

ORIGINAL

OPEN MEETING



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MEMORANDUM

Arizona Corporation Commission

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ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL

TO: THE COMMISSION

FROM: Utilities Division

DATE: December 2, 2010

DOCKETED BY *[Signature]*

RE: UNS GAS, INC – APPLICATION FOR APPROVAL OF ITS RESIDENTIAL ENERGY ASSESSMENT PROGRAM (DOCKET NO. G-04204A-07-0274)

On September 8, 2010, UNS Gas, Inc. (“UNS Gas” or the “Company”) filed its Application for Approval of Proposed Residential Energy Assessment Program (“REAP” or the “Program”). The REAP is designed to work in conjunction with UNS Gas’ proposed Existing Homes Program (Docket No. G-04204A-07-0274). Staff considers this Program an element of UNS Gas’ Existing Homes Program and has reviewed this Program as a modification of the Existing Homes Program.

**Program Description**

The REAP, consistent with the Existing Homes Program, is being offered to single family, residential customers residing in existing 1-4 family owner-occupied homes currently serviced by UNS Gas.

The major components of the REAP include a home energy assessment; a general appliance assessment; installation of a low flow showerhead, one kitchen sink faucet aerator and two bathroom sink aerators; and education regarding behavioral changes, other UNS Gas efficiency programs, rate options, and contact information to assist with questions after the assessment.

A home energy assessment (also referred to as a home energy audit) is a comprehensive home examination designed to assess how much energy the home is using and to evaluate what measures can be taken to improve efficiency. The most common conditions found are leaks in the heating, ventilation and air conditioning (HVAC) duct system; penetrations which allow air exchange and connection between the attic and exterior of the home with the conditioned space; insulation failures; and unsealed windows and doors.

Professional auditors use a variety of techniques and equipment to determine the energy efficiency of a home. Thorough audits often use equipment such as blower doors, which measure the extent of leaks in the building envelope, and Duct Blasters which test and document the airtightness of forced air duct systems.

It is important to note that a home energy assessment, in and of itself, is not an energy-saving measure. Additional measures must be implemented to correct existing conditions within the home that are causing homeowners to waste energy and incur high gas bills.

According to UNS Gas, the current market rate for a home energy assessment is approximately \$330 per home. Through the REAP, participating customers will only pay \$99 for the assessment with UNS Gas paying the balance of the assessment cost.<sup>1</sup>

Through the UNS Gas REAP, the energy assessment will be conducted and explained by an implementation contractor that has experience and expertise in energy assessments and energy efficiency measures. At the conclusion of the home assessment, the contractor will provide a detailed report of recommended efficiency measures prioritized by cost effectiveness. The report will also contain an estimate of the actual energy and dollar savings possible through the recommended upgrade measures. At this time, the recommended measures will be limited to measures offered through the Existing Homes Program which include duct sealing, air sealing, ceiling insulation, and furnace and water heater replacement.

In addition to providing and explaining the assessment report, the contractor will install one low flow showerhead, one kitchen sink faucet aerator and two bathroom sink aerators. The contractor will also educate the homeowner about applicable UNS Gas rebates and simple behavioral modifications to increase efficiency.

Although the REAP is designed to be utilized with UNS Gas's Existing Homes Program, participation in one program does not require participation in the other. As part of the energy assessment, customers will be provided with rebate information and a list of Building Performance Institute ("BPI") contractors available to complete the recommended measures associated with the Existing Homes Program. Once a customer contacts an approved BPI-certified contractor, a firm cost for recommended improvements will be given to the customer. The contractor will then be able to access a secure website containing the details of the customer's energy assessment. Upon completion of all work, the actual savings provided by each measure will be known.

Where UNS Gas and UNS Electric have overlapping service territories, the companies will jointly offer the program, requiring only one assessment.

### **Delivery Strategy and Administration**

UNS Gas will serve as the program administrator for the REAP, providing marketing, planning, technical support, and evaluation. UNS Gas will use an implementation contractor to conduct the energy assessments, to deliver and explain the resulting reports to the homeowner,

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<sup>1</sup> The assessment cost originally proposed in the application for this Program was \$450. Since the original application was filed, UNS Gas has narrowed its options for an implementation contractor for the Program and has provided Staff with more recent assessment costs.

and to complete all remaining customer education and assistance, including scheduling customer assessments, screening applicants, referring certified contractors, installation of direct-install components, data storage, and reporting.

