BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
BARRY WONG

IN THE MATTER OF THE APPLICATION
OF ARIZONA PUBLIC SERVICE COMPANY
FOR A HEARING TO DETERMINE THE
FAIR VALUE OF THE UTILITY PROPERTY
OF THE COMPANY FOR RATEMAKING
PURPOSES, TO FIX A JUST AND
REASONABLE RATE OF RETURN
THEREON, TO APPROVE RATE
SCHEDULES DESIGNED TO DEVELOP
SUCH RETURN, AND TO AMEND
DECISION NO. 67744.

DOCKET NO. E-01345A-03-0816

Direct Testimony of

Jeff Schlegel
Southwest Energy Efficiency Project (SWEEP)

August 18, 2006
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Introduction

Q. Please state your name and business address.
A. My name is Jeff Schlegel. My business address is 1167 W. Samalayuca Drive, Tucson, Arizona 85704-3224.

Q. For whom and in what capacity are you testifying?
A. I am testifying on behalf of the Southwest Energy Efficiency Project (SWEEP). I am the Arizona Representative for SWEEP.

Q. Please describe the Southwest Energy Efficiency Project.
A. SWEEP is a public interest organization dedicated to advancing energy efficiency as a means of promoting both economic prosperity and environmental protection in the six states of Arizona, Colorado, New Mexico, Nevada, Utah, and Wyoming. SWEEP works on state energy legislation, analysis of energy efficiency opportunities and potential, expansion of state and utility energy efficiency programs as well as the design of these programs, building energy codes and appliance standards, and voluntary partnerships with the private sector to advance energy efficiency. SWEEP is collaborating with utilities, state agencies, environmental groups, universities, and energy specialists in the region. SWEEP is funded primarily by foundations, the U.S. Department of Energy, and the U.S. Environmental Protection Agency. I am the Arizona Representative for SWEEP.

Q. What are your professional qualifications?
A. I am an independent consultant specializing in policy analysis, evaluation and research, planning, and program design for energy efficiency and clean energy resources. I consult for public groups and government agencies, and I have been working in the field for over 20 years. In addition to my responsibilities with SWEEP, I am working or have worked extensively in many of the states that have effective energy efficiency programs, including California, Connecticut, Massachusetts, New Jersey, Vermont, and Wisconsin. In 1997, I received the Outstanding Achievement Award from the International Energy Program Evaluation Conference. I have represented SWEEP before the Commission since 2002.
Summary of Testimony and Recommendations

Q. Please summarize your testimony.

A. I will testify that:

- The Commission should increase energy efficiency in the Arizona Public Service Company (APS) service territory to achieve significant and cost-effective benefits for APS customers, the electric system, the economy, and the environment.

- Specifically, the Commission should set APS Demand Side Management (DSM) energy efficiency program goals in the form of an Energy Efficiency Standard (EES). The EES should require APS DSM energy efficiency programs to: (1) achieve energy savings equal to at least 5% of total energy resources needed to meet retail load in 2010, and at least 15% in 2020; and (2) reduce summer peak demand by at least 5% of total capacity resources needed to meet retail peak demand in 2010, and at least 15% in 2020. The goals of the EES are meaningful and realistic, and they can be achieved with cost-effective energy efficiency programs.

- Achieving the goals of the Energy Efficiency Standard would save consumers and businesses $1.4 billion during 2005-2020, eliminate the need for about 1,000 MW of new power plants by 2020 and the associated power line and pipeline infrastructure costs, provide 1,600 GWh of cumulative annual energy savings in 2010 and almost 7,000 GWh in 2020, reduce average annual load growth in retail energy and summer peak demand by 32% (from 3.8% to 2.6%), reduce electricity price spikes and the risks of natural gas price volatility, and reduce air pollution and the carbon emissions that cause global warming.

- Other states and utilities have achieved energy savings equivalent to or greater than the EES goals that SWEEP proposes.

- The existing Commission-approved DSM energy efficiency programs should be expanded to achieve the goals of the EES. While some additional DSM energy efficiency programs or program elements may be needed to achieve the EES goals, and may also be valuable for providing additional benefits to APS customers, the primary mechanism for achieving the EES goals should be the expansion of existing programs already approved by the Commission.

