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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

Arizona Corporation Commission

DOCKETED

JAN 6 2011

DOCKETED BY	<i>nc</i>
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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. 72062

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.
3 Sometimes, customers are unable to participate in energy efficiency programs because they do not
4 have the necessary up-front funds. UNS Gas believes that the proposed financing program would
5 help expand the number of residential customers who would be able to afford to participate in
6 energy efficiency programs because it would allow customers to pay the up-front costs over time.
7 The EERFP Program would be available only to eligible residential customers.

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

16 5. UNS Gas estimates that 400 customers will choose to participate in its expanded
17 Existing Homes Program (formerly Efficient Home Heating Program approved on November 23,
18 2010) and only a percentage of those customers will choose to install every energy efficiency
19 measure. Based on the estimated number of participants in its Existing Homes Program, UNS Gas
20 has determined the average loan amount to be \$2,905 per customer. Based on the initial capital
21 commitment and the estimated loan size amount of \$2,905, UNS Gas estimates that the proposed
22 EERFP Program could offer a total of 344 loans. The availability of loans will be determined by
23 the actual loan amounts.

24 6. Table 1 below shows the current Commission-approved energy efficiency measures
25 included in the Existing Homes Program and the estimated cost per measure to install each
26

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28 ¹ 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.

1 measure. The total cost should a customer install all of the available measures is also provided in
2 Table 1 below.

3 **Table 1**

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

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8 7. The proposed EERFP program would offer unsecured loans ranging from \$1,000 to
9 \$15,000 with repayment terms up to 12 years. UNS Gas states that it chose a 12-year term length
10 in response to the Sustainable Economic Development Initiative's ("SEDI") request to have
11 customers' monthly payments equal or nearly equal the estimated monthly savings from installing
12 energy efficiency measures. UNS Gas has indicated that customers would be able to choose
13 shorter term periods.

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

22 **Table 2: 12-Year Repayment**

Loan Amount Range	Buy-Down Level	Interest Rate Range	Repayment Range (\$2,905 loan amount)
\$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

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26 9. UNS Gas presents three possible options to address the interest rate buy-down
27 level. This portion of UNS Gas' application is fashioned as a request for Commission guidance on
28 the final interest rate buy-down level. The three options are: (i) no interest rate buy-down; (ii) a

1 two percent (2%) interest rate buy-down; or (iii) a three percent (3%) interest rate buy-down. UNS
 2 Gas does not request approval of any of the options presented in its application. Table 3 below
 3 represents the three interest rate buy-down options that would be included in the proposed budget
 4 for the EERFP Program (actual budget information is discussed later).

5 **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%

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

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

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

25 12. UNS Gas has indicated that a customer must meet certain criteria in order to qualify
 26 for a loan. A customer must also meet certain underwriting requirements of AFC which include:
 27 proof of income, credit history including FICO scores (≥ 640), and debt-to-income thresholds (50%
 28

1 or less). In addition, UNS Gas would inform AFC if a potential customer has had more than two
2 disconnects in the most recent twelve month payment history.

3 13. The proposed EERFP Program would recruit contractors who were initially used
4 for the Existing Homes Program. In its application, UNS Gas states that customers could be pre-
5 approved over the phone or customers could fill out an application during the contractor visit. In
6 addition, UNS Gas states that the loan application would be available on the Company's website.
7 Loan approvals would occur within 48 hours of submitting the application. UNS Gas would hold
8 an orientation for contractors interested in participating in this program. The orientation would
9 outline the requirements of the program and the contractors' responsibilities as well as reporting
10 and data collection procedures. UNS Gas states that it could begin to implement its proposed
11 EERFP program within 30 to 60 days after Commission approval.

12 **PROGRAM COSTS**

13 14. In its application, UNS Gas is proposing to recover the cost of its proposed EERFP
14 program through its Demand-Side Management Adjustor Rate ("DSM adjustor rate"). In Decision
15 No. 71717, the Commission granted UNS Gas a DSM Adjustor Rate of \$0.0084 per therm. Based
16 on the program costs in the tables below for each interest rate buy-down option, UNS Gas has
17 estimated the incremental impact each of the options would have on its DSM adjustor rate. In
18 addition, UNS Gas is proposing to charge only residential customers the incremental increase in
19 the DSM adjustor rate. Staff notes that charging only residential customers the DSM adjustor
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.

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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
Total	\$297,422
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
Total	\$393,808
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
Total	\$439,935
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
Total	\$225,000
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
Total	\$321,386
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
Total	\$367,513
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 the EERFP Program be funded \$750,000 which includes
2 the Joint Utility Coordination Transfer costs.

3 IT IS FURTHER ORDERED that the proposed EERFP Program as discussed above be
4 approved as a pilot program until further Order of the Commission.

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

6

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

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CHAIRMAN

COMMISSIONER

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COMMISSIONER

COMMISSIONER

COMMISSIONER

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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 6th day of JANUARY, ~~2010~~

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ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

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DISSENT: _____

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DISSENT: _____

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2 DOCKET NO.: G-04204A-08-0571

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