

**Massachusetts Department of Revenue Division of Local Services**

*Amy Pitter, Commissioner Robert G. Nunes, Deputy Commissioner & Director of Municipal Affairs*



TO: Boards of Assessors  
FROM: Joanne Graziano, Chief, Bureau of Local Assessment  
DATE: June 13, 2014  
TOPIC: CERTIFIED PIPELINE VALUATIONS FISCAL YEAR 2015

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The Commissioner of Revenue has determined and hereby certifies the full and fair cash valuation of taxable pipelines used for the transmission of natural gas, petroleum or their products or by-products with a distance of twenty-five miles or more as of January 1, 2014. These valuations are certified for fiscal year 2015 under Massachusetts General Laws Chapter 59, Section 38A. Any property owner or board of assessors, if aggrieved, must appeal the valuations to the Appellate Tax Board (ATB) on or before July 15, 2014.

*Centrally Valued Property*

The Commissioner values only those designated pipeline assets that are taxable under the General Laws. As of FY2015, with respect to a pipeline corporation, only poles, wires, underground conduits, pipes and machinery used in the conduct of business is subject to central valuation and taxation under M.G.L. c. 59, § 18, Second and M.G.L. c. 59, § 5, cl. 16(2). See St. 2013, c. 46, §§ 30, 39, 42 and 84. A pipeline company doing business as a partnership, trust or limited liability company (LLC) is subject to central valuation and taxation on all machinery and equipment used to provide pipeline service, including Federal Energy Regulatory Commission's Uniform Code of Accounts - 368 (compressor station equipment), 369 (measuring and regulating station equipment), 370 (communication equipment) and 371 (other equipment). M.G.L. c. 59, § 38A; M.G.L. c. 59 § 18, First and Sixth; See also RCN-BecoCom, LLC v. Commissioner of Revenue, 443 Mass. 198 (2005). The Commissioner also values construction work in progress (CWIP).

*Company Local Filing Requirements*

With respect to **local filing requirements**, pipeline companies organized as partnerships, trusts, LLCs or other unincorporated legal entities that are not treated as corporations for federal income tax purposes are not entitled to any corporate property tax exemptions. M.G.L. c. 59, § 5, cl. 16; M.G.L. c. 63, §§ 30(1), 30(2) and 38A. The Bureau of Local Assessment has received FY2015 pipeline data and a listing of all machinery, equipment and other personalty used for pipeline purposes from Algonquin Gas Transmission, LLC, Maritimes & Northeast Pipeline, LLC and Tennessee Gas Pipeline Company, LLC. Except for the centrally valued pipeline property, they are subject to local valuation and assessment on all other personal property situated in the community. Therefore, those companies must file a Form of List with the assessors in all communities where such other personal property is located.

*Pipeline Company Issues*

The following describes changes from the prior valuation year:

1. *Algonquin Gas Transmission, LLC* has reported an increase in pipeline, machinery and equipment assets in Massachusetts for this fiscal year. This increase in asset costs was less than the additional depreciation which resulted in a value decrease for FY2015.
2. *Maritimes & Northeast Pipeline, LLC* has no change in pipeline, machinery and equipment assets in Massachusetts for this fiscal year. Overall, the value decreased due to additional depreciation for FY2015.

3. *Tennessee Gas Pipeline Company, LLC* has reported an increase in value for FY2015. This was due to the Massachusetts investment being a greater percentage of the total plant reported.
4. *Mobil Pipeline Company* value increased for FY2015 due to an increase in replacement costs which was greater than the depreciation.

#### *New Growth*

The following companies have new growth:

1. *Algonquin Gas Transmission, LLC* has additional pipeline, machinery and equipment assets that have been reported this fiscal year.
2. *Tennessee Gas Pipeline Company, LLC* has additional, pipeline, machinery and equipment assets that have been reported this fiscal year.

#### *Company List and Addresses*

Centrally valued pipeline company billing names and addresses as reported by the companies are posted on our website for your convenience.

