

BEFORE THE STATE ASSESSMENT REVIEW BOARD
STATE OF ALASKA

IN THE MATTER OF)	Appeal of Revenue Decision
THE ALPINE OIL PIPELINE)	No. 07-56-04
)	
)	OAH No. 07-SARB-TAX
OIL & GAS PROPERTY TAX (AS 43.56))	
<u>2007 ASSESSMENT YEAR</u>)	

CERTIFICATE OF DETERMINATION

The State Assessment Review Board (Board) convened from May 15, 2007 to May 24, 2007 to hear and deliberate on the AS 43.56 appeals of the 2007 assessment of the Alpine pipeline. Chair Steven L. Van Sant and members Don Martin McGee, Mike Salazar and Mickey Keller, were present, constituting a quorum as required by AS 43.56.130(b).

The Board Chair, Steven L. Van Sant, conducted the hearing. Mark T. Handley, Administrative Law Judge from the Office of Administrative Hearings, assisted the Chair.¹

The owner of the Alpine pipeline, Alpine Transportation Company, (Owner) was represented by attorneys Steven Mahoney and Marie Evans. Attorney Robert M. Johnson, Assistant Attorney General Ken Diemer and Jim Greeley represented the Taxation Division (Division). The North Slope Borough was represented by attorney Mauri Long. A court reporter was present to create a transcript of the hearing.

I. Introduction

The subject of this appeal is the Division's \$97,319,278 assessed valuation of the Alpine Pipeline. The Division explained that it had relied on its Replacement Cost New Less

¹ Under Alaska Statute 44.64.030(b), the Office of Administrative Hearings provided an administrative law judge to advise the Board at the request of the Department of Revenue.

Depreciation (RCNLD) methodology to arrive at its assessed valuation.

The Owners argued that the 2007 Alpine pipeline value was no more than \$78,750,000. The Municipalities argued that the Division's \$97,319,278 assessed valuation should be upheld.

Under AS 43.56.130(f), the Board cannot adjust the Division's assessed valuation unless the evidence in the record shows that this valuation is unequal, excessive, improper or otherwise contrary to the standards set out in AS 43.56.

The Board determined the Division's assessed valuation was not unequal, excessive, improper or otherwise contrary to the standards set out in AS 43.56 and should not be adjusted.

II. Description of the Property

The Alpine pipeline is crude-oil transportation pipeline located on the North Slope of Alaska. The Alpine pipeline is a 14-inch-diameter pipeline of approximately 34 miles in length and related facilities. The Alpine Pipeline currently serves only the Alpine oil field. The Alpine Pipeline is used for the transportation of crude oil from the Alpine production facilities to the Kuparuk pipeline, which transports oil to Pump Station One of the Trans Alaska Pipeline System.

The Alpine pipeline is located in the North Slope Borough.

III. Name and Addresses of the Owner of the Alpine Pipeline

Alpine Transportation Company
PO Box 100360 Anchorage, AK 99510-0360

IV. Parties Appealing

The Owner of the Alpine Pipeline appealed Alaska Department of Revenue Decision No. 07-56-04.

The North Slope Borough is cross-appellant and intervenor in the Owner's appeal of Alaska Department of Revenue Decision No. 07-56-04.² At the hearing, the North Slope Borough stated that it was completely aligned with the Division's position.

V. Discussion

The Owner argued that the Division abused its discretion in failing to give more weight to the capitalized tariff income approach to value the Alpine pipeline, which results in an assessed value less than that calculated by the Division. The Owner pointed out that Alpine is a relatively young pipeline that only serves a single field and that there is therefore more certainty about future tariffs and future throughput. The Owner argued that these facts tend to make a valuation using the income approach more reliable than it would be for an older pipeline, with less certain future throughput, and less certain tariffs, such as the Trans Alaska Pipeline System. The Owner argued that the Division should have reduced its valuation due to functional and economic obsolescence of the Alpine pipeline.

The Board concluded that the Division did not need to give weight to a regulated tariff income valuation of the Alpine pipeline. A regulated tariff income valuation would provide the value of the future income stream produced by tariffs that are based on the Owner's investment in the pipeline, not on the pipeline's current value. The Board found that the Owner did not show that the Division's valuation should be reduced due to functional and economic obsolescence of the Alpine pipeline.

The Board noted that the Division needs to ensure that it uses an accurate estimate of the pipeline's economic end-life for the Division's RCNLD valuation of the Alpine pipeline. The Board was concerned that the throughput capacity of Alpine and the Owner's assertion that the Alpine oil field has only approximately 65% of its original reserves left, indicate that the pipeline's economic end-life may be significantly earlier than 2042, the Division's projected end-life for the Alpine pipeline.

² See Pre-Hearing Order issued May 3, 2007.

The Board was concerned that the Division's economic life end date of 2042 for Alpine may be based on the end life on other pipelines, and may have been determined without giving proper consideration to the limited life of the Alpine oil field. The Alpine pipeline is somewhat unique in that it is a single purpose pipeline that serves a single oil field. The Alpine pipeline's economic life is tied to the life of the oil field it serves. However, the Board found that the Owner had not provided persuasive evidence that the Alpine pipeline's economic life would be shorter than that used by the Division.

The Board recommends that in any future appeals of RCNLD valuations of the Alpine pipeline that the Division provide the throughput projections it used in estimating the pipeline's end-life and that the Division also explain how those throughput projections relate to estimates of the remaining reserves in the Alpine field. The Board recommends that in future appeals of an RCNLD valuation of the Alpine pipeline that the Owner provide its own throughput projections, as well as proven reserves, supported by reliable evidence, if the Owner wishes to persuade the Board that a different economic end-life for the Alpine pipeline should be used in a RCNLD estimate.

VI. Conclusion

Based on the evidence presented, the Board concluded that the Division's 2007 assessed Division's \$97,319,278 assessed valuation of the Alpine Pipeline should be upheld.

Pursuant to AS 43.56.130(g), the undersigned, on behalf of, and as Chair of, the State Assessment Review Board, certifies to the Department of Revenue, State of Alaska, that the Board has made its determination as stated in this Certificate of Determination.

DATED: May 31, 2007

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Steven L. Van Sant, Chair
State Assessment Review Board

Certificate of Service: The Undersigned certifies that on May 31, 2007 a true and correct copy of this document was served on the following:

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