- The performance to date of the recently-approved APS DSM energy efficiency programs has been very good, and the programs are providing significant net benefits (over $4.2 million of net economic benefits in 2005).
• The Commission should authorize adequate funding to achieve the goals of the Energy Efficiency Standard (EES). SWEEP estimates that energy efficiency funding of $0.002 per kWh of retail energy sales (2 mills) will be necessary to achieve the EES goals. In 2007, the third year of the 2005-2007 Portfolio Plan, total DSM energy efficiency funding should be increased from about $25 million to $38 million, an increase of about $13 million. In 2008 and future years, total DSM energy efficiency funding should be equivalent to $0.002 (2 mills) per kWh of retail energy sales, which would be $56.8 million in 2008. The additional DSM funding for 2008 would amount to $40.8 million (the amount above the $16 million per year authorized in Decision No. 67744). Funding for any DSM demand response and load management programs should be in addition to the energy efficiency program funding.

• Energy efficiency funding and cost recovery for the additional DSM funding and the total DSM funding could be accomplished through funding in base rates, a DSM adjustment mechanism, a system benefits surcharge, amortizing or capitalizing the DSM investments over time, or a combination of funding mechanisms. SWEEP does not have a strong preference for one particular mechanism. SWEEP believes it would be best to build on the existing Commission-approved funding mechanisms (base rates and a DSM adjustment mechanism) and use a combination of mechanisms going forward.

• APS should file an implementation plan to achieve the goals of the EES, covering the 2008-2020 program years, in the spring of 2007, at the same time APS refiles the Non-Residential portion of its DSM Portfolio Plan (per Commission order). The EES Implementation Plan should be developed by APS with input from and review by the Collaborative DSM Working Group, which includes Staff and interested parties. The EES Implementation Plan would be reviewed by Staff, and then be reviewed and approved by the Commission prior to implementation for 2008 and future years.

• SWEEP supports complementary approaches such as demand response and load management programs to encourage peak load reductions, and pricing and rate designs to encourage energy efficiency and reduce peak demand. SWEEP supports these approaches as complements to effective energy efficiency policies and programs, not as replacements for cost-effective utility DSM energy efficiency programs.
The Public Interest: Benefits of Increasing Energy Efficiency

Q. What is the public interest in increasing energy efficiency in the APS service territory?

A. Increasing energy efficiency will provide significant and cost-effective benefits for APS customers (residential consumers and businesses), the electric system, the economy, and the environment. Increasing energy efficiency will save consumers and businesses money through lower electric bills, resulting in lower total costs for customers. Increasing energy efficiency will also reduce load growth, diversify energy resources, enhance the reliability of the electricity grid, reduce the amount of water used for power generation, reduce air pollution and carbon emissions, and create jobs and improve the economy. In addition, meeting a portion of load growth through increased energy efficiency can help to relieve system constraints in load pockets.

By reducing electricity demand, energy efficiency mitigates electricity and fuel price increases and reduces customer vulnerability and exposure to price volatility. Energy efficiency does not rely on any fuel and is not subject to shortages of supply or increased prices for natural gas or other fuels.

Energy efficiency is a reliable energy resource that costs less than other resources for meeting the energy needs of customers in the APS service territory. The total cost (sum of program and customer costs) for energy efficiency savings is two to three cents per lifetime kWh saved, delivered to the customer. This is significantly less than the cost of conventional generation, transmission, and distribution. The utility program cost to APS ratepayers is even lower, about one to two cents per lifetime kWh saved.

The Energy Efficiency Standard (EES):
Goals for Energy Savings and Peak Demand Reduction

Q. Specifically, what actions should the Commission take to increase energy efficiency goals in the APS service territory?

A. The Commission should set APS Demand Side Management (DSM) energy efficiency program goals in the form of an Energy Efficiency Standard (EES). The EES should require APS DSM energy efficiency programs to: (1) achieve energy savings equal to at least 5% of total energy resources needed to meet retail load in 2010, and at least 15% in 2020; and (2) reduce summer peak demand by at least 5% of total capacity resources needed to meet retail peak demand in 2010, and at least 15% in 2020.
Meeting the EES goals would provide cost-effective benefits to consumers, the electric system, the economy, and the environment. And meeting the EES goals would contribute substantially to the achievement of the adopted goal of the Western Governors Association (WGA) to increase energy efficiency 20% by 2020.

Q. What benefits would result from achieving the EES goals?

A. Achieving the goals of the Energy Efficiency Standard would save consumers and businesses $1.4 billion during 2005-2020, eliminate the need for about 1,000 MW of new power plants by 2020 and the associated power line and pipeline infrastructure costs, provide 1,600 GWh of cumulative annual energy savings in 2010 and almost 7,000 GWh in 2020, reduce average annual load growth in retail energy and summer peak demand by 32% (from 3.8% to 2.6%), reduce electricity price spikes and the risks of natural gas price volatility, and reduce air pollution and the carbon emissions that cause global warming. See Exhibit JS-1.

