

ARIZONA CORPORATION COMMISSION
UTILITIES DIVISION

ANNUAL REPORT MAILING LABEL – MAKE CHANGES AS NECESSARY

A

E-01345A
Arizona Public Service Company
PO Box 53999
Station 9905
Phoenix, AZ 85072

ANNUAL REPORT
Electric Utilities

FOR YEAR ENDING

12	31	2008
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FOR COMMISSION USE

ANN 01	08
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PROCESSED BY:

4-16-09

SCANNED

COMPANY INFORMATION

Company Name (Business Name) <u>Arizona Public Service Company</u>			
Mailing Address <u>P O Box 53999</u>			
(Street)			
<u>Phoenix</u>	<u>AZ</u>	<u>85072-3999</u>	
(City)	(State)	(Zip)	
<u>602-250-1000</u>	<u>602-250-3003</u>	<u>N/A</u>	
Telephone No. (Include Area Code)	Fax No. (Include Area Code)	Cell No. (Include Area Code)	
Email Address _____			
Local Office Mailing Address <u>SAME AS ABOVE</u>			
(Street)			
_____	_____	_____	
(City)	(State)	(Zip)	
Local Office Telephone No. (Include Area Code)	Fax No. (Include Area Code)	Cell No. (Include Area Code)	
Email Address _____			

MANAGEMENT INFORMATION

Management Contact: <u>Leland R. Snook</u>		<u>Director, State Regulation and Pricing</u>	
(Name)		(Title)	
<u>400 North 5th Street MS 9708</u>	<u>Phoenix</u>	<u>AZ</u>	<u>85004</u>
(Street)	(City)	(State)	(Zip)
<u>602-250-3730</u>	<u>602-250-3003</u>	<u>N/A</u>	
Telephone No. (Include Area Code)	Fax No. (Include Area Code)	Cell No. (Include Area Code)	
Email Address <u>Leland.Snook@aps.com</u>			
On Site Manager: _____			
(Name)			
_____	_____	_____	_____
(Street)	(City)	(State)	(Zip)
Telephone No. (Include Area Code)	Fax No. (Include Area Code)	Cell No. (Include Area Code)	
Email Address _____			

Please mark this box if the above address(es) have changed or are updated since the last filing.

Statutory Agent: CT Corporation

(Name)

3225 North Central Avenue

Phoenix

AZ

85012

(Street)

(City)

(State)

(Zip)

602-250-3252

N/A

N/A

Telephone No. (Include Area Code)

Fax No. (Include Area Code)

Cell No. (Include Area Code)

Attorney: Nancy C. Loftin, Senior Vice President, General Counsel & Secretary

(Name)

400 North 5th Street MS 9068

Phoenix

AZ

85004

(Street)

(City)

(State)

(Zip)

602-250-3252

N/A

N/A

Telephone No. (Include Area Code)

Fax No. (Include Area Code)

Cell No. (Include Area Code)

Email Address Nancy.Loftin@Pinnaclewest.com

Please mark this box if the above address(es) have changed or are updated since the last filing.

OWNERSHIP INFORMATION

Check the following box that applies to your company:

- | | |
|--|--|
| <input type="checkbox"/> Sole Proprietor (S) | <input checked="" type="checkbox"/> C Corporation (C) (Other than Association/Co-op) |
| <input type="checkbox"/> Partnership (P) | <input type="checkbox"/> Subchapter S Corporation (Z) |
| <input type="checkbox"/> Bankruptcy (B) | <input type="checkbox"/> Association/Co-op (A) |
| <input type="checkbox"/> Receivership (R) | <input type="checkbox"/> Limited Liability Company |
| <input type="checkbox"/> Other (Describe) | |

COUNTIES SERVED

Check the box below for the county/ies in which you are certificated to provide service:

- | | | |
|--|--|--|
| <input checked="" type="checkbox"/> APACHE | <input checked="" type="checkbox"/> COCHISE | <input checked="" type="checkbox"/> COCONINO |
| <input checked="" type="checkbox"/> GILA | <input type="checkbox"/> GRAHAM | <input type="checkbox"/> GREENLEE |
| <input checked="" type="checkbox"/> LA PAZ | <input checked="" type="checkbox"/> MARICOPA | <input type="checkbox"/> MOHAVE |
| <input checked="" type="checkbox"/> NAVAJO | <input checked="" type="checkbox"/> PIMA | <input checked="" type="checkbox"/> PINAL |
| <input type="checkbox"/> SANTA CRUZ | <input checked="" type="checkbox"/> YAVAPAI | <input checked="" type="checkbox"/> YUMA |
| <input type="checkbox"/> STATEWIDE | | |

