PROSPECTUS

$75,000,000

Arizona Public Service Company

First Mortgage Bonds, 9.80% Series due 1980

Interest payable June 1 and December 1 — *Due June 1, 1980*

The Bonds of the 9.80% Series due 1980 ("New Bonds") will not be redeemable prior to maturity.

Application has been made to list the New Bonds on the New York Stock Exchange.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public(1)	Underwriting Discounts and Commissions(2)	Proceeds to Company(1) and (3)
Per Bond	100%	.925%	99.075%
Total	$75,000,000	$693,750	$74,306,250

(1) Plus accrued interest from June 1, 1975.

(2) The Company has agreed to indemnify the several Underwriters against certain civil liabilities, including liabilities under the Securities Act of 1933.

(3) Before deduction of expenses payable by the Company estimated at $120,000.

The New Bonds are offered by the several Underwriters when, as and if issued by the Company and accepted by the Underwriters and subject to their right to reject orders in whole or in part. It is expected that the New Bonds, in definitive fully registered form, will be ready for delivery on or about June 12, 1975.

The First Boston Corporation

Blyth Eastman Dillon & Co.
Incorporated

Dean Witter & Co.
Incorporated

The date of this Prospectus is June 5, 1975.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SECURITIES OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Arizona Public Service Company (the "Company") is subject to the informational requirements of the Securities Exchange Act of 1934 and in accordance therewith files reports and other information with the Securities and Exchange Commission. Information as of particular dates concerning directors and officers, their remuneration and any material interest of such persons in transactions with the Company is disclosed in proxy statements distributed to stockholders of the Company and filed with the Commission. Such reports, proxy statements and other information can be inspected at the Public Reference Room of the Commission, 1100 L Street, N. W., Washington, D.C., and copies of such material can be obtained from the Commission at prescribed rates. Securities of the Company are listed on the New York and Pacific Stock Exchanges and reports, proxy material and other information concerning the Company may be inspected at the offices of such Exchanges.

THE COMPANY

The Company was incorporated in 1920 under the laws of Arizona and is principally engaged in the generation in Arizona and New Mexico, and the sale in Arizona, of electric energy, and in the purchase and sale in Arizona of natural gas. The principal executive offices of the Company are located at 411 North Central Avenue, Phoenix, Arizona 85004 (telephone 602 271-7900).

APPLICATION OF PROCEEDS

The financing program contemplated herein consists of the Company's issuance on or about June 11, 1975 of $75,000,000 in aggregate principal amount of its First Mortgage Bonds, 9.80% Series due 1980 ("New Bonds") and 2,000,000 additional shares of its Common Stock ("Additional Shares").

The net proceeds from the sale of the New Bonds (estimated at $74,186,250) and the Additional Shares will be applied to the reduction of short-term borrowings outstanding when the proceeds are received. Such borrowings have been and will be made for construction and other purposes. See "Financing Requirements and Construction Program".

While the contemplated financing program is herein presented as extending through the issuance of the Additional Shares, it should be noted that the sale of the New Bonds will not be conditioned upon the issuance of the Additional Shares.

PROSPECTUS SUMMARY

The following material is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this Prospectus.

Operations

Service Area		All or part of 11 of Arizona's 14 counties
Population Served		1,555,000
Customers (April 30, 1975)	Electric	323,880
	Gas	334,870
Net Capability to Meet 1974 Peak System Demand (KW)		2,343,600
Sales (Twelve Months Ended April 30, 1975)	Electric (MWH)	8,943,488
	Gas (M Therms)	542,111
Estimated Construction Expenditures (1975-77)		$732,000,000

Financial Information

	Twelve Months Ended December 31, 1974	Twelve Months Ended April 30, 1975
Income Statement Data:		
Total Operating Revenues	$273,599,000	$307,617,000
Net Income	$ 36,957,000	$ 39,772,000
Earnings for Common Stock	$ 30,699,000	$ 31,331,000
Average Common Shares Outstanding	13,102,740	14,204,110
Earnings Per Average Share of Common Stock	$2.34	$2.21
Dividends Per Share of Common Stock	$1.36	$1.36
Ratio of Earnings to Fixed Charges	1.94	2.02
Pro Forma Ratio of Earnings to Fixed Charges	—	1.92

	Outstanding April 30, 1975 (Thousands of Dollars)	As Adjusted for New Bonds and Additional Shares: Amount (Thousands of Dollars)	As Adjusted for New Bonds and Additional Shares: Percent of Capitalization
Capitalization:			
Long-Term Debt (excluding current maturities)	$442,484	$ 517,484	51.2%
Preferred Stock	138,561	138,561	13.7
Common Stock Equity	326,544	354,544	35.1
Total Capitalization	$907,589	$1,010,589	100.0%
Short-Term Borrowings	$105,600	$ 39,414*	

* Estimated balance on June 12, 1975 after application of proceeds from the New Bonds and the Additional Shares.

INDUSTRY AND COMPANY PROBLEMS

The utility industry is experiencing a number of problems affecting its business and financial condition. These include difficulty in obtaining an adequate return on invested capital, in obtaining sufficient capital on reasonable terms, in obtaining adequate supplies of oil and gas at reasonable prices and the increased costs and delays attributable to environmental considerations. The Company has been confronted with such problems in varying degrees, the more acute of which are summarized below.

Financial

A revision of the Company's short-term borrowing arrangements was necessitated by the withdrawal in January 1975 by Moody's Investors Service, Inc. of its rating of the Company's commercial paper. Future permanent financing of the Company's large capital requirements will depend upon its ability to provide adequate earnings coverages on its senior securities. See "Regulation and Rates" and "Financing Requirements and Construction Program".

Other

The Company continues to experience increased operation and maintenance expenses, short supplies of gas (both for generating fuel and for distribution), high costs of oil fuel, and difficulties in meeting environmental standards and similar regulations. See "Management's Discussion and Analysis of Statement of Income" and "Business and Property".

REGULATION AND RATES

State

The Arizona Corporation Commission ("ACC") has regulatory authority over the Company in matters relating to determination of retail electric and gas rates as well as the issuance of securities.

The Company is currently engaged in a rate proceeding before the ACC relative to increased rates that have been in effect since January 16, 1975 on a interim basis, as well as to a further increase in retail rates proposed by the Company in subsequent filings. As applied to the 1974 test year, the interim increase would have produced approximately $44,701,000 of additional revenue and the further increase an additional $23,117,000. The interim increase (which is subject to refund depending upon the ACC's decision in the current proceeding) accounted for approximately $11,100,000 of revenue through April 30, 1975 and the preponderance of the Company's net income for the four months then ended. Appearing below is unaudited information for that four-month period and for the comparable period of 1974 (in thousands of dollars):

	1974	1975
Operating Revenues	$79,761	$113,779
Operating Income	14,216	18,908
Net Income	8,663	11,477
Earnings Per Share of Common Stock	$0.60	$0.51

Based on its assessment of the probable timing of a decision in the current proceeding, the Company expects to adopt new permanent rates on or about October 1, 1975.

The Company's last full rate proceeding was initiated in February 1973 and resulted in an order from the ACC approving new rates, effective October 15, 1973, designed to increase electric and gas revenues by approximately $8,970,000 for the 1972 test year, which was approximately 74% of the increase requested by the Company.

The Company's rate schedules contain provisions permitting adjustments for changes in the costs of generating fuel, purchased power, gas for resale and the rates of excise taxes. Adjustments are reflected in billings to the Company's customers commencing 30 days after the adjustment calculations are filed with the ACC unless the ACC rules to the contrary in the intervening period. There are indications that the present adjustment provisions may be reviewed in the course of the rate proceeding now pending before the ACC.

Federal

The Company is also subject to regulation by the Federal Power Commission ("FPC") in certain matters that include wholesale rates and transmission charges. For the twelve months ended April 30, 1975, it derived approximately 11% of its electric operating revenues from sales and charges regulated by the FPC.

The Company is currently operating under a fuel adjustment clause applicable to its wholesale sales which it was permitted to place in effect on April 2, 1974 subject to refund, depending upon final FPC action (revenue of approximately $4,300,000 subject to refund having been recorded by the Company through April 30, 1975). This fuel adjustment clause is being contested before the FPC by two wholesale customers in a proceeding that involves the reasonableness of overall rates to these customers. In a separate action, the FPC is investigating the justness and reasonableness of rates and adjustment clauses (for certain expenses other than fuel) contained in various contracts from which the Company derives the preponderance of its FPC-regulated revenues; the parties are negotiating a settlement stipulation whereby the Company will be required in the future to submit cost-of-service filings prior to activating the adjustment clauses. The Company believes that it will not be adversely affected to any material degree by the ultimate disposition of the foregoing matters.

FINANCING REQUIREMENTS AND CONSTRUCTION PROGRAM

Over the past several years the Company has relied for a significant part of its construction funds upon short-term borrowings, which aggregated $126,600,000 on May 30, 1975 and are expected to increase to approximately $141,600,000 by June 11, 1975, immediately before application of the proceeds from the New Bonds and the Additional Shares.

Included in such borrowings is $20,000,000 obtained under bank lines the Company had arranged to support its commercial paper. After the rating of the Company's commercial paper was withdrawn by Moody's Investors Service, Inc. in January 1975, the Company resorted to the supporting bank lines, as well as its regular bank lines of credit, to replace borrowings that it otherwise would have obtained through the issuance of commercial paper or pursuant to arrangements with bank trust departments (the Company's ability to sell its commercial paper and to maintain such trust department arrangements having been terminated as a consequence of the withdrawal of the commercial paper rating).

The balance of the Company's current short-term borrowings is pursuant to regular bank lines of credit, aggregating $106,600,000 for 1975, as augmented for the period up to availability of the proceeds from the New Bonds and the Additional Shares by $23,000,000 in temporary bank credits. Interest on the supporting lines, the regular lines of credit and the temporary credits is generally at the prime rate. Unrestricted compensating balance requirements under the supporting and regular lines of credit are summarized in Note 5 of Notes to Financial Statements. In lieu of compensating balances, the temporary credits require commitment fees or interest in excess of the prime rate, but the cost to the Company is approximately the same.

Borrowings under the supporting lines and the temporary credits will be retired with a portion of the proceeds from the New Bonds and the Additional Shares. A $7,250,000 long-term obligation will be paid when due in July 1975 (other such obligations maturing through the end of 1977 consisting of $8,500,000 in 1976 and $2,500,000 in 1977).

Plant expenditures for the years 1975 through 1977 are currently estimated at $732,000,000 including approximately $198,000,000 for 1975, $270,000,000 for 1976 and $264,000,000 for 1977. The plant expenditures by major facility groups during the period 1975-77 are currently estimated as follows:

Electric generation(1)	$527,000,000
Electric transmission	105,000,000
Electric distribution	79,000,000
Gas distribution	9,000,000
Common facilities	12,000,000
Total(2)	$732,000,000

(1) See the second table, and the paragraph that follows it, in "Business and Property—Generation".

(2) Including approximately $140,000,000 of expenditures for environmental purposes.

During the years 1972 through 1974 plant expenditures by the Company aggregated approximately $440,000,000.

On the assumption that it will be able to meet the earnings coverage requirements discussed below, the Company is tentatively planning an additional debt issue and a preferred stock issue for late 1975 to provide an aggregate of approximately $90,000,000 of external capital for the foregoing purposes. In addition to further issues of senior securities consisting of long-term debt (including pollution control revenue bonds of various Arizona and New Mexico authorities to finance facilities to be constructed and owned by the Company) and preferred stock, permanent financing in the ensuing two years is expected to include common stock. The Company's ability to issue and successfully market senior securities through the 1975-77 period will depend in large part upon its ability to provide adequate earnings coverage for the rapidly expanding capital structure necessary to finance its monetary needs.

Provisions in the Company's indenture and articles of incorporation restrict it from issuing new first mortgage bonds or preferred stock unless its earnings (as defined) cover by at least the prescribed number of times the amount of interest (as to bonds) and the amount of interest plus preferred stock dividend requirements (as to preferred stock) on the securities to be outstanding after completion of the new issue. As calculated in accordance with the indenture, the coverage afforded by earnings for the twelve months ended April 30, 1975 would have allowed the issuance of approximately $156,000,000 in aggregate principal amount of new first mortgage bonds (including the New Bonds). The issuance of the New Bonds will in effect preclude an additional preferred stock issue at least until the Company's recent interim rate increase (See "Regulation and Rates") is sufficiently reflected in a 12-month earnings period.