Questions regarding valuations may be directed to Walter Sandoval Dusza at 617-626-4087 or email him at [duszaw@dor.state.ma.us](mailto:duszaw@dor.state.ma.us)

**Massachusetts Department of Revenue Division of Local Services**

Amy A. Pitter, Commissioner Robert G. Nunes, Deputy Commissioner & Director of Municipal Affairs



To: Gas and Oil Pipeline Filers

From: Joanne Graziano, Chief, Bureau of Local Assessment

Date: January 8, 2014

Topic: NOTIFICATION TO GAS AND OIL PIPELINE FILERS

Massachusetts General Law Chapter 59, §38A requires that a return be filed annually to the Commissioner of Revenue for the determination of the value of certain pipelines on or before January 31, 2014 for the fiscal year 2015.

A pipeline company doing business as a partnership, trust or limited liability company (LLC) is subject to additional central valuation and taxation on all machinery and equipment used to provide pipeline service under M.G.L. c. 59, § 38A; M.G.L. c. 59 § 18, First and Sixth; See also RCN-BecoCom, LLC v. Commissioner of Revenue, 443 Mass. 198 (2005).

The return of personalty is as of January 1, 2014 for reporting entities and must include the following:

1. an inventory of pipeline situated in Massachusetts by community, that includes the cost, diameter, length and year of construction
2. gross original cost and net original cost
3. pipeline additions, replacements and deletions by community
4. pipeline capacity in gallons (if applicable)
5. annual gallonage pumped through the pipeline (if applicable)
6. all machinery and equipment used to provide pipeline service (if applicable)
7. FERC Form #2, *Annual Report of Major Natural Gas Companies* and any other report filed with the Commission that contains information pertaining to the pipeline system in Massachusetts by the filing date prescribed by Federal Energy Commission.

For determining **new tax base levy growth**, all personalty that is listed as new for calendar year 2013 and all personal property that is new to a community, whether it is new, used or transferred from another community, must be identified and reported separately by community.

Submit this report electronically to [bladata@dor.state.ma.us](mailto:bladata@dor.state.ma.us) in Excel format and mail the signed original.

Original returns should be sent to Walter Sandoval Dusza, Bureau of Local Assessment, at P.O. Box 9569, Boston, MA 02114-9569. If you have any questions, Mr. Sandoval Dusza can be reached at 617-626-4087.

Your cooperation is appreciated.

## WHAT IS THE VALUE OF YOUR PIPELINE?



Placing a value on a pipeline is a specialized process. The combination of methods used to determine the value of a pipeline or gathering system is unlike any other type of appraisal. Furthermore, no two pipelines are precisely the same. The unique methods described here are based on several years of observing the way a pipeline owner looks at a pipeline and the right-of-way in which it rests.

When placing a value on a proposed or existing pipeline system, several factors are considered by the author beyond the "across-the-fence" (ATF) method. The ATF method - used by many to assign a value to a pipeline right-of-way (ROW) - assumes that the ROW is worth whatever the surrounding land is worth. The ROW is the real estate where the pipeline lays. It is one of the factors in appraisal of the entire system.

The author saw the need to find or devise appraisal methods that are suited specifically to the pipeline industry when he was asked to put a value on pipeline salvage jobs. Among owners, the need for a fair pipeline appraisal methodology arose when it was discovered that pipelines were being overvalued by local taxing authorities and were being overvalued or undervalued during mergers, acquisitions and estate settlements. A valuation report concerning an active or inactive oil, gas, or product pipeline may be needed for one or more of the following reasons:

- Preparing for a sale or divestiture.
- Readjusting state, local, ad-valorem taxes/tax assessments.
- Estate settlement.
- Partnership termination.

- Preparing for a purchase or acquisition.
- Determining salvage value.
- Preparing for pipeline use conversion.
- Establishing value for accurate accounting.

