

BOARD ORDER: MGB 129/99

IN THE MATTER OF THE "Municipal Government Act" being Chapter M-26.1 of the Statutes of Alberta 1994.

AND IN THE MATTER OF A COMPLAINT regarding a 1997 linear property assessment prepared by the Assessor designated by the Minister of Municipal Affairs.

BETWEEN:

Talisman Energy Inc. - Complainant

- a n d -

The Crown in the Right of the Province of Alberta as represented by the Minister of
Municipal Affairs - Respondent

BEFORE:

L. Dirom, Presiding Officer

F. Martin, Member

K. McDonald, Member

Upon notice being given to the affected parties, a hearing was held in the City of Edmonton, in the Province of Alberta on October 14, 1998.

This is a hearing in respect of a complaint filed with the Municipal Government Board concerning a 1997 linepipe assessment entered in the assessment roll of Yellowhead County as follows:

Assessee Code: 9090 Item: 530 Type: Main

Assessment: \$4,457,570

BACKGROUND

The Complainant, Talisman Energy Inc., is appealing linear property located in Yellowhead County which is a gas conveyance pipeline (pipe 530) and is assessed at \$4,457,570. Pipe 530 is a 12 inch steel pipeline which is 53,390 metres in length and is used to transport sour gas via an interconnect line to the Edson Gas Plant. The eight inch interconnecting pipeline and 750 HP Compressor are not under appeal.

Pipe 530 was assessed using the Linear Property Assessment Manual and the assessment was calculated as follows. An assessment year modifier was applied to the base cost of the linear property in order to determine its replacement cost for the 1997 assessment year. The

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replacement cost was multiplied by a depreciation factor of 0.75 which is prescribed in Schedule C of the Linear Property Assessment Manual. The Complainant, Talisman Energy Inc. has raised an issue requesting additional depreciation prescribed in Schedule D of the Manual. Schedule D - Additional Depreciation states "For any depreciation that is not affected in Schedule C and Schedule D, the assessor designated by the minister may adjust for additional depreciation provided acceptable evidence of such loss in value exists, unless otherwise specified in this section."

ISSUES

1. Does the Municipal Government Board have the authority to allow for a loss in value in addition to the 25% fixed and immediate depreciation given to all pipelines?
2. If so, is there a loss in value greater than the 25% fixed and immediate depreciation given to all pipeline?

LEGISLATION

Municipal Government Act

292(2) Each assessment must reflect the valuation standard set out in the regulations for linear property.

*293(1) In preparing an assessment, the assessor must, in a fair and equitable manner,
(a) apply the valuation standards set out in the regulations, and
(b) follow the procedures set out in the regulations.*

499(2) The Board must not alter

(a) any assessment that is fair and equitable, taking into consideration assessments of similar property in the same municipality,

Alberta Regulation 365/94

6(1) The valuation standard for linear property is that calculated in accordance with the procedures referred to in subsection (2).

Linear Property Assessment Manual Schedule D

SUMMARY OF COMPLAINANT'S POSITION

The Complainant, Talisman Energy Inc., argued in favour of additional depreciation on linear property described as pipe 530 for reasons of utility and economics.

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The Complainant provided some of the background and economics supporting the request for a reduction in the assessment. In 1995, the Edson gas plant was operating at 35-40% of design capacity and the wells providing the feedstock were in serious decline. To extend the operating life of this major asset a strategy of competing for new gas was developed. The gas would come from a greater distance and the economics to the producer would have to be favourable. Peace Pipe's abandoned oil line, the subject pipe 530, would have to be recommissioned as a gas line and connected to the Edson gas plant. The subject pipeline was leased and retrofitted to carry 20 million standard cubic feet (mmscfd) of raw gas. The economics were developed based on moving 10 mmscfd and the maximum flow has not exceeded 12 mmscfd.

Alternatives such as constructing new pipelines were considered but were found to be less economical than recommissioning the abandoned line.

The Complainant argued that although the subject pipeline is a 12 inch diameter line, a smaller diameter line of six inches would be sufficient to move 10 mmscfd to Edson, therefore from a physical point of view the line should be assessed at the six inch line rate. The use of "larger than needed lines" should not be penalized through the tax regime.

