

# ARIZONA DEPARTMENT OF REVENUE

## Local Jurisdictions – Centrally Valued Property Unit

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TAX YEAR 2020

## PIPELINE COMPANIES

### ARIZONA PROPERTY TAX FORM FILING INSTRUCTIONS

**FILING DUE DATE: APRIL 1, 2019**

Reporting Year End December 31, 2018

#### FILING INFORMATION

This report is to provide information necessary for consideration in determining the full cash value of your pipeline property in Arizona for property tax purposes. (ARS §§ 42-11051 through 42-11053, 42-14201 through 42-14204, R15-4-109). Additional information on the referenced statutes can be obtained on the internet at <http://www.azleg.state.az.us/arizonarevisedstatutes.asp>.

Forms will be mailed electronically via secure and encrypted email, unless the taxpayer's email address is unknown or invalid. Taxpayers are encouraged to submit their Property Tax Form via the secure and encrypted email chain initiated from the Department. If the electronic format submission is selected, all pages of the completed Property Tax Form must be returned to the Department. Due to the confidential nature of the information that is reported, please be sure to use the secure and encrypted email chain initiated from the Department. Otherwise, please submit a paper or facsimile copy. If the paper or facsimile format submission is selected, all pages of the completed Property Tax Form must be returned to the Department. The verification page must be signed, dated, and notarized for the report to be accepted by the Department. **DO NOT DETACH ANY PAGES.**

This report and supporting schedules must be filed by April 1, 2019, or the extended due date if an extension is granted. Extension requests must be in writing and will be granted only for good cause. Extension requests should be only for information or reports not available on April 1, 2019. The deadline for extension requests is March 20, 2019.

Refusal or failure to file a completed report on or before April 1st, or the extended due date if an extension is granted, will result in a valuation of one hundred five percent of the prior year's full cash value or a value based upon other information available to the Department. In addition, a penalty will be assessed in the amount of the lesser of one-half of one percent of the value estimated by the Department or one hundred dollars per day for each day the company fails to file the report calculated from the original due date, April 1, 2019. (ARS § 42-14202)

If a completed report is not filed by May 20, 2019, the company forfeits its right to appeal the valuation and classification of the property pursuant to ARS § 42-14005. (ARS § 42-14202)

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FILING INSTRUCTIONS

1. Refer all questions concerning this report to the Department of Revenue, Property Tax Division, Centrally Valued Property Unit, at the address on page 1.
2. Copies of the following reports, as of year ending December 31, 2018, are required:
  - A. Your company's and/or your parent company's annual report to stockholders.
  - B. The current federal regulatory report, as applicable:
    - (1) Natural gas pipeline companies – FERC report Form 2.
    - (2) Oil pipeline companies – FERC report Form 6.
  - C. Your company's and/or your parent company's annual report to the Securities and Exchange Commission, Form 10-K.
3. Wherever practicable, accounts and account numbers specified in this report should conform to those established by the FERC. Information reported herein should conform to the accounting specifications of the FERC.
4. Supplemental information or schedules relating to full cash value of the respondent's property must be submitted with this form to be considered in the determination of value.
5. All schedules must be typewritten or legibly printed in ink or completed electronically using Microsoft Excel 2010 software. If more space is required to complete any schedule, additional pages may be printed as needed and attached.
6. If filing electronically, input data in the blue highlighted cells only; yellow highlighted cells are formula computed. Print areas for each tab are preset to print one page of information. Reset print area on Tabs 3, 4 or 5, as needed, to include all reported data. When all the schedules are completed and you are ready to print, "**Ctrl+Shift+P**" will print all tabs and the additional pages that may have been included in the print range.
7. All dollar amounts should be rounded to the nearest dollar.
8. The annual report to stockholders, 10K report, the appropriate FERC Form 2 or 6, and the completed Property Tax Form must be submitted to the Department on or before April 1, 2019 or the extended due date if an extension is granted.

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COMPUTER PRINTOUT INSTRUCTIONS

**Statement of Original Cost (PS 1220-01)  
Operating Land by Taxpayer (PS 1220-12)**

For purposes of allocating the full cash value of your property to the taxing jurisdictions in which such property is located, one (1) computer report titled “Statement of Original Cost (PS 1220-01)” and one (1) computer report titled “Operating Land by Taxpayer (PS 1220-12)” are enclosed. Both are in pdf format. Also included is a csv formatted file to allow for electronic submission of original cost data.

