

IN THE SUPERIOR COURT FOR THE STATE OF ALASKA  
THIRD JUDICIAL DISTRICT AT ANCHORAGE

BP PIPELINES (ALASKA) INC., )  
EXXONMOBIL PIPELINE COMPANY, )  
UNOCAL PIPELINE COMPANY, )  
CONOCOPHILLIPS TRANSPORTATION )  
ALASKA, INC. and KOCH ALASKA )  
PIPELINE COMPANY, Owners, and )  
ALYESKA PIPELINE SERVICE COMPANY, )  
as Agent for the Owners, )  
)  
FAIRBANKS NORTH STAR BOROUGH and )  
CITY OF VALDEZ, )  
)  
Appellants/Cross-Appellants, )  
)  
v. )  
)  
STATE OF ALASKA DEPARTMENT OF )  
REVENUE, STATE ASSESSMENT )  
REVIEW BOARD, and NORTH SLOPE )  
BOROUGH, )  
)  
Appellees. )

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Case No. 3AN-06-8446 CI  
(Consolidated)  
2006 Tax Year

**AMENDED DECISION UPON RECONSIDERATION FOLLOWING TRIAL DE NOVO**  
**(Dated October 26, 2010)**

2006 Assessed Valuation of the Trans Alaska Pipeline System

taken to date. [Id. at 4174-75 (Lennhoff)] And yet the record reflects that TAPS has a physical life that could meet or exceed 100 years. [Ex. MUN-736 at 5; Tr. 749 (Hoffbeck)] The record also demonstrates that the proven reserves present on the North Slope as of the tax lien date are at least 7 billion barrels of oil and have a far greater economic value than the value of the proven reserves when TAPS began operation in 1977. [Id. at 523-24 (Hoffbeck); see also Ex. SOA-3 at 39; Ex. MUN-15 at 4] The record also reflects that, with minimal investment in heaters, TAPS will be able to operate at least until 2047. See Section C(1)(b)(4) below. Under these circumstances, there is no rational basis to support a finding that TAPS was 88 or 90 percent depreciated as of 2006.

**1. Physical Deterioration.**

**a. Economic Age-Life Depreciation.**

384. Alyeska has recognized that "TAPS' physical life is considered virtually unlimited given the execution of appropriate surveillance, maintenance, repair, and replacement programs." [Ex. MUN-736 at 5] That is because with proper maintenance and repairs, a pipeline's age can be extended indefinitely.

385. It is also well recognized that TAPS is one of the best maintained pipelines in the world. For instance, Alyeska has won an American Petroleum Institute's award for safe operations in North America. [Tom Stokes Dep. at 159-60]

386. By employing an age-life calculation using the projected economic life of the pipeline and not the projected physical life of the assets, only a portion of the depreciation calculated reflects the actual physical deterioration of TAPS. The Court finds the Department and the Board used an improper valuation method to the extent

they characterized economic age-life depreciation as capturing only physical depreciation. [R. 384]

**b. Life of the Line.**

387. In order to establish the period over which TAPS should be depreciated, the economic life of TAPS should be determined. SARB determined that the proven reserves would allow transportation of ANS crude through TAPS until 2042, based upon a Department production forecast and an assumption that the minimum throughput would be 200,000 bbl/d delivered to Pump Station 1. The 200,000 bbl/d minimum throughput assumption corresponds to the evidence in this record that upon the completion of the current SR project, TAPS will be configured to allow flow rates down to 200,000 bbl/d with minimum adjustments.<sup>40</sup>

388. The Owners presented evidence at the trial de novo that the current configuration allows TAPS to function down to 200,000 bbl/d, but that in order to do so, the Owners will have to install heaters. The Municipalities presented some evidence that 200,000 bbl/d was an arbitrary stopping point, and have asserted that TAPS can transport oil to at least 150,000 bbl/d. Further, all parties presented evidence as to the amount of proven reserves. Each of these issues is addressed below.

**(1) Minimum Mechanical Throughput.**

389. In 2006, the Department initially set the life of TAPS at 2034, and assumed the pipeline could operate down to a minimum flow rate of 300,000 bbl/d. However, based upon publicly available reports, including Alyeska statements provided to the Assessor by the Municipalities, the Assessor later determined that the minimum

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<sup>40</sup> See Tom Stokes Dep. at 85 (not aware of any reason that would keep TAPS from operating at 200,000 bbl/d).

mechanical throughput of TAPS was at least as low as 200,000 bbl/d delivered to Pump Station 1 and extended the economic life of TAPS to 2042. [Tr. 456 (Hoffbeck)] The Board adopted that determination in its 2006 Decision. [R. 0025]

390. The Municipalities presented the testimony of Dr. Modisette<sup>41</sup> to support their position that TAPS could operate down to a throughput of 150,000 bbl/d. While the Municipalities did demonstrate that the oil can continue to flow in a steady continuous flow when throughputs are 150,000 bbl/day or less, they did not persuasively demonstrate that TAPS as currently configured, including its post-SR pumps and all other components of the equipment and machinery which together comprise TAPS, has the mechanical ability to operate below 200,000 bbl/d. The Department and SARB's determination in 2006 to use 200,000 bbl/d as the lowest mechanical throughput capability of TAPS is upheld.

