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IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF THE PROPERTIES OF UNS GAS, INC. DEVOTED TO ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. G-04204A-08-0571 **SUBMITTAL OF PROPOSED ENERGY EFFICIENCY FINANCING PILOT PROGRAM IN COMPLIANCE WITH DECISION NO. 71623**

UNS Gas, Inc. ("UNS Gas" or the "Company"), through undersigned counsel, respectfully submits for consideration by the Arizona Corporation Commission ("Commission") a proposed energy efficiency revolving loan fund program (the "Program", attached as Exhibit 1) in compliance with Decision No. 71623 (April 14, 2010).

The Program was developed in conjunction with, and incorporating input from, the Sustainable Economic Development Initiative ("SEDI") and the Southwest Energy Efficiency Project ("SWEEP"). UNS Gas also consulted with Southwest Gas Corporation ("SWG") and Arizona Public Service Company ("APS") regarding Program issues. UNS Gas solicited many financial institutions to partner in the Program and hired Harcourt Brown Energy and Finance ("Harcourt Brown") as a consultant to assist in the creation of the Program.

The Program is designed to provide customers with the capital needed to make cost-effective energy efficiency upgrades to their homes and to promote energy efficiency. The Program includes: (i) a loan commitment of $1,000,000 per year for two years; (ii) lending for energy efficiency measures that meet the Commission-required cost effectiveness test; (iii) low interest rates; (iv) limited exposure to default risk; (v) convenient customer access to and repayment of the financing; (v) leveraged financing; and (vi) an experienced third party lender. The Company's incorporation of these features reflects its efforts to propose a program that is feasible and realistic.

Also included in this submission is a summary of UNS Gas's collaboration with community partners in developing the Program (attached as Exhibit 2).

UNS Gas looks forward to discussing the Program with the Commission and to participating in the process of implementing the Program for the benefit of its customers.

RESPECTFULLY SUBMITTED this 30th day of July, 2010.

UNS Gas, Inc.

By ______________________

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By Debbie Amaral

Exhibit 1

UNS Gas, Inc.
Residential Energy Efficiency Financing Pilot Program

Description and Proposal

TABLE OF CONTENTS

I. INTRODUCTION

UNS Gas, Inc. ("UNS Gas" or the "Company") has designed a proposed Energy Efficiency Residential Financing Pilot Program ("Program") in response to the Arizona Corporation Commission's ("Commission") Decision No. 71623 (April 14, 2010) to provide customers with the capital needed to make cost-effective energy efficiency upgrades to their homes. UNS Gas believes that a two year pilot program will allow sufficient time for the Company to evaluate the Program, including participation, default rates, and overall value to customers. UNS Gas's proposed Program elements include:

- Loan commitment of $1,000,000 per year for two years; this will provide approximately 344 loans based on an average $2,905 loan amount;
- Loans available only on energy efficiency measures meeting the Commission-required cost-effectiveness test;
- Low interest rates provided by a combination of an interest rate buy-down and a 10% loan loss reserve account;
- Limited customer exposure to default risk (10% of the loan commitment);
- Funding provided through an approved demand-side management ("DSM") adjustor charged to residential customers;
- Affordable residential financing for energy efficient measures;
- Convenient customer access to and repayment of the financing;
- Standard finance product offering for all eligible, approved borrowers;
- Leveraged financing;
- Accurate Truth-in-Lending notifications and billing to customers provided by an experienced third party lender; and
- Community involvement in forming and marketing the Program.

UNS Gas also requests Commission direction on the level of impact for residential customers. Depending on the Commission direction, UNS Gas proposes to increase DSM adjustor for residential customers by one of three levels during the first year of the two year pilot program.

- $1,000,000 in funding with no interest rate buy-down would require $0.0043 per therm to fund the Program. The average annual cost to each residential customer would be $2.24;
- $1,000,000 in funding with a 2% interest rate buy-down would require $0.0057 per therm to fund the Program. The average annual cost to each residential customer would be $2.97;
- $1,000,000 in funding with a 3% interest rate buy-down would require $0.0064 per therm to fund the Program. The average annual cost to each residential customer would be $3.31.

The second year adjustor for the Program is expected to decrease slightly as the second year costs for the program will be lower. Details are shown in section XII below.

