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August 31, 2006

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Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Arizona Corporation Commission
DOCKETED

AUG 31 2006

DOCKETED BY *JK*

RE: DOCKET NO. E-01345A-03-0437
DECISION NO. 67744

Dear Madam or Sir:

Pursuant to Arizona Corporation Commission Decision Number 67744, provided is the Semi-Annual Report covering the period of January 1 through June 30, 2006.

If you or your staff have any questions, please feel free to call me.

Sincerely,

Brian Brumfield
Supervisor
Regulation, Pricing and Administration

BB/vld

CC: Brian Bozzo
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DSM SEMI-ANNUAL PROGRESS REPORT FOR THE PERIOD: JANUARY THROUGH JUNE 2006

This progress report includes the following information for all APS Demand Side Management (DSM) programs that were in place during this reporting period, including programs for residential, non-residential and low income customers:

- A brief description of the program.
- Program modifications.
- Program goals, objectives, and savings targets.
- Programs terminated.
- The levels of participation.
- A description of evaluation and monitoring activities and results.
- kW and kWh savings.
- Benefits and net benefits, both in dollars, as well as Performance Incentive calculation.
- Problems encountered and proposed solutions.
- Costs incurred during the reporting period disaggregated by type of cost, such as administrative costs, rebates, and monitoring costs.
- Findings from all research projects.
- Other significant information.

Summary pages detailing the program expenses and DSM Electric Savings Benefits are provided in Tables 1 and 2. The Performance Incentive Calculation is shown in Table 3.

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**DSM SEMI-ANNUAL PROGRESS REPORT FOR THE PERIOD:
JANUARY THROUGH JUNE 2006**

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Attachments

- 1 – APS Low Income Assistance Presentation May 15, 2006
- 2 – Marketing Materials for Residential Existing Homes HVAC

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DSM SEMI-ANNUAL PROGRESS REPORT FOR THE PERIOD: JANUARY THROUGH JUNE 2006

Table 1
DSM Program Expenses: January – June 2006

ACC Program	Rebates & Incentives	Training & Technical Assistance	Consumer Education	Program Implementation ¹	Program Marketing	Planning & Admin	Program Total Cost	
Residential								
Low Income	\$203,229	\$1,790	\$1,405	\$36,350	\$258	\$33,546	\$276,578	
Res Existing HVAC	-	\$34,472	\$55,217	\$53,399	\$50,619	\$15,780	\$209,487	
Res New Const	\$20,825	\$1,968	\$392	\$25,071	\$56,342	\$18,730	\$123,328	
Consumer Products	\$273,964	-	-	\$213,488	\$31,232	\$29,359	\$548,043	
Totals for Residential	\$498,018	\$38,230	\$57,014	\$328,308	\$138,451	\$97,415	\$1,157,436	
Non-Residential								
Large Non Res Existing	-	-	\$108	\$222,368	\$472	\$77,350	\$300,298	
Large Non Res New Const	-	-	\$108	\$279,480	\$448	\$69,629	\$349,665	
Small Business	-	-	\$80	\$152,723	\$416	\$35,798	\$189,017	
Bldg Operator Training	-	\$5,378	-	\$174	-	\$392	\$5,944	
Energy Information Svcs	-	-	-	-	-	\$1,230	\$1,230	
Schools ²	-	-	\$8	\$33,084	\$25	\$12,741	\$45,858	
Total for Non-Residential	\$0	\$5,378	\$304	\$687,829	\$1,361	\$197,140	\$892,012	
Segment Totals	\$498,018	\$43,608	\$57,318	\$1,016,137	\$139,812	\$294,555	\$2,049,448	
							Program Costs	\$2,049,448
							Meas, Eval, & Research (MER)	\$326,510
							Performance Incentive³	\$310,491
							TOTAL	\$2,686,449

Definitions

Rebates & Incentives - Includes dollars that go toward customer rebates and incentives, installation of low income weatherization and low income bill assistance.

Training & Technical Assistance - Includes all dollars that are used for energy efficiency training and technical assistance.

Consumer Education - Includes dollars that are used to support general consumer education about energy-efficient improvements.

Program Implementation - Program delivery costs associated with implementing the program - includes implementation contractor labor and overhead costs, as well as other direct program delivery costs.

Program Marketing - Includes all expenses related to marketing the program and increasing DSM consumer awareness (direct program marketing costs as opposed to general consumer education).

Planning and Administration - APS costs to plan, develop and administer programs-includes management of program budgets, oversight of the RFP process and implementation contractor, program development, program coordination and general overhead expenses.

Measurement, Evaluation, & Research (MER) -These activities will identify current baseline efficiency levels and the market potential of DSM measures, perform process evaluations, verify that energy-efficient measures are installed, track savings, and identify additional energy efficiency research.

Performance Incentive – Share (%) of DSM net economic benefits (benefits minus cost), capped at 10% of total DSM expenditures, inclusive of the Performance Incentive.

1 Includes costs for Implementation Contractor (IC) for the Small Non-Residential, Non-Residential Existing Facilities, New Construction & Major Renovation and Schools Programs.

2 Schools are allowed to receive funding from other non-residential programs as well. Refer to the subsection on the Schools Program for additional information on total funds allocated to school districts to date.

3 The Performance Incentive is calculated in Table 3 and pending ACC approval.

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DSM SEMI-ANNUAL PROGRESS REPORT FOR THE PERIOD:
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**Table 2
DSM Electric Savings Benefits**

	Capacity	Lifetime ¹	Program	Societal	Societal	Net Benefits
	Savings MW	MWh Savings	Cost	Benefits	Costs	
Residential						
Consumer Products	2.903	112,065	\$548,043	\$6,122,452	\$1,495,514	\$4,626,938
Existing Home HVAC ²	-	-	\$209,487	\$0	\$209,487	(\$209,487)
New Construction ²	-	-	\$123,328	\$0	\$123,328	(\$123,328)
Low Income ³	0.039	257	\$276,578	\$246,225	\$246,225	\$0 ⁴
Totals for Residential	2.942	112,322	\$ 1,157,436	\$ 6,368,677	\$ 2,074,554	\$ 4,294,123
Non-Residential						
Existing Facilities Large	-	-	\$300,298	-	\$300,297	(\$300,297)
Small Non-Residential	-	-	\$189,017	-	\$189,017	(\$189,017)
New Construction	-	-	\$349,664	-	\$349,664	(\$349,664)
Building Operator Training	0.009	996	\$5,944	\$33,993	\$10,629	\$23,364
Energy Information System	-	-	\$1,230	-	\$1,230	(\$1,230)
Schools	-	-	\$45,858	-	\$45,858	(\$45,858)
Totals for Non-Residential	0.009	996	\$ 892,011	\$ 33,993	\$ 896,695	(\$862,702)
Subtotal						
Measurement, Evaluation & Research	-	-	\$326,510	-	\$326,510	(\$326,510)
Performance Incentive ⁵	-	-	\$310,491	-	\$310,491	(\$310,491)
Total	2.951	113,318	\$ 2,686,448	\$ 6,402,670	\$ 3,608,250	\$ 2,794,420

1 Refers to savings over the expected lifetime of all program measures.

2 kW and kWh savings are not quantified for residential market transformation programs that were in place prior to April 2006.

3 Program Costs include weatherization and bill assistance. Societal Costs do not include bill assistance because it does not contribute to electric savings.

4 Consistent with the ACC Staffs' analysis in Decision No. 68647, the societal benefits is equal to the societal costs, resulting in a benefits to cost ratio of 1.00.

5 As calculated in Table 3.

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**DSM SEMI-ANNUAL PROGRESS REPORT FOR THE PERIOD:
JANUARY THROUGH JUNE 2006**

**Table 3
Performance Incentive Calculation**

	Jan - Jun 2006	Program to Date	
	Net Benefit	Net Benefit	10% Share
Residential			
Consumer Products	\$4,626,938	\$10,036,208	\$1,003,621
Existing Home HVAC	\$(209,487)	\$(734,373)	\$(73,437)
New Construction	\$(123,328)	\$(466,415)	\$(46,642)
Non-Residential			
Existing Large	\$(300,297)	\$(414,405)	\$(41,441)
Existing Small	\$(189,017)	\$(254,310)	\$(25,431)
New Construction	\$(349,664)	\$(477,980)	\$(47,798)
Building Operator Training	\$23,364	\$17,540	\$1754
Energy Information System	\$(1230)	\$(7108)	\$(711)
Schools	\$(45,857)	\$(82,710)	\$(8271)
Subtotal	\$3,431,422	\$7,616,447	\$761,645
Measurement, Evaluation & Research	\$(326,510)	\$(563,476)	\$(56,348)
Total	\$3,104,912	\$7,052,971	\$705,297
		Performance Incentive Earned From July thru December 2005	\$394,806
		Performance Incentive Due To APS for This Reporting Period ¹	\$310,491

1 Performance incentive earned to date is subtracted from the total "program to date" 10% share of net benefits to arrive at the amount of performance incentive earned for this period.

This calculation does not include the Low Income Program. As per Staff's analysis in Decision 68647, the net benefits for this program are \$0.

Maximum Performance Incentive allowed is 10% of the spending level as ordered in Decision No. 67744. This is \$4.8 million over the three-year period. Approval of the incentive calculation is pending ACC approval.

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DSM SEMI-ANNUAL PROGRESS REPORT FOR THE PERIOD: JANUARY THROUGH JUNE 2006

PROGRAM: ENERGY WISE LOW INCOME WEATHERIZATION

Description

APS' Energy Wise Low Income Assistance Program is designed to improve the energy efficiency, safety and health attributes of homes for customers whose income falls within the defined federal poverty guidelines. This program serves low income customers with various home improvements including cooling system repair and replacement, insulation, sunscreens, water heaters, window repairs and improvements as well as other general repairs. In addition, low income families are provided crisis bill assistance. The program is administered through various community action agencies throughout APS' service territory.

Program Modifications

Decision No. 68647 which was approved on April 12, 2006 by the Arizona Corporation Commission resulted in a number of changes to APS' Energy Wise Low Income Weatherization ("Energy Wise") Program. Some of the more significant changes are outlined below:

- Energy Wise program is available to APS residential customers, including those on tribal lands, with household incomes less than or equal to 150% of federal poverty guidelines
- The maximum expenditure per home in a 12 month period for Weatherization, Repair, and Replacement, and Health and Safety combined is \$6,000.
- Customers in rented homes are eligible for weatherization services with the owner's written permission, but the owner must agree to not increase the rent for 12 months.
- Weatherization projects for master metered and/or multifamily housing would be considered by APS on a case by case basis.
- The Health and Safety component pays for the installation of energy-efficient window unit air conditioners and heat pumps that are prescribed by a medical doctor.
- The Repair and Replacement component allows for the repair or replacement of existing appliances. Appliances are limited to air conditioners, heat pumps, refrigerators, and water heaters.
- A household may receive bill assistance once in a 12 month period for a maximum of \$400.
- The annual budget has been increased from \$500,000 to \$1,100,000, with \$100,000 allocated to the Tribal Governments.
- Up to \$250,000 may be used for bill assistance during any calendar year.

Implementing these changes to the program is tied to the community action agency contract terms commencing July 1, 2006.

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DSM SEMI-ANNUAL PROGRESS REPORT FOR THE PERIOD: JANUARY THROUGH JUNE 2006

Program Goals, Objectives, and Savings Targets

- To improve the energy efficiency of homes for customers whose income falls within the defined poverty guidelines.
- To provide customers information on energy management and conservation.
- To provide assistance in paying the electric bill for qualified customers in crisis situations.
- Decision No. 68647 estimates that the Weatherization component of the Energy Wise Program serves 382 homes per year (based on APS' budget) and would result in reduced energy consumption of 763 MWh per year and a demand reduction of 115 kW per home.

Programs Terminated

No programs were terminated during the first half of 2006.

Levels of Participation

A total of 296 households received assistance during the reporting period, January through June 2006. Please note that a single household may have received more than one type of assistance.

Type of Assistance	Number of Households
Bill Assistance	179
Health and Safety	1
Repair and Replace	44
Weatherization	91

Evaluation and Monitoring Activities and Results

Weatherization measures must pass the cost effectiveness test that is detailed in the federal government's Weatherization Assistance Program (WAP) rules. These rules allow certain prescriptive measures which vary with the climate zone and type of housing construction. Measures not on the prescriptive list must be assessed by a computer analysis to determine the economic feasibility.

The Department of Commerce Energy Office with information from APS, is analyzing the electric energy used in weatherized homes before and after the weatherization measures are implemented. It takes a year of data before the weatherization and another year of data after the weatherization to get an accurate gauge of the impact of the measures. As the data base grows over time a more accurate picture of the impact of the weatherization activities will emerge.

