Q. **What are the details of the transaction?**
A. Arizona Public Service Company has entered into an agreement to purchase Southern California Edison’s share in Units 4 and 5 of the Four Corners Power Plant near Farmington, N.M. If the transaction gains approval from state and federal regulators, APS will close the plant’s older, less efficient Units 1, 2 and 3, and may install additional emission controls on the remaining units, if required by new regulations.

Q. **How much is APS paying for Southern California Edison’s interest in Units 4 and 5?**
A. For Southern California Edison’s 48 percent ownership of Units 4 and 5, APS has agreed to pay $294 million in cash, which is substantially less than other generation alternatives.

Q. **How will the sale be financed?**
A. APS and its parent, Pinnacle West Capital, plans to finance the purchase of Units 4 and 5 – and any necessary environmental upgrades – with a balanced mix of new debt and equity. Any new equity is not expected to be issued prior to 2012.

Q. **What is the effective close date of the transaction?**
A. Assuming timely receipt of required approvals and extensions of the land-lease and fuel contract, the companies are targeting closing the purchase of Units 4 and 5 by the end of 2012. Following the purchase, APS plans to shut down Units 1, 2 and 3 at about the same time.

Q. **Why is Southern California Edison selling its portion of the plant?**
A. California greenhouse gas rules require Southern California Edison to divest its ownership interest in all coal power plants, including Units 4 and 5 at the Four Corners plant by 2016, when the current lease with the Navajo Nation expires. The California state law requires Southern California Edison to end its participation in the plant even though the plant meets or exceeds all current state and federal environmental regulations and has performed at high operating levels for more than four decades.

Q. **Why did APS choose to acquire Southern California Edison’s interest and shut down Units 1, 2 and 3?**
A. Currently, Four Corners meets or exceeds all current state and federal environmental regulations. However, under rules proposed by the U.S. Environmental Protection Agency (EPA) in October 2010, Units 1, 2 and 3 are subject to significant environmental upgrades. These upgrades would present a major economic challenge for continued operation and require APS to look at alternatives for Units 1, 2 and 3.

As such, the company has decided to shut down the plant’s older, less efficient Units 1, 2 and 3, which are 100 percent owned by APS, and purchase Southern California Edison’s share of Units 4 and 5. Since coal remains a low-cost, high-reliability source of generation, an ongoing operating interest in Four Corners will provide customers of APS and the other plant owners an important level of cost certainty.
Q. What are the advantages of keeping Units 4-5 operational rather than Units 1-3?
A. Closing the three older, less efficient units and keeping the cleaner, more efficient Units 4 and 5 in operation will dramatically reduce the carbon footprint in the region and enable the plant to remain compliant with state and federal environmental standards. The decision to acquire Southern California Edison’s ownership stake in Units 4 and 5 also will enable APS to maintain a balanced generation portfolio with the needed amount of base load generation.

Q. How will APS replace the power from Units 1, 2 and 3?
A. APS will replace the lost power from the closure of the three older units with 739 MW from Southern California Edison’s 48 percent share of the newer, more efficient Units 4 and 5. APS currently owns 15 percent of the two units.

Q. What would the cost have been to make the necessary environmental upgrades to Units 1, 2 and 3?
A. EPA’s proposed emissions limitation for particulate matter for Units 1, 2 and 3 would require the installation of baghouses and selective catalytic reduction (SCR) equipment on Units 1, 2 and 3 at an estimated cost in excess of $586 million. Together, these costs would render the continued operation of those units uneconomical.

Q. Did APS consider any alternative resource options?
A. Yes. APS considered a number of resource alternatives, ultimately determining that this proposal is the best-cost alternative, providing both a cleaner environment and the needed reliable, inexpensive baseload power needed to serve our customers.

Due to the substantial cost difference of other alternatives, acquisition of Southern California Edison’s ownership stake is preferable to building a new generating facility. Closing 560 MW of coal generation and seeking replacement base load power – or installing emission control equipment at all of the units – would have resulted in literally hundreds of millions of dollars in additional costs to APS customers.

The proposal to acquire Southern California Edison’s share of Units 4 and 5 and shut Units 1, 2 and 3 saves customers nearly $500 million over the next best alternative. In addition, if approved, APS expects customers to realize net annual savings from lower overall fuel costs starting in 2015.

Simply put, the proposed transaction is the best value for APS customers compared to every other reasonable alternative.
Q. **What will the impact be on customer rates?**
A. Assuming the acquisition of Units 4 and 5 and the shutdown of Units 1-3 is approved, APS estimates its annual deferral to be about $75 million. The recovery of this deferral will be offset by future reductions in fuel costs, ultimately resulting in a nearly $500 million net present value benefit to APS customers.

Q. **How much capacity does each unit at the plant produce?**
A. Units 1, 2 and 3 produce a combined 560 MW of power when operating at full production capacity. Units 4 and 5 produce 1,540 MW total when at full capacity, providing enough electricity to power more than a half-million homes.

