

ORIGINAL

OPEN MEETING



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MEMORANDUM

Arizona Corporation Commission

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AZ CORP COMMISSION  
DOCKET CONTROL

TO: THE COMMISSION

DEC 7 2010

FROM: Utilities Division

DOCKETED BY

DATE: December 7, 2010

RE: UNS GAS, INC. - APPLICATION FOR APPROVAL OF ITS PROPOSED ENERGY EFFICIENCY FINANCING PILOT PROGRAM (DOCKET NO. G-04204A-08-0571)

**BACKGROUND**

On July 30, 2010, UNS Gas, Inc. ("UNS Gas" or "Company") filed an application with the Arizona Corporation Commission ("Commission") in compliance with Decision No. 71623. Decision No. 71623, dated April 14, 2010, ordered UNS Gas to file "...a proposed energy efficiency revolving loan fund with convenient customer access to and repayment of the financing...for energy efficiency measures such as ductwork and efficient gas furnaces..."

**PROGRAM DESCRIPTION**

UNS Gas' proposed Energy Efficiency Residential Financing Pilot ("EERFP") Program would offer loans to residential customers in the UNS Gas service territory who own their own home and who wish to install eligible energy efficiency measures. UNS Gas is proposing a two-year time period for the EERFP Program. In addition, the proposed EERFP program would support any cost-effective residential energy efficiency measure approved by the Commission. Sometimes, customers are unable to participate in energy efficiency programs because they do not have the necessary up-front funds. UNS Gas believes that the proposed financing program would help expand the number of residential customers who would be able to afford to participate in energy efficiency programs because it would allow customers to pay the up-front costs over time. The EERFP Program would be available only to eligible residential customers.

In its application, UNS Gas indicates that it is proposing an initial capital commitment of \$1 million provided by the Pennsylvania Treasury ("PA Treasury"). This source of capital is currently being used in similar energy efficiency financing programs such as the Pennsylvania Keystone Home Energy Loan Program ("Pennsylvania Keystone HELP").<sup>1</sup> The capital commitment in conjunction with utility support such as an interest rate buy down and a loan loss reserve fund can help create a financing program that can be implemented in a cost-effective manner. UNS Gas would use AFC First Financial Corporation ("AFC") to administer the loans and bill participating customers for monthly payments.

<sup>1</sup> The Pennsylvania Keystone Home Energy Loan Program is funded by the Pennsylvania Department of Environmental Protection, the Pennsylvania Treasury Department, and the Pennsylvania Housing Finance Agency.

UNS Gas estimates that 400 customers will choose to participate in its expanded Existing Homes Program (formerly Efficient Home Heating Program approved on November 23, 2010) and only a percentage of those customers will choose to install every energy efficiency measure. Based on the estimated number of participants in its Existing Homes Program, UNS Gas has determined the average loan amount to be \$2,905 per customer. Based on the initial capital commitment and the estimated loan size amount of \$2,905, UNS Gas estimates that the proposed EERFP Program could offer a total of 344 loans. The availability of loans will be determined by the actual loan amounts. Table 1 below shows the current Commission-approved energy efficiency measures included in the Existing Homes Program and the estimated cost per measure to install each measure. The total cost should a customer install all of the available measures is also provided in Table 1 below.

**Table 1**

<b>Measure</b>	<b>Estimated Per Measure Cost</b>
Furnace	\$4,012
Storage Water Heater	\$935
Air Sealing	\$370
Duct Sealing	\$914
Attic Insulation	\$795
<b>Total</b>	<b>\$7,026</b>

The proposed EERFP program would offer unsecured loans ranging from \$1,000 to \$15,000 with repayment terms up to 12 years. UNS Gas states that it chose a 12-year term length in response to the Sustainable Economic Development Initiative's ("SEDI") request to have customers' monthly payments equal or nearly equal the estimated monthly savings from installing energy efficiency measures. UNS Gas has indicated that customers would be able to choose shorter term periods.

In its application, UNS GAS states that it estimated that the average amount financed for a loan would be approximately \$2,905 based on the \$1 million in capital from the PA Treasury. Based on the estimated average loan amount described above and the estimated total cost in Table 1 (should a customer install all eligible energy efficiency measures), Staff believes that the maximum loan amount offered to customers should not exceed \$10,000. This will allow UNS Gas the ability to provide more loans to customers who wish to participate in the program. Table 2 below indicates the payment range for the proposed 12-year payback period for each interest rate buy-down level based on the estimated average \$2,905 loan amount.

