A registration statement relating to these securities has been filed with the Securities and Exchange Commission but has not yet become effective. Information contained herein is subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

PRELIMINARY PROSPECTUS DATED OCTOBER 29, 1975

PROSPECTUS

300,000 Shares

Arizona Public Service Company

$ Cumulative Preferred Stock, Series I

($100 Par Value)

The $ Cumulative Preferred Stock, Series I ("New Preferred") is not redeemable prior to December 1, 1985 through certain refunding operations; otherwise redeemable at the option of the Company at $ per share prior to December 1, 1980; at $ per share thereafter and prior to December 1, 1985; at $ per share thereafter and prior to December 1, 1990; and at $ per share thereafter; in each case plus dividends accrued to the redemption date. See "Description of New Preferred" herein.

A Sinking Fund requires the Company to redeem 15,000 shares at $100 per share on each December 1 beginning in 1981 and is calculated to retire 100% of the issue not later than December 1, 2000. The Company may, but is not required to, redeem an additional 15,000 shares at $100 per share on December 1 in any year beginning in 1981.

Application will be made to list the New Preferred 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)(3)*
Per Share	$	$	$
Total	$	$	$

(1) Plus accrued dividends, if any, from the date of original issue.
(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 $85,000.

The shares of New Preferred 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 Preferred will be ready for delivery on or about December 2, 1975.

The First Boston Corporation

Blyth Eastman Dillon & Co.
Incorporated

Dean Witter & Co.
Incorporated

The date of this Prospectus is November , 1975.

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

300,000 Shares

$ Cumulative Preferred Stock, Series I

($100 Par Value)

Arizona Public Service Company

aps.

WE CARE HOW YOU LIVE

PROSPECTUS

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 Room 6101 of the office 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 December 2, 1975 of 300,000 shares of its Cumulative Preferred Stock ("New Preferred"), and its issuance on or about December 3, 1975 of $75,000,000 in aggregate principal amount of its First Mortgage Bonds, % Series due 2000 ("New Bonds") being offered by a separate prospectus.

The net proceeds from the sale of the New Preferred (estimated at $) and the New Bonds (estimated at $) will be applied to payment 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 New Bonds, it should be noted that the issuance of the New Preferred will not be conditioned upon the sale of the New Bonds.

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		1,586,000
Customers (September 30, 1975)	Electric	323,689
	Gas	329,104
Net Capability to Meet 1975 Peak System Demand (KW)		2,568,700
Sales (Twelve Months Ended September 30, 1975)	Electric (MWH)	8,855,996
	Gas (M Therms)	530,624
Estimated Construction Expenditures (1975-77)		$692,000,000

Financial Information

	Twelve Months Ended December 31, 1974	Twelve Months Ended September 30, 1975
Income Statement Data:		
Total Operating Revenues	$273,599,000	$346,516,000
Net Income	$ 36,957,000	$ 54,475,000
Ratio of Earnings to Fixed Charges and Preferred Stock Dividend Requirements Combined	1.66	1.91
Pro Forma Ratio of Earnings to Fixed Charges and Preferred Stock Dividend Requirements Combined	—	1.57

	Outstanding September 30, 1975	As Adjusted for New Preferred and New Bonds: Amount	As Adjusted for New Preferred and New Bonds: Percent of Capitalization
	(Thousands of Dollars)	(Thousands of Dollars)	
Capitalization:			
Long-Term Debt (excluding current maturities)	$ 538,988	$ 613,988	53.0%
Preferred Stock	138,561	168,561	14.5
Common Stock Equity	377,085	376,085	32.5
Total Capitalization	$1,054,634	$1,158,634	100.0%
Short-Term Borrowings	$ 52,600	$ None *	

* Estimated balance on December 3, 1975 after application of proceeds from the New Preferred and the New Bonds.

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

The Company does not consider a permanent rate increase recently approved by the Arizona Corporation Commission to be adequate, and intends to apply to the courts for relief. If relief is not forthcoming at an early date, earnings coverages on the Company's senior securities will deteriorate. Future financing of the Company's large capital requirements will depend upon the adequacy of such coverages at the time. See "Regulation and Rates" and "Financing Requirements and Construction Program".

Funds derived from a 1974 pollution control financing by the Company have been temporarily invested until required for construction of the facilities financed. The investments include short-term notes issued by New York City (approximately $5 million) and New York State Housing Finance Agency (approximately $20 million), with maturities from November 1975 through March 1976. The collection of these notes when due may be in question. If 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. See Note 7 of Notes to Financial Statements.

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 recently concluded a rate proceeding in which the ACC made permanent an increase of approximately 17% that had been in effect on an interim basis since January 16, 1975; as applied to the 1974 test year this increase would have produced approximately $44,701,000 of additional revenues. In the same proceeding the ACC denied an additional 7% increase the Company had requested.

The Company will petition the ACC for a rehearing on its denial, failing which the Company intends to pursue the statutory procedure for obtaining judicial review of the ACC action by the courts of the State of Arizona. However, even if ultimately successful, that procedure is not expected to afford prompt relief. Accordingly, the Company expects to file in the Federal District Court for Arizona an action seeking to enjoin the ACC from interferring with institution of reasonable rates (subject to refund) by the Company, pending the outcome of its proceedings on the State level. In both the federal and state actions, the Company expects to contend that the ACC's action amounts to confiscation of its property without adequate compensation in violation of its constitutional rights.

The Company's rate schedules contain provisions permitting adjustments for changes in the projected 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. In its recent rate decision, the ACC modified the Company's adjustment clause to exclude certain items from fuel cost computations. In the Company's opinion, such exclusions will not have a material effect on its future operations.

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 September 30, 1975, it derived approximately 10% 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. Through September 30, 1975, the Company recorded approximately $5,900,000 of revenues subject to refund, including insubstantial amounts currently being contested before the FPC by two wholesale customers. The Company is seeking rehearing or clarification of an order issued by the FPC in a separate action involving steps required to implement adjustment clauses for expenses other than fuel. 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

Short-term borrowings obtained by the Company for construction purposes aggregated $52,600,000 on September 30, 1975 and are expected to increase to approximately $91,000,000 by December 2, 1975, immediately before application of the proceeds from the New Preferred and the New Bonds.

Long-term debt obligations maturing through the end of 1977 consist of $8,500,000 in 1976 and $2,500,000 in 1977. In addition, there is a possibility that the Company could be required to redeem up to $30,000,000 in aggregate par value of outstanding preferred stock in 1977 as discussed in Note 2 of Notes to Financial Statements.

