

PINNACLE WEST CAPITAL CORP
Form 10-Q
August 03, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number	Exact Name of Each Registrant as specified in its charter; State of Incorporation; Address; and Telephone Number	IRS Employer Identification No.
1-8962	PINNACLE WEST CAPITAL CORPORATION (an Arizona corporation) 400 North Fifth Street, P.O. Box 53999 Phoenix, Arizona 85072-3999 (602) 250-1000	86-0512431
1-4473	ARIZONA PUBLIC SERVICE COMPANY (an Arizona corporation) 400 North Fifth Street, P.O. Box 53999 Phoenix, Arizona 85072-3999 (602) 250-1000	86-0011170

Indicate by check mark whether each registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

PINNACLE WEST CAPITAL CORPORATION	Yes	No
ARIZONA PUBLIC SERVICE COMPANY	Yes	No

Edgar Filing: PINNACLE WEST CAPITAL CORP - Form 10-Q

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

PINNACLE WEST CAPITAL CORPORATION	Yes	No
ARIZONA PUBLIC SERVICE COMPANY	Yes	No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

PINNACLE WEST CAPITAL CORPORATION

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Emerging growth company

ARIZONA PUBLIC SERVICE COMPANY

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether each registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

PINNACLE WEST CAPITAL CORPORATION	Yes	No
ARIZONA PUBLIC SERVICE COMPANY	Yes	No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

PINNACLE WEST CAPITAL CORPORATION	Number of shares of common stock, no par value, outstanding as of July 26, 2017: 111,624,528
ARIZONA PUBLIC SERVICE COMPANY	Number of shares of common stock, \$2.50 par value, outstanding as of July 26, 2017: 71,264,947

Arizona Public Service Company meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this form with the reduced disclosure format allowed under that General Instruction.

TABLE OF CONTENTS

	Page
<u>Forward-Looking Statements</u>	<u>2</u>
<u>Part I</u>	<u>3</u>
<u>Item 1. Financial Statements</u>	<u>3</u>
<u>Pinnacle West Capital Corporation</u>	<u>4</u>
<u>Arizona Public Service Company</u>	<u>10</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>56</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>78</u>
<u>Item 4. Controls and Procedures</u>	<u>78</u>
 <u>Part II</u>	 <u>80</u>
<u>Item 1. Legal Proceedings</u>	<u>80</u>
<u>Item 1A. Risk Factors</u>	<u>80</u>
<u>Item 5. Other Information</u>	<u>81</u>
<u>Item 6. Exhibits</u>	<u>82</u>
<u>Signatures</u>	<u>85</u>

This combined Form 10-Q is separately provided by Pinnacle West Capital Corporation ("Pinnacle West") and Arizona Public Service Company ("APS"). Any use of the words "Company," "we," and "our" refer to Pinnacle West. Each registrant is providing on its own behalf all of the information contained in this Form 10-Q that relates to such registrant and, where required, its subsidiaries. Except as stated in the preceding sentence, neither registrant is providing any information that does not relate to such registrant, and therefore makes no representation as to any such information. The information required with respect to each company is set forth within the applicable items. Item 1 of this report includes Condensed Consolidated Financial Statements of Pinnacle West and Condensed Consolidated Financial Statements of APS. Item 1 also includes Combined Notes to Condensed Consolidated Financial Statements.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements based on current expectations. These forward-looking statements are often identified by words such as "estimate," "predict," "may," "believe," "plan," "expect," "require," "intend," "assume," "project" and similar words. Because actual results may differ materially from expectations, we caution readers not to place undue reliance on these statements. A number of factors could cause future results to differ materially from historical results, or from outcomes currently expected or sought by Pinnacle West or APS. In addition to the Risk Factors described in Part I, Item 1A of the Pinnacle West/APS Annual Report on Form 10-K for the fiscal year ended December 31, 2016 ("2016 Form 10-K"), Part II, Item 1A of this report and in Part I, Item 2 — "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this report, these factors include, but are not limited to:

