EXHIBIT 12
DATE 1-8-09
HB organizational meeting

Montana Department of
REVENUE

Centrally Assessed Properties

House Taxation Committee
2009 Legislature
January 8, 2009

Central Assessment and Unit Valuation

- 15-23-101, MCA, provides the criteria for determining what types of property is centrally assessed
- Unit valuation methodology is used to determine the market value of centrally assessed property
- Unit valuation involves "appraising the whole pie and then taking Montana's slice"
  - appraising as a going concern, the entire operating property of a company, wherever the company is located in the U.S.
  - allocating a part of that overall appraised value to the state
- Unit valuation methods have been used to value property since the late 1800's

Central Assessment Criteria

Centrally assessed companies are appraised annually and include:

Properties Specifically Listed in 15-23-101(1), MCA through (3); 42.22.102 (1), ARM

Railroad; railroad car; microwave; telecommunications; telephone cooperatives; gas utilities; electric utilities; electric cooperatives; ditch; canal; flume; natural gas pipeline; oil pipeline; and airlines.

AND

Physically Connected - Companies that actually have physically connected property that crosses a county or state boundary.

OR

Unity of Operation - Companies that have operating characteristics that exhibits unity where the property is functionally operated as a single entity but may not have a physical connection.

Centrally Assessed Classes of Property

Class 5 Rural Cooperatives (3%)
Telephone Cooperatives – 10
Electric Cooperatives – 31

Class 9 Pipelines and Electric Utilities (12%)
Pipelines – 19
Electric and Electric/Gas Utilities – 10

Class 12 Railroads and Airlines (Calculated annually, 2008 rate was 3.44%)
Railroads – 6
Airlines – 22
Private railroad companies/rail car – 250

Class 13 Electric Generation and Telecommunications (6%)
Telecommunications – 27
Electric Generation – 8

Class 14 Wind Generation Facilities (3%)
Wind Generation – 1

Centrally Assessed Property is reappraised annually

Unit Valuation - Three Approaches to Determine Market Value

Cost Approach:

- Original or historic cost less depreciation
- Information comes from the balance sheet and other audited records

Income Approach:

- Discounting an income stream
- Information comes from income statements and financial markets

Market Approach:

- Market value of the equity and debt
- Comparable sales of like property
- Information comes directly from the market

Definitions

System or unit market value – the market value of all assets owned by the company being appraised

Allocation – process of assigning the system or unit market value to Montana

Allocated or Montana market value – the market value of all the Montana property

Apportionment – the process of assigning the Montana market value to the proper taxing jurisdiction

Situs property – real and personal property (machinery, equipment, buildings and land)

Mileage property – railroad track, power lines, telecommunication underground cable or pipelines for example

Central Assessment Example

- The following example is of a fictitious company and situation.
- The example is meant to illustrate how the appraisal, allocation and apportionment of market value is determined.
- It is in no way meant to determine the true result of an appraisal, allocation, or apportionment for any company or any situations.

Western Pipeline Company:

- Owns gathering and transmission assets in 10 western states
- Files the following reports with the Department of Revenue:
  - Montana Annual Report
  - FERC Report
  - SEC 10-K
  - Independent Auditor's Reports
- Appraisal is for tax year 2009 (lien date January 1, 2009)

Western Pipeline Co. - Cost Approach

Original Cost Less Depreciation:

Plant in service	$ 750,000,000
Materials and supplies	$ 1,000,000
Construction work in progress	$ 5,000,000
Less accrued depreciation	$(104,000,000)
Cost indicator before intangible personal property	$ 652,000,000
Less intangible personal property (5% reduction)	$ (32,600,000)
Cost indicator after intangible personal property	$ 619,400,000

Western Pipeline Co. - Income Approach

Capitalization of Income:

Net operating income:		
Year-end 2007	$ 57,000,000	
Year-end 2006	$ 60,000,000	
– Average net operating income		$ 58,500,000
Capitalization rate		÷ 9%
Income indicator before intangible personal property		$650,000,000
Less intangible personal property (5% reduction)		$(32,500,000)
Income indicator after intangible personal property		$617,500,000

Western Pipeline Co. - Market Approach

Stock and Debt:

Stock (equity):		
Shares outstanding	30,000,000	
Average price per share	x $ 17.00	
– Market value of common stock		$510,000,000
Debt (bonds):		
Long term debt		$135,000,000
Market indicator before intangible personal property		$645,000,000
Less intangible personal property (5% reduction)		$(32,250,000)
Market indicator after intangible personal property		$612,750,000

Western Pipeline Co. – System Market Value

Cost approach *page 8*	$ 619,400,000
Income approach *page 9*	$ 617,500,000
Market approach *page 10*	$ 612,750,000
System Market Value	**$ 615,000,000**

Western Pipeline Co. - Allocation Factor

	Montana / All States = Factor
Gross cost	$120,000,000 / $756,000,000 = 0.16 or 16%
Gross revenues	$25,000,000 / $119,500,000 = 0.21 or 21%
Miles of pipe	4,175 miles / 17,500 miles = 0.24 or 24%

Average Montana allocation factor = 0.20 or 20%

Western Pipeline Co. – Montana Market Value

System Market Value *page 11*	**$ 615,000,000**
Montana Allocation Factor *page 12*	x 20%
Montana Market Value	**$ 123,000,000**

Apportionment to County/Levy Districts

- Market Value of an individual asset is determined by apportioning the Montana Market Value to the individual asset(s)
- Assets Book Cost x Market to Book Ratio = Asset MV

- Assume: Operates in 3 Montana Counties
  - Powell, Silver Bow, and Deer Lodge
  - Assets Book Cost per County is:
    - Powell $90,000,000
    - Silver Bow $25,000,000
    - Deer Lodge $5,000,000
    - TOTAL *page 12* $120,000,000

Apportionment to County/Levy District Continued

- Market Value/Book Cost = Market to Book Ratio (M/B)
- Montana Market Value = $123,000,000 *page 13*
- Total Assets Book Cost = $120,000,000 *page 12*
- $123,000,000/$120,000,000 = 1.025 M/B

Apportionment to County/Levy District Continued

	Original Cost	x M/B =	Asset MV
Powell	$ 90,000,000	x 1.025 =	$92,250,000
Silver Bow	$ 25,000,000	x 1.025 =	$25,625,000
Deer Lodge	$ 5,000,000	x 1.025 =	$5,125,000
TOTAL	$120,000,000	x 1.025 =	$123,000,000

Assume 3 levy districts in Deer Lodge County

District City	$1,000,000	x 1.025 =	$1,025,000
District Rural	$3,000,000	x 1.025 =	$3,075,000
District Spec	$1,000,000	x 1.025 =	$1,025,000
TOTAL	$5,000,000	x 1.025 =	$5,125,000

Western Pipeline Co.'s Tax Calculation for Deer Lodge County

	Asset MV	x TR	x Mill	= Tax
District City	$1,025,000	x .12	x .500	= $61,500
District Rural	$3,075,000	x .12	x .500	= $184,500
District Spec	$1,025,000	x .12	x .500	= $61,500
TOTAL	$5,125,000			$307,500

Asset MV = Market Values from page 16
TR = Tax Rate 12%
Mill = Mill Levy 500