

**BEFORE THE STATE ASSESSMENT REVIEW BOARD  
STATE OF ALASKA**

In the Matter of:	)	
	)	Appeal of Revenue Decision
CONOCOPHILLIPS ALASKA, INC.	)	No. 21-56-01
(Kuparuk Transportation Company)	)	
	)	
Oil & Gas Property Tax (AS 43.56)	)	OAH No. 21-0590-TAX
<u>2021 Assessment Year</u>	)	

**CERTIFICATE OF DETERMINATION**

**I. INTRODUCTION**

The State Assessment Review Board (“Board”) convened on May 17, 2021 to hear and appeals of Department of Revenue (“DOR”) Informal Conference Decision (“ICD”) number 21-56-01, which consolidated review of five different assessments of oil and gas production and transportation property owned by ConocoPhillips Alaska, Inc. (“CPAI”) and its affiliates.<sup>1</sup> The Board consolidated the appeals for purposes of the hearing only.

This appeal concerns the Kuparuk Pipeline. Owner Kuparuk Transportation Company (“KTC”) filed the appeal. The North Slope Borough intervened before the Board in support of DOR.

DOR assessed the pipeline at a value of \$86,718,430. After the while preparing for this hearing, DOR identified an issue and now seeks to value the pipeline at \$94,981,850. KTC argues that the value should be \$82,930,978.

The Board finds that the assessment is excessive. Because of non-reservoir related lower production rates attained, the Assessor chose to use a slightly higher number that he selected based upon the portion of the year when production was not curtailed. Because of the timing of that production, SARB believes the factor used was slightly high. Accordingly, the assessment should be adjusted.

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<sup>1</sup> Chair James I. Mosley and members Bradley Pickett, William Roberts, Bernard Washington, and William Westover heard the appeal. Administrative Law Judges Mark Handley and Rebecca Kruse from the Office of Administrative Hearings assisted the Chair.

## II. BACKGROUND

### Kuparuk Pipeline and Colville River Unit and Kuparuk River Unit Operations

KTC owns the Kuparuk Pipeline, which transports oil from the Kuparuk River Unit to the Trans-Alaska Pipeline System.<sup>2</sup> The transported oil includes production from several units, including the Kuparuk River Unit (“KRU”) and Colville River Unit (“CRU”), both operated by CPAI.<sup>3</sup> The pipeline is located within the North Slope Borough.

In 2020, multiple external events impacted CPAI’s North Slope operations. In response to these events, CPAI made a business decision to curtail and defer some of its production predominantly in the months of May and June of 2020.<sup>4</sup>

### 2021 Assessment and Appeals

DOR is charged with assessing the value of oil and gas properties and determining their value as of the January 1 of the tax year. For transportation property, this includes:

[T]he use of standard appraisal methods such as replacement cost less depreciation, capitalization of estimated future net income, analysis of sales, or other acceptable methods.<sup>5</sup>

For production property, DOR applies replacement cost less depreciation and depreciation for declining fields.<sup>6</sup> The adjustment factor used by DOR is calculated using production numbers for the previous year.<sup>7</sup> The production property regulation does provide for DOR to legitimately deviate from these methods under certain circumstances, including when “a non-reservoir related circumstance occurs that significantly alters production relative to what would otherwise be a typical reservoir production.”<sup>8</sup>

In the 2021 assessment, the DOR Tax Division’s State Petroleum Property Assessor (“Assessor”), determined the value of the Kuparuk Pipeline using replacement cost less depreciation.<sup>9</sup> For depreciation, the Assessor used the methodology from the production property regulation.<sup>10</sup> Because CPAI made a business decision to curtail CRU and KRU production in

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<sup>2</sup> Ex. b at 4; KTC’s address is Kuparuk Transportation Company, c/o ConocoPhillips Alaska, Inc., Attn: Marie Evans, 700 G Street, ATO 1668, Anchorage, AK 99501.

<sup>3</sup> Ex. b at 4. The parties used the name “Alpine” to refer at times to CRU and other times to both CRU and Greater Mooses Tooth Unit production processed at the Alpine Central Facility in CRU. For clarity and because the issue here is CRU production, this decision uses CRU.

<sup>4</sup> Ex. b at 8; Ex. ee at 2.

<sup>5</sup> 15 AAC 56.110(c).

<sup>6</sup> 15 AAC 56.100(a).

<sup>7</sup> 15 AAC 56.100(a)(3)(B).

