes the beginning of the Plan Year for which the rate applies.

All references to "Bonus Rate" in the Plan are changed to refer to "Supplemental Rate."

5. Section 1.13 (“Crediting Rate”) of the Plan is amended and restated in its entirety to read as follows:

> 1.13 “Base Rate” for a Plan Year shall mean a rate of interest equal to the yield on ten-year U.S. Treasury Notes as published on the last business day of the first week of October preceding the Plan Year.

All references to “Crediting Rate” in the Plan are changed to refer to “Base Rate.”

6. Section 1.25 (“Preferred Rate”) of the Plan is amended and restated in its entirety to read as follows:

> 1.25 “Plan Rate” for a Plan Year shall mean the Base Rate plus the Supplemental Rate for such Plan Year.

All references to “Preferred Rate” in the Plan are changed to refer to “Plan Rate.”

7. Section 1.31 (“Termination Benefit”) of the Plan is amended and restated in its entirety to read as follows:

> 1.31 “Termination Benefit” shall mean the Participant’s Account Balance payable in accordance with the provisions of Article 5.

8. Section 1.34 (“Years of Plan Participation”) of the Plan is amended by changing the third sentence thereof to read as follows:

> For purposes of a Participant’s final Plan Year of participation only, a Participant shall be awarded a Year of Plan Participation if, and only if, he or she has been credited with 1,000 hours of service (determined in accordance with the rules set forth in Section 1.35, below) in such Plan Year.

9. Section 1.35 (“Years of Service”) is amended by changing the portion of the second sentence that precedes the first comma to read as follows:

> “For purposes of this Section 1.35 and Section 1.34 only . . . .”

10. Article 1 (Definitions) of the Plan is amended by the addition of the following new Sections 1.36 and 1.37 to read as follows:

> 1.36 "Discretionary Credit Account" shall mean the account maintained to record any Discretionary Credits allocated to a Participant in accordance with Section 3.9 and any interest on the Discretionary Credits.
>
> 1.37 "Discretionary Credits" shall mean the amounts, if any, allocated to a Participant pursuant to Section 3.9.

11. Article 3 (Deferral Commitments/Interest Crediting) of the Plan is amended by the addition of the following new Section 3.9 to read as follows:

> 3.9 Discretionary Credits . With the approval of the Human Resources Committee of the Company's Board of Directors, an Employer may award Discretionary Credits to a Participant at any time during a Plan Year in such amounts and subject to such terms and conditions (including, but not limited to, vesting provisions, interest crediting provisions, and distribution provisions) as the Employer deems appropriate. The Human Resources Committee may delegate its power to approve the award of Discretionary Credits to the Company's Chief Executive Officer, subject to such restrictions or limitations as the Human Resources Committee deems to be appropriate or as may be required by applicable law. The award of the Discretionary Credits must be in writing, signed by the Company's Chief Executive Officer (unless the Discretionary Credits are awarded to the Company's Chief Executive Officer, in which case the award must be signed by the Company's General Counsel), and delivered to the Participant.

12. Section 5.1(b) (Payment of Termination Benefit — Automatic Distribution of Termination Benefits) of the Plan is amended and restated in its entirety to read as follows:

> (b) Automatic Distribution of Termination Benefits . Notwithstanding any provision of this Section 5.1 to the contrary, if, upon a Participant's Separation from Service, his or her Account Balance, as determined pursuant to Section 5.1, and the Participant's Discretionary Credit Account, if any, when added to his or her Retirement Account Balance Benefit under the Pinnacle West Capital Corporation Supplemental Excess Benefit Retirement Plan of 2005, does not exceed the amount specified in Code Section 402(g) for the calendar year in which such Separation from Service occurs, the Participant's Termination Benefit shall be distributed in a lump sum within thirty (30) days following his or her Separation from Service. Notwithstanding the foregoing, payment of the Termination Benefit shall not be made prior to the date which is six (6) months after the date of a Participant's Separation from Service in the case of a Participant who is determined to be a Specified Employee.

13. Article 5 (Payment of Benefits) of the Plan is amended by the addition of the following new Section 5.3 to read as follows:

> 5.3 Payment of Discretionary Credits . Payment of a Participant's Discretionary Credit Account shall be at the time and in the manner provided in the written award of the Discretionary Credits. If the written award does not specify the time and manner of payment of the Discretionary Credit Account, the Discretionary Credit Account will be paid in a lump sum within thirty (30) days after the Participant's Separation from Service. Payment of the Discretionary Credit Account shall not be made or commence prior to the date which is six (6) months after the date of a Participant's Separation from Service in the case of a Participant who is determined to be a Specified Employee. Unless the written award provides otherwise, if a Participant dies prior to his or her Separation from Service, the Discretionary Credit Account will be paid in a lump sum at the time specified in Section 5.2(a) of the Plan.

14. Section 9.1 (Termination) of the Plan is amended and restated in its entirety to read as follows:

> 9.1 Termination . Subject to the requirements of Section 409A of the Code, each Employer reserves the right to terminate the Plan at any time with respect to Participants whose services are retained by that Employer. Upon the termination of the Plan in accordance with the requirements of Section 409A of the Code, a Participant's Account Balance and Discretionary Credit Account, if any, shall be paid out in accordance with the regulations issued under Section 409A of the Code. The termination of the Plan shall not adversely affect any Participant or Beneficiary who has become entitled to the payment of any benefits under the Plan as of the date of termination.

IN WITNESS WHEREOF, Pinnacle West Capital Corporation has caused this First Amendment to be executed as of this 22 day of December 2009.

PINNACLE WEST CAPITAL CORPORATION

By: /s/ Donald E. Brandt
Its: Chairman of the Board, President & CEO PNW

Description of 2010 Palo Verde Specific Compensation Opportunity for Randall K. Edington

Consistent with the offer letter between the Company and Mr. Edington, dated December 20, 2006, the Company adopted the 2010 Palo Verde Specific Compensation Opportunity. Mr. Edington has the opportunity to receive up to $125,000 upon the achievement of specified Palo Verde Nuclear Generating Station operational and performance metrics.

