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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

GARY PIERCE - CHAIRMAN
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AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission

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SEP 1 2011

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IN THE MATTER OF THE APPLICATION OF)
UNS ELECTRIC, INC. FOR APPROVAL OF ITS)
2011-2012 ENERGY EFFICIENCY)
IMPLEMENTATION PLAN.)

DOCKET NO. E-04204A-11-0056

**NOTICE OF FILING UPDATED INFORMATION IN SUPPORT OF 2011-2012
ELECTRIC ENERGY EFFICIENCY IMPLEMENTATION PLAN**

and

REQUEST FOR WAIVER

UNS Electric, Inc. ("UNS Electric" or "Company"), through counsel undersigned, hereby files the attached Updated Information in Support of its 2011-2012 Electric Energy Efficiency Implementation Plan ("EE Plan") that was filed with the Arizona Corporation Commission ("Commission") on January 31, 2011. The updates to the EE Plan relate to the following topics:

- Residential Financing Program
- Budget
- Portfolio Savings
- Authorized Revenue Requirement True-Up
- DSM Adjustor

Additionally, given the anticipated timing of Commission approval of its EE Plan, UNS Electric also requests a waiver and a modification of the Electric Energy Efficiency Standards ("EE Standard" or "EEES") set forth in A.A.C. R14-2-2404.B, as set forth in the attached Updated Information. When UNS Electric filed its EE Plan on January 31, 2011, it anticipated Commission approval of the EE Plan in June 2011. UNS Electric now anticipates that the EE Plan

1 will be approved in November 2011. That change in the anticipated approval date has
2 significantly altered the timing of anticipated participation in the EE Plan and in subsequent plans.

3 Wherefore, UNS Electric requests that the Commission: (i) consider the updated
4 information in reviewing and approving the Company's EE Plan and (ii) grant UNS Electric's
5 request for a waiver and modification of the EE Standard pursuant to A.A.C. R14-2- 2419 in light
6 of the anticipated approval date of its EE Plan as good cause exists.

7 RESPECTFULLY SUBMITTED this 1st day of September 2011.

8 UNS Electric, Inc.

9
10 By 

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22 Original and 13 copies of the foregoing
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24 Docket Control
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Copy of the foregoing hand-delivered/mailed
this ____ day of September 2011 to:

Lyn A. Farmer, Esq.
Chief Administrative Law Judge
Arizona Corporation Commission
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By Rebbie Amarel

UNS ELECTRIC, INC.

UPDATED INFORMATION IN SUPPORT OF 2011-2012 ELECTRIC ENERGY EFFICIENCY IMPLEMENTATION PLAN

DOCKET NO. E-04204A-11-0056

SEPTEMBER 1, 2011

Summary of Updated Information

UNS Electric, Inc. (“UNSE” or “Company”) has prepared this document in support of its proposed 2011-2012 Electric Energy Efficiency Implementation Plan (“EE Plan”) that was filed with the Arizona Corporation Commission (“Commission”) on January 31, 2011. Because significant changes have occurred since the EE Plan was filed seven months ago, the purpose of this document is to provide updated information that the Company believes is important in order for the Commission to complete its analysis prior to approving the EE Plan.¹ Additionally, UNSE is requesting a waiver and a modification of the Electric Energy Efficiency Standards (“EE Standard” or “EEES”) set forth in A.A.C. R14-2-2404.B.

There are five primary updates contained herein as follows:

I. RESIDENTIAL FINANCING PROGRAM

At the request of the Commission, UNSE continued its efforts to locate a local lender for the Residential Financing Program and recently selected Vantage West Credit Union as the lending partner. The change in lending partners resulted in significant budget reductions from those filed in the original EE Plan filed with the Commission. Changes to this program are included in the red-lined filing of Exhibit 1. The comparison below shows the anticipated spending for 2011-2012.

Program Year	Original EE Plan Budget	Updated Budget
2011	\$425,853	\$85,968
2012	\$426,606	\$278,104
Total	\$852,459	\$364,072

II. BUDGET

The updated anticipated timing of approval of new programs and additional program measures and continuing economic forces have altered the estimated budgets resulting in a \$5 million reduction. UNSE provides the following budget comparison for Commission review:

¹ When UNSE filed its EE Plan on January 31, 2011, it anticipated Commission approval of the EE Plan in June 2011. The delay in the timing for approval has significantly altered anticipated participation in 2011 and has resulted in other changes as set forth herein. The changes set forth herein anticipate that the EE Plan will be approved by the Commission in time to be implemented November 1, 2011. For the convenience of the Commission, UNSE has provided (where appropriate) side-by-side comparisons of the original EE Plan to the updated information.

Program Year	Original EE Plan Budget	Updated Budget
2011	\$5,811,106	\$3,356,984
2012	\$7,914,026	\$5,449,519
Total	\$13,725,132	\$8,806,503

III. PORTFOLIO SAVINGS

The updated anticipated timing for approval of the EE Plan has altered the estimated savings for 2011 and 2012 as shown below:

Program Year	Original EE Plan Savings (MWh)	Updated Savings (MWh)
2011	31,436	14,067
2012	41,696	30,077
Total	73,132	44,145

IV. DSM ADJUSTOR

The DSM adjustor must be modified due to: (i) the decrease in program budgets and (ii) the reduced timing for collection. UNSE has provided a summary of information on the DSM adjustor request in the table below:

Program Years	Original DSM Surcharge (\$/kWh)	Updated DSM Surcharge (\$/kWh)
2011-2012	\$0.003350	0.004590

V. WAIVER FROM 2011 EEES

The updated anticipated timing of the effectiveness and implementation of the EEES Rules, as well as the delay in the approval of the 2011 EE Plan, makes it impossible for UNSE to meet the cumulative EE Standard set forth in A.A.C. R14.2.204.B for 2011 through 2020. UNSE therefore requests a waiver and modification of the 2011 EEES and further requests that the Company's EE Standard be modified for all future EE Plan filings.

This updated information does not alter any other component in the original EE Plan document and UNSE respectfully requests that the Commission approve its EE Plan, as supplemented herein, as expeditiously as possible.

I. Residential Financing Program

UNSE has designed a proposed Energy Efficiency Residential Financing Pilot Program (“Pilot Program”) to provide customers with the funds needed to make cost-effective energy efficiency upgrades to their homes.

Initially, UNSE planned to develop partnerships with Pennsylvania Treasury, as it appeared to be the only lending partner available to meet many requests that surfaced during the UNS Gas Residential Financing Program development. After receiving requests from Commission Staff and local community members to continue investigation of alternative Arizona-based lenders for the Pilot Program, and after resolving contract issues with the planned lending partner, suitable loan programs for all three companies were negotiated with Vantage West Credit Union. The loan programs for the three companies: (i) are nearly identical; (ii) are very similar to the UNS Gas loan program approved by the Commission in Decision No. 72062 (January 6, 2011); (iii) have improved functionality of loan loss reserve and interest rate buy-down accounts; (iv) and have reduced costs.

Due to the later date now anticipated for Commission approval of the EE Plan, UNSE has updated the estimated 2011 and 2012 budget to represent both the reduced costs associated with the Vantage West Credit Union partnership and the anticipated launch date for the Pilot Program. Updated budget details, a full Pilot Program description, and a red-line version of the original Financing Program are included in Exhibit 1.

II. Budget

As a result of the reduced costs associated with the re-design of the Pilot Program, and the delay in the anticipated timing for approval of new programs and additional measures, UNSE has reduced its 2011 EE Plan budget. UNSE has also made some minor modifications to its participation estimates for 2012 due to continuing economic forces, resulting in some budget modifications for 2012. The combined result for 2011-2012 is a \$5 million reduction from the original EE Plan. The changes in budget, if any, for all programs are shown in Exhibit 2.

III. Portfolio Savings

Due to the delay in the anticipated timing for EE Plan approval, and modifications in participation estimates as mentioned above, UNSE has altered its estimated savings for 2011 and 2012. These modifications in savings estimates for all programs are shown in Exhibit 3.

IV. DSM Adjustor

UNSE seeks to update its DSM Surcharge for program cost recovery. UNSE is not proposing any changes to the DSM Performance Incentive from the EE Plan. Specifically, UNSE is requesting approval to collect \$8.8 million in DSM program costs for 2011-2012 and a \$1.3 million pre-tax DSM performance incentive for 2011-2012.

UNSE requests that the 2011-2012 EE Plan and the updated 2011-2012 DSM Tariff as attached herein be approved in order to be implemented on November 1, 2011².

UNSE has included a revised tariff in Exhibit 4 that complies with A.A.C. R14-2-2406.A. Additionally, because of the delayed implementation date, UNSE requests that the existing DSM adjustment mechanism be approved for implementation effective November 1, 2011 through December 31, 2012, in order to ensure just and reasonable rates.

Additional details and the elements of the Company's proposed Demand-Side Management Surcharge ("DSMS") for November 1, 2011 through December 31, 2012 can also be found in the attached Exhibit 4. At this time, it is anticipated that the DSMS required to implement the updated 2011-2012 EE Plan will be approximately \$0.004590 per kWh based on forecasted retail sales from November 1, 2011 through December 31, 2012.³ The average impact to a residential customer will be \$3.85 per month.