SERVICES AUTHORIZED TO PROVIDE

Check the following box/es for the services that you are authorized to provide:

- Electric**
 - Investor Owned Electric
 - Rural Electric Cooperative
 - Utility Distribution Company
 - Electric Service Provider
 - Transmission Service Provider
 - Meter Service Provider
 - Meter Reading Service Provider
 - Billing and Collection
 - Ancillary Services
 - Generation Provider
 - Aggregator/Broker

Other (Specify) _____

STATISTICAL INFORMATION

Total number of customers	1,101,956	
Residential	977,944	
Commercial	118,945	
Industrial	3,933	
Public Street and Highway lighting	919	
Irrigation	164	
Resale	51	
Total kilowatt-hours sold	33,264,979,000	kWh
Residential	13,368,015,000	
Commercial	12,870,469,000	
Industrial	2,422,055,000	
Public Street and Highway lighting	129,843,000	
Irrigation	3,206,000	
Resale	4,471,391,000	
Maximum Peak Load	7,026	MW

Source: FERC Form 1, Pages 301 & 401B

**VERIFICATION
AND
SWORN STATEMENT
Intrastate Revenues Only**

VERIFICATION

STATE OF Arizona

**I, THE UNDERSIGNED
OF THE**

<small>COUNTY OF (COUNTY NAME)</small>	Maricopa
<small>NAME (OWNER OR OFFICIAL) TITLE</small>	Chris N. Froggatt, VP & Treasurer
<small>COMPANY NAME</small>	Arizona Public Service Company

DO SAY THAT THIS ANNUAL UTILITY REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING

<small>MONTH</small>	<small>DAY</small>	<small>YEAR</small>
12	31	2008

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.


SWORN STATEMENT

IN ACCORDANCE WITH THE REQUIREMENT OF TITLE 40, ARTICLE 8, SECTION 40-401, ARIZONA REVISED STATUTES, IT IS HEREIN REPORTED THAT THE GROSS OPERATING REVENUE OF SAID UTILITY DERIVED FROM ARIZONA INTRASTATE UTILITY OPERATIONS DURING CALENDAR YEAR 2008 WAS:

Arizona Intrastate Gross Operating Revenues Only (\$) \$ <u>3,200,936,670</u>
--

**(THE AMOUNT IN BOX ABOVE
INCLUDES \$ 280,270,388
IN SALES TAXES BILLED, OR COLLECTED)**

****REVENUE REPORTED ON THIS PAGE MUST INCLUDE SALES TAXES BILLED OR COLLECTED. IF FOR ANY OTHER REASON, THE REVENUE REPORTED ABOVE DOES NOT AGREE WITH TOTAL OPERATING REVENUES ELSEWHERE REPORTED, ATTACH THOSE STATEMENTS THAT RECONCILE THE DIFFERENCE. (EXPLAIN IN DETAIL)**




SIGNATURE OF OWNER OR OFFICIAL
602 250-3212

TELEPHONE NUMBER


SUBSCRIBED AND SWORN TO BEFORE ME

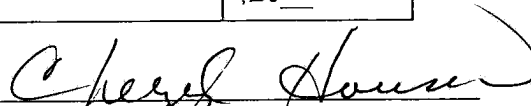
A NOTARY PUBLIC IN AND FOR THE COUNTY OF

THIS

	OFFICIAL SEAL CHERYL HOUSER NOTARY PUBLIC - State of Arizona MARICOPA COUNTY My Comm. Expires Nov. 6, 2012
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DAY OF

	OFFICIAL SEAL CHERYL HOUSER NOTARY PUBLIC - State of Arizona MARICOPA COUNTY My Comm. Expires Nov. 6, 2012
COUNTY NAME	MONTH <u>20</u>



SIGNATURE OF NOTARY PUBLIC

MY COMMISSION EXPIRES _____

**VERIFICATION
AND
SWORN STATEMENT
RESIDENTIAL REVENUE
INTRASTATE REVENUES ONLY**

STATE OF ARIZONA

COUNTY OF (COUNTY NAME) Maricopa	
NAME (OWNER OR OFFICIAL) Chris N. Froggatt	TITLE V.P. & Treasurer
COMPANY NAME Arizona Public Service Company	