CAPITALIZATION

The capitalization of the Company as of April 30, 1975, and as adjusted to reflect the issuance and sale of the New Bonds and the Additional Shares and the application of the proceeds thereof, is as follows:

	April 30, 1975 Outstanding	As Adjusted(3) Amount	As Adjusted(3) Percentage
	(Thousands of Dollars)		
Long-Term Debt (1):			
First mortgage bonds	$392,484	$ 467,484	
Notes payable	50,000	50,000	
Total long-term debt	442,484	517,484	51.2%
Preferred Stock, 3,535,000 shares authorized, 2,074,199 shares outstanding (1)	138,561	138,561	13.7
Common Stock Equity:			
Common Stock, $2.50 par value, 30,000,000 shares authorized, 17,000,000 shares outstanding, 19,000,000 shares to be outstanding	42,500	47,500	
Premiums and expenses	177,777	200,777	
Retained earnings (1)	106,267	106,267	
Total common stock equity	326,544	354,544	35.1
Total capitalization	$907,589	$1,010,589	100.0%
Short-Term Borrowings—as of April 30, 1975 for Outstanding; as of June 12, 1975 (estimated) for As Adjusted(2)	$105,600	$ 39,414	

(1) See Notes 2 and 3 of Notes to Financial Statements. Long-term debt excludes $8,250,000 of current maturities of which $1,000,000 was paid on May 1, 1975.

(2) See "Application of Proceeds", "Financing Requirements and Construction Program" and Note 5 of Notes to Financial Statements.

(3) The sale of the New Bonds is not conditioned on the sale of the Additional Shares. The table assumes that the Additional Shares are sold at a net price of $14 per share. If the New Bonds are sold and the Additional Shares are not, the Long-Term Debt will be 52.7%, the Preferred Stock will be 14.1% and the Common Stock Equity will be 33.2% of the Company's capitalization.

STATEMENT OF INCOME

The statement of income for the five years ended December 31, 1974 has been examined by Haskins & Sells, independent certified public accountants, whose opinion with respect thereto appears elsewhere in this Prospectus. The statement for the twelve months ended April 30, 1975 has not been examined by indepen[illegible]t certified public accountants but, in the opinion of the Company, includes all adjustments (comprising [illegible]y normal recurring accruals) necessary for a fair presentation of the results of operations, subject to the matters discussed in Note A. This statement should be considered in conjunction with the other financial statements and related notes and the information referred to under "Industry and Company Problems" appearing elsewhere in this Prospectus.

	Year Ended December 31,					Twelve Months Ended April 30, 1975
	1970	1971	1972	1973	1974	(Unaudited)
	(Thousands of Dollars)					
Operating Revenues (Note A):						
Electric	$105,817	$117,399	$142,237	$171,025	$213,271	$238,510
Gas	39,049	41,899	46,199	53,931	60,328	69,107
Other	7	7	—	—	—	—
Total	144,873	159,305	188,436	224,956	273,599	307,617
Operating Expenses:						
Operation and maintenance expenses:						
Fuel for electric generation	13,350	17,107	19,964	29,626	41,626	45,554
Purchased gas	16,692	19,812	19,963	22,258	28,171	32,718
Purchased power and interchange—net	375	102	8,522	12,398	23,230	31,425
Other production expenses	2,600	3,002	3,427	4,181	5,181	5,646
Transmission and distribution	7,428	7,927	9,049	9,757	10,187	10,884
Maintenance	9,026	10,676	15,173	16,869	20,078	21,224
Customers, sales, administrative and general	14,798	17,276	18,612	21,775	24,533	26,247
Total	64,269	75,902	94,710	116,864	153,006	173,698
Depreciation and amortization (Note 1)	18,593	19,710	21,409	23,529	26,398	28,461
Taxes—other than income	21,539	24,983	26,901	28,401	38,546	43,217
Income taxes (Notes B and 4)	8,524	6,118	4,452	5,631	(133)	1,767
Total	112,925	126,713	147,472	174,425	217,817	247,143
Operating Income	31,948	32,592	40,964	50,531	55,782	60,474
Other Income (Deductions):						
Allowance for funds used during construction (Note C)	568	1,535	3,840	6,227	11,888	[illegible]8
Income taxes (Note 4)	180	594	1,169	2,117	2,531	[illegible]81
Other—net	(106)	86	4	753	2,646	2,669
Total	642	2,215	5,013	9,097	17,065	17,708
Gross Income	32,590	34,807	45,977	59,628	72,847	78,182
Interest Deductions:						
Interest on long-term debt	11,632	12,326	17,941	22,390	20,929	23,012
Interest on short-term borrowings	2,653	2,741	2,406	5,915	14,883	15,281
Debt discount, premium and expense	37	35	52	56	78	117
Total	14,322	15,102	20,399	28,361	35,890	38,410
Net Income	18,268	19,705	25,578	31,267	36,957	39,772
Preferred Dividend Requirements	3,551	3,551	3,551	3,551	6,258	8,441
Earnings for Common Stock	$ 14,717	$ 16,154	$ 22,027	$ 27,716	$ 30,699	$ 31,331
Average Common Shares Outstanding	8,500,000	9,272,603	9,612,022	10,527,397	13,102,740	14,204,110
Per Share of Common Stock:						
Earnings (based on average shares outstanding) (Note D)	$1.73	$1.74	$2.29	$2.63	$2.34	$2.21
Dividends declared and paid	$1.08	$1.08	$1.12	$1.21	$1.36	$1.36
Ratio of Earnings to Fixed Charges (Note E)	2.76	2.59	2.37	2.20	1.94	2.02

Numerical note references relate to the Notes to Financial Statements located elsewhere in this Prospectus; see also Note 1 as to significant accounting policies.

Notes to Statement of Income (Information for the Period Ended April 30, 1975 is Unaudited)

A. Revenues include amounts subject to refund (see "Regulation and Rates") as follows: for 1974—$2,500,000, all wholesale; and for the twelve months ended April 30, 1975—$4,200,000, wholesale, and $11,100,000, retail. In the opinion of the Company and its counsel any retail revenues reported for the twelve months ended April 30, 1975 that ultimately would be refunded are not material in relation to total revenues or net income for such twelve-month period. The Company and its counsel are of the same opinion in regard to the refundable wholesale revenues, both as to those included in 1974 and those included in the twelve months ended April 30, 1975.

Relative to wholesale revenues in the latter period, the Company is advised by its independent certified public accountants that if such accountants were otherwise prepared to render an opinion as to whether the unaudited financial statements for the twelve months ended April 30, 1975 are fairly presented in accordance with generally accepted accounting principles (which such accountants are not prepared to do, inasmuch as they have not examined such financial statements), their opinion would be subject to the effects upon the Company, if any, of final FPC action on the fuel adjustment clause referred to in "Regulation and Rates—Federal". Revenues collected pursuant to that clause made the following approximate contributions to total results for the twelve months ended April 30, 1975: 1.5% of operating revenues, 9.5% of net income and 12% of earnings per share of common stock.

B. Income tax reductions resulting from accelerated depreciation allowable for income tax purposes, from certain other timing differences and from investment tax credit are reflected in income currently. Reductions allowed relating to five-year amortization of certain facilities were deferred for later recognition in income. See Notes 1 and 4 of Notes to Financial Statements.

C. In accordance with the accounting practice described in Note 1 of Notes to Financial Statements, the allowance for funds used during construction (AFC) has been calculated using the following composite rates: 1970 through 1973, 7%; 1974 and 1975, 8%. AFC is defined by the FPC Uniform Systems of Accounts as including the net cost for the period of construction of borrowed funds used for construction and a reasonable rate on other funds when so used. The determination of the components of the composite rate attributable to each source of funds is impracticable. However, assuming that funds used to finance construction during the periods shown above were obtained from various sources of capital in the same proportion as the average capitalization during the period 1970 through 1974, that is, 52% from debt, 13% from preferred stock, and 35% from common equity, and basing the AFC attributable to debt and preferred stock upon experienced incremental costs of such securities (excluding pollution control bonds) and without giving effect to income taxes related to debt, the common equity component of AFC as related to earnings for common stock amounted to approximately 1%, 2%, 6%, 7%, 14% and 9% for the five years ended December 31, 1974 and twelve months ended April 30, 1975, respectively. Although AFC is included in Other Income (Deductions), it does not represent current cash earnings.

D. On a pro forma basis, the issuance of the Additional Shares of common stock referred to herein assuming (1) application of the proceeds of 1,000,000 shares of common stock issued on May 29, 1974, 1,500,000 shares issued on December 30, 1974 and 2,000,000 shares issued on March 11, 1975 to retire the most recently issued short-term borrowings incurred prior to those dates, respectively, and (2) application of the proceeds of the Additional Shares of common stock referred to herein to retire short-term borrowings expected to be incurred between April 30, 1975 and the June 11, 1975 anticipated time of the availability of such proceeds, would not have a material dilutive effect on earnings per share of common stock for the twelve months ended April 30, 1975.

E. "Earnings" used to compute this ratio represent the aggregate of net income, income taxes and fixed charges. "Fixed charges" represent interest, amortization of debt discount, premium and expense, and the estimated interest portion of annual rentals. The pro forma ratio of "earnings" to "fixed charges" for the twelve months ended April 30, 1975 would be 1.92 after giving effect to (1) the annual interest requirements of the New Bonds, (2) the issuance of the Additional Shares referred to herein on or about June 11, 1975, (3) the issuance and retirement of indebtedness during the twelve months ended April 30 and through June 11, 1975, and (4) applicable adjustments for interest on indebtedness to be retired from the proceeds of the New Bonds and the Additional Shares. The sale of the New Bonds is not conditioned on the issuance of the Additional Shares; if the Additional Shares are not issued (assumption (2) above), the pro forma ratio would be 1.79.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF STATEMENT OF INCOME

Operating Revenues

Increases in electric operating revenues and in total operation and maintenance expenses over the period covered by the Statement of Income reflect the increases in unit sales shown in "Business and Property—Operating Statistics". Total operating revenues also reflect the interim rate increase effective January 16, 1975, the 1973 general rate increase (as well as an earlier general increase in May 1972) and effects of the adjustment clauses referred to in "Regulation and Rates".

Operating Expenses

In addition to volume increases, the cost of fuel for the generation of a given amount of electricity has risen sharply, as indicated in "Business and Property—Energy Availability" and "Operating Statistics". A similar cost trend, starting in 1972, is reflected in the expense of purchased power and interchange (net), although dependence by the Company upon short-term power purchases from other utilities accounts for much of the increase in this item in recent years. Such purchases have increased greatly as the Company has sought alternatives, where available, to the high cost of operating its own generating facilities on fuel oil; however, an important temporary source of purchased power during 1974 is no longer available to the Company. Relative costs of fuel are discussed in "Business and Property—Energy Availability", as are other reasons for the Company's dependence on purchased power and for the increase in maintenance expense.

Operating expenses attributable to depreciation and amortization and to taxes other than income (primarily consisting of property taxes) increase with the size of the Company's utility plant. Generally higher rates of depreciation effective January 1, 1975 (see Note 1 of Notes to Financial Statements) are reflected in results for the twelve months ended April 30, 1975. Much of the sharp increase in property taxes from 1973 to 1974 is due to a 25% increase in the assessed valuation of the Company's utility plant in Arizona pursuant to a change in applicable law. Fluctuations in income tax expense are shown in Note 4 of Notes to Financial Statements.

Other Income

The allowance for funds used during construction is primarily a function of the amount of construction work in progress during a given period, but was also affected by a change in the composite rate used to calculate the allowance as discussed in Note C of Notes to Statement of Income; "Income taxes" included in "Other Income" primarily reflects tax benefits from interest attributable to construction work in progress that is capitalized for reporting purposes (see Note 4 of Notes to Financial Statements). "Other—net" for 1974 and the twelve months ended April 30, 1975 includes gains on the sale of non-utility assets.

