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UniSourceEnergy SERVICES



0000120667

One South Church, Suite 2030, Tucson, Arizona 85701
Post Office Box 711, Tucson, Arizona 85702

RECEIVED

Philip J. Dion
Vice President
Public Policy

2010 DEC 10 P 3:46
Office: (320) 884-3708
Fax: (520) 545-1471

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

December 10, 2010

Arizona Corporation Commission
DOCKETED

DEC 10 2010

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

DOCKETED BY

RE: Docket No. G-04204A-08-0571
UNS Gas, Inc.'s Proposed Energy Efficiency Financing Pilot Program

UNS Gas, Inc. ("UNS Gas" or "Company") is in receipt of the filing made by the Sustainable Economic Development Initiative ("SEDI") on September 2, 2010, in response to the Company's Residential Energy Efficiency Financing Pilot Program ("Pilot Program") application filed on July 31, 2010. UNS Gas hereby responds to SEDI's filing as follows:

In drafting the Pilot Program, UNS Gas worked hand-in-hand with SEDI and the Southwest Energy Efficiency Project ("SWEEP"). UNS Gas made all attempts to incorporate both SEDI's and SWEEP's requested elements for the Pilot Program. UNS Gas believes that the Pilot Program as proposed is an excellent representation of the joint collaboration between the three entities.

Despite the cooperative efforts that led to the proposed Pilot Program, SEDI continues to request program parameters that cannot be accommodated in the Pilot Program. SEDI's September 2 filing includes many recommendations that have already been addressed, both during talks with SEDI and in the Company's proposed Pilot Program. However, UNS Gas believes that the remainder of SEDI's requests, (including SEDI's request that ratepayers compensate SEDI for its assistance in marketing the Pilot Program) should be denied for the reasons set forth below.

SEDI Recommendation No. 1:

To better match the revolving loan fund to potential demand, the Commission should authorize and order UNS Gas to increase the loan loss reserve to make additional funding available each time a \$1,000,000 tranche in loan funding is lent out, even if it is well before the completion of the first year pilot.

Response:

The Company believes that the current loan loss reserve amount is sufficient to service potential demand. There is no anticipation of lending in excess of \$1,000,000 for 2011. Moreover, the funds available for loans under the Pilot Program are tied to the amount collected through the Demand Side Management ("DSM") adjustor. Increasing funding as SEDI suggests would necessarily increase

the DSM adjustor. UNS Gas believes this is simply unnecessary given the proposed funding amount of \$1,000,000.

SEDI Recommendation No. 2.

We suggest the Commission authorize this automatic ramp up in funding to a maximum of \$10,000,000 per year, which would be large enough to support an ambitious marketing and education program, but still would provide funding for only 2% of UNS Gas customers.

Response:

As stated above, UNS Gas believes that a \$1,000,000 commitment in the UNS Gas service territory is more than sufficient for a pilot program. Moreover, the Company works diligently to stretch every marketing dollar as far as possible and does not anticipate increasing the current DSM adjustor requirement tenfold for marketing purposes. Indeed, the Company's recent experiences with the Residential Energy Standards has shown that a smaller, highly-effective marketing campaign is sufficient to encourage customers to take advantage of energy efficiency and renewable programs.

SEDI Recommendation No. 3.

We recommend the Commission order UNS Gas to provide bill payment histories to the loan underwriter so that more borrowers can qualify for energy efficiency financing under this Program.

Response:

UNS Gas has no objection to providing bill payment histories to the loan underwriter provided that the Company has customer permission to share the information. Additionally, AFC First ("AFC" or "Lender") is willing to accept loan payment histories during the underwriting process. None of this, however, can be used in place of the underwriting requirements dictated by AFC's governing board and Federal and State regulators; thus, a utility payment history will not be used to qualify an individual that has a low FICO credit score. Because utility bill payment history will not aid in increasing the number of qualified borrowers, the Company believes that this requirement is unnecessary.

SEDI Recommendation No. 4.

We recommend the Commission order a change in the rules limiting service disconnection to permit service disconnection for non-payment of an energy efficiency loan. This would allow more UNS Gas customers to qualify for energy efficiency loans, and it would likely also result in lower interest rates over the life of this program. Lower interest rates would result in lower interest rate buy-down costs to UNS Gas, and ultimately, less cost to ratepayers.

Response:

UNS Gas does not believe that Arizona Administrative Code R14-2-308 should be changed to accommodate this request. Terminating service for non-payment of a loan is not a necessary component of a strong financing program, particularly when the program is a pilot program. Moreover, the Company is not comfortable cutting utility service when traditional methods of cost

recovery on defaulted loans are available. Finally, with loans tied to service, a customer in default would have to repay the entire cost of their loan prior to having service reestablished. UNS Gas does not believe this is fair and requests that the Commission keep the Pilot Program as proposed.

SEDI Recommendation No. 5.

We recommend the Commission order the UNS Gas energy efficiency financing program be made available to renters, and that energy efficiency loans be tied to the meter rather than property owner or renter.

Response:

UNS Gas does not support this proposition because the Pennsylvania Treasury, who plans to purchase the loans from AFC, will only purchase loans made to owner-occupied homes. Moreover, a renter cannot secure a loan with property that does not belong to him, thus all loans made and tied to the meter would effectively be the homeowner's obligation. This means that a homeowner could lose his home for a renter's failure to pay on the loan. Additionally, the Company does not believe that many renters will want to secure a loan to improve property that does not belong to them. Even where a renter did wish to do so, arrangements would need to be made through the landlord anyway. Lastly, if loans were made to renters to improve the efficiency of property that they did not own, the loan would need to be transferred to subsequent renters when the lease term expired. This creates a number of issues and could potentially restrict the availability of qualified renters to those approved through the lender's underwriting process; it would also require payment of additional fees for the transfer and underwriting services. Moreover, who would be responsible for repaying the loan while the property is vacant? Given the foregoing, UNS Gas does not believe that the Commission should adopt this recommendation.