UNS Gas issued a request for proposals (“RFP”) on August 5, 2010, to select an implementation contractor capable of supplying trained energy auditors to conduct the on-site energy assessments. UNS Gas expects the contractor will use the Real Home Analyzer or second version E-net Green software to conduct the audits.

Inquiring consumers will receive Program and contact information to schedule an energy assessment. The implementation contractor will be responsible for determining eligibility. After the assessment is conducted, the auditor will refer the customer to a UNS Gas approved and BPI-certified contractor. The BPI contractor will be responsible for conducting combustion safety testing, installation of recommended measures, and blower-door/duct testing at the completion of the efficiency upgrades. They will also be responsible for updating the energy assessment records with final test results and reporting.

### **Marketing**

The marketing and communications strategy for the REAP is consistent with the broader Existing Homes Program which includes:

- promotions on UNS Gas’ website;
- advertising in major newspapers and other print media in the service region;
- brochures and other collateral pieces such as bill inserts;
- high bill inquiries;
- trade ally marketing efforts; and
- contractor enrollment and training.

### **Program Incentives**

The incentive for this Program includes installation of one low flow shower head, one kitchen faucet aerator and up to two bathroom faucet aerators. UNS Gas estimates that the cost of an energy assessment is approximately \$330. UNS Gas intends for consumers to pay \$99 of the assessment cost and for the Company to pay the remaining amount of approximately \$230, with both payments made directly to the implementation contractor. While UNS Gas proposed this \$230 as an incentive, Staff considers the cost of the energy assessment to be part of Program Delivery rather than an actual incentive to the customer or contractor because the assessment facilitates not only the benefits of the low flow shower head, the faucet aerators and energy efficiency education but also the potential benefits associated with the UNS Gas Existing Homes Program. UNS Gas anticipates monthly invoicing on behalf of the contractor, and will provide payment within 30 days of completion of the home assessment. Payment to the contractor is contingent upon the contractor providing UNS Gas with all project documentation.

**Program Budget**

UNS Gas intends to include the REAP costs in its upcoming annual DSM charge adjustment. Based on updated budget information provided by UNS Gas subsequent to the filing of the application for approval of this Program, Staff estimates that the REAP will result in a \$0.001537 per therm increase to the DSM charge, which would be an increase in the average residential bill of \$0.81 per year (assuming average residential usage of 524 therms per year).

**Table 1. 2011 Program Budget**

	Measure Cost	2011 Units	Total Budget
Low Flow Showerhead	\$42	500	\$21,225
Kitchen and Bathroom Faucet Aerators (3)	\$23	500	\$11,395
<b>Total Financial Incentives</b>			<b>\$32,620</b>
Energy Assessment	\$230	500	\$115,000
Program Delivery			\$13,000
Energy Audit Software Set-Up			\$19,139
Energy Assessment Licenses*	\$20	500	\$10,000
<b>Total Program Delivery</b>			<b>\$157,139</b>
<b>Program Marketing</b>			<b>\$12,488</b>
<b>Program Administration</b>			<b>\$13,000</b>
<b>Measurement, Evaluation and Research</b>			<b>\$5,505</b>
<b>Total Program Costs - Incentive</b>			<b>\$32,620</b>
<b>Total Program Costs - Non-Incentive</b>			<b>\$188,132</b>
<b>Total Program Costs</b>			<b>\$220,752</b>

\* Estimated on a per unit basis.

**Program Participation**

UNS Gas anticipates completing 500 energy assessments by the end of 2011. UNS Gas also has a goal of having 40 percent of customers that take advantage of the energy assessment program follow up with measures from the Existing Homes Program.