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DSM SEMI-ANNUAL PROGRESS REPORT FOR THE PERIOD: JANUARY THROUGH JUNE 2006

kW and kWh Savings

Of the 296 households participating in the program, a total of 117 homes received weatherization and/or repair & replace services that contributed to the energy savings.

Homes	Savings	
	kW	kWh
117	35.1	233,766
Line loss savings	3.4	22,909
Total savings	38.5	256,675

The kW and kWh factors used to calculate the savings are based on data from the Department of Commerce Energy Office study of 150 weatherized homes. The study normalized electric and gas savings into dollars with gas savings being about 10% of the total. The present value of the dollar savings was converted to "equivalent kWh" at 8 cents per kWh. The annual energy and demand savings per home in this study are estimated to be 1,998 "equivalent kWh" and 0.3 kW.

Benefits and Net Benefits/Performance Incentive Calculation

The benefits and net benefits are provided in Table 2. The Performance Incentive calculation does not include the Energy Wise Program since this program has a zero net benefit and APS should not be penalized for performing well on this program. Consequently, the net benefits for the Energy Wise Program for this reporting period as shown in Table 2 are \$0.

Problems Encountered and Proposed Solutions

No problems were encountered during this reporting period.

Costs Incurred

Costs incurred for this program during the first half of 2006 are listed below:

Activity	Rebates & Incentives	Training & Technical Assistance	Consumer Education	Program Implement	Program Marketing	Planning & Admin	Program Total Cost
Bill Assistance	\$30,353	-	-	-	-	-	\$30,353
Health & Safety	\$1,650	-	-	-	-	-	\$1,650
Repair and Replace	\$50,811	-	-	-	-	-	\$50,811
Weatherization	\$120,415	\$1,790	\$1,018	-	-	-	\$123,223
3rd Party Manager Arizona Community Action Association	-	-	-	\$33,328	-	-	\$33,328
APS Program Support	-	-	\$387	\$3,022	\$258	\$33,546	\$37,213
Total	\$203,229	\$1,790	\$1,405	\$36,350	\$258	\$33,546	\$276,578

Findings From All Research Projects

APS is currently completing work on a DSM Baseline and Market Potential study that was approved in Decision No. 67816. A final report is expected to be completed in the second half of 2006.

ARIZONA PUBLIC SERVICE COMPANY

DSM SEMI-ANNUAL PROGRESS REPORT FOR THE PERIOD: JANUARY THROUGH JUNE 2006

Other Significant Information

Contracts that incorporate the changes from ACC Decision No. 68647 have been signed with the 8 agencies that have been participating in the program on a continuous basis. APS is finalizing contracts with the Inter Tribal Council of Arizona the Navajo Nation which are new participants in the weatherization program.

On May 15th, APS presented information about the Energy Wise Low Income Program at the APS Summer Preparedness Summit to over 20 agencies. Please see Attachment 1 for a copy of the presentation.

1,000 CFL's from the Consumer Products program were provided to the Arizona Energy Office for distribution to low income households within the APS service territory as part of the weatherization service.

ARIZONA PUBLIC SERVICE COMPANY

DSM SEMI-ANNUAL PROGRESS REPORT FOR THE PERIOD: JANUARY THROUGH JUNE 2006

PROGRAM: RESIDENTIAL EXISTING HOMES HVAC

Description

The residential existing home HVAC program promotes energy-efficient equipment and proper installation and maintenance of residential heating and air conditioning systems. The program provides training and technical assistance for HVAC contractors and education for consumers about the benefits of energy-efficient heating and cooling systems. Through the APS Qualified Contractor program, APS provides customer referrals to contractors who meet strict program requirements for professional standards, technician training and customer satisfaction.

Program Modifications

On July 1, 2005 APS filed a DSM Program Portfolio Plan with the Arizona Corporation Commission which included 10 proposed programs, including an expanded and modified residential HVAC program. The Residential Existing Homes HVAC Efficiency program which was filed as part of the DSM Portfolio was approved by the ACC under Decision No. 68648 on April 12, 2006.

The new program builds on the existing APS Qualified Contractor program, and offers financial incentives to encourage quality installation and upgrades to high-efficiency equipment (≥ 14 SEER/12 EER) that exceeds US EPA/DOE Energy Star® energy-efficiency standards. In addition, the program provides incentives for home performance testing and repairs (such as sealing duct leaks) to improve energy efficiency.

The High Efficiency AC Rebate Program was rolled-out to APS customers on June 1, 2006.

Program Goals, Objectives and Savings Targets

This program uses a combination of financial incentives, contractor training and consumer education to promote high efficiency HVAC systems in existing residential homes within the APS service territory.

Prior to April 2006, this program was a market transformation effort with long term goals to improve the market for energy-efficient HVAC systems by reducing market barriers to adoption of greater efficiency levels. As such, the program offered no rebates or incentives and kW and kWh savings were not tracked. In April 2006, Decision No. 68648 approved a new program which builds upon the existing market transformation education and training efforts, and adds rebates for high efficiency AC equipment, quality installation, and HVAC system diagnostics and repair. Savings will be tracked for this program.

According to ACC Staff's analysis of the new program for three years, the energy-efficiency savings expected to result from the HVAC Efficiency Program could provide about \$1.4 million in net benefits and could reduce annual peak demand by about 4.2 MW and energy consumption by about 173,000 MWh over the life of the measures.

ARIZONA PUBLIC SERVICE COMPANY

DSM SEMI-ANNUAL PROGRESS REPORT FOR THE PERIOD: JANUARY THROUGH JUNE 2006

Programs Terminated

No programs were terminated during the first half of 2006.

Levels of Participation

In the first half of 2006:

- There are currently 48 contractors participating in the APS Qualified Contractor program. According to Arizona Heat Pump Council estimates, participating contractors make more than 150,000 household visits annually within the APS service territory.
- Approximately 208 HVAC technicians participated in APS sponsored training courses in order to meet APS Qualified Contractor program training requirements.
- APS provided over 4,300 referrals to customers seeking HVAC service, repair or replacement of their home HVAC system.
- APS distributed two issues of the Southwestern Home Journal with a total reach of more than 250,000 customers. The Journals included articles about home energy efficiency, including the benefits of AC system maintenance and why it is important to select a qualified professional contractor.
- There were more than 5,418 unique user visits to the APS Energy Survey home energy audit at aps.com.
- Rebates for high efficiency AC equipment were rolled out to customers on June 1, 2006. There were 152 rebate applications that were received by June 30, 2006. No rebates had been paid by the end of the reporting period.

Evaluation and Monitoring Activities and Results

On April 12, 2006 in Decision No. 68648, the ACC approved funding for Measurement, Evaluation, and Research (MER) activities to assist in verifying the impact and cost effectiveness of APS' DSM programs. APS issued an RFP and selected Summit Blue Consulting to conduct program MER activities. Summit Blue Consulting is currently working with APS to develop program research plans. The program research plans will be submitted for staff review in accordance with Decision No. 68648.

kW and kWh Savings

According to the ACC Staff's analysis of the new program - for three years, the energy efficiency savings expected to result from the HVAC Efficiency Program could reduce annual peak demand by about 4.2 MW and energy consumption by about 173,000 MWh over the life of the measures.

During this reporting period, the new HVAC Efficiency Program was approved. On June 1, 2006 APS started the AC Rebate Program that provides rebates to customers who replace their existing system with a high efficiency heat pump or air conditioner. APS received 152 rebate applications during this reporting period, however, these were received at the end of the reporting period and no incentives had been paid by June 30th. Therefore, no kW or kWh savings are being reported during this period. During the prior market transformation program effort, kW and kWh savings were not quantified.

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DSM SEMI-ANNUAL PROGRESS REPORT FOR THE PERIOD: JANUARY THROUGH JUNE 2006

Benefits and Net Benefits/Performance Incentive Calculation

According to the ACC Staff's analysis of the new program over three years, the HVAC Efficiency Program could provide about \$1.4 million in net benefits over the life of the measures implemented.

As part of the prior market transformation effort, program benefits and net benefits were not quantified. As noted above, no savings have been reported for the new program during this reporting period.

Problems Encountered and Proposed Solutions

APS, contractors and customers have all had more difficulty than expected with obtaining EER efficiency levels from AC manufacturers and refrigeration industry data sources. APS is currently working with manufacturers and other industry members on solutions to this issue.

In addition, APS is working on rolling out the quality install and diagnostics measures that were approved in April. APS is currently working with the Electric League of Arizona to expand the Qualified Contractor program coverage within the APS territory in order to support these measures.

Costs Incurred

Costs incurred for this program during the first half of 2006 are listed below:

ACC Program	Rebates & Incentives	Training & Technical Assistance	Consumer Education	Program Implement	Program Marketing	Planning & Admin	Program Total Cost
Res Existing HVAC	-	\$34,472	\$55,217	\$53,399	\$50,619	\$15,780	\$209,487

Findings from all Research Projects

APS is currently completing work on a DSM Baseline and Market Potential study that was approved in Decision No. 67816. A final report is expected to be completed in the second half of 2006.

Other Significant Information

Marketing and consumer/contractor education efforts for this program during the reporting period include (See Attachment 2 for examples):

- Spring HVAC tune-up program co-op advertising. APS coordinated advertising placements on Fox 10, ABC 15, KTVK 3, Fox Sports Net, and UPN 45. Advertising program promotes calling an APS Qualified Contractor for a pre-summer cooling system tune-up. APS split the ad costs with the participating Qualified Contractors who were featured in the advertising promotion.
- Ad placement in June HVACR Today newspaper targeted to the HVAC industry. The ads promote the new APS High Efficiency AC Rebate program to contractor and manufacturer/distributor trade allies.
- Article in June 2006 APS Lifestyles residential customer newsletter.
- Print ad placements to promote the AC Rebate program to APS customers in the Arizona Republic, Buckeye Valley News, and the Phoenix Business Journal.
- APS has contracted with KEMA to handle rebate processing for this program.

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DSM SEMI-ANNUAL PROGRESS REPORT FOR THE PERIOD: JANUARY THROUGH JUNE 2006

PROGRAM: RESIDENTIAL NEW HOME CONSTRUCTION

Description

This program promotes high efficiency construction practices for new homes. It offers incentives to builders who meet program energy efficiency standards. The program emphasizes the whole building approach to improving energy efficiency and includes field testing of homes to ensure performance. Participating builders are trained to apply building science principles to assure that high-efficiency homes also have superior comfort and performance. The program also provides education for prospective homebuyers about the benefits of choosing an energy-efficient home and the features to consider.

Program Modifications

On July 1, 2005 APS filed a DSM Program Portfolio Plan with the Arizona Corporation Commission which includes 10 proposed programs, including an expanded and modified residential new construction program. The new program was approved by the ACC under Decision No. 68648 on April 12, 2006.

The new program builds on the existing APS program and updates the program to the new more stringent Energy Star Homes program standards. The program also takes advantage of the national Energy Star brand name, and promotes the EPA/DOE Energy Star label to prospective homebuyers. To encourage builders to meet the program's high efficiency standards, APS provides builder incentives of \$400 per home.

The new program retains the builder training and consumer and Realtor education efforts that were elements of the prior market transformation program.

Program Goals, Objectives and Savings Targets

The program objective is to increase the penetration of homes built to high efficiency standards. The rationale for this program is that residential new construction in the APS service territory, particularly the Phoenix metro area, is one of the biggest drivers of APS' system load growth. It is more cost-effective to work with builders to implement energy efficiency at the time of construction rather than attempt to retrofit efficiency after a home has been built. For many new home measures such as building envelope improvements, the benefits of energy efficiency upgrades will be sustained for the life of the home to produce very cost-effective savings.

Prior to the April 2006 program modifications under Decision No. 68648, this program was a market transformation effort with long term goals to improve the market for energy-efficient HVAC systems by reducing market barriers to adoption of greater efficiency levels.

According to ACC Staff's analysis of the new program for three years, the energy-efficiency savings expected to result from the New Construction Program could provide about \$9.0 million in net benefits and could reduce annual peak demand by about 13.4 MW and energy consumption by about 380,000 MWh over the life of the measures.

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DSM SEMI-ANNUAL PROGRESS REPORT FOR THE PERIOD: JANUARY THROUGH JUNE 2006

Programs Terminated

After approval of the new program in April, APS issued letters to all builders who were participating in the existing APS Performance Built Homes program. The program contracts with all participating builders were terminated on June 30, 2006. APS will continue to offer information about the participating Performance Built Homes subdivisions on aps.com until they are sold out.

Levels of Participation

- In the first half of 2006, APS signed up 386 new homes to be built to standards of the APS Performance Built Homes program.
- At the end of the reporting period, there were 10 Arizona homebuilders and 72 subdivisions participating in the Performance Built Homes program. This program was terminated as of June 30, 2006.
- On May 23, 2006, APS co-sponsored a one-day building science training session for builders in Northern Arizona that was held in Flagstaff. The session, called "Houses That Work" was conducted by the national Energy and Environmental Building Association (EEBA). The training was attended by close to 100 building industry members.