I, THE UNDERSIGNED

OF THE

DO SAY THAT THIS ANNUAL UTILITY REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING

MONTH	DAY	YEAR
12	31	2008

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

IN ACCORDANCE WITH THE REQUIREMENTS OF TITLE 40, ARTICLE 8, SECTION 40-401.01, ARIZONA REVISED STATUTES, IT IS HEREIN REPORTED THAT THE GROSS OPERATING REVENUE OF SAID UTILITY DERIVED FROM ARIZONA INTRASTATE UTILITY OPERATIONS RECEIVED FROM RESIDENTIAL CUSTOMERS DURING CALENDAR YEAR 2008 WAS:

ARIZONA INTRASTATE GROSS OPERATING REVENUES
\$ 1,595,703,033

(THE AMOUNT IN BOX AT LEFT
INCLUDES \$ 140,626,891
IN SALES TAXES BILLED, OR COLLECTED

*RESIDENTIAL REVENUE REPORTED ON THIS PAGE
MUST INCLUDE SALES TAXES BILLED.

X Chris N. Froggatt
SIGNATURE OF OWNER OR OFFICIAL

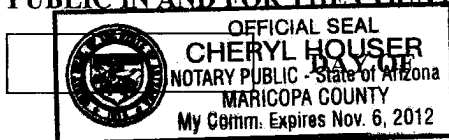
602 250-3212
TELEPHONE NUMBER

SUBSCRIBED AND SWORN TO BEFORE ME

A NOTARY PUBLIC IN AND FOR THE COUNTY OF

THIS

(SEAL)



MY COMMISSION EXPIRES

NOTARY PUBLIC'S NAME	OFFICIAL SEAL
COUNTY	CHERYL HOUSER
	NOTARY PUBLIC - State of Arizona
	MARICOPA COUNTY
	My Comm. Expires Nov. 6, 2012
MONTH	.20

X Cheryl Houser 4/14/09
SIGNATURE OF NOTARY PUBLIC

FINANCIAL INFORMATION

Attach to this annual report a copy of the Company year-end (Calendar Year 2008) financial statements. If you do not compile these reports, the Utilities Division will supply you with blank financial statements for completion and filing. **ALL INFORMATION MUST BE ARIZONA-SPECIFIC AND REFLECT OPERATING RESULTS IN ARIZONA.**

Attached pages 146-149 are from APS' 10K Report for the period 12/31/2008 filed February 20, 2009.

**ARIZONA PUBLIC SERVICE COMPANY
BALANCE SHEETS
(dollars in thousands)**

	December 31,	
	2008	2007
ASSETS		
UTILITY PLANT (Notes 1, 6, 9 and 10)		
Electric plant in service and held for future use	\$ 12,198,010	\$ 11,582,862
Less accumulated depreciation and amortization	<u>4,129,958</u>	<u>3,994,777</u>
Net	8,068,052	7,588,085
Construction work in progress	571,977	622,693
Intangible assets, net of accumulated amortization of \$280,633 and \$250,268	131,243	105,225
Nuclear fuel, net of accumulated amortization of \$55,343 and \$68,375	<u>89,323</u>	<u>69,271</u>
Total utility plant	<u>8,860,595</u>	<u>8,385,274</u>
INVESTMENTS AND OTHER ASSETS		
Nuclear decommissioning trust (Note 12)	343,052	379,347
Assets from risk management and trading activities (Note S-3)	33,675	41,603
Other assets	<u>60,604</u>	<u>69,570</u>
Total investments and other assets	<u>437,331</u>	<u>490,520</u>
CURRENT ASSETS		
Cash and cash equivalents	71,544	52,151
Customer and other receivables	262,177	295,371
Accrued utility revenues	100,089	106,873
Allowance for doubtful accounts	(3,155)	(4,265)
Materials and supplies (at average cost)	173,252	149,759
Fossil fuel (at average cost)	29,752	27,792
Assets from risk management and trading activities (Note S-3)	32,181	34,087
Deferred income taxes (Notes 4 and S-1)	79,694	38,707
Other	<u>19,866</u>	<u>16,545</u>
Total current assets	<u>765,400</u>	<u>717,020</u>
DEFERRED DEBITS		
Deferred fuel and purchased power regulatory asset (Notes 1, 3, 4 and S-1)	7,984	110,928
Other regulatory assets (Notes 1, 3, 4 and S-1)	787,506	514,353
Unamortized debt issue costs	22,026	24,373
Other	<u>82,735</u>	<u>78,934</u>
Total deferred debits	<u>900,251</u>	<u>728,588</u>
TOTAL ASSETS	<u>\$ 10,963,577</u>	<u>\$ 10,321,402</u>

