



**UNS Gas, Inc.
Rules & Regulations**

Original Sheet No.: 907

Superseding: _____

**SECTION NO. 7
EXTENSION OF LINES**

A. General

The Company will construct, own, operate and maintain service line and distribution main extensions.

1. Gas service lines will be designed and installed so that suitable capacity from the Company's distribution main to a meter location on the property of the Applicant is satisfactory to the Company. If downstream usage changes or is altered by the Customer, the Customer may be responsible for costs to upgrade or enlarge the service line, EFV or MSV, and possibly any upstream facilities to accommodate additional capacity requirements.
2. Gas distribution main extensions will be only along public streets, roads, and highways, which the Company has legal right to occupy, and on public lands and private property across which rights-of-way, satisfactory to the Company, may be obtained.
3. All Company distribution mains and service lines will be installed in accordance with all applicable Company standards.

B. Service and Main Extensions to Applicants for Service

General Policy – All service line and main line extension agreements are made on the basis of economic feasibility.

1. Facility Charge – If any Applicant fails to use natural gas for equipment stated in the application and used as the basis for estimating the allowable investment within four (4) months of the completion of the main, the Company may bill the Applicant for the incremental cost allowed towards the extension of service. The Applicant will pay within forty-five (45) days the charge as a non-refundable contribution towards the cost of extending service.
2. At its option, the Company may require a performance bond or other surety guaranteeing bona fide operation of the facility for which the extension is requested, in accordance with Applicant's representation in the contract.
3. Master Meter Extensions – If the residential Customers are tenants in a fully improved master-metered mobile home park ("MMP") and the MMP is currently or was formerly served as a master-metered mobile home park, the allowable investment for the MMP will be calculated by the following Incremental Contribution Method and formula:

$$AI = (FR - CR) \times 5$$

where: AI = Allowable Investment

FR = The MMP's estimated future total annual revenue, assuming conversion to individual residential service, using the MMP's average park occupancy for the past two (2) years, less the Company's current average cost of purchased gas.

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CR = The MMP's current total annual revenue, under the applicable schedule, averaged for the past two (2) years, less the Company's current average cost of purchased gas. If the MMP is not a current Customer of the Company, the CR will be determined on the basis of engineering estimates of occupancy and usage.

The Company will install that portion of each service in excess of the allowed investment subject to a nonrefundable contribution to be paid by the Applicant MMP prior to construction. In no event will costs above the allowable investment be borne by the Company.

4. Incremental Contribution Method – Gas service line and main line extensions will be made by the Company at its expense for an amount not to exceed the allowable investment as calculated by an Incremental Contribution Study ("ICS").
 - a. Allowable investment will mean a determination by the Company that the revenues less the incremental gas cost to serve the Applicant provides a rate of return on the Company's investment no greater than the weighted average cost of capital authorized by the ACC in the Company's most recent general rate case.
 - b. If the ICS has an allowable investment that is more than the cost of the main extension, then the excess amount may be applied to reduce the cost of service line installation up to the Customer's property line, except that it will not be used to reduce the cost of excess flow valve installation which will be paid by the Customer.
 - c. The Company, after conducting an ICS, may at its option, extend its facilities to Customers whose usage does not satisfy the definition of economic feasibility, but who otherwise are permanent Customers, provided the Customer pays a nonrefundable contribution, necessary to make the extension economically feasible.
 - d. Applicants may provide trenching for service lines and/or distribution mains to the Company's specifications and the Applicant's costs will be reduced accordingly.
 - e. Customers provided with line extensions using the ICS will be reviewed annually for a period of five (5) years to determine the amount of any refund, as described in Subsection B.5 below.
 - f. For the purposes of this rule, "economic feasibility" means that the estimated incremental revenues derived from serving the Applicant, less the incremental gas cost to serve the Applicant, meets the estimated costs of serving the Applicant, including meeting capital costs as determined by the weighted average cost of capital authorized by the ACC in the Company's most recent general rate case. An extension will not be considered economically feasible if the Applicant does not install a functioning water heater and furnace within four (4) months of the completion of the main.

