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November 21, 2005

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007-2996

Re: Docket No. E-01345A-05-0477
APS DSM Portfolio Plan

Reference: Additional Information Regarding DSM Portfolio Plan, dated November 14, 2005

Dear Madam or Sir,

In the referenced filing, APS provided additional flexibility language for the DSM Portfolio Plan. After discussions with and input from the DSM Collaborative working group, APS has made minor changes to the referenced filing and the updated version is attached. This submittal supersedes the referenced filing.

If you have any questions, please contact me.

Sincerely,

Justin H. Thompson
Manager
Regulation, Policy & Analysis

JHT/AKK

Attachment

cc: Docket Control (Original, plus 13 copies)
B. Keene
E. Andreasen
J. Anderson

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Arizona Corporation Commission
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IV. Budget

Consistent with Decision No. 67744 (Attachment A, paragraph 40), APS is obligated to spend \$48 million dollars on energy-efficiency DSM programs from 2005-2007. The proposed division of funds between residential and non-residential customers is commensurate with the relative contribution to the DSM funds from these customer classes and is also consistent with the preliminary list of programs and funding allocation shown in the "Preliminary Energy-Efficiency DSM Plan" (Decision No. 67744 Attachment A, Appendix B). Exhibit 2 on pages 11 and 12 shows the list of programs from the Preliminary Energy Efficiency DSM Plan and makes a comparison to the APS Portfolio Plan, including a description of minor modifications that were made during the program development process in conjunction with the DSM collaborative group.

The proposed budget maximizes the amount of program funds that go directly to customers through rebates and incentives, training and technical assistance, and consumer education. This plan also takes into account the realities of DSM program start-up costs and funds needed to adequately plan, develop and deliver and evaluate quality programs. It typically takes two years or more to ramp up programs and achieve significant customer participation levels and program savings. This Portfolio Plan recognizes program ramp-up costs over the 2005-2007 program planning period.

Although APS has provided estimates based on the best available information in this document, it is anticipated that flexibility will be needed within the DSM portfolio in order to maximize program effectiveness, react to market conditions and customer responses, and limit administrative burden.

The following flexibility will be employed in the management of the DSM portfolio of programs and will not require additional Commission approval to implement unless otherwise indicated:

- Funding may be shifted as needed between the following budget categories within each individual program: Training and Technical Assistance, Consumer Education, Program Marketing, and Program Implementation. Such changes do not cause an impact to a program's benefit/cost ratio as measured by the Societal Cost Test.
- APS may adjust program rebates and incentive levels as needed, to react to market responses and opportunities, without prior notice to the Commission, for all measures as long as the incentive level does not move above 50% of the projected incremental cost of the energy efficiency measure. In addition, the incentive expenditures within each program may vary from initial budget estimates based on market conditions and customer adoption levels.
- As a general guideline, program incentive levels will be set at or below 50% of a customer's incremental cost. However, factors such as reasonable customer payback periods and other customer acceptance criteria should also be considered. For any case where APS intends to establish or increase an

incentive in excess of 50% of incremental cost, prior to making the change APS will notify the Commission in writing with justification supporting such incentives.

- Within a customer sector (e.g. Residential); it is common that some programs may perform better than others. In this case, it is beneficial to have the ability to shift funds between programs within a sector. Therefore, up to 30% of a program budget may be shifted from a program in any given year. Budget dollars may be transferred to any other approved programs that serve the same customer sector (i.e. Residential or Non-Residential). Budget shifting between programs may occur only within a sector of customers, not across sectors. No budget dollars may be shifted between Residential and Non-Residential programs without prior approval from the Commission.
- Budget dollars will not be shifted away from the Low Income program, including special funding devoted to tribes, or from the Schools program.
- For the program period 2005-2007, APS will make reasonable efforts to limit the amounts expended for program Planning and Administration to 10% of the total funding for each program.
- To the extent that the Federal Energy Policy Act or other energy standards change during the implementation of a DSM program and require changes in baseline efficiency levels and customer incremental costs, APS may adjust such levels accordingly. All such changes will be reported in the Company's semi-annual DSM report.
- APS will notify the Commission in writing of any budget changes that would result in a significant change to a program's benefit/cost ratio (as measured by the Societal Cost Test). In no cases shall a budget change cause the benefit/cost ratio to be less than 1.0 (except for the Low Income Weatherization program).
- For each program, dollars that are not spent in a given budget year will be automatically transferred (carried forward) to the next year's budget for that program.
- All budget shifts and other program changes will be reported in the semi-annual DSM reports submitted to the Commission. The report will explain why budget shifts and program changes were undertaken.