Plant expenditures for the years 1975 through 1977 are currently estimated at $692,000,000, including approximately $171,000,000 for 1975 (of which $123,000,000 had been spent through September 30), $265,000,000 for 1976 and $256,000,000 for 1977. The plant expenditures by major facility groups during the period 1975-77 are currently estimated as follows:

Electric generation(1)	$505,000,000
Electric transmission	100,000,000
Electric distribution	64,000,000
Gas distribution	9,000,000
Common facilities	14,000,000
Total(2)	$692,000,000

(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. Expenditures in years beyond 1977 are expected to be higher than those for the years 1975 through 1977, as the large generating facilities referred to in the second table in "Business and Property—Generation" near completion.

In addition to further issues of long-term debt (in forms that may include pollution control revenue bonds of various Arizona and New Mexico authorities to finance facilities to be constructed and owned by the Company), permanent financing through the end of 1976 is expected to include Common Stock. The Company's ability to issue and successfully market its securities in the future will depend upon its ability to provide earnings adequate to support 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 September 30, 1975 would have allowed the issuance of approximately $181,000,000 in aggregate principal amount of new first mortgage bonds (including the New Bonds). The issuance of the New Preferred and the New Bonds will preclude an additional preferred stock issue until future earnings provide sufficient coverage.

If the Company should be unable to obtain the necessary financing, it would be forced to curtail its construction program to the extent it is free to do so in view of its contractual commitments (including those to its co-participants in certain projects) and its statutory duties to provide service. Any substantial curtailment of the construction program would impair the quality and reliability of the Company's service to its customers. Whether, and to what extent, such impairment would in turn have a material adverse financial effect on the Company would depend on the circumstances of the particular case, including the degree and duration of, and the public and regulatory reaction to, such impairment.

In recent years the Company has had substantial balances outstanding on short-term borrowings obtained for construction purposes (see, for example, Note 5 of Notes to Financial Statements). The issuance of commercial paper and arrangements with bank trust departments were eliminated as sources of such borrowings after the withdrawal in January 1975 by Moody's Investors Service, Inc. of its rating of the Company's commercial paper. The Company also adopted a policy of placing less reliance on short-term borrowings in its financial program. Nevertheless, such borrowings remain an important source of funds, particularly between permanent financings. In its recent rate proceeding the ACC expressed interest in imposing a limitation on the amount of short-term borrowings the Company may have outstanding. The Company does not presently believe that it would be adversely affected to a material degree by implementation of the limitation in a form substantially similar to that believed by the Company to be under consideration by the ACC.

CAPITALIZATION

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

	September 30, 1975 Outstanding	As Adjusted(3) Amount	As Adjusted(3) Percentage
	(Thousands of Dollars)		
Long-Term Debt (1):			
First mortgage bonds	$ 488,988	$ 563,988	
Notes payable	50,000	50,000	
Total long-term debt	538,988	613,988	53.0%
Preferred Stock, 3,535,000 shares authorized, 2,074,199 shares outstanding, 2,374,199 shares to be outstanding (1)	138,561	168,561	14.5
Common Stock Equity:			
Common Stock, $2.50 par value, 30,000,000 shares authorized, 19,000,000 shares outstanding(1)	47,500	47,500	
Premiums and expenses	201,645	200,645(4)	
Retained earnings (1)	127,940	127,940	
Total common stock equity	377,085	376,085	32.5
Total capitalization	$1,054,634	$1,158,634	100.0%
Short-Term Borrowings—as of September 30, 1975 for Outstanding; as of December 3, 1975 (estimated) for As Adjusted(2)	$ 52,600	$ None	

(1) See Notes 2 and 3 of Notes to Financial Statements. Long-term debt excludes $8,500,000 of current maturities.

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

(3) The sale of the New Preferred is not conditioned on the sale of the New Bonds. If the New Preferred is sold and the New Bonds are not, the Long-Term Debt would be 49.7%, the Preferred Stock would be 15.6% and the Common Stock Equity would be 34.7% of the Company's capitalization, and $62,000,000 of Short-Term Borrowings would remain outstanding.

(4) After giving effect to estimated underwriting discounts and commissions and expenses of the Company related to the New Preferred.

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 September 30, 1975 has not been examined by in[illegible]pendent certified public accountants but, in the opinion of the Company, includes all adjustments (compris[illegible] only normal recurring accruals) necessary for a fair presentation of the results of operations, subject to the matter discussed in Note 7 of Notes to Financial Statements. 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 September 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	$271,695
Gas	39,049	41,899	46,199	53,931	60,328	74,821
Other	7	7	—	—	—	—
Total	144,873	159,305	188,436	224,956	273,599	346,516
Operating Expenses:						
Operation and maintenance expenses:						
Fuel for electric generation	13,350	17,107	19,964	29,626	41,626	47,512
Purchased gas	16,692	19,812	19,963	22,258	28,171	35,829
Purchased power and interchange—net	375	102	8,522	12,398	23,230	35,931
Other production expenses	2,600	3,002	3,427	4,181	5,181	6,548
Transmission and distribution	7,428	7,927	9,049	9,757	10,187	11,021
Maintenance	9,026	10,676	15,173	16,869	20,078	23,129
Customers, sales, administrative and general	14,798	17,276	18,612	21,775	24,533	28,196
Total	64,269	75,902	94,710	116,864	153,006	188,166
Depreciation and amortization (Note 1)	18,593	19,710	21,409	23,529	26,398	31,312
Taxes—other than income	21,539	24,983	26,901	28,401	38,546	47,373
Income taxes (Notes B and 4)	8,524	6,118	4,452	5,631	(133)	4,988
Total	112,925	126,713	147,472	174,425	217,817	271,839
Operating Income	31,948	32,592	40,964	50,531	55,782	74,677
Other Income (Deductions):						
Allowance for funds used during construction (Note C)	568	1,535	3,840	6,227	11,888	[illegible]
Income taxes (Note 4)	180	594	1,169	2,117	2,531	3,314
Other—net	(106)	86	4	753	2,646	948
Total	642	2,215	5,013	9,097	17,065	18,820
Gross Income	32,590	34,807	45,977	59,628	72,847	93,497
Interest Deductions:						
Interest on long-term debt (Note D)	11,632	12,326	17,941	22,390	20,929	27,965
Interest on short-term borrowings	2,653	2,741	2,406	5,915	14,883	10,779
Debt discount, premium and expense	37	35	52	56	78	278
Total	14,322	15,102	20,399	28,361	35,890	39,022
Net Income	18,268	19,705	25,578	31,267	36,957	54,475
Preferred Stock Dividend Requirements	3,551	3,551	3,551	3,551	6,258	10,101
Earnings for Common Stock	$ 14,717	$ 16,154	$ 22,027	$ 27,716	$ 30,699	$ 44,374
Average Common Shares Outstanding	8,500,000	9,272,603	9,612,022	10,527,397	13,102,740	16,361,644
Per Share of Common Stock:						
Earnings (based on average shares outstanding)	$1.73	$1.74	$2.29	$2.63	$2.34	$2.71
Dividends declared and paid	$1.08	$1.08	$1.12	$1.21	$1.36	$1.36
Ratio of Earnings to Fixed Charges and Preferred Stock Dividend Requirements Combined (Note D)	2.06	2.02	1.99	1.93	1.66	1.91