Exhibit 10.5.3

KEY EXECUTIVE EMPLOYMENT AND SEVERANCE AGREEMENT

THIS AGREEMENT, made and entered into as of the _____ day of ___________, 2009 (the "Effective Date"), by and between Pinnacle West Capital Corporation, an Arizona corporation (hereinafter referred to as the "Company") and ___________(hereinafter referred to as the "Executive"):

W I T N E S S E T H

WHEREAS, the Executive is employed by the Company, in an executive capacity, possesses intimate knowledge of the business and affairs of the Company, and has acquired certain confidential information and data with respect to the Company;

WHEREAS, the Company desires to insure, insofar as possible, that the Company will continue to have the benefit of the Executive's services and to protect the confidential information and goodwill of the Company; and

WHEREAS, the Company recognizes that circumstances may arise in which a change in the control of the Company or Arizona Public Service Company, a subsidiary of the Company, through acquisition or otherwise occurs thereby causing uncertainty of employment without regard to the Executive's competence or past contributions which uncertainty may result in the loss of valuable services of the Executive to the detriment of the Company and its shareholders, and the Company and the Executive wish to provide reasonable security to the Executive against changes in the Executive's relationship with the Company in the event of any such change in control; and

WHEREAS, both the Company and the Executive are desirous that a proposal for any change of control or acquisition will be considered by the Executive objectively and with reference only to the business interests of the Company and its shareholders;

WHEREAS, the Executive will be in a better position to consider the best interests of the Company if the Executive is afforded reasonable security, as provided in this Agreement, against altered conditions of employment which could result from any such change in control or acquisition; and

NOW, THEREFORE, in consideration of the foregoing and of the mutual covenants and agreements hereinafter set forth, the parties hereto mutually covenant and agree as follows:

1. Definitions.

(a) "Accrued Benefits" shall mean the benefits payable to the Executive as described in Section 6(a).

(b) "Act" shall mean the Securities Exchange Act of 1934.

(c) “Affiliate” shall mean (i) a corporation other than the Company that is a member of a “controlled group of corporations” (within the meaning of Section 414(b) of the Code as modified by Section 415(h) of the Code) or (ii) a group of trades or businesses under common control (within the meaning of Section 414(c) of the Code as modified by Section 415(h) of the Code) that also includes the Company as a member. For purposes of determining whether a transaction or event constitutes a Change of Control within the meaning of Section 1(g), “Affiliate” status shall be determined on the day immediately preceding the date of the transaction or event.

(d) “APS” shall mean Arizona Public Service Company, a subsidiary of the Company.

(e) “Beneficial Owner” shall have the same meaning as given to that term in Rule 13d-3 of the General Rules and Regulations of the Act, provided that any pledgee of the voting securities of the Company or APS shall not be deemed to be the Beneficial Owner thereof prior to its disposition of, or acquisition of voting rights with respect to, such securities.

(f) “Cause” shall be limited to (i) the engaging by the Executive in conduct which has caused demonstrable and serious injury to the Employer, monetary or otherwise, as evidenced by a determination in a binding and final judgment, order or decree of a court or administrative agency of competent jurisdiction, in effect after exhaustion or lapse of all rights of appeal, in an action, suit or proceeding, whether civil, criminal, administrative or investigative, other than an action, suit or proceeding, brought by the Company or an Affiliate, the purpose of which is to establish “Cause” under this Agreement; (ii) conviction of a felony, as evidenced by a binding and final judgment, order or decree of a court of competent jurisdiction, in effect after exhaustion or lapse of all rights of appeal, which the Employer determines has a significant adverse impact on it in the conduct of its business; or (iii) unreasonable neglect or refusal by the Executive to perform the Executive’s duties or responsibilities (unless significantly changed without the Executive’s consent).

(g) “Change of Control” shall mean one (1) or more of the following events:

(i) Any Person, other than an Affiliate, through a transaction or series of transactions, is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company or APS representing twenty percent (20%) or more of the combined voting power of the then outstanding securities of the Company or APS, as the case may be; *provided* , *however* , that, for purposes of this Section 1(g), any acquisition directly from the Company shall not constitute a Change of Control;

(ii) A merger or consolidation of (A) the Company with any other corporation which would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company or an Affiliate, less than sixty percent (60%) of the combined voting power of the securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or (B) APS with any other corporation which would result in the voting securities of APS outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company or an Affiliate, less than sixty percent (60%) of the combined voting power of the securities of APS or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation; provided that, for purposes of this subparagraph (ii), a merger or consolidation effected to implement a recapitalization of the Company or of APS (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company or of APS representing twenty percent (20%) or more of the combined voting power of the then outstanding securities of the Company or of APS (excluding any securities acquired by that Person directly from the Company or an Affiliate) shall not result in a Change of Control; or

(iii) The sale, transfer or other disposition of all or substantially all of the assets of either the Company or APS to a Person other than the Company or an Affiliate

(iv) Individuals who, as of July 31, 2008, constitute the board of directors of the Company (the "Company Incumbent Board") or of APS (the "APS Incumbent Board") cease for any reason to constitute at least two-thirds (2/3) of the members of the Company or APS board of directors, as the case may be; provided, however, that for purposes of this subparagraph (iv), (A)(1) any person becoming a member of the Company board of directors after July 31, 2008 whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least two-thirds (2/3) of the members then comprising the Company Incumbent Board will be, considered as though such person were a member of the Company Incumbent Board and (2) the Company Incumbent Board shall not include a director whose initial assumption of office as a director was in connection with an actual or threatened election contest relating to the election of directors, and (B)(1) any person becoming a member of the APS board of directors after July 31, 2008 whose election, or nomination for election by APS' shareholder(s), was approved by a vote of at least two-thirds (2/3) of the members then comprising the APS Incumbent Board or by the Company, as a majority shareholder of APS, considered as though such person were a member of the APS Incumbent Board and (2) the APS Incumbent Board shall not include a director whose initial assumption of office as a director was in connection with an actual or threatened election contest relating to the election of directors.