APS Residential New Construction Program

Program Cost Effectiveness

Total APS Program Cost 2005-2007	\$/Lifetime kWh	Societal Cost Test Total Benefits	Societal Cost Test Total Costs	Societal Cost Test Benefit/Cost Ratio
\$6,189,000	\$.0143	\$22,202,935	\$7,888,000	2.81

In addition to the savings shown above, it is estimated that the program will produce these additional benefits:

Water Savings	100,704,465 gallons
Sox	1858 lbs.
Nox	74,340 lbs.
CO2	396,334,736 lbs.
PM10	10,243 lbs.

Program Budget Flexibility

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- For the program period 2005-2007, APS will make reasonable efforts to limit the amounts expended for program Planning and Administration to 10% of the total funding for each program.
- To the extent that the Federal Energy Policy Act or other energy standards change during the implementation of a DSM program and require changes in baseline efficiency levels and customer

APS Residential New Construction Program

incremental costs, APS may adjust such levels accordingly. All such changes will be reported in the Company's semi-annual DSM report.

- APS will notify the Commission in writing of any budget changes that would result in a significant change to a program's benefit/cost ratio (as measured by the Societal Cost Test). In no cases shall a budget change cause the benefit/cost ratio to be less than 1.0 (except for the Low Income Weatherization program).
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Residential Existing Homes HVAC Efficiency Program

Program Costs

- Program budgets for program years 2005, 2006, and 2007 including planning and administration, program marketing, program implementation, rebates and incentives, training and technical assistance, and consumer education:
 - 2005: \$868,000
 - 2006: \$1,138,498
 - 2007: \$1,579,238
- See Appendix 2 for more information about program costs.

Estimated Energy Savings

- The following table shows estimated energy savings from each program measure. See Appendix 3 for more information.

Year	kW Peak Demand Savings	Lifetime kWh Savings*
2005	1128	47,433,600
2006	1500	62,243,700
2007	538	23,800,800
Program Total 2005-2007	3166	133,478,100

* Lifetime kWh savings refers to total energy savings over the expected life of the DSM measure installed in the year indicated.

Program Cost Effectiveness

Total APS Program Cost 2005-2007	\$/Lifetime kWh	Societal Cost Test Total Benefits	Societal Cost Test Total Costs	Societal Cost Test Benefit/Cost Ratio
\$3,585,736	\$.027	\$7,964,958	\$5,824,218	1.37

In addition to the savings shown above, it is estimated that the program will provide these additional benefits:

Water Savings	31,100,397 gallons
SOx	574 lbs.
NOx	22,958 lbs.
CO2	122,399,418 lbs.
PM10	3163 lbs.

Program Budget Flexibility

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Residential Existing Homes HVAC Efficiency Program

Program Implementation. Such changes do not cause an impact to a program's benefit/cost ratio as measured by the Societal Cost Test.

- APS may adjust program rebates and incentive levels as needed, to react to market responses and opportunities, without prior notice to the Commission, for all measures as long as the incentive level does not move above 50% of the projected incremental cost of the energy efficiency measure. In addition, the incentive expenditures within each program may vary from initial budget estimates based on market conditions and customer adoption levels.
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High-Efficiency Consumer Products Program

Program Cost Effectiveness

Total APS Program Cost 2005-2007	\$/Lifetime kWh	Societal Cost Test Total Benefits	Societal Cost Test Total Costs	Societal Cost Test Benefit/Cost Ratio
\$5,525,000	\$.011	\$23,121,222	\$8,977,672	2.58

In addition to the savings shown above, it is estimated that the program will produce these additional benefits:

Natural Gas Savings*	597,888 therms
Water Savings**	769,301,717 gallons
SOx	2146 lbs.
NOx	85,854 lbs.
CO2	457,719,633 lbs.
PM10	11,830 lbs.

