

2007 financial year in review indicates coming challenges Froggatt's Leadership Forum forecast describes 'flat' 2008 for APS

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When you pencil it out, APS and parent company Pinnacle West Capital Corp. (PNW) ended 2007 with a decent financial performance, but challenges loom, **Chris Froggatt**, Vice President and Controller told Leadership Forum attendees yesterday.

Froggatt discussed the financial outlook from the company's Jan. 30, 2008 earnings release.

"If you look at the numbers, without the abnormal weather and non-recurring tax items from last year, we expect APS earnings in 2008 to be relatively flat," he said. "It's really up to everyone to continue to make cost management an integral part of day-to-day operations."

APS earned more in 2007 due to retail sales growth, the weather effects and the impact of the rate increases authorized by the Arizona Corporation Commission in July 2007.

However, operating expenses and interest expenses grew \$58 million and \$26 million respectively in 2007, increases that are expected to continue due to rises in commodity costs and customer load growth. Simply put, APS continues to pay more to build and maintain more facilities. And, more plant and equipment mean more interest and depreciation expense. APS is investing about \$1 billion per year for infrastructure.

"Given Arizona's continued growth, even during the current slowdown, these trends essentially set the stage for the rate filing that took place this week," Froggatt said.

SunCor ended 2007 as expected with reported net income of \$24 million, down from \$60 million for 2006. "Yes, they're in the real estate business," said Froggatt, "But one of SunCor's key attributes is diversification. The company operates in many market sectors and many states around the West."

For the year 2007 as a whole, PNW's consolidated net income decreased 6 percent to \$307 million, or \$3.05 per share, compared with 2006 net income of \$327 million, or \$3.27 per diluted share. In 2008, PNW expects consolidated earnings to be within a reasonable range around \$2.50 per share.

PNW's stock price continues to underperform the major indices, down approximately 15.6 percent since the start of the year. "Part of it is the credit crunch that's hit the market," he said. But overall, for APS, "regulatory lag and dealing with the unrecovered costs of keeping up with growth will continue to weigh on the company," Froggatt said.