(h) "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

(i) "Disability" shall have the same meaning as given to that term in the applicable long-term disability plan maintained by the company or the Employer for employees.

(j) "Employer" shall mean the Company, and upon the transfer of the Executive to an Affiliate, "Employer" shall mean such Affiliate.

(k) "Employment Period" shall mean the period commencing on the date of a Change of Control and ending on the second anniversary of such date.

(l) "Excise Tax" shall mean the excise tax imposed by Section 4999 of the Code, together with any interest or penalties imposed with respect to such excise tax.

(m) "Good Reason" shall mean:

(i) A material diminution in the Executive's compensation;

(ii) A material diminution in the Executive's authority, duties, or responsibilities;

(iii) A material diminution in the authority, duties, or responsibilities of the supervisor to whom the Executive is required to report, including a requirement that the Executive report to a corporate officer or employee instead of reporting directly to the Board;

(iv) A material diminution in the budget over which the Executive retains authority;

(v) A material change in the geographic location at which the Executive must perform the service;

(vi) Any other action or inaction that constitutes a material breach by the Company of the Agreement.

(n) A "Payment" shall mean any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of the Executive, whether paid or payable pursuant to this Agreement or otherwise.

(o) “Person” shall mean any individual, partnership, joint venture, association, trust, corporation or other entity (including a “group” as defined in Section 13(d)(3) of the Act), other than an employee benefit plan of the Company or an Affiliate or an entity organized, appointed or established pursuant to the terms of any such benefit plan.

(p) “Termination Date” shall mean, except as otherwise provided in Section 12, (i) the Executive’s date of death; (ii) the date of the Executive’s voluntary early retirement as agreed upon in writing by the Employer and the Executive; (iii) sixty (60) days after the delivery of the Notice of Termination terminating the Executive’s employment on account of Disability pursuant to Section 9, unless the Executive returns full-time to the performance of his or her duties prior to the expiration of such period; (iv) the date of the Notice of Termination if the Executive’s employment is terminated by the Executive voluntarily other than for Good Reason; and (v) sixty (60) days after the delivery of the Notice of Termination if the Executive’s employment is terminated by the Employer (other than by reason of Disability) or by the Executive for Good Reason.

(q) “Termination Payment” shall mean the amount described in Section 6(b).

2. Impact on Employment . The Employer and the Executive shall retain the right to terminate the employment of the Executive at any time and for any reason prior to a Change of Control. If a Change of Control occurs when the Executive is employed by the Employer, the Employer will continue thereafter to employ the Executive during the Employment Period.

3. Duties . During the Employment Period, the Executive shall, in the same capacities and positions held by the Executive at the time of such Change of Control or in such other capacities and positions as may be agreed to by the Employer and the Executive in writing, devote the Executive’s reasonable best efforts, attention and skill to the business and affairs of the Company, as such business and affairs now exist and as they may hereafter be conducted. The services which are to be performed by the Executive hereunder are to be rendered at an employment location which is not more than seventy-five (75) miles from the Executive’s employment location on the date of the Change of Control, or in such other place or places as shall be mutually agreed upon in writing by the Executive and the Employer from time to time. The Executive shall not be required to be absent from such employment location for more than forty-five (45) consecutive days in any fiscal year without the Executive’s consent.

4. Compensation . During the Employment Period, the Executive shall be compensated as follows:

(a) The Executive shall receive, at such intervals and in accordance with such standard policies as may be in effect on the date of the Change of Control, an annual salary not less than the Executive’s annual salary as in effect as of the date of the Change of Control, subject to adjustment as provided in Section 5;

(b) The Executive shall be reimbursed, at such intervals and in accordance with such standard policies as may be in effect on the date of the Change of Control, for any and all monies advanced in connection with the Executive's employment for reasonable and necessary expenses incurred by the Executive on behalf of the Employer, including travel expenses;

(c) The Executive shall be included to the extent eligible thereunder in any and all plans providing general benefits for the Employer's employees, including but not limited to, group life insurance, disability, medical, dental, pension, profit sharing, savings and stock bonus plans and be provided any and all other benefits and perquisites made available to other employees of comparable status and position, on the same terms and conditions as generally provided to employees of comparable status and position;

(d) The Executive shall receive annually not less than the amount of paid vacation and not fewer than the number of paid holidays received annually immediately prior to the Change of Control or such greater amount of paid vacation and number of paid holidays as may be made available annually to other employees of comparable status and position with the Employer; and

(e) The Executive shall be included in all plans providing special benefits to corporate officers, including but not limited to bonus, deferred compensation, incentive compensation, supplemental pension, stock option, stock appreciation, stock bonus and similar or comparable plans extended by the Company or the Employer from time to time to corporate officers, key employees and other employees of comparable status.

5. Annual Compensation Adjustments. During the Employment Period, the Board of Directors of the Employer, an appropriate committee of the Board or the President of the Employer, whichever is appropriate, shall consider and appraise, at least annually, the Executive's compensation. In determining such compensation, the Board, the appropriate committee thereof or the President, whichever is appropriate, shall consider the commensurate increases given to other corporate officers and key employees generally, the scope and success of the Employer's operations, the expansion of the Executive's duties and the Executive's performance of his duties.

6. Payments Upon Termination.

(a) Accrued Benefits. For purposes of this Agreement, the Executive's Accrued Benefits shall include the following amounts: (i) all salary earned or accrued through the Termination Date; (ii) reimbursement for any and all monies advanced in connection with the Executive's employment for reasonable and necessary expenses incurred by the Executive through the Termination Date; (iii) a lump sum payment of the bonus or incentive compensation otherwise payable to the Executive under the terms of any bonus or incentive compensation plan or plans for the year in which termination occurs; and (iv) all other payments and benefits to which the Executive may be entitled under the terms of any benefit plan of the Company or the Employer. Payment of Accrued Benefits shall be made promptly in accordance with the Employer's prevailing practice and the terms of any applicable benefit plans, contracts or arrangements.