- our ability to manage capital expenditures and operations and maintenance costs while maintaining reliability and customer service levels;
- variations in demand for electricity, including those due to weather, seasonality, the general economy, customer and sales growth (or decline), and the effects of energy conservation measures and distributed generation;
- power plant and transmission system performance and outages;
- competition in retail and wholesale power markets;
- regulatory and judicial decisions, developments and proceedings;
- new legislation, ballot initiatives and regulation, including those relating to environmental requirements, regulatory policy, nuclear plant operations and potential deregulation of retail electric markets;
- fuel and water supply availability;
- our ability to achieve timely and adequate rate recovery of our costs, including returns on and of debt and equity capital investment;
- our ability to meet renewable energy and energy efficiency mandates and recover related costs;
- risks inherent in the operation of nuclear facilities, including spent fuel disposal uncertainty;
- current and future economic conditions in Arizona, including in real estate markets;
- the development of new technologies which may affect electric sales or delivery;
- the cost of debt and equity capital and the ability to access capital markets when required;
- environmental, economic and other concerns surrounding coal-fired generation, including regulation of greenhouse gas emissions;
- volatile fuel and purchased power costs;
- the investment performance of the assets of our nuclear decommissioning trust, pension, and other postretirement benefit plans and the resulting impact on future funding requirements;
- the liquidity of wholesale power markets and the use of derivative contracts in our business;
- potential shortfalls in insurance coverage;
- new accounting requirements or new interpretations of existing requirements;
- generation, transmission and distribution facility and system conditions and operating costs;
- the ability to meet the anticipated future need for additional generation and associated transmission facilities in our region;
- the willingness or ability of our counterparties, power plant participants and power plant land owners to meet contractual or other obligations or extend the rights for continued power plant operations; and
- restrictions on dividends or other provisions in our credit agreements and Arizona Corporation Commission ("ACC") orders.

These and other factors are discussed in the Risk Factors described in Part I, Item 1A of our 2016 Form 10-K and in Part II, Item 1A of this report, which readers should review carefully before placing any reliance on our financial statements or disclosures. Neither Pinnacle West nor APS assumes any obligation to update these statements, even if our internal estimates change, except as required by law.

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

	Page
<u>Pinnacle West Condensed Consolidated Statements of Income for Three and Six Months Ended June 30, 2017 and 2016</u>	<u>4</u>
<u>Pinnacle West Condensed Consolidated Statements of Comprehensive Income for Three and Six Months Ended June 30, 2017 and 2016</u>	<u>5</u>
<u>Pinnacle West Condensed Consolidated Balance Sheets as of June 30, 2017 and December 31, 2016</u>	<u>6</u>
<u>Pinnacle West Condensed Consolidated Statements of Cash Flows for Six Months Ended June 30, 2017 and 2016</u>	<u>8</u>
<u>Pinnacle West Condensed Consolidated Statements of Changes in Equity for Six Months Ended June 30, 2017 and 2016</u>	<u>9</u>
<u>APS Condensed Consolidated Statements of Income for Three and Six Months Ended June 30, 2017 and 2016</u>	<u>10</u>
<u>APS Condensed Consolidated Statements of Comprehensive Income for Three and Six Months Ended June 30, 2017 and 2016</u>	<u>11</u>
<u>APS Condensed Consolidated Balance Sheets as of June 30, 2017 and December 31, 2016</u>	<u>12</u>
<u>APS Condensed Consolidated Statements of Cash Flows for Six Months Ended June 30, 2017 and 2016</u>	<u>14</u>
<u>APS Condensed Consolidated Statements of Changes in Equity for Six Months Ended June 30, 2017 and 2016</u>	<u>15</u>
<u>Combined Notes to Condensed Consolidated Financial Statements</u>	<u>16</u>
<u>Note 1. Consolidation and Nature of Operations</u>	<u>16</u>
<u>Note 2. Long-Term Debt and Liquidity Matters</u>	<u>17</u>
<u>Note 3. Regulatory Matters</u>	<u>18</u>
<u>Note 4. Retirement Plans and Other Postretirement Benefits</u>	<u>30</u>
<u>Note 5. Palo Verde Sale Leaseback Variable Interest Entities</u>	<u>31</u>
<u>Note 6. Derivative Accounting</u>	<u>32</u>
<u>Note 7. Commitments and Contingencies</u>	<u>36</u>
<u>Note 8. Other Income and Other Expense</u>	<u>43</u>
<u>Note 9. Earnings Per Share</u>	<u>44</u>
<u>Note 10. Fair Value Measurements</u>	<u>44</u>
<u>Note 11. Nuclear Decommissioning Trusts</u>	<u>51</u>
<u>Note 12. New Accounting Standards</u>	<u>52</u>
<u>Note 13. Changes in Accumulated Other Comprehensive Loss</u>	<u>54</u>

