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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS
GARY PIERCE - CHAIRMAN
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

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

NOTICE OF FILING AMENDMENT TO THE ENERGY EFFICIENCY FINANCING PILOT PROGRAM

On July 30, 2010, UNS Gas, Inc. ("UNS Gas" or "Company"), filed an application with the Arizona Corporation Commission ("Commission") for approval of its Energy Efficiency Residential Financing Pilot Program ("Financing Program"). On January 6, 2011, the Commission approved the Financing Program in Decision No. 72062 ("Decision"). As part of the approval, the Commission ordered that "UNS Gas, Inc. work to modify the loan requirements if it becomes necessary to address unanticipated problems," and that "UNS Gas should file, with Docket Control, a letter within 30 days of any modifications to the loan requirements."[1]

UNS Gas, through undersigned counsel, hereby files the attached letter to notify the Commission of a recent change from the previously proposed, out-of-state lender, AFC First, to the in-state lender, Vantage West Credit Union. UNS Gas believes this change is in the best interest of its ratepayers and will further the Company's ability to meet the energy efficiency goals in a cost-effective manner.

Even with this change, UNS Gas will be able to keep the majority of the Financing Program's parameters the same, including the loan commitment level ($2,700,000), the loan loss reserve amount (10%), the interest rate offered to customers (7.99%), the qualifying FICO credit score (640 and above), and the debt-to-income ratio (up to 50%). The proposed changes to the

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[1] Decision at page 12, lines 26-28.

Financing Program include only the change to an in-state lender, a reduction in the buy-down costs of approximately $310,000 during the first two years of the Program, a more advantageous treatment of the loan loss reserve account, and a reduction in the term of the loan from 12 years to 10 years.

RESPECTFULLY SUBMITTED this 23d day of August 2011.

UNS Gas, Inc.

By ______________________
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Original and 13 copies of the foregoing
filed this 23rd day of August 2011 with:

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Copy of the foregoing hand-delivered/mailed
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August 23, 2011

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

Re: Docket No. G-04204A-08-0571 - Decision No. 72062
Changes to UNS Gas Energy Efficiency Residential Financing Pilot Program

In Decision No. 72062 (July 30, 2010), the Arizona Corporation Commission ("Commission") approved the Energy Efficiency Residential Financing Pilot Program ("Financing Program") for UNS Gas, Inc. ("UNS Gas" or the "Company"). It has always been UNS Gas' preference to use an Arizona-based lender for the Financing Program, but at the time the Program was designed and approved an out-of-state lender offered the best terms available. Through the encouragement of Commission Staff and with the help of Pima County Interfaith Council, an in-state lender was found that worked with UNS Gas, Tucson Electric Power Company ("TEP") and UNS Electric, Inc. ("UNS Electric") to come up with acceptable loan terms for the three companies. This letter is intended to notify the Commission of the changes to the lending partner and loan terms associated with the UNS Gas Financing Program, and to provide an updated budget.

Lending Partners:

Prior Lenders: When the Financing Program was designed and approved, the loans were to be financed and serviced by AFC First ("AFC") out of Pennsylvania. The Pennsylvania Treasury ("PAT") was to purchase the loans from AFC then pool and sell the loans to tertiary parties, if possible. Of note, while working on the contracts between UNS Gas and AFC/PAT, it was apparent that the PAT had not disclosed all of the mechanics of the loan process, which are unfavorable compared to AFC. These are shown in Table 1-1, below.

Current Lender: Vantage West Credit Union ("VW"), which is located in of Tucson, Arizona, has offered to provide financing similar to that discussed in the Order, but at a reduced cost to ratepayers. VW will finance, service and hold the notes until maturity, simplifying the lending process, while keeping the loan revenue and any jobs created by the Financing Program in Arizona.

Loan Terms:

The following table details the offerings from VW and AFC/PA

Table 1.1 Loan Terms Comparison

	VW	AFC/PA
Loan Commitment	$2,700,000	$2,730,000
Loan loss reserve	10%	10%
Interest Rate	7.99%	7.99%
Cost to buy down rate to 7.99%	$108,000/year, $216,000 for 2 years[1]	$263,200/year, $526,400 for 2 years
Loan size	$10,000 Max	$10,000 Max
FICO score	640 Min	640 Min
Term	10 year Max	12 year Max
Collateral	Unsecured	Unsecured
Funding of Reserve and Buy Down Accounts	Allowed to fund accounts in tranches to support $100,000 in loans at a time: Initial funding would be $10,000 for the Loan Loss Reserve Account and $4,000 for the Interest Rate Buy Down Account.	Required to fund full commitment at the beginning of the relationship - $273,000 for Loan Loss Reserve Account and approx. $259.200 for the Interest Rate Buy Down Account.
Handling of Loan Loss Reserve Account	Account stays liquid, and what is not used would be returned. VW can only use the funds to support defaults, specifically to support the then current principal balance, accrued interest and associated fees.	Account funds would not remain liquid. Funds would be used to purchase additional energy efficiency loans in the PAT's name. PAT would have absolute control over the funds, and could also use the funds to entice tertiary lenders to purchase loan portfolios. PAT does not guaranty that the all funds not used to support defaults would be returned.

[1]The cost of the interest rate buy-down is dependent upon the FICO credit score of each customer. VW's base rate is 11.99% (requiring a 4% buy-down) for customers with FICO scores of 640 to 679, and 9.99% (requiring a 2% buy-down) for scores of 680 and above. VW does not charge a premium to reduce the interest rates, so the cost of the reduction equals the percentage change by which the rate was reduced [i.e., if the rate is bought down from 11.99% to 7.99% (a difference of 4%) the cost to the Program for the reduction is only 4%].

Due to the length of time required to negotiate the legal and technical details required to launch the program with our new lending partner, UNS Gas is proceeding immediately with those activities. The Company will work in parallel to keep the Commission and Commission Staff informed, and will answer all inquiries with regards to this program.

Respectfully,

D. Smith

Denise Smith