(b) Termination Payment . For purposes of this Agreement, the Executive's Termination Payment shall be an amount equal to (i) plus (ii), multiplied by (iii), where

(i) Equals the Executive's rate of annual salary, as in effect on the date of the Change of Control and as increased thereafter from time to time pursuant to Section 5;

(ii) Equals the amount of the average annual dollar award paid (or payable but deferred by the Executive) to the Executive pursuant to the Employer's regular annual bonus plan or arrangement with respect to the four (4) years (or for such lesser number of years prior for which the Executive was eligible to earn such a bonus, and annualized in the case of any bonus earned and payable for a partial fiscal year) preceding the Termination Date which shall be determined by dividing the total dollar amount paid (or payable but deferred by the Executive) to the Executive under such plan or arrangement with respect to such number of years by four (4) (or for such lesser number of years prior to which the Executive was eligible to earn such a bonus, and annualized in the case of any bonus earned and payable for a partial fiscal year); and

(iii) Equals 2.99.

The Termination Payment shall be payable in a lump sum on the Executive's Termination Date. Such lump sum payment shall not be reduced by any present value or similar factor. The Executive shall not be required to mitigate the amount of such payment by securing other employment or otherwise and such payment shall not be reduced by reason of the Executive securing other employment or for any other reason, except as provided in Section 16.

7. Death . If the Executive shall die during the Employment Period, but after delivery of a Notice of Termination by the Company for reasons other than Cause or Disability or by the Executive for Good Reason, the Executive's employment shall terminate on his or her date of death and the Executive's estate shall be entitled to receive the Executive's Accrued Benefits as of the Termination Date and, subject to the provisions of this Agreement, to such Termination Payment as the Executive would have been entitled to had the Executive survived. All benefits payable on account of the Executive's employment or death under the Company's or Employer's employee benefits plans, programs or arrangements shall be paid or distributed in accordance with the terms of such plans, programs or arrangements. The Executive's death following delivery of the Notice of Termination shall not affect his or her Termination Date which shall be determined without regard to the Executive's death, subject to the provisions of Section 12.

If the Executive shall die during the Employment Period, but prior to the delivery of a Notice of Termination, the Executive's employment shall terminate and the Executive's estate, heirs and beneficiaries shall receive all the Executive's Accrued Benefits through the Termination Date and all benefits available to them under the Company's benefit plans as in effect on the Termination Date on account of the Executive's death.

8. Retirement. If, during the Employment Period, the Executive and the Employer shall execute an agreement providing for the voluntary retirement of the Executive from the Employer, the Executive shall receive only his or her Accrued Benefits through the Termination Date. Without limiting the generality of the foregoing, the Executive's resignation under this Agreement with or without Good Reason, shall in no way affect the Executive's ability to terminate employment by reason of the Executive's "retirement" under any of the Company's retirement or pension plans or to be eligible to receive benefits under any retirement or pension plan of the Company and its affiliates or substitute plans adopted by the Company or its successors, and any termination which otherwise qualifies as Good Reason shall be treated as such even if it is also a "retirement" for purposes of any such plan.

9. Termination for Disability. If the Executive has been absent from his or her duties hereunder on a full-time basis for five (5) consecutive months during the Employment Period on account of a Disability, the Employer may provide a Notice of Termination, which satisfies the requirements of Section 12, and the Executive's employment shall, for purposes of this Agreement, terminate sixty (60) days thereafter, unless the Executive returns to the performance of his or her duties on a full-time basis prior to the end of the sixty (60) day period. During the term of the Executive's Disability prior to his or her Termination Date, the Executive shall continue to participate in all compensation and benefit plans, programs and arrangements in which the Executive was entitled to participate immediately prior to his or her Disability in accordance with the terms and provisions of such plans, programs and arrangements. If the Executive's employment is terminated on account of the Executive's Disability, the Executive shall receive his or her Accrued Benefits in accordance with Section 6(a) hereof, provided that the Executive's termination for purposes of this Agreement under this Section 9 shall not affect his or her entitlement to benefits on account of his or her Disability under any long-term disability programs of the Company or the Employer in effect at the time of such termination and in which the Executive participated immediately prior to his or her Disability.

10. Termination Not Giving Rise to a Termination Payment. If, during the Employment Period, the Executive's employment is terminated for Cause, or if the Executive voluntarily terminates his or her employment other than for Good Reason, subject to the procedures set forth in Section 12, the Executive shall be entitled to receive only his or her Accrued Benefits in accordance with Section 6(a).

11. Termination Giving Rise to a Termination Payment . If, during the Employment Period, the Executive's employment is terminated by the Executive for Good Reason within two years following the event giving rise to Good Reason or by the Employer other than by reason of death, Disability pursuant to Section 9 or Cause, subject to the procedures set forth in Section 12,

(a) the Executive shall be entitled to receive and the Company or the Employer, as applicable, shall pay the Executive's Accrued Benefits in accordance with Section 6(a) and, in lieu of further salary payments for periods following the Termination Date, as severance pay, a Termination Payment;