Evaluation and Monitoring Activities and Results

Program standards require independent performance testing with a minimum of 15% of all homes randomly tested and inspected to ensure that performance is achieved in the field.

On April 12, 2006 in Decision No. 68648, the ACC approved funding for Measurement, Evaluation, and Research (MER) activities to assist in verifying the impact and cost effectiveness of APS' DSM programs. APS issued an RFP and selected Summit Blue Consulting to conduct program MER activities. Summit Blue Consulting is currently working with APS to develop program research plans. The program research plans will be submitted for staff review in accordance with Decision No. 68648.

kW and kWh Savings

During this reporting period, the new program was approved. APS terminated the existing Performance Built Homes program on June 30, 2006 and started the new APS Energy Star Homes program on July 1, 2006. Therefore, no kW or kWh savings are being reported during this period.

During the prior market transformation program effort, kW and kWh savings were not quantified.

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DSM SEMI-ANNUAL PROGRESS REPORT FOR THE PERIOD: JANUARY THROUGH JUNE 2006

Benefits and Net Benefits/Performance Incentive Calculation

According to the ACC Staff's analysis of the new program over three years, the New Construction Program could provide about \$9.0 million in net benefits over the life of the measures implemented.

As part of the prior market transformation effort, program benefits and net benefits were not quantified. As noted above, no savings have been reported for the new program during this reporting period.

Problems Encountered and Proposed Solutions

Following the overheated Phoenix area housing market of 2005, this year has seen a rapid slowdown. The result is that builders have been offering free upgrades, discounts and other promotional strategies to lure buyers. This reduces revenues and builders have been searching for ways to cut costs. The new revised Energy Star standards are a significant stretch for most builders, and incremental costs for builders to meet program standards can be significant. Even with APS incentives, it can be difficult to encourage builder participation. APS will monitor program progress as the new program rolls-out to assess the situation.

Costs Incurred

Costs incurred for this program during the first half of 2006 are listed below:

ACC Program	Rebates & Incentives	Training & Technical Assistance	Consumer Education	Program Implement	Program Marketing	Planning & Admin	Program Total Cost
Res New Construction	\$20,825	\$1,968	\$392	\$25,071	\$56,342	\$18,730	\$123,328

Findings from all Research Projects

APS is currently completing work on a DSM Baseline and Market Potential study that was approved in Decision No. 67816. A final report is expected to be completed in the second half of 2006.

Other Significant Information

Program marketing efforts during this reporting period include the following advertising placements:

- (Jan-Jun) Arizona New Homes and Lifestyles – (magazine targeted to prospective homebuyers)
- (Jan-Jun) New Home Directory – (resource guide for Realtors)
- (Jan-Jun) Homestore.com/Move.com – (website for Realtors and homebuyers)

ARIZONA PUBLIC SERVICE COMPANY

DSM SEMI-ANNUAL PROGRESS REPORT FOR THE PERIOD: JANUARY THROUGH JUNE 2006

PROGRAM: CONSUMER PRODUCTS PROGRAM

Description

This program promotes high-efficiency EPA/DOE Energy Star® compact fluorescent lamps (CFL's). CFL's use an average of 75% less energy than standard incandescent bulbs and last up to ten times longer, typically saving consumers more than \$25 in energy costs over the life of each bulb. The program offers discounts on CFL's at local retail locations through cooperative agreements with retailers and lighting manufacturers. This provides consumers with reduced retail prices for CFL's at local lighting retailers, with prices below \$.99 per bulb.

Program Modifications

There are no program modifications to report at this time.

Program Goals, Objectives and Savings Targets

The program goals, objectives, and savings targets are identified in the Consumer Products program plan. According to the Staff Recommended Decision issued on July 25, 2005, the lighting portion of the Consumer Products program "would result in about \$20.8 million net benefits to society" over the lifetime of the measures installed thru the current program planning period (2005-2007).

Programs Terminated

No programs were terminated during the first half of 2006.

Levels of Participation

During the January to June reporting period, the program resulted in sales of 305,207 CFLs through participating retail locations. There are currently more than 100 retail outlets throughout the APS service territory where APS customers can purchase discounted CFLs. Participating retailers during this reporting period include: Ace Hardware (select locations), AJs Fine Foods, AKA Green, Bashas, Big Lots, Costco, Food City, Home Depot, Lowe's, True Value Hardware (select locations).

Evaluation and Monitoring Activities and Results

On April 12, 2006 in Decision No. 68648, the ACC approved funding for Measurement, Evaluation, and Research (MER) activities to assist in verifying the impact and cost effectiveness of APS' DSM programs. APS issued an RFP and selected Summit Blue Consulting to conduct program MER activities. Summit Blue Consulting is currently working with APS to develop program research plans. The program research plans will be submitted for staff review when completed.

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DSM SEMI-ANNUAL PROGRESS REPORT FOR THE PERIOD: JANUARY THROUGH JUNE 2006

kW and kWh Savings

Units	Wattage	Watts Saved	Rated Life (hrs)	Est. Measure Life (yrs)	kWh Savings per Year	Lifetime kWh Savings	kW Demand Savings	
181,644	13	47	6,000	5.5	9,348,308	51,223,608	1,451	
55,806	14	46	6,000	5.5	2,810,948	15,402,456	436	
8,732	14	51	6,000	5.5	487,639	2,671,992	76	
10,544	15	50	6,000	5.5	577,284	3,163,200	90	
7,876	20	55	6,000	5.5	474,332	2,599,080	74	
8,341	23	67	6,000	5.5	611,937	3,353,082	95	
32,264	23	77	6,000	5.5	2,720,339	14,905,968	422	
305,207		55.8			17,030,788	93,319,386		
Indirect cooling energy savings				5 kWh/bulb/yr	1,526,035			
					Total Savings	18,556,823	102,062,527	2,644
					Adjustment for Line Losses (9.8%)	20,375,392	112,064,654	2,903

Benefits and Net Benefits/Performance Incentive Calculation

The benefits and net benefits are provided in Table 2. The details for the Performance Incentive calculation are provided in Table 3.

Problems Encountered and Proposed Solutions

No problems were encountered during this reporting period.

Costs Incurred

Costs incurred for this program during the first half of 2006 are listed below:

ACC Program	Rebates & Incentives	Training & Technical Assistance	Consumer Education	Program Implement	Program Marketing	Planning & Admin	Program Total Cost
Consumer Products	\$273,964	\$0	\$0	\$213,488	\$31,232	\$29,359	\$548,043

Findings from all Research Projects

APS is currently completing work on a DSM Baseline and Market Potential study that was approved in Decision No. 67816. A final report is expected to be completed in the second half of 2006.

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DSM SEMI-ANNUAL PROGRESS REPORT FOR THE PERIOD: JANUARY THROUGH JUNE 2006

Other Significant Information

In addition to the bulb sales at retail locations, APS purchased a supply of 10,000 CFLs to use for the low income program and for customer education and awareness building purposes. Of these, 1,000 CFLs were provided to the Arizona Energy Office for distribution to low income households within the APS service territory. Recent studies indicate there is low awareness of CFLs among low income households. A limited quantity of bulbs is also being provided for use in APS informational displays and for educational handouts at community events throughout the APS service territory.

APS has conducted a number of consumer education events to promote CFLs. In April, APS held an event in celebration of Earth Day at AKA Green, a local green building retail store in Scottsdale. The event featured educational seminars from the Arizona Energy Office and a live radio broadcast as part of the "Rosie on the House" show on 620 KTAR. To promote the Earth Day event, a series of radio spots was featured on KTAR, in Arizona Diamondbacks radio broadcasts, and 6 print ads in the Arizona Republic. Customers purchased approximately 1,000 CFLs during the morning event.

In addition, print ads for the CFL program were featured in the Arizona Republic, the Casa Grande Dispatch, the Yuma Daily Sun, the West Valley Tribune, the West Valley View, La Voz, and the Prensa Hispana.

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DSM SEMI-ANNUAL PROGRESS REPORT FOR THE PERIOD: JANUARY THROUGH JUNE 2006

PROGRAM: NON-RESIDENTIAL PROGRAM FOR LARGE EXISTING FACILITIES

Description

The Large Existing Facilities Program provides prescriptive incentives for owners and operators of large non-residential facilities for energy-efficiency improvements in lighting, HVAC, motors and refrigeration applications. The program also provides incentives for covering the cost of a retro-commissioning study that uses a systematic process to improve and optimize an existing building's operations and to support those improvements with enhanced documentation and training. The program provides educational and promotional pieces designed to assist facility and business owners and operators in making decisions to improve the energy efficiency of their facilities. Additional incentives are available to provide these building owners and managers assistance in determining the feasibility of energy efficiency improvements. For DSM applications not covered through the prescriptive incentives, the program provides custom efficiency incentives to implement energy-efficiency measures that are evaluated on a case-by-case basis.

Program Modifications

The ACC ruling in Decision No. 68488 directed APS to modify the program from the way it was originally submitted. The ACC requirements were specific in that each individual end-use measure must be cost effective, and have a Total Resource Cost (TRC) of 1 or greater. In addition, none of the prescriptive incentives could be more than 75% of the Incremental Measure Cost (IMC). Based on these requirements, changes were made to the program to be in compliance with the Decision, and are summarized below.

The following measures were eliminated from the program because they did not meet the TRC as an individual measure; eight foot T8 lamps, and the 1.5 hp, 1200 rpm, TEFC motor. In addition the threshold efficiency levels of various motors were increased to meet TRC requirements. High pressure sodium outdoor fixtures were eliminated from the prescriptive list of measures offered, as they already have a low incremental cost compared to various standard outdoor fixtures.

The unit definition was converted for lighting control measures from a per unit basis to a connected watts per square foot basis to better reflect the savings associated with controls in rooms of various size and various types of buildings.

Incentive adjustments were also made to various measure types to meet the seventy-five percent of incremental cost limit established in Decision No. 68488. The adjustments included a reduction in the incentive level for some motor sizes, water-cooled chillers and air-cooled chillers. In addition, an incentive cap of 75% was placed on the HVAC Testing and Repair, and Quality Install incentive per Staff's recommendation in the Decision.

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DSM SEMI-ANNUAL PROGRESS REPORT FOR THE PERIOD: JANUARY THROUGH JUNE 2006

KEMA, APS' Implementation Contractor (IC) for this program, identified some minor inconsistencies that were corrected to clarify and improve implementation of the program to customers. These changes include modifying the following:

- Qualifying efficiencies for water-cooled chillers were adjusted to be consistent with industry standards based on unit size; and
- Adjusting all CFL incentives to \$1.75 per lamp for both indoor and outdoor applications, as it would be difficult to confirm the location of each CFL installation as being installed in an indoor or outdoor fixture.

All of the modifications described above were discussed with the ACC Staff in a meeting held on June 15, 2006 and presented to the DSM Collaborative Working Group at a meeting on June 20, 2006.

Program Goals, Objectives and Savings Targets

- Provide DSM opportunities for existing large non-residential customers.
- Promote the installation of high-efficiency technologies including, but not limited to lighting, HVAC equipment, motors, and refrigeration systems.
- Identify and pursue retrofit opportunities within this market segment.
- Increase the efficiency of existing facilities through the testing and retro-commissioning of large central HVAC systems, as well as other end-use measures.
- Promote integrated solutions to the extent possible.

According to the ACC Staff's analysis of the new program – for three years, the energy efficiency savings expected to result from the Large Existing Program could reduce annual peak demand by about 10 MW and 856,000 MWh over the life of the measures.

Programs Terminated

No programs were terminated during the first half of 2006.

Levels of Participation

The ACC approved this program on February 23, 2006, and applications were available via the program website in March 2006. The Large Existing Facilities Program has generated a lot of customer interest and activity thus far. A total of 38 applications for large existing incentives have been received, from 27 unique customers. As of June 30, 2006, over \$1.3 million has been requested through the application process, and this represents approximately one third of the total incentive budget for large existing projects. Most of the applications received to date are pre-notifications requesting reservation of funds, rather than final applications requesting incentive payment. Final applications are only processed after the project is completed and all required documentation is submitted and approved by KEMA.

Incentive Status by Fund for Active Applications	Incentives Under Review	Incentives Reserved	Incentives Paid
Large Existing – Prescriptive & Custom	\$738,167	\$585,420	\$0
Large Existing – Feasibility and Retro-commissioning studies	\$9,425	\$0	\$0
Total Large Existing Funds	\$747,592	\$585,420	\$0

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DSM SEMI-ANNUAL PROGRESS REPORT FOR THE PERIOD: JANUARY THROUGH JUNE 2006

During this reporting period, there were no instances that incentives were paid for studies for which associated projects were not completed through the verification process.