## Estimated Energy Savings

**Table 2. 2011 Estimated Energy Savings per Home**

Measure	Gross Annual Savings (therms)
Low Flow Showerhead	31
Kitchen Aerator (1)	22
Bathroom Aerators (2)	24
Total Savings	77

## Cost-Effectiveness

The Commission's 1991 Resource Planning Decision established the Societal Cost Test ("SCT") as the methodology to be used for determining the cost-effectiveness of a DSM program. Under the SCT, in order to be cost-effective, the ratio of benefits to costs must be greater than one. The societal costs for a DSM program include the cost of the measure and the cost of implementing the program, excluding rebates. The societal benefits of a DSM program include the avoided demand and energy costs as well as avoided environmental impacts, which are quantified, but do not have to be monetized.

Staff does not view the REAP as an energy-efficiency program, in and of itself but, rather, regards this Program as more of a delivery mechanism for the comprehensive, whole-house efficiency measures offered through the UNS Gas' Existing Homes Program. Although the low flow showerhead and aerators installed through the REAP, along with suggested behavioral modifications, will result in energy savings, the purpose of the home energy audit is to identify areas for energy savings and to recommend cost-effective efficiency upgrades, for which additional rebates are offered. Staff believes that the REAP is a critical element to the Existing Homes Program. Staff has evaluated the REAP as an addition to the Existing Homes Program. Staff has concluded that UNS Gas' Existing Homes Program, modified to include the REAP, would be cost-effective with an SCT benefit-cost ratio of 1.29.<sup>2</sup>

## Monitoring and Evaluation

UNS Gas' Measurement, Evaluation, and Research contractor, Navigant Consulting, will be conducting Program measurement, verification, and quality assurance. UNS Gas also anticipates mailing homeowner surveys to all Program participants who receive an energy assessment.

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<sup>2</sup> This benefit-cost ratio includes total whole house benefits which incorporate both estimate electric and natural gas savings as discussed for the Existing Homes Program. If only natural gas savings from the Existing Homes Program were included, the Existing Homes Program, modified to include the REAP, would have an SCT benefit-cost ratio of 0.93.

**Recommendations**

Staff recommends that the UNS Gas REAP be approved.

Staff recommends that UNS Gas include, at a minimum, the following in its DSM report: (i) the number of participants in this program; (ii) copies of marketing materials; (iii) estimated cost savings to participants; (iv) gas and electric savings as determined by the monitoring and evaluation process; (v) estimated environmental savings; (vi) the total amount of the program budget spent during the previous year and since inception of the program; (vii) any significant impacts on program cost-effectiveness; (viii) how many participants in this program subsequently receive rebates from the Existing Homes Program; and (ix) descriptions of any problems and proposed solutions including movements of funding from one program to another.

*for*   
Steven M. Olea  
Director  
Utilities Division

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ORIGINATOR: Laura A. Furrey and Barbara Keene

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**BEFORE THE ARIZONA CORPORATION COMMISSION**

KRISTIN K. MAYES  
Chairman  
GARY PIERCE  
Commissioner  
PAUL NEWMAN  
Commissioner  
SANDRA D. KENNEDY  
Commissioner  
BOB STUMP  
Commissioner

IN THE MATTER OF UNS GAS, INC.'S  
APPLICATION FOR APPROVAL OF ITS  
RESIDENTIAL ENERGY ASSESSMENT  
PROGRAM

DOCKET NO. G-04204A-07-0274  
DECISION NO. \_\_\_\_\_  
ORDER

Open Meeting  
December 14 and 15, 2010  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. UNS Gas, Inc. ("UNS Gas" or "the Company") is engaged in providing natural gas within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission ("Commission").

2. On September 8, 2010, UNS Gas filed its Application for Approval of Proposed Residential Energy Assessment Program ("REAP" or the "Program"). The REAP is designed to work in conjunction with UNS Gas' proposed Existing Homes Program (Docket No. G-04204A-07-0274). Staff considers this Program an element of UNS Gas' Existing Homes Program and has reviewed this Program as a modification of the Existing Homes Program.

PROGRAM DESCRIPTION

3. The REAP, consistent with the Existing Homes Program, is being offered to single family, residential customers residing in existing 1-4 family owner-occupied homes currently serviced by UNS Gas.