II. PROGRAM OBJECTIVES AND RATIONALE

UNS Gas believes that the Program's financing options to help cover the costs of energy efficiency measures will improve customer participation in energy efficiency programs and expand the pool of customers that can afford to participate in those programs. Although other vendors offer financing for their own individual products, the Program's comprehensive approach to home energy upgrades cuts across several potential products and includes efficiency measures not traditionally financed, such as air and duct sealing.

Prior to designing the Program, UNS Gas developed key objectives for the Company's implementation of a financing program. Three objectives stood out from the rest as fundamental in order for UNS Gas to provide a financing option:

1. The program design must eliminate the utility from any Truth-in-Lending Law regulation implications;
2. The program must provide a reasonable amount of funds at a reasonable interest rate and with a low initial investment; and
3. Energy efficiency measures that qualify for UNS Gas financing must have met the Commission's cost-effectiveness test.

With these objectives, UNS Gas hired Harcourt Brown Energy and Finance ("Harcourt Brown") to assist with the evaluation, negotiations, and design of the Program. UNS Gas, with guidance from Harcourt Brown, selected a Third Party Financing model secured by a combination of a 10% loan loss reserve account and an interest rate buy-down, all funded from the DSM adjustor, as the best program offering.

III. TARGET MARKET

The target market for this Program is any residential customer in UNS Gas's service territory who owns their home. Financing is available for installation of approved and cost effective DSM energy efficiency measures. Eligible properties include single-family (1 to 4 unit), owner-occupied homes.

IV. PROGRAM EVALUATION PROCESS

Harcourt Brown evaluated the following parameters before recommending the most beneficial program to UNS Gas:

- sources of capital;
- interest rates;
- loan terms;
- loan types and amounts;
- risk management;

- program integration;
- ease of use;
- repayment billing; and
- equitable funding.

UNS Gas and Harcourt Brown considered several financing models and completed discussions with numerous entities nationwide before determining the most beneficial financing model for customers. The model selected by UNS Gas uses AFC First ("AFC" or "Lender") as the third party lender. Capital resources are provided by the Pennsylvania Treasury ("PA Treasury") with loans leveraged by a loss reserve account as well as the possibility of a small interest rate buy-down. All funding will be provided by a DSM adjustor applied to residential customers of UNS Gas.

V. DESCRIPTION OF PROGRAM

The Program will offer energy efficiency loans to UNS Gas customers who are seeking financing for the energy efficiency improvements to their homes. Loan proceeds can be used for energy efficiency measures that have been approved by the Commission.

The Program is designed to provide an equitable and comprehensive approach to the financing of energy efficiency improvements in existing homes. UNS Gas is proposing $1,000,000 in overall loan commitments to this Program for two consecutive years as a pilot program. UNS Gas believes the size of this loan commitment is sufficient based on the number of customers in its service territory and the limited DSM energy efficiency measures available for gas customers. In order for this Program to be viable, UNS Gas needs Commission approval of its currently pending Existing Homes and Residential Energy Assessment Programs.

UNS Gas evaluated the customer impact of three levels of funding, as shown in Table 1 below. UNS Gas assumed an average loan size of $2,905 and a maximum term of 12 years in these calculations. Actual amounts will vary by loan size and terms.

Table 1: Funding Levels and Cost to Customer

UNS Gas - Impact of Residential Financing Program with Buy-Down Options (Res Only) - Year 1					
Total Loan Amount Available (ResRate 10 Only)	***Estimated # of Loans**	**DSM Funding for Reserve (10%)**	**Buy-Down Percentage**	****DSM Funding for Buy-Down**	**Total Program Budget (Year 1)**
$1,000,000.00	344	$100,000	**0%**	$0	$297,422
$1,000,000.00	344	$100,000	**2%**	$96,386	$393,808
$1,000,000.00	344	$100,000	**3%**	$142,513	$439,935

UNS Gas - Impact of Residential Financing Program with Buy-Down Options (Res Only) - Year 2					
Total Loan Amount Available (ResRate 10 Only)	***Estimated # of Loans**	**DSM Funding for Reserve (10%)**	**Buy-Down Percentage**	****DSM Funding for Buy-Down**	*****Total Program Budget (Year 2)**
$1,000,000.00	344	$100,000	**0%**	$0	$258,922
$1,000,000.00	344	$100,000	**2%**	$96,386	$355,308
$1,000,000.00	344	$100,000	**3%**	$142,513	$401,435