(b) the Executive and his eligible dependents shall continue to be covered until the end of the second calendar year following the year in which the Termination Date occurs, under the same terms and conditions, by the medical plan, dental plan and/or group life insurance plan maintained by the Company or the Employer which covered that Executive and his eligible dependents prior to the Executive's Termination Date. Notwithstanding the foregoing, if the Company's or Employer's medical plan, dental plan and/or group life insurance plan covering the Executive on his or her Termination Date was amended, replaced or terminated on or after the Change of Control and such action would constitute Good Reason within the meaning of Section 1 (l), the Executive and his or her eligible dependents shall be entitled to continued coverage for purposes of this Section 11(b) under the terms of the medical plan, dental plan and/or group life insurance plan which they participated in immediately prior to the Change of Control. If the affected plan is no longer available, the Company shall make arrangements to provide equivalent coverage to the Executive and his or her eligible dependents. For this purpose, "equivalent coverage" shall mean medical, dental and/or life insurance coverage, which, when added to the coverage provided to the Executive and his or her eligible dependents under the Company's or Employer's medical plan, dental plan and/or group life insurance plan in effect on the Executive's Termination Date, equals or exceeds the level of benefits provided under the medical plan, dental plan and/or group life insurance plan to the Executive and his or her eligible dependents on the day immediately preceding the Change of Control. The Executive and the Employer shall share the cost of the continued coverage under this Section 11(b) in the same proportions as the Employer and similarly situated active employees shared the cost of such coverage on the day preceding the Executive's Termination Date. For purposes of satisfying the Company's or Employer's obligation under the Consolidated Omnibus Budget Reconciliation Act ("COBRA") to continue group health care coverage to the Executive and his eligible dependents as a result of the Executive's termination of employment, the period during which the Executive is permitted to continue to participate in the Company's or Employer's medical plans and/or dental plans under this Section 11(b) shall not be taken into account and treated as part of the period during which the Executive and his eligible dependents are entitled to continued coverage under the Company's or Employer's group health plans under COBRA. Following the end of the continuation period specified in this Section 11(b), the Executive and his eligible dependents shall be covered under such plans and arrangements only as required under the provisions of COBRA;

(c) the Executive's termination shall be treated as a "Normal Termination" as defined in the Pinnacle West Capital Corporation Stock Option and Incentive Plan, as amended from time to time, the Pinnacle West Capital Corporation 2002 Long-Term Incentive Plan, the Pinnacle West Capital Corporation 2007 Long-Term Incentive Plan, or any successor plan thereto, which shall entitle the Executive to exercise any outstanding stock options during the three (3) month period beginning on the Executive's Termination Date, and any restrictions remaining on any "Restricted Stock" (as defined in such plan) awarded to the Executive shall lapse on his or her Termination Date; and

(d) "out-placement" services will be provided by the Company to the Executive for a period beginning on the Executive's Termination Date. Such services shall be provided for a period beginning on the Executive's Termination Date and ending on the earlier of the date on which the Executive becomes employed in a position commensurate with his or her current salary and responsibilities or the last day of the twelve (12) month period which began on the Executive's Termination Date. The "out-placement" services shall be provided by an out-placement company selected by the Company.

12. Termination Notice and Procedure . Any termination by the Employer or the Executive of the Executive's employment during the Employment Period shall be communicated by written Notice of Termination to the Executive if such Notice is delivered by the Company and to the Company if such Notice is delivered by the Executive, all in accordance with the following procedures:

(a) The Notice of Termination shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances alleged to provide a basis for termination.

(b) Any Notice of Termination by the Company shall be approved by a resolution duly adopted by a majority of the members of the Company's board of directors then in office.

(c) If the Company shall give a Notice of Termination for Cause or by reason of Disability and the Executive in good faith notifies the Company that a dispute exists concerning such termination within the fifteen (15) day period following the Executive's receipt of such notice, the Executive may elect to continue his or her employment during such dispute. If it is thereafter determined that (i) the reason given by the Company for termination did exist, the Executive's Termination Date shall be the earlier of (A) the date on which the dispute is finally determined, either by mutual written agreement of the parties or pursuant to Section 14, (B) the date of the Company's Notice of Termination for Cause, (C) the date of the Executive's death, or (D) one day prior to the end of the Employment Period, and the Executive shall not be entitled to a Termination Payment based on events occurring after the Company delivered its Notice of Termination; or (ii) the reason given by the Company for termination did not exist, the employment of the Executive shall continue as if the Company had not delivered its Notice of Termination and there shall be no Termination Date arising out of such notice.

(d) The Executive must provide the Company with written notice of Good Reason within a period not to exceed 90 days of the initial existence of the condition alleged to give rise to Good Reason, upon the notice of which the Company shall have a period of 30 days during which it may remedy the condition. If the Executive shall in good faith give a Notice of Termination for Good Reason and the Company notifies the Executive that a dispute exists concerning the termination within the fifteen (15) day period following the Company's receipt of such notice, the Executive may elect to continue his or her employment during such dispute. If it is thereafter determined that (i) Good Reason did exist, the Executive's Termination Date shall be the earlier of (A) the date on which the dispute is finally determined, either by mutual written agreement of the parties or pursuant to Section 14, (B) the date of the Executive's death, or (C) one day prior to the end of the Employment Period, and the Executive's Termination Payment shall reflect events occurring after the Executive delivered his or her Notice of Termination; or (ii) Good Reason did not exist, the employment of the Executive shall continue after such determination as if the Executive had not delivered the Notice of Termination asserting Good Reason.

(e) If the Executive does not elect to continue employment pending resolution of a dispute regarding a Notice of Termination under Sections 12(c) and (d), and it is finally determined that the reason for termination set forth in such Notice of Termination did not exist, if such notice was delivered by the Executive, the Executive will be deemed to have voluntarily terminated his or her employment and if delivered by the Company, the Company will be deemed to have terminated the Executive other than by reason of death, Disability or Cause.

13. Obligations of the Executive. The Executive covenants and agrees, during the Executive's employment with the Employer and following his or her Termination Date, to hold in strict confidence any and all information in the Executive's possession as a result of the Executive's employment with the Employer; provided that nothing in this Agreement shall be construed as prohibiting the Executive from reporting any suspected instance of illegal activity of any nature, any nuclear safety concern, any workplace safety concern or any public safety concern to the United States Nuclear Regulatory Commission, United States Department of Labor or any federal or state governmental agency or prohibiting the Executive from participating in any way in any state or federal administrative, judicial or legislative proceeding or investigation with respect to any such claims and matters.

