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Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

RE: ADDITIONAL INFORMATION REGARDING DSM ENERGY WISE LOW INCOME
WEATHERIZATION PROGRAM, DOCKET E-01345A-05-0414

Enclosed is additional information for the subject Arizona Public Service Company's DSM filing. The enclosed pages replace the specific pages for the Energy Wise Low Income Weatherization Program Plan.

If you should have any questions regarding the information contained herein, please call me.

Sincerely,


Justin H. Thompson
Manager
Regulation, Policy & Analysis

JHT/AKK
Enclosures

Cc: Original plus 15 copies
B. Keene
E. Andreasen
J. Anderson

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APS Energy Wise Low Income Weatherization Program

Third party manager will coordinate the record keeping, invoicing and reporting through out the year. They review all invoices to assure compliance with program guidelines. They serve as a point of contact and a conduit for providing information to APS. They create and submit to APS the reports required by the ACC.

Training and technical support supplements the monitoring and evaluation conducted by the Energy Office.

Marketing and promotion is for brochures and signage for the CAAs and Tribal Governments.

APS administration is for the additional resources required to manage the expanded program with the additional constituencies. The weatherization and bill assistance program has been funded at \$500,000 since 1996. At times it has been a challenge to spend that budget. The new program requires APS to spend a minimum of \$1,000,000 each year. To facilitate that, APS has expanded coverage to include compact fluorescent lamps and refrigerators. Renters are now covered. Previously it was limited to owner occupied homes. The cap on expenditures per home has been raised from \$1,500 to \$6,000. Tribal governments are specifically included for the first time and they need training to develop technical and business skills. Tribal governments will likely not report through the third party manager that will oversee the CAAs, and that will require additional effort by APS.

All of these changes will require more management by APS if we are to reach the spending goal. It will be nearly a full time job for an Account Executive for the first year, and a significant portion of that person's time for several years.

Funds will be distributed to the CAA and Tribal Governments based largely on estimates of the number of APS low income customers in their service areas. Future distributions will be reviewed and adjusted annually.

Estimated Energy Savings

The most thoroughly documented cost effectiveness study of Arizona homes is from the Energy Office report titled "Present Value Analysis SWG Low-Income Weatherization Program July 1, 1999 to June 31, 2000". The data in the following tables is extracted from that report. Refer to Appendix B for details of the Energy Office study. Refer to Appendix C for supporting documentation for the values in the savings and cost effectiveness tables below.

	Savings per Home		Equivalent Homes Served per Year ⁽¹⁾			Total Savings	
	Annual kWh	kW	2005	2006	2007	Lifetime mWh ⁽²⁾	kW ⁽³⁾
Weatherization	1,998	0.30	562	562	562	50,503	505

(1) An equivalent home is one that receives \$1,255 in APS weatherization funding. The \$1,255 is the average amount of weatherization dollars spend on the study homes. APS has historically funded only 47% of the weatherization cost for a typical home. At that rate, the number of homes weatherized using APS funds leveraged with other funds would be 1,196 in each of the 3 years. Since the cap per home is increased, APS will be contributing a larger share and the number of homes weatherized with APS funds will be between the 562 that could be served if APS funded 100%, and the 1,196 that could be served if APS funded 47%. An estimate of homes that will be weatherized with leveraged APS funds under the proposed program is the average of the two, or 879 per year.

(2) Lifetime mWh is the electric energy saved from all weatherization measures implemented in 2005-2007 over the 15 year life of the measures.

(3) kW savings is 0.30 kW/home x 562 per year x 3 years = the demand reduction from weatherizing 562 homes in each of the three years.

Weatherization Program Cost Effectiveness

Refer to the companion Excel workbook "Weatherization Appendix 2" for details.

BCR Activity	Societal Benefit/Cost	Societal Net Benefit ⁽¹⁾	Societal Benefits	Societal Costs
Weatherization	0.72	(\$698,323)	\$1,807,460	\$2,505,782

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(1) The Societal net benefit does not include the monetary value of the environmental externalities that are saved. The externalities are shown in the table below, along with the physical quantities of the emissions emitted and resources consumed. These have a monetary value that is not quantified.