* Assumes average loan size $2,905

** Assumes maximum 12 year term

*** Year 2 Costs reduced due to lower cost for marketing materials and contractor training

Total 2-Year DSM Budget	
No Buydown	$556,344
2% Buydown	$749,115
3% Buydown	$841,370

Note: UNS Gas proposes that the DSM Adjustor necessary to fund this program be collected only from residential customers, as the loan instruments described are restricted to residential customers.

Cost to Customer:

UNS Gas - Impact of Residential Financing Program with Buy-Down Options (Res Only)					
Total Program Budget	**Actual Therms 2009 (ResRate 10)**	**Adjustor Increase/ Therm (ResRate 10)**	**Total # of Customers EOY 2009 (ResRate 10)**	**Average Therms per Customer (ResRate 10)**	**Average Annual Cost (ResRate 10)**
$297,422	69,067,071	$0.0043	132,773	520	$2.24
$393,808	69,067,071	$0.0057	132,773	520	$2.97
$439,935	69,067,071	$0.0064	132,773	520	$3.31

A. Program Funding and Terms

The proposed Program operates as follows:

1. AFC will be the Lender that originates and services the Program loans. AFC has committed to make loans according to basic underwriting terms, including approving borrowers with a Fair Isaac Corporation ("FICO") credit score of 640 or higher. Borrowers may be granted up to 12 years repayment; though interest rates are currently to be determined, UNS Gas has secured a verbal commitment that rates will be between 7.99% and 9.99%. Interest rates will not vary due to loan size, term, or credit score and there will be no prepayment penalty.
2. Additional terms will be contractually delineated between AFC and UNS Gas. Final rates and availability will be determined by October 1, 2010, per verbal commitment from AFC.
3. PA Treasury will contract with AFC to purchase the Program loans from AFC. The interest rates, loan terms, underwriting criteria and other relevant characteristics of the loans that PA Treasury will purchase will be contractually delineated. Final rates and availability will be determined by October 1, 2010.
4. UNS Gas will set aside funds through a loan loss reserve account (10% of outstanding loan value) and/or an interest rate buy-down account. The loss reserve agreement will be negotiated with the PA Treasury.
5. AFC's loan capital will be replenished from the proceeds of UNS Gas's sale of Program loans to the PA Treasury, thereby enabling AFC to make new loans.
6. The PA Treasury will sell the Program loans to its investors. The proceeds from these sales will enable the PA Treasury to make additional loan purchases from AFC.
7. UNS Gas's role in this process will be to provide the loan loss reserve account, to support lending, and potentially to buy-down interest rates. Funding will be collected through the DSM adjustor from UNS Gas residential customers. UNS Gas will not service or originate the loans.

B. Interest Rate Buy-down

The interest rate buy-down referenced above may be necessary to offer a rate competitive with those rates offered in other utility financing programs in the State. The programs offered by Arizona Public Service and Southwest Gas Company have interest rates ranging from 6.5% to 8.5%. Because the interest rate buy-down will result in an additional cost that will be covered through the DSM adjustor, UNS Gas seeks Commission guidance on the final product offering. The cost of the interest rate buy-down will depend on (1) the market interest rate, (2) the target interest rate, (3) the loan amounts, and (4) the loan term. Table 2 illustrates two potential scenarios regarding the interest rate buy-down cost on a per-loan basis. Additional details are shown in Table 1 above.