**Table 2: 12-Year Repayment**

<b>Loan Amount Range</b>	<b>Buy-Down Level</b>	<b>Interest Rate Range</b>	<b>Repayment Range (\$2,905 loan amount)</b>
\$1,000-\$15,000	0%	7.99%-9.99%	\$31-\$35
\$1,000-\$15,000	2%	5.99%-7.99%	\$28-\$31
\$1,000-\$15,000	3%	4.99%-6.99%	\$27-\$30

UNS Gas presents three possible options to address the interest rate buy-down level. This portion of UNS Gas' application is fashioned as a request for Commission guidance on the final interest rate buy-down level. The three options are: (i) no interest rate buy-down; (ii) a two percent (2%) interest rate buy-down; or (iii) a three percent (3%) interest rate buy-down. UNS Gas does not request approval of any of the options presented in its application. Table 3 below represents the three interest rate buy-down options that would be included in the proposed budget for the EERFP Program (actual budget information is discussed later).

**Table 3**

Total Loan Commitment	Estimated # of Loans*	Interest Rate Buy-Down %	Interest Rate Range
\$1,000,000	344	0%	7.99%-9.99%
\$1,000,000	344	2%	5.99%-7.99%
\$1,000,000	344	3%	4.99%-6.99%

\*Based on average loan size of \$2,905

Staff believes that in order to create a viable program, UNS Gas' proposed EERFP Program should offer interest rates comparable to the interest rates recently approved for Arizona Public Service Company's ("APS") Residential Energy Efficiency Financing ("REEF") Program (Decision No. 71866). The interest rates approved for APS' REEF Program are 6.5% to 7.99%. Should a customer of APS and UNS Gas choose to finance energy efficiency measures offered by both companies, there would not be much disparity between the two programs. Therefore, Staff believes that UNS Gas should offer the interest rates included in its 2% interest rate buy-down option (5.99% to 7.99%).

UNS Gas proposes to have a Loan Loss Reserve Account ("LLRA") in the amount of \$100,000 which is 10 percent of the total loan commitment from the PA Treasury. The LLRA would leverage DSM dollars to create a fund used to cover the cost of loan defaults. This would help reduce the risk to private lenders and help drive down interest rates. The interest rate levels for the loans vary between 4.99% and 9.99%, depending on the interest rate buy-down percentage. In addition, UNS Gas would allow customer rebates to be used to reduce the principal loan amount. However, additional DSM funds would be needed to buy down the interest rate which would impact the cost of the program.

UNS Gas has indicated that a customer must meet certain criteria in order to qualify for a loan. A customer must also meet certain underwriting requirements of AFC which include: proof of income, credit history including FICO scores ( $\geq 640$ ), and debt-to-income thresholds (50% or less). In addition, UNS Gas would inform AFC if a potential customer has had more than two disconnects in the most recent twelve month payment history.

The proposed EERFP Program would recruit contractors who were initially used for the Existing Homes Program. In its application, UNS Gas states that customers could be pre-approved over the phone or customers could fill out an application during the contractor visit. In addition, UNS Gas states that the loan application would be available on the Company's website. Loan approvals would occur within 48 hours of submitting the application. UNS Gas would

hold an orientation for contractors interested in participating in this program. The orientation would outline the requirements of the program and the contractors' responsibilities as well as reporting and data collection procedures. UNS Gas states that it could begin to implement its proposed EERFP program within 30 to 60 days after Commission approval.

### **PROGRAM COSTS**

In its application, UNS Gas is proposing to recover the cost of its proposed EERFP program through its Demand-Side Management Adjustor Rate ("DSM adjustor rate"). In Decision No. 71717, the Commission granted UNS Gas a DSM adjustor rate of \$0.0084 per therm. Based on the program costs in the tables below for each interest rate buy-down option, UNS Gas has estimated the incremental impact each of the options would have on its DSM adjustor rate. In addition, UNS Gas is proposing to charge only residential customers the incremental increase in the DSM adjustor rate. Staff notes that charging only residential customers the DSM adjustor increase could alter the structure of the DSM mechanism. Staff believes that changing the structure of the DSM mechanism should only be done within a rate case. Therefore, Staff believes that the proposed EERFP Program budget costs should be charged to all of UNS Gas' customers. This would lower the overall impact of the DSM adjustor rate.