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 September 30, 1975 is Unaudited)

A. Revenues include wholesale amounts subject to refund (see "Regulation and Rates") as follows: for 1974—$2,500,000; and for the twelve months ended September 30, 1975—$4,100,000 (aggregating $5,900,000 at September 30, 1975). Revenues collected subject to refund made the following contributions to income for the twelve months ended September 30, 1975: 1.2% of operating revenues, 6.8% of net income and 8.4% of earnings per share of common stock. In the opinion of the Company and its counsel any such wholesale revenues that ultimately would be refunded are not material in relation to total revenues or net income for such periods.

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 7% for the five years ended December 31, 1974 and twelve months ended September 30, 1975, respectively. Although AFC is included in Other Income, it does not represent current cash earnings.

D. "Earnings" used to compute this ratio represent the aggregate of net income, income taxes and fixed charges. "Fixed Charges" represent interest (adjusted to eliminate the excess of interest income over interest expense associated with pollution control bond funds on deposit with the trustee — see Note 7 of Notes to Financial Statements), amortization of debt discount, premium and expense, and the estimated interest portion of annual rentals. "Preferred Stock Dividend Requirements" represent the requirements for dividends on the Company's preferred stock multiplied by the ratio that pre-tax income bears to net income. The pro forma ratio of "earnings" to "fixed charges and preferred stock dividend requirements combined" for the twelve months ended September 30, 1975, as defined, would be 1.57, after giving effect to (1) the issuance of the New Preferred at an assumed dividend rate of 10¼%, (2) the annual interest requirements of the New Bonds at an assumed rate of 10¼%, (3) the annual interest requirement on an additional $33,515,000 of pollution control bond funds currently held by the trustee expected to be expended by September 30, 1976, (4) the issuance and retirement of long-term indebtedness during the twelve months ended September 30, 1975, (5) applicable adjustments for interest on indebtedness to be retired from the proceeds of the New Bonds and the New Preferred, and (6) the annual interest requirements on the estimated average short-term indebtedness of $10,000,000 expected to be out-

standing during the twelve months ending September 30, 1976. A change of ⅛ of 1% in the assumed dividend rate would cause a change in the above ratio of .001. A change of ⅛ of 1% in the assumed interest rate would cause a change in the above ratio of .002. The sale of the New Preferred is not conditioned on the issuance of the New Bonds; if the New Bonds are not issued, the pro forma ratio would be 1.68.

The annual dividend requirement on the New Preferred will be $

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 rate increases and effects of the adjustment clauses referred to in "Regulation and Rates", as well as earlier general rate increases in May 1972 and October 1973. Effects of the foregoing factors in recent periods are summarized as follows:

	Year Ended December 31, 1973	Year Ended December 31, 1974	Twelve Months Ended September 30, 1975
	(Thousands of Dollars)		
Electric:			
Rate increases	$ 5,000	$ 6,377	$26,885
Fuel clause adjustments	10,000	21,615	24,816
Unit sales increases	13,788	14,254	6,723
Total	$28,788	$42,246	$58,424
Gas:			
Rate increases	$ 3,000	$ 1,904	$ 4,958
Fuel clause adjustments	2,000	6,352	6,943
Unit sales increases (decreases)	2,732	(1,859)	2,592
Total	$ 7,732	$ 6,397	$14,493

The rate of increase in unit sales of electricity has slowed in recent months because of customer resistance to higher prices of energy and effects of adverse economic conditions, which are particularly evident in the case of the Company's industrial customers. Unit sales of gas are substantially affected by weather conditions, but generally may be expected to decline in future periods with increased service curtailments by the Company (see "Business and Property—Energy Availability").

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 September 30, 1975. Much ($5,368,000) 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 September 30, 1975 includes gains ($1,039,000 and $951,000, respectively) on the sale of non-utility assets.

Interest Deductions

The substantial increases in interest on short-term borrowings through 1974 are due primarily to greater amounts outstanding; the decline in the twelve months ended September 30, 1975 is a result of the elimination of certain borrowing sources and a policy change as discussed in "Financing Requirements and Construction Program." See Note 5 of Notes to Financial Statements for amounts borrowed and interest rates thereon in 1974 and the twelve months ended September 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).

BUSINESS AND PROPERTY

General

The Company's service territory includes all or part of 11 of Arizona's 14 counties. It is estimated by the Company that one or both of its services of electricity or natural gas reaches approximately 1,586,000 persons, or approximately 70% of the population of Arizona, which is currently estimated at over 2,265,000 (as compared with 1,772,482 in 1970). 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 September 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 September 30, 1975	271.7	78.4	74.8	21.6	70.6	88.6	9.1	11.4

Generation

The Company's present generating facilities have an accredited capacity aggregating 2,260,600 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	556,700 kw
Eleven turbine units, aggregating	536,000
	1,092,700 kw
Other	29,900 kw

The Company's peak one-hour demand, recorded on August 6, 1975, was 2,068,300 kw, compared to a 1974 peak (recorded on June 27) of 2,032,000 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 August 6, 1975, computed in accordance with accepted industry practices, amounted to 2,568,700 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 September 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 (1980) 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	225,000	220	54,000
Pumped Storage:			
34% owned Montezuma Pumped Storage Plant (1981) (west of Phoenix), representing	170,000	353	60,000
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	2,960,600 kw		$1,829,000(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 $198,000,000 expended through September 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 and Montezuma Plants (which are in preliminary planning stages only), and firm contracts exist for only portions of the Palo Verde Station. Estimates for the Navajo, Kaiparowits and Montezuma Plants emanate with project managers other than the Company.

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. The Kaiparowits and Montezuma Plants 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 September 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 September 30, 1975	79.3	25.77	7.7	74.15	13.0	211.88	56.41

Monthly costs of the respective fuels in the periods covered by the foregoing table ranged from \$2.92 to \$6.30 per ton of coal, \$0.35 to \$0.88 per mcf of gas and \$4.82 to \$16.32 per barrel of oil.

The Four Corners, Cholla and Navajo Plants have ample reserves 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.