Table 2: Interest Rate Buy-Down Costs

Average Loan Size of $2,905		
Buydown %	**7-Year Term**	**12-Year Term**
2%	$180	$280
3%	$267	$414

C. Loan Terms

UNS Gas has worked with many lenders to develop the best loan terms for its customers. Optimal repayment terms, interest rates, fees, and application processes have been at the forefront of discussions. However, UNS Gas cannot dictate to any lender the package of terms they must offer. The terms must be negotiated and beneficial to both the lender and the customer, and meet various standards set forth by bank regulators. The loan terms available under the Program are as follows:

Table 3: Loan Terms, Rates, and Payment Range

Financing Amount	Terms	Interest Rates	Payment Range on $2,905 Ave. Loan
$1,000 - $15,000 w/o Buydown	up to 144 Mos.	7.99% - 9.99%	$31 - $35
$1,000 - $15,000 w/2% Buydown	up to 144 Mos.	5.99% - 7.99%	$28 - $31
$1,000 - $15,000 w/3% Buydown	up to 144 Mos.	4.99% - 6.99%	$27 - $30

As demonstrated in Table 3, the payment amount based on the estimated average loan size does not fluctuate greatly between an interest rate of 4.99% and 9.99% ($27 to $35 per month). As the loan size increases to the maximum ($15,000), the payment spread widens from $139 per month to $179 per month at these same rates. UNS Gas is looking for guidance from the Commission to decide whether or not the benefit of the payment savings to these individual customers offsets the buy-down fee charged to all residential customers. As with other DSM Programs, low-income customers will be excluded from the DSM Adjustor.

D. Credit Underwriting

Limited credit standards will be used by the Lender in its underwriting process. Loan approval is granted based on FICO credit scores of 640 and above, debt-to-income ratios of 50% or less, and proof of income. These lower credit scores allow far greater participation for UNS Gas residential customers than products offered by most other lenders.

E. Application and Approval Process

The application and approval process is designed to be simple, easily accessible and convenient to all, as shown on the following page.

- Customers can call a 1-800 telephone number to apply and receive loan approval; or
- Applications can be filled out during the visit with the contractor; or
- Loan applications will be available on the UNS Gas website; and
- Loan approvals will occur within 20 minutes to 48 hours of making the application.

VI. ESTIMATED LEVEL OF PROGRAM PARTICIPATION

With the help of community-action groups such as Sustainable Economic Development Initiative ("SEDI"), as well as contractor marketing and UNS Gas marketing, the Company believes that Program loan funds will be fully used each year. At this time, the only approved residential energy efficiency measure for the UNS Gas territory is the high-efficiency furnace exchange. UNS Gas has filed with the Commission an additional program which, when approved, will significantly increase the number of applicable efficiency measures for residential customers, including storage water heaters, insulation, duct sealing, and air sealing. The anticipated participation discussed herein is based on the assumption that the expanded Existing Homes Program will be approved by the Commission.

While loan sizes are likely to vary, UNS Gas estimates that 400 customers will choose to participate in the Existing Homes Program. UNS Gas further estimates that only a percentage of those participants will install each energy efficiency measure. Details of the UNS Gas methodology to determine the average loan size are demonstrated in Table 4. With the $1,000,000 loan commitment each year available through the Program, approximately 344 loans could be made in the service territory assuming an average loan size of $2,905. If the average loan size is smaller than this estimate, the number of loans will increase proportionately.

Table 4: Determination of Average Loan Size

RESIDENTIAL GAS ESTIMATE OF LOAN SIZE				
Participants	**400**			
Category	**Annual Therm**	**%**	**Estimated Cost of Measure**	**Total Financing Requirement**
Duct Seal	127	30%	$914	$109,680
Air Seal	84	40%	$370	$59,200
Insul & Air Seal	107	25%	$1,140	$114,000
Equipment & Ducts	297	30%	$4,926	$591,120
Hi-Effic Water Heater	19	60%	$935	$224,400
Attic Insulation Only	23	20%	$795	$63,600
TOTALS				**$1,162,000**
			Average Loan Size per Customer	**$2,905**

VII. ESTIMATE OF BASELINE

The primary program available for comparison is offered through Fannie Mae. Fannie Mae utilizes an unsecured loan program structured in a similar manner to UNS Gas's. Fannie Mae's base interest rate is 14.99% compared to the 7.99% to 9.99% available through the UNS Gas Program. The programs offered by Arizona Public Service and Southwest Gas Company are expected to have base interest rates of 6.5% to 8.5%.

VIII. SOCIETAL BENEFITS AND SAVINGS

There is no direct benefit or savings from a residential financing program, but the total DSM Portfolio Cost for UNS Gas will increase as a result of offering the Program. However the indirect benefit and savings is measured at the program level where individual energy efficiency measures are included. UNS Gas believes the availability of financing for the Existing Homes Program will increase participation, and thus increase the resulting societal benefits and savings reported in the program.