Further, UNS Gas is proposing to include a Lost Revenue Recovery amount in its budget. According to UNS Gas, this amount represents the lost revenue incurred due to the reduction in total therm sales from the installation of energy efficiency measures. However, lost revenue recovery was not included in the DSM adjustor mechanism as established by Decision No. 70011. Staff notes that Arizona Administrative Code R14-2-2511 of the Commission's proposed Gas Energy Efficiency Rules state that "[t]he Commission shall review...recovery of net lost income/revenue...if an affected utility requests such review in its rate case..." Therefore, Staff does not believe that the recovery of UNS Gas' lost revenue should be addressed through this application. Staff believes that the \$22,422 proposed for the Lost Revenue Recovery should not be included in the program budget.

UNS Gas has also included the costs of Joint Utility Coordination Transfers in its proposed budget. According to UNS Gas, this refers to the cost of coordination between multiple utilities (i.e. UNS Gas and APS) in which a customer of both utilities utilizes the financing program of one utility and also receives a savings benefit from the other utility based on the energy efficiency measures installed (i.e. duct or air sealing). The Utility in which the customer obtained financing would incur the cost of providing the financing to that particular customer. Therefore, the second utility would be obligated to reimburse the first utility a portion of the costs incurred of providing the financing to the customer. UNS Gas is proposing to include the estimated costs it could incur if there were such a joint coordination effort. However, UNS Gas also indicated that a Joint Utility Coordination effort is currently in the preliminary stages of discussion. Staff believes that the \$50,000 proposed for the Joint Utility Coordination Transfers should not be included in the program budget. Should UNS Gas and/or any other

utility decide to pursue such a Joint Utility Coordination effort, Staff believes that the utility should file an application for Commission approval.

The tables below show the UNS Gas' estimated total program costs for the first year of each of the three interest rate buy-down options previously described (all calculations assume an average loan size of \$2,905 for a 12-year payment term). The tables also include UNS Gas' estimated DSM adjutor rate increase for only residential customers (UNS Gas' proposal) and for all customer classes (included by Staff). UNS Gas' low income customers do not pay the DSM adjutor rate.

***Option I: 0% Interest Rate Buy-Down***

<b>Category</b>	<b>Amount</b>
Loan Loss Reserve Account	\$100,000
Interest Rate Buy-Down Cost	\$0
Administration	\$40,000
Reporting	\$10,000
Marketing	\$50,000
Joint Utility Coordination Transfers	\$50,000
Contractor Training	\$25,000
UNS Gas Lost Revenue Recovery	\$22,422
<b>Total</b>	<b>\$297,422</b>
DSMA Incremental Increase (per therm) (Residential customers only)	\$0.0043
DSMA Incremental Increase (per therm) (All customers)	\$0.00285

***Option II: 2% Interest Rate Buy-Down***

<b>Category</b>	<b>Amount</b>
Loan Loss Reserve Account	\$100,000
Interest Rate Buy-Down Cost	\$96,386
Administration	\$40,000
Reporting	\$10,000
Marketing	\$50,000
Joint Utility Coordination Transfers	\$50,000
Contractor Training	\$25,000
UNS Gas Lost Revenue Recovery	\$22,422
<b>Total</b>	<b>\$393,808</b>
DSMA Incremental Increase (per therm) (Residential customers only)	\$0.0057
DSMA Incremental Increase (per therm) (All customers)	\$0.00378

***Option III: 3% Interest Rate Buy-Down***

<b>Category</b>	<b>Amount</b>
Loan Loss Reserve Account	\$100,000
Interest Rate Buy-Down Cost	\$142,513
Administration	\$40,000
Reporting	\$10,000
Marketing	\$50,000
Joint Utility Coordination Transfers	\$50,000
Contractor Training	\$25,000
UNS Gas Lost Revenue Recovery	\$22,422
<b>Total</b>	<b>\$439,935</b>
DSMA Incremental Increase (per therm) (Residential customers only)	\$0.0064
DSMA Incremental Increase (per therm) (All customers)	\$0.00422

Subtracting the Joint Utility Coordination Transfers cost and the UNS Gas Lost Revenue Recovery (both described above) from the total budget amounts is represented in Staff's revised tables below. In addition, because Staff is recommending the estimated incremental DSM adjutor increase be charged to all customer classes (excluding low income customers); Staff has recalculated the estimated incremental DSM adjutor increase for all customers based on the new total program budget amounts. The estimated incremental DSM adjutor increase amount was calculated by taking the revised total program budget and dividing it by the total therms sold by UNS Gas based on its 2009 Annual Report.