V. Request for Waiver and Modification of EEES Pursuant to A.A.C. R-14-2-2419

The EEES Rules did not go into effect until January 1, 2011. Therefore, the Company did not file its EE Plan until January 31, 2011 as required by the Rules. At the time UNSE filed its EE Plan, it contemplated Commission approval of its EE Plan and the programs set forth therein by June of 2011. As the EEES Rules require the Company to achieve energy savings for 2011, the delay in the timing of Commission approval of the EE Plan makes it impossible for a company the size of UNSE to meet the EEES of 1.25% of prior year sales for 2011 and the cumulative 3.0% of prior year sales for 2012. Moreover, because of this approximately one (1) year delay, the Company will be perpetually behind schedule in meeting the Cumulative Energy Efficiency Standard each year thereafter. Accordingly, pursuant to A.A.C. R14-2-2419, UNSE requests a waiver and modification of the Cumulative Energy Efficiency Standard set forth in A.A.C. R14-2-2404.B for its EE Plan and for subsequent EE Plan filings.

Specifically, UNSE is requesting the EEES be modified to the projected percentage of prior year sales that UNSE believes is achievable in both 2011 and 2012. The EEES will still end in 2020 with the new adjusted cumulative annual energy savings of 20.45% compared to the original 22%. Table V-1 below illustrates how the EEES would be adjusted:

² UNSE assumed a November 1, 2011 effective date in calculations for the DSMS but will file as a compliance item a revised DSMS using the actual effective date for the new surcharge following Commission approval.

³ UNSE has assumed the DSMS of \$0.000995 will remain in effect through October 31, 2011.

Table V-1: Requested adjustment to EEES

Adjustment To EEES		
Calendar Year	Cumulative Energy Efficiency Standard (Current)	Cumulative Energy Efficiency Standard (Requested Adjustment)
2011	1.25%	0.60%
2012	3.00%	1.45%
2013	5.00%	3.45%
2014	7.25%	5.70%
2015	9.50%	7.95%
2016	12.00%	10.45%
2017	14.50%	12.95%
2018	17.00%	15.45%
2019	19.50%	17.95%
2020	22.00%	20.45%

A.A.C. R14-2-2419.A. provides that “the Commission may waive compliance with any provision of this Article for good cause.” UNSE believes that the circumstances as described above constitute “good cause” as contemplated by the Rules and requests that the Commission grant the requested waiver and modification of the requirements of A.A.C. R14-2-2404.B.

EXHIBIT

“1”

CLEAN

VERSION

Program Description

UNS Electric, Inc. (“UNS Electric” or “Company”) has designed a proposed Energy Efficiency Residential Financing Pilot Program (“Program”) to provide customers with the capital needed to make cost-effective energy efficiency upgrades to their homes. UNS Electric believes that a two year pilot program will allow sufficient time for the Company to evaluate the Program, including participation, default rates, and overall value to customers. UNS Electric’s proposed Program elements include:

- Loan commitment of \$1,000,000 per year for two years; this will provide approximately 208 loans based on an average \$4,818 loan amount;
- Loans available only on energy efficiency measures meeting the Commission-required cost-effectiveness test;
- Low interest rates provided by a combination of an interest rate buy-down and a 10% loan loss reserve account;
- Limited ratepayer exposure to default risk (10% of the loan commitment);
- Funding provided through an approved demand-side management (“DSM”) surcharge charged to residential customers;
- Affordable residential financing for energy efficiency measures;
- Convenient customer access to and repayment of the financing;
- Standard finance product offering for all eligible, approved borrowers;
- Leveraged financing;
- Accurate Truth-in-Lending notifications and billing to customers provided by an experienced third party lender; and
- Community involvement in forming and marketing the Program.

UNS Electric proposes to increase the DSM Surcharge residential customers by \$0.0003 per kWh to fund the Program during the two year pilot program. The average annual cost to each residential customer would be \$3.08.

It should be noted that UNS Gas, Inc. (“UNS Gas”) (an affiliate of UNS Electric), requested a program nearly identical to the one requested herein for UNS Electric. The UNS Gas program was approved in ACC Decision No. 72062 (January 6, 2011). After receiving requests from Staff and local community members to investigate alternative Arizona-based lenders for the Tucson Electric Power Co. (“TEP”) and UNS Electric programs and after experiencing contract issues with the prior lender for the UNS Gas program, suitable loan programs for all three companies were negotiated with a local credit union. The loan programs for the three companies are nearly identical, are very similar to loan program approved under Decision No. 72062, have improved functionality of loan loss reserve and interest rate buy-down accounts, and have reduced costs.

Program Objectives and Rationale

UNS Electric believes that the Program’s financing options to help cover the costs of energy efficiency measures will improve customer participation in energy efficiency programs and expand the pool of customers that can afford to participate in those programs. Although other vendors offer financing for their own individual products, the Program’s comprehensive approach to home energy upgrades cuts across several potential products and includes efficiency measures not traditionally financed, such as air and duct sealing.

UNS Electric Residential Energy Efficiency Financing Pilot Program (Updated)

Exhibit 1

Prior to designing the Program, UNS Electric developed key objectives for the Company's implementation of a financing program. The following three objectives stood out from the rest as fundamental in order for UNS Electric to provide a financing option:

- The program design must eliminate the utility from any Truth-in-Lending Law regulation implications;
- The program must provide a reasonable amount of funds at a reasonable interest rate and with a low initial investment; and
- Energy efficiency measures that qualify for UNS Electric financing must have met the Commission's cost-effectiveness test.

With these objectives, UNS Electric hired Harcourt Brown Energy and Finance ("Harcourt Brown") to assist with the evaluation, negotiations, and design of the Program. UNS Electric, selected a Third Party Financing model secured by a combination of a 10% loan loss reserve account and an interest rate buy-down, all funded from the DSM Surcharge, as the best program offering.

Target Market

The target market for this Program is any residential customer in UNS Electric's service territory who owns their home. Financing is available for installation of approved and cost effective DSM energy efficiency measures.

Program Eligibility

Eligible properties include single-family (1 to 4 unit), owner-occupied homes.

Current Baseline Conditions

The primary program available for comparison is offered through Fannie Mae. Fannie Mae utilizes an unsecured loan program structured in a similar manner to UNS Electric's. Fannie Mae's base interest rate is 14.99% compared to the 7.99% available through the UNS Electric Program. The programs offered by Arizona Public Service and Southwest Gas Company are expected to have base interest rates of 6.5% to 8.5%.

Products and Services

Harcourt Brown evaluated the following parameters before recommending the most beneficial program to UNS Electric:

- sources of capital;
- interest rates;
- loan terms;
- loan types and amounts;
- risk management;
- program integration;
- ease of use;
- repayment billing; and
- equitable funding.

UNS Electric Residential Energy Efficiency Financing Pilot Program (Updated)

Exhibit 1

UNS Electric, with guidance from Harcourt Brown and input from Commission Staff and community leaders, considered several financing models and completed discussions with numerous entities nationwide before determining the most beneficial financing model for customers. The model selected by UNS Electric uses Vantage West Credit Union (“VW” or “Lender”), an Arizona-based company, as the third party lender. The loans will be leveraged by a 10% loss reserve account as an interest rate buy-down fee. All funding will be provided by a DSM Surcharge applied to residential customers of UNS Electric.

The Program will offer energy efficiency loans to UNS Electric customers who are seeking financing for the energy efficiency improvements to their homes. Loan proceeds can be used for energy efficiency measures that have been approved by the Commission.

The Program is designed to provide an equitable and comprehensive approach to the financing of energy efficiency improvements in existing homes. UNS Electric is proposing \$1,000,000 in overall loan commitments to this Program for two consecutive years as a pilot program. UNS Electric believes the size of this loan commitment is sufficient based on the number of customers in its service territory and the limited DSM energy efficiency measures available.

UNS Electric evaluated the funding levels and cost to the customer, as shown in Table 1-1 below. UNS Electric assumed an average loan size of \$4,818 and a maximum term of 10 years in these calculations. Actual amounts will vary by loan size and terms. The 2011 total loan amount, interest rate buy-down and loan loss reserve is significantly reduced due to the delay in program approval and the anticipated launch to customers in November 2011.

Table 1-1. Funding Levels and Cost to Customer

UNSE - Supplemental 2011 Residential Financing Program - Year 1				
Total Loan Amount Available (ResRate 10 Only)	*Estimated # of Loans	DSM Funding for Reserve	**DSM Funding for Buy-Down	Program Budget (Year 1)
\$100,000.00	21	\$10,000	\$4,006	\$85,968

UNSE - Impact of Residential Financing Program - Year 2				
Total Loan Amount Available (ResRate 10 Only)	*Estimated # of Loans	DSM Funding for Reserve	**DSM Funding for Buy-Down	Program Budget (Year 2)
\$1,000,000.00	208	\$100,000	\$40,059	\$278,104

* Assumes average loan size \$4,818

** Assumes maximum 10 year term

Total 2-Year DSM Budget	
2011	\$85,968
2012	\$278,104
Total	\$364,072

UNS Electric Residential Energy Efficiency Financing Pilot Program (Updated)

Exhibit 1

Note: UNS Electric proposes that the DSM Surcharge necessary to fund this program be collected only from residential customers, as the loan instruments described are restricted to residential customers.