UNS Gas was asked by SEDI and the Southwest Energy Efficiency Project ("SWEEP") to demonstrate the estimated difference for customers in Flagstaff compared to Prescott, and to compare the estimated annual savings to the estimated annual payments for the three buy-down scenarios (no buy-down, 2% buy-down and 3% buy-down). Examples of the customer benefit and savings from two likely scenarios from participation in the Existing Homes Program are included in Table 5. As set forth in Example 1 of Table 5, anticipated savings would be greater than estimated loan payments using a 2% or 3% buy-down in the Flagstaff area, whereas the savings in the Prescott area would not be greater than the annual loan payments for this size of a loan. However, Example 2 demonstrates that with a lower loan size, the savings in both the Flagstaff and Prescott areas would be greater than the annual loan payments. This example demonstrates how the Program could result in cost savings to some customers, but that UNS Gas cannot guarantee cost savings to all customers.

Table 5: Examples of Estimated Savings, Costs, and Payments

Category	*Annual Therm Savings (Prescott)	Therm Savings (Flagstaff)	Annual Customer Savings (Prescott) @$1.40/Therm	Annual Customer Savings (Flagstaff) @$1.40/Therm	Estim Job Cost
Duct Seal	127	189	$178	$265	$914
Air Seal	84	125	$118	$175	$370
Insul & Air Seal	107	159	$150	$223	$1,140
Equipment & Ducts	297	442	$416	$619	$4,926
Hi-Effic Water Heater	19	28	$27	$40	$935
Attic Insulation Only	23	34	$32	$48	$795
TOTALS					

* Based on engineering analysis using Prescott weather data (4918 HDD)

** Estimated based on % increase from 4918 HDD to 7322 HDD for Flagstaff (1.488%)

Example 1:

Customer Chooses Envelope AND Efficient Equipment	*Annual Therm Savings (Prescott)	Therm Savings (Flagstaff)	Annual Customer Savings (Prescott) @$1.40/Therm	Annual Customer Savings (Flagstaff) @$1.40/Therm	Estim Job Cost	Annual Pmt 12 Year 0%	Annual Pmt 12 Year 2%	Annual Pmt 12 Year 3%
Equipment & Ducts	297	442	$416	$619	$4,926			
Insulation & Air Sealing	107	159	$150	$223	$1,140			
Totals	**404**	**601**	**566**	**$842**	**$6,066**	**$877**	**$777**	**$752**

Example 2:

Customer Chooses Envelope AND Efficient Equipment	*Annual Therm Savings (Prescott)	Therm Savings (Flagstaff)	Annual Customer Savings (Prescott) @$1.40/Therm	Annual Customer Savings (Flagstaff) @$1.40/Therm	Estim Job Cost	Annual Pmt 12 Year 0%	Annual Pmt 12 Year 2%	Annual Pmt 12 Year 3%
Duct Sealing Only	127	189	$178	$265	$914			
Insulation & Air Sealing	107	159	$150	$223	$1,140			
Totals	**234**	**348**	**$328**	**$487**	**$2,054**	**$297**	**$263**	**$255**

IX. SOCIETAL COSTS

According to Commission Staff, societal cost tests are not applicable to a residential financing program.

X. MARKETING STRATEGY

UNS Gas will provide Program marketing and customer outreach and awareness through a range of strategies including:

- Promotions on the UNS Gas website about the benefits of purchasing high-efficiency equipment and home performance measures;
- Promotion through contractors and through community interest groups, such as SEDI;
- Providing information through UNS Gas's customer care center;
- Developing marketing pieces including brochures and other collateral pieces to promote the benefits of qualifying equipment, air sealing and duct sealing, and the financing program available to fund those measures; and
- Training and seminars for participating trade allies and contractors.

The advertising campaign will communicate that high-efficiency systems and home performance measures will help reduce customer energy bills, provide equal or better comfort conditions, and are beneficial for the environment.

