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AZ CORP COMMISSION
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UniSourceEnergy
SERVICES

August 28, 2008

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

Re: Docket Nos. G-04204A-06-0463, G-04204A-06-0013 and
G-04204A-05-0831, Decision No. 70011

Docket Control:

Pursuant to Decision No. 70011 (November 27, 2008) UNS Gas, Inc. ("UNS Gas") is required to submit semi-annual Demand-Side Management ("DSM") program progress reports on March 1st and September 1st of each year in accordance with Commission Staff's recommendations. Enclosed please find UNS Gas' Semi-Annual DSM Program Progress Report for January 1, 2008 through June 30, 2008. Also enclosed is an additional copy that the Company requests you date-stamp and return in the self-addressed, stamped envelope for our files.

If you have any questions, please contact me at (520) 884-3680.

Sincerely,

Jessica Bryne
Regulatory Services

Enclosures: Report

cc: Compliance, ACC
Julie McNeely-Kirwan, ACC

Arizona Corporation Commission
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UNS GAS, INC.

SEMI-ANNUAL DSM PROGRESS REPORT FOR THE PERIOD: January 1, 2008 through June 30, 2008

This progress report includes the following information for all UNS Gas Demand Side Management (DSM) programs that were in place during this reported period:

- 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, kWh, and therm savings
- Problems encountered and proposed solutions
- Costs incurred during the reporting period disaggregated by type of cost, such as administrative costs, rebates, and monitoring
- Findings from all research projects
- Other significant information

Summary pages detailing DSM program expenses and savings benefits are provided in Tables 1 and 2. Program savings and costs since program inceptions are provided in Table 3.

UNS GAS, INC.

SEMI-ANNUAL DSM PROGRESS REPORT FOR THE PERIOD:
January 1, 2008 through June 30, 2008

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UNS GAS, INC.

SEMI-ANNUAL DSM PROGRESS REPORT FOR THE PERIOD: January 1, 2008 through June 30, 2008

Table 1

DSM PROGRAM EXPENSES: JANUARY 1, 2008 – JUNE 30, 2008

DSM Program	Rebates & Incentives	Training & Technical Assistance	Consumer Education	Program Implementation	Program Marketing	Planning & Admin	Program Total Cost
Residential Programs							
Low-Income Weatherization	\$16,379	\$3,000	\$0	\$0	\$0	\$1,289	\$20,669
Energy Smart Homes	\$0	\$385	\$0	\$13,648	\$38	\$4,944	\$19,014
Efficient Home Heating	\$0	\$434	\$0	\$8,869	\$2,820	\$3,420	\$15,542
Total for Residential	\$16,379	\$3,819	\$0	\$22,517	\$2,857	\$9,652	\$55,225
Commercial Programs							
C&I Facilities Gas Efficiency	\$0	\$385	\$0	\$14,167	\$0	\$3,420	\$17,972
							\$0
Total for Commercial Programs	\$0	\$385	\$0	\$14,167	\$0	\$3,420	\$17,972
Segment Totals	\$16,379	\$4,203	\$0	\$36,685	\$2,857	\$13,072	\$73,197

Program Costs	\$73,197
Measurement, Evaluation & Research (MER)¹	\$26,165
TOTAL	\$99,362

Notes:

1) MER - External (Summit Blue) costs for program design, evaluation, ongoing development and technical assistance with DSM Program Portfolio

Definitions

Rebates & Incentives – Includes dollars that go toward customer rebates and incentives and installation of low income weatherization.

Training and Technical Assistance – Includes all dollars used for energy efficiency training and technical assistance.

Consumer Education – Includes dollars 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 – 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, and 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.

UNS GAS, INC.

SEMI-ANNUAL DSM PROGRESS REPORT FOR THE PERIOD: January 1, 2008 through June 30, 2008

Table 2

DSM SAVINGS BENEFITS: JANUARY 1, 2008 – JUNE 30, 2008¹

DSM Program	Capacity Savings MW	Lifetime MWH Savings	Lifetime Therm Savings	Program Cost	Total Annual Participant Savings (est)	Lifetime CO2 Savings (lbs)	Lifetime Water Savings (gals)
Residential							
Low-Income Weatherization	0.0003	55	74,127	\$20,669	\$7,187	924,684	12,701
Total	0.0003	55	74,127	\$20,669	\$7,187	924,684	12,701

¹ Low-Income Weatherization is the only DSM program with any savings to report for this period.