<sup>8</sup> 15 AAC 56.100(a)(5).

<sup>9</sup> Ex. b at 7-9.

<sup>10</sup> Ex. ss at 3.

May and June, however, the Assessor determined it would be appropriate to deviate slightly from the methodology in 15 AAC 56.100. The Assessor did so by adjusting production and determining an average 2020 daily production rate for CRU and KRU based on actual production from the months when production was not curtailed or deferred.<sup>11</sup> The resulting valuation for the Kuparuk Pipeline was \$86,718,430.<sup>12</sup>

KTC appealed to DOR and argued that the adjustment was unfair because the Assessor used a number that was calculated without considering the influence or the effects of the historically lower-production months of May and June.<sup>13</sup> DOR consolidated this appeal with four others from CPAI and its affiliates. The ICD affirmed the Kupaaruk Pipeline assessment.<sup>14</sup>

The CPAI parties each appealed the ICD separately, including KTC. The Board consolidated the appeals for purposes of the hearing only.

KTC raises three discrete issues to the Board: (1) that DOR improperly applied 15 AAC 56.100, a regulation for production property, to the Kupaaruk Pipeline transportation property; (2) that DOR misapplied 15 AAC 56.100(a)(5)(b) by using a value that was weighted by not considering the historically documented lower than normal production months; and (3) that KTC was deprived of having an impartial decision maker review its appeal.

While this appeal was pending before the Board, DOR determined that its assessment should have taken into account Oooguruk and Nikaitchuq Unit production transported by the Kupaaruk Pipeline.<sup>15</sup> DOR provided a new assessment for the pipeline of \$94,981,850.<sup>16</sup> CPAI supplemented its appeal to include the updated assessment and at the hearing objected to the revised assessment as untimely.<sup>17</sup>

#### Prehearing Motions

The parties filed several prehearing motions seeking to exclude or compel certain information or arguments. The Board advised the parties by email that it would not rule on any motions prior to the hearing. The parties were also given an opportunity to address the motions at the hearing, but for the most part chose not to do so.

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<sup>11</sup> Ex. b at 9.

<sup>12</sup> *Id.* at 3.

<sup>13</sup> Ex. ee.

<sup>14</sup> Ex. b.

<sup>15</sup> DOR Prehearing Br. at 13.

<sup>16</sup> Ex. ww.

<sup>17</sup> Supplemental Appeal of Department of Revenue Decision.

As a general matter, SARB hearings are informal administrative proceedings designed to provide the Board with information to review property tax appeals. The Board's role is not to dictate how a party chooses to make its case; the Board reviews the evidence that is provided and determines if parties have met their burden of proof.

NSB moved to dismiss an argument KTC raised in a footnote questioning the validity of portions of 15 AAC 56.100, arguing that the Board lacks authority to invalidate a regulation.<sup>18</sup> KTC responded by stating that it was merely preserving this argument, not asking the Board to invalidate the regulation.<sup>19</sup> The Board agrees that it is not its role to declare a regulation invalid. But by merely mentioning its concerns with the regulation in a footnote, KTC has not asked the Board to invalidate it. NSB's motion is denied.

NSB also moved for the Board to preclude KTC's witnesses from testifying about facts and opinions not provided in exhibits.<sup>20</sup> A SARB hearing is an administrative proceeding, not a trial. Court rules about expert testimony and submission of expert reports do not apply. It is up to the parties to decide what evidence to provide the Board, and whether to provide that evidence in the form of exhibits, testimony, or both. Accordingly, NSB's motion is denied.

KTC submitted a cross-motion in limine asking the Board to exclude NSB testimony and exhibits for failure to properly intervene. KTC pointed out valid deficiencies in NSB's notice of intervention, but raising them for the first time just days before the hearing was untimely. KTC's motion is denied.

### **III. DISCUSSION**

#### **A. DOR Did Not Err in Applying the Depreciation Method from the Production Property Regulation to Transportation Property.**

In the ICD, DOR acknowledged that 15 AAC 56.100 applies to production property, but noted that it was applying that regulation to the Kuparuk Pipeline because (1) the transportation property regulation, 15 AAC 56.110, does not include a depreciation method; and (2) valuation of both production and transportation property is adjusted based on production history of proven reserves.<sup>21</sup>

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<sup>18</sup> North Slope Borough's Motion to Dismiss.