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5. Method of Refund

Amounts advanced by the Customer(s) in accordance with this rule, less any unpaid Facility Charges, will be refunded, without interest, in the following manner:

- a. Refunds of an advance will be made for each additional separately metered permanent service connected to the main extension for which an advance was collected using an ICS that includes the additional Customer(s).
- b. No refunds will be made for additional Customers connecting to a further extension or series of extensions constructed beyond the original extension.
- c. The Customer may request an annual survey to determine if additional Customers have been connected to and are using service from the extension. In no case will the amount of the refund exceed the amount originally advanced.
- d. The refund period will be five (5) years from the date of the completion of the extension. No refunds will be made by the Company after the termination of the refund period. Any portion of the advance that remains unrefunded at the end of the refund period will be considered an unrefundable contribution.
- e. Any assignment by a Customer of their interest in any part of an advance, which at the time remains unrefunded, must be made in writing and approved by the Company.
- f. Amounts advanced under a gas main extension rule previously in effect will be refunded in accordance with the provisions of that rule.

C. Service and Main Extensions to Service Individually Metered Subdivisions, Tracts, Housing Projects, Multi-Family Dwellings and Mobile Home Parks or Estates

1. Advances

- a. Gas distribution service and main extensions to and within individually metered subdivisions, tracts, housing projects, multi-family dwellings and mobile home parks or estates will be constructed, owned and maintained by the Company in advance of applications for service by bona fide Customers only when the entire estimated cost of such extensions as determined by the Company, is advanced to the Company, and a main extension agreement is executed. This advance may include the cost of any gas facilities installed at the Company's expense in conjunction with a previous service or main extension in anticipation of the current extension.
- b. The Company may require a subdivider, builder or developer to provide trenching for service lines and/or distribution mains and may also require the subdivider, builder or developer to provide bedding & shading material to Company specifications.

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- c. For developers who have entered into a main extension agreement and facilities have been installed and then they or some other party request subsequent reconfiguring of facilities or other changes requiring additional expenditures by the Company, these new costs will be entirely paid for with a non-refundable contribution and any refunds will be made in accordance with the original agreement. No additional agreement or extension of the time for refunds will be made to cover the area piped under the original extension agreement.
- d. Upon completion of installation, the Company will perform a reconciliation of the estimate to actual costs incurred and may bill the Customer for any variance with the new amount included in the refundable balance, or at the Company's option withhold refunds until the underpayment is satisfied.
- e. See Subsection B.3 above for requests to serve MMP through individual residential meters if the MMP is currently or was formerly served under an MMP schedule.
- f. Refunds will be made to developers as described in Subsection B.5 above.

D. General Conditions

1. Postponement of Advance

The Company, at its option, may postpone, for a period not to exceed five (5) years that portion of an advance which it estimates would be refunded under the provisions of this rule. At the end of such refund period, the Company will collect all such amounts not previously advanced. When advances are postponed, the Applicant may be required to furnish to the Company, a Company-approved surety, to assure payment of any postponed amounts throughout the term of the facilities extension agreement up until the end of the postponement period.

2. The Applicants or developer will provide property location, tax identification numbers, lot numbers, street names and other property information helpful to planning an extension.

3. Contracts

- a. Each Applicant requesting an extension in advance of applications for service will be required to execute a main extension agreement covering the terms under which the Company will install distribution mains in accordance with the provisions of the Company's Rates and to address any unusual circumstances associated with the request for service.
- b. At the time service is requested, the Applicant will submit a list of natural gas equipment to be used including the BTU input.

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4. One Service for a Single Premise

- a. The Company will not install more than one service line to supply a single premise, unless it is for the convenience of the Company or an Applicant requests an additional service, and in the opinion of the Company, an unreasonable burden would be placed on the Applicant if the additional service were denied. When an additional service is installed at the Applicant's request, the Applicant will make a nonrefundable contribution for the additional service based on the Company's estimated cost.
- b. When a service extension is made to a meter location upon private property which is subsequently subdivided into separate premises, with the ownership portions thereof divested to other than the Applicant or the Customers, the Company will have the right, upon written notice, to discontinue service without obligation or liability. Gas service, as required by the Applicant or Customer, will be reestablished in accordance with the applicable provisions of the Company's rules.