1           4.       The major components of the REAP include a home energy assessment; a general  
2 appliance assessment; installation of a low flow showerhead, one kitchen sink faucet aerator and  
3 two bathroom sink aerators; and education regarding behavioral changes, other UNS Gas  
4 efficiency programs, rate options, and contact information to assist with questions after the  
5 assessment.

6           5.       A home energy assessment (also referred to as a home energy audit) is a  
7 comprehensive home examination designed to assess how much energy the home is using and to  
8 evaluate what measures can be taken to improve efficiency. The most common conditions found  
9 are leaks in the heating, ventilation and air conditioning (HVAC) duct system; penetrations which  
10 allow air exchange and connection between the attic and exterior of the home with the conditioned  
11 space; insulation failures; and unsealed windows and doors.

12          6.       Professional auditors use a variety of techniques and equipment to determine the  
13 energy efficiency of a home. Thorough audits often use equipment such as blower doors, which  
14 measure the extent of leaks in the building envelope, and Duct Blasters which test and document  
15 the airtightness of forced air duct systems.

16          7.       It is important to note that a home energy assessment, in and of itself, is not an  
17 energy-saving measure. Additional measures must be implemented to correct existing conditions  
18 within the home that are causing homeowners to waste energy and incur high gas bills.

19          8.       According to UNS Gas, the current market rate for a home energy assessment is  
20 approximately \$330 per home. Through the REAP, participating customers will only pay \$99 for  
21 the assessment with UNS Gas paying the balance of the assessment cost.<sup>1</sup>

22          9.       Through the UNS Gas REAP, the energy assessment will be conducted and  
23 explained by an implementation contractor that has experience and expertise in energy assessments  
24 and energy efficiency measures. At the conclusion of the home assessment, the contractor will  
25 provide a detailed report of recommended efficiency measures prioritized by cost effectiveness.  
26 The report will also contain an estimate of the actual energy and dollar savings possible through

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28 was filed, UNS Gas has narrowed its options for an implementation contractor for the Program and has provided Staff  
with more recent assessment costs.

1 the recommended upgrade measures. At this time, the recommended measures will be limited to  
2 measures offered through the Existing Homes Program which include duct sealing, air sealing,  
3 ceiling insulation, and furnace and water heater replacement.

4 10. In addition to providing and explaining the assessment report, the contractor will  
5 install one low flow showerhead, one kitchen sink faucet aerator and two bathroom sink aerators.  
6 The contractor will also educate the homeowner about applicable UNS Gas rebates and simple  
7 behavioral modifications to increase efficiency.

8 11. Although the REAP is designed to be utilized with UNS Gas's Existing Homes  
9 Program, participation in one program does not require participation in the other. As part of the  
10 energy assessment, customers will be provided with rebate information and a list of Building  
11 Performance Institute ("BPI") contractors available to complete the recommended measures  
12 associated with the Existing Homes Program. Once a customer contacts an approved BPI-certified  
13 contractor, a firm cost for recommended improvements will be given to the customer. The  
14 contractor will then be able to access a secure website containing the details of the customer's  
15 energy assessment. Upon completion of all work, the actual savings provided by each measure  
16 will be known.

17 12. Where UNS Gas and UNS Electric have overlapping service territories, the  
18 companies will jointly offer the program, requiring only one assessment.

19 **DELIVERY STRATEGY AND ADMINISTRATION**

20 13. UNS Gas will serve as the program administrator for the REAP, providing  
21 marketing, planning, technical support, and evaluation. UNS Gas will use an implementation  
22 contractor to conduct the energy assessments, to deliver and explain the resulting reports to the  
23 homeowner, and to complete all remaining customer education and assistance, including  
24 scheduling customer assessments, screening applicants, referring certified contractors, installation  
25 of direct-install components, data storage, and reporting.

26 14. UNS Gas issued a request for proposals ("RFP") on August 5, 2010, to select an  
27 implementation contractor capable of supplying trained energy auditors to conduct the on-site  
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1 energy assessments. UNS Gas expects the contractor will use the Real Home Analyzer or second  
2 version E-net Green software to conduct the audits.