Interest Deductions

The substantial increases in interest on short-term borrowings since 1972 are due primarily to greater amounts outstanding; see Note 5 of Notes to Financial Statements for amounts borrowed and interest rates thereon in 1974 and the twelve months ended April 30, 1975.

Outstanding Shares

Recent issues of preferred stock (giving rise to the increased dividend requirements) and common stock (giving rise to the increased average number of shares outstanding) are summarized in Note 2 of Notes to Financial Statements.

Earnings

The Company's net income and its earnings for common stock represent composites of cash and non-cash items (see the Statement of Changes in Financial Position) and, in part, reflect accounting practices unique to regulated public utilities (see Note C of Notes to Statement of Income and Note 1 of Notes to Financial Statements).

COMMON STOCK DIVIDENDS AND PRICE RANGE

The Company has paid quarterly cash dividends on its Common Stock in each year since 1920. A quarterly dividend of 34¢ per share (equivalent to an annual rate of $1.36) was paid June 1, 1975 to stockholders of record on May 5, 1975. Future dividends will depend on earnings and cash requirements of the Company and other factors. See Note 2 of Notes to Financial Statements for a restriction on retained earnings available for the payment of dividends.

The following table indicates the high and low sale prices of the Common Stock of the Company on the New York Stock Exchange during the periods indicated, as reported in The Wall Street Journal.

Year	High	Low	Year	High	Low
1973:			1974:		
First Quarter	24⅞	19⅝	First Quarter	19¾	18
Second Quarter	22⅝	19¼	Second Quarter	18⅝	13¾
Third Quarter	21¾	18¼	Third Quarter	15⅛	12
Fourth Quarter	22⅞	16⅝	Fourth Quarter	14½	11⅛
			1975:		
			First Quarter	14⅞	11⅞
			Second Quarter (through June 4)	15⅝	13⅜

The reported last sale price on the New York Stock Exchange on June 4, 1975 was $15¼.

At April 30, 1975 the book value per share of Common Stock then outstanding was $19.21. Market conditions have been such that recent offerings of Common Stock have been made by the Company at per share prices below current book values. Because of the rapidly expanding capital structure necessary to finance its monetary needs (see "Financing Requirements and Construction Program"), the Company has had little flexibility in timing its Common Stock offerings in reference to prevailing market conditions, and may have to continue selling its Common Stock below book value for an indeterminate period.

BUSINESS AND PROPERTY

General

The Company's service territory includes all or part of 11 of Arizona's 14 counties. The 1970 census recorded Arizona's population at 1,772,482 as against 1,302,161 in the 1960 census, an increase of 36.1%. It is estimated by the Company that one or both of its services of electricity or natural gas reaches approximately 1,555,000 persons, or approximately 70% of the population of Arizona, which is currently estimated at over 2,222,000. During 1974 no single purchaser or user of energy accounted for more than 3.2% of total electric revenue or for more than 1.7% of total gas revenue.

Certain territory adjacent to or within areas served by the Company is served by other investor-owned utilities (notably Tucson Gas & Electric Company serving both electricity and gas in the Tucson area) and a number of cooperatives, municipalities, electric districts and similar types of governmental organizations (notably Salt River Project Agricultural Improvement and Power District serving electricity in various areas in and around Phoenix).

Operating revenues, and operating income before income taxes, attributable to electric and gas operations of the Company during the five years ended December 31, 1974 and twelve months ended April 30, 1975 were as follows:

	Operating Revenues (Dollars in Millions)				Operating Income Before Income Taxes (Dollars in Millions)			
	Electric		Gas		Electric		Gas	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
1970	$105.9	73.1%	$39.0	26.9%	$35.5	87.7%	$5.0	12.3%
1971	117.4	73.7	41.9	26.3	36.6	94.6	2.1	5.4
1972	142.2	75.5	46.2	24.5	40.3	88.8	5.1	11.2
1973	171.0	76.0	54.0	24.0	47.3	84.2	8.9	15.8
1974	213.3	78.0	60.3	22.0	49.6	89.2	6.0	10.8
Twelve Months Ended April 30, 1975	238.5	77.5	69.1	22.5	54.2	87.0	8.0	13.0

Generation

The Company's present generating facilities have an accredited capacity aggregating 2,244,600 kw, comprised as follows:

Coal:	
Units 1, 2 and 3 at Four Corners, aggregating	572,000 kw
15% owned Units 4 and 5 at Four Corners, representing	240,000
Unit 1 at the Cholla Plant	116,000
14% owned Units 1 and 2 at the Navajo Plant, representing	210,000
	1,138,000 kw
Gas or Oil:	
Seven steam units divided among the West Phoenix, Saguaro and Ocotillo Plants, aggregating	540,700 kw
Eleven turbine units, aggregating	536,000
	1,076,700 kw
Other	29,900 kw

The Company's peak one-hour demand, recorded on June 27, 1974, was 2,032,000 kw, compared to a 1973 peak (recorded on August 15) of 1,812,700 kw. Taking into account additional capacity then available to it under power purchase contracts (including short-term arrangements) as well as its own generating capacity, the Company's capability of meeting system demand on June 27, 1974, computed in accordance with accepted industry practices, amounted to 2,343,600 kw. The power actually available to the Company from its resources fluctuates from time to time due in part to operational problems of the nature discussed under "Energy Availability". The Company's ability to meet future system demand will, among other things, depend on its success in dealing with those problems and with the new-construction delays mentioned below.

The following table reflects the Company's plans and most recent estimates as of May 30, 1975 with respect to additional generating facilities now under construction or in planning stages:

Type of Facility and Scheduled Completion Date	Nameplate Capacity or Equivalent	Estimated Cost Per Kilowatt(1)	Estimated Cost of Construction (Thousands of Dollars)(1)
Coal:			
14% owned Unit 3 (1976) at the Navajo Plant, representing	105,000 kw	$390	$ 41,000
Units 2 (1977) and 3 (1978) at the Cholla Plant, aggregating	500,000	566	283,000
Unit 4 (1979) at the Cholla Plant	350,000	637	223,000
18%owned Units 1 (1981), 2 (1982), 3 (1983) and 4 (1984) of the Kaiparowits Plant (southern Utah), representing	540,000	726	392,000
Gas or Oil:			
Three combined cycle units (1976), aggregating	246,000	224	55,000
Nuclear:			
28.1% owned Units 1 (1982), 2 (1984) and 3 (1986) of the Palo Verde Nuclear Generating Station (west of Phoenix), representing	1,070,600	725	776,000
Total	2,811,600 kw		$1,770,000(2)

(1) Excluding costs of related transmission facilities, fuel or fuel sources and allowance for funds used during construction, but including costs of related pollution control facilities.

(2) Including approximately $147,000,000 expended through April 30, 1975.

The comparability of the foregoing estimates is affected by the status of the related projects and by the differing sources and review dates of the estimates. No significant contracts have been entered into for construction of Cholla Unit 4 or for any portion of the proposed Kaiparowits Plant (which is in preliminary planning stages only), and firm contracts exist for only portions of the Palo Verde Station. Estimates for the Navajo and Kaiparowits Plants emanate with project managers other than the Company. The Cholla Unit 4, Kaiparowits and Palo Verde estimates have recently been increased substantially, due primarily to cost escalations much larger than those previously forecasted.

Further inflationary pressures, the factors discussed in "Energy Availability" and "Environmental Matters" and changes in the Company's plans (and, in the case of certain projects, changes in the plans of other participants) could cause actual completion dates and construction costs to vary substantially from the foregoing estimates. In some cases, project feasibility could also be affected. Participation in the Kaiparowits Plant is currently under review by the Company. In addition to cost considerations, the site of the Kaiparowits Plant is uncertain, and inability to resolve that issue with the Department of the Interior (which disapproved the originally proposed site) could jeopardize the project. Both the Kaiparowits Plant and the Palo Verde Station are subject to a number of regulatory approvals, and the feasibility, cost and timing of these projects is accordingly uncertain.

Energy Availability

Coal, gas and oil contributions to total net generation of electricity by the Company during the five years ended December 31, 1974 and twelve months ended April 30, 1975, and the average cost to the Company of those fuels during the periods indicated (in cents per million BTU), were as follows:

	Coal		Gas		Oil		All Fuels
	Percent of Generation	Average Cost	Percent of Generation	Average Cost	Percent of Generation	Average Cost	Average Cost
1970	83.3%	15.40¢	16.7%	34.27¢	—	—	18.82¢
1971	76.1	16.15	23.5	38.45	0.4%	46.63¢	21.59
1972	66.5	16.66	31.6	38.08	1.9	91.31	25.18
1973	70.0	17.78	18.4	41.25	11.6	98.41	32.09
1974	72.5	20.47	13.7	53.23	13.8	152.83	44.82
Twelve Months Ended April 30, 1975	74.8	22.22	10.7	55.07	14.5	170.84	49.23

Average costs of the respective fuels in the periods covered by the foregoing table ranged from \$2.92 to \$6.15 per ton of coal, \$0.35 to \$0.69 per mcf of gas and \$4.82 to \$13.34 per barrel of oil.

The Four Corners, Cholla and Navajo Plants have an ample supply of low sulfur coal (the sulfur content of which is currently running 0.7%, 0.6% and 0.5%, respectively) committed to those plants under long term contracts believed by the Company to provide sufficient coal for the anticipated useful lives of the plants. Preliminary indications from independent tests on coal leases held by the plant participants in the vicinity of the proposed Kaiparowits Plant indicate the probable existence of sufficient quantities of low sulfur coal (approximately 0.5% sulfur) for the anticipated useful life of that plant; however, the degree to which such coal may be recoverable in commercial quantities is subject to additional mining engineering evaluations and plant site and transportation considerations.

The capital cost of coal fired units is increasing substantially as environmental standards require pollution control equipment to be added to existing units and included in new plants. Operating costs also increase, since pollution control equipment lowers net plant output and entails high maintenance costs. Various technical problems, the more recent of which have been unrelated to the operation of pollution control equipment, have caused numerous service interruptions for unscheduled overhaul and maintenance at the Company's largest generating facility located at Four Corners. System operating expense increases substantially during these shutdowns, when the Company must replace lost capacity with gas or oil fired generation or with purchased power. Although

attempting to reduce future operational problems with improved component equipment on certain existing units and with improved design of additional or new equipment for other units now in operation or under construction, the Company expects its coal fired generation to be increasingly costly to build and operate.

The Four Corners and Navajo Plants are located on the Navajo Indian Reservation (see "Description of New Bonds — Security"), as are certain of the Company's transmission lines and related facilities. The Company is therefore dependent in some measure upon the willingness and ability of the Navajo Tribe to protect these properties and means of access thereto against attempted interference by others.

Gas and oil fuels are substantially more costly than coal. Only minor amounts of gas for generating fuel are now available to the Company from its sole supplier, El Paso Natural Gas Company ("El Paso"), because of declining gas supplies and curtailment priorities established by the FPC. Accordingly, the Company has had to substitute higher cost oil as the primary fuel for those of its generating units that do not operate on coal. Moreover, the Company may have to incur capital expenditures to accommodate the possible loss of gas for flame stabilization in coal as well as oil burning units.

The Company burned approximately 2,320,000 barrels of oil in 1974 and, based on a recent review, presently estimates its 1975 requirements at approximately 3,000,000 barrels. Since the federal allocation program has been in effect, the Company has from time to time experienced reduced deliveries of residual oil (burned in its steam plants) under its contracts for that fuel, but to date has obtained sufficient quantities to meet its requirements. Based upon current projections, the Company expects to have sufficient middle distillate fuel (required for oil fired operation of most of its turbine units) to meet its 1975 requirements, although it must depend upon the receipt of supplemental allocations inasmuch as it used limited amounts of that fuel during the 1972 base period specified in the regulations. Allocations of any kind of oil made pursuant to governmental regulations supersede contractual arrangements to the extent of inconsistencies between the two. The Company has residual oil contracts providing for approximately 3,000,000 barrels in 1975. Other oil purchases are made by the Company on short-term bases as and when the fuel is available and the Company's storage capacity (scheduled to be increased from the present 1,325,000 barrels to 1,725,000 barrels by the end of 1975) and means of transport permit it to accept delivery.