On the report titled “Statement of Original Cost” (PS 1220-01), enter the total original cost of all pipeline operating property by tax area code. If original cost information is submitted electronically, real property original cost data will be entered in Column H and personal property data in Column I. Include Arizona costs of plant in service, construction work in progress, materials and supplies, non-capitalized leased operating property, and if applicable, gas stored underground. Do not include costs of fee land, land rights, or licensed vehicles on the original cost report. If property is located within tax area codes not listed on the report, modify the report as needed. If tax area codes are not known, they can be obtained from the county assessor’s office in the county where the property is located.

On the report titled “Operating Land by Taxpayer” (PS 1220-12), include any changes in land use as of December 31, 2018. Indicate parcel splits and deletions, resulting from sale or transfer to non-pipeline use. For parcel additions only, provide the county where the land is located, tax area code, assessor’s parcel number, legal description, and acreage in Tab 4 of the property tax form. If other tax districts apply, such as fire district, hospital district, etc., they should be indicated.

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VALUATION METHODOLOGY

In accordance with ARS § 42-14204, the full cash value of pipeline property operating in Arizona as of December 31, 2018, will be determined as follows:

1. Determine the base value.
2. Compute the value change factor.
3. Multiply the values in paragraphs 1 and 2 of this subsection to compute the preliminary system value. If the value change factor does not apply, the preliminary system value is the system net book value of plant-in-service as of December 31 immediately preceding the current year.
4. Add the value of construction work in progress, materials and supplies, non-capitalized leased operating property and gas stored underground to the preliminary system value.
5. Compute the allocation factor.
6. Multiply the sum computed pursuant to paragraph 4 of this subsection by the allocation factor.

All terms and the applications of terms shall be interpreted as nearly as possible according to the Federal Energy Regulatory Commission uniform system of accounts for pipelines in effect on January 1, 1989.

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PROPERTY TAX FORM INSTRUCTIONS

PROPRIETARY INFORMATION

**Property Tax Form Page 3 of 8 Proprietary Data -- Tab 1 (Excel)**

Report proprietary information and CVP Tax ID # (a 5 digit hyphenated number), as outlined on the form. If your business is regulated by an agency, indicate the agency and submit the report required by the agency.

BALANCE SHEET AND INCOME DATA

**Property Tax Form Pages 4, 5, 6, 7, 8, and 9 of 13 BS and Finl Data – Tab 2 (Excel)**

Report Balance Sheet and Income data as of year ending December 31, 2018. Cost information reported herein must conform to the accounting specifications of the FERC Form 2 or the FERC Form 6 system of accounts.

- 1) Submit documentation / schedules allocating System costs to Arizona by line item in a worksheet format.
- 2) Report financial data according to each property account / line item indicated on this tab.
- 3) If your accounting year is other than December 31 calendar year end, provide schedules adjusting fiscal year end figures to December 31, 2018.
- 4) Report income data according to each account / line item indicated in this tab.

NON-CAPITALIZED LEASED OR RENTED OPERATING PROPERTY - SYSTEM

**Property Tax Form Page 10 of 13 Non Cap Leased Prpty – Tab 3 (Excel)**

Itemize all non-capitalized leased or rented operating property and report the corresponding original cost of each item listed.

NEW OPERATING LAND

**Property Tax Form Page 11 of 13 Operating Land – Tab 4 (Excel)**

Report only new operating land parcel additions since January 1, 2018 through December 31, 2018. For each parcel listed, indicate the county location, tax area code, assessor's parcel number (book, map, parcel), legal description, and acreage. This listing should reflect operating land parcels **not** reported in the enclosed "Operating Land" report PS1220-12.

NON OPERATING PROPERTY

**Property Tax Form Page 12 of 13 Non Op Property – Tab 5 (Excel)**

Report non-operating property, whether owned or leased, as of December 31, 2018. Include land, improvements, and personal property located in Arizona **not** used in the pipeline operations.

VERIFICATION

**Property Tax Form Page 13 of 13 Verification – Tab 6 (Excel)**

This page must be returned signed, dated, and notarized for the report to be accepted by the Department.

