THE STATE OF SOUTH CAROLINA

In the Court of Appeals

APPEAL FROM THE ADMINISTRATIVE LAW COURT

The Honorable Ralph King Anderson, III, Chief Administrative Law Judge

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Appellate Case No. 2021-000219

Administrative Law Court Case No. 18-ALJ-0443-CC

Colonial Pipeline Company .....Respondent,

v.

South Carolina Department of Revenue, Abbeville County, Anderson County, Greenville County, Aiken County, Laurens County, and York County ..... Appellants.

RECORD ON APPEAL – VOLUME 3 OF 7

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Jim Rourke, J.D., LL.M (Tax)
Member

January 27, 2021

VIA ELECTRONIC AND U.S. MAIL
The Honorable Ralph King Anderson, III
Chief Administrative Law Judge
South Carolina Administrative Law Court
1205 Pendleton Street, Suite 224
Columbia, SC 29201

Re: Colonial Pipeline Company vs. South Carolina Department of Revenue, Abbeville County, Anderson County, Greenville County, Aiken County, Laurens County and York County
Docket No. 18-ALJ-17-00443-CC

Dear Judge Anderson:

Enclosed please find the original and one copy of the Petitioner's Response to Motion Hearing for the above-referenced case. Please return a clocked copy via the enclosed self-addressed, postage paid envelope.

By copy of this correspondence we are also serving counsel for the Department and the Intervenors.

Thank you for your attention to this matter.

Very truly yours,

Jim Rourke

JR/mw

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STATE OF SOUTH CAROLINA
ADMINISTRATIVE LAW COURT

Colonial Pipeline Company, Petitioner, vs. South Carolina Department of Revenue, Abbeville County, Anderson County, Greenville County, Aiken County, Laurens County, and York County, Respondents.	Docket No. 18-ALJ-17-00443-CC **PETIONER'S RESPONSE TO MOTION HEARING**

The Court held a hearing on the various parties Motions to Reconsider the Court's Order entered in this case. The hearing focused on Cathodic Protection Devices and the Court gave all the parties five days to provide any additional information.

A. Are Cathodic Protection Devices the same system as Pipeline Coatings?

The Court indicated there was some confusion in the transcript whether Cathodic Protection Devices (CPD) were the same – or different – systems than Pipeline Coatings. They are entirely different systems. The Record is huge in this case, so we again attach Petitioner's Exhibit 3, Petitioner's initial Protest of the Department's denial of the pollution control property tax exemption (Attachment 1). The Protest included the US DOT Fact Sheet: Cathodic Protection, which provides:

> Cathodic Protection (CP) systems help prevent corrosion from occurring on the exterior of pipes, by substituting a new source of electrons, commonly referred to as either a "sacrificial anode" or "impressed current anode". Both systems operate by imparting a direct current onto the buried pipeline, using devices called rectifiers.

Pet. Ex 3 at Colonial 0960. Petitioner also described how the cathodic protection system connects to the pipeline directly, as opposed to the coating:

> "The[cathodic protection] systems are designed to force the corrosion cell current flow onto the structure being protected, the pipe, by forcing it to be cathodic... The sacrificial anode is *connected to the pipeline* via a wire and placed some distance from the pipeline. The current flows from the anode into the surrounding soil (electrolyte) and is picked up *by the pipeline at coating gaps*. The circuit is completed by a wire that connects the anode to the pipe....
>
> Cathodic Protection to protect against corrosion alone is impractical, so Pipeline Coatings are needed to minimize the exposed area of the pipeline and to reduce the amount of cathodic protection current needed.

Id. at Colonial 0944-0947 (emphasis added). The most detailed discussion of the CP systems was in the 30(b)(6) Deposition identified as Stipulated Exhibit 19 (p. 258, Line 4 - p. 261 Line 13):

> Q. Okay. All right. So cathodic protection, could you explain what that is and how Colonial uses it?
>
> A. Okay. So cathodic protection is – it's an electrochemical process that prevents our pipeline and all of the other assets; tanks, pipelines, really anything metallic that we bury in our ground as part of our system.
>
> It's required by – by PHMSA, by the code of Federal Regulations to – to have cathodic protection applied to it. So it – so it prevents the pipeline from corroding.
>
> There's – there's several parts to a cathodic protection system. You're always going to have an anode, you're always going to have a cathode, you're going to have a rectifier that powers the system, and you're going to have wires that – that attach the anodes and cathodes to the – to the power supplier, to the rectifier, and you have to have an electrolyte.
>
> So it works if there's – if the pipeline or other asset is in contact with the soil or water or some sort of electrolyte.
>
> So the way we use it is, is we – we perform surveys along our pipeline system on regular intervals and we're constantly monitoring the cathodic protection levels.
>
> It's required by PHMSA that we meet certain levels of cathodic protection so we ensure that our pipeline is not actively corroding.

And – and we're constantly adjusting the systems we have or adding new systems as we need throughout our – throughout the course of the life of the pipeline.

The – I mean, the anodes are typically made out of Titanium with a mixed metal oxide outer film or coating, or they may be made out of graphite or sometimes they're made out of high silicon cast iron.

But they're essentially the sacrificial part of the circuit. So we're – we're sacrificing the anode and the cathode is – is always a part of the circuit that gets protected.

So we need to meet certain voltage levels to ensure we have the proper protection, and that's one of the things that we monitor and install.

So it is required by the government and it's put in place to – to prevent the pipeline from essentially crating pits and holes that could – where product could possibly release from the pipeline.