XI. DELIVERY STRATEGY

The strategy for Program delivery and administration is as follows:

- Coordination between the Lender and UNS Gas on all fund transfers will be managed in-house by a single UNS Gas Program Manager;
- The Program Manager will also provide overall management, marketing oversight, planning and tracking of customer and contractor participation; and
- The Program Manager will coordinate all activities necessary to develop application forms and contractor training.

Key partnering relationships will include:

- Community interest groups such as SEDI;
- HVAC, insulation, and air sealing contractors trained in Program procedures; and
- The Arizona Energy Office, Northern Arizona University and Coconino County Community College, or other industry experts to provide training, education and awareness.

F. Contractor Training

The Program will use contractors initially recruited for the Existing Homes Program, encouraging them to promote UNS Gas financing when working with customers. UNS Gas will provide an orientation of the Program which will outline Program requirements and contractors responsibilities as well as discuss reporting and data collection procedures. Contractors interested in participating in the Program must attend the orientation.

XII. UTILITY COSTS AND BUDGET

Three possible budget are detailed in Table 6. Potential budgets depend on whether or not a buy-down approach is used. An estimate of lost revenue resulting from installation of energy efficiency measures installed as a result of the Program has been included as a component of the Annual Budget.

Table 6: Two Year Pilot Program Budget

ALL CALCULATIONS ASSUME AVERAGE LOAN SIZE $2,905 AND TERMS 12 YEARS			
Description at $1,000,000 Loan Commitment - 0% Buy-Down	**2011**	**2012**	**Total**
Loan Loss Reserve Amount	$100,000	$100,000	$200,000
DSM Funds for Interest Buy-Down	$0	$0	$0
Loss Default Recovery Expected 2023 @ 3% of 2011 commitment	$0	$0	$0
UNS Gas Internal Administration 1/3 FTE	$40,000	$41,200	$81,200
Reporting	$10,000	$10,300	$20,300
Marketing Materials	$50,000	$25,000	$75,000
Joint Utility Coordination Transfers	$50,000	$50,000	$100,000
Contractor Training Classes	$25,000	$10,000	$35,000
UNS Gas Loss Revenue Recovery	$22,422	$22,422	$44,844
Budget Total	**$297,422**	**$258,922**	**$556,344**
Includes Estimated Lost Revenue for $1,000,000 Residential Loans			
Description at $1,000,000 Loan Commitment - 2% Buy-Down	**2011**	**2012**	**Total**
Loan Loss Reserve Amount	$100,000	$100,000	$200,000
DSM Funds for Interest Buy-Down	$96,386	$96,386	$192,771
Loss Default Recovery Expected 2023 @ 3% of 2011 commitment	$0	$0	$0
UNS Gas Internal Administration 1/3 FTE	$40,000	$41,200	$81,200
Reporting	$10,000	$10,300	$20,300
Marketing Materials	$50,000	$25,000	$75,000
Joint Utility Coordination Transfers	$50,000	$50,000	$100,000
Contractor Training Classes	$25,000	$10,000	$35,000
UNS Gas Loss Revenue Recovery	$22,422	$22,422	$44,844
Budget Total	**$393,808**	**$355,308**	**$749,115**
Includes Estimated Lost Revenue for $1,000,000 Residential Loans			
Description at $1,000,000 Loan Commitment - 3% Buy-Down	**2011**	**2012**	**Total**
Loan Loss Reserve Amount	$100,000	$100,000	$200,000
DSM Funds for Interest Buy-Down	$142,513	$142,513	$285,026
Loss Default Recovery Expected 2023 @ 3% of 2011 commitment	$0	$0	$0
UNS Gas Internal Administration 1/3 FTE	$40,000	$41,200	$81,200
Reporting	$10,000	$10,300	$20,300
Marketing Materials	$50,000	$25,000	$75,000
Joint Utility Coordination Transfers	$50,000	$50,000	$100,000
Contractor Training Classes	$25,000	$10,000	$35,000
UNS Gas Loss Revenue Recovery	$22,422	$22,422	$44,844
Budget Total	**$439,935**	**$401,435**	**$841,370**
Includes Estimated Lost Revenue for $1,000,000 Residential Loans			

Upon maturity of the first set of loans (maximum of 12 years into the Program), the amount collected through the DSM surcharge for the next year will be reduced. At that point, the loan loss reserve account associated with the loans from the first year will be returned to the Program. The amount returned will equal the initial amount funded into the loan loss reserve account, plus interest accrued on the account, less any loan losses sustained.