* Natural gas savings result from hot water saved in homes with gas water heaters. Natural gas savings are provided consistent with the Cost Effectiveness section in staff's first draft of proposed DSM rules (Docket# RE-00000C-05-0230).

** Total water savings including both utility and customer water savings.

Program Budget Flexibility

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High-Efficiency Consumer Products Program

sector (i.e. Residential or Non-Residential). Budget shifting between programs may occur only within a sector of customers, not across sectors. No budget dollars may be shifted between Residential and Non-Residential programs without prior approval from the Commission.

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APS Energy Wise Low Income Weatherization Program

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

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

Program Budget Flexibility

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APS Energy Wise Low Income Weatherization Program

- For each program, dollars that are not spent in a given budget year will be automatically transferred (carried forward) to the next year's budget for that program.
- All budget shifts and other program changes will be reported in the semi-annual DSM reports submitted to the Commission. The report will explain why budget shifts and program changes were undertaken.

APS Schools Program

Program Cost Effectiveness

See Appendix 4 for details.

Total APS Program Cost 2005-2007	Lifetime Program Cost per kWh	Societal Cost Test Total Benefits	Societal Cost Test Total Costs	Societal Cost Test Benefit/Cost Ratio
\$1,680,000	\$0.010	\$4,535,799	\$3,744,174	1.21

The Societal benefits do not include the monetary value of the environmental externalities that are saved. The externalities are shown in the table below, along with the physical quantities of the emissions reduced and resources conserved. These are savings that will be realized over the life of the measures. The monetary value is not quantified. See Appendix 5 for details.

Externalities – emissions reductions based on 162,069MWh saved		
SOx	697	Pounds
NOx	27,876	Pounds
CO2	148,617,273	Pounds
PM10	3,841	Pounds
Water Consumption	36,394,367	Gallons

Program Budget Flexibility

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APS Schools Program

- For the program period 2005-2007, APS will make reasonable efforts to limit the amounts expended for program Planning and Administration to 10% of the total funding for each program.
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- All budget shifts and other program changes will be reported in the semi-annual DSM reports submitted to the Commission. The report will explain why budget shifts and program changes were undertaken.

Non-Residential DSM Program for Existing Facilities

Program Budget Flexibility

Although APS has provided estimates based on the best available information in this document, it is anticipated that flexibility will be needed within the DSM portfolio in order to maximize program effectiveness, react to market conditions and customer responses, and limit administrative burden.

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Non-Residential New Construction & Major Renovation Program

Program Cost Effectiveness

The Large New Construction & Major Renovation Non-Residential DSM program is effective with a Societal Cost Test benefit/cost ratio of 2.54.

Total APS Program Cost 2005-2007	\$/Lifetime kWh	Societal Cost Test Total Benefits	Societal Cost Test Total Costs	Societal Cost Test Benefit/Cost Ratio
\$7,360,074	\$0.0100	\$26,725,755	\$10,505,604	2.54

In addition to the savings shown above, it is estimated that the program will produce these environmental benefits over the life of the measures:

Water Savings*	179,671,678 gal.
SOx	3,161 lbs.
NOx	126,432 lbs.
CO2	674,060,640 lbs.
PM10	17,421 lbs.

* Total water savings including both utility and customer savings.