The participants in the Palo Verde Nuclear Generating Station have contractual commitments for the supply of uranium and related fuel fabrication services required for approximately 20 years' operation of all three nuclear units, assuming the participants exercise all of the options available to them under such commitments. Contracts have also been entered into with the Nuclear Regulatory Commission for necessary uranium enrichment services required for the lifetime operation of the three units. The Company presently has no commitments for reprocessing or off-site storage of fuel discharged from reactors; the extent to which such services may be required, and will be available, cannot be predicted.

Natural gas for resale is purchased by the Company from El Paso under a contract extending to 1984. Severe limitations of gas reserves available to El Paso have caused the Company to discourage growth of its gas distribution business and to obtain an ACC order pursuant to which it is now refusing requests for new gas service commitments. Curtailment plans affecting existing customers have also been adopted by both the FPC and the ACC. The Company curtailed gas service to larger industrial users for a total of 108 days in the 1974-75 heating season, and it expects such curtail-

ments not only to increase, but in the future also to affect all industrial and irrigation customers, and to extend to commercial customers. Legal proceedings relating to priorities and procedures for curtailments of gas deliveries by El Paso are pending, both before the FPC and the appellate courts.

Environmental factors, attendant operational difficulties and the fuel shortages described herein may from time to time necessitate dependence by the Company upon short-term power purchases from other utilities. However, since most other major producers of electricity in the southwestern United States face similar problems, the Company may encounter difficulty in finding significant amounts of excess power available for purchase over an extended period of time. The Company's ability to avoid or minimize power shortages in its service area over the longer term will depend upon its success in meeting schedules for new coal fired and nuclear generation in the early 1980's. To meet those schedules, the Company will have to deal successfully and in a timely manner with a variety of environmental impact and siting studies and regulations and, in the case of the nuclear units, with licensing and operational requirements of the Nuclear Regulatory Commission. Licensing proceedings now pending before that Commission have elicited petitions to intervene from parties desiring to raise environmental and safety questions. Based on that and other experiences, the Company anticipates opposition to many aspects of its planned facilities that may result in delay.

Environmental Matters

The Company's present and future operations are subject to stringent environmental protection measures imposed under federal and state laws and regulations, including those administered by the federal Environmental Protection Agency ("EPA"). Pursuant to the Supreme Court's interpretation of the Clean Air Act in *Sierra Club v. Ruckelshaus,* the EPA on November 27, 1974 adopted regulations designed to prevent "significant deterioration" of air quality in areas where the air is already cleaner than required by existing federal standards. Although none of its generating units now in operation or under construction would be affected by these new regulations, the Company anticipates that the regulations may have a substantial effect on the feasibility and cost of future coal fired plants, including the Kaiparowits Plant. Contending that the new regulations are inadequate, the Sierra Club has sought review thereof by the Court of Appeals for the District of Columbia, and the Company is among the intervenors in that review process. In addition, the Company and other utilities filed a petition seeking review of the new regulations with the Court of Appeals for the Ninth Circuit, from which it has been transferred to the Sixth Circuit.

The units now in operation or under construction remain subject to state and EPA air quality standards which require the design, installation, testing and operation by various compliance dates of new or additional pollution control equipment. Equipment for sulfur dioxide emission control and the augmentation of particulate emission control is in design stages for Four Corners Units 4 and 5, as is equipment to improve the sulfur dioxide control function of equipment now in operation at Four Corners Units 1, 2 and 3. Among the more stringent federal regulations relating to the Company's operations are those that prohibit the emission after July 31, 1977 of sulfur dioxide in an amount equivalent to 70% of the sulfur content of coal burned at the Four Corners and Navajo Plants. The Company's ability to meet compliance dates applicable to the installation and operation of control equipment and procedures, and in so doing to minimize the potential for future operational problems in the nature of those now encountered at Four Corners, is not currently ascertainable, but in the case of the more stringent regulations may be doubtful. While technology appears to be available for the removal of particulate matter and sulfur dioxide to the extent presently required by federal and state regulations applicable to the Company's operations, the reliability of such equipment over sustained periods of commercial operation and the reasonableness

Operating Statistics

	Year Ended December 31, 1970	1971	1972	1973	1974	Twelve Months Ended April 30, 1975
Electric Operations:						
Number of Customers (end of period):						
Residential	213,179	228,664	246,019	264,792	277,794	278,586
Commercial	34,571	36,025	37,646	39,643	40,934	40,859
Industrial	1,798	1,852	1,974	2,057	2,061	2,057
Irrigation	1,127	1,183	1,239	1,309	1,444	1,454
Other	654	768	802	842	861	924
Total Customers	251,329	268,492	287,680	308,643	323,094	323,880
Electric Sales (MWH):						
Residential	1,496,869	1,693,119	2,032,040	2,336,173	2,540,177	2,640,620
Commercial	1,884,376	2,057,989	2,347,289	2,582,025	2,675,151	2,749,929
Industrial	1,290,646	1,381,371	1,659,667	1,791,392	1,780,488	1,777,206
Irrigation	241,382	255,200	298,370	287,344	379,215	393,258
Other	526,520	682,589	861,581	1,101,778	1,317,270	1,382,475
Total Electric Sales	5,439,793	6,070,268	7,198,947	8,098,712	8,692,301	8,943,488
Operating Revenues (000):						
Residential	$ 35,042	$ 39,244	$ 49,036	$ 59,852	$ 74,348	$ 83,080
Commercial	37,903	41,399	49,246	58,972	71,220	80,623
Industrial	16,263	17,519	21,011	25,502	31,502	35,947
Irrigation	2,758	2,950	3,647	4,066	6,387	7,518
Other	4,873	6,815	8,712	12,004	18,425	19,819
Total	96,839	107,927	131,652	160,396	201,882	226,987
Transmission for Others	7,583	7,947	8,649	8,640	9,216	9,450
Miscellaneous Services	1,395	1,525	1,936	1,989	2,173	2,073
Total Electric Operating Revenues	$105,817	$117,399	$142,237	$171,025	$213,271	$238,510
Revenue Per KWH (Cents):						
Residential	2.34¢	2.32¢	2.41¢	2.56¢	2.93¢	3.15¢
Commercial	2.01	2.01	2.10	2.28	2.66	2.93
Industrial	1.26	1.27	1.27	1.42	1.77	2.02
Costs Per KWH Generated (Cents):						
Fuel	0.20¢	0.23¢	0.27¢	0.36¢	0.51¢	0.56¢
Total Electric Operating Expense	1.14	1.16	1.46	1.55	2.00	2.29
Gas Operations:						
Number of Customers (end of period):						
Residential	260,104	275,837	288,359	301,970	308,175	307,865
Commercial	21,610	22,436	23,163	23,935	24,236	24,482
Industrial	922	965	999	1,048	1,071	1,057
Irrigation	1,390	1,412	1,406	1,452	1,425	1,465
Other	1	1	1	1	1	1
Total Customers	284,027	300,651	313,928	328,406	334,908	334,870
Gas Sales (MTherms):						
Residential	186,687	205,575	206,390	229,657	200,447	221,155
Commercial	105,719	117,110	121,307	133,076	119,937	129,050
Industrial	99,278	100,936	93,871	99,961	104,542	95,731
Irrigation	75,514	76,339	76,990	75,920	87,816	88,738
Other	8,009	7,428	8,016	8,454	6,257	7,437
Total Gas Sales	475,207	507,388	506,574	547,068	518,999	542,111
Operating Revenues (000):						
Residential	$ 21,936	$ 23,327	$ 26,082	$ 30,815	$ 32,058	$ 37,882
Commercial	6,877	7,785	8,627	10,304	11,412	13,610
Industrial	4,758	5,132	5,208	6,013	7,818	7,726
Irrigation	4,771	4,895	5,314	5,637	7,877	8,581
Other	325	333	382	441	441	592
Miscellaneous services	382	427	586	721	722	716
Total Gas Operating Revenues	$ 39,049	$ 41,899	$ 46,199	$ 53,931	$ 60,328	$ 69,107
Revenue Per Therm (Cents):						
Residential	11.75¢	11.35¢	12.64¢	13.42¢	15.99¢	17.13¢
Commercial	6.50	6.65	7.11	7.74	9.51	10.55
Industrial	4.79	5.08	5.55	6.02	7.48	8.07

of the ultimate cost of such technology remain highly questionable. The Company from time to time is engaged in litigation and other proceedings involving the validity or interpretation of proposed or existing regulations.

The effects of federal and state water quality standards on the Company's generating plants are difficult to assess. While anticipating adequate incoming supplies of water needed for the operation of its present plants and those under construction, the Company could in the near future be required to meet "zero discharge" standards, requiring significant and costly changes from its present methods of handling discharge water and other materials. Fuel costs of the Company's coal fired plants could also escalate by an indeterminate amount with enactment of strip mining legislation consisting of or similar to that which Congress will apparently reconsider following the President's veto.

Litigation

In 1971 an action was filed by certain individual Hopi Indians against the Secretary of the Interior and Peabody Coal Company seeking to invalidate certain of the Peabody coal mining leases on deposits which supply coal for the Navajo Plant on the grounds that they were not validly granted by the Hopi Tribal Council in 1966, and that the Secretary of the Interior, in approving invalidly authorized leases, breached his fiduciary duties to the plaintiffs. Following intervention by the Company and the other participants in the Navajo Plant and dismissal of the complaint by the District Court on various grounds (including lack of joinder of the Hopi Tribe as an indispensable party), the case was appealed to the Court of Appeals for the Ninth Circuit and is now pending there. In the opinion of Snell & Wilmer, counsel to the Company, the position of the Secretary of the Interior (and therefore of Peabody Coal Company, the Company and the other participants in the Navajo Plant) should ultimately be sustained.

As a result of action instituted by the Company, the Arizona State Board of Tax Appeals reduced the 1974 assessed valuation of the Company's properties in Arizona so as to result in a reduction of approximately $2,200,000 in 1974 Arizona property taxes. On October 31, 1974 the Arizona Department of Revenue filed an action in the Superior Court of Maricopa County appealing that ruling. While the issues involved are not free from question, the Company and Snell & Wilmer believe that the arguments for the Company's position are of greater merit and persuasion than those that may be advanced by the Department in support of its position.

The State of New Mexico recently enacted an excise tax, effective July 1, 1975, on the generation of electricity within the State. The Company and other participants in the Four Corners Plant intend to contest the tax on constitutional grounds. If the contest is unsuccessful (and perhaps while it is pending), the Company's share of the tax, amounting to an estimated $2,000,000 per year, will be passed on to its customers (see "Regulation and Rates").

Also see "Regulation and Rates" and "Environmental Matters".

Labor Negotiations

The Company and the union representing approximately 45% of its employees are currently operating under the provisions of a three-year contract that expired on April 1, 1975. Arbitration proceedings are currently in progress with respect to the economic aspects of a new contract.

CONTENTS

No dealer, salesman or other person has been authorized to give any information or to make any representation not contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorized by the Company or the Underwriters. This Prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, any of the securities offered hereby in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

Arizona Public Service Company

$75,000,000

First Mortgage Bonds

9.80% Series due 1980

Arizona Public Service Company

aps.

WE CARE HOW YOU LIVE

PROSPECTUS

The Underwriting Agreement provides that the obligations of the Underwriters are subject to certain conditions precedent, and that the Underwriters will be obligated to purchase all of the New Bonds offered hereby if any are purchased.

The Company has been advised by The First Boston Corporation, Blyth Eastman Dillon & Co. Incorporated and Dean Witter & Co. Incorporated, as Representatives of the Underwriters, that the Underwriters propose to offer the New Bonds to the public initially at the public offering price set forth on the cover page of this Prospectus and, through the Representatives, to certain dealers at such price less a concession of .575% of the principal amount of the New Bonds; that the Underwriters and such dealers may allow a discount of .25% of such principal amount on sales to other dealers; and that the public offering price and concessions and discounts to dealers may be changed by the Representatives.

UNDERWRITING

The Underwriters named below have severally agreed to purchase from the Company the following respective principal amounts of the New Bonds.

