

State of Arizona
Senate
Fifty-fourth Legislature
Second Regular Session
2020

SENATE BILL 1204

AN ACT

AMENDING SECTION 42-14204, ARIZONA REVISED STATUTES; AMENDING TITLE 42, CHAPTER 14, ARTICLE 5, ARIZONA REVISED STATUTES, BY ADDING SECTION 42-14205; RELATING TO PIPELINES.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Section 42-14204, Arizona Revised Statutes, is amended
3 to read:

4 42-14204. Computing valuation of pipelines; definitions

5 A. The valuation of pipeline property that is subject to valuation
6 for tax purposes shall be determined in the manner prescribed by this
7 section.

8 B. The value of construction work in progress equals eighty-five
9 ~~per cent~~ PERCENT of the amount spent and entered on the taxpayer's
10 accounting records as of December 31 of the preceding calendar year as
11 construction work in progress.

12 C. The value of materials and supplies equals the total cost of
13 materials and supplies as of December 31 of the preceding calendar year.

14 D. The value of gas stored underground equals the total cost of gas
15 stored underground as of December 31 of the preceding calendar year.

16 E. The value of noncapitalized leased operating property shall be
17 determined by applying to the original cost of the noncapitalized leased
18 operating property the ratio derived from dividing the preliminary system
19 value by the original cost of the plant.

20 F. The department shall determine the valuation of a pipeline as
21 follows:

22 1. Determine the base value.

23 2. Compute the value change factor.

24 3. Multiply the values in paragraphs 1 and 2 of this subsection to
25 compute the preliminary system value. If the value change factor does not
26 apply, the preliminary system value is the system net book value of plant
27 in service as of December 31 immediately preceding the current year.

28 4. Add the value of construction work in progress, materials and
29 supplies, noncapitalized leased operating property and gas stored
30 underground to the preliminary system value.

31 5. Compute the allocation factor.

32 6. Multiply the sum computed pursuant to paragraph 4 of this
33 subsection by the allocation factor.

34 G. All terms and applications of terms shall be interpreted as
35 nearly as possible, under the circumstances, according to the federal
36 energy regulatory commission uniform system of accounts for pipelines in
37 effect on January 1, 1989.

38 H. ~~in~~ FOR THE PURPOSES OF this section, ~~unless the context~~
39 ~~otherwise requires:~~

40 1. "Allocation factor" means the factor used to assign a portion of
41 the system value to this state and is computed by dividing the total
42 Arizona original cost of plant in service, materials and supplies,
43 construction work in progress, noncapitalized leased operating property
44 and gas stored underground as of December 31 of the preceding calendar

1 year by the corresponding total system original cost as of December 31 of
2 the preceding calendar year.

3 2. ~~The~~ "Asset change factor" ~~is computed by~~ MEANS dividing the
4 system net book value of plant in service as of December 31 immediately
5 preceding the current valuation year by the system net book value of plant
6 in service as of December 31 immediately preceding the prior valuation
7 year. If the denominator is zero, the asset change factor does not apply.

8 3. ~~The~~ "Base value" ~~is~~ MEANS the final full cash value of the
9 system plant in service in the preceding valuation year. If the property
10 was not subject to property valuation in this state in the preceding
11 valuation year, the value is the net book value of plant in service plus
12 the value of construction work in progress, materials and supplies,
13 noncapitalized leased operating property and gas stored underground. If
14 ownership changes, the base value shall be transferred to the new owner.
15 IF ONE OF THE CIRCUMSTANCES DESCRIBED IN SECTION 42-14205 APPLIES, THE
16 BASE VALUE SHALL BE ADJUSTED.

17 4. ~~The~~ "Capitalization rate" ~~is~~ MEANS the sum of the year-end
18 ~~thirty year~~ THIRTY-YEAR treasury bond rate plus 6.8 ~~per cent~~ PERCENT.

19 5. ~~The~~ "Change in capitalization rate" ~~is computed by~~ MEANS
20 dividing the current year capitalization rate by the previous year
21 capitalization rate.

22 6. ~~The~~ "Change in earnings before interest and taxes" ~~is computed~~
23 ~~by~~ MEANS dividing the average earnings before interest and income taxes
24 for the three years immediately preceding the current valuation year by
25 the average earnings before interest and income taxes for the three years
26 immediately preceding the previous valuation year. If less than four
27 years of earnings data are available, this factor does not apply. If four
28 years of earnings data are available and a major plant addition or
29 retirement occurs, for the valuation year after the addition or retirement
30 occurs, this ratio shall be derived by dividing the earnings before
31 interest and income taxes for the year immediately preceding the current
32 valuation year by the earnings before interest and income taxes for the
33 year immediately preceding the previous valuation year.

34 7. "Construction work in progress" means the total of the balances
35 of work orders for plant in process of construction on the last day of the
36 preceding calendar year.