Program Budget Flexibility

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The following flexibility will be employed in the management of the DSM portfolio of programs and will not require additional Commission approval to implement unless otherwise indicated:

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Non-Residential New Construction & Major Renovation Program

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Small Non-Residential DSM Program

The following Table shows the estimated energy savings for the program:

Year	Annual Peak kW Demand Savings	Lifetime kWh Savings*
2005	1,512	129,996,000
2006	2,068	177,772,200
2007	2,701	232,215,000
Program Total 2005-2007	6,281	539,983,200

* Lifetime kWh savings refers to total energy savings over the expected life of the DSM measure.

Program Cost Effectiveness

The Small Non-Residential DSM program is effective with a weighted average Societal Cost Test benefit/cost ratio of 3.08.

Total APS Program Cost 2005-2007	\$/Lifetime kWh	Societal Cost Test Total Benefits	Societal Cost Test Total Costs	Societal Cost Test Benefit/Cost Ratio
\$4,359,852	\$0.0081	\$15,914,298	\$5,159,253	3.08

In addition to the savings shown above, it is estimated that the program will produce these environmental benefits over the life of the measures:

Water Savings*	132,516,054 gal.
SOx	2,322 lbs.
NOx	92,877 lbs.
CO2	495,164,468 lbs.
PM10	12,798 lbs.

* Total water savings includes both utility and customer savings.

Program Budget Flexibility

Although APS has provided estimates based on the best available information in this document, it is anticipated that flexibility will be needed within the DSM portfolio in order to maximize program effectiveness, react to market conditions and customer responses, and limit administrative burden.

The following flexibility will be employed in the management of the DSM portfolio of programs and will not require additional Commission approval to implement unless otherwise indicated:

- Funding may be shifted as needed between the following budget categories within each individual program: Training and Technical Assistance, Consumer Education, Program Marketing, and Program Implementation. Such changes do not cause an impact to a program's benefit/cost ratio as measured by the Societal Cost Test.
- APS may adjust program rebates and incentive levels as needed, to react to market responses and opportunities, without prior notice to the Commission, for all measures as long as the incentive level does not move above 50% of the projected incremental cost of the energy efficiency measure. In addition, the incentive expenditures within each program may vary from initial budget estimates based on market conditions and customer adoption levels.

Small Non-Residential DSM Program

- As a general guideline, program incentive levels will be set at or below 50% of a customer's incremental cost. However, factors such as reasonable customer payback periods and other customer acceptance criteria should also be considered. For any case where APS intends to establish or increase an incentive in excess of 50% of incremental cost, APS will notify the Commission in writing with justification supporting such incentives.
- Within a customer sector (e.g. Residential); it is common that some programs may perform better than others. In this case, it is beneficial to have the ability to shift funds between programs within a sector. Therefore, up to 30% of a program budget may be shifted from a program in any given year. Budget dollars may be transferred to any other approved programs that serve the same customer sector (i.e. Residential or Non-Residential). Budget shifting between programs may occur only within a sector of customers, not across sectors. No budget dollars may be shifted between Residential and Non-Residential programs without prior approval from the Commission.
- Budget dollars will not be shifted away from the Low Income program, including special funding devoted to tribes, or from the Schools program.
- For the program period 2005-2007, APS will make reasonable efforts to limit the amounts expended for program Planning and Administration to 10% of the total funding for each program.
- To the extent that the Federal Energy Policy Act or other energy standards change during the implementation of a DSM program and require changes in baseline efficiency levels and customer incremental costs, APS may adjust such levels accordingly. All such changes will be reported in the Company's semi-annual DSM report.
- APS will notify the Commission in writing of any budget changes that would result in a significant change to a program's benefit/cost ratio (as measured by the Societal Cost Test). In no cases shall a budget change cause the benefit/cost ratio to be less than 1.0 (except for the Low Income Weatherization program).
- For each program, dollars that are not spent in a given budget year will be automatically transferred (carried forward) to the next year's budget for that program.
- All budget shifts and other program changes will be reported in the semi-annual DSM reports submitted to the Commission. The report will explain why budget shifts and program changes were undertaken.