UNS GAS, INC.

SEMI-ANNUAL DSM PROGRESS REPORT FOR THE PERIOD: January 1, 2008 through June 30, 2008

Table 3

DSM SAVINGS & COSTS SINCE PROGRAM INCEPTION: JANUARY 2007 – JUNE 2008

PROGRAM	ACC Staff Approval	2008 Participants		2008 Program Costs		MW		MWh		Therm	
		Jan - Jun	PTD	Jan - Jun	PTD	Jan - Jun	PTD Savings	Jan - Jun	PTD Savings	Jan - Jun	PTD Savings
Low-Income Weatherization*	2008	14	74	\$20,669	\$92,574	0.0003	0.0015	4	19	4,942	26,121
TOTAL		14	74	\$20,669	\$92,574	0.0003	0.0015	4	19	4,942	26,121

*Includes reported savings for 2007. Savings are estimated using deemed savings from LIW Program filing October 2007. See footnote page 5.

UNS GAS, INC.

SEMI-ANNUAL DSM PROGRESS REPORT FOR THE PERIOD:
January 1, 2008 through June 30, 2008

UNS GAS LOW-INCOME WEATHERIZATION PROGRAM

Description

The UNS Gas Low-Income Weatherization Program is designed to improve the energy efficiency of homes for customers whose income falls within the defined federal poverty guidelines. Steps taken in this program will reduce gas and electric bills for eligible customers, improve comfort, and improve their quality of life. Energy savings realized from this program will allow low-income customers to utilize the limited income they receive for other necessary items such as rent, food, or medical expenses.

Program Modifications

On February 27, 2008 UNS Gas received ACC approval to increase the annual available funding from \$75,000 to \$113,400. Beginning in 2008, weatherization measures utilized by the agencies for each customer must pass the cost-effectiveness test detailed in the Arizona Energy Office ("AEO") Weatherization Assistance Program ("WAP") rules. WAP rules include not only consideration of energy efficiency, but also consideration of comfort and the health and safety attributes of homes. The agencies will process the details of the repairs for each house using the AEO online WAP database. The AEO will collect all the data submitted by the agencies and will provide UNS Gas with the necessary periodic reports.

Program Goals and Objectives

- To increase the number of homes weatherized each year;
- Lower the average household utility bills of low income customers by utilizing energy conservation measures in the weatherization process; and
- Improve the quality of life for the customers by providing them with a safe and healthy home.

Programs Terminated

No programs were terminated during this reporting period.

Level of Participation

A total of 14 households received weatherization assistance during the first six months of 2008. Some agencies only turn in invoices once or twice a year, typically in the 3rd and 4th quarter; therefore, UNS Gas anticipates reporting a significantly greater number of households weatherized in the end of year DSM report.

Evaluation and Monitoring Activities and Results

No evaluation or monitoring is available for this reporting period.

UNS GAS, INC.

SEMI-ANNUAL DSM PROGRESS REPORT FOR THE PERIOD: January 1, 2008 through June 30, 2008

kW, kWh, and therm Savings

The *estimated* savings for this reporting period are listed below:²

No. of Homes	kW savings	kWh savings	Therm savings
14	0.3	3,634	4,942

Problems Encountered and Proposed Solutions

At this time, the AEO does not have sufficient historical energy usage on UNS Gas customers participating in the program. AEO requires a minimum of two years of billing data with a preference of four years of data for each customer. UNS Gas is working closely with the AEO to provide them historical billing data for homes weatherized in 2008 and in the future. Details of the process are still being developed.

Costs Incurred

Costs incurred for this program during the reporting period are listed below:

Activity	Rebates & Incentives*	Training & Technical Assistance	Consumer Education	Program Implementation	Program Marketing	Planning & Admin	Program Total Cost
Weatherization	\$16,379	\$3,000				\$1,289	\$20,669
Total	\$16,379	\$3,000	\$0	\$0	\$0	\$1,289	\$20,669

*No reported spending for health and safety related repairs

Findings from All Research Projects

No research projects were performed during this reporting period.