Table 1-2. Cost to Customer

UNSE - Year 1 DSM Adjustor for Residential Financing Program (Residential Customers Recovery Only)					
Year-1 Program Budget	Actual kWh 2009 (Less Lifeline Residential)	Adjustor Increase/ kWh	Total # of Customers EOY 2009 (Less Lifeline)	Average kWh per Customer	Average Annual Cost
\$85,968	813,795,407	\$0.0001	79,483	10,239	\$1.08

Program Funding and Terms

The proposed Program operates as follows:

1. VW will be the Lender that originates, services and holds the Program loans until maturity. VW has committed to make loans according to basic underwriting terms, including approving borrowers with a Fair Isaac Corporation ("FICO") credit score of 640 or higher. Borrowers may be granted up to 10 years repayment. For all approved loans, the interest rate will be 7.99%, fixed for the life of the loan. Interest rates will not vary due to loan size, term, or credit score and there will be no prepayment penalty.
2. Additional terms will be contractually delineated between VW and UNS Electric.
3. UNS Electric will set aside funds through a loan loss reserve account (10% of committed loan value) and an interest rate buy-down account (4% of committed loan value).
4. UNS Electric's role in this process will be to provide the loan loss reserve and interest rate buy-down accounts, to support lending. Funding will be collected through the DSM Surcharge from UNS Electric residential customers. UNS Electric will not service or originate the loans.

Interest Rate Buy-down

The interest rate buy-down referenced above is necessary to offer a rate competitive with those rates offered in other utility financing programs in the State. The programs offered by Arizona Public Service and Southwest Gas Company have interest rates ranging from 6.5% to 8.5%. The loan interest rates will be bought down to 7.99%. 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%]. Table 1-3 illustrates the two potential scenarios regarding the interest rate buy-down cost on a per-loan basis.

Table 1-3. Interest Rate Buy-Down Costs

Buydown per Average Loan of \$4,818		
Buydown %	5-Year Term	10-Year Term
2%	\$96	\$96
4%	\$193	\$193
Adjusted Buy-Down per Dollar		
Buydown %	5-Year Term	10-Year Term
2%	\$0.020	\$0.020
4%	\$0.040	\$0.040

UNS Electric Residential Energy Efficiency Financing Pilot Program (Updated)

Exhibit 1

Loan Terms

UNS Electric has worked with many lenders to develop the best loan terms for its customers. Optimal repayment terms, interest rates, fees, and application processes have been at the forefront of discussions. The terms must be negotiated and beneficial to both the lender and the customer, and meet various standards set forth by bank regulators. The loan terms available under the VW Program for the maximum term of 10 years and the maximum loan amount of \$15,000 is shown below:

Table 1-4. Loan Terms, Rate and Payment

Financing Amount	Terms	Interest Rate	Monthly Payment
\$4,818	10 Yr.	7.99%	57.82

Financing Amount	Terms	Interest Rates	Monthly Payment on Each \$1.00
\$4,818	10 Yr.	7.99%	0.012

As with other DSM Programs, low-income customers will be excluded from the DSM Surcharge.

Credit Underwriting

Limited credit standards will be used by the Lender in its underwriting process. Loan approval is granted based on FICO credit scores of 640 and above, debt-to-income ratios of 50% or less, and proof of income. These lower credit scores allow for greater participation for UNS Electric residential customers than products offered by most other lenders.

Application and Approval Process

The application and approval process is designed to be simple, easily accessible and convenient to all, as shown on the following page.

- Customers can call a 1-800 telephone number to apply and receive loan approval; or
- Applications can be filled out during the visit with the contractor; or
- Loan applications will be available on the VW website; and
- Loan pre-approvals will occur within 1 business day of making the application.

With the help of community-action groups as well as contractor marketing and UNS Electric marketing, the Company believes that Program loan funds will be fully used each year. At this time, the only approved residential energy efficiency measures for the UNS Electric territory are the high-efficiency air conditioner and heat pump exchange, duct sealing, air sealing, ceiling insulation and window film/shade screens. The anticipated participation discussed herein is based on the assumed participation in the Existing Homes Program approved by the Commission in Decision No. 72024 (December 10, 2010).

While loan sizes are likely to vary, UNS Electric estimates that 620 customers will choose to participate in the Existing Homes Program. UNS Electric further estimates that only a percentage of those participants will install each energy efficiency measure. Details of the UNS Electric methodology to determine the average loan size are demonstrated in Table 1-5. With the \$1,000,000 loan commitment each year available through the Program, approximately 208 loans could be made in the service territory assuming an average loan size of \$4,818. If the average loan size is smaller than this estimate, the number of loans will increase proportionately.

Table 1-5. Determination of Average Loan Size

UNSE ESTIMATE OF LOAN SIZE				
Participants	620			
Category	Annual kWh	%	Estimated Cost of Measure	Total Financing Requirement
Duct Seal	1,233	60%	\$935	\$347,820
Air Seal	410	40%	\$370	\$91,760
Insul & Air Seal	1,112	30%	\$1,165	\$216,690
Equipment & Ducts	1,703	40%	\$7,939	\$1,968,872
Shade Screens	1,202	60%	\$708	\$263,376
Attic Insulation Only	702	20%	\$795	\$98,580
TOTALS				\$2,987,098
Average Loan Size per Customer				\$4,818

Note: Some customers will not participate in the financing program.

Delivery Strategy, Incentive Processing and Administration

The strategy for Program delivery and administration is as follows:

- Coordination between the Lender and UNS Electric on all fund transfers will be managed in-house by a single UNS Electric Program Manager;
- The Program Manager will also provide overall management, marketing oversight, planning and tracking of customer and contractor participation; and
- The Program Manager will coordinate all activities necessary to develop application forms and contractor training.

Key partnering relationships will include:

- Community interest groups;
- HVAC, insulation, and air sealing contractors trained in Program procedures; and
- The Arizona Energy Office, community colleges, or other industry experts to provide training, education and awareness.

The Program will use contractors initially recruited for the Existing Homes Program, encouraging them to promote UNS Electric financing when working with customers. UNS Electric will provide an orientation of the Program which will outline Program requirements and contractors responsibilities as well as discuss reporting and data collection procedures. Contractors interested in participating in the Program must attend the orientation.

Program Marketing and Communication Strategy

UNS Electric will provide Program marketing and customer outreach and awareness through a range of strategies including:

- Promotions on the UNS Electric website about the benefits of purchasing high-efficiency equipment and home performance measures;
- Promotion through contractors and through community interest groups;
- Providing information through UNS Electric’s customer care center;

UNS Electric Residential Energy Efficiency Financing Pilot Program (Updated)

Exhibit 1

- Developing marketing pieces including brochures and other collateral pieces to promote the benefits of qualifying equipment, air sealing and duct sealing, and the financing program available to fund those measures; and
- Training and seminars for participating trade allies and contractors.

The advertising campaign will communicate that high-efficiency systems and home performance measures will help reduce customer energy bills, provide equal or better comfort conditions, and are beneficial for the environment.

Program Implementation Schedule

UNS Electric will continue working with VW on preparation of contracts, agreements, and other documents as we await Commission approval. UNS Electric estimates the Program could commence within 30 to 60 days of receiving Commission approval.

Measurement, Evaluation and Research Plan

UNS Electric will adopt an integrated data collection strategy designed to provide a quality data resource for Program tracking, management, and evaluation. This approach will entail the following primary activities:

- Database management: As part of Program operation, UNS Electric will request the Lender to provide the necessary data elements to populate the tracking database and provide periodic reporting; and
- Data collection: UNS Electric will establish systems to collect the data needed to support effective Program management, transfer of funds from UNS Electric to the loan loss reserve accounts, reporting, and evaluation.

Quality Assurance and Control

Due to the risks inherent with this type of program, quality assurance and control will be a daily function of the Program Manager. In order to protect its customer's interests, UNS Electric plans to collect loan information prior to and after each loan closing, as it believes the best time to correct a mistake or avoid fraud is prior to the loan being funded. The information collected will not be used by UNS Electric to approve the credit-worthiness of a borrower, but will be reviewed to ensure that: 1) each loan falls within what has been approved by the Commission; 2) Commission-approved measures are the only items being financed by the loan; and 3) the loan proceeds are for work being performed by an approved contractor. Additionally, each signed Promissory Note and Disbursement Sheet along with a copy of the disbursement check will be collected to verify the loan was closed and funded as presented to UNS Electric.

Additional steps to keep a tight control on the portfolio are the requirements of daily, weekly and monthly reporting. Daily reporting will include daily viewing access to the Loan Loss Reserve and Interest Rate Buy-down accounts, and notification of any defaults and charge offs. Lender will also provide UNS Electric a past-due report on a weekly basis. Monthly reporting will be more extensive, with a full portfolio report provided to UNS Electric. The monthly portfolio report will include the information UNS Electric will need for accurate reporting and control of the Program. A monthly reconciled statement for the Loan Loss Reserve Account will also be required.

