

A subsidiary of Pinnade West Capital Corporation

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Technical Director – File Reference No. 1215-001 Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Re: Accounting for Uncertain Tax Positions

Dear Technical Director:

Pinnacle West Capital Corporation appreciates the opportunity to comment on the Financial Accounting Standards Board's (FASB) Proposed Interpretation, "Accounting for Uncertain Tax Positions." Pinnacle West Capital Corporation is a publicly-held holding company. Our largest subsidiary, Arizona Public Service Company, is a regulated public utility engaged in the generation, sale, and delivery of electricity and energy-related products in the Western United States.

The FASB has concluded that there is diversity in how Generally Accepted Accounting Principles (GAAP) are applied with respect to the recognition of tax benefits associated with uncertain tax positions. Accordingly, we agree that interpretive guidance is needed to clarify the accounting treatment of tax benefits resulting from uncertain tax positions. The proposed Interpretation, in its current form, however, appears to be an amendment to the rules rather than an interpretation of existing GAAP. We believe that the FASB should issue guidance clarifying how uncertain tax positions should be accounted for under the existing loss contingency rules of Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies" (FAS 5) rather than creating a new standard for tax contingencies.

The Misapplication of the Asset Approach to Yax Contingencies

Statement of Financial Accounting Concepts No. 6, "Elements of Financial Statements" (CON 6) defines assets as "probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events." CON 6 defines liabilities as probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events.

If a taxpayer is required to self-assess the tax owed to the taxing authority in compliance with the applicable tax rules, then there is no uncertainty as to whether an asset has been realized under the definition established in CON 6 (i.e., the taxpayer has either received a tax refund or a reduction in taxes otherwise owed). There may instead be an uncertainty as to whether the taxing authority will impose an additional liability on the taxpayer. If it is likely that an additional liability will be required as a result of an audit, a potential liability under the current FAS 5 standard may need to be recorded and/or disclosed. We believe that the use of the "asset approach" to establish and measure contingent tax liabilities does not comport with established accounting principles. Therefore, we believe that the

Interpretation should instead focus on providing guidance for determining whether a contingent tax liability has been incurred pursuant to FAS 5.

Suggested Modifications to the Asset Approach

If the Board decides to adopt the asset approach to recognition of income tax benefits, we suggest the following modifications to the asset approach.

Limitation of Scope

If the Board is concerned that Companies are reporting tax benefits in the financial statements related to aggressive, non-sustainable tax positions taken on filed tax returns, then the scope of this Interpretation should address those circumstances where Congress and the Secretary of the Treasury view certain tax positions to have the potential to be abusive. This would encompass tax positions that are designated as Reportable Transactions as defined in Regulation Section 1.6011-4(b).

More Likely Than Not" Versus Probable Threshold

If the Board ultimately decides not to limit the scope of this interpretation, then the threshold for recognition should be "more likely than not." Contrary to the stated objective of the proposed Interpretation, the probable standard would most likely result in overstated tax expense in certain periods followed by understatements in later periods. If the probable threshold is not met, a contingent tax liability will need to be recorded even if it is the view of management that the most likely outcome is that no liability (or a lesser liability) will be incurred. This is not a theoretically sound result nor do we believe that it is necessary to achieve consistent financial reporting. Furthermore, the highest level of confidence required under the Internal Revenue Code to avoid penalties is more likely than not.

Inconsistency with Other Contingent Liabilities

The Interpretation, in its current form, would apply a different threshold for recording contingent tax liabilities than other contingent liabilities. The proposed probable threshold would hold contingent income tax liabilities to a much lower threshold than other contingent liabilities in determining whether a liability should be recorded for financial statement purposes.

Change the Effective Date

The implementation of this Interpretation, as currently drafted, would result in substantial implementation issues especially considering the documentation requirements under Section 404 of the Sarbanes-Oxley Act. Therefore, we recommend that the effective date of the pronouncement be delayed until the first fiscal year beginning after December 15, 2006.

We sincerely appreciate your consideration of our views on this Exposure Draft.

Sincerely,

Chris N. Froggatt

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Vice President and Controller