***Staff's Revised Option I: 0% Interest Rate Buy-Down***

<b>Category</b>	<b>Amount</b>
Loan Loss Reserve Account	\$100,000
Interest Rate Buy-Down Cost	\$0
Administration	\$40,000
Reporting	\$10,000
Marketing	\$50,000
Contractor Training	\$25,000
<b>Total</b>	<b>\$225,000</b>
DSMA Incremental Increase (per therm) (All customers)	\$0.0016

***Staff's Revised Option II: 2% Interest Rate Buy-Down (Staff's Recommended Option)***

<b>Category</b>	<b>Amount</b>
Loan Loss Reserve Account	\$100,000
Interest Rate Buy-Down Cost	\$96,386
Administration	\$40,000
Reporting	\$10,000
Marketing	\$50,000
Contractor Training	\$25,000
<b>Total</b>	<b>\$321,386</b>
DSMA Incremental Increase (per therm) (All customers)	\$0.0023

***Staff's Revised Option III: 3% Interest Rate Buy-Down***

<b>Category</b>	<b>Amount</b>
Loan Loss Reserve Account	\$100,000
Interest Rate Buy-Down Cost	\$142,513
Administration	\$40,000
Reporting	\$10,000
Marketing	\$50,000
Contractor Training	\$25,000
<b>Total</b>	<b>\$367,513</b>
DSMA Incremental Increase (per therm) (All customers)	\$0.0027

**Response to Sustainable Economic Development Initiative Letter ("SEDI")**

On September 2, 2010, the SEDI filed a letter in this docket expressing its concerns regarding UNS Gas' proposed EERFP Program. In its letter, SEDI makes several recommendations regarding UNS Gas' proposed EERFP Program. In addition, SEDI states that although there were preliminary discussions between it and UNS Gas regarding the proposed program, there continues to be weak elements of the proposed program. SEDI offers the following recommendations to the Commission regarding specific aspects of the proposed EERFP Program:

1. SEDI recommends that the Commission order UNS Gas to increase the loan loss reserve account amount each time \$1 million is used to support the program. Staff notes that the loan loss reserve account amount would be 10% of the total loan commitment made. UNS Gas has indicated that should the total loan commitment increase, the loan loss reserve account would increase at the 10% rate.
2. SEDI also recommends that the Commission authorize an automatic ramp up in funding up to a maximum of \$10 million a year. SEDI states that this would be large enough to support an ambitious marketing and education program, citing

Midwest Energy How\$mart® program and the New York State Energy Research and Development Authority's Residential Loan Fund Program.

3. SEDI recommends that UNS Gas be ordered to provide bill payment histories to the lender to ensure a greater number of potential customers would be able to qualify for a loan. UNS Gas has indicated AFC would be informed should a potential customer have more than two disconnects in the most recent twelve month payment history.
4. SEDI recommends that the Commission revise its rules regarding service disconnections to permit disconnections for non-payment of an energy efficiency loan. Staff notes that UNS Gas would not be the lender in this program and would not be the responsible party to pursue customers for non-payment. AFC would be the party responsible for pursuing the appropriate collection avenues for non-payment of a loan. In addition, Staff notes that this is not the appropriate forum to address a revision of the Arizona Administrative Code. The Commission may decide to pursue a rule making process to address proposed revisions to the Arizona Administrative Code.
5. SEDI recommends that UNS Gas be ordered to extend its proposed EERFP Program to renters stating that loans should be tied to meters and rather than homeowner or renter. Staff believes that the customer who signed the loan application should be the customer responsible for making the monthly loan payments.
6. SEDI recommends the Commission order UNS Gas to include additional energy efficiency measures that would be eligible for the proposed EERFP Program. Staff notes that according to UNS Gas, any Commission-approved energy efficiency measure within the Existing Homes Program would be eligible for the EERFP Program. Therefore, if the Commission should approve any future additional measures in the Existing Homes Program, those measures would be eligible for financing.
7. SEDI recommends the Commission order UNS Gas to require an energy audit for each loan. SEDI states that an audit would ensure that the most efficient measures are included in the loan in order for the loan to remain cash flow positive for the customer. Staff notes that UNS Gas has filed, in Docket No. G-04204A-07-0274 its proposed Residential Energy Assessment Program ("REAP"). The proposed REAP 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. Staff has reviewed this program as a modification of its Existing Home Program. According to UNS Gas, the cost of the assessment could be included in the financing amount.