Program Costs and Benefits

The budget is detailed in Table 1-6. In order to have a sufficient budget to support the Program should more loans fall into the 640-679 FICO score category, the budget is calculated using the 4% interest rate buy-down.

UNS Electric Residential Energy Efficiency Financing Pilot Program (Updated)

Exhibit 1

Table 1-6. Two Year Pilot Program Budget

Description at \$1,000,000 Loan Commitment	*2011	2012	Total
Loan Loss Reserve Amount	\$10,000	\$100,000	\$110,000
DSM Funds for Interest Buy-Down	\$4,006	\$40,059	\$44,065
UNSE Internal Administration	\$18,865	\$19,431	\$38,296
Measurement and Reporting	\$6,365	\$9,300	\$15,665
Marketing Materials	\$34,232	\$34,314	\$68,546
Joint Utility Coordination Transfers	\$0	\$50,000	\$50,000
Contractor Training Classes	\$12,500	\$25,000	\$37,500
Budget Total	\$85,968	\$278,104	\$364,072

* 2011 budget reduced due to delay in program approval and anticipated launch for Dec 2011.

Upon maturity of the first set of loans (maximum of 10 years into the Program), the amount collected through the DSM surcharge for the next year will be reduced. At that point, the loan loss reserve account associated with the loans from the first year will be returned to the Program. The amount returned will equal the initial amount funded into the loan loss reserve account, plus interest accrued on the account, less any loan losses sustained.

There is no direct benefit or savings from a residential financing program, but the total DSM Portfolio Cost for UNS Electric will increase as a result of offering the Program. However the indirect benefit and savings is measured at the program level where individual energy efficiency measures are included. UNS Electric believes the availability of financing for the Existing Homes Program will increase participation, and thus increase the resulting societal benefits and savings reported in the program.

To compare the estimated annual savings to the estimated annual payments on the average-sized loan, UNS Electric provided examples of the customer benefit and savings from two likely scenarios from participation in the Existing Homes Program. This information is included in Table 1-7. As set forth in Example 1 of Table 1-7 anticipated savings would be less than estimated loan payments. Example 2, however, demonstrates that with a lower loan size, the annual savings could be similar to the annual loan payments. This example demonstrates how the Program could result in a net cost savings to some customers depending on loan size and term, but that UNS Electric cannot guarantee a net cost savings to all customers.

According to Commission Staff, societal cost tests are not applicable to a residential financing program.

UNS Electric Residential Energy Efficiency Financing Pilot Program (Updated)

Exhibit 1

Table 1-7. Examples of Estimated Savings, Costs and Payments

Category	Annual kWh Savings	Estim Job Cost	Annual Customer Savings \$0.10/kWh
Duct Seal	1,233	\$935	\$123
Air Seal	410	\$370	\$41
Insul & Air Seal	1,112	\$1,165	\$111
Equipment & Ducts	1,703	\$7,700	\$170
Shade Screens	1,202	\$708	\$120
Attic Insulation Only	702	\$795	\$70
TOTALS			

Example 1:

Customer Chooses Envelope AND Efficient Equipment	Annual kWh Savings	Estim Job Cost	Annual Customer Savings @\$0.10/kWh	Annual Pmt 10 Year
Equipment & Ducts	1,703	\$7,700	\$170	
Insulation & Air Sealing	1,112	\$1,165	\$111	
Totals	2815	\$8,865	\$282	

Example 2:

Customer Chooses Envelope AND Efficient Equipment	Annual kWh Savings	Estim Job Cost	Annual Customer Savings @\$0.10/kWh	Annual Pmt 10 Year
Duct Sealing Only	1,233	\$935	\$123	
Insulation & Air Sealing	1,112	\$1,165	\$111	
Totals	2,345	\$2,100	\$235	

REDLINED

VERSION

Program Description

UNS Electric, Inc. (“UNS Electric” or “Company”) has designed a proposed Energy Efficiency Residential Financing Pilot Program (“Program”) to provide customers with the capital needed to make cost-effective energy efficiency upgrades to their homes. UNS Electric believes that a two year pilot program will allow sufficient time for the Company to evaluate the Program, including participation, default rates, and overall value to customers. UNS Electric’s proposed Program elements include:

- Loan commitment of \$1,000,000 per year for two years; this will provide approximately 208 loans based on an average \$4,818 loan amount;
- Loans available only on energy efficiency measures meeting the Commission-required cost-effectiveness test;
- Low interest rates provided by a combination of an interest rate buy-down and a 10% loan loss reserve account;
- Limited customer-ratepayer exposure to default risk (10% of the loan commitment);
- Funding provided through an approved demand-side management (“DSM”) surcharge charged to residential customers;
- Affordable residential financing for energy efficiency measures;
- Convenient customer access to and repayment of the financing;
- Standard finance product offering for all eligible, approved borrowers;
- Leveraged financing;
- Accurate Truth-in-Lending notifications and billing to customers provided by an experienced third party lender; and
- Community involvement in forming and marketing the Program.

~~UNS Electric also requests Commission direction on the level of impact for residential customers. Depending on the Commission direction, UNS Electric proposes to increase the DSM Surcharge residential customers by \$0.0003 per kWh to fund the Program one of three levels during the first year of the two year pilot program. The average annual cost to each residential customer would be \$3.08.~~

- ~~• \$1,000,000 in funding with no interest rate buy-down would require \$0.0003 per kWh to fund the Program. The average annual cost to each residential customer would be \$3.49;~~
- ~~• \$1,000,000 in funding with a 2% interest rate buy-down would require \$0.0005 per kWh to fund the Program. The average annual cost to each residential customer would be \$4.91;~~
- ~~• \$1,000,000 in funding with a 3% interest rate buy-down would require \$0.0005 per kWh to fund the Program. The average annual cost to each residential customer would be \$5.59.~~

~~Of note it should be noted that, UNS Gas, Inc. (“UNS Gas”) (an related entity affiliate of UNS Electric), requested a program nearly identical to the one requested herein for UNS Electric. The UNS Gas program was approved in ACC Decision No. 72062 (January 6, 2011). In that decision, the Commission opted for the 2% interest rate buy-down option. Based on that decision, UNS Electric recommends the 2% buy-down option, yet provides throughout this application all three buy-down options for the Commission’s consideration. After receiving requests from Staff and local community members to investigate alternative Arizona-based lenders for the Tucson Electric Power Co. (“TEP”) and~~

UNS Electric Residential Energy Efficiency Financing Pilot Program (Updated)

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~~UNS Electric programs and after experiencing contract issues with the prior lender for the UNS Gas program, suitable loan programs for all three companies were negotiated with a local credit union. The loan programs for the three companies are nearly identical, are very similar to loan program approved under Decision No. 72062, have improved functionality of loan loss reserve and interest rate buy-down accounts, and have reduced costs.~~

~~The second year surcharge for the Program is expected to decrease slightly as the second year costs for the program will be lower. Details are shown in section 1.17, Table 1-6 below.~~

Program Objectives and Rationale

UNS Electric believes that the Program's financing options to help cover the costs of energy efficiency measures will improve customer participation in energy efficiency programs and expand the pool of customers that can afford to participate in those programs. Although other vendors offer financing for their own individual products, the Program's comprehensive approach to home energy upgrades cuts across several potential products and includes efficiency measures not traditionally financed, such as air and duct sealing.

Prior to designing the Program, UNS Electric developed key objectives for the Company's implementation of a financing program. ~~The following three objectives stood out from the rest as fundamental in order for UNS Electric to provide a financing option:~~

- The program design must eliminate the utility from any Truth-in-Lending Law regulation implications;
- The program must provide a reasonable amount of funds at a reasonable interest rate and with a low initial investment; and
- Energy efficiency measures that qualify for UNS Electric financing must have met the Commission's cost-effectiveness test.

With these objectives, UNS Electric hired Harcourt Brown Energy and Finance ("Harcourt Brown") to assist with the evaluation, negotiations, and design of the Program. UNS Electric, ~~with guidance from Harcourt Brown,~~ selected a Third Party Financing model secured by a combination of a 10% loan loss reserve account and an interest rate buy-down, all funded from the DSM Surcharge, as the best program offering.

Target Market

The target market for this Program is any residential customer in UNS Electric's service territory who owns their home. Financing is available for installation of approved and cost effective DSM energy efficiency measures.

Program Eligibility

Eligible properties include single-family (1 to 4 unit), owner-occupied homes.

Current Baseline Conditions

The primary program available for comparison is offered through Fannie Mae. Fannie Mae utilizes an unsecured loan program structured in a similar manner to UNS Electric's. Fannie Mae's base interest rate

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is 14.99% compared to the 7.99% to 9.99% available through the UNS Electric Program. The programs offered by Arizona Public Service and Southwest Gas Company are expected to have base interest rates of 6.5% to 8.5%.