Coal deliveries from the reserves dedicated to the Navajo Plant have been restricted over the last six months, primarily due to operational problems encountered by the contract supplier. In addition, the railroad between the mine and the Plant, which is owned by the Plant participants, has been operating at reduced capacity and may ultimately require substantial modifications to improve its operation. Presently, railroad deliveries are being supplemented by truck deliveries from the Four Corners area.

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, 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 2,320,000 barrels of oil in 1974 and currently estimates its 1975 and 1976 requirements at 2,500,000 and 4,000,000 barrels, respectively. Since the federal oil 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. There are continuing uncertainties regarding the future of the price control and allocation program. However, whether allocations are continued or not, the Company does not anticipate difficulties in obtaining sufficient quantities of both residual oil and middle distillate fuel (required for oil fired operation of most of its turbine units) to meet requirements through 1976, unless a severe disruption in world supplies reoccurs. The Company has

residual oil contracts providing for approximately 2,300,000 barrels in 1976. Other purchases of oil, both residual and middle distillate, are made by the Company on short-term bases as and when the Company's storage capacity (scheduled to be increased from the present 1,525,000 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 from various parties for the supply of uranium and fuel fabrication services required for approximately 20 years' operation of all three nuclear units, assuming that they exercise all of the options available to them under such commitments. In the case of the uranium supply for the last 18 years, the contracting party is Westinghouse Electric Corporation; the position taken by Westinghouse relative to its escalated firm-price contracts with others (to the effect that it is excused from performance thereunder) does not apply to the commitment made on a cost-plus basis by Westinghouse in regard to the Palo Verde supply and has not been asserted by Westinghouse in that regard. Contracts have been entered into with the Nuclear Regulatory Commission for necessary uranium enrichment services required for the lifetime operation of the three Palo Verde 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 curtailments not only to increase, but in the future also to affect other customer classes. 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"). The area in which the Company operates renders it particularly sensitive to new EPA 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 was transferred to the District of Columbia 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 now in effect with respect 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 Plant. The State of New Mexico has adopted a regulation prohibiting the emission of sulfur dioxide in amounts equivalent to 85% of the sulfur content of coal burned at Four Corners Units 4 and 5 by July 31, 1977 and 90% of the sulfur content of such coal by 1979. The Company and other participants in the Four Corners project have appealed these regulations to the New Mexico Court of Appeals. EPA is now proposing to adopt the more stringent New Mexico regulation, in substitution for its present prohibition at the 70% level.

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 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 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 if strip mining legislation similar to that previously passed by Congress and vetoed by the President is enacted.

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 Court of Appeals affirmed the judgment of the District Court and, on September 18, 1975, denied the plaintiffs' motion for rehearing; they have 90 days after that date in which to appeal to the United States Supreme Court.

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. The Arizona Department of Revenue appealed that ruling to the Superior Court of Maricopa County, which dismissed the appeal on October 27, 1975. The Company does not know whether the Department of Revenue will attempt to proceed further in the matter. While the issues involved are not free from question, the Company and its counsel 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.

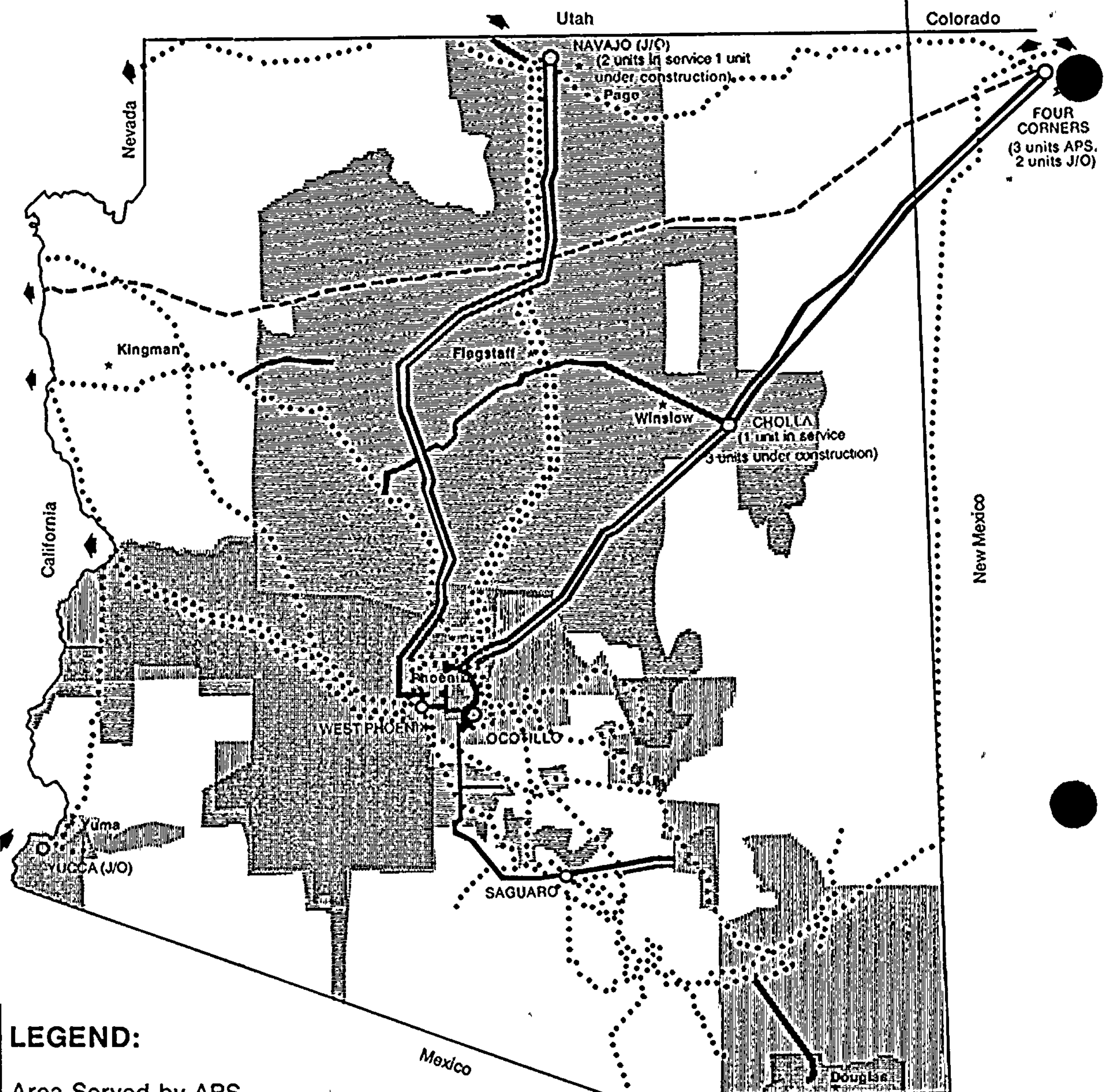
The State of New Mexico has enacted an "electrical generation tax", effective July 1, 1975. This excise tax applies to all electricity generated in New Mexico and consumed outside that state. The Company and four other utilities have filed for a declaratory judgment in the state District Court of New Mexico seeking a declaration that the tax is unconstitutional. The State of Arizona has filed suit in the United States Supreme Court against the State of New Mexico, similarly seeking a declaration that the tax is unconstitutional. The Company is currently protesting the tax and not making payment, and the Tax Commissioner of New Mexico has informed the Company that no penalty will be assessed for late payment, pending the outcome of the litigation. However, the Company is including the amount of the tax (approximately $2,000,000 per year from July 1, 1975) in current expense in its financial statements, but is not collecting that amount from its customers pursuant to the adjustment clauses referred to in "Regulation and Rates" and does not know whether it will ever be permited to do so by the ACC.