XIII. PROGRAM IMPLEMENTATION SCHEDULE

The PA Treasury has assured Harcourt Brown that funding for the Program will be available by October 1, 2010. UNS Gas believes that timing is acceptable to the PA Treasury. UNS Gas will continue working with AFC and the PA Treasury on preparation of contracts, agreements, and other documents as we await Commission approval. UNS Gas estimates the Program could commence within 30 to 60 days of receiving Commission approval.

XIV. TRACKING AND REPORTING

UNS Gas will adopt an integrated data collection strategy designed to provide a quality data resource for Program tracking, management, and evaluation. This approach will entail the following primary activities:

- **Database management:** As part of Program operation, UNS Gas will request the Lender to provide the necessary data elements to populate the tracking database and provide periodic reporting; and
- **Data collection:** UNS Gas will establish systems to collect the data needed to support effective Program management, transfer of funds from UNS Gas to the loan loss reserve accounts, reporting, and evaluation.

Exhibit 2

Summary of Collaboration with Community Partners

TABLE OF CONTENTS

I. INTRODUCTION

In Decision No. 71623 (April 14, 2010), UNS Gas, Inc. ("UNS Gas") was instructed to work with interested community groups in developing its proposed energy efficiency financing program ("Program") and report on those cooperative efforts. Summarized below are UNS Gas's efforts to work with community groups.

II. COLLABORATION WITH COMMUNITY GROUPS

In accordance with Decision No. 71623, UNS Gas worked in conjunction with two local community groups, the Sustainable Economic Development Initiative ("SEDI") and the Southwest Energy Efficiency Project ("SWEEP") in developing its Program. UNS Gas also hired Harcourt Brown Energy and Finance ("Harcourt Brown") to assist with the evaluation and design of the Program.

During the planning and evaluation process, UNS Gas and Harcourt Brown consulted with members of SEDI and with SWEEP to identify the elements those groups wanted UNS Gas to address during program design. Jeff Schlegel, from SWEEP, also participated in discussions and often communicated information between UNS Gas and the SEDI group. In addition to Mr. Schlegel's discussions with the SEDI group, UNS Gas also exchanged ideas and information with the SEDI group during conference calls and messages posted on the SEDI internet message board. The dates of the communications with SEDI are set forth in Table 1.

Table 1.

SEDI and UNS GAS COLLABORATION	
DATE	**FORM OF COMMUNICATION**
4/13/2010	Posted to '37' Message Board
4/14/2010	Posted to '37' Message Board
4/19/2010	Posted to '37' Message Board
4/23/2010	Conference Call
4/26/2010	Posted to '37' Message Board
5/27/2010	Posted to '37' Message Board
6/4/2010	Posted to '37' Message Board
6/7/2010	Posted to '37' Message Board
6/9/2010	Conference Call
6/17/2010	Posted to '37' Message Board
6/18/2020	Posted to '37' Message Board
6/30/2010	Posted to '37' Message Board
7/14/2010	Posted to '37' Message Board
7/15/2010	Posted to '37' Message Board
7/20/2010	Conference Call
HARCOURT BROWN AND SWEEP COLLABORATION	
Weekly	Telephone and e-mail
SEDI and SWEEP COLLABORATION	
As Needed	Telephone and e-mail

III. SEDI'S REQUESTED DESIGN PRINCIPLES

SEDI provided an initial list of objectives for the Program. The groups agreed to work toward meeting the key objectives. As discussions evolved, UNS Gas informed SEDI that it may not be possible to achieve all of their requested objectives. UNS Gas kept members of SEDI updated on the Program design.

After the June 9, 2010 update conference call with SEDI and SWEEP, SEDI indicated that it did not believe the Program design was progressing in a manner that would meet its desired principles. On June 30, 2010, SEDI sent written correspondence to the Commission and to UNS Gas stating what it wanted for the financing program.