Other Significant Information

No other significant information to report at this time.

² Savings are estimated using deemed savings provided in the UNS Gas LIW Program filing from October 2007. Once sufficient local records are available, the AEO will provide analysis on actual energy savings for TEP customers.

UNS GAS, INC.

SEMI-ANNUAL DSM PROGRESS REPORT FOR THE PERIOD:
January 1, 2008 through June 30, 2008

UNS GAS ENERGY SMART HOMES PROGRAM

Description

The Residential New Construction Program for UNS Gas will be marketed under the name of Energy Smart Homes ("ESH"). The UNS Gas ESH program will emphasize the whole-house approach to improving health, safety, comfort, durability, and energy efficiency. The program will promote homes that meet the 2006 EPA/DOE Energy Star Home[®] performance requirements. To encourage program participation, the program will provide incentives to homebuilders for each qualifying home. Required on-site inspections and field testing of a random sample of homes to meet Energy Star Home[®] performance requirements will be conducted by third-party RESNET certified energy raters selected by each builder. Components of ESH include development of branding, builder training curriculum, and marketing collateral.

Program Modifications

No modifications were made during this reporting period.

Program Goals, Objectives, and Savings Targets

- Work with local builders to construct energy efficient homes;
- Train builder construction staff and subcontractors in advanced building science concepts to increase energy efficiency through improved design and installation practices;
- Transform the market and improve construction practices in the UNS Gas service territory;
- Reduce peak demand and overall energy consumption in new homes;
- Stimulate construction of new homes that are inspected and tested to assure energy performance;
- Assist builder sales agents with promoting and selling energy-efficient homes;
- Increase homebuyer awareness and understanding of energy-efficient building practices and the benefits of purchasing an energy efficient home; and
- Achieve an annual participation of between 9% and 11% of new home units.

Programs Terminated

No programs were terminated during this reporting period.

Levels of Participation

There are no completed homes during this reporting period.

Evaluation and Monitoring Activities and Results

No evaluation or monitoring is available for this reporting period.

kW, kWh, and Therm Savings

There are no program savings to report this period.

UNS GAS, INC.

SEMI-ANNUAL DSM PROGRESS REPORT FOR THE PERIOD: January 1, 2008 through June 30, 2008

Problems Encountered and Proposed Solutions

The Mohave and Santa Cruz County housing markets have experienced a significant decrease in new home sales, consistent with the decrease in other areas of Arizona. This reduces the number of homes available to be built to increased energy-efficiency standards. Builders in an attempt to increase sales have been cutting prices looking for ways to cut costs. This downward pressure on profit margins makes it harder to convince builders to incur the added costs of building an energy efficient home. However, there appears to be increasing interest by some builders to differentiate their product by building energy efficient homes in order to gain an advantage in a tough market. By supporting these builders, the UNS Gas Energy Smart Homes Program may position itself for rapid growth when the market turns.

Costs Incurred

Costs incurred for this program during the reporting period are listed below:

DSM Program	Rebates & Incentives	Training & Technical Assistance	Consumer Education	Program Implementation	Program Marketing	Planning & Admin	Program Total Cost
Energy Smart Homes	\$0	\$385		\$13,648	\$38	\$4,944	\$19,014
Total	\$0	\$385	\$0	\$13,648	\$38	\$4,944	\$19,014

Findings from All Research Projects

No research projects were undertaken during this reporting period.

Other Significant Information

On February 27, 2008 the ESH Program received ACC approval. On April 15, 2008 Conservation Services Group ("CSG") was chosen as the Implementation Contractor ("IC") for the ESH Program. The ESH Program was launched June 16, 2008. During this time CSG and UNS Gas have visited markets and met with builders. CSG has also hired and trained their internal personnel to implement the program.

UNS GAS, INC.