Evaluation and Monitoring Activities and Results

On April 12, 2006 in Decision No. 68648, the ACC approved funding for Measurement, Evaluation, and Research (MER) activities to assist in verifying the impact and cost effectiveness of APS' DSM programs. APS issued an RFP and selected Summit Blue Consulting to conduct program MER activities. Summit Blue Consulting is currently working with APS to develop program research plans. The program research plans will be submitted for staff review in accordance with Decision No. 68648.

kW and kWh Savings

The following table reflects the total energy demand and saving goal and achievements to date for the Large Existing Facilities. Note that we are differentiating between what has been "reserved" for customers through the pre-notification process versus what has been completed and "paid" as a result of the final application being approved. Thus, the reserved savings are provided for information purposes only at this time. Only actual savings from projects that are completed and incentives paid will be counted in this report.

kW Reserved	Annual kWh Reserved	Lifetime kWh Reserved	kW Paid	Annual kWh Paid	Lifetime kWh Paid
2,002	12,276,943	188,136,498	0	0	0

Benefits and Net Benefits/Performance Incentive Calculation

The benefits and net benefits are provided in Table 2. The details for the Performance Incentive calculation are provided in Table 3.

Problems Encountered and Proposed Solutions

- Retro-commissioning issue to consider at the 13 month filing in March 2007: The current program attributes no savings to retro-commissioning studies. We now have reason to believe that in practice, retro-commissioning can yield in significant savings from improved operations and energy efficiencies that typically result. It may be more appropriate to categorize this as a measure with associated savings versus a technical study as it is currently classified. As of June 30, 2006, the program had not received any applications for retro-commissioning study incentives and this situation will continue to be monitored.
- Given the high initial level of customer interest in the Large Existing Facilities Program, APS may utilize the budget flexibility granted in Decision No. 68488 to re-allocate budget dollars among non-residential programs to meet customer demand and pay incentives. Incentive funds available are being monitored and this issue will be addressed in the required March 2007 filing.

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DSM SEMI-ANNUAL PROGRESS REPORT FOR THE PERIOD: JANUARY THROUGH JUNE 2006

Costs Incurred

Costs incurred during the first half of 2006 are listed below.

ACC Program	Rebates & Incentives	Training & Technical Assistance	Consumer Education	Program Implement*	Program Marketing	Planning & Admin	Program Total Cost
Large Non Res Existing	-	-	\$108	\$222,368	\$472	\$77,350	\$300,298

*The following table provides a more detailed breakdown of the IC costs, which are included in the Program Implement column above.

ACC Program	IC - Implementation	IC - Marketing	IC - Education	IC - Technical Services	IC - Total Cost
Large Non Res Existing	\$106,400	\$65,518	\$16,896	\$33,554	\$222,368

Findings from all Research Projects

APS is currently completing work on a DSM Baseline and Market Potential study that was approved in Decision No. 67816. A final report is expected to be completed in the second half of 2006.

Other Significant Information

APS hired KEMA to implement the Small Non-Residential, Large Existing Facilities, New Construction & Major Renovation and Schools Programs. The implementation contractor (IC) began program activities on March 1, 2006. All of the Non-Residential Programs are being marketed under the name "Business Solutions."

Start Up Activities

In March through June 2006, the IC focused on developing program infrastructure and other start-up activities including establishing a toll-free telephone number, e-mail address, mailing address and a program website.

The IC activities also included developing incentive applications for the prescriptive, custom, and technical assistance and studies incentives. Applications were available to the public on March 31, 2006. KEMA worked with APS Staff to complete the program Marketing and Communications Plan as required per Decision No. 68488 (see the details below). The APS Business Solutions Program Policy and Procedures Manual was also completed in draft format and will be a public document which provides more detailed documentation than is listed on the incentive applications.

Marketing and Communications

ACC Decision No. 68488 directed APS to develop a Marketing and Communications Plan for its non-residential programs. The Non-Residential Marketing and Communications plan, which includes a supplemental plan for schools, was submitted to the ACC staff for review on May 25, 2006. The plan describes activities that will be undertaken to create program awareness and encourage customer participation.

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DSM SEMI-ANNUAL PROGRESS REPORT FOR THE PERIOD: JANUARY THROUGH JUNE 2006

Initial implementation efforts focused on developing a base of materials and the infrastructure needed to run the program. On March 31, 2006 the program website went live with participation information and applications. This information includes a downloadable marketing flyer to highlight program attributes in an effective and concise format.

Internal coordination, training and program information dissemination began with distribution of a program summary throughout various APS departments and through including communications to the business center, division managers, key account managers and other personnel in direct contact with business customers. A set of protocols for providing program information was developed for the APS Business Solutions Program line. These protocols have been incorporated into call center procedures for consistent program messaging.

Trade Ally Seminars were held on June 6, 2006 and June 7, 2006 in Phoenix, where an overview of the program was presented to more than 100 contractors. A direct mailing, which included an invitation letter and promotional flyer was sent to recruit Trade Allies to support the program and incorporate energy efficiency recommendations into their sales efforts to customers. Further trade ally recruitment efforts included an advertisement in the Phoenix Business Journal on June 2, 2006, and direct outreach through phone calls. The Seminar offered Trade Allies an overview of the program process and incentives available, to provide them with a tool to promote the program to their customers while attempting to maintain consistent program implementation. Trade Allies also received a packet of informational materials and applications designed to ease the process of participating. The Trade Allies have been identified as a key marketing channel to reach the large existing market through energy efficiency equipment and service sales.

During this reporting period, multiple speaking engagements were accepted to increase program awareness and generate program participation. The outreach effort was promoted through industry organizations, Trade Ally associations and Community groups.

KEMA conducted one on one customer site visits as requested to promote the program in coordination with APS Account Representatives.

The program was highlighted in APS' Success Newsletter to business customers in the April and June issues. APS also issued a press release with program details in June that generated additional promotional opportunities.

APS and KEMA are also reviewing the opportunity to coordinate with the Department of Energy – Environmental Protection Agency (DOE/EPA) Energy Star Program. Efforts are focused on the identification of specific Energy Star programs that will bring value to and complement the APS Business Solutions Program and its participants.

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DSM SEMI-ANNUAL PROGRESS REPORT FOR THE PERIOD: JANUARY THROUGH JUNE 2006

PROGRAM: NON-RESIDENTIAL NEW CONSTRUCTION AND MAJOR RENOVATIONS

Description

This program includes three components: design assistance, custom efficiency, and prescriptive measures. Design assistance involves efforts to integrate energy-efficiency into a customer's design process to influence equipment/systems selection and specification as early in the design process as possible. Custom efficiency provides incentives for large non-residential customers and provides feasibility studies to assess the savings from complex applications. Prescriptive incentives are available for energy-efficiency improvements in lighting, HVAC, motors and refrigeration applications.

Program Modifications

The ACC ruling in Decision No. 68488 directed APS to modify the program from the way it was originally submitted. The ACC requirements were specific in that each individual end-use measure must be cost effective, and have a Total Resource Cost (TRC) of 1 or greater. In addition, none of the prescriptive incentives could be more than 75% of the Incremental Measure Cost (IMC). Based on these requirements, changes were made to the program to be in compliance with the Decision, and are summarized below.

The following measures were eliminated from the program because they did not meet the TRC as an individual measure; eight foot T8 lamps, and the 1.5 hp, 1200 rpm, TEFC motor. In addition, the threshold efficiency levels of various motors were increased to meet TRC requirements. High pressure sodium outdoor fixtures were eliminated from the prescriptive list of measures offered, as they already have a low incremental cost compared to various standard outdoor fixtures.

The unit definition was converted for lighting control measures from a per unit basis to a connected watts per square foot basis to better reflect the savings associated with controls in rooms of various size and various types of buildings.

Incentive adjustments were also made to various measure types to meet the seventy-five percent of incremental cost limit established in Decision No. 68488. The adjustments included a reduction in the incentive level for some motor sizes, water-cooled chillers and air-cooled chillers. In addition, an incentive cap of 75% was placed on the HVAC Tune-up and Quality install incentive per Staff's recommendation in the Decision.

KEMA, APS' Implementation Contractor (IC) for this program, identified some minor inconsistencies that were corrected to clarify and improve implementation of the program to customers. These changes include modifying the following:

- Qualifying efficiencies for water-cooled chillers were adjusted to be consistent with industry standards based on unit size; and
- Adjusting all CFL incentives to \$1.75 per lamp for both indoor and outdoor applications, as it would be difficult to confirm the location of each CFL installation as being installed in an indoor or outdoor fixture.

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DSM SEMI-ANNUAL PROGRESS REPORT FOR THE PERIOD: JANUARY THROUGH JUNE 2006

All of the modifications described above were discussed with the ACC Staff in a meeting held on June 15, 2006 and presented to the DSM Collaborative Working Group at a meeting on June 20, 2006.

Program Goals, Objectives and Savings Targets

- Promote integrated design and integrated analysis of alternative high-efficiency design packages through design assistance in new construction and major renovation applications.
- Assist the customer design team in examining alternative high-efficiency design packages through the provision of the design incentive.
- Encourage facility-specific efficiency improvements through custom incentives that are otherwise difficult to cover in a prescriptive program.
- Encourage the integrated systems approach to incorporating energy-efficiency improvements in new construction and major renovation projects.
- Promote integrated energy efficiency solutions where possible to capture interactive effects and synergistic savings opportunities
- Train commercial qualified contractors to meet APS' standards for installation and operation of high efficiency systems.

According to the ACC Staff's analysis of the new program – for three years, the energy efficiency savings expected to result from the Large New Construction Program could reduce annual peak demand by about 8.8 MW and 729,000 MWh over the life of the measures.

Programs Terminated

No programs were terminated during the first half of 2006.

Levels of Participation

The program was approved on February 23, 2006 in ACC Decision No. 68488, and new construction applications were available via the program website by April, 2006. A total of 34 new construction applications have been received to date, from 13 unique customers. At June 30, 2006, there were active applications representing \$161,223 of incentives for large new construction projects. Most of the applications received to date are pre-notifications requesting reservation of funds, rather than final applications requesting payment.

Incentive Status by Fund for Active Applications	Incentives Under Review	Incentives Reserved	Incentives Paid
Large New Construction – Prescriptive, Custom & Design Assistance	\$138,314	\$30,000	\$0
Large New Construction – Feasibility and Commissioning Studies	\$0	\$0	\$0
Total Large New Construction Funds	\$138,314	\$30,000	\$0

During this reporting period, there were no instances that incentives were paid for studies for which associated projects were not completed through the verification process.

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DSM SEMI-ANNUAL PROGRESS REPORT FOR THE PERIOD: JANUARY THROUGH JUNE 2006

Evaluation and Monitoring Activities and Results

On April 12, 2006 in Decision No. 68648, the ACC approved funding for Measurement, Evaluation, and Research (MER) activities to assist in verifying the impact and cost effectiveness of APS' DSM programs. APS issued an RFP and selected Summit Blue Consulting to conduct program MER activities. Summit Blue Consulting is currently working with APS to develop program research plans. The program research plans will be submitted for staff review when completed.

kW and kWh Savings

The following table reflects the total energy demand and saving goal and achievements to date for the Large New Construction. Note that we are differentiating between what has been "reserved" for customers through the pre-notification process versus what has been completed and "paid" as a result of the final application being approved. The reserved savings are provided for information only at this time. Only actual savings from projects that are completed and incentives paid will be counted in this report.

kW Reserved	Annual kWh Reserved	Lifetime kWh Reserved	kW Paid	Annual kWh Paid	Lifetime kWh Paid
106	461,200	8,301,600	0	0	0

Benefits and Net Benefits/Performance Incentive Calculation

The benefits and net benefits are provided in Table 2. The details for the Performance Incentive calculation are provided in Table 3.

Problems Encountered and Proposed Solutions

Large New Construction projects often have a long lead / lag-time between the design phase, start of construction and complete build-out of a project. There is often an 18 month or longer lead time with new construction projects, and this could affect the timing of savings results and incentives paid in this program. APS will monitor this situation and address this issue in the March 2007 filing for non-residential programs.

Costs Incurred

Costs incurred during the first half of 2006 are listed below:

ACC Program	Rebates & Incentives	Training & Technical Assistance	Consumer Education	Program Implement *	Program Marketing	Planning & Admin	Program Total Cost
Large Non Res New Const	-	-	\$108	\$279,480	\$448	\$69,629	\$349,665

*The following table provides a more detailed breakdown of the IC costs, which are included in the Program Implement column above.