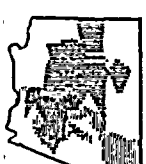
Also see "Regulation and Rates" and "Environmental Matters".

Operating Statistics

	Year Ended December 31, 1970	1971	1972	1973	1974	Twelve Months Ended September 30, 1975
Electric Operations:						
Number of Customers (end of period):						
Residential	213,179	228,664	246,019	264,792	277,794	278,036
Commercial	34,571	36,025	37,646	39,643	40,934	41,200
Industrial	1,798	1,852	1,974	2,057	2,061	2,036
Irrigation	1,127	1,183	1,239	1,309	1,444	1,486
Other	654	768	802	842	861	931
Total Customers	251,329	268,492	287,680	308,643	323,094	323,689
Electric Sales (MWH):						
Residential	1,496,869	1,693,119	2,032,040	2,336,173	2,540,177	2,598,840
Commercial	1,884,376	2,057,989	2,347,289	2,582,025	2,675,151	2,774,658
Industrial	1,290,646	1,381,371	1,659,667	1,791,392	1,780,488	1,749,817
Irrigation	241,382	255,200	298,370	287,344	379,215	390,774
Other	526,520	682,589	861,581	1,101,778	1,317,270	1,341,907
Total Electric Sales	5,439,793	6,070,268	7,198,947	8,098,712	8,692,301	8,855,996
Operating Revenues (000):						
Residential	$ 35,042	$ 39,244	$ 49,036	$ 59,852	$ 74,348	$ 94,996
Commercial	37,903	41,399	49,246	58,972	71,220	93,465
Industrial	16,263	17,519	21,011	25,502	31,502	40,124
Irrigation	2,758	2,950	3,647	4,066	6,387	9,308
Other	4,873	6,815	8,712	12,004	18,425	21,323
Total	96,839	107,927	131,652	160,396	201,882	259,216
Transmission for Others	7,583	7,947	8,649	8,640	9,216	10,301
Miscellaneous Services	1,395	1,525	1,936	1,989	2,173	2,178
Total Electric Operating Revenues	$105,817	$117,399	$142,237	$171,025	$213,271	$271,695
Revenue Per KWH (Cents):						
Residential	2.34¢	2.32¢	2.41¢	2.56¢	2.93¢	3.66¢
Commercial	2.01	2.01	2.10	2.28	2.66	3.37
Industrial	1.26	1.27	1.27	1.42	1.77	2.29
Costs Per KWH Generated (Cents):						
Fuel	0.20¢	0.23¢	0.27¢	0.36¢	0.51¢	0.63¢
Total Electric Operating Expense	1.14	1.16	1.46	1.55	2.00	2.69
Gas Operations:						
Number of Customers (end of period):						
Residential	260,104	275,837	288,359	301,970	308,175	302,588
Commercial	21,610	22,436	23,163	23,935	24,236	24,026
Industrial	922	965	999	1,048	1,071	1,035
Irrigation	1,390	1,412	1,406	1,452	1,425	1,454
Other	1	1	1	1	1	1
Total Customers	284,027	300,651	313,928	328,406	334,908	329,104
Gas Sales (MTherms):						
Residential	186,687	205,575	206,390	229,657	200,447	224,476
Commercial	105,719	117,110	121,307	133,076	119,937	129,330
Industrial	99,278	100,936	93,871	99,961	104,542	84,626
Irrigation	75,514	76,339	76,990	75,920	87,816	84,751
Other	8,009	7,428	8,016	8,454	6,257	7,441
Total Gas Sales	475,207	507,388	506,574	547,068	518,999	530,624
Operating Revenues (000):						
Residential	$ 21,936	$ 23,327	$ 26,082	$ 30,815	$ 32,058	$ 40,299
Commercial	6,877	7,785	8,627	10,304	11,412	14,804
Industrial	4,758	5,132	5,208	6,013	7,818	8,073
Irrigation	4,771	4,895	5,314	5,637	7,877	10,281
Other	325	333	382	441	441	632
Miscellaneous services	382	427	586	721	722	732
Total Gas Operating Revenues	$ 39,049	$ 41,899	$ 46,199	$ 53,931	$ 60,328	$ 74,821
Revenue Per Therm (Cents):						
Residential	11.75¢	11.35¢	12.64¢	13.42¢	15.99¢	17.95¢
Commercial	6.50	6.65	7.11	7.74	9.51	11.45
Industrial	4.79	5.08	5.55	6.02	7.48	9.54

Arizona Public Service Company





LEGEND:

Area Served by APS

▤ Electric ▥ Gas ▦ Combined

O 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 PREFERRED

General

The information set forth below, is, with certain exceptions, summarized from the Articles of Incorporation of the Company, as amended, and the Certificate of the Company with respect to the New Preferred pursuant to Section 10-152.01, Arizona Revised Statutes, to which reference is hereby made for further information, the following being expressly qualified by such reference. Reference is also made to Note 2 of the Financial Statements for information concerning the authorized and outstanding issues of cumulative preferred stock of the Company, including seven outstanding series of Serial Preferred Stock. The Board of Directors is authorized, within the limitations and restrictions set forth in the Articles, to issue Serial Preferred Stock from time to time in series and to fix from time to time before issuance the designations, preferences, privileges and voting powers of each series and the restrictions or qualifications thereof.