Building Operator Training Program

Program Budget

- The BOT Program budget for program year 2005 is \$65,000; \$80,000 in 2006; and \$95,000 in 2007, which includes planning & administration, implementation, incentives, consumer education, training & technical assistance, and marketing. See Appendix 2 for more information about the program budget.

Estimated Energy Savings

The BOT total program cost per lifetime kWh is \$0.0033, which equals \$240,000 total program costs / 73,703,500 lifetime kWh. See Appendix 3 for more detailed information on savings estimates.

The following Table shows the estimated energy savings for the BOT program:

Year	Annual Peak kW Demand Savings	Lifetime kWh Savings*
2005	172	19,961,400
2006	212	24,567,800
2007	251	29,174,300
Program Total 2005-2007	635	73,703,500

* Lifetime kWh savings refers to total energy savings over the expected life of the DSM measure.

Program Cost Effectiveness

The BOT program is effective with a Societal Cost Test benefit/cost ratio of 3.20.

Total APS Program Cost 2005-2007	\$/Lifetime kWh	Societal Cost Test Total Benefits	Societal Cost Test Total Costs	Societal Cost Test Benefit/Cost Ratio
\$240,000	\$0.0033	\$2,762,386	\$864,000	3.20

In addition to the savings shown above, it is estimated that the program will produce these environmental benefits over the life of the measures:

Water Savings	17,172,916 gal.
SOx	317 lbs.
NOx	12,677 lbs.
CO2	67,586,110 lbs.
PM10	1,747 lbs.

Program Budget Flexibility

Although APS has provided estimates based on the best available information in this document, it is anticipated that flexibility will be needed within the DSM portfolio in order to maximize program effectiveness, react to market conditions and customer responses, and limit administrative burden.

The following flexibility will be employed in the management of the DSM portfolio of programs and will not require additional Commission approval to implement unless otherwise indicated:

- Funding may be shifted as needed between the following budget categories within each individual program: Training and Technical Assistance, Consumer Education, Program Marketing, and Program Implementation. Such changes do not cause an impact to a program's benefit/cost ratio as measured by the Societal Cost Test.

Building Operator Training Program

- APS may adjust program rebates and incentive levels as needed, to react to market responses and opportunities, without prior notice to the Commission, for all measures as long as the incentive level does not move above 50% of the projected incremental cost of the energy efficiency measure. In addition, the incentive expenditures within each program may vary from initial budget estimates based on market conditions and customer adoption levels.
- As a general guideline, program incentive levels will be set at or below 50% of a customer's incremental cost. However, factors such as reasonable customer payback periods and other customer acceptance criteria should also be considered. For any case where APS intends to establish or increase an incentive in excess of 50% of incremental cost, APS will notify the Commission in writing with justification supporting such incentives.
- Within a customer sector (e.g. Residential); it is common that some programs may perform better than others. In this case, it is beneficial to have the ability to shift funds between programs within a sector. Therefore, up to 30% of a program budget may be shifted from a program in any given year. Budget dollars may be transferred to any other approved programs that serve the same customer sector (i.e. Residential or Non-Residential). Budget shifting between programs may occur only within a sector of customers, not across sectors. No budget dollars may be shifted between Residential and Non-Residential programs without prior approval from the Commission.
- Budget dollars will not be shifted away from the Low Income program, including special funding devoted to tribes, or from the Schools program.
- For the program period 2005-2007, APS will make reasonable efforts to limit the amounts expended for program Planning and Administration to 10% of the total funding for each program.
- To the extent that the Federal Energy Policy Act or other energy standards change during the implementation of a DSM program and require changes in baseline efficiency levels and customer incremental costs, APS may adjust such levels accordingly. All such changes will be reported in the Company's semi-annual DSM report.
- APS will notify the Commission in writing of any budget changes that would result in a significant change to a program's benefit/cost ratio (as measured by the Societal Cost Test). In no cases shall a budget change cause the benefit/cost ratio to be less than 1.0 (except for the Low Income Weatherization program).
- For each program, dollars that are not spent in a given budget year will be automatically transferred (carried forward) to the next year's budget for that program.
- All budget shifts and other program changes will be reported in the semi-annual DSM reports submitted to the Commission. The report will explain why budget shifts and program changes were undertaken.