Underwriter	Principal Amount
The First Boston Corporation	$7,700,000
Blyth Eastman Dillon & Co. Incorporated	7,700,000
Dean Witter & Co. Incorporated	7,700,000
Adams & Peck	200,000
Advest Co.	400,000
Bacon, Whipple & Co.	400,000
Robert W. Baird & Co. Incorporated	400,000
Bateman Eichler, Hill Richards, Incorporated	400,000
Bear, Stearns & Co.	1,000,000
Birr, Wilson & Co., Inc.	200,000
William Blair & Company	400,000
Blunt Ellis & Simmons Incorporated	400,000
Boettcher & Company	400,000
Bosworth, Sullivan & Company, Incorporated	400,000
Alex. Brown & Sons	800,000
B. C. Christopher & Company	125,000
Dain, Kalman & Quail, Incorporated	400,000
Davis, Skaggs & Co., Inc.	200,000
Dillon, Read & Co. Inc.	1,250,000
Drexel Burnham & Co. Incorporated	1,250,000
A. G. Edwards & Sons, Inc.	400,000
Elkins, Stroud, Suplee & Co.	400,000
Equitable Securities Corporation	125,000
First Southwest Company	400,000
Freeman Securities Company, Inc.	200,000
Goldman, Sachs & Co.	1,750,000
Halsey, Stuart & Co. Inc.	1,250,000
Harris, Upham & Co. Incorporated	800,000
Hibbard & O'Connor Securities, Inc.	200,000
Hornblower & Weeks-Hemphill, Noyes Incorporated	1,250,000
Howard, Weil, Labouisse, Friedrichs Incorporated	400,000
E. F. Hutton & Company Inc.	1,250,000
The Illinois Company Incorporated	125,000
Josephthal & Co.	200,000
Keefe, Bruyette & Woods, Inc.	400,000
Paul Kendrick & Co., Inc.	125,000
Kidder, Peabody & Co. Incorporated	1,250,000
Kuhn, Loeb & Co.	1,250,000
Lazard Freres & Co.	1,250,000
Legg Mason/Wood Walker Div. of First Regional Securities, Inc.	400,000
Lehman Brothers Incorporated	1,250,000
Loeb, Rhoades & Co.	$ 1,250,000
Loewi & Co. Incorporated	400,000
McCormick & Co., Incorporated	125,000
McDonald & Company	400,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	1,750,000
The Milwaukee Company	125,000
Mitchum, Jones & Templeton Incorporated	200,000
Morgan Stanley & Co. Incorporated	1,750,000
Moseley, Hallgarten & Estabrook Inc.	800,000
Newhard, Cook & Co. Incorporated	200,000
The Ohio Company	400,000
Paine, Webber, Jackson & Curtis Incorporated	1,250,000
Piper, Jaffray & Hopwood Incorporated	400,000
Prescott, Ball & Turben	400,000
R. W. Pressprich & Co. Incorporated	800,000
Quinn & Co., Inc.	200,000
Rauscher Pierce Securities Corporation	1,000,000
Reynolds Securities Inc.	1,250,000
The Robinson-Humphrey Company, Inc.	400,000
Rotan Mosle Inc.	400,000
L. F. Rothschild & Co.	1,000,000
Salomon Brothers	1,750,000
Shearson Hayden Stone Inc.	1,000,000
Shields Model Roland Securities Incorporated	1,000,000
Shuman, Agnew & Co., Inc.	400,000
Smith, Barney & Co. Incorporated	1,250,000
Stern, Frank, Meyer & Fox, Incorporated	200,000
Stone & Youngberg	400,000
Sutro & Co. Incorporated	400,000
Thomson & McKinnon Auchincloss Kohlmeyer Inc.	800,000
Spencer Trask & Co. Incorporated	800,000
Tucker, Anthony & R. L. Day	800,000
Underwood, Neuhaus & Co., Incorporated	200,000
Wagenseller & Durst, Inc.	200,000
Weeden & Co. Incorporated	1,000,000
Wertheim & Co., Inc.	1,250,000
Wheat, First Securities, Inc.	400,000
White, Weld & Co. Incorporated	1,250,000
Wood, Struthers & Winthrop Inc.	800,000
Young, Smith & Peacock, Inc.	200,000
Total	$75,000,000

7. Commitments and Contingencies.

See Note A of Notes to Statement of Income relative to revenues subject to refund.

The $38,289,000 "deposit with trustee" appearing in Note 3 as a deduction from long-term debt outstanding at April 30, 1975 relates to those proceeds from a $50,000,000 issue in 1974 of pollution control revenue bonds (6.20% series due April 1, 2004) that were being retained by the revenue bond trustee pending application to the costs of a pollution control project being constructed by the Company over a period extending through 1977. As provided in the revenue bond indenture, the Company has directed the trustee temporarily to invest bond proceeds in certain securities. At April 30, 1975 these included the following securities of New York City: $8,450,000 of revenue anticipation notes maturing August 22, 1975; and $10,000,000 of bond anticipation notes, of which $5,000,000 matures September 11, 1975 and the remainder matures on March 12, 1976. The Company is advised that because of recently publicized financial difficulties of the City, the City's ability to pay the notes when due may currently be in question. If the payments are not made by the time the funds are needed by the Company to finance the latter stages of its pollution control project, it would have to resort to other sources, while remaining obligated for the payment, when due, of the full principal and interest requirements of the revenue bonds. Based on information currently available to the Company, it does not expect to incur any material loss on the notes; if, however, subsequent developments indicate the probability of any loss in an amount that can then be reasonably estimated, such amount will be reflected in the Company's statement of income.

Commitments under contracts for plant additions were approximately $255,000,000 at April 30, 1975. Annual rentals under noncancellable leases were not material.

The Company is involved in certain litigation (see "Business and Property — Litigation").

8. Supplementary Income Statement Information.

General taxes and rents during the five years ended December 31, 1974 and twelve months ended April 30, 1975 were as follows:

	Year Ended December 31,					Twelve Months Ended April 30,
	1970	1971	1972	1973	1974	1975
	(Thousands of Dollars)					
Taxes, other than income taxes:						
Ad valorem	$16,606	$19,488	$20,509	$20,461	$27,693	$30,286
Sales	3,873	4,290	5,533	6,673	9,240	11,239
Rents	2,022	1,938	1,862	1,986	1,702	1,673

5. Short-Term Borrowings and Compensating Balances.

The Company had the following arrangements for short-term borrowings at the dates shown (see "Financing Requirements and Construction Program" for current short-term borrowing arrangements and the effects of loss of commercial paper rating):

	December 31, 1974	April 30, 1975
Bank lines of credit (unused: December 31, $20,000,000; April 30, $21,000,000)	$97,000,000	$106,600,000
Bank lines in support of commercial paper (unused: December 31, $30,000,000; April 30, none)	$30,000,000	$20,000,000
Bank trust department loans (borrowings: December 31, $32,552,000)	$35,000,000	—

Weighted average interest rates on short-term borrowings outstanding at December 31, 1974 and April 30, 1975 were: notes payable to banks, 10.82% and 7.49%, respectively; commercial paper, 10.60% at December 31 (no commercial paper being outstanding at April 30). Average aggregate short-term borrowings outstanding during 1974 and the twelve months ended April 30, 1975 were $140,569,000 and $145,038,000, respectively; weighted daily average interest rates on such amounts were 10.35% and 10.28%, respectively. Maximum amounts of short-term borrowings outstanding at any month end aggregated $165,497,000 in 1974 and $179,027,000 in the twelve months ended April 30, 1975.

Compensating balances required at banks, but which were not legally restricted, were: for bank loans, generally 10% of the line plus 5% (10% in some instances) of borrowings; for lines in support of commercial paper, 10% of the line plus 5% of usage (4% of the line in 1974) as to $10,000,000 and 15% of usage plus a commitment fee of 9% of the prime rate calculated quarterly (15% plus a commitment fee of .5% of the line in 1974) as to $10,000,000 ($20,000,000 in 1974). The bank trust department loans required no compensating balances. Substantially all cash shown in the balance sheet is considered compensating balances.

6. Pension Plan.

The Company's pension plan covers all employees. Contributions to the plan were as follows: 1970, $2,333,000; 1971, $2,866,000; 1972, $3,290,000; 1973, $3,993,000; 1974, $5,137,000; twelve months ended April 30, 1975, $5,465,000. The plan was amended in 1973 to eliminate in stages the social security offset from benefits provided under the plan. Anticipated changes in the plan to conform to the 1974 Pension Reform Act will not have a significant effect on the Company's pension expense or funding. At December 31, 1974, after giving effect to the increased vesting requirements of the Reform Act, the estimated actuarial value of vested benefits exceeded the estimated market value of the fund assets (including contribution receivable) by approximately $5,000,000. The liability for unfunded past service costs at June 30, 1974 was $2,678,000, which is expected to be completely funded by 1981.

4. Income Tax Expense.

Details of factors related to income taxes during the five years ended December 31, 1974 and twelve months ended April 30, 1975 were as follows (see Note 1):

	Year Ended December 31, 1970	1971	1972	1973	1974	Twelve Months Ended April 30, 1975
	(Thousands of Dollars)					
Computed "expected" income tax expense—Federal and State	$13,631	$12,642	$14,463	$17,428	$16,529	$19,392
Reductions in taxes resulting from:						
Timing differences:						
Tax over book depreciation	(3,372)	(3,642)	(4,744)	(6,352)	(6,875)	(6,729)
Allowance for funds used during construction capitalized	(291)	(769)	(1,924)	(3,120)	(5,730)	(6,462)
Other—principally taxes, pensions and other items capitalized	(617)	(1,490)	(2,582)	(2,246)	(3,012)	(3,666)
Other items	(62)	12	133	(113)	(1,004)	(1,225)
Investment credits	(735)	(1,019)	(2,468)	(2,573)	(1,047)	(337)
Taxes currently payable (refundable)	8,554	5,734	2,878	3,024	(1,139)	973
Deferred taxes included in expenses:						
Deferred	—	—	615	700	(1,315)	(877)
Restored	(210)	(210)	(210)	(210)	(210)	(210)
Total deferred	(210)	(210)	405	490	(1,525)	(1,087)
Total Federal and State income taxes	$ 8,344	$ 5,524	$ 3,283	$ 3,514	$(2,664)	$ (114)
Federal and State income taxes included in:						
Operating expenses (credit)	$ 8,524	$ 6,118	$ 4,452	$ 5,631	$ (133)	$ 1,767
Other income (credit)	(180)	(594)	(1,169)	(2,117)	(2,531)	(1,881)
Total	$ 8,344	$ 5,524	$ 3,283	$ 3,514	$(2,664)	$ (114)
Taxes currently payable (refundable):						
Federal	$ 7,777	$ 5,133	$ 2,280	$ 2,314	$(1,190)	$ 770
State	777	601	598	710	51	203
Total	$ 8,554	$ 5,734	$ 2,878	$ 3,024	$(1,139)	$ 973
Deferred taxes:						
Federal	$ (201)	$ (201)	$ 364	$ 443	$(1,409)	$(1,007)
State	(9)	(9)	41	47	(116)	(80)
Total	$ (210)	$ (210)	$ 405	$ 490	$(1,525)	$(1,087)

The Company anticipates that investment tax credit, applied in accordance with the 1975 Tax Reduction Act, will eliminate all 1975 Federal income tax liability. Accordingly, income tax expense for the last four months of the twelve-month period ended April 30, 1975 represents solely an accrual for state income tax and certain Federal income tax adjustments.

The Company has approximately $6,000,000 of unused investment tax credit which can be carried forward through 1981.