Externalities – emissions reductions based on 50,503 mWh saved
SOx – 217 pounds
NOx – 8,687 pounds
CO2 – 46,311,516 pounds
PM10 – 1,197 pounds
Water – 11,767,266 gallons

Program Budget Flexibility

Between Elements of Individual Programs

Although APS has provided the best estimates possible as to the amount allocated within an individual program budget to individual program budget allocation categories such as rebates and incentives, training and technical assistance, customer education, program implementation, program marketing, and program planning and administration, APS anticipates that flexibility in managing the DSM programs and allocating funds will be needed to maximize program effectiveness.

The following guidelines will govern program budget flexibility within each program:

- Within a program, up to 25% of funding may be shifted from any spending category to another category within the same program.
- For the program period 2005-2007, APS will make reasonable efforts to limit to amounts expended for program planning and administration to 10% of the total funding for each program.
- For the program period 2005-2007, APS will use at least 45% of total program funding averaged for all programs directly to customer rebates and incentives.
- For any budget changes that would result in a change to the program's benefit/cost ratio (as defined by the Societal Cost Test), APS will provide written notice to the Commission Staff. In no cases shall a budget change cause the benefit/cost ratio to be less than 1.0 (except for the Low Income Weatherization program).
- All budget shifts will be reported in the semi-annual DSM reports submitted to the Commission Staff.
- Budget allocations should be evaluated at the end of the 2005-2007 planning period. Prior to this time, program start up costs and the expected time it takes customers to become active in DSM programs will likely produce inconsistencies in the budget allocations within the DSM programs.
- The Preliminary Energy Efficiency DSM Plan and the Portfolio Plan budget projects an annual budget of \$6.2 million for Residential DSM Programs and \$6.9 million for Non-Residential DSM Programs. These figures represent average year budget estimates over the three year program. Each year will be adjusted to allow for schedule impacts. For instance, because 2005 is only a partial year of implementation, Year 2005 unspent budget dollars will be shifted to years 2006 and 2007 to comply with the Company's overall spending requirement of \$48 million by the end of 2007.

Between Budget Allocation Categories within an Individual Program

Within a segment of customers (such as residential or non-residential), APS expects that some programs may perform better than others. To utilize DSM funds in the most effective manner and to avoid under-spending, it may be beneficial to shift funds between programs within a segment.

The following guidelines will govern budget flexibility between programs:

- Budget shifting may occur only within a segment of customers, not across segments. No budget dollars may be shifted between Residential and Non-Residential programs.
- No more than 25% of a program budget may be shifted in any given year. Any budget shifts will be reported in semi-annual reports submitted to the Commission Staff.
- Budget shifting will not be permitted to reduce funding for special customer groups that have been addressed in the Portfolio Plan:

APS Energy Wise Low Income Weatherization Program

- No budget dollars will be shifted away from the Low Income Program budget, including special funding devoted to Native American tribes.
- No budget dollars will be shifted away from the Schools Program budget.

Program Incentive Levels

Incentive levels and the other program elements identified above will be reviewed and APS will modify them as needed during the first year from the approval date of this program, and periodically thereafter. Such modifications will be reported in the mid-year and year-end reports submitted to Staff.

The following guidelines will govern program incentive level flexibility:

- Program incentive levels shall never exceed 100% of a customer's incremental cost for selecting an energy efficient measure, as compared to standard efficiency.
- As a general guideline, incentive levels will be set at or below 50% of a customer's incremental cost. If APS believes that an incentive level of greater than 50% is necessary to gain market penetration, APS will submit to Commission Staff a justification supporting such additional incentives. Additional incentives may be justified based on reasonable reimbursement to participating customers to motivate behavior, special promotional periods necessary to stimulate program interest, or the need for special incentive levels to achieve market transformation. Such justification will be provided to Commission Staff at the time that the DSM measure is submitted for approval, or will be provided in writing prior to changing the incentive level within an existing Commission-approved program.
- APS may adjust incentive levels as needed, without prior approval from the Commission Staff, for all measures so long as the incentive level stays below 50% of incremental cost.
- To the extent that the Federal Energy Policy Act of 2005 or other energy standards change during the implementation of a DSM program and require changes in baseline efficiency levels and customer incremental costs, APS may adjust such incentive levels accordingly. All such changes will be reported in the Company's semi-annual DSM reports.