

ORIGINAL



0000018428

MEMORANDUM

30

TO: Docket Control

FROM: Ernest G. Johnson
for Director
Utilities Division

DATE: March 22, 2005

RE: STAFF REPORT FOR UNS GAS, INC., APPLICATION FOR
AUTHORIZATION TO SELL ASSETS DOCKET NO. G-04204A-05-0002

Attached is the Staff Report for the UNS Gas, Inc. application for authorization to sell assets. Staff recommends approval.

EGJ:JHJ:red

Originator: J. H. JOHNSON

Attachment: Original and sixteen copies

AZ CORP COMMISSION
DOCUMENT CONTROL

2005 MAR 22 A 10:36

RECEIVED

Arizona Corporation Commission
DOCKETED

MAR 22 2005

DOCKETED BY *OH*

Service List for: UNS Gas, Inc.
Docket No. G-04204A-05-0002

Mr. Erik Bakken
Corporate Counsel
Unisource Energy Services
One South Church Ave.
Tucson, Arizona 85702

Mr. Christopher C. Kempley
Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Mr. Ernest G. Johnson
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ms. Lyn Farmer
Chief Administrative Law Judge, Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

UNS Gas, Inc.

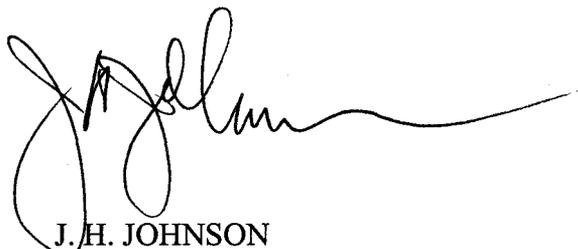
DOCKET NO. G-04204A-05-0002

**APPLICATION FOR AUTHORIZATION
TO SELL ASSETS**

MARCH 2005

STAFF ACKNOWLEDGMENT

The Staff Report for the UNS Gas, Inc., Docket No. G-04204A-05-0002 was the responsibility of the Staff member listed below: J. H. Johnson was responsible for the review of the Company's application.

A handwritten signature in black ink, appearing to read 'J. H. Johnson', with a long horizontal flourish extending to the right.

J. H. JOHNSON
PUBLIC UTILITIES ANALYST III

EXECUTIVE SUMMARY

UNS Gas, Inc. ("UNSG" or "Company") filed an application for authorization to sell assets with the Arizona Corporation Commission ("Commission") on January 3, 2005. The property to be sold for \$500,000 is a metal building, storage shed, fenced yard, and associated property at 501 North Sixth Street, Prescott, Yavapai County, Arizona, having a book value of approximately \$279,371. The building and property are presently being used as Operating Headquarters for the Prescott area and other uses including parking for vehicles and equipment storage.

UNSG is a public service corporation authorized to provide gas service in the State of Arizona. UNSG is a subsidiary of Unisource Energy Services of Tucson which also owns Tucson Electric Power.

The building and property being sold are no longer of adequate size to support ongoing gas service and administrative operations in the Prescott area.

The property is sold, subject to Commission approval, to the City of Prescott, Arizona. Further, as part of the transaction, UNSG will lease the facility being sold for one year to allow time for construction of a new local headquarters and facilities in Prescott Valley, Arizona. The new facility will cost substantially more to construct and furnish than the proceeds UNSG will receive from the sale.

Staff concludes that the valuation process is appropriate under the circumstances.

Staff recommends the approval of UNSG's request for authorization to sell assets for \$500,000 on the terms and conditions described in the application.

Staff further recommends deferral of the gain on sale of approximately \$220,628 until the next rate case filed by UNSG where 100 percent of the gain shall be deducted from the cost of the new building thereby reducing rate base by \$220,628.

TABLE OF CONTENTS

| | <u>PAGE</u> |
|--|--------------------|
| INTRODUCTION | 1 |
| BACKGROUND..... | 1 |
| SALE OF ASSETS | 1 |
| ONE YEAR LEASEBACK | 2 |
| GAIN ON SALE | 2 |
| STAFF CONCLUSIONS AND RECOMMENDATIONS..... | 2 |

Introduction

UNS Gas, Inc. ("UNSG" or "Company") filed an application for authorization to sell assets with the Arizona Corporation Commission ("Commission") on January 3, 2005. The property to be sold is a metal building, storage shed, fenced yard, and associated property at 501 North Sixth Street, Prescott, Yavapai County, Arizona, having a book value of approximately \$279,371. The building and property are presently being used as Operating Headquarters for the Prescott area and other uses including parking for vehicles, and equipment storage.