Essentially, the EES would result in a 1,000 MW “efficiency power plant” that would provide $1.4 billion of net economic benefits to consumers, instead of building conventional power plants that would cost more and expose consumers to higher electricity prices, use precious water, and harm the environment.

Q. Are the goals of the EES reasonable and achievable?

A. Yes, the proposed EES goals are both reasonable and achievable. The goals are reasonable and achievable considering the low level of energy efficiency activities in Arizona in the past, the need to ramp up energy efficiency efforts in the early years, the high rate of load growth in the APS service territory, the significant energy efficiency potential in new construction, and the historical energy efficiency performance in leading states.

Q. Have other states or utilities achieved energy savings equivalent to the EES goals that SWEEP proposes?

A. Yes. According to a 2005 study by the American Council for an Energy Efficient Economy (ACEEE), based on 2003 data the utilities report to EIA, seven states achieved cumulative annual energy savings greater than 5% of retail energy sales. In terms of 2003 cumulative annual energy savings as a percent of 2003 retail sales, the seven states saved energy equivalent to between 5.8% and 7.8% of retail sales. All seven of the states (Connecticut, California, Washington, Minnesota, Rhode Island,

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Oregon, and Massachusetts) have continued their energy efficiency programs since 2003, therefore their cumulative energy savings in 2006 should be even higher.

Q. Is SWEEP proposing additional DSM energy efficiency programs to achieve the EES goals?

A. The existing Commission-approved DSM energy efficiency programs should be expanded to achieve the goals of the EES. While some additional DSM energy efficiency programs or program elements may be needed to achieve the EES goals, and may also be valuable for providing additional benefits to APS customers, the primary mechanism for achieving the EES goals should be the expansion of existing programs already approved by the Commission.

Q. Are the existing APS DSM programs performing adequately (to date) to be able to be expanded to achieve the EES goals?

A. Yes. The performance to date of the recently-approved APS DSM energy efficiency programs has been very good, and the programs are providing significant net benefits (over $4.2 million of net economic benefits in 2005). See Exhibit JS-1.\(^2\)

SWEEP Estimate of Energy Savings and Funding for the APS Service Territory

Q. Has SWEEP prepared an estimate of the impact of the EES goals in terms of energy savings and associated funding in 2005 through 2020?

A. Yes. See Exhibit JS-1, which shows annual and cumulative annual energy savings, the impact of the energy savings on the forecast and load growth, the total and additional funding that SWEEP estimates will be necessary to achieve the goals, and the net economic benefits to customers. For example, total cumulative annual energy savings of 1,600 GWh are necessary to achieve the goal of 5% of total energy resources needed to meet retail load in 2010 from energy efficiency programs.

Funding to Achieve the Energy Efficiency Standard (EES) Goals

Q. What funding level will be needed to achieve the goals of the Energy Efficiency Standard proposed by SWEEP?

A. The Commission should authorize adequate funding to achieve the goals of the Energy Efficiency Standard (EES). SWEEP estimates that energy efficiency funding

\(^2\) SWEEP plans to issue a data request to APS asking for a summary of DSM program performance to date, though closer to the date of the hearing so that the information will be timely and up-to-date.
of $0.002 per kWh of retail energy sales (2 mills) will be necessary to achieve the EES goals. In 2007, the third year of the 2005-2007 Portfolio Plan, total DSM energy efficiency funding should be increased from about $25 million to $38 million, an increase of about $13 million. In 2008 and future years, total DSM energy efficiency funding should be equivalent to $0.002 (2 mills) per kWh of retail energy sales, which would be $56.8 million in 2008. The additional DSM funding for 2008 would amount to $40.8 million (the amount above the $16 million per year authorized in Decision No. 67744).

Note that to meet the $48 million funding requirement for 2005-2007 ordered in Decision No. 67744, APS will need to increase expenditures above $16 million in 2006 and 2007 (given that APS spent less than $16 million in 2005).

Funding for any DSM demand response and load management programs should be in addition to the energy efficiency program funding.