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

Table of Contents

ARIZONA PUBLIC SERVICE COMPANY
BALANCE SHEETS
(dollars in thousands)

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
LIABILITIES AND EQUITY		
CAPITALIZATION		
Common stock	\$ 178,162	\$ 178,162
Additional paid-in capital (Note 3)	2,117,789	2,105,466
Retained earnings	1,168,901	1,076,557
Accumulated other comprehensive income (loss):		
Pension and other postretirement benefits (Note 8)	(26,960)	(21,782)
Derivative instruments	(98,742)	13,038
Common stock equity	<u>3,339,150</u>	<u>3,351,441</u>
Long-term debt less current maturities (Note 6)	<u>2,850,242</u>	<u>2,876,881</u>
Total capitalization	<u>6,189,392</u>	<u>6,228,322</u>
CURRENT LIABILITIES		
Short-term borrowings	521,684	218,000
Current maturities of long-term debt (Note 6)	874	978
Accounts payable	233,529	239,923
Accrued taxes	219,129	374,444
Accrued interest	39,860	38,262
Customer deposits	77,452	71,376
Liabilities from risk management and trading activities (Note S-3)	69,585	19,921
Other	105,655	92,802
Total current liabilities	<u>1,267,768</u>	<u>1,055,706</u>
DEFERRED CREDITS AND OTHER		
Deferred income taxes (Notes 4 and S-1)	1,401,412	1,250,028
Regulatory liabilities (Notes 1, 3, 4, and S-1)	587,586	642,564
Liability for asset retirements (Note 12)	275,970	281,903
Liabilities for pension and other postretirement benefits (Note 8)	635,327	469,945
Customer advances for construction	132,023	94,801
Liabilities from risk management and trading activities (Note S-3)	126,532	4,573
Other	347,567	293,560
Total deferred credits and other	<u>3,506,417</u>	<u>3,037,374</u>
COMMITMENTS AND CONTINGENCIES (SEE NOTES)		
TOTAL LIABILITIES AND EQUITY	<u>\$ 10,963,577</u>	<u>\$ 10,321,402</u>

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,		
	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 262,344	\$ 283,940	\$ 269,730
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization including nuclear fuel	416,709	395,890	381,173
Deferred fuel and purchased power	(80,183)	(196,136)	(252,849)
Deferred fuel and purchased power amortization	183,126	231,106	265,337
Deferred fuel and purchased power regulatory disallowance	—	14,370	—
Allowance for equity funds used during construction	(18,636)	(21,195)	(14,312)
Deferred income taxes	145,157	(44,478)	(305)
Change in mark-to-market valuations	7,792	(6,758)	6,893
Changes in current assets and liabilities:			
Customer and other receivables	47,566	23,882	20,970
Materials, supplies and fossil fuel	(25,453)	(29,776)	(14,381)
Other current assets	128	(8,056)	3,666
Accounts payable	(5,915)	(2,797)	5,825
Other current liabilities	8,150	34,033	68,803
Change in margin and collateral accounts – assets	17,850	11,252	(205,752)
Change in margin and collateral accounts – liabilities	(132,416)	27,624	(166,088)
Change in unrecognized tax benefits	(92,064)	27,773	—
Change in other long-term assets	14,340	(23,577)	2,828
Change in other long-term liabilities	36,765	48,718	22,175
Net cash flow provided by operating activities	<u>785,260</u>	<u>765,815</u>	<u>393,713</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(910,189)	(924,166)	(699,946)
Contributions in aid of construction	60,292	41,809	51,203
Allowance for borrowed funds used during construction	(14,313)	(12,308)	(7,336)
Proceeds from sale of investment securities	—	69,225	1,259,203
Purchases of investment securities	—	(36,525)	(1,291,903)
Proceeds from nuclear decommissioning trust sales	317,619	259,026	254,651
Investment in nuclear decommissioning trust	(338,361)	(279,768)	(275,393)
Other	5,517	1,211	(4,470)
Net cash flow used for investing activities	<u>(879,435)</u>	<u>(881,496)</u>	<u>(713,991)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of long-term debt	—	—	395,481
Short-term borrowings – net	303,684	218,000	—
Equity infusion	7,601	39,548	212,820
Dividends paid on common stock	(170,000)	(170,000)	(170,000)
Repayment and reacquisition of long-term debt	(27,717)	(1,586)	(86,086)
Net cash flow provided by financing activities	<u>113,568</u>	<u>85,962</u>	<u>352,215</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	19,393	(29,719)	31,937
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>52,151</u>	<u>81,870</u>	<u>49,933</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 71,544</u>	<u>\$ 52,151</u>	<u>\$ 81,870</u>
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Income taxes, net of refunds	\$ 56,728	\$ 186,183	\$ 117,831
Interest, net of amounts capitalized	\$ 167,592	\$ 165,279	\$ 131,183