ARIZONA PUBLIC SERVICE COMPANY
NOTES TO FINANCIAL STATEMENTS (continued)
(Information for the Period Ended April 30, 1975 is Unaudited)

	December 31, 1974	April 30, 1975
	(Thousands of Dollars)	
4.80% series due November 1, 1991	35,000	35,000
4.45% series due June 1, 1992	25,000	25,000
4.40% series due December 1, 1992	25,000	25,000
4.50% series due September 1, 1993	15,000	15,000
6.25% series due September 1, 1997	25,000	25,000
7.45% series due March 15, 2002	60,000	60,000
6.20% series due April 1, 2004	50,000	50,000
Less deposit with trustee (see Note 7)	(40,314)	(38,289)
Unamortized discount	—	(498)
Unamortized premium	67	48
Total First Mortgage Bonds	320,976	392,484
Less current maturities:		
8.50% series due April 1, 1975	(30,000)	—
Remainder	290,976	392,484
Unsecured Notes Payable:		
6.375% to 6.50% due May and July 1975	8,250	8,250
Due September 1, 1979*	50,000	50,000
Total Unsecured Notes Payable	58,250	58,250
Less current maturities:		
6.375% to 6.50% due 1975	(8,250)	(8,250)
Remainder	50,000	50,000
Total Long-Term Debt	$340,976	$442,484

*$30,000,000 bears interest at 114% of prime rate to September 1, 1975, then 114% of prime rate plus ¼ of 1% to September 1, 1977, then 114% of prime rate plus ½ of 1% to September 1, 1979. $20,000,000 bears interest at 117% of prime rate to September 1, 1975, then at various percentages of prime from 119% to 122%. The actual interest rate to final maturity of these loans is not to exceed 7½% per annum; payments in excess of this amount are carried as deferred interest.

Aggregate annual payments which will be due on long-term debt in 1975 (after April 30) through 1980 are as follows: 1975, $8,250,000; 1976, $8,500,000; 1977, $2,500,000; 1979, $54,000,000; 1980, $11,000,000. The annual sinking fund requirements for the outstanding First Mortgage Bonds in 1975 through 1980 will be as follows: 1975, $2,212,230; 1976, $2,127,230; 1977 and 1978, $2,702,230; 1979, $2,662,230; 1980, $2,552,230. Sinking fund requirements as provided in the bond indentures have in the past been satisfied by certification of property additions of 1⅔ times the amount stated and the Company expects to meet future requirements in that manner.

Substantially all utility plant is subject to the lien of the First Mortgage Bonds. The indenture respecting the First Mortgage Bonds includes provisions which would restrict the payment of dividends on Common Stock under certain conditions which did not exist at April 30, 1975.

In the opinion of counsel, amounts paid in any redemption of capital stock funded other than with the proceeds of a concurrent new issue of capital stock would reduce the amount of retained earnings available under Arizona law for the payment of dividends. Because of the option of the holders thereof to require redemption of the series F and G shares as indicated in note (d) above, the Company considers that a portion of its retained earnings which is equal to the aggregate par value of such series ($30,000,000) is unavailable for dividend payments.

Capital stock sales and changes in premiums and expenses during the five years ended December 31, 1974 and four months ended April 30, 1975 were as follows (dollars in thousands):

	Common Stock		Cumulative Preferred Stock		Premiums and (Expenses) —Net
Description	Number of Shares	Par Value Amount	Number of Shares	Par Value Amount	
Balance, December 31, 1969 and 1970	8,500,000	$21,250	1,374,199	$ 68,561	$ 63,475
Common Stock	1,000,000	2,500	—	—	18,932
Balance, December 31, 1971	9,500,000	23,750	1,374,199	68,561	82,407
Common Stock	1,000,000	2,500	—	—	20,222
Balance, December 31, 1972	10,500,000	26,250	1,374,199	68,561	102,629
Common Stock	2,000,000	5,000	—	—	29,352
Balance, December 31, 1973	12,500,000	31,250	1,374,199	68,561	131,981
Common Stock	2,500,000	6,250	—	—	23,849
Cumulative Preferred Stock, $8.50 series F	—	—	210,000	21,000	(111)
Cumulative Preferred Stock, $8.50 series G	—	—	90,000	9,000	(47)
Cumulative Preferred Stock, $10 series H	—	—	400,000	40,000	(200)
Balance, December 31, 1974	15,000,000	37,500	2,074,199	138,561	155,472
Common Stock	2,000,000	5,000	—	—	22,305
Balance, April 30,1975	17,000,000	$42,500	2,074,199	$138,561	$177,777

3. Long-Term Debt.

Details of long-term debt outstanding at December 31, 1974 and April 30, 1975 were as follows:

	December 31, 1974	April 30, 1975
	(Thousands of Dollars)	
First Mortgage Bonds:		
8.50% series due April 1, 1975	$ 30,000	$ —
2¾ % series due July 1, 1976	8,500	8,500
3⅛ % series due December 1, 1977	2,500	2,500
3% series due April 1, 1979	4,000	4,000
2¾ % series due February 1, 1980	5,000	5,000
2⅞ % series due December 1, 1980	6,000	6,000
9.50% series due February 15, 1982	—	100,000
3½ % series due February 1, 1983	14,500	14,500
3½ % series due November 1, 1983	5,723	5,723
3¼ % series due March 1, 1984	15,000	15,000
5⅛ % series due October 1, 1987	15,000	15,000
4.70% series due March 1, 1989	20,000	20,000

ARIZONA PUBLIC SERVICE COMPANY
NOTES TO FINANCIAL STATEMENTS (continued)
(Information for the Period Ended April 30, 1975 is Unaudited)

2. Capital Stock.

Details of capital stock outstanding at December 31, 1974 and April 30, 1975 are shown below:

	Number of Shares			Par Value			Call Price Per Share (Before Adding Accumulated Dividends)
		Outstanding			Outstanding		
	Authorized	December 31, 1974	April 30, 1975	Per Share	December 31, 1974 (Thousands of Dollars)	April 30, 1975 (Thousands of Dollars)	
Common Stock	30,000,000(a)	15,000,000	17,000,000	$ 2.50	$ 37,500	$ 42,500	
Cumulative Preferred Stock:							
$1.10 preferred	160,000	155,945	155,945	$ 25.00	$ 3,898	$ 3,898	$ 27.50
$2.50 preferred	105,000	103,254	103,254	50.00	5,163	5,163	51.00
$2.36 preferred	120,000	40,000	40,000	50.00	2,000	2,000	51.00
$4.35 preferred	150,000	75,000	75,000	100.00	7,500	7,500	102.00
Serial preferred	1,000,000						
$2.40 series A		240,000	240,000	50.00	12,000	12,000	50.50
$2.625 series C		240,000	240,000	50.00	12,000	12,000	51.00
$2.275 series D		200,000	200,000	50.00	10,000	10,000	(b)
$3.25 series E		320,000	320,000	50.00	16,000	16,000	(c)
Serial preferred	2,000,000(a)						
$8.50 series F		210,000	210,000	100.00	21,000	21,000	(d)
$8.50 series G		90,000	90,000	100.00	9,000	9,000	(d)
$10 series H		400,000	400,000	100.00	40,000	40,000	(e)
Total	3,535,000	2,074,199	2,074,199		$138,561	$138,561	

(a) On April 24, 1975, the stockholders of the Company approved amendments to its Articles of Incorporation increasing its authorized Common Stock from 20,000,000 to 30,000,000 shares and increasing its authorized Serial Preferred Stock, $100 par value, from 1,000,000 shares to 2,000,000 shares.

(b) From $51.00 through February 29, 1980 to $50.50 after February 29, 1980.

(c) From $52.50 through February 28, 1978 to $51.00 after February 28, 1983.

(d) Redeemable at par after May 30, 1979 (series F) or May 30, 1982 (series G) at the option of either the Company or the holders. Both series are also subject to redemption at par at the demand of the holders prior to the foregoing dates under certain conditions which are considered by the Company to be remote. Sinking fund provisions applicable to the two series require the retirement of a total of 12,000 shares at par semiannually commencing June 1, 1979.

(e) From $110.00 through September 1, 1975 to par after September 1, 2002. Not refundable at a lower cost of money through September 1, 1984. Applicable sinking fund provisions require the retirement of 16,000 shares at par annually commencing September 1, 1979.

Income tax reductions relating to the five-year amortization of emergency facilities in previous years were deferred, with the deferred amount being restored to income over a twenty-year period. Income tax reductions relating to the five-year amortization of pollution control facilities which were deferred in 1972 were reclassified in 1973, and those deferred in 1973 were reclassified in 1974, as taxes currently payable, since the Company did not elect to certify the facilities to be eligible for five-year amortization.

Income taxes included in utility operating expenses, starting in 1971, are reported before tax reductions due to interest expense applicable to construction work in progress; the effects of such reductions are included in other income since construction work in progress is not considered utility operating property until placed in service. Income taxes related to non-utility operations are also reflected in other income.

The Company and its subsidiaries file consolidated tax returns, and income taxes are allocated to the several entities based on the taxable income or loss of each.

g. Employees' pension plan— The Company's policy is to accrue and fund the current and prior service costs of its pension plan. Prior service costs are amortized over a fifteen-year period.

h. Revenues and recognition of certain costs— Operating revenues are recorded on a monthly cycle billing basis. Under its approved rate schedules, the Company may pass on to its customers increases in specified taxes, purchased power and fuel costs, and resale gas costs. Effective with the fourth quarter of the year ended December 31, 1974, such increases in purchased power and electric fuel costs chargeable to retail customers in the following period are deferred to be matched against revenue of such period. The Company defers the estimated cost of gas purchased from its supplier but not billed to its customers, a procedure adopted in 1972 and revised in 1973. None of the foregoing changes materially affected income in these periods.

i. Research and development costs— The Company expenses research and development costs on a current basis, except that costs which may result in utility plant are deferred for subsequent inclusion in plant or to be written off if the applicable project is abandoned.

ARIZONA PUBLIC SERVICE COMPANY
NOTES TO FINANCIAL STATEMENTS
(Information for the Period Ended April 30, 1975 is Unaudited)

1. Summary of Significant Accounting Policies.

a. System of accounts— The accounting records of the Company are maintained in accordance with the uniform system of accounts prescribed by the Federal Power Commission and used by the Arizona Corporation Commission.

b. Plant and depreciation— Property is stated at original cost as defined for regulatory purposes. The cost of additions to utility plant and replacements of retirement units is capitalized. Replacements of minor items of property are charged to expense as incurred. In addition to direct costs, capitalized items include research and development expenditures pertaining to construction projects, indirect charges for engineering, supervision, transportation, and similar costs, and an allowance for funds used during construction (see c. below). Costs of depreciable units of plant retired are eliminated from utility plant accounts and such costs plus removal expenses less salvage are charged to accumulated depreciation. Contributions in aid of construction are credited to plant cost.

Depreciation is provided on a straight-line basis at rates authorized by the Arizona Corporation Commission as follows: through December 31, 1974, composite of 3.25%; beginning January 1, 1975, generally 2.80% to 4.00% for electric plant, 3.25% for gas plant, and 3.00% to 15.50% for common plant. The effect of this change in depreciation rates made as of January 1, 1975 on the results of operations for the twelve months ended April 30, 1975 was to increase depreciation expense and reduce net income by $922,000 ($0.06 per common share).

c. Allowance for funds used during construction— In accordance with the uniform system of accounts, an allowance for funds used during construction is included in construction work in progress and credited to income using a composite rate (increased from 7% to 8% effective January 1, 1974), applied to construction work in progress, which assumes that funds used for construction were provided by borrowings, preferred stock and common equity. This accounting practice results in the inclusion in utility plant in service of amounts considered by regulatory authorities as an appropriate cost of funds for the purpose of establishing rates for charges to customers.

d. Subsidiaries— The Company's investment in its subsidiaries is stated at equity, starting in 1971. The subsidiaries are not consolidated inasmuch as their assets, revenues, net income and retained earnings are not significant in relation to those of the Company.

e. Bond premium or discount and issue expenses— Bond issuance premium or discount and related expenses are amortized over the lives of the issues to which they pertain.

f. Income taxes— The Company uses accelerated depreciation methods for income tax purposes. The reductions in income taxes resulting from this practice and from allowable investment tax credits are reflected currently in income, together with reductions arising from timing differences respecting certain other items of income and expense reported differently for income tax and financial purposes. Such accounting methods are in accordance with orders or practices of the Arizona Corporation Commission.