Q. What would be the impact of the total funding level on residential customers?

A. The total energy efficiency funding level of $0.002 per kWh of retail energy sales (2 mills), if expensed annually, would amount to about $2.26 per month for the average APS residential customer, based on the test year (see Exhibit JS-2). The incremental increase due to the additional DSM funding, if expensed annually, would be $1.61 per month for the average APS residential customer (from $0.65 per month for a funding level of $16 million to $2.26 per month for the test year based on a total funding rate of $0.002 per kWh of retail energy sales).

While rates would increase slightly, the total costs to customers (bills) would decrease due to investment in cost-effective energy efficiency.

**DSM Funding and Cost-Recovery Mechanisms**

Q. Which DSM funding and cost-recovery mechanisms should be used to provide the additional DSM funding that will be needed to achieve the goals of the EES?

A. In general, energy efficiency funding and cost recovery could be accomplished through funding in base rates, a DSM adjustment mechanism, a system benefits surcharge, amortizing or capitalizing the DSM investments over time, or a combination of funding mechanisms.

For APS, the Commission previously authorized a two-part DSM funding and cost-recovery mechanism, with one portion of the DSM funding in base rates ($10 million) and the second portion of the DSM funding (at least $6 million) recovered using a
DSM adjustment mechanism (for the amount in excess of the base rate DSM allowance).

The two-part approach is adequate for the current level of authorized DSM funding. The Commission could choose to expand the current two-part approach or build upon it by using an additional funding mechanism for some or all of the additional funding needed to meet the goals of the EES.

Q. Are there DSM funding and cost-recovery mechanisms that would reduce the rate impacts of the DSM program funding increase in the early years of the EES?

A. Yes. The Commission could choose to amortize or capitalize a portion of the DSM expenditures, similar to how investments in power plants are recovered through customer rates over time, thereby reducing the customer rate impacts of DSM programs in the early years of the EES. For example, the Commission could spread the additional DSM costs to ratepayers across several years (e.g., 5 years) in a manner that acknowledges that the energy efficiency benefits are achieved over several years.

Q. Could a combination of DSM funding and cost-recovery mechanisms be used?

A. Yes. For example, the APS DSM energy efficiency funding of $38 million in 2007 could consist of $10 million in base rates (or possibly more depending on the 2005 base rate accrual), $6 million recovered through the DSM adjustment mechanism, and the additional amount of up to $22 million (depending on the accrual of the 2005 base rates) recovered through an expansion of the existing DSM adjustment mechanism. The DSM energy efficiency funding of $56.8 million in 2008 could consist of $10 million in base rates, $16.8 million recovered through an expansion of the existing DSM adjustment mechanism, and the additional $30 million amortized over five years.

Q. Does SWEEP have a preference for a particular funding and cost-recovery mechanism in this case?

A. SWEEP is open to considering any of the above funding and cost-recovery mechanisms and combinations. SWEEP does not have a strong preference for one particular mechanism. However, any funding mechanism or combination of mechanisms should have, at a minimum, the same advantages of the two-part base rate and DSM adjustment mechanism approach in place at APS now, including but not limited to the flexibility to adjust funding outside of a rate case to meet customer

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3 In order to meet the $48 million spending requirement in 2005-2007 (Decision No. 67744), APS will need to accrue or carry forward the unexpended portion of the $10 million in base rates from 2005 for use in the 2006 or 2007 program years.
demand for cost-effective, Commission-approved DSM services, and the ability to increase DSM funding above a base amount in the event that additional DSM programs are approved by the Commission between rate cases. In addition, SWEEP believes it would be best to build on the existing funding mechanisms and use a combination of mechanisms, as in the examples above, rather than implementing a new mechanism for 100% of the DSM funding.

Development of an EES Implementation Plan for the APS Service Territory

Q. Should an EES implementation plan for the APS service territory be developed?
A. Yes. APS should file an implementation plan to achieve the goals of the EES, covering the 2008-2020 program years, in the spring of 2007, at the same time APS refiles the Non-Residential portion of its DSM Portfolio Plan (per Commission order). The EES Implementation Plan should be developed by APS with input from and review by the Collaborative DSM Working Group, which includes Staff and interested parties.

The EES Implementation Plan should include the historical DSM results for 2005-2006, and should include a forecast for the expansion of the existing Commission-approved DSM energy efficiency programs in 2007. The expansion of approved DSM programs in 2007 should proceed as a result of the order in this proceeding, and should not be postponed for the development, review, and Commission approval of the EES Implementation Plan (which should cover 2008-2020 DSM programs).

Q. What about Staff review and Commission approval of the EES Implementation Plan?
A. The EES Implementation Plan should be reviewed by Staff, and then be reviewed and approved by the Commission prior to implementation for 2008 and future years.