Q. **Who are Four Corners’ owners, and what percentage of the plant do they own?**
A. In addition to being the plant operator, APS owns 100 percent of Units 1, 2 and 3 (560 MW total) and 15 percent of Units 4 and 5 (231 MW total). Other current plant owners of Units 4 and 5 include:

- Southern California Edison, 48% (739 MW)
- Public Service company of New Mexico, 13% (200 MW)
- Salt River Project, 10% (154 MW)
- El Paso Electric, 7% (108 MW); and
- Tucson Electric Power, 7% (108 MW).

Q. **What percentage of the plant does APS currently own? What about once the transaction is completed?**
A. APS currently owns 100 percent of Units 1, 2 and 3 (a total of 560 megawatts) and 15 percent of Units 4 and 5. If the proposed transaction with Southern California Edison closes, APS’s ownership of Units 4 and 5 will increase from 15 percent to 63 percent, which totals 970 megawatts.

Q. **Do terms of the acquisition allow for alternate bidders? Do the other joint owners have a right to match or top APS’ bid?**
A. The other owner-participants have a right of first refusal (ROFR) that begins on the date Southern California Edison informs the other owners of a bona fide offer for their share of the plant. The ROFR period commences when APS signs the Asset Purchase Agreement, or shortly thereafter, and expires after 120 days. If any other owner(s) exercise their ROFR, they are able to purchase an amount equivalent to their share of units, which means the amount APS purchases would decrease by that amount.

Q. **Does this transaction have an impact on the plant’s other owner-participants?**
A. No, the other plant participants will retain their current ownership levels unless they choose to exercise their ROFR, thereby increasing their share of Units 4 and 5.

Q. **What is the reliability (capacity factor) of the plant?**
A. Four Corners has one of the best operating records of any coal plant in the U.S. Its average capacity factor far exceeds 80 percent, compared to an industry average of about 65 percent.
Q. What are the environmental benefits to the transaction? Will plant emissions decrease? If so, which and by how much?

A. APS ownership of Units 4 and 5 provides the power needed by the company’s customers while significantly reducing carbon in the region and enabling the plant to continue to comply with EPA standards.

As a result of the anticipated shut down of Units 1, 2 and 3, capacity at the coal-fired station, one of the nation’s largest, will be reduced by 560 megawatts from 2,100 MW to 1,540 MW (of which APS will own 970 MW). Emissions of NO\textsubscript{x} will decline by 36 percent, mercury by 61 percent, CO\textsubscript{2} by 30 percent, SO\textsubscript{2} by 24 percent and particulate matter by 43 percent.

Q. What regulatory approvals are required for the transaction to go through? When are those approvals expected?

A. The transaction requires approval from the Arizona Corporation Commission, the California Public Utilities Commission and the Federal Energy Regulatory Commission. In addition, the acquisition is contingent on the Navajo Nation approving a lease extension for the plant beyond 2016. It also requires successful negotiation of a new fuel contract with mine-operator BHP Billiton for the post-2016 period.

APS will submit a filing with the ACC on Nov. 15, the same day Southern California Edison submits a filing with the CPUC. FERC filings will be made in the same time frame. The Navajo Tribal Council will meet later in mid-November 2010 to consider the lease extension that must be approved for the agreement to proceed.

Q. What happens if the plant’s lease is not extended by the Navajo Nation?

A. If the plant’s lease is not extended by the Navajo Nation, the plant would not be able to proceed with environmental upgrades and, most likely, would shut down at the end of its current lease term in July 2016.

Q. What is the expected remaining life of Units 4 and 5? Will they require environmental upgrades?

A. Four Corners Units 4 and 5 are expected to remain in service an additional 30-plus years through July 2041. However, in order to meet increasing environmental regulations (specifically BART), APS anticipates needing to add selective catalytic reduction (SCR) equipment. Adding this equipment will cost about $315 million for both APS’s and Southern California Edison’s share of the facility.

Q. How many people are currently employed at the Four Corners facility? What will be the impact to employee staffing levels if the transaction closes?

A. Four Corners’ five Units employ 549 employees, about 75 percent of whom are Native American. Under this proposal, there will be no layoffs at the power plant. The company will continue to support the Navajo Nation and Farmington area with high quality jobs that are important economic drivers for the region and a valuable source of revenue for the Navajo Nation.
Q. **What is the current economic impact of the plant on the surrounding communities and region?**

A. It is not an overstatement to say that plant operations drive that region’s economic stability. The plant and the supporting mining operations have a $225 million annual impact on the Farmington and Navajo economies, including paying more than $100 million per year in taxes, fees and royalties to the Navajo Nation and state, local and federal entities.

In addition, plant employees contribute importantly to the community in other ways. Employees donate more than $600,000 each year to the local United Way and provide more than 10,000 hours of volunteer community service.

Q. **What will the financial impact be on the surrounding communities and region if the proposed transaction is completed?**

A. Continued operation of Units 4 and 5 is expected to provide more than $6 billion in economic value to the region through 2041, at least 70 percent of which will benefit the Navajo Nation and its citizens.