<sup>19</sup> Opposition to NSB's Motion to Dismiss at 1-2.

<sup>20</sup> North Slope Borough's Expedited Request for Taxpayer Disclosure.

<sup>21</sup> Ex. b at 7.

The transportation regulation, 15 AAC 56.110, provides for DOR to use any “standard appraisal method[.]”<sup>22</sup> The Board finds that the depreciation method set forth in 15 AAC 56.100, including the option to deviate from that method when production is altered for non-reservoir reasons, is a standard appraisal method. By applying the method from 15 AAC 56.100, DOR was applying a standard method and thereby complying with 15 AAC 56.110. These calculations take into account the assessed value of the asset.

**B. The Administrative Error DOR Identified After the ICD is Not Timely.**

At the hearing, Mr. Greeley testified that DOR identified an administrative error and had provided a corrected assessment taking into account production from additional units. Mr. Greeley also observed that he could correct the error in future years.

This is an issue best addressed by the Assessor in a future assessment when KTC will have an opportunity to respond and provide evidence and argument at the agency level.

**C. DOR Appropriately Deviated from Considering Actual 2020 Production, But Did So in a Way That Resulted in an Excessive Assessment.**

DOR explained in its prehearing brief and in testimony that it normally calculates adjustment to assessed value using an adjustment factor that is based on production for the previous year.<sup>23</sup> The previous calendar year production is a useful component, but only when the production is typical.<sup>24</sup> Because CPAI curtailed KRU production for business reasons, the Assessor determined that actual 2020 production was atypical and that it was appropriate to deviate from considering actual production.

At the hearing, KTC provided evidence that production historically drops in summer months for scheduled maintenance and because the warmer weather impacts certain equipment.<sup>25</sup> CPAI, as the KRU operator, did curtail production more than usual in May and June 2020, but even without that curtailment, these months would have been lower production months.<sup>26</sup> KTC did not provide precise evidence of how much of a decrease in May and June 2020 production is attributable to typical seasonal decreases and how much was curtailment in response to COVID-19 and oil prices. KTC witnesses explained that internal production forecasts changed throughout

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<sup>22</sup> 15 AAC 56.110(c).

<sup>23</sup> DOR Prehearing Br. at 3.

<sup>24</sup> *Id.*; Greeley’s testimony.

<sup>25</sup> Braun testimony; Smith testimony.

<sup>26</sup> *Id.*

the year, as did maintenance plans with the curtailment providing an opportunity to conduct some maintenance sooner than planned.<sup>27</sup>

Based on the evidence, the Board finds that DOR correctly determined that KRU production in May and June was lower than what would have been predicted and that CPAI curtailed production in those months for business reasons. It was therefore appropriate to deviate from considering just the actual production for the calendar year 2020 production as the component of the depreciation calculation for the property being appealed.

The SARB Board takes issue with how DOR chose to calculate the adjustment factor used to deviate from calendar year 2020 production. As KTC witnesses testified, May and June are historically lower production months in any given year because of scheduled maintenance and the impacts of warmer weather. By simply disregarding these months, DOR not only eliminated the impact of the business-related curtailment, but also the typical seasonal drop in production. DOR thus derived a daily rate by averaging only higher-production months. This resulted in a higher adjustment factor than a typical year of production, which in turn results in a slightly higher assessment for the Property.

There are a number of different approaches DOR could have taken to account for CPAI's business-related production curtailment without removing normal seasonal fluctuations. The Assessor may want to consider other approaches in future tax years. For purposes of the 2021 assessment, the Board instructs DOR to do the following: where the Assessor calculated the adjustment factor based on using ten months of KRU 2020 production without taking into account the impact of historically lower month production rates, the Assessor will replace the numerator used in that calculation with the production DOR forecasted for KRU for 2020, as reflected in the appropriate Fall Revenue Sources Book.<sup>28</sup> DOR's forecast for 2020 reflected typical production that would have been expected from KRU. Using DOR's forecast for deviating from the actual production rates with forecasted rates avoids production numbers skewed by CPAI's business-related curtailment without losing the seasonal variations for a typical year.<sup>29</sup>

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<sup>27</sup> *Id.*

<sup>28</sup> DOR's Fall Revenue Source Books and supporting data can be found at <http://www.tax.alaska.gov/programs/sourcebook/index.aspx>. These forecasts are broken down by State of Alaska fiscal year, which starts July 1. The Assessor may thus need to incorporate underlying data from two fiscal years for DOR's forecast on a calendar year basis.