5. Branch Services

The Company, at its option, may install a branch service for units on adjoining premises.

6. Main Extension Agreement Requirements

- a. Upon request by an Applicant for a main extension, the Company will prepare, without charge, a preliminary sketch and rough estimate of the cost of the installation to be advanced by the Applicant.
- b. Any Applicant for a main extension requesting the Company to prepare detailed plans, specifications, or cost estimates may be required to deposit with the Company an amount equal to the estimated cost of preparation. The Company will, upon request, make available within ninety (90) days after receipt of the deposit referred to above, such plans, specifications, or cost estimates of the proposed main extension. Where the Applicant authorizes the Company to proceed with the construction of the extension, the deposit will be credited to the cost of construction; otherwise, the deposit will be nonrefundable. If the extension is to include oversizing of facilities to be done at the Company's expense, appropriate details will be set forth in the plans, specifications and cost estimates. Subdividers providing the Company with approved subdivision plats will be provided with plans, specifications or cost estimates within forty-five (45) days after receipt of the deposit referred to above.
- c. The estimated cost of main extension and any resulting Main Extension Agreement is valid for ninety (90) days from the date of Company issue. Any signed agreement with appropriate payment where construction does not commence within ninety (90) days may be subject to review, recalculation and adjustment of advance requirements.

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- d. Where the Company requires an Applicant to advance funds for a main extension, the Company will furnish the Applicant, upon request, with a copy of this rule prior to the Applicant's acceptance of the Company's extension agreement.
- e. All main extension agreements requiring payment by the Applicant will be in writing, signed by each party and will include the following:
 - i. Name and address of Applicant(s);
 - ii. Proposed service address(es) or location(s);
 - iii. Description and sketch of the requested main extension;
 - iv. Description of requested service differentiated by Customer class;
 - v. Number of Customers served;
 - vi. Estimated cost to construct facilities;
 - vii. The Company's estimated start date and completion date for construction of the main extension;
 - viii. Each Applicant will be provided a copy of the approved main extension agreements;
 - ix. Payment terms; and
 - x. A concise explanation of any refunding provisions, if applicable.

7. Relocation of Service Lines and Distribution Mains

- a. When, in the judgment of the Company, the relocation of a distribution main or service line is necessary and is due either to maintenance of adequate service or the operating convenience of the Company, the Company will perform such work at its own expense.
- b. If relocation of a distribution main or service line is due solely to meet the convenience or the requirements of the Applicant or the Customer, such relocation, including metering and regulating facilities, will be performed by the Company at the expense of the Applicant or the Customer.
- c. Relocation of facilities will be mandatory and at the Customer's expense when actions of the Customer restrict the Company's access to or the safety of the facility.

8. Standby Service or Residential Pool Heating

No allowance will be made for equipment used for standby or emergency purposes only or for equipment used for residential pool heating under Section No. 7, Subsection B.4.

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9. Temporary Service

Extensions for temporary service or for operations, which in the opinion of the Company are of a speculative character or are of questionable permanency, will require an advance for the entire cost of the facilities needed, with provision for a refund using an ICS calculated annually, or at the termination of the temporary service.

10. Length and Location

The length of distribution mains or service lines required for an extension will be considered as the distance along the shortest practical and available route, as determined by the Company, from the Company's nearest permanent distribution main.

11. Service Impairment to Other Customers

When, in the judgment of the Company, providing service to an Applicant would impair service to other Customers, the cost of necessary reinforcement to eliminate such impairment may be included in the cost calculation for the extension.

12. Service From Transmission Lines

The Company will not tap a gas transmission main except when, in its sole opinion, conditions justify such a tap. Where such taps are made, the Applicant will pay the Company the cost of the tap, and extensions from the tap will be made in accordance with the provisions of this rule.