SEDI Recommendation No. 6.

We recommend the Commission require UNS Gas to include a broader range of cost effective energy efficiency measures in their plan. In this way the package of measures selected will produce the greatest efficiency returns for the dollars invested.

Response:

UNS Gas continues to evaluate additional energy efficiency measures for cost effectiveness under the Societal Cost test required in the Energy Efficiency Rules. As additional measures are added to the list of approved measures, customers may utilize the Pilot Program to secure installation of the measures. Many of the items listed in SEDI's filing are very low-cost items and not worth the financing charge that would be added to a customer loan over a seven to twelve-year term. As such, UNS Gas recommends against inclusion of those low-cost measures in the Pilot Program.

SEDI Recommendation No. 7.

We urge the Commission to order UNS Gas to require an energy audit for each energy efficiency loan financed under the proposed program. This will ensure that the potential energy efficiency measures can be prioritized, and the energy efficiency financing can concentrate on the most efficient measures for each building.

Response:

UNS Gas agrees that the Residential Energy Assessment Program, filed on September 8, 2010 in Docket No. E-01933A-07-0401, could be combined with the Financing Program. However, the Company can see the benefit of allowing a loan into the Program without an initial energy audit when it is for an emergency situation, such as a furnace failure during very cold weather. For emergency situations, UNS Gas could require a post-installation inspection to verify that the installation was performed according to specifications, but ordering SEDI's recommendation as written would prevent an accommodation such as this.

SEDI Recommendation No. 8.

We recommend the Commission approve the 3% interest rate buy down offered by UNS Gas, and order UNS Gas to shop qualified lenders for better financing terms based on the revised financing program SEDI recommends (i.e., use of utility bill payment history for qualifying, allowing shut-off for loan non-payment linked to cash flow positive loans, and having the loan attached to the meter).

Response:

UNS Gas supports Commission Staff's Recommended Order, which recommends the 2% buy-down option.

SEDI Recommendation No. 9.

We recommend this financing plan, as well as the entire energy efficiency program offered by UNS Gas, be subject to regularly scheduled reviews of its performance, with automatic extensions if the performance is satisfactory to the Commission. We recommend the first review be six months after program launch and at six month intervals thereafter until operating results justify an extension to one year intervals. We believe that both SEDI and SWEEP should be included on whatever review board may be established.

Response:

UNS Gas does not support the establishment of a review board in place of the work that Commission Staff does to review and make recommendations regarding Company programs. Commission Staff is more than equipped to evaluate this Pilot Program and recommend continuation if it sees fit. Moreover, both SEDI and SWEEP can participate in whatever hearings take place regarding the Program moving forward. As they have shown, current processes for special interest group participation are more than adequate to ensure that both SEDI and SWEEP have the opportunity to evaluate the Pilot Program's success and make their concerns known to the Commission. As such, the Company does not believe that a review board is necessary.

SEDI Page 6, Paragraph 4 – Compensation to SEDI and Other Community Interest Groups

UNS Gas indicates in this filing that they plan to use “community interest groups such as SEDI” to assist in Program marketing and demand generation, but make no mention in the program budgets of providing compensation to these organizations for their work. While organizations such as SEDI can usually draw on their own institutional capacities to make some high-level, demand-building efforts, these organizations have very limited budgets and there are rarely sufficient funds to undertake the on-the-ground marketing and education efforts necessary for a program such as the one proposed to succeed. Accordingly, SEDI urges that budgeting be provided to fund these community interest group marketing activities.

Response:

Every program has marketing costs. UNS Gas strives to keep these costs low and will ultimately only implement the marketing costs approved by the Commission. UNS Gas does not believe that SEDI should be compensated by UNS Gas ratepayers for its efforts to promote itself. Prior to the establishment of this Pilot Program, one of SEDI’s objectives was to encourage Flagstaff residents to install energy efficiency upgrades. It did this by going door-to-door in Flagstaff promoting itself and energy efficiency awareness. UNS Gas believes it would be improper to allow SEDI to recoup the costs of its operations from all UNS Gas ratepayers, especially since many of those ratepayers do not reside in Flagstaff.

In conclusion, UNS Gas appreciates SEDI’s dedication to the expansion of energy efficiency throughout Flagstaff, but respectfully requests that the Pilot Program be approved as proposed.

Sincerely,



Philip J. Dion

Original and 13 copies of the foregoing
filed this 10th day of December 2010, with:

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

Copy of the foregoing hand-delivered/mailed
this 10th day of December, 2010, to:

Chairman Kristin K. Mayes
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Commissioner Gary Pierce
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Commissioner Paul Newman
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Commissioner Sandra D. Kennedy
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Commissioner Bob Stump
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Daniel W. Pozefsky
Chief Counsel
Residential Utility Consumer Office
1110 West Washington, Suite 220
Phoenix, Arizona 85007

Cynthia Zwick
1940 East Luke Avenue
Phoenix, Arizona 85016

Nicholas J. Enoch
Lubin & Enoch, P.C.
349 North Fourth Avenue
Phoenix, AZ 85003
Attorneys for IBEW Local 1116

Ron Hubert
Sustainable Economic Development Initiative
P.O. Box 22100
Flagstaff, AZ 86002-2100

Jeff Schlegel
SWEEP
1167 W. Samalayuca Dr.
Tucson, AZ 85704-3224

Dwight Nodes, Esq.
Assistant Chief Administrative Law Judge
Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Janice Alward, Chief Counsel
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Steve Olea
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

By _____