Energy Information Services Program

The following Table shows the estimated savings for the EIS program:

Year	Annual Peak kW Demand Savings	Lifetime kWh Savings*
2005	91	10,985,600
2006	113	13,520,700
2007	134	16,055,900
Program Total 2005-2007	338	40,562,200

* Lifetime kWh savings refers to total energy savings over the expected life of the DSM measure.

Program Cost Effectiveness

The EIS program appears to be effective with a Societal Cost Test benefit/cost ratio of 4.27, given the estimated energy savings as noted above.

Total APS Program Cost 2005-2007	\$/Lifetime kWh	Societal Cost Test Total Benefits	Societal Cost Test Total Costs	Societal Cost Test Benefit/Cost Ratio
\$300,000	\$0.0074	\$1,513,253	\$354,000	4.27

In addition to the savings shown above, it is estimated that the program will produce these environmental benefits over the life of the measures:

Water Savings	9,450,984 gal.
SOx	174 lbs.
NOx	6,977 lbs.
CO2	37,195,503 lbs.
PM10	961 lbs.

Program Budget Flexibility

Although APS has provided estimates based on the best available information in this document, it is anticipated that flexibility will be needed within the DSM portfolio in order to maximize program effectiveness, react to market conditions and customer responses, and limit administrative burden.

The following flexibility will be employed in the management of the DSM portfolio of programs and will not require additional Commission approval to implement unless otherwise indicated:

- Funding may be shifted as needed between the following budget categories within each individual program: Training and Technical Assistance, Consumer Education, Program Marketing, and Program Implementation. Such changes do not cause an impact to a program's benefit/cost ratio as measured by the Societal Cost Test.
- APS may adjust program rebates and incentive levels as needed, to react to market responses and opportunities, without prior notice to the Commission, for all measures as long as the incentive level does not move above 50% of the projected incremental cost of the energy efficiency measure. In addition, the incentive expenditures within each program may vary from initial budget estimates based on market conditions and customer adoption levels.
- As a general guideline, program incentive levels will be set at or below 50% of a customer's incremental cost. However, factors such as reasonable customer payback periods and other customer acceptance criteria

Energy Information Services Program

should also be considered. For any case where APS intends to establish or increase an incentive in excess of 50% of incremental cost, APS will notify the Commission in writing with justification supporting such incentives.

- Within a customer sector (e.g. Residential); it is common that some programs may perform better than others. In this case, it is beneficial to have the ability to shift funds between programs within a sector. Therefore, up to 30% of a program budget may be shifted from a program in any given year. Budget dollars may be transferred to any other approved programs that serve the same customer sector (i.e. Residential or Non-Residential). Budget shifting between programs may occur only within a sector of customers, not across sectors. No budget dollars may be shifted between Residential and Non-Residential programs without prior approval from the Commission.
- Budget dollars will not be shifted away from the Low Income program, including special funding devoted to tribes, or from the Schools program.
- For the program period 2005-2007, APS will make reasonable efforts to limit the amounts expended for program Planning and Administration to 10% of the total funding for each program.
- To the extent that the Federal Energy Policy Act or other energy standards change during the implementation of a DSM program and require changes in baseline efficiency levels and customer incremental costs, APS may adjust such levels accordingly. All such changes will be reported in the Company's semi-annual DSM report.
- APS will notify the Commission in writing of any budget changes that would result in a significant change to a program's benefit/cost ratio (as measured by the Societal Cost Test). In no cases shall a budget change cause the benefit/cost ratio to be less than 1.0 (except for the Low Income Weatherization program).
- For each program, dollars that are not spent in a given budget year will be automatically transferred (carried forward) to the next year's budget for that program.
- All budget shifts and other program changes will be reported in the semi-annual DSM reports submitted to the Commission. The report will explain why budget shifts and program changes were undertaken.