14. Arbitration . All claims, disputes and other matters in question between the parties arising under this Agreement, other than Section 13, shall be decided by arbitration in accordance with the commercial arbitration rules of the American Arbitration Association, unless the parties mutually agree otherwise. Any arbitration required under this Agreement shall be held in Phoenix, Arizona, unless the parties mutually agree otherwise. The Company shall pay the costs of any such arbitration. The award by the arbitrator shall be final, and judgment may be entered upon it in accordance with applicable law in any state or Federal court having jurisdiction thereof.

The Company shall not be required to arbitrate claims arising under Section 13. The Company shall have the right to judicial enforcement of its rights under Section 13, including, but not limited to, injunctive relief.

15. Expenses and Interest . If, after a Change of Control a good faith dispute arises with respect to the enforcement of the Executive's rights under this Agreement or if any arbitration or legal proceeding shall be brought in good faith to enforce or interpret any provision contained herein, or to recover damages for breach hereof and the Executive is the prevailing party, the Executive shall recover from the Company any reasonable attorney's fees and necessary costs and disbursements incurred as a result of such dispute or legal proceeding, and prejudgment interest on any money judgment obtained by the Executive calculated at the rate of interest announced by JP Morgan Chase Bank N.A. (or any successor thereto) from time to time as its prime rate from the date that payments to the Executive should have been made under this Agreement. Any payment due under this section will be made on the fifth business day following the date the dispute is final.

16. Payment Obligations Absolute . The Company's obligation during and after the Employment Period to insure that the compensation and arrangements provided herein are provided to the Executive shall be absolute and unconditional and shall not be affected by any circumstances, provided that the Company may apply amounts payable under this Agreement to any loan or other debts then owed to the Company or an Affiliate by the Executive, the terms of which are reflected in a written document signed by the Executive. Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Company or its Affiliates and for which the Executive may qualify, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any other contract or agreement with the Company or its Affiliates. Amounts that are vested benefits or that the Executive is otherwise entitled to receive under any plan, policy, practice or program of or any other contract or agreement with the Company or its Affiliates at or subsequent to the Termination Date shall be payable in accordance with such plan, policy, practice or program or contract or agreement, except as explicitly modified by this Agreement. Notwithstanding the foregoing, the amounts payable under this Agreement shall be in lieu of any amounts payable to the Executive under a separate severance plan, agreement or arrangement established by the Company. All amounts payable by the Company under this Agreement shall be paid without notice or demand. Each and every payment made under this Agreement by the Company shall be final. Notwithstanding the foregoing, in the event that the Company has paid the Executive more than the amount to which the Executive is entitled under this Agreement, the Company shall have the right to recover all or any part of such overpayment from the Executive or from whomsoever has received such amount.

17. Successors .

(a) If all or substantially all of the Company's business and assets are sold, assigned or transferred to any Person, or if the Company merges into or consolidates or otherwise combines with any Person which is a continuing or successor entity, then the Company shall assign all of its right, title and interest in this Agreement as of the date of such event to the Person which is either the acquiring or successor corporation, and such Person shall assume and perform from and after the date of such assignment the terms, conditions and, provisions imposed by this Agreement upon the Company. Failure of the Company to obtain such assignment shall be a breach of this Agreement. In case of such assignment by the Company and of assumption and agreement by such Person, all further rights as well as all other obligations of the Company under this Agreement thenceforth shall cease and terminate and thereafter the expression "the Company" wherever used herein shall be deemed to mean such Person(s).

(b) This Agreement and all rights of the Executive shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, estates, executors, administrators, heirs and beneficiaries. In the event of the Executive's death, all amounts payable to the Executive under this Agreement shall be paid to the Executive's estate. This Agreement shall inure to the benefit of, be binding upon and be enforceable by, any successor, surviving or resulting corporation or other entity to which all or substantially all of the Company's business and assets shall be transferred whether by merger, consolidation, transfer or sale. This Agreement shall not be terminated by the voluntary or involuntary dissolution of the Company.

18. Enforcement . The provisions of this Agreement shall be regarded as divisible, and if any of said provisions or any part hereof are declared invalid or unenforceable by a court of competent jurisdiction, the validity and enforceability of the remainder of such provisions or parts hereof and the applicability thereof shall not be affected thereby.

19. Amendment or Termination . The term of this Agreement shall run until December 31, 2009, and shall continue for additional one (1) year periods thereafter, unless the Company notifies the Executive in writing six (6) months prior to December 31, 2009 (or the anniversary of that date in the event the Agreement continues beyond that date pursuant to the provisions of this Section 19) that it does not intend to continue the Agreement. Notwithstanding the foregoing, (i) if a Change of Control has occurred on or before the date on which the Agreement would be terminated by the Company in accordance with this Section 19, the Agreement shall not terminate with respect to that Change of Control until the end of the Employment Period, and (ii) this Agreement shall terminate if, prior to a Change in Control, the Executive ceases to be employed by the Employer as a corporate officer.

This Agreement sets forth the entire agreement between the Executive and the Company with respect to the subject matter hereof, and supersedes all prior oral or written negotiations, commitments, understandings and writings with respect thereto.

This Agreement may not be terminated, amended or modified during its term as specified above except by written instrument executed by the Company and the Executive.

20. Withholding. The Company and the Employer shall be entitled to withhold from amounts to be paid to the Executive under this Agreement any federal, state or local withholding or other taxes or charges which it is from time to time required to withhold. The Company and the Employer shall be entitled to rely on an opinion of counsel if any question as to the amount or requirement of any such withholding shall arise.

21. Venue; Governing Law. This Agreement and the Executive's and Company's respective rights and obligations hereunder shall be governed by and construed in accordance with the laws of the State of Arizona. Any action concerning this Agreement shall be brought in the Federal or state courts located in the County of Maricopa, Arizona, and each party consents to the venue and jurisdiction of such courts.