SEMI-ANNUAL DSM PROGRESS REPORT FOR THE PERIOD:

January 1, 2008 through June 30, 2008

UNS GAS EFFICIENT HOME HEATING PROGRAM

Description

The Efficient Home Heating Program ("EHH") promotes the purchase and installation of Energy Star qualified, high-efficiency, gas-fueled furnaces that meet or exceed the minimum Energy Star standard of 90% AFUE. Incentives for the purchase of qualifying high-efficiency equipment are paid directly to homeowners.

Program Modifications

Research has determined that packaged air conditioners with high-efficiency furnaces are not available in the marketplace. Therefore, that component of the program has been eliminated.

Program Goals and Objectives

- Promote the installation of high-efficiency gas-fueled furnaces;
- Reduce customer energy bills, provide equal or better comfort conditions, conserve energy and benefit the environment; and
- Achieve target participation of 700 + furnaces installed per year

Programs Terminated

No programs were terminated during this reporting period.

Level of Participation

There are no participants for this reporting period.

Evaluation and Monitoring Activities and Results

No evaluation or monitoring is available for this reporting period.

kW, kWh, and therm Savings

There are no program savings to report this period.

Problems Encountered and Proposed Solutions

No problems were encountered during this reporting period.

UNS GAS, INC.

SEMI-ANNUAL DSM PROGRESS REPORT FOR THE PERIOD: January 1, 2008 through June 30, 2008

Costs Incurred

Costs incurred for this program during the reporting period are listed below:

DSM Program	Rebates & Incentives	Training & Technical Assistance	Consumer Education	Program Implementation	Program Marketing	Planning & Admin	Program Total Cost
Efficient Home Heating		\$434		\$8,869	\$2,820	\$3,420	\$15,542
Total	\$0	\$434	\$0	\$8,869	\$2,820	\$3,420	\$15,542

Other Significant Information

The EHH Program received ACC approval on February 27, 2008. UNS Gas officially launched the program June 16, 2008. Before launch, UNS Gas developed the following documents and education pieces:

- Contractor Participation Agreement;
- Rebate Application Form;
- Marketing Brochure;
- Contractor Certificate; and
- Comprehensive website information.

HVAC Contractors were actively recruited for participation in the Program. To date 24 contractors throughout UNS Gas territory have signed agreements to participate in the program.

A copy of the marketing brochure is included in Appendix 1.

UNS GAS, INC.

SEMI-ANNUAL DSM PROGRESS REPORT FOR THE PERIOD:
January 1, 2008 through June 30, 2008

UNS GAS C&I FACILITIES GAS EFFICIENCY PROGRAM

Description

The C&I Facilities Gas Efficiency Program is designed to promote the installation of high-efficiency, gas-fueled equipment and systems at existing commercial and industrial facilities within the UNS Gas service area.

Program Modifications

No modifications were made during this reporting period.

Program Goals and Objectives

- Help commercial and industrial customers reduce and manage their energy costs;
- Reduce greenhouse gas emissions; and
- Lower overall rates and energy costs compared to other resource options.

Programs Terminated

No programs were terminated during this reporting period.

Level of Participation

No applications were submitted during this reporting period.

Evaluation and Monitoring Activities and Results

No evaluation or monitoring is available for this reporting period.

kW, kWh, and therm Savings

There are no program savings to report this period.

Problems Encountered and Proposed Solutions

No problems were encountered during this reporting period.

Costs Incurred

Costs incurred for this program during the reporting period are listed below:

DSM Program	Rebates & Incentives	Training & Technical Assistance	Consumer Education	Program Implementation	Program Marketing	Planning & Admin	Program Total Cost
C&I Facilities Gas Efficiency		\$385		\$14,167		\$3,420	\$17,972
Total	\$0	\$385	\$0	\$14,167	\$0	\$3,420	\$17,972

UNS GAS, INC.

SEMI-ANNUAL DSM PROGRESS REPORT FOR THE PERIOD: January 1, 2008 through June 30, 2008

Other Significant Information

The UNS Gas C&I Program received ACC approval on February 27, 2008. KEMA was selected as the IC on May 25, 2008. KEMA and UNS Gas jointly developed an implementation plan in June of 2008.

Program marketing efforts started with UNS Gas employee meetings held late April and early May. The C&I program was launched on June 16, 2008, with the website and IC call center operational on the same date. Initial meetings were held with HVAC contractors in mid-June 2008 to coincide with the web site launch. Program planning, development, and document preparation was completed by June 30, 2008.