### **Appraisal Methods**

The author's company uses a combination of methods to determine the value of a pipeline. We have found that value is a quantification of the interaction of demand for the property, utility of the property, the scarcity or supply of the property and the ease of transferability of ownership rights to the property.

**Market Analysis.** The method utilizes sales histories of comparable entities. This works well for valuing land and housing, but each pipeline is so different that a method of comparable sales is not so useful. Because land and housing are plentiful, making commodities of land or houses is much easier than making commodities of pipelines. However, this method is still useful to get an overview of pipeline value by looking at sales histories of comparable pipelines in varying circumstances and locales. One may make broad comparisons such as urban vs. rural, California vs. Mississippi, gas vs. crude, or regulated vs. non-regulated pipelines.

**Highest and Best Use.** This is mostly a real estate valuation term; however, on the occasion when a pipeline is being valued for usage change, this method can be useful to establish the value of the existing pipeline and the cost of converting it for another use. Pipelines can be converted from a crude product pipeline to fiber optic conduit or a conduit for electric power lines extending from a wind farm's electric grid center. For the most part, pipelines are best used for the intent constructed. It is best to combine this highest-and-best valuation with some of the 40 pipeline valuation factors such as size of line, geography, terrain or ROW values. For example, the highest and best use for a 6-inch gas line might be to change it out for a 10-inch crude line using the same ROW, if the contract permits such replacement. Ultimately, the highest and best use is that which is most likely to bring the highest net return over time.

**Seller Determined Need Or Book Value.** This method is used if the seller wants to record financial gain or loss from a sale using book value. It is not much use to a purchaser since it has no relevance to current worth. The book value might be generated by the accounting of the seller/owner of the property, in whatever means the company accounting might use to determine the book value. It might be based on a valuation method such as construction cost-new and discounted, for example, but generally this book value designation by the seller has no relevance to the value of the pipeline as far as the purchaser is concerned.

**Income Base Or Cash Flow.** This method is a popular means of establishing value for pipelines if they are generating or will generate a predictable cash flow. This method takes into account forecast income based on throughput volumes and transportation rates of the commodity transported. Expenses based on the historical or projected income stream are discounted. Another variation of

this method uses multiples of current cash flow where the average annual cash flow is multiplied by a factor of five to 12. This can be done on annual or monthly basis much like values of oil and gas royalties are determined. Many like to correlate pipeline values to oil and gas mineral interests regarding value. Both can have an indefinite life and both can be reborn as new drilling or new discoveries are made in an area served by the line. These additional income streams can be discounted to find a present day value or in some cases when using future multiples of income.

For example, the future income after operating expenses of a gas pipeline might be \$200,000 per year. A reasonable value might be five times that amount or \$1,000,000. A buyer might determine that the net present value in dollars paid today might be 20% less than the \$1,000,000 or \$800,000 in today's dollars. Present value is the term used when discounting future income to a present value or the value of a future income to a present rate.

**Construction Cost-New.** This is the cost of rebuilding the same pipeline in the same size, same manner and in the same (or comparable) easement. This is an important factor in placing value on a pipeline to be considered by a purchaser. This approach also can be discounted. For example, a pipeline that has been operating for 10 years after it was initially installed might have an expected life of 40 years. It could be discounted 2.5% per year of life or a total of 25% off the cost of new construction in today's market. This discussion is based on straight line depreciation which is common and prevalent in the industry.

### **Value Determination Factors**

In addition to the appraisal methods, several factors must be considered when assigning value to a pipeline. The author's firm uses as many as 40 factors to make value determinations regarding pipelines. These factors cover the more technical aspects of business, physical, property and commodity value. Some of these might include:

- Business Value - (1) throughput value transportation (income), (2) supply (other pipeline availability in area/scarcity), (3) demand (potential buyers and users), (4) potential for additional uses or more customers for product transported, (5) sales contracts or purchase guarantees (terms and length), and (6) management (front office and field).
- Physical Pipeline Attributes - (1) date of installation (vintage), (2) type of installation, (3) appearance of pipe, (4) method of construction, (5) salvage value after termination of usage, (6) type of system (oil, gas product, jet fuel), (7) size of pipe in pipeline (specifications), (8) interconnects (with other pipelines or supply sources), (9) amount of cover on pipeline, (10) pipe protection (coatings), (11) cathodic protection, (12) type of system (trunk, gathering), and (13) records availability (alignment sheets, maintenance records).
- Property Value - (1) right-of way-agreements (basic contracts), (2) geography/terrain, (3) maintenance records, (4) appearance, (5) surface inventory (including appurtenances), (6) condition of equipment (scrubbers, compressors), and (7) congestion (urban or rural locale).

- Commodity Value - (1) market price of commodity transported, (2) product source (well depths, reservoirs), (3) chemical content of product transported (gas liquids, corrosives), (4) proximity to markets, (5) diversity of suppliers, and (6) diversity of markets.

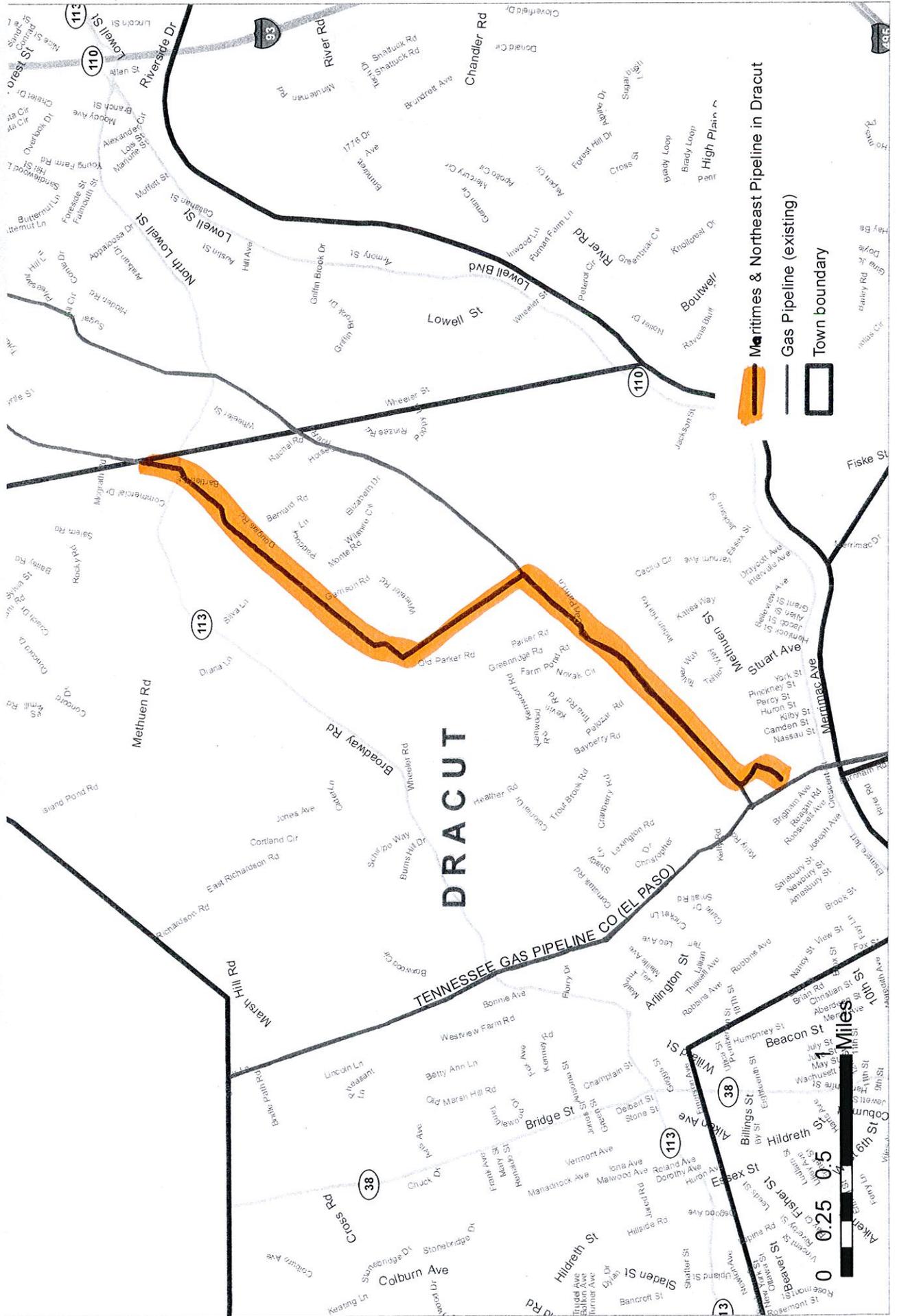
Other factors depend on whether product in the pipe is purchased at the wellhead and resold; whether and to what extent the product is compressed, enhanced, treated, cleaned, or processed; and by what procedures is it compressed, enhanced, treated, cleaned or processed.