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited)
(dollars and shares in thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
OPERATING REVENUES	\$944,587	\$915,394	\$1,622,315	\$1,592,561
OPERATING EXPENSES				
Fuel and purchased power	254,611	274,848	467,006	496,133
Operations and maintenance	214,013	242,279	433,989	485,474
Depreciation and amortization	125,739	123,073	253,366	242,549
Taxes other than income taxes	44,289	42,117	88,125	84,618
Other expenses	1,706	1,329	2,094	1,877
Total	640,358	683,646	1,244,580	1,310,651
OPERATING INCOME	304,229	231,748	377,735	281,910
OTHER INCOME (DEDUCTIONS)				
Allowance for equity funds used during construction	10,456	10,369	19,938	20,885
Other income (Note 8)	484	197	964	314
Other expense (Note 8)	(3,822)	(2,842)	(7,502)	(6,880)
Total	7,118	7,724	13,400	14,319
INTEREST EXPENSE				
Interest charges	54,969	52,849	106,833	103,593
Allowance for borrowed funds used during construction	(4,906)	(5,301)	(9,378)	(10,528)
Total	50,063	47,548	97,455	93,065
INCOME BEFORE INCOME TAXES	261,284	191,924	293,680	203,164
INCOME TAXES	88,967	65,742	93,178	67,656
NET INCOME	172,317	126,182	200,502	135,508
Less: Net income attributable to noncontrolling interests (Note 5)	4,874	4,874	9,747	9,747
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$167,443	\$121,308	\$190,755	\$125,761
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING — BASIC	111,797	111,368	111,763	111,336
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING — DILUTED	112,345	112,004	112,270	111,930
EARNINGS PER WEIGHTED-AVERAGE COMMON SHARE OUTSTANDING				
Net income attributable to common shareholders — basic	\$1.50	\$1.09	\$1.71	\$1.13
Net income attributable to common shareholders — diluted	\$1.49	\$1.08	\$1.70	\$1.12
DIVIDENDS DECLARED PER SHARE	\$1.31	\$1.25	\$1.31	\$1.25

The accompanying notes are an integral part of the financial statements.

PINNACLE WEST CAPITAL CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (unaudited)
 (dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
NET INCOME	\$172,317	\$126,182	\$200,502	\$135,508
OTHER COMPREHENSIVE INCOME, NET OF TAX				
Derivative instruments:				
Net unrealized gain (loss), net of tax expense of \$4, \$80, \$679 and \$626 for the respective periods	7	128	(763)	(566)
Reclassification of net realized loss, net of tax (benefit) expense of (\$348), (\$392), \$8 and (\$191) for the respective periods	564	624	1,771	1,766
Pension and other postretirement benefits activity, net of tax benefit (expense) of \$823, \$439, \$119 and (\$206) for the respective periods	(1,334)	(701)	(812)	(171)
Total other comprehensive income (loss)	(763)	51	196	1,029
COMPREHENSIVE INCOME	171,554	126,233	200,698	136,537
Less: Comprehensive income attributable to noncontrolling interests	4,874	4,874	9,747	9,747
COMPREHENSIVE INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$166,680	\$121,359	\$190,951	\$126,790

The accompanying notes are an integral part of the financial statements.