Dividends

The New Preferred, in preference to the Common Stock, but pari passu with the outstanding Preferred Stock, will be entitled to receive cumulative cash dividends at the annual rate per share per year appearing in the Series designation of the New Preferred as set forth on the cover of this Prospectus, payable quarterly on the first day of March, June, September and December of each year commencing March 1, 1976 when and as declared by the Board of Directors out of funds legally available for such payment. Dividends on the New Preferred will begin accruing on the date of original issue.

Redemption

The New Preferred will not be refundable, directly or indirectly, prior to December 1, 1985 with the proceeds of borrowed funds, or of the issue of any stock ranking prior to or on a parity with the New Preferred, having a lower cost of money to the Company than the dividend rate on the New Preferred. It will otherwise be subject to redemption at any time in whole or in part, on at least thirty days prior written notice, at the applicable redemption price (as set forth on the cover page of this Prospectus) plus accrued dividends. Except for provisions requiring ratable dividend and liquidation payments on shares of Preferred Stock, there is no restriction on the repurchase or redemption of the New Preferred while there is any arrearage in the payment of dividends.

Sinking Fund Provisions

The New Preferred will be entitled to a Sinking Fund which requires the Company to retire 15,000 shares of the New Preferred on December 1 in each year beginning in 1981. At its option, the Company may redeem through the Sinking Fund on December 1 in each such year not more than 15,000 additional shares. The right to redeem additional shares in any year is not cumulative and does not reduce the Sinking Fund requirement of any subsequent year; provided, however, that if in any year the required number of shares shall not be redeemed because of a lack of legally available funds, or for any other reason, the amount required to be redeemed shall be carried forward until such obligation is fully discharged. The price at which shares will be called for redemption through the Sinking Fund is $100 per share, plus an amount equal to dividends accrued and unpaid to the date of redemption. However, the Sinking Fund may be satisfied in whole or in part by crediting

shares of the New Preferred purchased or otherwise acquired by the Company. Shares of the New Preferred shall be selected for redemption pursuant to the Sinking Fund by lot in such manner as the Company shall determine.

Liquidation

The New Preferred, in preference to the Common Stock but pari passu with the outstanding Preferred Stock, will be entitled to receive the then current redemption price in the event of voluntary dissolution or liquidation of the Company, or the par value thereof in the event of involuntary dissolution or liquidation, plus accrued dividends in each case.

Voting

So long as any shares of Serial Preferred Stock are outstanding, the Company may not, without the affirmative vote or consent of the holders of at least two-thirds of the outstanding shares of Serial Preferred Stock:

(a) Authorize, by amendment of the Articles of Incorporation, any stock ranking prior in any respect to the Serial Preferred Stock; or

(b) Make any change in the terms and provisions of the Serial Preferred Stock that would adversely affect the rights and preferences of the holders thereof (provided that if less than all series are affected, only the consent of the affected series is required); or

(c) Issue any additional shares of Serial Preferred Stock or shares of any stock pari passu with the Serial Preferred, other than in exchange for, or for the purpose of effecting the redemption or other retirement of, not less than an equal aggregate par value of shares of Serial Preferred Stock, or of any stock pari passu therewith, at the time outstanding, unless the net income available for fixed charges of the Company for a period preceding the first day of the month in which additional stock is issued is at least one and one-half times the sum of:

(i) the interest requirements for one year on the long-term debt of the Company to be outstanding immediately after the date of issue of such additional shares and

(ii) the dividend requirements for one year on all shares of Serial Preferred Stock and of all other classes of stock ranking on a parity with or prior to the Serial Preferred Stock in respect of dividends or assets, to be outstanding immediately after such proposed issue of additional shares.

Subject to the foregoing provisions, any class of the Company's stock may be increased at any time upon vote of the holders of a majority of the total number of shares issued and outstanding and entitled to vote thereon.

So long as any of the shares of Serial Preferred Stock are outstanding, the Company may not, without the affirmative vote of the holders of a majority of the shares of each series, merge or consolidate with any other corporation or sell substantially all of the Company's property; these restrictions do not apply to a mortgage of all or substantially all of the Company's property or to the purchase by it of the assets or franchises of another corporation.

The holders of Serial Preferred Stock will be entitled to one vote for each share held and, voting as a class, to elect two directors if six or more quarterly dividends accrued thereon shall not have been paid. Votes may be cumulated in electing Directors.

Other

The New Preferred will not have any conversion rights or any pre-emptive or other subscription rights. All of the shares of capital stock of the Company now outstanding are, and the New Preferred will be, full paid and nonassessable.

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", and "Description of New Preferred Stock" have been prepared under the supervision of, and 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.

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

ARIZONA PUBLIC SERVICE COMPANY

BALANCE SHEET

ASSETS

	December 31, 1974	September 30, 1975 (Unaudited)
	(Thousands of Dollars)	
Utility Plant:		
Plant in service—at original cost (Note 3):		
Electric	$ 821,020	$ 894,549
Gas	118,999	121,875
Common, used in all services	33,660	33,010
Total	973,679	1,049,434
Less accumulated depreciation and amortization	235,000	257,435
Plant in service—depreciated	738,679	791,999
Construction work in progress	214,567	270,668
Plant held for future use	894	1,136
Utility Plant—Depreciated	954,140	1,063,803
Investments and Other Assets:		
Investments (at equity) in and receivables from subsidiaries	10,211	9,463
Tax exempt securities held by trustee (Note 7)	—	26,182
Other investments and funds	968	1,881
Other physical property (less accumulated depreciation: 1974, $23,000; September 30, 1975, $19,000)	1,296	1,231
Notes and contracts receivable	1,995	425
Total Investments and Other Assets	14,470	39,182
Current Assets:		
Cash (Note 5)	2,345	1,989
Special deposits and working funds (Note 5)	924	1,134
Notes receivable	1,151	156
Accounts receivable:		
Service customers	22,593	28,732
Miscellaneous	7,718	5,949
Allowance for doubtful accounts	(400)	(411)
Materials and supplies (at average cost)	27,497	32,471
Prepayments and other	7,489	6,723
Total Current Assets	69,317	76,743
Deferred Debits:		
Deferred interest (Note 3)	3,015	3,661
Unamortized debt issue costs	2,036	3,827
Other	5,906	5,814
Total Deferred Debits	10,957	13,302
Total	$1,048,884	$1,193,030