ACC Program	IC - Implementation	IC - Marketing	IC - Education	IC - Technical Services	IC - Total Cost
Large Non Res New Construction	\$132,391	\$73,736	\$21,678	\$51,674	\$279,480

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DSM SEMI-ANNUAL PROGRESS REPORT FOR THE PERIOD: JANUARY THROUGH JUNE 2006

Findings from all Research Projects

APS is currently completing work on a DSM Baseline and Market Potential study that was approved in Decision No. 67816. A final report is expected to be completed in the second half of 2006.

Other Significant Information

APS hired KEMA to implement the Small Non-Residential, Large Existing Facilities, New Construction & Major Renovation and Schools Programs. The Implementation Contractor (IC) began program activities on March 1, 2006. All of the Non-Residential Programs are being marketed under the name "Business Solutions."

Start Up Activities

In March through June 2006, the IC focused on developing program infrastructure and other start-up activities including establishing a toll-free telephone number, e-mail address, mailing address and a program website.

The IC activities also included developing incentive applications for the prescriptive, custom, and technical assistance and studies incentives. Applications were available to the public on March 31, 2006. KEMA worked with APS Staff to complete the program Marketing and Communications Plan as required per Decision No. 68488 (see the details below). The APS Business Solutions Program Policy and Procedures Manual was also completed in draft format and will be a public document which provides more detailed documentation than is listed on the incentive applications.

Marketing and Communications

ACC Decision No. 68488 directed APS to develop a Marketing and Communications Plan for its non-residential programs. The Non-Residential Marketing and Communications plan, which includes a supplemental plan for schools, was submitted to the ACC staff for review on May 25, 2006. The plan describes activities that will be undertaken to create program awareness and encourage customer participation.

Initial implementation efforts focused on developing a base of materials and infrastructure needed to run the program. On March 31, 2006 the program website went live with participation information and applications. This information includes a downloadable marketing flyer to highlight program attributes in an effective and concise format.

Internal coordination, training and program information dissemination began with distribution of a program summary throughout various APS departments and through including communications to the business center, division managers, key account managers and other personnel in direct contact with business customers. A set of protocols for providing program information was developed for the APS Business Solutions Program line. These protocols have been incorporated into call center procedures for consistent program messaging.

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DSM SEMI-ANNUAL PROGRESS REPORT FOR THE PERIOD: JANUARY THROUGH JUNE 2006

Trade Ally Seminars were held on June 6, 2006 and June 7, 2006 in Phoenix, where an overview of the program was presented to more than 100 contractors. A direct mailing, which included an invitation letter and promotional flyer was sent to recruit Trade Allies to support the program and incorporate energy efficiency recommendations into their sales efforts to customers. Further trade ally recruitment efforts included an advertisement in the Phoenix Business Journal on June 2, 2006, and direct outreach through phone calls. The Seminar offered Trade Allies an overview of the program process and incentives available, to provide them with a tool to promote the program to their customers while attempting to maintain consistent program implementation. Trade Allies also received a packet of informational materials and applications designed to ease the process of participating. The Trade Allies have been identified as a key marketing channel to reach the new construction market through energy efficiency equipment and service sales. These contractors and architects and engineers are also often involved in the design and build phase with customer projects. So, educating them about the program is key to getting their cooperation to encourage customers to implement energy efficiency into the design and build of new construction and major renovation projects.

During this reporting period, multiple speaking engagements were accepted to increase program awareness and generate program participation. The outreach effort was promoted through industry organizations, trade ally associations and community groups.

KEMA conducted one on one customer site visits as requested to promote the program in coordination with APS Account Representatives.

The program was highlighted in APS' Success Newsletter to business customers in the April and June issues. APS also issued a press release with program details in June that generated additional promotional opportunities.

APS and KEMA are also reviewing the opportunity to coordinate with the Department of Energy – Environmental Protection Agency (DOE/EPA) Energy Star Program. Efforts are focused on the identification of specific Energy Star programs that will bring value to and complement the APS Business Solutions Program and its participants.

Other new construction marketing activities will focus on new construction projects seeking the Leadership in Energy & Environmental Design (LEED) certification, targeting owners and developers of specific types of commercial office buildings (class A & B facilities) and architects and engineers active in the new construction market.

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DSM SEMI-ANNUAL PROGRESS REPORT FOR THE PERIOD: JANUARY THROUGH JUNE 2006

PROGRAM: SMALL NON-RESIDENTIAL DSM PROGRAM

Description

The Small Non-Residential Program provides prescriptive incentives for small non-residential customers for energy-efficiency improvements in lighting, HVAC ("heating, ventilation, and air conditioning"), motors, and refrigeration applications through a simple and straightforward mechanism for program participation. In addition, the program provides educational and promotional materials designed to assist building owners and lease-holders in making decisions to improve the energy-efficiency of their facilities.

Program Modifications

The ACC ruling in Decision No. 68488 directed APS to modify the program from the way it was originally submitted. The ACC requirements were specific in that each individual end-use measure must be cost effective, and have a Total Resource Cost (TRC) of 1 or greater. In addition, none of the prescriptive incentives could be more than 75% of the Incremental Measure Cost (IMC). Based on these requirements, changes were made to the program to be in compliance with the Decision, and are summarized below.

The following measures were eliminated from the program because they did not meet the TRC as an individual measure; eight foot T8 lamps, and the 1.5 hp, 1200 rpm, TEFC motor. In addition, the threshold efficiency levels of various motors were increased to meet TRC requirements. High pressure sodium outdoor fixtures were eliminated from the prescriptive list of measures offered, as they already have a low incremental cost compared to various standard outdoor fixtures.

The unit definition was converted for lighting control measures from a per unit basis to a connected watts per square foot basis to better reflect the savings associated with controls in rooms of various size and various types of buildings.

Incentive adjustments were also made to various measure types to meet the seventy-five percent of incremental cost limit established in Decision No. 68488. The adjustments included a reduction in the incentive level for some motor sizes, water-cooled chillers and air-cooled chillers. In addition, an incentive cap of 75% was placed on the HVAC Testing and Repair, and Quality Install incentive per Staff's recommendation in the Decision.

KEMA, APS' Implementation Contractor (IC) for this program, identified some minor inconsistencies that were corrected to clarify and improve implementation of the program to customers. These changes include modifying the following:

- Qualifying efficiencies for water-cooled chillers were adjusted to be consistent with industry standards based on unit size; and
- Adjusting all CFL incentives to \$1.75 per lamp for both indoor and outdoor applications, as it would be difficult to confirm the location of each CFL installation as being installed in an indoor or outdoor fixture.

All of the modifications described above were discussed with the ACC Staff in a meeting held on June 15, 2006 and presented to the DSM Collaborative Working Group at a meeting on June 20, 2006.

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DSM SEMI-ANNUAL PROGRESS REPORT FOR THE PERIOD: JANUARY THROUGH JUNE 2006

Program Goals, Objectives and Savings Targets

- Provide Demand Side Management opportunities for small non-residential customers;
- Promote the installation of high-efficiency lighting, packaged HVAC equipment, motors, and refrigeration systems;
- Increase the availability of trained and qualified contractors and service technicians who are knowledgeable about systems performance issues, proper testing, operation and commissioning techniques, and the importance of energy and comfort conditioning benefits of systems that are properly installed and operated;
- Promote cross-training and energy-efficiency assessment and referral opportunities among HVAC and lighting contractors.

According to the ACC Staff's analysis of the new program – for three years, the energy efficiency savings expected to result from the Small Non-Residential Program could reduce annual peak demand by about 6.5 MW and 571,000 MWh over the life of the measures.

Programs Terminated

No programs were terminated during the first half of 2006.

Levels of Participation

The ACC approved this program on February 23, 2006, and applications were available via the program website by March 31, 2006. Small commercial participation in the program has been low in the initial roll-out of the program. As of June 30th, \$24,790 of incentives for small businesses had been requested. A total of 3 applications have been received from 3 unique customers.

Incentive Status by Fund for Active Applications	Incentives Under Review	Incentives Reserved	Incentives Paid
Small Business	\$24,790	\$100	\$0

Evaluation and Monitoring Activities and Results

On April 12, 2006 in Decision No. 68648, the ACC approved funding for Measurement, Evaluation, and Research (MER) activities to assist in verifying the impact and cost effectiveness of APS' DSM programs. APS issued an RFP and selected Summit Blue Consulting to conduct program MER activities. Summit Blue Consulting is currently working with APS to develop program research plans. The program research plans will be submitted for staff review when completed.

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DSM SEMI-ANNUAL PROGRESS REPORT FOR THE PERIOD: JANUARY THROUGH JUNE 2006

kW and kWh Savings

The following table reflects the total energy demand and saving goal and achievements to date for Small Businesses. Note that we are differentiating between what has been "reserved" for customers through the pre-notification process versus what has been completed and "paid" as a result of the final application being approved. The reserved savings are provided for information only at this time. Only actual savings from projects that are completed and incentives paid will be counted in this report.

kW Reserved	Annual kWh Reserved	Lifetime kWh Reserved	kW Paid	Annual kWh Paid	Lifetime kWh Paid
0	4,847	53,317	0	0	0

Benefits and Net Benefits/Performance Incentive Calculation

The benefits and net benefits are provided in Table 2. The details for the Performance incentive calculation are provided in Table 3.

Problems Encountered and Proposed Solutions

- Low initial participation from small customers: Small businesses are frequently hard to reach through traditional approaches to promoting energy efficiency programs. However, this program is being promoted to Trade Allies, which includes contractors for lighting and HVAC equipment installation that often service the small business market segment. This marketing channel will be worked more aggressively and is expected to be useful in reaching the small business customers targeted by this program.
- KEMA has identified that the incentive levels currently being offered are lower than those of many other successful energy efficiency programs targeted to small businesses For example:
 - The EZ-Turnkey Program offered by San Diego Gas and Electric provided incentives equal to 100% of the full retrofit costs to their small business facilities with peak demand below 20 kW.
 - The B.E.S.T. Program implemented by KEMA Inc. in various cities throughout California paid between 75% and 100% of the full retrofit costs for small business facilities with peak demand below 100 kW.
 - The Small Business Energy Advantage Program offered by Northeast Utilities pays 50% of the lighting retrofit costs and 100% of non lighting retrofits costs. The program also provides a financing option for the portion of the lighting retrofit project to be paid by the small business.
 - The Small Business Solutions Program offered by NSTAR offers a free energy audit to identify energy saving opportunities, and will also pay up to 80% of the total cost for retrofitting qualifying lighting and mechanical systems to customers whose average monthly demand is 100 kW or less.
 - Massachusetts Electric and Nantucket Electric provide free audits and up to 75% of the cost of installation for energy saving improvements through their Small Business Energy Efficiency Program, which is open to customers with an average demand of 200 kW or less.
- Participation levels will be watched closely to ascertain whether the current incentive levels are sufficient to move this market, and if not, to identify potential solutions.

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Costs Incurred

Costs incurred during the first half of 2006 are listed below:

ACC Program	Rebates & Incentives	Training & Technical Assistance	Consumer Education	Program Implement*	Program Marketing	Planning & Admin	Program Total Cost
Small Business	-	-	\$80	\$152,723	\$416	\$35,798	\$189,017

*The following table provides a more detailed breakdown of the IC costs, which are included in the Program Implement column above.

ACC Program	IC - Implementation	IC - Marketing	IC - Education	IC - Technical Services	IC - Total Cost
Small Business	\$80,185	\$48,636	\$12,099	\$11,803	\$152,723

Findings from all Research Projects

APS is currently completing work on a DSM Baseline and Market Potential study that was approved in Decision No. 67816. A final report is expected to be completed in the second half of 2006.

Other Significant Information

APS hired KEMA to implement the Small Non-Residential, Large Existing Facilities, New Construction & Major Renovation and Schools Programs. The Implementation Contractor (IC) began program activities on March 1, 2006. All of the Non-Residential Programs are being marketed under the name "Business Solutions."

Start Up Activities

In March through June 2006, the IC focused on developing program infrastructure and other start-up activities including establishing a toll-free telephone number, e-mail address, mailing address and a program website.

The IC activities also included developing incentive applications for the prescriptive measures available in the Small Non-Residential Program. Applications were available to the public on March 31, 2006. KEMA worked with APS Staff to complete the program Marketing and Communications Plan as required per Decision No. 68488 (see the details below). The APS Business Solutions Program Policy and Procedures Manual was also completed in draft format and will be a public document which provides more detailed documentation than is listed on the incentive applications.

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Marketing and Communications

ACC Decision No. 68488 directed APS to develop a Marketing and Communications Plan for its non-residential programs. The Non-Residential Marketing and Communications plan, which includes a supplemental plan for schools, was submitted to the ACC staff for review on May 25, 2006. The plan describes activities that will be undertaken to create program awareness and encourage customer participation.