8. SEDI recommends that the Commission approve the 3% interest rate buy-down level. Staff believes that the 2% interest rate buy-down level as discussed in the Program Description section of this memo would result in interest rates more comparable to the interest rates available from the APS REEF Program.
9. SEDI recommends that the proposed EERFP Program be subject to regularly scheduled reviews of its performance, with automatic extensions if the performance is satisfactory to the Commission. SEDI is also recommending initial six month review intervals until operating results justify yearly review intervals. Staff notes that UNS is required to file a semi-annual DSM progress report. Staff recommends that UNS Gas be required to include the information discussed below in its semi-annual DSM progress report.

### **RECOMMENDATIONS**

Staff recommends approval of UNS Gas' proposed Energy Efficiency Residential Financing Program with the following modifications:

- The maximum loan amount offered be reduced to \$10,000 per home;
- UNS Gas offer the 2% interest rate buy-down option (5.99%-7.99% interest rates);
- UNS Gas not include the Lost Revenue Recovery costs in its total program budget; and
- UNS Gas not include the Joint Utility Coordination Transfers costs in its total program budget.
- The DSM incremental increase amount be charged to all customer classes.

Staff further recommends that UNS Gas report on the EERFP Program in its DSM semi-annual report filed with the Commission, or in any succeeding form of report ordered by the Commission. The information and data reported should include the number and size of the loans, the number and size of the loans in default, the total amount found to be uncollectible, and any other information necessary for the Commission to understand the progress and status of the program, including any ongoing problems and their proposed solutions.

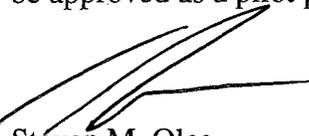
Staff further recommends that any default or group of defaults that would significantly affect the functioning of the EERFP Program be docketed with the Commission within 30 days of UNS Gas being notified, or otherwise becoming aware, of the affecting default or defaults. Staff further recommends that UNS Gas work to modify the loan requirements if it becomes necessary to address unanticipated problems. UNS Gas should file, with Docket Control, a letter within 30 days of any modifications to the loan requirements.

THE COMMISSION

December 6, 2010

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Staff further recommends that the proposed EERFP Program with Staff's modifications be approved as a pilot program until further Order from the Commission.



Steven M. Olea  
Director  
Utilities Division

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ORIGINATOR: Candrea Allen

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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 THE APPLICATION  
OF UNS GAS, INC. FOR APPROVAL OF  
ITS PROPOSED ENERGY EFFICIENCY  
FINANCING PILOT PROGRAM

DOCKET NO. G-04204A-08-0571

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 "Company") is certificated to provide gas service as a public service corporation in the State of Arizona.

BACKGROUND

2. On July 30, 2010, UNS Gas filed an application with the Arizona Corporation Commission ("Commission") in compliance with Decision No. 71623. Decision No. 71623, dated April 14, 2010, ordered UNS Gas to file "...a proposed energy efficiency revolving loan fund with convenient customer access to and repayment of the financing...for energy efficiency measures such as ductwork and efficient gas furnaces..."

PROGRAM DESCRIPTION

3. UNS Gas' proposed Energy Efficiency Residential Financing Pilot ("EERFP") Program would offer loans to residential customers in the UNS Gas service territory who own their own home and who wish to install eligible energy efficiency measures. UNS Gas is proposing a

1 two-year time period for the EERFP Program. In addition, the proposed EERFP program would  
2 support any cost-effective residential energy efficiency measure approved by the Commission.  
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20 increase could alter the structure of the DSM mechanism. Staff believes that changing the  
21 structure of the DSM mechanism should only be done within a rate case. Therefore, Staff believes  
22 that the proposed EERFP Program budget costs should be charged to all of UNS Gas' customers.  
23 This would lower the overall impact of the DSM adjustor rate.