The Complainant also argued that from an economic point of view, the pipeline should only be assessed at the four inch rate. In support of this argument, the Complainant submitted that due to the Peace pipeline lease payment and taxes, the cost of moving the gas to the Edson plant is \$0.41 per mmscfd, whereas the cost of moving the gas to Kaybob plant would be \$0.37 per mmscfd. The fixed nature of the lease payments and taxes coupled with the declining feedstock will result in moving the gas to another plant and the Peace pipeline will again be abandoned.

In summary, the Complainant indicated that Schedule D gives specific authority to the Assessor to adjust for additional depreciation. Accordingly, the Complainant requests a minimum adjustment of 50% to the current assessment on the basis that the subject pipeline is underutilized and the use of this pipeline to transport gas to the Edson plant is costly.

SUMMARY OF RESPONDENT'S POSITION

In respect of the linear property under appeal, the pipeline is correctly assessed according to product, diameter and length, and all procedures described in the Linear Property Assessment Manual were followed.

The Respondent submitted that the rates and procedures set out in the Linear Property Assessment Manual are all approved by industry. Pipeline is to be assessed by size (length and outside diameter) with 25% fixed and immediate depreciation given to all pipelines. In any given size (O.D.) volumes and usage can vary greatly and the 25% is representative of various volumes and usages found in the field.

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With respect to Schedule D - Additional depreciation described was intended for electrical substations (also linear) where declining balance tables are found. This section was not intended for pipeline properties and has not been used to adjust for additional depreciation. In the interest of fairness this pipeline cannot be granted additional depreciation because additional depreciation has not ever been granted to any other pipeline. There are 173,493 pipelines in Alberta which have been assessed with 25% fixed and immediate depreciation and if an exception is made for the subject pipeline it would be unfair and inequitable.

FINDINGS OF FACT

Upon hearing and considering the representations and the evidence of the parties shown on Appendix A and upon having read and considered the documents shown on Appendix B attached hereto, the Board finds the facts in the matter to be as follows:

1. The Municipal Government Board has the jurisdiction, where warranted, to allow for additional depreciation.
2. No loss in value indicated.

In consideration of the above and having regard to the provisions of the Municipal Government Act, the Board makes the following decision, for the reasons set out below.

DECISION

The complaint of the Complainant is denied and the subject linear property assessment in the amount of \$4,457,570 is confirmed.

It is so ordered.

REASONS

At the outset the Board accepted the Respondent's position that the subject linear property has been assessed according to section 292(2) of the Municipal Government Act and the Linear Property Assessment Manual. The Board also accepts the Respondent's position that the depreciation factor for pipeline property is 0.75 according to Schedule C of the Linear Property Assessment Manual. With reference to Schedule D of the Manual, the Board interprets the plain meaning of this section to mean that additional depreciation may be granted if acceptable evidence of such loss in value exists. Clearly, additional depreciation would be considered only if the Complainant was able to demonstrate that the property under appeal had suffered a loss greater than the 25% fixed and immediate depreciation applied to all pipelines under the Regulation.

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The Board finds that the Complainant's evidence respecting a loss in value, i.e. utilization of pipeline and the higher cost of moving gas to Edson, to be insufficient, inasmuch as, it does not necessarily indicate a loss in value nor does it quantify a loss in value exceeding 25% to the subject property. In conclusion, Schedule D of the Linear Property Assessment Manual requires acceptable evidence of a loss in value in order that the subject property assessment may be adjusted for additional depreciation.

No costs to either party.

Dated at the City of Edmonton, in the Province of Alberta, this 17th day of June, 1999.

MUNICIPAL GOVERNMENT BOARD

L. Dirom, Presiding Officer

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APPENDIX "A"

APPEARANCES

NAME	CAPACITY
D. Bielecki	For the Complainant
C. Valdes	For the Complainant
G. Johnson	For the Respondent
K. Holslede	For the Respondent
G. Lapointe	For the Respondent

APPENDIX "B"

DOCUMENTS RECEIVED AT THE HEARING AND CONSIDERED BY THE BOARD:

NO.	ITEM
Exhibit 1	Municipal Affairs Linepipe Assessment Sheet
Exhibit 2	Talisman internal memo and background data on their appeal
Exhibit 3	Summary of Respondent's position