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4 energy assessment. The implementation contractor will be responsible for determining eligibility.  
5 After the assessment is conducted, the auditor will refer the customer to a UNS Gas approved and  
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8 the efficiency upgrades. They will also be responsible for updating the energy assessment records  
9 with final test results and reporting.

### 10 MARKETING

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12 broader Existing Homes Program which includes:

- 13 • promotions on UNS Gas' website;
- 14 • advertising in major newspapers and other print media in the service region;
- 15 • brochures and other collateral pieces such as bill inserts;
- 16 • high bill inquiries;
- 17 • trade ally marketing efforts; and
- 18 • contractor enrollment and training.

### 18 PROGRAM INCENTIVES

19 17. The incentive for this Program includes installation of one low flow shower head,  
20 one kitchen faucet aerator and up to two bathroom faucet aerators. UNS Gas estimates that the  
21 cost of an energy assessment is approximately \$330. UNS Gas intends for consumers to pay \$99  
22 of the assessment cost and for the Company to pay the remaining amount of approximately \$230,  
23 with both payments made directly to the implementation contractor. While UNS Gas proposed  
24 this \$230 as an incentive, Staff considers the cost of the energy assessment to be part of Program  
25 Delivery rather than an actual incentive to the customer or contractor because the assessment  
26 facilitates not only the benefits of the low flow shower head, the faucet aerators and energy  
27 efficiency education but also the potential benefits associated with the UNS Gas Existing Homes  
28 Program. UNS Gas anticipates monthly invoicing on behalf of the contractor, and will provide

1 payment within 30 days of completion of the home assessment. Payment to the contractor is  
2 contingent upon the contractor providing UNS Gas with all project documentation.

### 3 PROGRAM BUDGET

4 18. UNS Gas intends to include the REAP costs in its upcoming annual DSM charge  
5 adjustment. Based on updated budget information provided by UNS Gas subsequent to the filing  
6 of the application for approval of this Program, Staff estimates that the REAP will result in a  
7 \$0.001537 per therm increase to the DSM charge, which would be an increase in the average  
8 residential bill of \$0.81 per year (assuming average residential usage of 524 therms per year).

9 **Table 1. 2011 Program Budget**

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20 \* Estimated on a per unit basis.

### 22 PROGRAM PARTICIPATION

23 19. UNS Gas anticipates completing 500 energy assessments by the end of 2011. UNS  
24 Gas also has a goal of having 40 percent of customers that take advantage of the energy  
25 assessment program follow up with measures from the Existing Homes Program.

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1 **ESTIMATED ENERGY SAVINGS**

2 **Table 2. 2011 Estimated Energy Savings per Home**

Measure	Gross Annual Savings (therms)
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Total Savings	77

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8 **COST-EFFECTIVENESS**

9       20. The Commission's 1991 Resource Planning Decision established the Societal Cost  
10 Test ("SCT") as the methodology to be used for determining the cost-effectiveness of a DSM  
11 program. Under the SCT, in order to be cost-effective, the ratio of benefits to costs must be  
12 greater than one. The societal costs for a DSM program include the cost of the measure and the  
13 cost of implementing the program, excluding rebates. The societal benefits of a DSM program  
14 include the avoided demand and energy costs as well as avoided environmental impacts, which are  
15 quantified, but do not have to be monetized.

16       21. Staff does not view the REAP as an energy-efficiency program, in and of itself but,  
17 rather, regards this Program as more of a delivery mechanism for the comprehensive, whole-house  
18 efficiency measures offered through the UNS Gas' Existing Homes Program. Although the low  
19 flow showerhead and aerators installed through the REAP, along with suggested behavioral  
20 modifications, will result in energy savings, the purpose of the home energy audit is to identify  
21 areas for energy savings and to recommend cost-effective efficiency upgrades, for which  
22 additional rebates are offered. Staff believes that the REAP is a critical element to the Existing  
23 Homes Program. Staff has evaluated the REAP as an addition to the Existing Homes Program.  
24 Staff has concluded that UNS Gas' Existing Homes Program, modified to include the REAP,  
25 would be cost-effective with an SCT benefit-cost ratio of 1.29.<sup>2</sup>

26 \_\_\_\_\_  
27 <sup>2</sup> This benefit-cost ratio includes total whole house benefits which incorporate both estimate electric and natural gas  
28 savings as discussed for the Existing Homes Program. If only natural gas savings from the Existing Homes Program  
were included, the Existing Homes Program, modified to include the REAP, would have an SCT benefit-cost ratio of  
0.93.