UNS Gas continued work on a program that would better meet the SEDI objectives. UNS Gas believes the Program as described in Exhibit 1 will meet the feasible SEDI objectives. Not all of SEDI's objectives are feasible. The following restates SEDI's objectives and UNS Gas's responses thereto:

1. The program should be robust in size relative to the customer base.

   SEDI and UNS Gas are in agreement. Management of UNS Gas has authorized $1,000,000 in overall loan commitment to this program for two consecutive years as a pilot program. UNS Gas believes the size of this loan commitment is sufficient based on the number of customers in its service

territory and the limited demand-side management ("DSM") energy efficiency measures available for gas customers.

2. The program should be accessible, convenient, and simple to all income levels and accommodate those with moderate credit scores using utility bill payment history as a factor in credit evaluation.

   SEDI and UNS Gas are in agreement. The Program funds will be accessible to customers with credit scores of 640 and above and a 50% debt to income ratio. Customers with income levels below 200% of poverty level already have access to the Low-Income Weatherization plan funds that support energy efficiency measures, and may not need to participate in the Program. The loan application process will be simple and convenient, with access to the application via the Company's website. Customers can also call a 1-800 number and apply over the phone. Approvals will be timely, with a response from 20 minutes to 48 hours.

   Although UNS Gas is prepared to provide utility payment history to the Lender, that may not be necessary in many instances. The underwriting determinants used by a third party lender are out of UNS Gas's control, as each lender is subject to their own internal processes and reviews.

3. The energy savings should pay for the loan repayment, especially for lower income customers.

   UNS Gas is unable to guarantee a positive cash flow to customers. However, UNS Gas was able to locate a financing program with loan terms up to 12 years with low interest rates to help accommodate this request.

4. The energy efficiency measures allowed under the program should create significant savings.

   SEDI and UNS Gas are in agreement. UNS Gas recommends that financing under this program be used for energy efficiency measures that have passed the Commission cost-effectiveness test, and have been approved for implementation.

5. The program should utilize leverage, where possible, by using loan loss reserves from the DSM funds to encourage private lenders to offer their capital, with defaults covered by loan loss reserves.

   SEDI and UNS Gas are in agreement. The Program will use a 10% loan loss reserve account to leverage DSM funds, enabling $1,000,000 per year in loans to be provided to customers.

6. The program should have reasonable limitations on participation to limit defaults.

   SEDI and UNS Gas are in agreement. Loans will be underwritten to the third party lender's underwriting guidelines. Additionally, UNS Gas's customer base will only have a 10% exposure to loan losses due to default.

7. The program should provide for loan obligations continuing with the meter to allow renters to participate and homeowners to sell their homes without having to pay off the loan.

   Transferability of the loan is determined by the Lender and is not within UNS Gas's control.

8. The program should provide for termination of gas service for default on energy efficiency loans, even if made by a financial institution.

   Terminating service for non-payment of the proposed loan program is not allowed under UNS Gas Rules and Regulations or Commission rules.

9. The program should have timely and predictable recovery of program costs and lost margins for the utility.

   SEDI and UNS Gas are in agreement. Please see UNS Gas's Utility Costs and Budget in Exhibit 1, Section XII for details.

10. The program should have an aggressive implementation plan that draws on community action groups, similar in language to the UniSource Energy Services filing on the efficiency measures.

    SEDI and UNS Gas are in agreement. UNS Gas will provide Program marketing and customer awareness-building through a range of strategies, as described in Exhibit 1, Section X.

11. The program should be initiated in the fall of 2010.

    SEDI and UNS Gas are in agreement. However timing is at the discretion of the Commission.

IV. COLLABORATION WITH SOUTHWEST GAS COMPANY

UNS Gas coordinated design efforts with Southwest Gas Corporation ("SWG") to increase the available loan commitment to be offered during negotiations with potential lenders. The combined loan commitments from both utilities provided a loan commitment total that was enticing enough to attract a Lender. Unfortunately, SWG's program required loan offerings as low as $500.00. None of the UNS Gas lending partners were willing to meet this requirement. Consequently, UNS Gas is unable to combine with SWG at this time.

V. STIMULUS FUNDS

UNS Gas contacted the State Energy Office about available funding and was advised that the State did not set aside any stimulus dollars that could be used toward energy efficiency financing. Therefore, UNS Gas proceeded with its Program without this potential resource.