**Appraisal For Taxing Authorities.** The company has seen many instances where a pipeline or gathering system was built for a new field with flush production and the field now is nearing depletion. Nevertheless, the operators still must pay regular taxes where applicable according to earlier throughput or initial values which were generally not depreciated. Local and state taxing authorities want up-to-date appraisals if they are to lower rates. Many local tax appraisers use only construction cost-new method (the cost of replicating the pipeline today) with no regard for throughput generally via abbreviated Marshal and Swift formulas.

Ultimately, the appraiser can only offer an opinion based on data available and market conditions. When it is all completed, the value is based on what the seller will take and what the buyer will give for a property.

Source: *Pipeline and Gas Journal*, August 2014

# Maritimes and Northeast Pipeline within Dracut



**Example for Maritimes and Northeast Pipeline within Dracut**

Total M&N Pipeline length=3.9 miles

Total Valuation for Pipeline=\$14,467,200

Total valuation for compressor station and parcel = \$220,000

Personal Property Tax Rate: \$14.49

Personal Property Tax Revenue from pipeline= \$209,629

Personal Property Tax Revenue from compressor station and parcel=\$3,188

Total revenue=\$212,817

<b>Owner's Information</b>		<b>Business Information</b>		<b>Current Valuation</b>		<b>Vision</b>	
Name:	MARITIMES & NORTHEAST PIPELINE	Business Name:	MARITIMES & NORTHEAST PIPELINE	Total Appraised:	14,467,200	Personal Property	
Address:	PO BOX 1642 PROPERTY TAX DEPT HOUSTON, TX 77251	Location:	DRACUT MA	Total Assessed:	14,467,200	Account Information	
		District:	DRACUT	Total Value New:	14,467,200	DRACUT, MA	
		State Bus Code:	506 59-38A PIPE LINES	Total Exempt:		08/13/2014	
		MBLU	////	Net Assessed:	14,467,200		

<b>Owed Items</b>												
Line #	Type	Code	Description	Qty/Dep.	Replace Cost	Value New	Year	% Cond	Value	Assessed	Lessee	Line Notes
1	11		PP		14,467,200	14,467,200		1.00	14,467,200	14,467,200		

<b>Summary By State Type</b>					<b>Visit History</b>			<b>Prior Values</b>		
Type	Description	Appraised Value	Assessed Value	Date	ID	Info Source	Purpose/Result	Visit Notes	Year	Assessed Value
11	UTILITIES	14,467,200	14,467,200	07/15/2011	BP		FOL		2014	14,467,200
				07/01/2008	BP		DOR		2013	14,920,000
									2012	15,875,200
									2011	16,210,500
									2010	20,110,300
									2009	16,780,700
									2008	15,139,300
									2007	16,388,100
									2006	15,608,100
									2005	15,761,800
									2004	6,119,000
									2003	6,496,750
									2002	6,237,000