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)
(dollars in thousands)

	June 30, 2017	December 31, 2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$4,953	\$8,881
Customer and other receivables	293,266	250,491
Accrued unbilled revenues	213,703	107,949
Allowance for doubtful accounts	(2,151)	(3,037)
Materials and supplies (at average cost)	258,134	253,979
Fossil fuel (at average cost)	29,890	28,608
Income tax receivable	4,073	3,751
Assets from risk management activities (Note 6)	307	19,694
Deferred fuel and purchased power regulatory asset (Note 3)	48,122	12,465
Other regulatory assets (Note 3)	172,606	94,410
Other current assets	45,301	45,028
Total current assets	1,068,204	822,219
INVESTMENTS AND OTHER ASSETS		
Assets from risk management activities (Note 6)	55	1
Nuclear decommissioning trust (Note 11)	822,244	779,586
Other assets	71,121	69,063
Total investments and other assets	893,420	848,650
PROPERTY, PLANT AND EQUIPMENT		
Plant in service and held for future use	17,227,444	17,341,888
Accumulated depreciation and amortization	(5,951,653)	(5,970,100)
Net	11,275,791	11,371,788
Construction work in progress	1,195,076	1,019,947
Palo Verde sale leaseback, net of accumulated depreciation (Note 5)	111,580	113,515
Intangible assets, net of accumulated amortization	265,926	90,022
Nuclear fuel, net of accumulated amortization	118,909	119,004
Total property, plant and equipment	12,967,282	12,714,276
DEFERRED DEBITS		
Regulatory assets (Note 3)	1,415,091	1,313,428
Assets for other postretirement benefits (Note 4)	184,629	166,206
Other	141,101	139,474
Total deferred debits	1,740,821	1,619,108
TOTAL ASSETS	\$16,669,727	\$16,004,253

The accompanying notes are an integral part of the financial statements.

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)
(dollars in thousands)

	June 30, 2017	December 31, 2016
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$270,262	\$264,631
Accrued taxes	150,709	138,964
Accrued interest	53,046	52,835
Common dividends payable	73,113	72,926
Short-term borrowings (Note 2)	482,000	177,200
Current maturities of long-term debt (Note 2)	207,000	125,000
Customer deposits	72,585	82,520
Liabilities from risk management activities (Note 6)	48,613	25,836
Liabilities for asset retirements	8,960	9,135
Regulatory liabilities (Note 3)	91,173	99,899
Other current liabilities	181,133	244,000
Total current liabilities	1,638,594	1,292,946
LONG-TERM DEBT LESS CURRENT MATURITIES (Note 2)	4,192,520	4,021,785
DEFERRED CREDITS AND OTHER		
Deferred income taxes	3,048,007	2,945,232
Regulatory liabilities (Note 3)	940,106	948,916
Liabilities for asset retirements	631,657	615,340
Liabilities for pension benefits (Note 4)	460,368	509,310
Liabilities from risk management activities (Note 6)	46,586	47,238
Customer advances	98,795	88,672
Coal mine reclamation	236,811	221,910
Deferred investment tax credit	206,969	210,162
Unrecognized tax benefits	10,307	10,046
Other	168,930	156,784
Total deferred credits and other	5,848,536	5,753,610
COMMITMENTS AND CONTINGENCIES (SEE NOTE 7)		
EQUITY		
Common stock, no par value; authorized 150,000,000 shares, 111,642,680 and 111,392,053 issued at respective dates	2,604,482	2,596,030
Treasury stock at cost; 19,298 and 55,317 shares at respective dates	(1,553)	(4,133)
Total common stock	2,602,929	2,591,897
Retained earnings	2,300,109	2,255,547
Accumulated other comprehensive loss:		
Pension and other postretirement benefits	(39,882)	(39,070)
Derivative instruments	(3,744)	(4,752)
Total accumulated other comprehensive loss	(43,626)	(43,822)
Total shareholders' equity	4,859,412	4,803,622
Noncontrolling interests (Note 5)	130,665	132,290
Total equity	4,990,077	4,935,912

TOTAL LIABILITIES AND EQUITY

\$ 16,669,727 \$ 16,004,253

The accompanying notes are an integral part of the financial statements.