Products and Services

Harcourt Brown evaluated the following parameters before recommending the most beneficial program to UNS Electric:

- sources of capital;
- interest rates;
- loan terms;
- loan types and amounts;
- risk management;
- program integration;
- ease of use;
- repayment billing; and
- equitable funding.

UNS Electric, with guidance from and Harcourt Brown and input from Commission Staff and community leaders, considered several financing models and completed discussions with numerous entities nationwide before determining the most beneficial financing model for customers. The model selected by UNS Electric uses AFC FirstVantage West Credit Union (“AFCVW” or “Lender”), an Arizona-based company, as the third party lender. Capital resources are provided by the Pennsylvania Treasury (“PA Treasury”) with the loans will be leveraged by a 10% loss reserve account as well as the possibility of a small interest rate buy-down fee. All funding will be provided by a DSM Surcharge applied to residential customers of UNS Electric.

The Program will offer energy efficiency loans to UNS Electric customers who are seeking financing for the energy efficiency improvements to their homes. Loan proceeds can be used for energy efficiency measures that have been approved by the Commission.

The Program is designed to provide an equitable and comprehensive approach to the financing of energy efficiency improvements in existing homes. UNS Electric is proposing \$21,000,000 in overall loan commitments to this Program for two consecutive years as a pilot program. UNS Electric believes the size of this loan commitment is sufficient based on the number of customers in its service territory and the limited DSM energy efficiency measures available.

UNS Electric evaluated the funding levels and cost to the customer customer impact of three levels of funding, as shown in Table 1-1 below. UNS Electric assumed an average loan size of \$4,818 and a maximum term of 120 years in these calculations. Actual amounts will vary by loan size and terms. The 2011 total loan amount, interest rate buy-down and loan loss reserve is significantly reduced due to the delay in program approval and the anticipated launch to customers in November 2011.

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Table 1-1. Funding Levels and Cost to Customer

UNSE - Supplemental 2011 Residential Financing Program - Year 1				
Total Loan Amount Available (ResRate 10 Only)	*Estimated # of Loans	DSM Funding for Reserve	**DSM Funding for Buy-Down	Program Budget (Year 1)
\$100,000.00	21	\$10,000	\$4,006	\$85,968

UNSE - Impact of Residential Financing Program - Year 2				
Total Loan Amount Available (ResRate 10 Only)	*Estimated # of Loans	DSM Funding for Reserve	**DSM Funding for Buy-Down	Program Budget (Year 2)
\$1,000,000.00	208	\$100,000	\$40,059	\$278,104

* Assumes average loan size \$4,818

** Assumes maximum 10 year term

\$1,000,000	208	\$100,000	0%	\$-	\$277,248
\$1,000,000	208	\$100,000	2%	\$112,705	\$389,952
\$1,000,000	208	\$100,000	3%	\$166,670	\$443,918

\$1,000,000	208	\$100,000	0%	\$-	\$235,367
\$1,000,000	208	\$100,000	2%	\$112,705	\$348,072
\$1,000,000	208	\$100,000	3%	\$166,670	\$402,038

* Assumes average loan size \$4,818

** Assumes maximum 12-year term

*** Year 2 Costs reduced due to lower cost for marketing materials and contractor training

In order to have a sufficient budget to support the Program should more loans fall into the 640-679 FICO score category, the budget is calculated using the 4% interest rate buy-down.

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Total 2-Year DSM Budget	
2011	\$85,968
2012	\$278,104
Total	\$364,072

No Buydown	-\$ 512,615
2% Buydown	-\$ 738,025
3% Buydown	-\$ 845,955

Note: UNS Electric proposes that the DSM Surcharge necessary to fund this program be collected only from residential customers, as the loan instruments described are restricted to residential customers.

Table 1-2. Cost to Customer—Buy Down Options

UNSE - Year 1 DSM Adjustor for Residential Financing Program (Residential Customers Recovery Only)					
Year-1 Program Budget	Actual kWh 2009 (Less Lifeline Residential)	Adjustor Increase/ kWh	Total # of Customers EOY 2009 (Less Lifeline)	Average kWh per Customer	Average Annual Cost
\$85,968	813,795,407	\$0.0001	79,483	10,239	\$1.08
\$277,248	813,795,407	\$0.0003	79,483	10,239	\$3.49
\$389,952	813,795,407	\$0.0005	79,483	10,239	\$4.91
\$443,918	813,795,407	\$0.0005	79,483	10,239	\$5.59

Program Funding and Terms

The proposed Program operates as follows:

1. ~~VWAFEC will be the Lender that originates, and services and holds the Program loans until maturity. VWAFEC has committed to make loans according to basic underwriting terms, including approving borrowers with a Fair Isaac Corporation (“FICO”) credit score of 640 or higher. Borrowers may be granted up to 120 years repayment. For all approved loans, the though interest rate s are currently to be determined, UNS Electric has secured a verbal commitment that rates will be between 7.99% and 9.99%, fixed for the life of the loan. Interest rates will not vary due to loan size, term, or credit score and there will be no prepayment penalty.~~
2. ~~Additional terms will be contractually delineated between VWAFEC and UNS Electric. Final rates and availability will be determined prior to program commencement.~~
3. ~~PA Treasury will contract with AFC to purchase the Program loans from AFC. The interest rates, loan terms, underwriting criteria and other relevant characteristics of the loans that PA Treasury will purchase will be contractually delineated. Final rates and availability will be determined by October 1, 2010.~~

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- 4.3. UNS Electric will set aside funds through a loan loss reserve account (10% of committed loan value) and/or an interest rate buy-down account (4% of committed loan value). ~~The loss reserve agreement will be negotiated with the PA Treasury.~~
- 5. ~~AFC's loan capital will be replenished from the proceeds of UNS Electric's sale of Program loans to the PA Treasury, thereby enabling AFC to make new loans.~~
- 6. ~~The PA Treasury will sell the Program loans to its investors. The proceeds from these sales will enable the PA Treasury to make additional loan purchases from AFC.~~
- 7.4. UNS Electric's role in this process will be to provide the loan loss reserve and interest rate buy-down accounts, to support lending, and potentially to buy-down interest rates. Funding will be collected through the DSM Surcharge from UNS Electric residential customers. UNS Electric will not service or originate the loans.

Interest Rate Buy-down

The interest rate buy-down referenced above ~~is may be necessary~~ to offer a rate competitive with those rates offered in other utility financing programs in the State. The programs offered by Arizona Public Service and Southwest Gas Company have interest rates ranging from 6.5% to 8.5%. ~~The loan interest rates will be bought down to 7.99%. Because the interest rate buy-down will result in an additional cost that will be covered through the DSM Surcharge, UNS Electric seeks Commission guidance on the final product offering. As previously stated, UNS Electric recommends the 2% buy-down option based on the Commission's decision in the UNS Gas Residential Energy Efficiency Financing Pilot Program (ACC Decision No. 72062 (January 6, 2011), yet provides the data for all three options for the Commission's consideration in this matter. The cost of the interest rate buy-down will depend on (1) the market interest rate, (2) the target interest rate, (3) the loan amounts, and (4) the loan terms 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%]. Table 1-3 illustrates the two potential scenarios regarding the interest rate buy-down cost on a per-loan basis. The interest rate buy-down costs will be in addition to the costs shown in Table 1-2 above.~~

Table 1-3. Interest Rate Buy-Down Costs

Buydown per Average Loan of \$4,818		
Buydown %	5-Year Term	10-Year Term
2%	\$96	\$96
4%	\$193	\$193
Adjusted Buy-Down per Dollar		
Buydown %	5-Year Term	10-Year Term
2%	\$0.020	\$0.020
4%	\$0.040	\$0.040

Buydown %	7-Year Term	12-Year Term
2%	322	\$543
3%	479	\$803

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In order to have a sufficient budget to support the Program should more loans fall into the 640-679 FICO score category, the budget is calculated using the 4% interest rate buy-down.

Loan Terms

UNS Electric has worked with many lenders to develop the best loan terms for its customers. Optimal repayment terms, interest rates, fees, and application processes have been at the forefront of discussions. However, UNS Electric cannot dictate to any lender the package of terms they must offer. The terms must be negotiated and beneficial to both the lender and the customer, and meet various standards set forth by bank regulators. The loan terms available under the VW Program are as follows for the maximum term of 10 years and the maximum loan amount of \$15,000 is shown below:

Table 1-4. Loan Terms, Rates and Payment Range

Financing Amount	Terms	Interest Rate	Monthly Payment
\$4,818	10 Yr.	7.99%	57.82

Financing Amount	Terms	Interest Rates	Monthly Payment on Each \$1.00
\$4,818	10 Yr.	7.99%	0.012

\$1,000-\$15,000 w/o Buydown	up to 144 Mos.	7.99% - 9.99%	\$52-\$58
\$1,000-\$15,000 w/2% Buydown	up to 144 Mos.	5.99% - 7.99%	\$47-\$52
\$1,000-\$15,000 w/3% Buydown	up to 144 Mos.	4.99% - 6.99%	\$45-\$50

As demonstrated in Table 1-4, the payment amount based on the estimated average loan size does not fluctuate greatly between an interest rate of 4.99% and 9.99% (\$45 to \$58 per month). As the loan size increases to the maximum (\$15,000), the payment spread widens from \$139 per month to \$179 per month at these same rates. UNS Electric is looking for guidance from the Commission to decide whether or not the benefit of the payment savings to these individual customers offsets the buy-down fee charged to all residential customers. As with other DSM Programs, low-income customers will be excluded from the DSM Surcharge.