Q. **Why is it important to keep coal as part of a diversified resource portfolio?**

A. Coal is a vital component of an APS resource mix that also includes natural gas, nuclear, an increasing amount of renewable technologies (solar, wind and geothermal) and energy efficiency measures. A diversified resource portfolio works much like a financial investment portfolio where the money invested is put into several different areas to reduce risk and attain the maximum benefits. Low-cost coal, combined with a mix of other traditional generating resources and renewable energy supplies, helps spread out cost risks for both the company and its customers. In short, maintaining a diverse resource portfolio helps APS protect customers from price volatility, fuel shortages and other challenges, while offering the benefits of improved reliability and increased security.

Q. **Will there be a loss of transmission reliability as a result of closing Units 1, 2 and 3?**

A. No. The capacity and energy loss associated with the proposed closure of Units 1, 2 and 3 is not sufficient enough to disrupt the balance of the western transmission grid or significantly reduce regional reserve margins. Looking forward, APS will continue to work with other industry participants (including the Western Electricity Coordinating Council, the North American Electric Reliability Corporation and other regional utilities) to ensure planning reserve margins are safely maintained while forthcoming EPA regulations are implemented.

Q. **Will this acquisition mean APS can delay building more power plants?**

A. No. Even though it does provide us an additional 179 MW of baseload generation, we still have the responsibility to plan for Arizona’s current and future population growth and a related increase in energy consumption. In the short-term, we will meet these needs through a combination of renewable energy resources and energy efficiency programs.
Q. **Will this transaction reduce the amount of future renewable resources?**
A. No. With Arizona’s solar conditions among the best in the world, we are taking significant steps to capitalize on our state’s vast, solar renewable potential, as well as incorporating aggressive energy efficiency programs and other renewable resources.

APS remains on track to significantly increase the amount of renewable energy we provide our customers. In fact, through its AZ Sun Program, APS plans to develop and own 100 MW of photovoltaic solar power plants, with a capital investment up to $500 million. We expect those plants will be placed in service in 2011 through 2014.

To date, we have announced two new projects totaling 33 MW to be built in Arizona. One is a 15-MW facility to be sited at Luke Air Force Base, west of Phoenix. This project is expected to be the largest solar facility on U.S. government property. The second project is an 18-MW plant in Gila Bend, about 70 miles southwest of Phoenix. Both plants are expected to be operational in 2011.

Q. **When were the Units originally placed in service, and what was the original cost of each Unit? What is their current net book value?**

<table>
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<th></th>
<th>Common</th>
<th>Unit 1</th>
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<th>Unit 3</th>
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<td>2031</td>
<td>2031</td>
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</table>

Q. **What are the financial impacts and credit implications of the acquisition for PNW?**
A. The company expects there will be no negative pressure on credit ratings. The Four Corners plant is a well-known asset and has a strong operating history. With an attractive purchase price, continued strong liquidity and ready access to capital the acquisition is expected to provide incremental rate base and earnings growth.

Q. **Does APS’s proposed transaction impact Earthjustice’s “Notice of Intent to Sue” alleging Clean Air Act violations?**
A. No; Earthjustice’s Notice of Intent to Sue (NOI) is unrelated to the Southern California Edison deal. However, under current laws, if the EPA determined there is merit to Earthjustice’s claim, the EPA may step in and file their own lawsuit regarding the allegations. If EPA were to do so, Earthjustice would be precluded from filing its own lawsuit.

Q. **What is the status of a lawsuit by two citizens groups against the Office of Surface
**Q & A: Four Corners Acquisition/Closure**

**Mining, BHP Navajo Coal Co. and APS? How will this ruling impact APS’s operations at Four Corners?**

A. This case involved a challenge by two citizens groups (Diné Citizens Against Ruining our Environment and the San Juan Citizens Alliance) to the Office of Surface Mining’s (OSM) approval of BHP’s 2004 mine permit renewal and BHP’s 2005 permit revision application to expand mining operations. In particular, the plaintiff alleged OSM failed to comply with certain requirements of the National Environmental Policy Act before it issued the permits.

While the lawsuit is between OSM and the citizens’ groups, APS is monitoring the case closely since we have a vested interest in assuring reliable service to our customers, and Four Corners is a key part of our energy portfolio.

In November 2010, the U.S. District Court of Appeals ruled that the plaintiff’s challenge to the 2004 permit renewal is moot because OSM has since issued a subsequent 2009 permit renewal. However, the court vacated the 2005 permit revision, but it did not reject it out of hand. Rather, it remanded the permit back to OSM for further consideration of whether an environmental impact statement must be conducted before the agency approves the expansion.

APS is currently evaluating the extent to which this decision may impact plant operations.

**Q. What impact does the planned acquisition have on the proposed Best Available Retrofit Technology – or BART – requirements?**

A. At least in the near-term, there is expected to be no change in the BART process. The company is currently completing a thorough evaluation of the impacts of the EPA’s proposed rule and intends to submit comments to the EPA during the 60-day comment period which ends Dec. 20, 2010. EPA will consider all comments received, then issue a final rule. APS will have five years to comply with the final rule. Of course, the proposed acquisition of Units 4 and 5 – and subsequent closure of Units 1, 2 and 3 – will reduce APS’s cost and environmental exposure under the rules, and would make the portion of the proposed rules related to Units 1-3 moot.