Initial implementation efforts focused on developing a base of materials and infrastructure needed to run the program. On March 31, 2006 the program website went live with participation information and applications. This information includes a downloadable marketing flyer to highlight program attributes in an effective and concise format.

Internal coordination, training and program information dissemination began with distribution of a program summary throughout various APS departments and through including communications to the business center, division managers, key account managers and other personnel in direct contact with business customers. A set of protocols for providing program information was developed for the APS Business Solutions Program line. These protocols have been incorporated into call center procedures for consistent program messaging.

Trade Ally Seminars were held on June 6, 2006 and June 7, 2006 in Phoenix, where an overview of the program was presented to more than 100 contractors. A direct mailing, which included an invitation letter and promotional flyer was sent to recruit Trade Allies to support the program and incorporate energy efficiency recommendations into their sales efforts to customers. Further trade ally recruitment efforts included an advertisement in the Phoenix Business Journal on June 2, 2006, and direct outreach through phone calls. The Seminar offered Trade Allies an overview of the program process and incentives available, to provide them with a tool to promote the program to their customers while attempting to maintain consistent program implementation. Trade Allies also received a packet of informational materials and applications designed to ease the process of participating. Lighting and HVAC contractors have been identified as a key marketing channel to reach the small non-residential market through energy efficiency equipment and service sales. Educating these contractors about the program is key to getting their cooperation to encourage customers to implement energy efficiency equipment upgrades into their projects.

During this reporting period, multiple speaking engagements were accepted to increase program awareness and generate program participation. The outreach effort was promoted through industry organizations, Trade Ally associations and Community groups.

The program was highlighted in APS' Success Newsletter to business customers in the April and June issues. APS also issued a press release with program details in June that generated additional promotional opportunities.

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Marketing efforts in the second half of 2006 will focus on reaching small business customers through promotional efforts focused on cities, associations, chambers of commerce and recruitment of trade allies to market directly to this segment. This multi-channel approach was described in detail in the Marketing and Communication Plan submitted on May 25th.

APS and KEMA are also reviewing the opportunity to coordinate with the Department of Energy – Environmental Protection Agency (DOE/EPA) Energy Star Program. Efforts are focused on the identification of specific Energy Star programs that will bring value to and complement the APS Business Solutions Program and its participants.

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PROGRAM: BUILDING OPERATOR TRAINING PROGRAM ("BOT")

Description

The Building Operator Training Program (BOT) provides training incentives for building operators (managers) and facility maintenance technicians on energy-efficient building operating and maintenance practices.

Program training is provided through a cooperative effort with the Electric League of Arizona ("ELA") in support of their "Institute for Facility Management Education" program, which includes industry expert training targeted to reach facility managers and building operators of medium to large commercial and industrial facilities. The ELA issues a certificate of completion for participants that successfully complete Facility Maintenance Technician Training and Building Operator Training.

Program Modifications

No modifications to the approved programs for the reporting period have been made.

Program Goals, Objectives and Savings Targets

- Promote operation and maintenance practices that increase the energy-efficiency of commercial and industrial facilities.
- Help participants understand general utility rate concepts and energy consumption.
- Institute a preventative maintenance program in their facility, which includes written maintenance logs that must be completed periodically. Include checks for efficient equipment operation (i.e., economizer/dampers for leaks, coil cleaning, air filter cleaning, system balancing, controls, etc.).
- Learn how to perform an energy audit of their facility and identify savings opportunities
- Learn to create reports for management that justify energy-efficiency capital expenses intended to produce O&M savings.
- Improve purchasing requirements by knowing what to look for when repairing or replacing equipment, and how to calculate the payback of energy savings associated with purchase options; and
- Provide a mechanism for channeling participation to the APS Business Solutions Program.

According to the ACC Staff's analysis of the new program – for three years, the energy efficiency savings expected to result from the BOT Program could reduce annual peak demand by about 6.43 MW and 81,000 MWh over the life of the measures.

Programs Terminated

No programs were terminated.

Levels of Participation

The BOT Program had nine APS customer participants in the Spring 2006 session. All nine participants successfully received a passing grade from the Electric League of Arizona (ELA) and received their BOT Certificate of completion. The training subsidy paid to the ELA to cover the tuition incentive for APS customer participation totaled \$5,377.50 or \$597.50 per APS customer.

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**DSM SEMI-ANNUAL PROGRESS REPORT FOR THE PERIOD:
JANUARY THROUGH JUNE 2006**

Evaluation and Monitoring Activities and Results

On April 12, 2006 in Decision No. 68648, the ACC approved funding for Measurement, Evaluation, and Research (MER) activities to assist in verifying the impact and cost effectiveness of APS' DSM programs. APS issued an RFP and selected Summit Blue Consulting to conduct program MER activities. Summit Blue Consulting is currently working with APS to develop program research plans. The program research plans will be submitted for staff review in accordance with Decision No. 68648.

kW and kWh Savings

Participants	Est. Measure Life (yrs)	kWh Savings per Year*	Lifetime kWh Savings	kW Demand Savings *
9	15	66,387	995,809	8.60

* Annual energy and demand savings per participant approved equals 6,718 kWh and .87 kW. The final savings are adjusted for line losses (9.8%).

Benefits and Net Benefits/Performance Incentive Calculation

The benefits and net benefits are provided in Table 2. The details for the Performance Incentive calculation are provided in Table 3.

Problems Encountered and Proposed Solutions

No problems were encountered during this reporting period.

Costs Incurred

Costs incurred during the first half of 2006 are listed below:

ACC Program	Rebates & Incentives	Training & Technical Assistance	Consumer Education	Program Implement	Program Marketing	Planning & Admin	Program Total Cost
Building Operator Training	-	\$5,378	\$0	\$174	\$0	\$392	\$5,944

Findings from all Research Projects

APS is currently completing work on a DSM Baseline and Market Potential study that was approved in Decision No. 67816. A final report is expected to be completed in the second half of 2006.

Other Significant Information

All of the Non-Residential Programs are being marketed under the name "Business Solutions."

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PROGRAM: ENERGY INFORMATION SERVICES (EIS) PROGRAM

Description

The EIS Program will provide monthly energy use information to large non-residential customers through an automated service maintained by a third party energy management information systems provider. This program provides an energy information service at a reduced fee to large commercial, industrial and institutional customers. At a minimum, the customer will receive monthly usage and demand reports that could be utilized to improve or monitor energy usage patterns, reduce energy use, reduce demands during on-peak periods and better manage their overall energy operations.

Program Modifications

No program modifications were made during this reporting period.

Program Goals, Objectives and Savings Targets

- Provide monthly energy usage information to large non-residential customers;
- Identify strategies to lower energy cost by reducing energy usage and demand;
- Educate EIS program participants about utility rate concepts and how managing or reducing their energy consumption through energy-efficiency measures and operational practices can reduce their energy expenses.
- Teach participants how to download billing history information and create spreadsheets to chart and graph their energy use, as well as identify consumption trends and savings opportunities.
- Educate EIS participants about creating reports for management that justify energy-efficient capital expenses intended to produce operations and maintenance ("O&M") savings; and
- Facilitate analysis of what-if scenarios to help large facility managers assess the benefits of capital improvements or operating adjustments to improve energy-efficiency.

According to the ACC Staff's analysis of the new program – for three years, the energy efficiency savings expected to result from the EIS Program could reduce annual peak demand by about 3.57 MW and 45,000 MWh over the life of the measures.

Programs Terminated

No programs were terminated during the first half of 2006.

Levels of Participation

No participation to report, as EIS Implementation Contractor had not been hired as of June 30, 2006.

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Evaluation and Monitoring Activities and Results

On April 12, 2006 in Decision No. 68648, the ACC approved funding for Measurement, Evaluation, and Research (MER) activities to assist in verifying the impact and cost effectiveness of APS' DSM programs. APS issued an RFP and selected Summit Blue Consulting to conduct program MER activities. Summit Blue Consulting is currently working with APS to develop program research plans. The program research plans will be submitted for staff review in accordance with Decision No. 68648.

kW and kWh Savings

No savings to report during this period.

Benefits and Net Benefits/Performance Incentive Calculation

The benefits and net benefits are provided in Table 2. The details for the Performance Incentive calculation are provided in Table 3.

Problems Encountered and Proposed Solutions

No problems were encountered during this reporting period.

Costs Incurred

Costs incurred for the EIS Program during the first half of 2006 were \$1,230 for program administration expenses.

Findings from all Research Projects

APS is currently completing work on a DSM Baseline and Market Potential study that was approved in Decision No. 67816. A final report is expected to be completed in the second half of 2006.

Other Significant Information

APS will issue the RFP for EIS program implementation and hire the Implementation Contractor during the last half of 2006. The program is expected to be rolled-out to customers soon after the IC is hired. All of the Non-Residential Programs are being marketed under the name "Business Solutions."

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PROGRAM: SCHOOLS PROGRAM

Description

The Schools program includes a set-aside budget for schools and provides assistance in reducing the energy used in school buildings, including public, private and charter schools. The incentives available for schools include the same DSM measures that are available for all non-residential customers.

Program Modifications

In Decision No. 68488, the ACC directed that Schools be allowed to participate in all of the other non-residential programs. To facilitate program implementation, APS has integrated the schools offering with the Large Existing, New Construction and Small Business programs and the same eligibility rules apply to schools. When an incentive application is received from a school district and deemed eligible, funding is first allocated from the Schools budget, subject to the \$25,000 or \$15/student cap. Any additional funding required to cover the application is then allocated from the appropriate Large Existing, New Construction or Small Business Program budget.

Other program modifications were made as required in the Decision. These changes were specific in that each individual end-use measure must be cost effective, and have a Total Resource Cost (TRC) of 1 or greater. In addition, none of the prescriptive incentives could be more than 75% of the Incremental Measure Cost (IMC). These program changes were made to be in compliance with the Decision, and are summarized below.

The following measures were eliminated from the program because they did not meet the TRC as an individual measure; eight foot T8 lamps, and the 1.5 hp, 1200 rpm, TEFC motor. In addition, the threshold efficiency levels of various motors were increased to meet TRC requirements. High pressure sodium outdoor fixtures were eliminated from the prescriptive list of measures offered, as they already have a low incremental cost compared to various standard outdoor fixtures.

The unit definition was converted for lighting control measures from a per unit basis to a connected watts per square foot basis to better reflect the savings associated with controls in rooms of various size and various types of buildings.

Incentive adjustments were also made to various measure types to meet the seventy-five percent of incremental cost limit established in Decision No. 68488. The adjustments included a reduction in the incentive level for some motor sizes, water-cooled chillers and air-cooled chillers. In addition, an incentive cap of 75% was placed on the HVAC Testing and Repair, and Quality Install incentive per Staff's recommendation in the Decision.

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KEMA, APS' Implementation Contractor (IC) for this program, identified some minor inconsistencies that were corrected to clarify and improve implementation of the program to customers. These changes include modifying the following:

- Qualifying efficiencies for water-cooled chillers were adjusted to be consistent with industry standards based on unit size; and
- Adjusting all CFL incentives to \$1.75 per lamp for both indoor and outdoor applications, as it would be difficult to confirm the location of each CFL installation as being installed in an indoor or outdoor fixture.

All of the modifications described above were discussed with the ACC Staff in a meeting held on June 15, 2006 and presented to the DSM Collaborative Working Group at a meeting on June 20, 2006.

Program Goals, Objectives and Savings Targets

- Maximize the energy savings that can be attained with available DSM funds by providing schools incentives to upgrade lighting, HVAC, and refrigeration systems
- Provide educational and training materials to aid schools in other energy conservation projects.
- Provide design assistance, commissioning and energy feasibility incentives to aid schools in identifying energy savings opportunities.
- Provide incentives for other cost effective DSM projects by allowing schools to participate in any Non-Residential DSM Program.

According to the ACC Staff's analysis of the new program – for three years, the energy efficiency savings expected to result from the lighting component of the Schools Program alone could reduce annual peak demand by about 6.37 MW and 178,000 MWh over the life of the measures. Staff also indicated to the extent that other cost-effective measures would be undertaken by Schools, additional savings could accrue.

Programs Terminated

No programs were terminated during the first half of 2006.

Levels of Participation

The program was approved on February 23, 2006, and applications were available via the program website by March 31, 2006. A supplemental schools information sheet is used to facilitate additional reporting requirements for participating schools.

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During this reporting period, \$68,750 of schools projects were requested, 6% of the total program budget for schools. A total of 4 applications from schools have been received, from 3 unique customers. Most of the applications received to date are pre-notifications requesting reservation of funds, rather than final applications requesting payment. The self-reported size of the school entity, based on the number of students as submitted on the application is:

Name of School	Project Type	Size	No. of Students in District
Paradise Valley Unified SD #69	Prescriptive Measures – Retrofit	>200 kW	34,226
Gilbert Unified SD	Prescriptive Measures – Retrofit	>200 kW	37,539
Wilson Elementary Schools	Prescriptive & Custom Measures – Retrofit	>200 kW	1,250

When an incentive application is received from a school entity, funding is first allocated from the Schools budget, subject to the appropriate caps. Any additional funding required to cover the application is then allocated from the appropriate Large Existing, New Construction or Small Business fund.