22. Notice. Notices given pursuant to this Agreement shall be in writing and (a) if hand delivered, shall be deemed given when delivered, and (b) if mailed, shall be deemed delivered when placed in the United States mail, postage prepaid, addressed,

if to the Company, to

Board of Directors
Pinnacle West Capital Corporation
400 North Fifth Street
Phoenix, Arizona 85004
Attention: Law Department

or if to the Executive, to

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or to such other addresses as the parties may provide written notice of to each other, from time to time, in accordance with this Section 22.

23. Funding. Benefits payable under this Agreement shall constitute an unfunded general obligation of the Company payable from its general assets, and the Company shall not be required to establish any special fund or trust for purposes of paying benefits under this Agreement. The Executive shall not have any vested right to any particular assets of the Company as a result of execution of this Agreement and shall be a general creditor of the Company.

24. No Waiver. No waiver by either party at any time of any breach by the other party of, or compliance with, any condition or provision of this Agreement to be performed by the other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same time or any prior or subsequent time.

25. Headings. The headings contained are for reference only and shall not affect the meaning or interpretation of any provision of this Agreement.

26. Additional Payment. If a Change of Control occurs within three (3) years of the Effective Date (the "Sunset Period") and the Executive's employment is terminated during the Employment Period that commences on the occurrence of that Change of Control under circumstances that entitle the Executive to receive a Termination Payment pursuant to Section 11, the Executive shall be entitled to receive the "Gross-Up Payment" provided by this Section 26 if it is determined that any Payment would be subject to the Excise Tax.

(a) The Gross-Up Payment shall equal the amount necessary to assure that, after payment by the Executive of all taxes (and any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments. The Company's obligation to make Gross-Up Payments under this Section 26 shall not be conditioned upon the Executive's termination of employment.

(b) Subject to the remaining provisions of this Section 26, all determinations required to be made under this Section 26, including whether and when a Gross-Up Payment is required, the amount of the Gross-Up Payment, and the assumptions to be utilized in arriving at such determinations, shall be made by a nationally-recognized accounting firm appointed by the Company prior to a Change of Control (the "Accounting Firm"). The Accounting Firm shall provide detailed supporting calculations both to the Company and the Executive within 15 business days of the receipt of notice from the Executive that there has been a Payment or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change of Control, the Executive may appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this Section 26, shall be paid by the Company to the Executive within 5 days of the receipt of the Accounting Firm's determination, but in all events by the last day of the calendar year following the calendar year in which the Executive remits the related taxes. Any determination by the Accounting Firm relating to the Gross-Up Payment shall be binding upon the Company and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code, it is possible that Gross-Up Payments that will not have been made by the Company should have been made (the "Underpayment"), consistent with the calculations required to be made hereunder. In the event the Company exhausts its remedies pursuant to Section 26(c) and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive; but in no event later than the last day of the calendar year following the calendar year in which the Executive remits the related taxes.

(c) The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable, but no later than 10 business days after the Executive is informed in writing of such claim. The Executive shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which the Executive gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that the Company desires to contest such claim, the Executive shall:

(i) give the Company any information reasonably requested by the Company relating to such claim,

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,

(iii) cooperate with the Company in good faith in order effectively to contest such claim, and

(iv) permit the Company to participate in any proceedings relating to such claim;

provided , *however* , that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest, and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 26(c), the Company shall control all proceedings taken in connection with such contest, and, at its sole discretion, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the applicable taxing authority in respect of such claim and may, at its sole discretion, either pay the tax claimed to the appropriate taxing authority on behalf of the Executive and direct the Executive to sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; *provided* , *however* , that, if the Company pays such claim and directs the Executive to sue for a refund, the Company shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties) imposed with respect to such payment or with respect to any imputed income in connection with such payment; and *provided* , *further* , that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which the Gross-Up Payment would be payable hereunder, and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority. In all events, any reimbursement of the Executive shall be made no later than the last day of the calendar year following the calendar year in which the taxes that are subject to audit or litigation are remitted to the taxing authority or, where as a result of such audit or litigation no taxes are remitted, the last day of the calendar year following the calendar year in which the audit is completed or there is a final and nonappealable settlement or other resolution of the litigation.

(d) If, after the receipt by the Executive of a Gross-Up Payment or payment by the Company of an amount on the Executive's behalf pursuant to Section 26(c), the Executive becomes entitled to receive any refund with respect to the Excise Tax to which such Gross-Up Payment relates or with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of this Section 26) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after payment by the Company of an amount on the Executive's behalf pursuant to this Section 26, a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then the amount of such payment shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

(e) Notwithstanding any other provision of this Section 26, the Company may, in its sole discretion, withhold and pay over to the Internal Revenue Service or any other applicable taxing authority, for the benefit of the Executive, all or any portion of any Gross-Up Payment, and the Executive hereby consents to such withholding.

27. Excise Taxes . If the Executive is not entitled to receive the Gross-Up Payment provided by Section 26 because the Change of Control did not occur during the Sunset Period or the Executive's termination of employment did not occur within the Employment Period, the Executive agrees that any Payments to which he is entitled will be reduced to equal the maximum amount that may be paid to the Executive without triggering the application of the Excise Tax. This amount is referred to below as the "Capped Benefit." The limitations imposed on the Executive's Payments by this Section 27 will not apply if the total Payments the Executive is entitled to receive minus the Excise Taxes that will be due on the Executive's total Payments exceeds the Capped Benefit. In such case, the Executive shall be solely responsible to pay any Excise Taxes (and income or other taxes) that may be imposed on the Executive with respect to the Payments.

(a) If the Executive is not entitled to receive a Gross-Up Payment pursuant to Section 26 and the Company believes that the Executive will be subject to the limitations imposed on the Executive's Payments by this Section 27, it will notify the Executive as soon as possible. The Company then will follow the procedures described in Section 26(b) to engage an Accounting Firm to perform the necessary calculations.