7

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(dollars in thousands)

	Six Months Ended	
	June 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 200,502	\$ 135,508
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization including nuclear fuel	291,285	282,291
Deferred fuel and purchased power	(21,993)	(21,026)
Deferred fuel and purchased power amortization	(13,663)	13,778
Allowance for equity funds used during construction	(19,938)	(20,885)
Deferred income taxes	94,365	65,881
Deferred investment tax credit	(3,194)	(2,083)
Change in derivative instruments fair value	(222)	(237)
Stock compensation	12,891	25,048
Changes in current assets and liabilities:		
Customer and other receivables	(62,624)	(19,898)
Accrued unbilled revenues	(105,754)	(101,331)
Materials, supplies and fossil fuel	(5,437)	1,551
Income tax receivable	(322)	589
Other current assets	(23,418)	(5,649)
Accounts payable	21,771	47,621
Accrued taxes	11,745	6,567
Other current liabilities	(44,778)	53,912
Change in margin and collateral accounts — assets	(71)	(34)
	(4,700)	18,010

Edgar Filing: PINNACLE WEST CAPITAL CORP - Form 10-Q

Change in margin and collateral accounts — liabilities				
Change in other long-term assets	(49,162	)	(41,101)
Change in other long-term liabilities	13,279		(16,037)
Net cash flow provided by operating activities	290,562		422,475	
CASH FLOWS FROM INVESTING ACTIVITIES				
Capital expenditures	(693,626	)	(731,609)
Contributions in aid of construction	18,032		29,127	
Allowance for borrowed funds used during construction	(9,378	)	(10,528)
Proceeds from nuclear decommissioning trust sales	275,364		290,594	
Investment in nuclear decommissioning trust	(276,505	)	(291,734)
Other	(2,127	)	(1,307)
Net cash flow used for investing activities	(688,240	)	(715,457)
CASH FLOWS FROM FINANCING ACTIVITIES				
Issuance of long-term debt	251,635		445,933	
Repayment of long-term debt	—		(76,850)
Short-term borrowing and payments — net	287,800		64,140	
Short-term debt borrowings under revolving credit facility	17,000		—	
Dividends paid on common stock	(142,520	)	(135,335)
Common stock equity issuance - net of purchases	(8,792	)	10,017	
Distributions to noncontrolling interests	(11,372	)	(11,372)
Other	(1	)	1	
Net cash flow provided by financing activities	393,750		296,534	
NET INCREASE (DECREASE) IN CASH	(3,928	)	3,552	

AND CASH
EQUIVALENTS

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	8,881	39,488
---	-------	--------

CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 4,953	\$ 43,040
--	----------	-----------

The accompanying notes are an integral part of the financial statements.

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(unaudited)
(dollars in thousands)

	Common Stock		Treasury Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
	Shares	Amount	Shares	Amount				
Balance, January 1, 2016	111,095,402	\$2,541,668	(115,030)	\$(5,806)	\$2,092,803	\$ (44,748)	\$ 135,540	\$4,719,457
Net income		—		—	125,761	—	9,747	135,508
Other comprehensive income		—		—	—	1,029	—	1,029
Dividends on common stock		—		—	(138,947)	—	—	(138,947)
Issuance of common stock	80,098	7,830		—	—	—	—	7,830
Purchase of treasury stock (a)		—	(71,962)	(4,880)	—	—	—	(4,880)
Reissuance of treasury stock for stock-based compensation and other		—	185,092	10,556	2	—	—	10,558
Capital activities by noncontrolling interests		—		—	—	—	(11,372)	(11,372)
Balance, June 30, 2016	111,175,500	\$2,549,498	(1,900)	\$(130)	\$2,079,619	\$ (43,719)	\$ 133,915	\$4,719,183
Balance, January 1, 2017	111,392,053	\$2,596,030	(55,317)	\$(4,133)	\$2,255,547	\$ (43,822)	\$ 132,290	\$4,935,912
Net income		—		—	190,755	—	9,747	200,502
Other comprehensive income		—		—	—	196	—	196
Dividends on common stock		—		—	(146,204)	—	—	(146,204)
Issuance of common stock	250,627	8,452		—	—	—	—	8,452
Purchase of treasury stock (a)		—	(156,172)	(12,430)	—	—	—	(12,430)
Reissuance of treasury stock for stock-based compensation and		—	192,191	15,010	11	—	—	15,021