13. Other Types of Connections

Where an Applicant or Customer requests a type of service connection other than standard such as curb meters and vaults, etc., the Company will consider each such request and will grant such reasonable allowance as it may determine. The Company will install only those facilities that it determines are necessary to provide standard natural gas service in accordance with the Company's Rates. Where the Applicant requests the Company to install special facilities which are in addition to, or in substitution for, or which result in higher costs than the standard facilities which the Company would normally install, the extra cost thereof will be borne by the Applicant.

14. Exceptional Cases

In unusual circumstances, when the application of this rule appears impractical or unjust to either party, the Company or the Applicant may refer the matter to the ACC for special ruling or for the approval of special conditions which may be mutually agreed upon, prior to commencing construction.

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15. Taxes Associated with Nonrefundable Contributions and Advances

a. Collection of Income Tax Gross Up

- i. Any federal, state or local income taxes resulting from the receipt of a Contribution or Advance in Aid of Construction in compliance with this rule is the responsibility of the Company and will be recorded as a deferred tax asset and reflected in the Company's rate base for ratemaking purposes.
- ii. However, if the estimated contribution or advance for any service line or distribution main extension (as determined for each individual extension agreement) exceeds \$1,000,000, the Company shall require the Applicant to include in the contribution or advance an amount (the "gross up amount") equal to the estimated federal, state or local income tax liability of the Company resulting from the contribution or advance computed as follows:

$$\text{Gross Up Amount} = \frac{\text{Advance or Contribution}}{(1 - \text{Statutory combined income tax rate})} - \text{Advance or Contribution}$$

- iii. After the Company's tax returns for the year of receipt of the advance or contribution are completed, if the statutory combined income tax rate is less than the rate used to calculate the gross-up, the Company shall refund to the Applicant an amount equal to such excess.
- iv. When a gross-up amount is to be collected in connection with an extension agreement, the contract will state the tax rate used to compute the gross up amount and will also disclose the gross-up amount separately from the estimated cost of facilities.

b. Refund of Tax Gross Up

- i. In the case of construction advance refunds, a pro rata portion of the gross up will be refunded when the amount of the underlying advance is

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- ii. refunded. Any remaining gross-up will be refunded on November 1 of each year as tax depreciation deductions are taken on the Company's tax returns. At the end of five (5) years from installation, the remaining gross up will be refunded at an amount that reflects the net present value of the Company's remaining tax depreciation deductions on the underlying advance discounted at the Company's authorized rate of return.
- iii. In the case of all other advances or deferred construction deposit agreements, the gross up will be refunded, or the amount of required deferred construction deposit will be reduced, as follows:
 - 1) If the full amount of the advance is refunded prior to September 30th of the year following the year in which the advance is received, the entire amount of the gross-up will be refunded.
 - 2) For any amount of the advance not refunded as of September 30th of the year following the year in which the advance is received, on November 1st of each year a portion of the gross-up will be refunded based on the amount of the tax depreciation deductions taken by the Company on its federal and state income tax returns.
 - 3) When any advance is refunded after depreciation refunds pursuant to clause ii have begun, a pro rata portion of the gross up will be refunded reduced by the amount of depreciation refunds previously made for that portion of the gross up.
 - 4) For any advance that is not refunded at the end of the contract period, the remaining gross up will be refunded at an amount that reflects the net present value of the Company's remaining tax depreciation deductions on the underlying advance discounted at the Company's authorized rate of return.

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c. Non-refundable Income Tax Gross Up for Contribution in Aid of Construction

At the option of the Customer, a non-refundable gross-up may be calculated as follows:

$$\text{Non-refundable Gross Up Amount} = \frac{(\text{Contribution Amount} - \text{Net Present Value of Tax Depreciation})}{(1 - \text{Current Tax Rate})} - \text{Contribution Amount}$$

d. Alternate Income Tax Gross Up for Advances in Aid of Construction

At the option of the Customer, a gross-up may be calculated when an advance is received. When the Customer has received its final advance refund the alternate gross-up will be recomputed as follows:

$$\text{Alternate Gross Up Amount} = \frac{(\text{Advance Amount} - \text{Net Present Value of (Advance Refunds} + \text{Tax Depreciation on Advances Not Refunded)})}{(1 - \text{Current Tax Rate})} - \text{Advance Amount}$$

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