Credit Underwriting

Limited credit standards will be used by the Lender in its underwriting process. Loan approval is granted based on FICO credit scores of 640 and above, debt-to-income ratios of 50% or less, and proof of income. These lower credit scores allow far greater participation for UNS Electric residential customers than products offered by most other lenders.

Application and Approval Process

The application and approval process is designed to be simple, easily accessible and convenient to all, as shown on the following page.

- Customers can call a 1-800 telephone number to apply and receive loan approval; or
- Applications can be filled out during the visit with the contractor; or
- Loan applications will be available on the UNS Electric VW website; and

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- Loan ~~pre-~~approvals will occur within 1 business day~~20 minutes to 48 hours~~ of making the application.

With the help of community-action groups as well as contractor marketing and UNS Electric marketing, the Company believes that Program loan funds will be fully used each year. At this time, the only approved residential energy efficiency measures for the UNS Electric territory are the high-efficiency air conditioner and heat pump exchange, duct sealing, air sealing, ceiling insulation and window film/shade screens. The anticipated participation discussed herein is based on the assumed participation in the Existing Homes Program approved by the Commission in Decision No. 72024 (December 10, 2010).

While loan sizes are likely to vary, UNS Electric estimates that 620 customers will choose to participate in the Existing Homes Program. UNS Electric further estimates that only a percentage of those participants will install each energy efficiency measure. Details of the UNS Electric methodology to determine the average loan size are demonstrated in Table 1-5. With the \$1,000,000 loan commitment each year available through the Program, approximately 208 loans could be made in the service territory assuming an average loan size of \$4,818. If the average loan size is smaller than this estimate, the number of loans will increase proportionately.

Table 1-5. Determination of Average Loan Size

UNSE ESTIMATE OF LOAN SIZE				
Participants	620			
Category	Annual kWh	%	Estimated Cost of Measure	Total Financing Requirement
Duct Seal	1,233	60%	\$935	\$347,820
Air Seal	410	40%	\$370	\$91,760
Insul & Air Seal	1,112	30%	\$1,165	\$216,690
Equipment & Ducts	1,703	40%	\$7,939	\$1,968,872
Shade Screens	1,202	60%	\$708	\$263,376
Attic Insulation Only	702	20%	\$795	\$98,580
TOTALS				\$2,987,098
Average Loan Size per Customer				\$4,818

Note: Some customers will not participate in the financing program.

Participants	620	-	-	-	-
Duct Seal	1,233	60%	458,676	\$935	\$347,820
Air Seal	410	40%	101,680	\$370	\$91,760
Insul & Air Seal	1,112	30%	206,832	\$1,165	\$216,690
Equipment & Ducts	1,703	40%	422,344	\$7,939	\$1,968,872
Shade Screens	1,202	60%	447,144	\$708	\$263,376
Attic Insulation Only	702	20%	87,048	\$795	\$98,580
Average Loan Size per Customer	-	-	-	-	\$4,818

Delivery Strategy, Incentive Processing and Administration

The strategy for Program delivery and administration is as follows:

- Coordination between the Lender and UNS Electric on all fund transfers will be managed in-house by a single UNS Electric Program Manager;
- The Program Manager will also provide overall management, marketing oversight, planning and tracking of customer and contractor participation; and
- The Program Manager will coordinate all activities necessary to develop application forms and contractor training.

Key partnering relationships will include:

- Community interest groups;
- HVAC, insulation, and air sealing contractors trained in Program procedures; and

- The Arizona Energy Office, community colleges, or other industry experts to provide training, education and awareness.

The Program will use contractors initially recruited for the Existing Homes Program, encouraging them to promote UNS Electric financing when working with customers. UNS Electric will provide an orientation of the Program which will outline Program requirements and contractors responsibilities as well as discuss reporting and data collection procedures. Contractors interested in participating in the Program must attend the orientation.

Program Marketing and Communication Strategy

UNS Electric will provide Program marketing and customer outreach and awareness through a range of strategies including:

- Promotions on the UNS Electric website about the benefits of purchasing high-efficiency equipment and home performance measures;
- Promotion through contractors and through community interest groups;
- Providing information through UNS Electric's customer care center;
- Developing marketing pieces including brochures and other collateral pieces to promote the benefits of qualifying equipment, air sealing and duct sealing, and the financing program available to fund those measures; and
- Training and seminars for participating trade allies and contractors.

The advertising campaign will communicate that high-efficiency systems and home performance measures will help reduce customer energy bills, provide equal or better comfort conditions, and are beneficial for the environment.

Program Implementation Schedule

~~The PA Treasury has assured Harcourt Brown that funding for the Program is available.~~ UNS Electric will continue working with ~~VWAFC and the PA Treasury~~ on preparation of contracts, agreements, and other documents as we await Commission approval. UNS Electric estimates the Program could commence within 30 to 60 days of receiving Commission approval.

Measurement, Evaluation and Research Plan

UNS Electric will adopt an integrated data collection strategy designed to provide a quality data resource for Program tracking, management, and evaluation. This approach will entail the following primary activities:

- Database management: As part of Program operation, UNS Electric will request the Lender to provide the necessary data elements to populate the tracking database and provide periodic reporting; and
- Data collection: UNS Electric will establish systems to collect the data needed to support effective Program management, transfer of funds from UNS Electric to the loan loss reserve accounts, reporting, and evaluation.

Quality Assurance and Control

Due to the risks inherent with this type of program, quality assurance and control will be a daily function of the Program Manager. In order to protect its customer's interests, UNS Electric plans to collect loan information prior to and after each loan closing, as it believes the best time to correct a mistake or avoid fraud is prior to the loan being funded. The information collected will not be used by UNS Electric to approve the credit-worthiness of a borrower, but will be reviewed to ensure that: 1) ~~ensure that~~ each loan

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falls within what has been approved by the Commission; 2) that Commission-approved measures are the only items being financed by the loan; and 3) that the loan proceeds are for work being performed by an approved contractor. Additionally, each signed Promissory Note and Disbursement Sheet along with a copy of the disbursement check will be collected to verify the loan was closed and funded as presented to UNS Electric.

Additional steps to keep a tight control on the portfolio are the requirements of daily, weekly and monthly reporting. Daily reporting will include daily viewing access to the Loan Loss Reserve and Interest Rate Buy-down Accounts, and notification of any defaults and charge offs. Lender will also provide UNS Electric a past-due report on a weekly basis. Monthly reporting will be more extensive, with a full portfolio report provided to UNS Electric. The monthly portfolio report will include the information UNS Electric will need for accurate reporting and control of the Program. A monthly reconciled statement for the Loan Loss Reserve Account will also be required.

Program Costs and Benefits

Three possible budgets are detailed in Table 1-6. Potential budgets depend on whether or not a buy-down approach is used. An estimate of lost revenue resulting from installation of energy efficiency measures installed as a result of the Program has been included as a component of the Annual Budget. In order to have a sufficient budget to support the Program should more loans fall into the 640-679 FICO score category, the budget is calculated using the 4% interest rate buy-down.

Table 1-6. Two Year Pilot Program Budget

Description at \$1,000,000 Loan Commitment	*2011	2012	Total
Loan Loss Reserve Amount	\$10,000	\$100,000	\$110,000
DSM Funds for Interest Buy-Down	\$4,006	\$40,059	\$44,065
UNSE Internal Administration	\$18,865	\$19,431	\$38,296
Measurement and Reporting	\$6,365	\$9,300	\$15,665
Marketing Materials	\$34,232	\$34,314	\$68,546
Joint Utility Coordination Transfers	\$0	\$50,000	\$50,000
Contractor Training Classes	\$12,500	\$25,000	\$37,500
Budget Total	\$85,968	\$278,104	\$364,072

* 2011 budget reduced due to delay in program approval and anticipated launch for Dec 2011.