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	September 30, 1975 (Unaudited)
	(Thousands of Dollars)	
Capitalization:		
Common stock (Note 2)	$ 37,500	$ 47,500
Premiums and expenses (Note 2)	155,472	201,645
Retained earnings (Note 2)	109,037	127,940
Common stock equity	302,009	377,085
Preferred stock (Note 2)	138,561	138,561
Long-term debt (Note 3)	340,976	538,988
Total Capitalization	781,546	1,054,634
Current Liabilities:		
Notes payable to banks (Note 5)	109,552	52,600
Commercial paper (Note 5)	52,550	—
Current maturities of long-term debt (Note 3)	38,250	8,500
Accounts payable	28,938	23,372
Advances from subsidiary	1,244	18
Accrued taxes	16,627	32,939
Accrued interest	8,382	8,955
Dividends accrued	842	842
Payable to employees' pension plan (Note 6)	937	810
Customers' deposits	1,852	2,040
Other	706	837
Total Current Liabilities	259,880	130,913
Other Non-Current Liabilities	566	633
Deferred Credits and Reserves:		
Customers' advances for construction	4,517	4,542
Other deferred credits and reserves	982	1,073
Deferred income taxes—accelerated amortization	1,393	1,235
Total Deferred Credits and Reserves	6,892	6,850
Commitments and Contingencies (Note 7)		
Total	$1,048,884	$1,193,030

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 September 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	$105,496
Add—Net income	18,268	19,705	25,578	31,267	36,957	54,475
Total	76,187	83,161	95,198	112,274	132,975	159,971
Deduct—Dividends:						
Preferred stock (see below)	3,551	3,551	3,551	3,551	6,258	10,101
Common stock	9,180	9,990	10,640	12,705	17,680	21,930
Total	12,731	13,541	14,191	16,256	23,938	32,031
Retained earnings at end of period (Note 2).	$63,456	$69,620	$81,007	$ 96,018	$109,037	$127,940
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	1,785
$8.50 series G	—	—	—	—	395	765
$10 series H	—	—	—	—	1,389	4,000
Total	$ 3,551	$ 3,551	$ 3,551	$ 3,551	$ 6,258	$ 10,101

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 CHANGES IN FINANCIAL POSITION

	Year Ended December 31,					Twelve Months Ended September 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	$ 54,475
Principal non-cash charges (credits) to income:						
Depreciation and amortization	18,593	19,710	21,409	23,529	26,398	31,312
Equity in undistributed (earnings) loss of unconsolidated subsidiaries	—	180	366	(95)	(585)	671
Deferred income taxes	(210)	(210)	405	490	(1,525)	(539)
Allowance for funds used during construction	(568)	(1,535)	(3,840)	(6,227)	(11,888)	(14,558)
Total funds from operations	36,083	37,850	43,918	48,964	49,357	71,361
Funds from external sources:						
Common stock	—	21,525	22,800	34,400	30,278	72,718
Preferred stock	—	—	—	—	69,755	—
Long-term debt	30,087	1,500	123,975	—	9,061	181,236
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	253,954
Other items—net	1,495	1,666	3,071	6,441	—	4,987
Decrease in working capital*	4,374	—	1,113	—	—	5,006
Total source of funds	$72,039	$111,436	$194,877	$163,730	$224,628	$335,308
Application of Funds:						
Plant additions and replacements, excluding allowance for funds used during construction	$46,237	$ 91,704	$117,016	$142,751	$182,969	$178,533
Repayment of long-term debt	—	—	—	—	7,750	38,250
Repayment of short-term borrowings—net	11,150	—	62,545	—	—	85,130
Dividends on preferred and common stock	12,731	13,541	14,191	16,256	23,938	32,031
Investments in and receivables from subsidiaries and other assets	1,921	3,296	1,125	71	1,646	1,364
Other items—net	—	—	—	—	933	—
Increase in working capital*	—	2,895	—	4,652	7,392	—
Total application of funds	$72,039	$111,436	$194,877	$163,730	$224,628	$335,308
Increase (Decrease) in Working Capital*:						
Cash	$ (605)	$ 1,205	$ (699)	$ 993	$ (408)	$ (1,258)
Notes receivable	5	(20)	43	91	847	(862)
Accounts receivable	2,046	945	3,177	4,789	7,226	4,367
Materials and supplies	941	795	1,653	6,459	12,463	13,708
Accounts payable	(2,666)	(1,742)	(3,865)	(6,063)	(9,427)	(12,125)
Accrued expenses	(3,639)	609	(1,112)	(1,451)	(6,355)	(11,825)
Other—net	(456)	1,103	(310)	(166)	3,046	2,989
Net increase (decrease)	$ (4,374)	$ 2,895	$ (1,113)	$ 4,652	$ 7,392	$ (5,006)

*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
NOTES TO FINANCIAL STATEMENTS
(Information for the Period Ended September 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 September 30, 1975 was to increase depreciation expense and reduce net income by $2,105,000 ($0.13 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.

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 forego-ing 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 (continued)

(Information for the Period Ended September 30, 1975 is Unaudited)

2. Capital Stock.

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

	Number of Shares			Par Value			Call Price Per Share (Before Adding Accumulated Dividends)
		Outstanding			Outstanding (Thousands of Dollars)		
	Authorized	Dec. 31, 1974	Sept. 30, 1975	Per Share	Dec. 31, 1974	Sept. 30, 1975	
Common Stock	30,000,000(a)	15,000,000	19,000,000	$ 2.50	$ 37,500	$ 47,500	
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, including a condition that would occur if dividend payments on preferred stock (including series F and G) of the Company exceed its "earnings and profits" for federal income tax purposes; that condition could occur so as to require redemption as early as 1977 if the Company does not theretofore obtain adequate rate relief (see "Regulation and Rates"). 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 $109.65 through September 1, 1976 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.

ARIZONA PUBLIC SERVICE COMPANY

NOTES TO FINANCIAL STATEMENTS (continued)

(Information for the Period Ended September 30, 1975 is Unaudited)

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 nine months ended September 30, 1975 were as follows (dollars in thousands):

	Common Stock		Cumulative Preferred Stock		Premiums and
Description	Number of Shares	Par Value Amount	Number of Shares	Par Value Amount	(Expenses) —Net
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	4,000,000	10,000	—	—	46,173
Balance, September 30, 1975	19,000,000	$47,500	2,074,199	$138,561	$201,645

. Long-Term Debt.

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

	December 31, 1974	September 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
9.80% series due June 1, 1980	—	75,000
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

ARIZONA PUBLIC SERVICE COMPANY

NOTES TO FINANCIAL STATEMENTS (continued)

(Information for the Period Ended September 30, 1975 is Unaudited)

	December 31, 1974	September 30, 1975
	(Thousands of Dollars)	
5⅛% series due October 1, 1987	15,000	15,000
4.70% series due March 1, 1989	20,000	20,000
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 certain securities held by trustee	(40,314)	(8,321)(a)
Unamortized discount	—	(458)
Unamortized premium	67	44
Total First Mortgage Bonds	320,976	497,488
Less current maturities:		
8.50% series due April 1, 1975	(30,000)	—
2¾% series due July 1, 1976	—	(8,500)
Remainder	290,976	488,988
Unsecured Notes Payable:		
6.375% to 6.50% due May and July 1975	8,250	—
Due September 1, 1979(b)	50,000	50,000
Total Unsecured Notes Payable	58,250	50,000
Less current maturities:		
6.375% to 6.50% due 1975	(8,250)	—
Remainder	50,000	50,000
Total Long-Term Debt	$340,976	$538,988

(a) Reflects a reclassification of certain securities acquired in 1975 — see Note 7.