ARIZONA PUBLIC SERVICE COMPANY
STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended December 31,					Twelve Months Ended April 30, 1975
	1970	1971	1972	1973	1974	(Unaudited)
	(Thousands of Dollars)					
Source of Funds:						
Funds from operations:						
Net income	$18,268	$ 19,705	$ 25,578	$ 31,267	$ 36,957	$ 39,772
Principal non-cash charges (credits) to income:						
Depreciation and amortization	18,593	19,710	21,409	23,529	26,398	28,461
Equity in undistributed (earnings) loss of unconsolidated subsidiaries	—	180	366	(95)	(585)	(348)
Deferred income taxes	(210)	(210)	405	490	(1,525)	(1,087)
Allowance for funds used during construction	(568)	(1,535)	(3,840)	(6,227)	(11,888)	(13,158)
Total funds from operations	36,083	37,850	43,918	48,964	49,357	53,640
Funds from external sources:						
Common stock	—	21,525	22,800	34,400	30,278	57,628
Preferred Stock	—	—	—	—	69,755	69,755
Long-term debt	30,087	1,500	123,975	—	9,061	103,377
Notes payable to banks—net	—	31,545	—	45,925	63,627	—
Commercial paper—net	—	17,350	—	28,000	2,550	—
Total funds from external sources	30,087	71,920	146,775	108,325	175,271	230,760
Other items—net	1,495	1,666	3,071	6,441	—	1,972
Decrease in working capital*	4,374	—	1,113	—	—	—
Total source of funds	$72,039	$111,436	$194,877	$163,730	$224,628	$286,372
Application of Funds:						
Plant additions and replacements, excluding allowance for funds used during construction	$46,237	$ 91,704	$117,016	$142,751	$182,969	$182,563
Repayment of long-term debt	—	—	—	—	7,750	37,750
Repayment of short-term borrowings—net	11,150	—	62,545	—	—	34,392
Dividends on preferred and common stock	12,731	13,541	14,191	16,256	23,938	28,501
Investments in and receivables from subsidiaries and other assets	1,921	3,296	1,125	71	1,646	1,231
Other items—net	—	—	—	—	933	—
Increase in working capital*	—	2,895	—	4,652	7,392	1,935
Total application of funds	$72,039	$111,436	$194,877	$163,730	$224,628	$286,372
Increase (Decrease) in Working Capital*:						
Cash	$ (605)	$ 1,205	$ (699)	$ 993	$ (408)	$ 5,413
Notes receivable	5	(20)	43	91	847	624
Accounts receivable	2,046	945	3,177	4,789	7,226	8,648
Materials and supplies	941	795	1,653	6,459	12,463	12,370
Accounts payable	(2,666)	(1,742)	(3,865)	(6,063)	(9,427)	(6,317)
Accrued expenses	(3,639)	609	(1,112)	(1,451)	(6,355)	(11,346)
Other—net	(456)	1,103	(310)	(166)	3,046	(7,457)
Net increase (decrease)	$ (4,374)	$ 2,895	$ (1,113)	$ 4,652	$ 7,392	$ 1,935

*Excluding notes payable to banks, commercial paper and current maturities of long-term debt.

The accompanying Notes to Financial Statements, including Note 1 as to significant accounting policies, are an integral part of this statement.

ARIZONA PUBLIC SERVICE COMPANY

STATEMENT OF RETAINED EARNINGS

	Year Ended December 31,					Twelve Months Ended April 30, 1975 (Unaudited)
	1970	1971	1972	1973	1974	
	(Thousands of Dollars)					
Retained earnings at beginning of period	$57,919	$63,456	$69,620	$ 81,007	$ 96,018	$ 94,996
Add—Net income	18,268	19,705	25,578	31,267	36,957	39,772
Total	76,187	83,161	95,198	112,274	132,975	134,768
Deduct—Dividends:						
Preferred stock (see below)	3,551	3,551	3,551	3,551	6,258	8,441
Common stock	9,180	9,990	10,640	12,705	17,680	20,060
Total	12,731	13,541	14,191	16,256	23,938	28,501
Retained earnings at end of period (Note 2).	$63,456	$69,620	$81,007	$ 96,018	$109,037	$106,267
Dividends on preferred stock:						
$1.10 preferred	$ 172	$ 172	$ 172	$ 172	$ 172	$ 172
$2.50 preferred	258	258	258	258	258	258
$2.36 preferred	94	94	94	94	94	94
$4.35 preferred	326	326	326	326	326	326
Serial preferred:						
$2.40 series A	576	576	576	576	576	576
$2.625 series C	630	630	630	630	630	630
$2.275 series D	455	455	455	455	455	455
$3.25 series E	1,040	1,040	1,040	1,040	1,040	1,040
$8.50 series F	—	—	—	—	923	1,518
$8.50 series G	—	—	—	—	395	650
$10 series H	—	—	—	—	1,389	2,722
Total	$ 3,551	$ 3,551	$ 3,551	$ 3,551	$ 6,258	$ 8,441

The accompanying Notes to Financial Statements, including Note 1 as to significant accounting policies, are an integral part of this statement.

ARIZONA PUBLIC SERVICE COMPANY

BALANCE SHEET

LIABILITIES

	December 31, 1974	April 30, 1975 (Unaudited)
	(Thousands of Dollars)	
Capitalization:		
Common stock (Note 2)	$ 37,500	$ 42,500
Premiums and expenses (Note 2)	155,472	177,777
Retained earnings (Note 2)	109,037	106,267
Common stock equity	302,009	326,544
Preferred stock (Note 2)	138,561	138,561
Long-term debt (Note 3)	340,976	442,484
Total Capitalization	781,546	907,589
Current Liabilities:		
Notes payable to banks (Note 5)	109,552	105,600
Commercial paper (Note 5)	52,550	—
Current maturities of long-term debt (Note 3)	38,250	8,250
Accounts payable	28,938	13,780
Advances from subsidiary	1,244	1,080
Accrued taxes	16,627	29,032
Accrued interest	8,382	7,556
Dividends declared or accrued	842	8,305
Payable to employees' pension plan (Note 6)	937	960
Customers' deposits	1,852	1,981
Gas cost refund to be passed on to customers	—	4,916
Other	706	726
Total Current Liabilities	259,880	182,186
Other Non-Current Liabilities	566	679
Deferred Credits and Reserves:		
Customers' advances for construction	4,517	4,554
Other deferred credits and reserves	982	952
Deferred income taxes—accelerated amortization	1,393	1,323
Total Deferred Credits and Reserves	6,892	6,829
Commitments and Contingencies (Note 7)		
Total	$1,048,884	$1,097,283

The accompanying Notes to Financial Statements, including Note 1 as to significant accounting policies, are an integral part of this statement.

ARIZONA PUBLIC SERVICE COMPANY

BALANCE SHEET

ASSETS

	December 31, 1974	April 30, 1975 (Unaudited)
	(Thousands of Dollars)	
Utility Plant:		
Plant in service—at original cost (Note 3):		
Electric	$ 821,020	$ 877,685
Gas	118,999	120,908
Common, used in all services	33,660	32,714
Total	973,679	1,031,307
Less accumulated depreciation and amortization	235,000	244,141
Plant in service—depreciated	738,679	787,166
Construction work in progress	214,567	207,698
Plant held for future use	894	897
Utility Plant—Depreciated	954,140	995,761
Investments and Other Assets:		
Investments (at equity) in and receivables from subsidiaries	10,211	10,072
Other investments and funds	968	1,142
Other physical property (less accumulated depreciation: 1974, $23,000; April 30, 1975, $23,000)	1,296	1,274
Notes and contracts receivable	1,995	1,817
Total Investments and Other Assets	14,470	14,305
Current Assets:		
Cash (Note 5)	2,345	8,901
Special deposits and working funds (Note 5)	924	838
Notes receivable	1,151	763
Accounts receivable:		
Service customers	22,593	24,747
Miscellaneous	7,718	5,786
Allowance for doubtful accounts	(400)	(290)
Materials and supplies (at average cost)	27,497	28,475
Prepayments and other	7,489	4,611
Total Current Assets	69,317	73,831
Deferred Debits:		
Deferred interest (Note 3)	3,015	3,438
Unamortized debt issue costs	2,036	3,138
Other	5,906	6,810
Total Deferred Debits	10,957	13,386
Total	$1,048,884	$1,097,283

The accompanying Notes to Financial Statements, including Note 1 as to significant accounting policies, are an integral part of this statement.

OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Arizona Public Service Company:

We have examined the balance sheet of Arizona Public Service Company as of December 31, 1974 and the related statements of income, retained earnings and changes in financial position for the five years then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above-mentioned financial statements present fairly the financial position of the Company at December 31, 1974 and the results of its operations and the changes in its financial position for the five years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

HASKINS & SELLS

Phoenix, Arizona
February 11, 1975

reviewed by, Snell & Wilmer, 3100 Valley Center, Phoenix, Arizona 85073, counsel for the Company, and, insofar as the laws of New Mexico are concerned, have been reviewed by Keleher & McLeod, Public Service Building, Albuquerque, New Mexico 87101. All of such statements are set forth herein in reliance upon the opinions of such firms.

LEGAL OPINIONS

The validity of the New Bonds and the Additional Shares will be passed upon for the Company by Snell & Wilmer, and for the Underwriters by Sullivan & Cromwell, 48 Wall Street, New York, New York 10005. In giving their opinions, Sullivan & Cromwell may rely as to all matters of Arizona law upon the opinion of Snell & Wilmer, and as to matters of New Mexico law covered thereby, upon the opinion of Keleher & McLeod. Snell & Wilmer may also rely as to matters of New Mexico law upon the opinion of Keleher & McLeod.

At May 5, 1975, attorneys in the firm of Snell & Wilmer were the beneficial owners, directly or indirectly, of approximately 15,822 shares of the Company's common stock, 465 shares of its preferred stock and $145,000 in principal amount of pollution control revenue bonds secured by a first mortgage bond of the Company's issue.

REGISTRATION STATEMENT

This Prospectus omits certain information contained in the Registration Statement which the Company has filed with the Securities and Exchange Commission under the Securities Act of 1933, and to which reference is hereby made for further information with respect to the Company, the New Bonds and the Additional Shares.

for. See Note 2 of Notes to Financial Statements for a restriction on retained earnings available for the payment of dividends. The indenture respecting the Company's outstanding first mortgage bonds includes provisions that would restrict the payment of dividends on the Common Stock under certain conditions which are considered by the Company to be remote.

Voting Rights

Except as otherwise specified below, holders of Preferred Stock and Common Stock are entitled to one vote for each share held of record. Votes may be cumulated in electing directors.

If six or more quarterly dividends accrued thereon shall not have been paid with respect to the Preferred Stock, the holders thereof, voting by the prescribed classes for such purpose, will be entitled to elect a total of six directors, in addition to their other voting rights.

Special voting requirements are established for (i) certain conversions or exchanges of outstanding Preferred Stock, (ii) the authorization of any stock ranking prior to the Preferred Stock, (iii) making any change in the terms and provisions of Preferred Stock that would adversely affect the rights and preferences of the holders thereof, (iv) the issuance of any additional shares of Preferred Stock except under prescribed circumstances, or (v) a merger, consolidation or sale of substantially all the assets of the Company.

Pre-emptive Rights

The holders of the Common Stock have no pre-emptive rights to subscribe for other shares except with respect to a non-public offering for money of additional Common Stock or any security convertible into Common Stock.

Liquidation Rights

Subject to the payment of all prior claims and the rights of all issues of Preferred Stock, the Common Stock is entitled to receive all net assets in liquidation.

Miscellaneous

The Common Stock has no conversion rights and is not subject to redemption. The outstanding shares of Common Stock are, and the Additional Shares when issued and paid for will be, fully paid and nonassessable.