other

Capital activities

by noncontrolling — — — — (11,372) (11,372)

interests

Balance, June 30, 111,642,680 \$2,604,482 (19,298) \$(1,553) \$2,300,109 \$ (43,626) \$ 130,665 \$4,990,077
2017

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

The accompanying notes are an integral part of the financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
ELECTRIC OPERATING REVENUES	\$942,615	\$909,757	\$1,619,485	\$1,586,389
OPERATING EXPENSES				
Fuel and purchased power	259,892	274,848	476,995	496,133
Operations and maintenance	208,286	233,712	420,505	472,423
Depreciation and amortization	125,317	123,033	252,524	242,479
Income taxes	92,381	70,444	103,754	76,294
Taxes other than income taxes	43,949	42,036	87,447	84,446
Total	729,825	744,073	1,341,225	1,371,775
OPERATING INCOME	212,790	165,684	278,260	214,614
OTHER INCOME (DEDUCTIONS)				
Income taxes	3,856	1,721	6,579	3,536
Allowance for equity funds used during construction	10,456	10,369	19,938	20,885
Other income (Note 8)	1,142	5,747	2,204	6,357
Other expense (Note 8)	(5,651)	(4,430)	(10,029)	(9,180)
Total	9,803	13,407	18,692	21,598
INTEREST EXPENSE				
Interest on long-term debt	49,989	48,903	97,480	95,722
Interest on short-term borrowings	2,331	1,930	4,459	4,007
Debt discount, premium and expense	1,197	1,195	2,374	2,334
Allowance for borrowed funds used during construction	(4,906)	(4,999)	(9,378)	(10,039)
Total	48,611	47,029	94,935	92,024
NET INCOME	173,982	132,062	202,017	144,188
Less: Net income attributable to noncontrolling interests (Note 5)	4,874	4,874	9,747	9,747
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDER	\$169,108	\$127,188	\$192,270	\$134,441

The accompanying notes are an integral part of the financial statements.

ARIZONA PUBLIC SERVICE COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)
(dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
NET INCOME	\$173,982	\$132,062	\$202,017	\$144,188
OTHER COMPREHENSIVE INCOME, NET OF TAX				
Derivative instruments:				
Net unrealized gain (loss), net of tax expense of \$4, \$80, \$679 and \$626 for the respective periods	7	128	(763)	(566)
Reclassification of net realized loss, net of tax (benefit) expense of (\$348), (\$392), \$8 and (\$191) for the respective periods	564	624	1,771	1,766
Pension and other postretirement benefits activity, net of tax benefit (expense) of \$808, \$403, \$218 and (\$156) for the respective periods	(1,308)	(642)	(697)	(31)
Total other comprehensive income (loss)	(737)	110	311	1,169
COMPREHENSIVE INCOME	173,245	132,172	202,328	145,357
Less: Comprehensive income attributable to noncontrolling interests	4,874	4,874	9,747	9,747
COMPREHENSIVE INCOME ATTRIBUTABLE TO COMMON SHAREHOLDER	\$168,371	\$127,298	\$192,581	\$135,610

The accompanying notes are an integral part of the financial statements.