Loan Loss Reserve Amount	\$100,000	\$100,000	\$200,000
DSM Funds for Interest Buy-Down	\$-0	\$-0	\$-0
Loss Default Recovery-Expected 2023 @ 3% of 2011 commitment	\$-0	\$-0	\$-0
UNSE Electric Internal Administration			
1/3 FTE	\$22,434	\$23,107	\$45,541
Reporting	\$9,659	\$9,949	\$19,608
Marketing Materials	\$52,843	\$25,000	\$77,843
Joint Utility Coordination Transfers	\$50,000	\$50,000	\$100,000
Contractor Training Classes	\$25,000	\$10,000	\$35,000
UNSE Electric Loss Revenue Recovery	\$17,312	\$17,312	\$34,623
Budget Total	\$277,248	\$285,367	\$562,615

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Loan Loss Reserve Amount	\$100,000	\$100,000	\$200,000
-DSM Funds for Interest Buy-Down	\$112,705	\$112,705	\$225,409
-Loss Default Recovery Expected 2023 @ 3% of 2011 commitment	\$-0	\$-	\$-
-UNS Electric Internal Administration 1/3 FTE	\$22,434	\$23,107	\$45,541
-Reporting	\$9,659	\$9,949	\$19,608
-Marketing Materials	\$52,843	\$25,000	\$77,843
-Joint Utility Coordination Transfers	\$50,000	\$50,000	\$100,000
-Contractor Training Classes	\$25,000	\$10,000	\$35,000
-UNS Electric Loss Revenue Recovery	\$17,312	\$17,312	\$34,623
-Budget Total	\$339,952	\$348,072	\$735,025

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Loan Loss Reserve Amount	\$100,000	\$100,000	\$200,000
DSM Funds for Interest Buy-Down	\$166,670	\$166,670	\$333,340
Loss Default Recovery-Expected 2023 @ 3% of 2011 commitment	\$-0	\$-	\$-
UNS Electric Internal Administration WFE	\$22,434	\$23,107	\$45,541
Reporting	\$9,650	\$9,949	\$19,608
Marketing Materials	\$52,843	\$25,000	\$77,843
Joint Utility Coordination Transfers	\$50,000	\$50,000	100,000
Contractor Training Classes	\$25,000	\$10,000	\$35,000
UNS Electric Loss Revenue Recovery	\$17,312	\$17,312	\$34,623
Budget Total	\$443,918	\$402,038	\$845,955

Upon maturity of the first set of loans (maximum of 10~~2~~ years into the Program), the amount collected through the DSM surcharge for the next year will be reduced. At that point, the loan loss reserve account associated with the loans from the first year will be returned to the Program. The amount returned will equal the initial amount funded into the loan loss reserve account, plus interest accrued on the account, less any loan losses sustained.

There is no direct benefit or savings from a residential financing program, but the total DSM Portfolio Cost for UNS Electric will increase as a result of offering the Program. However the indirect benefit and savings is measured at the program level where individual energy efficiency measures are included. UNS Electric believes the availability of financing for the Existing Homes Program will increase participation, and thus increase the resulting societal benefits and savings reported in the program.

To compare the estimated annual savings to the estimated annual payments on the average-sized loan for the three buy-down scenarios (no buy-down, 2% buy-down and 3% buy-down), UNS Electric provided examples of the customer benefit and savings from two likely scenarios from participation in the Existing Homes Program. This information is included in Table 1-7. As set forth in Example 1 of Table 1-7 anticipated savings would be less than estimated loan payments using a 2% or 3% buy-down. However, Example 2, however, demonstrates that with a lower loan size, the annual savings would could be greater than similar to the annual loan payments. This example demonstrates how the Program could result in a net cost savings to some customers depending on loan size and term, but that UNS Electric cannot guarantee a net cost savings to all customers.

According to Commission Staff, societal cost tests are not applicable to a residential financing program.

Table 1-7. Examples of Estimated Savings, Costs and Payments

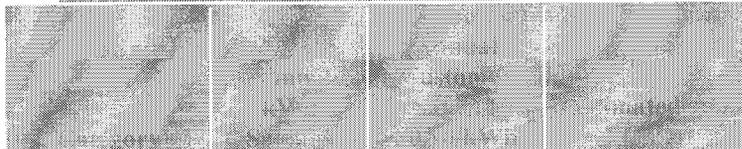
Category	Annual kWh Savings	Estim Job Cost	Annual Customer Savings \$0.10/kWh
Duct Seal	1,233	\$935	\$123
Air Seal	410	\$370	\$41
Insul & Air Seal	1,112	\$1,165	\$111
Equipment & Ducts	1,703	\$7,700	\$170
Shade Screens	1,202	\$708	\$120
Attic Insulation Only	702	\$795	\$70
TOTALS			

Example 1:

Customer Chooses Envelope AND Efficient Equipment	Annual kWh Savings	Estim Job Cost	Annual Customer Savings @\$0.10/kWh	Annual Pmt 10 Year
Equipment & Ducts	1,703	\$7,700	\$170	
Insulation & Air Sealing	1,112	\$1,165	\$111	
Totals	2815	\$8,865	\$282	

Example 2:

Customer Chooses Envelope AND Efficient Equipment	Annual kWh Savings	Estim Job Cost	Annual Customer Savings @\$0.10/kWh	Annual Pmt 10 Year
Duct Sealing Only	1,233	\$935	\$123	
Insulation & Air Sealing	1,112	\$1,165	\$111	
Totals	2,345	\$2,100	\$235	



Duct Seal	1233	\$123	\$935
Air Seal	410	\$41	\$370
Insul & Air Seal	1112	\$111	\$1,165
Equipment & Ducts	1703	\$170	\$7,700
Shade Screens	1202	\$120	\$708

UNS Electric Residential Energy Efficiency Financing Pilot Program (Updated)

Appendix B Exhibit 1

Attic Insulation Only	702	\$70	\$795
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Example 1:

Equipment & Ducts	1,703	\$170	\$2,700
Insulation & Air Sealing	1,112	\$111	\$1,165

Example 2:

Duct Sealing Only	1,233	\$123	\$935
Insulation & Air Sealing	1,112	\$111	\$1,165

EXHIBIT

“2”

Exhibit 2 – Updated Budgets

Table 1: 2011-2012 Updated Proposed Budgets

DSM Programs	Original 2011 Budget (\$)	Original 2012 Budget (\$)	Original 2-Year Budget (\$)	Updated 2011 Budget (\$)	Updated 2012 Budget (\$)	Updated 2-Year Budget (\$)
Residential						
Efficient Products (CFL)	\$558,208	\$766,185	\$1,324,393	\$558,208	\$766,185	\$1,324,393
Appliance Recycling	\$225,011	\$225,249	\$450,260	\$24,427	\$225,249	\$249,676
Residential New Construction	\$359,084	\$411,454	\$770,538	\$240,318	\$360,743	\$601,062
Existing Home Program/Audit Direct Install	\$1,156,567	\$1,554,402	\$2,710,969	\$708,501	\$872,989	\$1,581,489
Shade Tree Program	\$47,965	\$60,433	\$108,398	\$22,139	\$39,412	\$61,551
Low-Income Weatherization	\$351,433	\$351,817	\$703,251	\$351,433	\$351,817	\$703,251
Multi-Family Direct Install	\$0	\$81,300	\$81,300	\$0	\$63,393	\$63,393
Commercial						
C & I Facilities	\$1,497,435	\$2,058,880	\$3,556,314	\$698,380	\$756,700	\$1,455,081
Bid for Efficiency	\$147,087	\$323,583	\$470,670	\$3,567	\$323,583	\$327,150
Retro-Commissioning	\$0	\$256,352	\$256,352	\$0	\$256,352	\$256,352
Schools	\$161,402	\$197,645	\$359,047	\$92,348	\$197,645	\$289,993
Behavioral Comprehensive						
Home Energy Reports	\$209,150	\$312,933	\$522,082	\$209,150	\$242,881	\$452,030
Behavioral Comprehensive	\$309,683	\$518,716	\$828,399	\$32,549	\$372,324	\$404,873
Support Programs						
Education & Outreach	\$141,822	\$141,884	\$283,706	\$141,822	\$141,884	\$283,706
Residential Financing	\$425,853	\$426,606	\$852,459	\$85,968	\$278,104	\$364,072
Codes Support	\$22,174	\$29,278	\$51,452	\$22,174	\$29,278	\$51,452
Program Development, Analysis, & Reporting software ¹	\$216,000	\$222,480	\$438,480	\$166,000	\$170,980	\$336,980
Portfolio Total	\$5,828,873	\$7,939,196	\$13,768,070	\$3,356,984	\$5,449,519	\$8,806,503

1. Expenses are necessary for compliance and reporting requirements of EES.

EXHIBIT

“3”

Exhibit 3 – Updated Portfolio Savings

Table 1: Updated Portfolio Savings

DSM Programs	Original 2011 Energy Savings (MWh)	Original 2012 Energy Savings (MWh)	Original 2-Year Energy Savings (MWh)	Updated 2011 Energy Savings (MWh)	Updated 2012 Energy Savings (MWh)	Updated 2-Year Energy Savings (MWh)
Residential						
Efficient Products (CFL)	8,679	8,505	17,184	10,298	9,956	20,254
Appliance Recycling	1,540	1,540	3,079	79	1,542	1,621
Residential New Construction	329	460	789	352	299	651
Existing Home Program/Audit Direct Install	1,047	1,544	2,591	385	585	970
Shade Tree Program	133	186	320	19	93	112
Low-Income Weatherization	133	133	266	133	133	266
Multi-Family Direct Install	0	820	820	0	462	462
Commercial						
C & I Facilities	6,807	10,605	17,413	2,552	2,558	5,110
Bid for Efficiency	884	1,768	2,652	0	1,771	1,771
Retro-Commissioning	0	1,989	1,989	0	1,992	1,992
Schools	611	1,323	1,933	95	1,325	1,419
Behavioral Comprehensive						
Home Energy Reports	6,215	8,287	14,503	0	6,226	6,226
Behavioral Comprehensive	5,058	4,536	9,594	154	3,135	3,289
Support Programs						
Education & Outreach	0	0	0	0	0	0
Residential Financing	0	0	0	0	0	0
Codes Support	0	0	0	0	0	0
TOTAL	31,436	41,696	73,132	14,067	30,077	44,145

EXHIBIT

“4”

CLEAN

VERSION



UNS Electric, Inc.