Incentive Status by Fund for Active Applications	Incentives Under Review	Incentives Reserved	Incentives Paid
Schools Budget – Prescriptive & Custom	\$25,000	\$43,750	\$0
Schools Budget – Feasibility, Commissioning and Retro-commissioning Studies	\$0	\$0	\$0
Total School Funds	\$25,000	\$43,750	\$0
School Summary			
Schools – School Funds	\$25,000	\$43,750	\$0
Schools – Large Existing Funds	\$80,270	\$72,553	\$0
Schools – New Construction Funds	\$0	\$0	\$0
Schools – Small Business Funds	\$0	\$0	\$0
Total Allocated for Schools	\$105,270	\$116,303	\$0

During this reporting period, there were no instances that incentives were paid for studies for which associated projects were not completed through the verification process.

Evaluation and Monitoring Activities and Results

On April 12, 2006 in Decision No. 68648, the ACC approved funding for Measurement, Evaluation, and Research (MER) activities to assist in verifying the impact and cost effectiveness of APS' DSM programs. APS issued an RFP and selected Summit Blue Consulting to conduct program MER activities. Summit Blue Consulting is currently working with APS to develop program research plans. The program research plans will be submitted for staff review when completed.

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kW and kWh Savings

The following table reflects the total energy demand and saving goal and achievements to date for schools. The reserved savings are provided for information purposes only at this time. Only actual savings from projects that are completed and incentives paid will be counted in this report.

	kW Reserved	Annual kWh Reserved	Lifetime kWh Reserved	kW Paid	Annual kWh Paid	Lifetime kWh Paid
Schools – School Funds	233	1,012,010	17,582,200	0	0	0
Schools – Large Existing Funds	371	1,612,842	28,961,264	0	0	0
Schools – New Construction Funds	0	0	0	0	0	0
Schools – Small Business Funds	0	0	0	0	0	0
Total Attributable to Schools	604	2,624,852	46,543,464	0	0	0

Benefits and Net Benefits/Performance Incentive Calculation

The benefits and net benefits are provided in Table 2. The details for the Performance Incentive calculation are provided in Table 3.

Problems Encountered and Proposed Solutions

No problems were encountered during this reporting period.

Costs Incurred

Costs incurred during the first half of 2006 are listed below:

ACC Program	Rebates & Incentives	Training & Technical Assistance	Consumer Education	Program Implement*	Program Marketing	Planning & Admin	Program Total Cost
Schools	-	-	\$8	\$33,084	\$25	\$12,741	\$45,858

* The following details the IC costs, which are included in the Program Implement column above.

ACC Program	Implementation	Marketing	Education	Technical Services	Program Total Cost
Schools	\$13,689	\$11,880	\$2,340	\$5,175	\$33,084

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Findings from all Research Projects

APS is currently completing work on a DSM Baseline and Market Potential study that was approved in Decision No. 67816. A final report is expected to be completed in the second half of 2006.

Other Significant Information

Decision No. 68488 directed APS to allow schools to participate in any other non-residential DSM program at any time. APS hired KEMA to implement the Schools Program since KEMA has an agreement with the Arizona Department of Commerce Energy Office to provide additional outreach and education to all school districts with a focus on outreach to rural areas. The Implementation Contractor (IC) began program activities on March 1, 2006 for all Non-Residential DSM Programs. All of the Non-Residential Programs are being marketed under the name "Business Solutions."

Start Up Activities

In March through June 2006, the IC focused on developing program infrastructure and other start-up activities including establishing a toll-free telephone number, e-mail address, mailing address and a program website.

The IC activities also included developing incentive applications for the prescriptive measures available in the Small Non-Residential Program. Applications were available to the public on March 31, 2006. KEMA worked with APS Staff to complete the program Marketing and Communications Plan as required per Decision No. 68488 (see the details below). The APS Business Solutions Program Policy and Procedures Manual was also completed in draft format and will be a public document which provides more detailed documentation than is listed on the incentive applications.

Marketing and Communications

The ACC ruling directed APS to develop a Marketing and Communications Plan. The Marketing and Communications plan for the program with a supplemental schools plan was submitted to the ACC for their review on May 25, 2006. The plan describes activities that will be undertaken to create program awareness and encourage customer participation.

Initial efforts focused on developing a base of materials and infrastructure to provide easily accessible program information. On March 31, 2006 the program website went live with participation information and applications. A downloadable flyer was developed as a one page summary sheet then expanded to a two-page program highlight sheet.

The Arizona Department of Commerce Energy Office will provide outreach and education to all school districts with a focus on rural areas. The Schools sub-committee in the Collaborative working group identified the Energy Office as a key marketing channel to reach the school districts to inform and educate them about APS' DSM Programs. The Energy Office already had an established data base of Arizona school districts with contact information and a policy of meeting at least once per year with each district. This contact information and scheduled meeting provides the opportunity to promote the APS DSM Programs and educate schools about the benefits of participating. The Energy Office and

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KEMA Representatives will also be attending various school board association meetings spaced throughout the year and use this as an opportunity to promote the program. Schools Program Activities in this Reporting Period include:

Presentations to Schools

April 6 – APS Business Solutions Program presentation made to the School Board and Management staff of the Osborn Unified School District at their monthly meeting -14 attendees.

Energy Office Contacts with School Associations

April 14th – Provided APS Business Solutions Program information to the Arizona Association of School Business Officials, the Arizona School Administrator's Association, the Arizona Department of Education and the Greater Phoenix Purchasing Consortium of Schools.

On April 21 - met with the Arizona School Facilities Board (ASFB). As a result of the meeting, ASFB placed an announcement of the APS Business Solutions Program on their website as a lead article to promote the program. It can be found at:

<http://www.sfb.state.az.us/sfb/sfbweb/sfbaays/formDoc.asp?theType=0§ion=16&Go=Go>

Late April – An announcement of the APS Program was placed in the Arizona Department of Commerce Daily News Clips. These clips are sent daily to an email list with over 2,600 contacts.

During the week of May 8th – Contacted and sent announcements to all of the County School Superintendent's Offices that have school districts served by APS to announce the APS Business Solutions Program. (10 counties)

May 11th – Attended the Grand Opening of the LEED Silver rated Desert Edge High School in the Agua Fria Union High School District and met with school officials to promote the APS Business Solutions Program.

May 22 – Contacted and emailed APS Business Solutions Program information to the Arizona Charter School Association.

May monthly meeting of the Phoenix Chapter of Illuminating Engineering Society (IES) – Presented APS Business Solutions Program on May 23rd to K-12 schools personnel and architects that design new schools who attended. Two architects were in attendance, with a total of 33 attendees.

Late May – Sent notices to all school architect contacts and school HVAC and Lighting contractors to announce the June 6 & 7 APS Contractor and Vendor seminar in Phoenix.

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DSM SEMI-ANNUAL PROGRESS REPORT FOR THE PERIOD: JANUARY THROUGH JUNE 2006

PORTFOLIO PLANNING: DSM MEASUREMENT, EVALUATION AND RESEARCH

Description

In the DSM Program Portfolio Plan filed on July 1, 2005, APS proposed up to \$1.3 million per year to conduct measurement, evaluation and research of DSM programs. These activities will identify current baseline efficiency levels and the market potential of DSM measures, perform process evaluation to indicate how well programs are working to achieve objectives, verify that energy-efficient measure are installed as expected, track savings measurement to monitor the actual program savings that are achieved, and research activities to identify additional opportunities for energy efficiency. The approach for measurement and evaluation of the DSM programs will be to integrate data collection and tracking activities directly into the program implementation process.

Program Modifications

Not applicable.

Program Goals, Objectives and Savings Targets

Not applicable.

Programs Terminated

Not applicable.

Levels of Participation

Not applicable.

Evaluation and Monitoring Activities and Results

The Baseline and Market Potential Study currently being conducted by ICF Consulting was approximately 90% complete as of June 30, 2006 and is estimated to be completed in the second half of 2006.

kW and kWh Savings

Not applicable.

Benefits and net benefits, both in dollars, as well as Performance Incentive calculation

Not applicable.

Problems Encountered and Proposed Solutions

Not applicable.

Costs Incurred

Total costs incurred for MER during this reporting period were \$326,510. These costs were comprised of \$283,167 for the Baseline and Market Potential Study and \$43,343 for the balance of MER activities.

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Findings from all Research Projects

The Baseline and Market Potential Study is expected to be completed in the second half of 2006.

Other Significant Information

In Decision No. 68648, the ACC approved the MER program plan. At the end of the June 2006 reporting period, APS was in the final selection process for the MER contractor.



Low Income Assistance

APS Summer Preparedness Forum
Working Together to Help Our Most Vulnerable Citizens
May 15th, 2006

0

Welcome

- APS' Energy Support Program E-3
- Medical Care Equipment Program E-4
- Energy Wise Low Income Weatherization Program
- Suggestions & Concerns



What is the APS Energy Support (E-3) Program?

- Special electric rate for our low-income customers.
- E-3 rate offers a discount up to 40% off the cost of electricity.
- Insulates customer from Power Supply Adjustor (PSA's)
- Exempt from latest 14% PSA increase.



E-3 Qualifications

- Income Based – Determined by DES and based on Federal Poverty Guidelines.
- Changes every July.
- Household Income – 150% of Federal Poverty Guideline.



Monthly Income Guidelines

# of People	Maximum	# of People	Maximum
1 Person	\$1,197	6 People	\$3,234
2 People	\$1,604	7 People	\$3,642
3 People	\$2,012	8 People	\$4,049
4 People	\$2,420	9 People	\$4,457
5 People	\$2,826	10 People	\$4,865

For each additional household member, add \$408. Income is defined as total income (before taxes) for all household members.

Effective July 1, 2005



APS Energy Support (E-3) Program Discounts

Monthly Energy Use	Basic Residential Appliances:
400 kWh or less	Evaporative Cooler
401 kWh – 800 kWh	Water Heater
801 kWh – 1,200 kWh	Coffee Maker
Over 1,200 kWh	Microwave
	Range
	Toaster Oven
	Refrigerator
	4 lights
	Radio
	TV
	VCR
	Ceiling Fan



- How**
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 - Call APS
 - Or State
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APS Energy Support Program

To qualify for discounts under the APS Energy Support Program (E-3), all of the following statements must apply to you.

1. I am an APS customer and the APS bill is in my name.
 2. My household income is at or below the income level in the listing below. (Be sure to complete your household's total gross monthly income in the box below.)

Household Size	Monthly Income Level	Household Size	Monthly Income Level
1 Person	1,197	8 People	3,254
2 People	1,604	7 People	3,640
3 People	2,012	9 People	4,049
4 People	2,420	10 People	4,457
5 People	2,826		

For more than 10 people, add \$408 per person (example: 11 = \$5,275).

Please print the following information. **INCOMPLETE INFORMATION WILL DELAY YOUR DISCOUNT.** The name used here to apply for the discount **MUST** be the same as the name on the APS bill.

NAME AS SHOWN ON APS BILL (LAST, FIRST, M.I.)			SOCIAL SECURITY NO.		
MAILING ADDRESS NUMBER AND STREET			DATE OF BIRTH		
CITY	STATE	ZIP CODE	HOME TELEPHONE NUMBER		
RESIDENTIAL ADDRESS NUMBER AND STREET			TOTAL NO. OF PERSONS IN HOUSEHOLD		
CITY	STATE	ZIP CODE	HOUSEHOLD TOTAL GROSS MONTHLY INCOME \$		
APS ACCOUNT NO. (SEE FRONT OF APS BILL)			← ACCOUNT NUMBER MUST BE FILLED IN		

Permission is hereby granted to the Department of Economic Security to contact any sources necessary to establish the accuracy of information given by me or other information which pertains to the verification of my eligibility to receive services under the APS Energy Support Program (E-3). Permission is also granted to the Department of Economic Security and APS to purchase information regarding my electric utility account for the purpose of receiving a discount on my electric bill. I further understand that the disclosure of my Social Security number is voluntary and not mandatory, and will only be used for the purpose stated herein.

Signature: _____ Date: _____

NOTE: Application must be signed by THE PERSON WHOSE NAME APPEARS ON THE APS BILL. Please allow 30 - 45 days for processing.

DETACH ALONG PERFORATED LINE, FOLD FORM IN HALF, MAKING SURE THAT THE MAILING INFORMATION IS VISIBLE. MOISTEN GLUE, PRESS BOTH PARTS FIRMLY TOGETHER AND MAIL.
THIS FORM EXPIRES ON JUNE 30, 2006.