24 15. Further, UNS Gas is proposing to include a Lost Revenue Recovery amount in its  
25 budget. According to UNS Gas, this amount represents the lost revenue incurred due to the  
26 reduction in total therm sales from the installation of energy efficiency measures. However, lost  
27 revenue recovery was not included in the DSM adjustor mechanism as established by Decision No.  
28 70011. Staff notes that Arizona Administrative Code R14-2-251110 of the Commission's

1 proposed Gas Energy Efficiency Rules state that “[t]he Commission shall review...recovery of net  
2 lost income/revenue...if an affected utility requests such review in its rate case...” Therefore,  
3 Staff does not believe that the recovery of UNS Gas’ lost revenue should be addressed through this  
4 application. Staff believes that the \$22,422 proposed for the Lost Revenue Recovery should not be  
5 included in the program budget.

6 16. UNS Gas has also included the costs of Joint Utility Coordination Transfers in its  
7 proposed budget. According to UNS Gas, this refers to the cost of coordination between multiple  
8 utilities (i.e. UNS Gas and APS) in which a customer of both utilities utilizes the financing  
9 program of one utility and also receives a savings benefit from the other utility based on the energy  
10 efficiency measures installed (i.e. duct or air sealing). The Utility in which the customer obtained  
11 financing would incur the cost of providing the financing to that particular customer. Therefore,  
12 the second utility would be obligated to reimburse the first utility a portion of the costs incurred of  
13 providing the financing to the customer.

14 17. UNS Gas is proposing to include the estimated costs it could incur if there were  
15 such a joint coordination effort. However, UNS Gas also indicated that a Joint Utility  
16 Coordination effort is currently in the preliminary stages of discussion. Staff believes that the  
17 \$50,000 proposed for the Joint Utility Coordination Transfers should not be included in the  
18 program budget. Should UNS Gas and/or any other utility decide to pursue such a Joint Utility  
19 Coordination effort, Staff believes that the utility should file an application for Commission  
20 approval.

21 18. The tables below show the UNS Gas’ estimated total program costs for the first  
22 year of each of the three interest rate buy-down options previously described (all calculations  
23 assume an average loan size of \$2,905 for a 12-year payment term). The tables also include UNS  
24 Gas’ estimated DSM adjustor rate increase for only residential customers (UNS Gas’ proposal)  
25 and for all customer classes (included by Staff). UNS Gas’ low income customers do not pay the  
26 DSM adjustor rate.

27 ...

28 ...

**Option I: 0% Interest Rate Buy-Down**

Category	Amount
Loan Loss Reserve Account	\$100,000
Interest Rate Buy-Down Cost	\$0
Administration	\$40,000
Reporting	\$10,000
Marketing	\$50,000
Joint Utility Coordination Transfers	\$50,000
Contractor Training	\$25,000
UNS Gas Lost Revenue Recovery	\$22,422
<b>Total</b>	<b>\$297,422</b>
DSMA Incremental Increase (per therm) (Residential customers only)	\$0.0043
DSMA Incremental Increase (per therm) (All customers)	\$0.00285

**Option II: 2% Interest Rate Buy-Down**

Category	Amount
Loan Loss Reserve Account	\$100,000
Interest Rate Buy-Down Cost	\$96,386
Administration	\$40,000
Reporting	\$10,000
Marketing	\$50,000
Joint Utility Coordination Transfers	\$50,000
Contractor Training	\$25,000
UNS Gas Lost Revenue Recovery	\$22,422
<b>Total</b>	<b>\$393,808</b>
DSMA Incremental Increase (per therm) (Residential customers only)	\$0.0057
DSMA Incremental Increase (per therm) (All customers)	\$0.00378

**Option III: 3% Interest Rate Buy-Down**

Category	Amount
Loan Loss Reserve Account	\$100,000
Interest Rate Buy-Down Cost	\$142,513
Administration	\$40,000
Reporting	\$10,000
Marketing	\$50,000
Joint Utility Coordination Transfers	\$50,000
Contractor Training	\$25,000
UNS Gas Lost Revenue Recovery	\$22,422
<b>Total</b>	<b>\$439,935</b>
DSMA Incremental Increase (per therm) (Residential customers only)	\$0.0064
DSMA Incremental Increase (per therm) (All customers)	\$0.00422

19. Subtracting the Joint Utility Coordination Transfers cost and the UNS Gas Loss Revenue Recovery (both described above) from the total budget amounts is represented in Staff's revised tables below. In addition, because Staff is recommending the estimated incremental DSM adjustor increase be charged to all customer classes (excluding low income customers), Staff has

1 recalculated the estimated incremental DSM adjustor increase for all customers based on the new  
 2 total program budget amounts. The estimated incremental DSM adjustor increase amount was  
 3 calculated by taking the revised total program budget and dividing it by the total therms sold by  
 4 UNS Gas based on its 2009 Annual Report.