Since Staff will participate directly in the development of the EES Implementation Plan as part of the DSM Collaborative Working Group, SWEEP recommends that the Commission provide 60 days for Staff review of the EES Plan after it is filed by APS.

Other DSM and Pricing Approaches

Q. Are there other approaches to achieving energy savings and peak demand reductions that SWEEP recommends?
A. Yes. SWEEP supports complementary approaches such as demand response and load management programs to encourage peak load reductions, and pricing and rate designs to encourage energy efficiency and reduce peak demand. SWEEP supports
these approaches as complements to effective energy efficiency policies and programs, not as replacements for cost-effective utility DSM energy efficiency programs.

Any proposed demand response and load management programs should be described and documented in the DSM EES plan or in a separate application for program pre-approval. Funding for demand response and load management programs should be in addition to the increased DSM energy efficiency funding set forth herein. Costs for the demand response and load management programs could be recovered through a demand response tariff or through an increase in the DSM adjustment mechanism.

Q. Does that conclude your direct testimony?

A. Yes.
| SWEEP Energy Efficiency Program Goals: Energy Efficiency Standard (EES) of 5% by 2010 and 15% by 2020 |
|-------------------------------------------------|-------------------------------------------------|
| **Comparison of Base Case vs. Energy Efficiency Standard (EES) Case for the APS Service Territory** |
| **SWEEP Proposal for EES**                        | **Base Case**                                   |
| **2002**  | **2003**  | **2005**  | **2007**  | **2011**  | **2013**  | **2015**  | **2016**  | **2017**  | **2019**  | **2020**  |
| 1 Base Case Retail Energy Sales (GWh)            | 23,773  | 24,564  | 25,281  | 26,413  | 27,195  | 28,084  | 30,314  | 31,450  | 31,802  | 32,505  | 37,917  | 39,255  | 40,851  | 42,406  | 44,047  | 45,600  |
| 2 Annual Growth Rate (%)                         | 3.6%    | 3.6%    | 3.6%    | 3.6%    | 3.6%    | 3.6%    | 3.6%    | 3.6%    | 3.6%    | 3.6%    | 3.6%    | 3.6%    | 3.6%    | 3.6%    | 3.6%    | 3.6%    | 3.6%    |
| 3 Energy Savings Goal (% of forecast)            | 0.95%   | 0.95%   | 0.95%   | 0.95%   | 1.20%   | 1.35%   | 1.35%   | 1.35%   | 1.35%   | 1.35%   | 1.35%   | 1.35%   | 1.35%   | 1.35%   | 1.35%   | 1.35%   | 1.35%   |
| 4 Annual Energy Savings, 2005-07 Plan            | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    |
| 5 Total Annual Energy Savings (GWh)              | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    |
| 6 Cumulative Annual Savings (GWh)                | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    |
| 7 Cumulative Annual Savings (related to the forecast) | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    | 22.6    |
| 8 EES Case Retail Energy Sales (GWh)             | 26,039  | 26,055  | 27,721  | 29,723  | 31,287  | 32,200  | 33,044  | 33,922  | 34,602  | 35,774  | 36,754  | 37,771  | 38,527  |
| 9 EES Case Annual Growth Rate (%)                | 2.2%    | 2.2%    | 2.2%    | 2.2%    | 2.2%    | 2.2%    | 2.2%    | 2.2%    | 2.2%    | 2.2%    | 2.2%    | 2.2%    | 2.2%    | 2.2%    | 2.2%    | 2.2%    | 2.2%    |
| 10 Program Expenditures, 2005-07 Plan            | 91,211  | 91,211  | 91,211  | 91,211  | 91,211  | 91,211  | 91,211  | 91,211  | 91,211  | 91,211  | 91,211  | 91,211  | 91,211  | 91,211  | 91,211  | 91,211  |
| 11 Additional Program Expenditures (GWh)        | 11,842  | 11,842  | 11,842  | 11,842  | 11,842  | 11,842  | 11,842  | 11,842  | 11,842  | 11,842  | 11,842  | 11,842  | 11,842  | 11,842  | 11,842  | 11,842  |
| 12 Total Program Expenditures (GWh)             | 11,842  | 11,842  | 11,842  | 11,842  | 11,842  | 11,842  | 11,842  | 11,842  | 11,842  | 11,842  | 11,842  | 11,842  | 11,842  | 11,842  | 11,842  | 11,842  |
| (based on EES case retail energy sales)          |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |
| 13 DSM Program Cost Per kWh Saved               | 0.028   | 0.028   | 0.028   | 0.028   | 0.028   | 0.028   | 0.028   | 0.028   | 0.028   | 0.028   | 0.028   | 0.028   | 0.028   | 0.028   | 0.028   | 0.028   | 0.028   |
| (societal benefits minus societal costs)         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |

**Notes:**
- Energy Forecast: Based on APS Schedule E-7, APS Electric Operating Statistics, APS SFDR (1/6/00).
- Annual Energy Savings (GWh) 2005-07 Plan: 203 GWh (based on 2005-07 plan per the APS DSM Portfolio Plan, July 2005, consistent with Ewen testimony; 194.2 MWh average savings per year).
- Basis of Net Economic Benefits: 2.08 benefit/cost ratio per the APS DSM Portfolio Plan, July 2005, and a ratio of societal costs to program costs = 1.4.

**Calculation of Energy Efficiency Savings, and Savings as % of Load Growth**
- Base Case Retail Energy Sales: 146,225 (2006-2010) retail energy sales
- EES Case Retail Energy Sales: 142,077 (2006-2010) EES retail energy sales
- Reduction in Retail Energy Sales: 4,148 (2006-2010) reduction in retail energy sales (RMH savings)
- Measure life (years): 12.15
- NW to peak demand reduction: 32.0% of the 2006-2010 load growth (16% in EES Case vs. 38% in Base Case).
- MWh annual funding (60 M in base rates, at least 60 M in EES case): 102,575
- EES Case vs. Base: 114,220
- Net economic benefits (societal benefits): 13,199,813

**Calculation of % Growth in Retail Energy Sales in Base Case and EES Case**
- Base EES Case: 2006-2010, 5.7% growth in retail energy sales.
**SWEEP Estimates of APS DSM Energy Efficiency Program Costs Per Customer**

Based on Schedule E-7, APS Electric Operating Statistics, in the APS SFRs (1/31/06)
For Test Year Ending September 30, 2006

**DSM Energy Efficiency Standard (EES) designed to achieve energy savings equivalent to 5% of total resource requirements in 2010, 15% in 2020.**

<table>
<thead>
<tr>
<th></th>
<th>2005 Retail Sales (MWh)</th>
<th>Annual DSM Funding ($1,000)</th>
<th>Number of Customers</th>
<th>Annual DSM Cost Per Customer</th>
<th>Average Monthly DSM Cost Per Customer</th>
<th>Average DSM Revenue Per Customer</th>
<th>Average Revenue Per Customer</th>
<th>% of Average Revenue</th>
<th>Estimated Funding Level for DSM Energy Efficiency =</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>12,034,503</td>
<td>24,069</td>
<td>86,460</td>
<td>$27.15</td>
<td>$2.26</td>
<td>$1,190.62</td>
<td>2.3%</td>
<td></td>
<td>$0.0020 per kWh of retail sales</td>
</tr>
<tr>
<td>Commercial</td>
<td>11,561,699</td>
<td>23,123</td>
<td>105,454</td>
<td>$219.27</td>
<td>$18.27</td>
<td>$114.97</td>
<td>2.3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrial</td>
<td>2,375,393</td>
<td>4,753</td>
<td>3,445</td>
<td>$1,379.62</td>
<td>$114.97</td>
<td>$7,170.82</td>
<td>2.3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subtotal</td>
<td>25,972,595</td>
<td>51,945</td>
<td>225,359</td>
<td>$52.19</td>
<td>$4.35</td>
<td>$19,437.25</td>
<td>2.3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Irrigation</td>
<td>25,446</td>
<td>51</td>
<td>335</td>
<td>$151.92</td>
<td>$12.66</td>
<td>$7,611.35</td>
<td>2.3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Street and Highway Lighting</td>
<td>111,241</td>
<td>222</td>
<td>814</td>
<td>$273.32</td>
<td>$22.78</td>
<td></td>
<td>2.3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Public Authorities</td>
<td>3,615</td>
<td>7</td>
<td>193</td>
<td>$37.46</td>
<td>$3.12</td>
<td></td>
<td>2.3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total for Retail Consumers</strong></td>
<td><strong>26,112,897</strong></td>
<td><strong>52,226</strong></td>
<td><strong>996,701</strong></td>
<td><strong>$52.40</strong></td>
<td><strong>$4.37</strong></td>
<td><strong>$19,437.25</strong></td>
<td>2.3%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

August 2006