ARIZONA PUBLIC SERVICE COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)
(dollars in thousands)

	June 30, 2017	December 31, 2016
ASSETS		
PROPERTY, PLANT AND EQUIPMENT		
Plant in service and held for future use	\$17,112,413	\$17,228,787
Accumulated depreciation and amortization	(5,865,446)	(5,881,941)
Net	11,246,967	11,346,846
Construction work in progress	1,157,017	989,497
Palo Verde sale leaseback, net of accumulated depreciation (Note 5)	111,580	113,515
Intangible assets, net of accumulated amortization	265,764	89,868
Nuclear fuel, net of accumulated amortization	118,909	119,004
Total property, plant and equipment	12,900,237	12,658,730
INVESTMENTS AND OTHER ASSETS		
Nuclear decommissioning trust (Note 11)	822,244	779,586
Assets from risk management activities (Note 6)	55	1
Other assets	49,798	48,320
Total investments and other assets	872,097	827,907
CURRENT ASSETS		
Cash and cash equivalents	4,851	8,840
Customer and other receivables	285,482	262,611
Accrued unbilled revenues	213,703	107,949
Allowance for doubtful accounts	(2,151)	(3,037)
Materials and supplies (at average cost)	256,828	252,777
Fossil fuel (at average cost)	29,890	28,608
Income tax receivable	—	11,174
Assets from risk management activities (Note 6)	307	19,694
Deferred fuel and purchased power regulatory asset (Note 3)	48,122	12,465
Other regulatory assets (Note 3)	172,606	94,410
Other current assets	38,743	41,849
Total current assets	1,048,381	837,340
DEFERRED DEBITS		
Regulatory assets (Note 3)	1,415,091	1,313,428
Assets for other postretirement benefits (Note 4)	181,237	162,911
Other	129,423	130,859
Total deferred debits	1,725,751	1,607,198
TOTAL ASSETS	\$16,546,466	\$15,931,175

The accompanying notes are an integral part of the financial statements.

ARIZONA PUBLIC SERVICE COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

(dollars in thousands)

	June 30, 2017	December 31, 2016
LIABILITIES AND EQUITY		
CAPITALIZATION		
Common stock	\$ 178,162	\$ 178,162
Additional paid-in capital	2,421,696	2,421,696
Retained earnings	2,377,315	2,331,245
Accumulated other comprehensive loss:		
Pension and other postretirement benefits	(21,368)	(20,671)
Derivative instruments	(3,744)	(4,752)
Total accumulated other comprehensive loss	(25,112)	(25,423)
Total shareholder equity	4,952,061	4,905,680
Noncontrolling interests (Note 5)	130,665	132,290
Total equity	5,082,726	5,037,970
Long-term debt less current maturities (Note 2)	4,192,520	4,021,785
Total capitalization	9,275,246	9,059,755
CURRENT LIABILITIES		
Short-term borrowings (Note 2)	385,700	135,500
Current maturities of long-term debt (Note 2)	82,000	—
Accounts payable	265,291	259,161
Accrued taxes	147,335	130,576
Accrued interest	52,752	52,525
Common dividends payable	73,100	72,900
Customer deposits	72,585	82,520
Liabilities from risk management activities (Note 6)	48,613	25,836
Liabilities for asset retirements	8,499	8,703
Regulatory liabilities (Note 3)	91,173	99,899
Other current liabilities	180,095	226,417
Total current liabilities	1,407,143	1,094,037
DEFERRED CREDITS AND OTHER		
Deferred income taxes	3,095,019	2,999,295
Regulatory liabilities (Note 3)	940,106	948,916
Liabilities for asset retirements	623,437	607,234
Liabilities for pension benefits (Note 4)	440,016	488,253
Liabilities from risk management activities (Note 6)	46,586	47,238
Customer advances	98,795	88,672
Coal mine reclamation	221,295	206,645
Deferred investment tax credit	206,969	210,162
Unrecognized tax benefits	37,669	37,408
Other	154,185	143,560
Total deferred credits and other	5,864,077	5,777,383
COMMITMENTS AND CONTINGENCIES (SEE NOTE 7)		
TOTAL LIABILITIES AND EQUITY	\$ 16,546,466	\$ 15,931,175

The accompanying notes ar