5 ***Staff's Revised Option I: 0% Interest Rate Buy-Down***

Category	Amount
Loan Loss Reserve Account	\$100,000
Interest Rate Buy-Down Cost	\$0
Administration	\$40,000
Reporting	\$10,000
Marketing	\$50,000
Contractor Training	\$25,000
<b>Total</b>	<b>\$225,000</b>
DSMA Incremental Increase (per therm) (All customers)	\$0.0016

11 ***Staff's Revised Option II: 2% Interest Rate Buy-Down (Staff's Recommended Option)***

Category	Amount
Loan Loss Reserve Account	\$100,000
Interest Rate Buy-Down Cost	\$96,386
Administration	\$40,000
Reporting	\$10,000
Marketing	\$50,000
Contractor Training	\$25,000
<b>Total</b>	<b>\$321,386</b>
DSMA Incremental Increase (per therm) (All customers)	\$0.0023

17 ***Staff's Revised Option III: 3% Interest Rate Buy-Down***

Category	Amount
Loan Loss Reserve Account	\$100,000
Interest Rate Buy-Down Cost	\$142,513
Administration	\$40,000
Reporting	\$10,000
Marketing	\$50,000
Contractor Training	\$25,000
<b>Total</b>	<b>\$367,513</b>
DSMA Incremental Increase (per therm) (All customers)	\$0.0027

23 **RESPONSE TO SUSTAINABLE ECONOMIC DEVELOPMENT INITIATIVE LETTER**

24 20. On September 2, 2010, the SEDI filed a letter in this docket expressing its concerns  
 25 regarding UNS Gas' proposed EERFP Program. In its letter, SEDI makes several  
 26 recommendations regarding UNS Gas' proposed EERFP Program. In addition, SEDI states that  
 27 although there were preliminary discussions between it and UNS Gas regarding the proposed  
 28

1 program, there continues to be weak elements of the proposed program. SEDI offers the following  
2 recommendations to the Commission regarding specific aspects of the proposed EERFP Program:

- 3  
4 1. SEDI recommends that the Commission order UNS Gas to increase the loan loss  
5 reserve account amount each time \$1 million is used to support the program. Staff  
6 notes that the loan loss reserve account amount would be 10% of the total loan  
7 commitment made. UNS Gas has indicated that should the total loan commitment  
8 increase, the loan loss reserve account would increase at the 10% rate.
- 9  
10 2. SEDI also recommends that the Commission authorize an automatic ramp up in  
11 funding up to a maximum of \$10 million a year. SEDI states that this would be  
12 large enough to support an ambitious marketing and education program, citing  
13 Midwest Energy How\$mart® program and the New York State Energy Research  
14 and Development Authority's Residential Loan Fund Program.
- 15  
16 3. SEDI recommends that UNS Gas be ordered to provide bill payment histories to the  
17 lender to ensure a greater number of potential customers would be able to qualify  
18 for a loan. UNS Gas has indicated AFC would be informed should a potential  
19 customer have more than two disconnects in the most recent twelve month payment  
20 history.
- 21  
22 4. SEDI recommends that the Commission revise its rules regarding service  
23 disconnections to permit disconnections for non-payment of an energy efficiency  
24 loan. Staff notes that UNS Gas would not be the lender in this program and would  
25 not be the responsible party to pursue customers for non-payment. AFC would be  
26 the party responsible for pursuing the appropriate collection avenues for non-  
27 payment of a loan. In addition, Staff notes that this is not the appropriate forum to  
28 address a revision of the Arizona Administrative Code. The Commission may  
decide to pursue a rule making process to address proposed revisions to the Arizona  
Administrative Code.
5. SEDI recommends that UNS Gas be ordered to extend its proposed EERFP  
Program to renters stating that loans should be tied to meters and rather than  
homeowner or renter. Staff believes that the customer who signed the loan  
application should be the customer responsible for making the monthly loan  
payments.
6. SEDI recommends the Commission order UNS Gas to include additional energy  
efficiency measures that would be eligible for the proposed EERFP Program. Staff  
notes that according to UNS Gas, any Commission-approved energy efficiency  
measure within the Existing Homes Program would be eligible for the EERFP  
Program. Therefore, if the Commission should approve any future additional

1 measures in the Existing Homes Program, those measures would be eligible for  
2 financing.