UNS GAS, INC.

**SEMI-ANNUAL DSM PROGRESS REPORT FOR THE PERIOD:
January 1, 2008 through June 30, 2008**

APPENDIX 1 – EHH BROCHURE

UniSourceEnergy
SERVICES

EFFICIENT HOME HEATING



UNS GAS, INC.



UniSourceEnergy
SERVICES

PO Box 3099 Kingman, AZ 86402-3099

877-UES-4YOU or 877-937-4968

uesaz.com

Paid for by UniSource Energy Services gas customers
and approved by the Arizona Corporation Commission.

UES gives
you up to

\$325

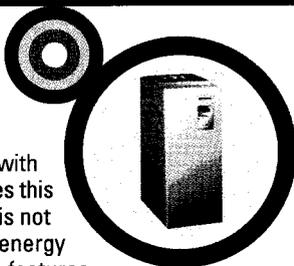
in rebates!*

*Incentives vary depending on unit heating capacity and efficiency.

If the furnace in your home is more than 15 years old, a new high-efficiency furnace can save you a bundle on your winter heating costs. What's more, it will benefit the environment and may provide improved comfort.

If you're considering a new furnace, the UES Efficient Home Heating Program offers rebates of up to \$325 toward the purchase of qualifying high-efficiency natural gas equipment. Visit uesaz.com for rebate details.

Many old furnaces are very inefficient and have energy-wasting standing pilot lights that operate continuously. New high-efficiency furnaces are equipped with an electronic ignition that eliminates this continuous use of energy when it is not needed. In addition to substantial energy savings, qualified equipment often features quieter operation, longer warranties and other benefits.

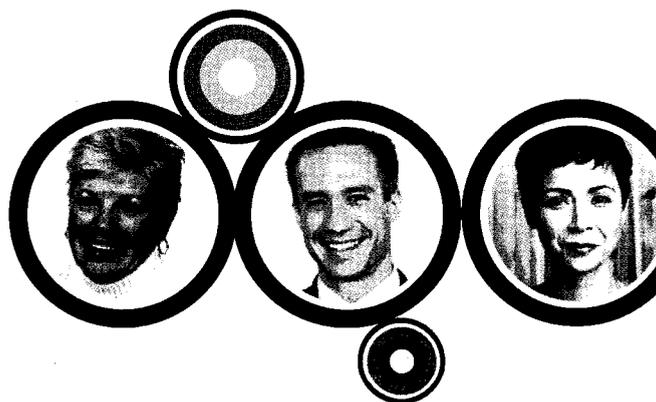


WHY PURCHASE AN ENERGY-EFFICIENT FURNACE?

- **Save money.** You can save up to \$1,960 over the estimated 15-year lifetime of a new furnace.**
- **Save energy.** Energy consumed to heat your home can be reduced by up to 142 therms per year.**
- **Improve comfort.** A new, high-efficiency furnace will operate at maximum efficiency and output to keep you warm all winter long.
- **Benefit the environment.** Do your part! High-efficiency furnaces reduce carbon dioxide (CO₂) emissions compared to older, inefficient furnaces.

WHAT ARE THE ELIGIBILITY REQUIREMENTS?

- You must be a UniSource Energy Services gas residential customer.
- The new furnace must be installed at a UES gas service address.
- The new furnace must have a minimum efficiency rating of 90 AFUE. Visit our Web site at uesaz.com for a complete list of qualified furnaces.
- UES strongly recommends the purchase and installation of ENERGY STAR qualified equipment.



HOW DO I GET STARTED?



- Contact a participating HVAC contractor for an estimate. Visit uesaz.com for an updated contractor list.
- Once your new furnace is installed, your HVAC contractor will mail a completed application with proof of purchase (copy of the paid invoice) to UniSource Energy Services.
- UES will verify the equipment efficiency and then issue a check to you for the specified rebate amount. Your rebate will be paid within 60 days of receipt of the invoice and verification that equipment meets efficiency requirements.



**Savings based on equipment installed and replaced.