E-4 Medical Care Equipment Program

- Discount for Customers with qualified use of electric medical equipment.
- Acknowledges increased electric usage.
- Example: Oxygen Generator.
- Must be enrolled on E-3 first.
- Complete a Physicians Verification of Medical Equipment form which is available from APS.
- E-4 Program Contact: (602) 371-6884



E-3 Program Outreach Activities

- Application in October 2005 bill
- Direct mail with application to Navajo and Hopi customers living on reservations (Represents approx. 70% of our Native American customers living on reservation lands)
- Inter Tribal Council of Arizona – presentation at Family and Child conference
- Partnerships with HUD and DES
- Auto Enrollment Options



Energy Wise Low Income Weatherization Program

- Program has been in place since 1996
- Eligibility tied to 150% of Federal Low Income Guidelines
- Program Components:
 - Weatherization
 - Health and Safety
 - Repair and Replace
 - Bill Assistance



LIW Partners

- Arizona Community Action Association
- Community Action Human Resources Agency
- Coconino County Community Services Department
- Gila County Community Action Agency
- Maricopa County Human Services Department
- Northern Arizona Council of Government
- City of Phoenix Neighborhood Services
- Southeastern Arizona Community Action Program
- Western Arizona Council of Governments
- Inter Tribal Council of Arizona (represents 19 tribes)
- Navajo Weatherization Assistance Program
- Foundation for Senior Living
- Arizona Energy Office



Changes to Energy Wise Program

- Funding increase from \$500,000 to \$1,100,000/Year to 2007
- Includes renters
- Multifamily housing can be included on a case by case basis
- Refrigerator replacement
- Bill Assistance funding increase to \$250,000/year with corresponding increase to \$400/household/year
- Funding for Native American Weatherization activities



Weatherization

- Increased per home funding from \$1,500 to \$6,000 for weatherization, health and safety, and repair and replace combined
- Leveraged with other funding sources such as federal Low Income Home Energy Assistance Program (LIHEAP), City, State, and County Funds



LIW Program Components

- Repair and Replace
 - Case worker can identify need – doesn't require an energy audit
 - Covers A/C, Heat Pumps, Evaporative Coolers, Electric Water Heaters, Refrigerators
 - Appliances must meet energy efficiency guidelines
- Health and Safety
 - With an order from a medical doctor, a window Air conditioner or heat pump may be installed



Bill Assistance

- Increased to \$400 from \$300/year
- Funding increased \$250,000 year
- Service provided by community action agencies for customers in "crisis" situations as defined by DES.



Activities

- Working With HUD
- Working with Maricopa County on a Multifamily housing project in Buckeye
- Working with Energy Office to include the distribution of CFLS' with weatherization activities



APS – Native American Statistics

- Service provided to the following 11 reservations:

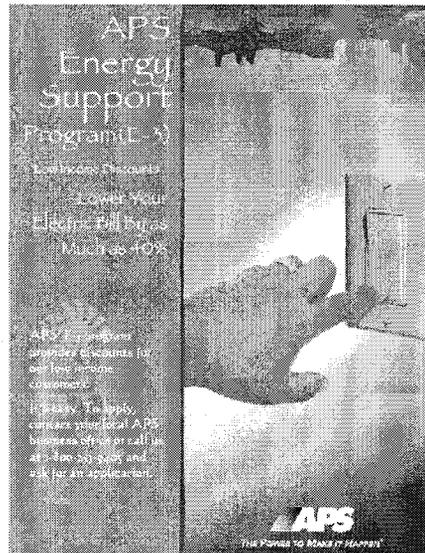
- Camp Verde
- Cocopah
- Colorado River
- Gila River
- Hopi
- Navajo
- San Carlos Apache
- San Lucy
- Tonto-Apache
- Yavapai-Apache
- Yavapai-Prescott

APS Serves approx. 5,600 Customers on these reservations.



Native American Outreach

- Radio Ads on stations serving Navajo and Hopi nations – Summer 2006
- Print ads 3rd or 4th quarter
- E-3 Application direct mail
- Sales Tax exemption communications –
 - Native American residing on his/her own reservation can save an additional 5.6% on their bill.
 - Go to the local APS Customer Office and ask for the Sales Tax Exemption Form, fill it out and return it to APS.



So What Can We Do?

- We can help APS' Low Income customers by...
 - Increasing enrollment in E-3
 - Save up to 40% on Low Income rates.
 - Insulated From PSA charges
 - Supporting weatherization services
 - Providing crisis bill assistance
- Find other ways to communicate and integrate with other programs that meet our guidelines.



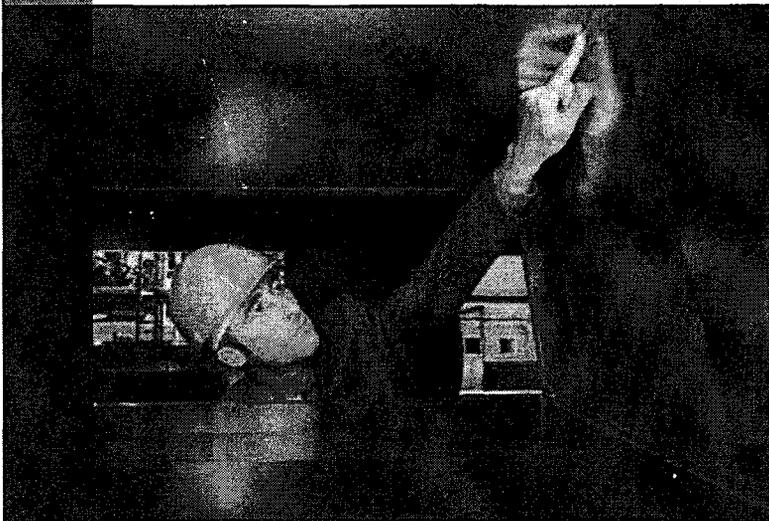
APS Low Income Assistance and You

Working together to protect our most
vulnerable customers

Suggestions & Concerns



Your most valuable tools aren't in your truck.



Help your customers
earn from \$250
to \$400 in rebates
for energy-efficient
air conditioners.

Let these two APS Programs power up your business.

During the summer in Arizona, people really depend on their air conditioners. As an HVAC contractor, you know you'll be busy with air conditioner repairs, maintenance and installations. But, did you know that APS now offers an AC Rebate Program, to provide your customers with extra incentives to install energy-efficient HVAC systems?

With the new AC Rebate Program, all APS customers who purchase qualifying air conditioning systems will be able to earn a rebate — \$250 for 14 SEER & 12 EER systems or \$400 for 16 SEER & 14 EER systems. Both programs help you provide extra value to your customers and give you an edge over your competition.

We also offer the APS Qualified Contractor Program. With the APS Qualified Contractor

Program, we'll support training for your technicians through discounts on Heat Pump Council classes. These courses help your technicians develop the skills for maximizing system performance and energy efficiency with replacements, repairs and regular maintenance.

As an APS Qualified Contractor, you'll get marketing and advertising support, including referrals. Your name will be given to customers who call our toll-free APS Energy Answer Line asking for information about energy-efficient air conditioning installation, repair work and maintenance.

Put the AC Rebate Program and the APS Qualified Contractor Program to work today. For more information about the Qualified Contractor Program and how to sign up, call the APS Energy Answer Line at 1-888-890-9730. To learn more about the rebate program, visit aps.com today.

To learn about becoming an APS Qualified Contractor, call the APS Energy Answer Line at 1-888-890-9730.



Energy...enough to use, not enough to waste.

Save now, save later.



Ask your contractor how you may qualify for up to \$400 in rebates.

It's easy to earn cash rebates on qualified air conditioning systems.

In Arizona's desert climate, your air conditioner can account for as much as 40 percent of your energy costs. However, you can dramatically increase the energy efficiency of your home—without sacrificing comfort.

Replace your old air conditioning equipment with a new qualifying high-efficiency air conditioning system and earn cash rebates:

Not only is it important to install the right equipment, but it's also important to have it installed properly by a qualified professional. Contact your regular contractor, or call APS for a FREE referral to an APS Qualified Contractor. These highly trained, experienced contractors are licensed and bonded and know the best ways to ensure that your system runs at peak efficiency.



Call the APS Energy Answer Line at 1.888.890.9730 or visit aps.com for complete rebate information and a FREE referral to an APS Qualified Contractor.



Energy...enough to use, not enough to waste.

Arizona Lifestyle

June / July 2006

APS
THE POWER TO MAKE IT HAPPEN®

New APS AC rebate program

The Arizona Corporation Commission (ACC) has approved APS' plan to offer rebates to customers who purchase high efficiency air conditioning (AC) equipment.

The AC rebate program will provide APS residential customers with rebates for qualifying heat pump and air conditioner replacements in existing homes served by APS.

Because the new federal minimum rating for AC efficiency is 13 SEER, the APS rebate program will offer rebates of \$250 per unit on equipment that is 14 SEER and 12 EER or higher. Equipment that meets or exceeds 16 SEER and 14 EER will earn a rebate of \$400 per unit. Any unit installed after the April 12 program approval date will be eligible to receive the rebates.

In addition to the APS rebates, customers who replace their home's AC unit may also be able to take advantage of \$300 federal tax

credits. APS recommends that customers who are considering having their AC equipment replaced should contact a licensed AC contractor for more information about what AC units qualify for APS rebates and federal tax credits.

For more information on the AC Rebate Program or for a referral to an APS Qualified Contractor, go to aps.com or call the APS Energy Answer Line at 602-371-3636 or 1-888-890-9730. Copies of the AC Rebate Program application form can be downloaded at aps.com.

You may be eligible for a discount

If you qualify under the federal poverty guidelines, as determined by the Department of Economic Security, you may be eligible to receive a discount of up to 40 percent off your cost of electricity through the APS Energy Support program (E-3). Your discount amount depends on how much electricity you use each month. So, if your energy use varies, your discount will vary from month to month.

Monthly Energy Use	Discount
400 kWh or less	40 %
401 kWh to 800 kWh	26 %
801 kWh to 1,200 kWh	14 %
Over 1,200 kWh	\$13

continued on back

We're available 7-days-a-week, 24-hours-a-day, aps.com
Metro Phoenix area: 602-371-7171 — Other areas: 800-253-9405

continued from front

To qualify for the discount, you must have an APS residential account in your name, and your household income must be within 150 percent of the federal poverty guidelines. The following federal guidelines will go into effect on July 1, 2006:

Household Size	Monthly Income
1 Person	\$1,225
2 People	\$1,650
3 People	\$2,075
4 People	\$2,500
5 People	\$2,925
6 People	\$3,350
7 People	\$3,775
8 People	\$4,200
9 People	\$4,625
10 People	\$5,050

For each additional household member, add \$425. Income is defined as total income (before taxes) for all household members.

To sign up for the program, complete an application for the APS Energy Support Program and send it to the Arizona Department of Economic Security (DES). The address is on the application form. Application forms are available at all APS customer offices and Community Action Agency offices

Someone you know may need help

It could be your elderly neighbor struggling to make ends meet after a medical emergency. Or that nice guy you met who lost his job during recent layoffs. Or someone you know who is experiencing temporary financial difficulties.

Your neighbors in Arizona need help, and you can make a difference. You can help others in your community through Project SHARE (Service to Help Arizonans with Relief on Energy).

For people living on a very limited income, unplanned expenses caused by a hospital stay,

job loss or accident can make it impossible to pay even the most essential bills. In a financial emergency, SHARE may provide money to help pay for energy bills like gas, electric, oil, propane or wood.

Funds for Project SHARE come from APS employees, shareholders and customers, and from Southwest Gas and SRP employees and customers. You can get the warm feeling of sharing by:

- Adding a SHARE contribution to your monthly APS payment—see the payment stub on your bill to write in your donation amount and add to the total cost of your monthly bill.
- Making a one-time contribution in the amount of your choice by sending a check payable to Project SHARE, c/o The Salvation Army, P.O. box 52177, Phoenix, AZ 85072.

All of your donations are turned over to The Salvation Army, which interviews and selects the recipients and disburses the funds. None of your money is used to administer the program.

Be sure your name is on the bill

Privacy laws are designed to help protect us, but sometimes they can make life complicated. By law APS can provide specific customer or account information only to the person whose name is on the account or to a person authorized by the account holder. While this protects the customer's privacy, it also prevents anyone else from accessing account balances, turning on or off service or obtaining any other specific account information if the customer is unavailable due to travel, illness or other circumstances. Plan ahead and authorize a family member or a trusted friend to access your account in your absence. Call the 24-hour-a-day APS Customer Care Center today at 602-371-7171 or 1-800-253-9405.