Transfer Agents and Registrars

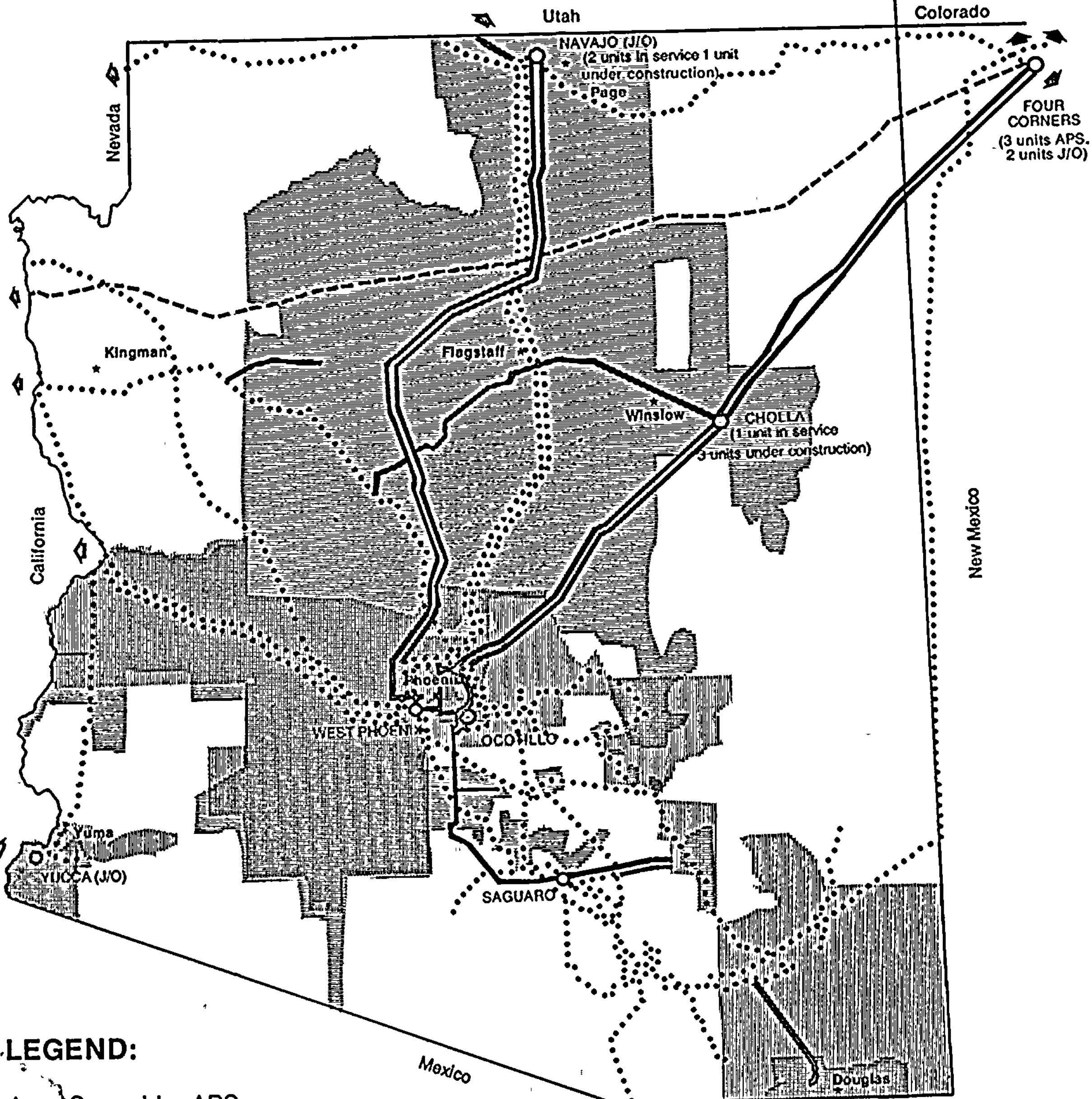
The Transfer Agents for the Common Stock are First National Bank of Arizona, Phoenix, Arizona and Irving Trust Company, New York, New York, and the Registrars are The Valley National Bank of Arizona, Phoenix, Arizona and Bankers Trust Company, New York, New York.

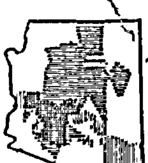
EXPERTS

The balance sheet as of December 31, 1974 and the related statements of income, retained earnings and changes in financial position for the five years then ended included in this Prospectus have been examined by Haskins & Sells, independent certified public accountants, as stated in their opinion appearing herein, and have been so included in reliance upon such opinion given upon the authority of that firm as experts in accounting and auditing.

Statements made as to matters of law and legal conclusions under "Regulation and Rates", "Financing Requirements and Construction Program", "Business and Property", "Description of Common Stock" and "Description of New Bonds" have been prepared under the supervision of, and

Arizona Public Service Company





LEGEND:

Area Served by APS

▤ Electric ▦ Gas ▩ Combined

○ Major APS Power Plants (J / O = Joint Ownership)

▬ Principal APS Transmission Lines (---Operated for Others)

•••••• Transmission Lines Owned By Others

⧫ Interconnections With Out-of-State Utilities

★ Selected Cities

DESCRIPTION OF NEW BONDS

The New Bonds will be issued as a new series under a Mortgage and Deed of Trust dated as of July 1, 1946 between the Company and Security Pacific National Bank, as Trustee ("Trustee"), which as heretofore amended and supplemented is herein referred to as the "Mortgage", and which is to be further amended and supplemented by a Supplemental Indenture dated as of June 1, 1975 ("Supplemental Indenture"). The statements herein concerning the New Bonds, the Mortgage and the Supplemental Indenture are a summary and do not purport to be complete. They make use of terms defined in the Mortgage and are qualified in their entirety by reference to such documents.

The New Bonds will bear interest from June 1, 1975 at the rate of 9.80% per annum, payable semi-annually on June 1 and December 1, will mature June 1, 1980, and will be limited to a principal amount of $75,000,000. Interest will be paid to the persons in whose name the New Bonds are registered at the close of business on the record date, as established in the Supplemental Indenture, preceding the interest payment date in respect thereof. The New Bonds will be issued as fully registered bonds, without coupons, in denominations of $1,000 and multiples thereof. The New Bonds will be transferable at any time without any service or other charge, except transfer taxes and other governmental charges, if any (Article I of the Supplemental Indenture).

The New Bonds will not be redeemable prior to maturity.

Security

The New Bonds will rank *pari passu*, except as to any sinking fund or similar fund provided for a particular series, with all bonds at any time outstanding under the Mortgage. In the opinion of counsel for the Company, the Mortgage constitutes a first mortgage lien on substantially all the fixed property owned by the Company, other than property specifically excepted. Such lien and the Company's title to certain of its properties are subject to Excepted Encumbrances as defined in the Mortgage, to minor leases, defects, irregularities and deficiencies, and to the considerations discussed below with respect to the Four Corners and Navajo Plant locations. It is also the opinion of such counsel that the lien of the Mortgage will extend to all after-acquired property (other than the excepted classes) located in the jurisdictions in which the necessary recordations or filings have been accomplished, subject to Excepted Encumbrances and to liens existing or placed on such property at the time of its acquisition by the Company.

Both the Four Corners and the Navajo Plants are located on property held under leases from the Navajo Tribe and easements from the Secretary of the Interior by electric distributors serving portions of Arizona, California, Nevada, New Mexico and Texas. The leases extend from their respective effective dates in 1966 and 1969 for terms of 50 years with rights of renewal for up to 25 additional years. The easements are for 50-year, renewable terms from the same effective dates. While being of the opinion that the Company owns the rights conferred upon it by the leases from the Navajo Tribe, counsel for the Company does not express any opinion with respect to the title of the Navajo Tribe to the lands leased (but is not aware of any assertion of a contesting claim to such lands) or with respect to the enforceability of the leases against the Navajo Tribe. The leases provide that in the event any dispute arising thereunder is not resolved, it may be submitted by either party to the Secretary of the Interior for decision.

Issuance of Additional Bonds

Additional bonds may be issued under the Mortgage in a principal amount equal to (a) 60% of net Property Additions (as defined in the Mortgage), (b) the principal amount of certain retired bonds previously issued and (c) deposited cash, provided that the Company's Adjusted Net Earnings (as defined in the Mortgage) over a 12-month period are at least two times the annual interest on all bonds, including the bonds applied for, and indebtedness secured by prior liens. Exceptions to the earnings requirement apply to bonds issued on the basis of retired bonds where those retired bore a higher rate of interest or where certain other conditions exist (Articles V, VI and VII of the Mortgage).

The amount of net Property Additions to April 30, 1975 available for use in the issuance of bonds was approximately $337,000,000, permitting the issuance pursuant to clause (a) above of approximately $202,000,000 in additional bonds inclusive of the New Bonds; see "Financing Requirements and Construction Program" in regard to the lesser amount issuable pursuant to the foregoing earnings requirement. Property Additions, as well as deposited cash, may be used for certain alternative purposes under the Mortgage, including the release of property from the lien thereof or the satisfaction of sinking or replacement fund requirements. The Mortgage contains restrictions on the issuance of bonds, withdrawal of cash or release of property on the basis of property subject to prior lien. Property located on leaseholds or easements (as, for example, the Four Corners and Navajo Plants) will constitute fundable Property Additions if the leasehold or easement has an unexpired term of, or the term is extendible at the Company's option for, at least 30 years after the time of funding, or if the property may be removed by the Company without compensation (Section 28 of the Mortgage).

Replacement Fund

So long as any of the New Bonds are outstanding, the Company is required for each calendar year to deposit cash with the Trustee to the extent that $340,000 plus 2% of the net additions after December 31, 1945 to its depreciable, mortgaged property used primarily and principally in the electric, gas, steam and/or water utility business exceeds credits (to the extent not previously utilized) for funded property previously retired and for gross additions previously made to automotive equipment used by the Company in its utility business. However, the Company may satisfy all or any part of the foregoing requirement by utilizing as an additional credit net Property Additions which might otherwise be made the basis for the issuance of bonds. If not withdrawn against Property Additions or retired bonds within five years, any such deposited cash is required to be applied to the purchase or redemption of bonds (Section 39 of the Mortgage).

Modification of the Mortgage

The Mortgage and the rights of bondholders may be modified with the consent of the Company, and of the Trustee if deemed affected, and the vote or assent of the holders of not less than 70% in principal amount of the bonds then outstanding, and of not less than 70% in principal amount of the outstanding bonds of any one or more series (less than all) affected by any such modification; except that the bondholders, without the consent of the holder of each bond affected, have no power to (a) reduce the premium, if any, or the rate of interest thereon or otherwise modify the terms of payment of principal, premium or interest, or extend the maturity of any bonds, (b) permit

the creation of any lien ranking prior to or on a parity with the lien of the Mortgage with respect to any of the mortgaged property, (c) deprive any nonassenting bondholder of a lien upon the mortgaged property for the security of his bonds, or (d) reduce the percentage of bondholders authorized to effect any such modification (Article XIX of the Mortgage).

Two modifications of the Mortgage have recently been approved by the requisite vote of bondholders and by the Company and will be included in the Supplemental Indenture.

Events of Default

The following are defaults under the Mortgage: (a) failure to pay the principal of any bond outstanding under the Mortgage when due and payable; (b) failure to pay interest on any bond outstanding under the Mortgage within 60 days after the same is due and payable; (c) failure to pay any instalment of any fund required to be applied to the purchase or redemption of bonds outstanding under the Mortgage within 60 days after the same is due and payable; (d) certain events in bankruptcy, insolvency or reorganization; and (e) failure to perform any other covenant of the Mortgage continued for 90 days after notice by the Trustee or holders of 15% in principal amount of the bonds oustanding under the Mortgage (Section 65 of the Mortgage).

The holders of not less than a majority in principal amount of Eligible bonds (as defined in the Mortgage) may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee under the Mortgage; provided, however, that the Trustee may decline to follow any such direction under certain circumstances, including a determination made in good faith by the Trustee that it will not be sufficiently indemnified for any expenditures, including its own charges, in any action or proceeding so directed (Section 71 of the Mortgage). The Company is required to file with the Trustee, on or before July 1 of each year, a certificate to the effect that, except as otherwise stated therein, the Company has complied with all of the provisions of the Mortgage and is not then in default thereunder (Section 44 of the Mortgage).

DESCRIPTION OF COMMON STOCK

General

The information set forth below is, with certain exceptions, summarized from the Articles of Incorporation of the Company, as amended, to which reference is hereby made for further information, the following being expressly qualified by such reference.

The term "Preferred Stock" refers to the eleven outstanding issues of cumulative preferred stock itemized in Note 2 of Notes to Financial Statements, including serial preferred stock which the Board of Directors is authorized, within the limitations and restrictions set forth in the Articles of Incorporation, to issue from time to time in series with designations, preferences, privileges, voting powers, restrictions and qualifications applicable to each such series as fixed by the Board before the issuance thereof.

Dividends

After payment or setting aside for payment of cumulative dividends and mandatory sinking fund requirements, where applicable, on all outstanding issues of Preferred Stock, the holders of Common Stock are entitled to dividends when and as declared out of funds legally available there-