391. The Owners' Mustang study concluded TAPS would need heaters at flows below 500,000 bbl/d [Tr. 4802-03 (Yost)] and disagreed with Dr. Modisette about the amount and cost of heat required at different low-flow levels. However, the Owners did not refute Dr. Modisette's conclusions that TAPS could operate at 38 degrees Fahrenheit with some amount of heat added. The Court finds that TAPS as currently configured can operate at least down to 200,000 bbl/d, although heaters will be necessary at some point before that as throughput decreases. [See Ex. MUN-586 at 12-

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<sup>41</sup> Dr. Jerry L. Modisette is a scientist and engineer with over 50 years in government, academia, and industry. Dr. Modisette was Chief of NASA's Space Physics Division. He has extensive experience with pipeline modeling and is currently a member of the executive committee of the Pipeline Simulation Interest Group. Dr. Modisette conducted several low-flow studies for TAPS and testified concerning the mechanical ability of TAPS to operate under low-flow conditions. [Tr. 3356-73 (Modisette)] He also commented on the low-flow study performed by Mustang. [Ex. MUN-21] Dr. Modisette was qualified as an expert in pipeline hydraulic modeling and simulations. [Tr. 3371]

Accordingly, the value calculated by Mr. Eyre based on the income approach is not relied upon by this Court. [See generally Ex. MUN-5; Corrected Eyre Report]

474. In contrast to Mr. Eyre's approach which considered the income from the entire integrated economic enterprise, the Owners assume that the tariff income from TAPS, and only that income, is the appropriate proxy to capture the entire economic value of TAPS.

475. The Owners' reliance upon the tariff income fails to recognize that TAPS was built, is operated, and would be replaced at an estimated cost of over \$18 billion if it were not in existence not because of a desire to realize tariff income – but because of the overwhelming economic value arising from its highly integrated use for transporting ANS production from affiliated producers. [Ex. MUN-5 at 7; Tr. 704-06 (Hoffbeck); Tr. 1852-53 (Cicchetti); Tr. 3878-79 (Podwalny – “[TAPS] is an integrated property and it was originally designed and built to transport affiliated oil from the North Slope to market not with the intent that the pipeline itself would be the vehicle to generate revenues.”)]

476. The Owners' position that the tariff income is a primary driver of the economic value of TAPS is also at odds with the extensive system of crude oil pipelines that are fully integrated with North Slope production but have no tariff income associated with their operation. [Tr. 721-22 (Hoffbeck)] To give one recent example: there are two, 24-mile-long transit lines from the Prudhoe Bay field to Pump Station 1 that were recently replaced at a cost in excess of \$600 million. These lines have no tariff and no tariff income. They would have no value as a stand-alone investment. Instead, like TAPS, the economic value of these substantial upstream crude oil

## X. CONCLUSION

510. This matter concerns the assessed valuation of the Trans Alaska Pipeline System ("TAPS") as of January 1, 2006. It is before the Superior Court pursuant to a specific statute that accords to taxpayers and affected municipalities the right to trial before the Superior Court of an administrative determination of the value of pipeline property. AS 43.56.130(i). Pursuant to that statute, this Court conducted a non-jury trial lasting over five weeks in the fall of 2009. For the reasons expressed herein, this Court finds that as of January 1, 2006, the "full and true value" of the Trans Alaska Pipeline System, "with due regard to the economic value of the property based on the estimated life of the proven reserves of gas or unrefined oil then technically, economically, and legally deliverable into the transportation facility,"<sup>66</sup> is \$9.977934 billion.

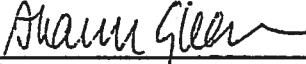
511. The construction of TAPS in the 1970's cost the equivalent of \$24 billion in 2006 dollars. The evidence at trial demonstrated that as of January 1, 2006, the value of the remaining proven reserves on the North Slope was approximately \$350 billion. The value of those proven reserves cannot be realized without TAPS, as it constitutes the only viable means of transporting ANS product to market. Clearly, TAPS would be replaced to realize the value of those proven reserves if necessary. The Owners have asserted that TAPS' economic value derives primarily from its tariff income stream, and that TAPS was worth just \$850 million as of the January 1, 2006 lien date. That proposed value for TAPS is less than 1/4<sup>th</sup> of one percent of the approximate \$350 billion value of the remaining proven reserves on the North Slope as of the lien date. This Court has concluded that the assessed value of TAPS is far greater than \$850


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<sup>66</sup> AS 43.56.060(e)(2).

million. Applying the Replacement Cost New Less Deprecation (RCNLD) valuation approach, consistent with the Department of Revenue and the State Assessment Review Board's determination on that issue, and in reliance on the extensive expert testimony and other evidence presented to this Court as to the application of that methodology, this Court has adopted ProPlus's RCN cost estimate that it would cost approximately \$18.7 billion to replace TAPS today. Then, after consideration of the extensive expert testimony and reports on depreciation that were presented at the trial de novo, this Court has valued TAPS as of 2006 as currently configured at approximately \$9.977 billion – or just over 50% of its estimated replacement cost. Upon entry of this Amended Decision Upon Reconsideration Following Trial De Novo,<sup>67</sup> this matter will be remanded to the Department of Revenue for the issuance of a supplemental certified assessment roll consistent with this decision.

ENTERED at Anchorage, Alaska this 26<sup>th</sup> day of October 2010.

  
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SHARON L. GLEASON  
Superior Court Judge

I certify that on 10-26-10 a copy of the  
above was mailed to the parties at their address of record:  
AG-Diemer/DeVries, Long/Dillon, Palumbo,  
Garatoni, Broker, Seedorf, Richards/Walker, Jonnson,  
Mahoney/Bajwa, Brena/Clarkson  
  
\_\_\_\_\_  
Amasneri, judicial assistant

<sup>67</sup> For explanations of the revisions made in this Amended Order, see Order Re Motions for Reconsideration (October 26, 2010). The Court additionally made several very minor typographical corrections in this Amended Decision.