(b) Until the Accounting Firm has completed its work, the Company will make Payments to the Executive, at the times when such Payments become due, in the maximum amount that it believes may be paid without exceeding such limitations. The balance, if any, then will be paid, if due, after the Accounting Firm completes the necessary calculations.

(c) If the Accounting Firm concludes that the Executive's Payments are subject to the limitations imposed by this Section 27, the Executive's Payments will be reduced to equal the Capped Benefit. In making such reduction, the Company first will reduce the amount of the Executive's Payments under this Agreement and, if necessary, any other Payments to which the Executive is entitled under any other arrangement that does not constitute "non-qualified deferred compensation" that is subject to Section 409A of the Code. The Company will reduce the amount of any Payments payable to the Executive that are subject to Section 409A of the Code only to the extent reductions in addition to those described in the preceding sentence are necessary to reduce the total Payments to equal the Capped Benefit. If reduction of any Payments which are subject to Section 409A of the Code becomes necessary to limit the total Payments to the Capped Benefit, the Company first will reduce the non-equity based Payments proportionally in the ratio in which each such non-equity based Payment bears to all of the non-equity based Payments. To the extent additional reductions are necessary, the Company will reduce the equity based Payments proportionally in the ratio in which each such equity based Payment bears to all of such equity based Payments.

(d) The Accounting Firm's determinations shall be set forth in writing and shall include detailed supporting calculations. The Accounting Firm's determinations shall be binding on the Executive and the Company. If the Internal Revenue Service finally and conclusively determines that the Capped Benefit is less than the amount calculated by the Accounting Firm, the Capped Benefit will be recalculated by the Accounting Firm in a manner consistent with the determination of the Internal Revenue Service. Any payment made to the Executive in excess of the amount actually due then will be repaid by the Executive to the Company. If the Internal Revenue Service finally and conclusively determines that the actual Capped Benefit exceeds the amount calculated by the Accounting Firm, the Company shall pay the Executive any shortage (including any taxes, interest and penalties) so that the Executive will have received or be entitled to receive the maximum amount to which the Executive is entitled under this Agreement.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized officer, and the Executive has executed this Agreement, on the date and year first above written.

PINNACLE WEST CAPITAL CORPORATION

By: ______________________________
Its ______________________________

ATTEST:

By: ______________________________
Its ______________________________

____
Executive

Exhibit 10.6.5

Summary of 2010 Incentive Plans

On December 15, 2009, the Human Resources Committee (the "Committee") approved the Pinnacle West 2010 Annual Incentive Award Plan (the "PNW Plan"), which provides an incentive award opportunity for Donald E. Brandt, the Chairman of the Board and Chief Executive Officer of Pinnacle West and Arizona Public Service Company ("APS"). On December 16, 2009, the Board of Directors of Pinnacle West, acting on the recommendation of the Committee, approved the APS 2010 Annual Incentive Award Plan (the "APS Plan") and the 2010 APS Palo Verde Employee Incentive Plan (the "Palo Verde Plan"), which provide incentive award opportunities for Pinnacle West and APS employees, including the following "named executive officers" from the 2009 Proxy Statement: James R. Hatfield, Senior Vice President, Chief Financial Officer and Treasurer; Randall K. Edington, Executive Vice President and Chief Nuclear Officer of APS; and Steven M. Wheeler, Executive Vice President, Customer Service and Regulation, of APS. The PNW Plan, the APS Plan, and the Palo Verde Plan are referred to collectively herein as the "2010 Plans."

No incentive payments will be awarded under the 2010 Plans unless Pinnacle West, with respect to Mr. Brandt, and APS, with respect to Messrs. Hatfield, Wheeler and Edington, achieves a specified threshold earnings level. The Committee may evaluate the impacts of unusual or nonrecurring adjustments to earnings in determining whether any earnings level has been met for purposes of the 2010 Plans, and the impacts of any sale or disposal of assets will be excluded for purposes of the PNW Plan.

The award opportunity for Mr. Brandt under the PNW Plan is based on the achievement of specified 2010 Pinnacle West earnings levels. The award achieved may be further adjusted by the Committee based upon its evaluation of Mr. Brandt's individual performance. Mr. Brandt has an award opportunity of up to 50% of his base salary if the threshold earnings level is met, up to 100% of his base salary if a target earnings level is met, and up to 150% of his base salary if a maximum earnings level is met, before adjustment for individual performance. In considering Mr. Brandt's individual performance, the Committee may take into account factors such as shareholder value, financial strength, operating performance, development and execution of corporate strategy and safety.

The award opportunities for Messrs. Hatfield and Wheeler under the APS Plan are based on the achievement of specified 2010 APS earnings levels and specified business unit performance goals. The awards achieved may be further adjusted by the Committee, with input from the Chief Executive Officer, based upon its evaluation of each officer's individual performance. Each officer has a target award opportunity of up to 50% of his base salary. He may earn less than the target amount or more, up to a maximum award opportunity of up to 100% of his base salary, depending on the achievement of the earnings and business unit performance goals separately or in combination, and before adjustment for individual performance. The business unit performance measures that will be considered for Mr. Hatfield and Mr. Wheeler are derived from APS' five critical areas of focus as provided in its Strategic Framework: customers and communities, employees, environmental stewardship, operational excellence and shareholder value. In considering each officer's individual performance, with input from the Chief Executive Officer, the Committee may take into account factors such as effective cost and financial management, APS' financial strength, operational performance, customer service, regulatory processes and safety.

The award opportunity for Mr. Edington under the Palo Verde Plan is based on the achievement of specified 2010 APS earnings levels and specified business unit performance goals. Mr. Edington has an award opportunity of 25% of his base salary up to 100% of his base salary depending on the achievement of the earnings and business unit performance goals separately or in combination. The business unit performance indicators that will be considered for Mr. Edington are in the areas of safety, employee performance, achievement of operational metrics for the Palo Verde Nuclear Generating Station, performance improvement in key areas, and cost management.

In no event may any individual award under the PNW Plan or the APS Plan exceed 200% of the target payout level.