

Pipeline Rating Forum – 4th December 2003

Keith Norman of Gerald Eve and Philip Glenwright of Shell Real Estate Services representing UKOPA /UKPIA met Chris Miller of the VO Agency Specialist Valuation Unit of Leeds at Gerald Eves London office on 4 December 2003.

The purpose was for the VO to explain the background and proposed basis of valuation for pipelines for the 2005 Revaluation.

The VO handed over a 56 page document ‘Revaluation 2005 – Pipeline Rating Forum’ setting out his basis and background.

The principle source of costs had been Transco and the VO had been given a surprising amount of detail and co-operation from Transco in the exercise. Transco had provided detailed pipeline route plans. The VO was able to identify the various crossings and topography which enabled him to strip out extras and get costs analysed on to a common basis.

He advised that enquiries of manufacturers for 5KM, 10KM and 50KM pipelines suggested that unit prices should be standard irrespective of length of pipe.

The VO explained that the material costs were to be held to 2000 levels. However there were significant uplifts to construction costs – some 40% to 70% higher. He implied that this was probably because the costs agreed on the 2000 basis were ‘modest’ rather than solely due to inflation.

A summary of the changes item by item is set out in the document.

The principal elements changing are :

Coating costs : +10%

Construction costs : + 40% to 70%

Legals costs : +10%

Easements : +15%

Crossings : +15%

Block Valve Stations : +60% +

Adopting the Governments proposed Decapitalisation rate (5% down from 5.5% in 2000) is currently suggesting overall RV increase 2000 to 2005 of approx 30% for Cross country pipelines with significant crossings and Block Valve stations (e.g. NGL & NWEF) and average 122.5 % to 125% where few crossings & BVS.

The Revaluation will bring about a reduction in the Uniform Business Rate currently estimated to be around –10%.

In very broad terms this would give average net increases in bills of in the region of 15% to 20% for pipelines at the 2005 Revaluation (subject to any Transitional scheme the Government might introduce in the early years).

KN and PGG thanked Chris Miller for the amount of detail put forward. The UKPIA/UKOPA rating representatives would investigate the appropriateness of applying Transco costs for what were Gas pipelines to other pipelines. The VO did point out that he thought they would be generally robust as Transco as big players would be able to negotiate discounts in the market so the costs were not considered excessive. He would however consider other evidence if UKOPA wished to put it on the table.

UKOPA representatives indicated we would wish to reconsider the obsolescence scale which currently only commences allowances at 30 years of age for most lines.

There was some discussion as to the window of opportunity for review of the basis. The VO anticipates having his pipeline valuations completed by the end of January 2005. However he indicated he was open to reviewing matters after this and indicated valuations could be varied up to October 2003. Otherwise it would have to be through the appeals procedure after the Rating List becomes live on 1 April 2005.

KN & PGG would circularise other representatives to seek views on the basis.

After the VO departed KN & PGG agreed PGG to seek Shell comment on the Transco costs and evidence of maintenance costs to test the obsolescence allowance scale. KN will make similar enquiries of BPA and BP and we would invite other UKPIA /UKOPA rating representatives to contribute.

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