<sup>29</sup> KTC provided testimony that the May and June shut-ins recharged the reservoirs causing increased "flush production" in the following months and that this flush production will continue for the next few years. Mr. Smith explained, though, that this is a temporary increase that does not ultimately extend the life of a well. By instructing DOR to use its forecasted production, the Board need to determine whether or not the parties have demonstrated that flush production did or did not occur or what, if any, impact flush production could have on the 2021 assessment.

Substituting DOR’s forecasted KRU calendar year 2020 production is the only adjustment DOR should make to the assessment. All other numbers and methods will remain the same.

**D. KTC Has Not Met Its Burden to Show the Assessor Was Biased.**

KTC argues that by the Assessor reviewing his own assessment was inappropriate and violated due process. The Board disagrees.

First, the arguments untimely. DOR has a longstanding practice of the Assessor conducting the ICD-level review of his assessment. KTC was aware the Assessor was conducting the ICD process and even addressed its informal conference appeal directly to the Assessor. Yet it does not appear from the record that KTC objected to the Assessor deciding the appeal. Failure to raise a due process objection like this during an administrative proceeding waives the objection.<sup>30</sup>

Second, KTC’s due process argument is unsupported by evidence. “[A]gency personnel are presumed to be impartial until a party shows actual bias or prejudgment.”<sup>31</sup> To overcome that presumption, KTC “must show that the hearing officer had a predisposition to find against a party or that the hearing officer interfered with the orderly presentation of the evidence.”<sup>32</sup> Here, KTC has offered nothing more than the fact that the Assessor decided both the underlying assessment and the ICD. Property assessment is a specialized field, so it makes sense for DOR to task its resident expert with reviewing assessment issues, even when that means the Assessor is reviewing his own decision. Doing so is akin to “reconsideration” where a judge or other decision-maker reviews their own decision. Agencies often use reconsideration as a form of appeal. Here, it is DOR’s longstanding practice for the Assessor to conduct the ICD review. That practice addresses information sharing to try and avoid an official SARB appeal. SARB believes the Assessor was simply doing his job.

Third, KTC has appealed before SARB. A due process violation in an initial administrative proceeding is cured when due process is afforded on review.<sup>33</sup> The Board’s review

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<sup>30</sup> *Trustees for Alaska v. State, Dep’t of Nat. Res.*, 865 P.2d 745, 748 (Alaska 1993) (“a party must raise an issue during the administrative proceedings to preserve the issue for appeal.”); *Storrs v. Lutheran Hosp. and Homes Soc. of America, Inc.*, 609 P.2d 24, 28 (Alaska 1980) (objection to decision maker waived by not raising it until appeal).

<sup>31</sup> *Gottstein v. State, Dep’t of Natural Res.*, 223 P.3d 609, 628 (Alaska 2010).

<sup>32</sup> *AT&T Alascom v. Orchitt*, 161 P.3d 1232, 1246 (Alaska 2007).

<sup>33</sup> *See, e.g., Gold Country Estates Pres. Group, Inc. v. Fairbanks North Star Borough*, 270 P.3d 787, 798 (Alaska 2012) (due process violations in initial proceeding mooted by due process provided in review proceeding); *City of North Pole v. Zabek*, 934 P.2d 1292, 1298 (Alaska 1997) (same); *McMillan v. Anchorage Cmty. Hosp.*, 646 P.2d 857, 866-67 (Alaska 1982) (same).

and this appeal process further moots any possibility of a due process violation by the Assessor deciding the ICD.

#### **IV. CONCLUSION**

As chair and on behalf of the State Assessment Review Board, and in accordance with AS 43.56.130(b), I certify to the Department of Revenue that the Board has determined the value of the Kuparuk Pipeline on January 1, 2021 is to be adjusted by changing the calculation to reflect use of DOR's forecasted 2020 production for CRU and KRU as reflected in the Fall Revenue Sources Book(s) that correspond to calendar year 2020. In all other respects, the assessment will remain the same.

Judicial review of this decision may be obtained by filing an appeal in the Alaska Superior Court in accordance with Alaska Rule of Appellate Procedure 602(a)(2) within 30 days after the date of this decision.

DATED: May 24, 2021.

By: Signed  
James I. Mosley, Chair  
State Assessment Review Board

[This document has been modified to conform to the technical standards for publication.]