3 7. SEDI recommends the Commission order UNS Gas to require an energy audit for  
4 each loan. SEDI states that an audit would ensure that the most efficient measures  
5 are included in the loan in order for the loan to remain cash flow positive for the  
6 customer. Staff notes that UNS Gas has filed, in Docket No. G-04204A-07-0274 its  
7 proposed Residential Energy Assessment Program ("REAP"). The proposed REAP  
8 is a comprehensive home examination designed to assess how much energy the  
9 home is using and to evaluate what measures can be taken to improve efficiency.  
10 Staff has reviewed this program as a modification of its Existing Home Program.  
11 According to UNS Gas, the cost of the assessment could be included in the  
12 financing amount.

13 8. SEDI recommends that the Commission approve the 3% interest rate buy-down  
14 level. Staff believes that the 2% interest rate buy-down level as discussed in the  
15 Program Description section of this memo would result in interest rates more  
16 comparable to the interest rates available from the APS REEF Program.

17 9. SEDI recommends that the proposed EERFP Program be subject to regularly  
18 scheduled reviews of its performance, with automatic extensions if the performance  
19 is satisfactory to the Commission. SEDI is also recommending initial six month  
20 review intervals until operating results justify yearly review intervals. Staff notes  
21 that UNS is required to file a semi-annual DSM progress report. Staff recommends  
22 that UNS Gas be required to include the information discussed below in its semi-  
23 annual DSM progress report.

## 24 RECOMMENDATIONS

25 21. Staff has recommended approval of UNS Gas' proposed Energy Efficiency  
26 Residential Financing Program with the following modifications:

- 27 • The maximum loan amount offered be reduced to \$10,000 per home;
- 28 • UNS Gas offer the 2% interest rate buy-down option (5.99%-7.99% interest rates);
- UNS Gas not include the Lost Revenue Recovery costs in its total program budget;  
and
- UNS Gas not include the Joint Utility Coordination Transfers costs in its total  
program budget.
- The DSM incremental increase amount be charged to all customer classes.



1 IT IS FURTHER ORDERED that UNS Gas, Inc. offer the 2% interest rate buy-down  
2 option (5.99%-7.99% interest rates).

3 IT IS FURTHER ORDERED the DSM incremental increase amount be charged to all  
4 customer classes.

5 IT IS FURTHER ORDERED that UNS Gas, Inc. not include the Lost Revenue Recovery  
6 costs in its total program budget.

7 IT IS FURTHER ORDERED that UNS Gas, Inc. not include the Joint Utility Coordination  
8 Transfers costs in its total program budget.

9 IT IS FURTHER ORDERED that UNS Gas, Inc. report on the EERFP Program in its DSM  
10 semi-annual report filed with the Commission, or in any succeeding form of report ordered by the  
11 Commission. The information and data reported should include the number and size of the loans,  
12 the number and size of the loans in default, the total amount found to be uncollectible, and any  
13 other information necessary for the Commission to understand the progress and status of the  
14 program, including any ongoing problems and their proposed solutions.

15 IT IS FURTHER ORDERED that any default or group of defaults that would significantly  
16 affect the functioning of the EERFP Program be docketed with the Commission within 30 days of  
17 UNS Gas being notified, or otherwise becoming aware, of the affecting default or defaults.

18 IT IS FURTHER ORDERED that UNS Gas, Inc. work to modify the loan requirements if  
19 it becomes necessary to address unanticipated problems. UNS Gas should file, with Docket  
20 Control, a letter within 30 days of any modifications to the loan requirements.

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IT IS FURTHER ORDERED that the proposed EERFP Program with Staff's modifications be approved as a pilot program until further Order from the Commission.

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:CLA:red\RRM

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