Background

UNSG is a public service corporation authorized to provide gas service in the State of Arizona. UNSG is a subsidiary of Unisource Energy Services of Tucson which also owns Tucson Electric Power.

Sale of Assets

The building and property being sold are no longer of adequate size to support ongoing gas service and administrative operations in the Prescott area. The property consists of a 1.33 acre site in Prescott's oldest industrial area (501 Sixth Street) that is improved with two metal buildings of 1,830 square feet and 3,360 square feet, respectively. The larger building is 86 percent office space while the smaller building is used entirely for industrial shops and facilities. The balance of the property is used for vehicle parking and equipment storage.

The property is sold, subject to Commission approval, to the City of Prescott, Arizona for the sum of \$500,000. Further, as part of the transaction, UNSG will lease the facility being sold for one year to allow time for construction of a new local headquarters and facilities in Prescott Valley, Arizona. The new facility will cost substantially more to construct and furnish than the proceeds UNSG will receive from the sale.

Appraisal and Update

In response to data request JHJ 1.2. Staff received a copy of an appraisal dated September 18, 2002, and a Limited Report update of that appraisal, dated January 10, 2005, with a new fee simple valuation date of September 4, 2004. The appraiser valued the property at \$500,000 as of September 4, 2004. The original appraisal in 2002 valued the property at \$445,000.

Ellen Seigfried Dodd, Arizona Certified General Real Estate Appraiser No. 30104, prepared both the original appraisal and the update. The appraiser is not independent in this transaction as the seller ordered the valuations.

The appraisal values the property using the Cost Approach with the Direct Sales Comparison Approach in determining the subjects land value. The Sales Comparison approach

could not be utilized as no similar improved sales were discovered during research for the appraisal and update.

The appraiser concludes that the property's highest and best use is as presently improved.

The valuation as of September 2004 is developed as an update of material originally utilized in the 2002 full appraisal. Staff concludes that the appraiser properly adjusted the valuation of the property to arrive at a final valuation utilizing similar land sales, adjustments for time, and adjustments for differences in size. The land alone is valued at \$350,000 leaving site improvements and fencing with a remainder value of \$150,000.

Conditions of sale have been met with the exception of Commission approval.

One Year Leaseback

Part of the transaction is a one year lease-back by UNSG for the sum of \$2,000 per month payable to the City of Prescott. The lease gives UNSG time to complete its new building and facilities in Prescott Valley and move personnel, phones, equipment, and vehicles prior to the termination of the lease.

The \$2,000 per month lease rate appears to be lower than what the market would bear. Lease rates for similar properties in the area are between \$0.90 cents and \$1.25 per square foot per month (per the appraiser) which translates to a monthly lease cost of between \$4,671 and \$6,487.

Gain On Sale

UNSG, in its response to Data Request No. 1, indicated that the present facility being sold to the City of Prescott has a depreciated book value of \$279,371. With a sale price of \$500,000, UNSG has a gain on sale of \$220,620.

Staff concludes the gain on sale should be deducted from the cost of the new building in Prescott Valley, thereby reducing the rate base value of the new building by \$220,620 in the next rate case. Staff believes that any immediate refund to ratepayers would not be cost effective.

Staff Conclusions and Recommendations

Staff concludes that the valuation process is acceptable under the circumstances.

Staff recommends the approval of UNSG's request for authorization to sell assets in the amount of \$500,000 on the terms and conditions described in the application.

Staff further recommends deferral of the gain on sale of approximately \$220,628 until the next rate case filed by UNSG where 100 percent of the gain shall be deducted from the cost of the new building thereby reducing rate base by \$220,628.

Staff further recommends authorizing UNSG to engage in any transaction and to execute any documents necessary to effectuate the authorization for property sale to the City of Prescott.

Staff further recommends that UNSG be ordered to file with the Compliance Manager of the Utilities Division, copies of all executed sale documents and settlement calculations within 90 days of sale closing.