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FORM 285P-  
CENTRALLY VALUED PROPERTY DISCLOSURE/REPRESENTATION AUTHORIZATION FORM

A completed and signed **Form 285P** must be on file with the Department to authorize the Department the right to release and discuss confidential information to the taxpayer's Appointee, which is often an employee of the company. The disclosure of such confidential information by the Department to an employee may be necessary to fully interact with, or respond to questions by, such Appointee. Additionally, the **Form 285P** may be used to grant an Appointee a Power of Attorney, if the appointed individual intends to represent the taxpayer before the Department in administrative matters.

DEFINITIONS

1. **ALLOCATION FACTOR** means the factor used to assign a portion of the system value to this state and is computed by dividing the total Arizona original cost of plant in service, materials and supplies, construction work in progress, non-capitalized leased operating property and gas stored underground as of December 31 of the preceding calendar year by the corresponding total system original cost as of December 31 of the preceding calendar year.
2. **ASSET CHANGE FACTOR** is computed by dividing the system net book value of plant in service as of December 31 immediately preceding the current valuation year by the system net book value of plant in service as of December 31 immediately preceding the prior valuation year. If the denominator is zero, the asset change factor does not apply.
3. **BASE VALUE** is the final full cash value of the system plant in service in the preceding valuation year. If the property was not subject to property valuation in this state in the preceding valuation year, the value is the net book value of plant in service plus the value of construction work in progress, materials and supplies, non-capitalized leased operating property and gas stored underground. If ownership changes, the base value shall be transferred to the new owner.
4. **CAPITALIZATION RATE** is the sum of the year-end thirty year treasury bond rate plus 6.8 percent.
5. **CHANGE IN CAPITALIZATION RATE** is computed by dividing the current year capitalization rate by the previous year capitalization rate.
6. **CHANGE IN EARNINGS BEFORE INTEREST AND TAXES** is computed by dividing the average earnings before interest and income taxes for the three years immediately preceding the current valuation year by the average earnings before interest and income taxes for the three years immediately preceding the previous valuation year. If less than four years of earnings data are available, this factor does not apply. If four years of earnings data are available and a major plant addition or retirement occurs, for the valuation year after the addition or retirement occurs, this ratio shall be derived by dividing the earnings before interest and income taxes for the year immediately preceding the current valuation year by the earnings before interest and income taxes for the year immediately preceding the previous valuation year.
7. **CONSTRUCTION WORK IN PROGRESS** means the total of the balances of work orders for plant in process of construction on the last day of the preceding calendar year.

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DEFINITIONS - Continued

8. **GAS STORED UNDERGROUND** means the noncurrent portion of the cost of recoverable gas that is purchased or produced by the utility, that is stored in depleted or partially depleted gas or oil fields, or other underground reservoirs, and that is not held to meet the service requirements of the utility's customers.
9. **INCOME CHANGE FACTOR** is computed by dividing the change in earnings before interest and taxes by the change in the capitalization rate. If the change in earnings before interest and taxes does not apply, the income change factor does not apply.
10. **MAJOR PLANT ADDITION OR RETIREMENT** means an addition or retirement of plant in the year preceding the current valuation year that results in an increase or decrease of at least twenty percent of the original cost of plant in service.
11. **NONCAPITALIZED LEASED OPERATING PROPERTY** means property that is subject to an agreement that transfers the use of property to the lessee during the term of the lease and that is not capitalized on the lessee's balance sheet.
12. **PIPELINE COMPANY** means any person, partnership, or corporation engaged in the business of producing, storing, selling, or transporting through a pipeline system, oil, natural gas, processed gas, manufactured gas, petroleum products, coal, or other products, within, through, into, or from the state.
13. **PRELIMINARY SYSTEM VALUE** means the base value multiplied by the value change factor.
14. **SYSTEM NET BOOK VALUE OF PLANT** means the original cost of the system plant in service less the related accumulated provision for depreciation.
15. **SYSTEM VALUE** means the sum of the system value of plant in service, construction work in progress, materials and supplies, non-capitalized leased property and gas stored underground.
16. **VALUE CHANGE FACTOR** is the average of the income change factor and the asset change factor. If the income change factor does not apply, the value change factor is the asset change factor. If the asset change factor does not apply, the value change factor does not apply.