Original Sheet No.: 702

Superseding: _____

APPLICABILITY

The Demand Side Management Surcharge (DSMS) applies to all customers, except customers who take service under the Customer Assistance Residential Energy Support (C.A.R.E.S) pricing plan or Low income Medical Life Support Program (C.A.R.E.S.-M) pricing plan in all territory served by UNS Electric, Inc. as mandated by the Arizona Corporation Commission, unless otherwise specified. C.A.R.E.S. and C.A.R.E.S.-M customers are exempt from any DSM surcharges effective July 1, 2009.

RATE

The following DSM Surcharge will be effective November 1, 2011 through December 31, 2012. The DSMS shall be applied to all monthly net bills except CARES customers at the following rate:

All kWh @ \$0.004590 per kWh

REQUIREMENTS

The Arizona Corporation Commission will approve any changes to the surcharge to be billed to all applicable rates.

TAX CLAUSE

To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company, and/or the price of, or revenue from, gas sales or service sold and/or the volume of gas sales generated or purchased for sale and/or sold hereunder.

RULES AND REGULATIONS

The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

Filed By: Kentton C. Grant
Title: Vice President of Finance and Rates
District: Entire Electric Service Area

Rate: R-2
Effective: November 1, 2011
Decision No.: Pending

REDLINED

VERSION



UNS Electric, Inc.

Original Sheet No.: 702
Superseding: _____

APPLICABILITY

The Demand Side Management Surcharge (DSMS) applies to all customers, except customers who take service under the Customer Assistance Residential Energy Support (C.A.R.E.S) pricing plan or Low income Medical Life Support Program (C.A.R.E.S.-M) pricing plan in all territory served by UNS Electric, Inc. as mandated by the Arizona Corporation Commission, unless otherwise specified. C.A.R.E.S. and C.A.R.E.S.-M customers are exempt from any DSM surcharges effective July 1, 2009.

RATE

~~The following DSM Surcharge will be effective November 1, 2011 through December 31, 2012. The DSMS shall be applied to all monthly net bills except CARES customers at the following rate:
The DSMS shall be applied to all monthly net bills at the following rate: _____~~

All kWh @ \$0.0045909995 per kWh

REQUIREMENTS

~~The UNS Electric, Inc. DSMS will be calculated and filed with the Arizona Corporation Commission (ACC) for approval on or before April 1st. The Arizona Corporation Commission will approve any changes to the surcharge to be billed to all applicable rates pricing plans for twelve (12) months beginning each June 1.~~

TAX CLAUSE

To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company, and/or the price of, or revenue from, gas sales or service sold and/or the volume of gas sales generated or purchased for sale and/or sold hereunder.

RULES AND REGULATIONS

The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

Filed By: Kentton C. Grant
Title: Vice President of Finance and Rates
District: Entire Electric Service Area
Filed By: Raymond S. Heyman
Title: Senior Vice President, General Counsel
District: Entire Electric Service Area

Rate: R-2
Effective: November 1, 2011
Decision No.: Pending
Tariff No.: Rider R-2 DSMS
Effective: June 1, 2010
Page No.: 1 of 1

BACKUP INFORMATION

Exhibit 4 – Updated DSMS Backup

Table 1: 2010 Expenditures and 2011-2012 Updated Proposed Budgets

DSM Support Programs	2010 Expenditures ²	2010 Approved Budgets	Original 2011 Budget	Original 2012 Budget	Original Combined 2011-2012 Budget	Revised 2011 Budget	Revised 2012 Budget	Revised Combined 2011-2012 Budget
DSM Support Programs								
Education and Outreach	\$139,183	\$127,308	\$141,822	\$141,884	\$283,706	\$141,822	\$141,884	\$283,706
Residential Energy Financing	NA	NA	\$425,853	\$426,606	\$852,459	\$85,968	\$278,104	\$364,072
Codes Support	NA	NA	\$22,174	\$29,278	\$51,452	\$22,174	\$29,278	\$51,452
Support Programs Subtotal	\$139,183	\$127,308	\$583,848	\$597,768	\$1,187,616	\$249,984	\$449,265	\$699,229
Behavioral Programs								
Home Energy Reports	NA	NA	\$209,150	\$312,933	\$522,083	\$209,150	\$242,881	\$452,030
Behavioral Comprehensive Program	NA	NA	\$309,683	\$518,716	\$828,399	\$32,549	\$372,324	\$404,873
Behavioral Subtotal	\$0	\$0	\$518,833	\$831,649	\$1,350,482	\$241,698	\$615,205	\$856,903
Residential Efficiency Programs								
Low-Income Weatherization	\$122,438	\$111,395	\$351,433	\$351,817	\$703,250	\$351,433	\$351,817	\$703,251
Appliance Recycling	NA	NA	\$225,011	\$225,249	\$450,260	\$24,427	\$225,249	\$249,676
Residential New Construction	\$151,154	\$445,578	\$359,084	\$411,454	\$770,538	\$240,318	\$360,743	\$601,062
Existing Home (was Efficient Home Cooling)	\$197,085	\$318,270	\$1,156,567	\$1,554,402	\$2,710,969	\$708,501	\$872,989	\$1,581,489
Shade Tree Program	\$21,536	\$65,000	\$47,965	\$60,433	\$108,398	\$22,139	\$39,412	\$61,551
Efficient Products (CFL)	\$323,644	\$350,200	\$558,208	\$766,185	\$1,324,393	\$558,208	\$766,185	\$1,324,393
Multi-Family Direct Install	NA	NA	NA	\$81,300	\$81,300	\$0	\$83,393	\$83,393
Residential Subtotal	\$815,856	\$1,290,443	\$2,698,268	\$3,450,840	\$6,149,108	\$1,905,026	\$2,679,788	\$4,584,814
Non-Residential Efficiency Programs								
Bid For Efficiency	NA	NA	\$147,087	\$323,583	\$470,670	\$3,567	\$323,583	\$327,150
C&I Facilities	\$445,935	\$424,360	\$1,497,435	\$2,058,880	\$3,556,315	\$698,380	\$756,700	\$1,455,081
C&I Schools Program	NA	NA	\$161,402	\$197,645	\$359,047	\$92,348	\$197,645	\$289,993
Retro-Commissioning	NA	NA	NA	\$256,352	\$256,352	\$0	\$256,352	\$256,352
Non-Residential Subtotal	\$445,935	\$424,360	\$1,805,924	\$2,636,460	\$4,642,384	\$794,296	\$1,534,280	\$2,328,576
Program Totals	\$1,400,974	\$1,842,111	\$5,612,873	\$7,716,716	\$13,329,590	\$3,190,984	\$5,278,539	\$8,469,523
Program Development, Analysis & Reporting Software ¹	\$241,282	NA	\$216,000	\$222,480	\$438,480	\$166,000	\$170,980	\$336,980
Baseline Study	\$142,067	\$142,000	NA	NA	NA	NA	NA	NA
Sub-total	\$383,349	\$142,000	\$216,000	\$222,480	\$438,480	\$166,000	\$170,980	\$336,980
Total	\$1,784,322	\$1,984,111	\$5,828,873	\$7,939,196	\$13,768,070	\$3,356,984	\$5,449,519	\$8,806,503

1. Expenses are necessary for compliance and reporting requirements of EEEs.

2. Source: Semi-annual DSM filing 4-1-2011.

Exhibit 4 – Updated DSMS Backup

Table 2: DSM Surcharge True-up

2008-2011 DSM Expenses vs. Surcharge ¹	2008	2009	2010	2011	Total
DSM Expenses	\$461,445	\$1,436,777	\$1,784,322	\$3,356,984	\$7,039,528
DSM Surcharge Collection (thru Oct 2011)	\$568,168	\$1,198,367	\$1,595,795	\$1,510,419	\$4,872,749
Annual Carry Over Balance	(\$106,723)	\$238,410	\$188,527	\$1,846,565	\$2,166,780
Carry Over Balance (Undercollection)					\$2,166,780

1. Expected DSM Expenses through Dec 2011 and expected Surcharge Collection through Oct 2011

Table 3: Adjustor Expenses by Category

Cost Category	2011	2012	Total
2012 Program Budget		\$5,449,519	\$5,449,519
Carry Over Balance through 2011			\$2,166,780
Performance Incentive (2011 & 2012)	\$878,890	\$1,352,453	\$2,231,343
Total			\$9,847,641

Table 4: DSMS Rate Calculation

UNSE	DSM		Rate/kWh
	Budget	14MoForecast	
Total Expense	\$7,616,298	2,145,225,416	\$0.003550
Performance Incentive	\$2,231,343	2,145,225,416	\$0.001040
	\$9,847,641		\$0.004590