(b) $30,000,000 bears interest at 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 119% of prime rate to September 1, 1976, then at various percentages of prime from 120% 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 through 1980 are as follows: 1976, $8,500,000; 1977, $2,500,000; 1979, $54,000,000; 1980, $86,000,000. 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 on presently outstanding bonds, 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 on such bonds 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 September 30, 1975.

4. Income Tax Expense.

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

	Year Ended December 31,					Twelve Months Ended September 30,
	1970	1971	1972	1973	1974	1975
	(Thousands of Dollars)					
Computed "expected" income tax expense—Federal and State	$13,631	$12,642	$14,463	$17,428	$16,529	$28,199
Reductions in taxes resulting from:						
Timing differences:						
Tax over book depreciation	(3,372)	(3,642)	(4,744)	(6,352)	(6,875)	(6,392)
Allowance for funds used during construction capitalized	(291)	(769)	(1,924)	(3,120)	(5,730)	(7,296)
Other—principally taxes, pensions and other items capitalized	(617)	(1,490)	(2,582)	(2,246)	(3,012)	(4,507)
Other items	(62)	12	133	(113)	(1,004)	(1,035)
Investment credits	(735)	(1,019)	(2,468)	(2,573)	(1,047)	(6,756)
Taxes currently payable (refundable)	8,554	5,734	2,878	3,024	(1,139)	2,213
Deferred taxes included in expenses:						
Deferred	—	—	615	700	(1,315)	(329)
Restored	(210)	(210)	(210)	(210)	(210)	(210)
Total deferred	(210)	(210)	405	490	(1,525)	(539)
Total Federal and State income taxes	$ 8,344	$ 5,524	$ 3,283	$ 3,514	$(2,664)	$ 1,674
Federal and State income taxes included in:						
Operating expenses (credit)	$ 8,524	$ 6,118	$ 4,452	$ 5,631	$ (133)	$ 4,988
Other income (credit)	(180)	(594)	(1,169)	(2,117)	(2,531)	(3,314)
Total	$ 8,344	$ 5,524	$ 3,283	$ 3,514	$(2,664)	$ 1,674
Taxes currently payable (refundable):						
Federal	$ 7,777	$ 5,133	$ 2,280	$ 2,314	$(1,190)	$ 523
State	777	601	598	710	51	1,690
Total	$ 8,554	$ 5,734	$ 2,878	$ 3,024	$(1,139)	$ 2,213
Deferred taxes:						
Federal	$ (201)	$ (201)	$ 364	$ 443	$(1,409)	$ (503)
State	(9)	(9)	41	47	(116)	(36)
Total	$ (210)	$ (210)	$ 405	$ 490	$(1,525)	$ (539)

The Company anticipates that investment tax credit, applied in accordance with the 1975 Tax Reduction Act, will eliminate substantially all 1975 Federal income tax liability.

As of September 30,1975 the Company had approximately $2,000,000 of unused investment tax credit which can be carried forward through 1981.

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	September 30, 1975
Bank lines of credit (unused: December 31, $20,000,000; September 30, $54,000,000)	$97,000,000	$106,600,000
Bank lines in support of commercial paper (unused: December 31, $30,000,000)	$30,000,000	—
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 September 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 September 30). Average aggregate short-term borrowings outstanding during 1974 and the twelve months ended September 30, 1975 were $140,569,000 and $112,464,000, respectively; weighted daily average interest rates on such amounts were 10.35% and 9.35%, 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 September 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 in 1974, 4% of the line as to $10,000,000 and 15% plus a commitment fee of 0.5% of the line as to $20,000,000. 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 September 30, 1975, $5,874,000. 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. The liability for unfunded past service costs at June 30, 1975 was $2,421,000 which is expected to be completely funded by 1981.

Commitments and Contingencies.

"Tax exempt securities held by trustee" of $26,182,000 represent certain short-term notes, and related accrued interest of $988,000, purchased from those proceeds of a 1974 issue of pollution control revenue bonds (6.20% Series Due April 1, 2004) that were 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. These notes, which were acquired in March 1975, are $20,176,000 New York State Housing Finance Agency Notes ($4,568,000 maturing November 14, 1975 and $15,608,000 maturing February 17, 1976) and $5,018,000 New York City Bond Anticipation Notes maturing March 12, 1976. The collection of these notes when due is currently in question. If the notes are not paid by the time the funds are needed by the Company it would have to resort to other sources for funding the pollution control facilities, while remaining obligated for the payment, when due, of the full principal and interest requirements of the revenue bonds. Pending determination of their collectibility, these notes have been reclassified in the September 30, 1975 balance sheet as investments and are not shown as a reduction of long-term debt. Other investments held by the trustee, amounting to $40,314,000 at December 31, 1974 and $8,321,000 at September 30, 1975, the collectibility of which was not in question, have been reported as a reduction of long-term debt.

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 September 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 of the determination of the collectibility of the aforementioned notes upon the Company. If 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 $213,000,000 at September 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 September 30, 1975 were as follows:

	Year Ended December 31,					Twelve Months Ended Sept. 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	$31,886
Sales	3,873	4,290	5,533	6,673	9,240	13,168
Rents	2,022	1,938	1,862	1,986	1,702	1,776

LEGAL OPINIONS

The validity of the New Preferred 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.

Mr. Richard Snell, a director of the Company, is a member of the firm of Snell & Wilmer. At September 25, 1975, attorneys in that firm were the beneficial owners, directly or indirectly, of approximately 14,300 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 and the New Preferred.

UNDERWRITING OF NEW PREFERRED

The Underwriters named below have severally agreed to purchase from the Company the following respective numbers of shares of New Preferred.

Underwriter	Number of Shares	Underwriter	Number of Shares
The First Boston Corporation			
Blyth Eastman Dillon & Co. Incorporated			
Dean Witter & Co. Incorporated			
		Total	300,000

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 shares of New Preferred 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 Preferred 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 ¢ per share; that the Underwriters and such dealers may allow a discount of ¢ per share on sales to other dealers; and that the public offering price and concessions and discounts to dealers may be changed by the Representatives.