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,		
	2008	2007	2006
COMMON STOCK	\$ 178,162	\$ 178,162	\$ 178,162
ADDITIONAL PAID-IN CAPITAL	2,117,789	2,105,466	2,065,918
RETAINED EARNINGS			
Balance at beginning of year	1,076,557	960,405	860,675
Net income	262,344	283,940	269,730
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	<u>1,168,901</u>	<u>1,076,557</u>	<u>960,405</u>
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)			
Balance at beginning of year	(8,744)	2,988	93,290
Pension and other postretirement benefits (Note 8):			
Unrealized actuarial loss, net of tax benefit of (\$5,075) and (\$15,126)	(7,597)	(23,304)	—
Prior service cost, net of tax benefit of (\$463)	—	(713)	—
Amortization to income:			
Actuarial loss, net of tax expense of \$1,393 and \$1,238	2,130	1,908	—
Prior service cost, net of tax expense of \$189 and \$212	289	327	—
Minimum pension liability adjustment, net of tax expense of \$27,424	—	—	42,731
Adjustment to reflect a change in accounting (SFAS No. 158), net of tax expense of \$27,760	—	—	43,401
Derivative instruments:			
Net unrealized gain (loss), net of tax expense (benefit) of (\$56,149), \$1,369, and (\$111,367)	(85,670)	2,040	(173,872)
Reclassification of net realized (gains) losses to income, net of tax expense (benefit) of (\$16,890), \$5,164, and (\$1,657)	<u>(26,110)</u>	<u>8,010</u>	<u>(2,562)</u>
Balance at end of year	<u>(125,702)</u>	<u>(8,744)</u>	<u>2,988</u>
TOTAL COMMON STOCK EQUITY	<u>\$ 3,339,150</u>	<u>\$ 3,351,441</u>	<u>\$ 3,207,473</u>
COMPREHENSIVE INCOME			
Net income	\$ 262,344	\$ 283,940	\$ 269,730
Other comprehensive loss	<u>(116,958)</u>	<u>(11,732)</u>	<u>(133,703)</u>
Total comprehensive income	<u>\$ 145,386</u>	<u>\$ 272,208</u>	<u>\$ 136,027</u>

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

COMPANY NAME: Arizona Public Service Company

UTILITY SHUTOFFS / DISCONNECTS

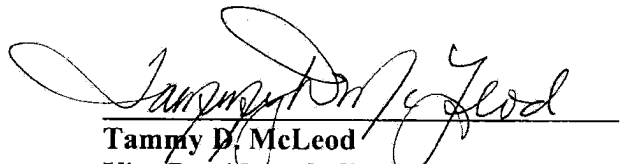
MONTH	Termination without Notice R14-2-211.B	Termination with Notice R14-2-211	OTHER
JANUARY	6	5,299	
FEBRUARY	4	4,660	
MARCH	4	5,000	
APRIL	3	4,839	
MAY	4	4,395	
JUNE	6	3,661	
JULY	6	5,149	
AUGUST	3	5,857	
SEPTEMBER	2	6,219	
OCTOBER	1	7,529	
NOVEMBER	2	5,282	
DECEMBER	3	5,269	
TOTALS →	44	63,159	

OTHER (description):

**CERTIFICATION BY APS
OF
UTILITY SHUTOFFS / DISCONNECTS**

I certify that to the best of my knowledge and based on the information made available to me, the attached Utility Shutoffs / Disconnects report is complete and accurate in all material respects.

Date: April 15, 2009



Tammy D. McLeod
Vice President & Chief Customer Officer