1 MONITORING AND EVALUATION

2 22. UNS Gas' Measurement, Evaluation, and Research contractor, Navigant  
3 Consulting, will be conducting Program measurement, verification, and quality assurance. UNS  
4 Gas also anticipates mailing homeowner surveys to all Program participants who receive an energy  
5 assessment.

6 RECOMMENDATIONS

7 23. Staff has recommended that the UNS Gas REAP be approved.

8 24. Staff has recommended that UNS Gas include, at a minimum, the following in its  
9 DSM report: (i) the number of participants in this program; (ii) copies of marketing materials; (iii)  
10 estimated cost savings to participants; (iv) gas and electric savings as determined by the  
11 monitoring and evaluation process; (v) estimated environmental savings; (vi) the total amount of  
12 the program budget spent during the previous year and since inception of the program; (vii) any  
13 significant impacts on program cost-effectiveness; (viii) how many participants in this program  
14 subsequently receive rebates from the Existing Homes Program; and (ix) descriptions of any  
15 problems and proposed solutions including movements of funding from one program to another.

16 CONCLUSIONS OF LAW

17 1. UNS Gas, Inc. is an Arizona public service corporation within the meaning of  
18 Article XV, Section 2, of the Arizona Constitution.

19 2. The Commission has jurisdiction over UNS Gas and over the subject matter of the  
20 Application.

21 3. The Commission, having reviewed the application and Staff's Memorandum dated  
22 December 2, 2010, concludes that it is in the public interest to approve the UNS Gas REAP as an  
23 element of the Existing Homes Program, as discussed herein.

24 ORDER

25 IT IS THEREFORE ORDERED that UNS Gas, Inc.'s Existing Homes Program be and  
26 hereby is approved, as discussed herein.

27 IT IS FURTHER ORDERED that UNS Gas Inc.'s DSM reports shall include, at a  
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- the number of participants in this program;
- copies of marketing materials;
- estimated cost savings to participants;
- gas and electric savings as determined by the monitoring and evaluation process;
- estimated environmental savings;
- the total amount of the program budget spent during the previous year and since inception of the program;
- any significant impacts on program cost-effectiveness;

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- how many REAP participants subsequently receive rebates from the Existing Homes Program; and
- descriptions of any problems and proposed solutions including movements of funding from one program to another.

IT IS FURTHER ORDERED that this Order shall become effective immediately.

**BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,  
Executive Director of the Arizona Corporation Commission,  
have hereunto, set my hand and caused the official seal of  
this Commission to be affixed at the Capitol, in the City of  
Phoenix, this \_\_\_\_\_ day of \_\_\_\_\_, 2010.

\_\_\_\_\_  
ERNEST G. JOHNSON  
EXECUTIVE DIRECTOR

DISSENT: \_\_\_\_\_

DISSENT: \_\_\_\_\_

SMO:LAF:BEK:lh\RM

1 SERVICE LIST FOR: UNS Gas, Inc.  
2 DOCKET NO. G-04204A-07-0274

3 Mr. Michael Patten  
4 Roshka DeWulf & Patten, PLC  
5 One Arizona Center  
6 400 East Van Buren Street, Suite 800  
7 Phoenix, Arizona 85004

8 Mr. Philip Dion  
9 UniSource Energy Services  
10 One South Church Avenue, Suite 200  
11 Tucson, Arizona 85701-1623

12 Mr. Steven M. Olea  
13 Director, Utilities Division  
14 Arizona Corporation Commission  
15 1200 West Washington Street  
16 Phoenix, Arizona 85007

17 Ms. Janice M. Alward  
18 Chief Counsel, Legal Division  
19 Arizona Corporation Commission  
20 1200 West Washington Street  
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