37 8. "Gas stored underground" means the noncurrent portion of the
38 cost of recoverable gas that is purchased or produced by the utility, that
39 is stored in depleted or partially depleted gas or oil fields or other
40 underground reservoirs and that is not held to meet the service
41 requirements of the utility's customers.

42 9. ~~The~~ "Income change factor" ~~is computed by~~ MEANS dividing the
43 change in earnings before interest and taxes by the change in the
44 capitalization rate. If the change in earnings before interest and taxes
45 does not apply, the income change factor does not apply.

1 10. "Major plant addition or retirement" means an addition or
2 retirement of plant in the year preceding the current valuation year that
3 results in an increase or decrease of at least twenty ~~per cent~~ PERCENT of
4 the original cost of plant in service.

5 11. "Noncapitalized leased operating property" means property that
6 is subject to an agreement that transfers the use of property to the
7 lessee during the term of the lease and that is not capitalized on the
8 lessee's balance sheet.

9 12. "Preliminary system value" means the base value multiplied by
10 the value change factor.

11 13. "System net book value of plant" means the original cost of the
12 system plant in service ~~less~~ MINUS the related accumulated provision for
13 depreciation.

14 14. "System value" means the sum of the system value of plant in
15 service, construction work in progress, materials and supplies,
16 noncapitalized leased property and gas stored underground.

17 15. ~~The~~ "Value change factor" ~~is~~ MEANS the average of the income
18 change factor and the asset change factor. If the income change factor
19 does not apply, the value change factor is the asset change factor. If
20 the asset change factor does not apply, the value change factor does not
21 apply.

22 Sec. 2. Title 42, chapter 14, article 5, Arizona Revised Statutes,
23 is amended by adding section 42-14205, to read:

24 42-14205. Adjustments to base value to reflect market value

25 IN ATTEMPTING TO MORE ACCURATELY ASSESS ONGOING BUSINESS OPERATIONS,
26 INCOME AND PROPERTY, ADJUSTMENTS TO THE BASE VALUE MAY BE NECESSARY TO
27 REFLECT CHANGED CIRCUMSTANCES. CIRCUMSTANCES THAT REQUIRE ADJUSTMENTS TO
28 THE BASE VALUE USED TO DETERMINE THE FULL CASH VALUE OF PIPELINE PROPERTY
29 ARE AS FOLLOWS:

30 1. A FINAL RULING BY A COURT OF COMPETENT JURISDICTION IN THIS
31 STATE THAT THE FULL CASH VALUE OF A PIPELINE IN THIS STATE USING THE
32 METHOD PRESCRIBED BY SECTION 42-14204 IS MORE THAN THE MARKET VALUE OF THE
33 PIPELINE PROPERTY USING STANDARD APPRAISAL METHODS AND TECHNIQUES. IN SUCH
34 CASES, THE FINAL FULL CASH VALUE OF THE SYSTEM PLANT IN SERVICE DETERMINED
35 BY THE COURT FOR THE MOST RECENT TAX YEAR INVOLVED IN ANY SUCH TAX APPEAL
36 SHALL BE THE BASE VALUE FOR THE SUBSEQUENT TAX YEAR, AND THE DEPARTMENT
37 SHALL ADJUST ALL VALUATIONS FOR FUTURE YEARS ACCORDING TO SECTION
38 42-14204.

39 2. AN AGREEMENT BETWEEN A PIPELINE COMPANY AND THE DEPARTMENT THAT
40 IS THE RESULT OF A PENDING TAX APPEAL, IN WHICH THE PARTIES ENTER INTO A
41 BINDING STIPULATION, APPROVED BY A COURT OF COMPETENT JURISDICTION, TO
42 ADJUST THE FULL CASH VALUE OF THE SYSTEM PLANT IN SERVICE AS OF A SPECIFIC
43 VALUATION DATE. IN SUCH CASES, THE DEPARTMENT SHALL ADJUST THE BASE VALUE
44 AS SET FORTH IN THE STIPULATION.

1 3. AN AGREEMENT BETWEEN A PIPELINE COMPANY AND THE DEPARTMENT TO
2 CORRECT AN ERROR IN THE CALCULATION OF THE FULL CASH VALUE OF THE SYSTEM
3 PLANT IN SERVICE FOR A PIPELINE THAT OPERATES IN THIS STATE. IN SUCH
4 CASES, THE DEPARTMENT SHALL ADJUST THE BASE VALUE AS SET FORTH IN THE
5 AGREEMENT. ANY AGREEMENT TO ADJUST THE BASE VALUE TO CORRECT SUCH AN
6 ERROR SHALL BE IN WRITING AND SIGNED BY THE DIRECTOR AND AN OFFICER OF THE
7 PIPELINE COMPANY BEFORE THE BASE VALUE IS ADJUSTED.

8 Sec. 3. Retroactivity

9 This act applies retroactively to tax years beginning from and after
10 December 31, 2015.