Q. So the cathodic protection systems, how big are they?

A. So they – they are – the anodes themselves might be about five- or six-feet long by maybe three to eight inches in diameter, so they're long tubes.

We may put in anywhere from five to 25 along – along the – the pipeline, along the edge of our right-of-way. So it may – it may cover 500 to a thousand feet.

And then there's a power supply. The power supply is probably – I'd say it's maybe two feet tall by maybe 18 inches deep by – by maybe 18 inches wide.

And it's a – it's a cabinet that's mounted to a power pole and – and it needs to have access to AC power. So usually it's alongside of a street where we have – already have power – power poles installed. And the AC power gets fed into the rectifier and the rectifier converts that power to DC and that – that's the purpose of the rectifier itself.

And the rest of it's just the wires that are attached. One wire attaches to the pipeline and the other wire attaches to the anodes. So – so, physically, you may only see a very – a small footprint on a – on the side of a power pole, but underground it could be thousands of feet long.

Q. How many systems are – cathodic protection systems are

there in South Carolina?

A. Last I checked, we have 121 systems.

Q. Just in South Carolina?

A. Just in South Carolina.

B. Dates of Installation

The Counties have made much of the fact that pipe coatings were installed in 1962 before federal legislation required them. From this the Counties deduce they were perhaps installed for business rather than pollution control purposes. The attached DOT Fact Sheet, included in Petitioner's Exhibit 3, states that "pipelines installed after March 31, 1970, must be properly coated and have CP." *See* Colonial 0960.

Colonial's some 512 miles of pipelines consist of 3 lines: Line 1, Line 2 and Line 29. Line 1 was placed in service in 1962. Line 2 was constructed starting in 1978 (Hearing Transcript, p. 260, line 25 – p. 261, line 2). It was placed in service in the early 1980s (Hearing Transcript p. 96, lines 19 – 23). There was no testimony when the much shorter Line 29 was installed. So Line 2 was placed in service in terms of both Protective Coating and CP after they were legally required.

The testimony regarding the date of installation of CP was as follows:

> Q: And do you know when they were originally installed?
>
> A: Cathodic protection was installed – it's been installed for a long time. Back in 1962 when the pipe was, was installed, it had cathodic protection at a very limited capacity. Since then, we've installed more systems as the coating degraded over time. (Trans. pg. 230, Lines 7-14)

The 30(b)(6) Deposition (p. 90, Lines 10-20) provides the following:

> Q. .....but I thought I head you say earlier that – that coatings have been in South Carolina on Colonial's pipeline since the pipeline was installed in, let's day, '62.
>
> A. Yes.

> Q. Okay. And what about cathodic protection?
>
> A. We have – we have always had cathodic protection on our system. It has been enhanced over the years significantly to meet more stringent regulatory requirements that were implemented over time.

Other testimony (Hearing Transcript, p. 288, lines 11-18) was as follows:

> A: Now it's – you know, you can you can use cathodic protection for so long and at some point the cathodic protection is ineffective. We spent the last 20 years really putting – you saw all the rectifiers on, on – that we have in the system. We spend the last 20 years trying to remediate the problem with additional cathodic protection.

Therefore, to reiterate, the actual property for which the pollution control exemption has been claimed in this case was installed between 2006 and 2016. See 30(b)(6) Deposition at p. 68, lines 8-15 ("Q. For pipelines, okay. How long has Colonial had these assets - - pipe coatings, cathodic protection, automatic shut-off valves - - that it's claimed as exempt? A. Oh. Well, there actually are dates on this schedule as to when they were installed. I think the oldest one on this goes back to '06 and the newest it looks like in '16, maybe, 2016."). *See* Petitioner's Exhibit 1, at Colonial 0906. So while the systems may have protected the pipeline in various forms since the pipes' installation, the property for which the exemption was claimed was installed long after the federal requirements were imposed.

C. Testimony regarding Business vs. Legal Requirements

Below is the testimony regarding business vs. legal requirements:

> Q: Okay. If there a – there is a business reason for Colonial not to leak product out of its pipeline, right?
>
> A: A business reason? It costs us a lot of money. PHMSA would come down on us pretty hard, so yeah, there are a lot of consequences to product coming out of our pipeline.
>
> Q: Is it fair to say that cathodic protection pipeline coatings and automatic shutoff valves have a dual purpose of production and pollution control?

> A: I would say that the intent and the primary purpose of the things you mentioned are to prevent a loss of containment. Now at the same time they also protect assets but the intent of the Code and the primary purpose of is it to prevent a loss of containment or pollution control.

(Trans. pg. 284, Lines 22 – 285, Line 14). Other testimony, Hearing Transcript, p. 299, Lines 3 – 12, was as follows:

> Q: Well, is it important to Colonial that you obey the law?
>
> A: It's very important to Colonial that we obey the law. My – I mean, i could go to jail for a release that happens that's corrosion prevention related, so.
>
> Q: Okay. So if you didn't have cathodic protection, you'd be violating the law, correct?
>
> A: Yes.
>
> Q: Okay. So certainly pollution control is not the company's only or primary concern with these coatings, with these cathodic protections and with these automatic shutoff valves, is it?
>
> A: It's the primary.

D. Legal Analysis from Other States

Finally, to reiterate, Petitioner believes it is unnecessary to reach the "dual use" analysis because the pipeline coatings, cathodic protection, and automatic shut-off valves do not perform a production function. Further, attempting to characterize the primary use of the equipment at issue as anything other than pollution control belies the facts and borders on the absurd, considering the utility of the equipment and the fact it is mandated by federal and state law.[1]

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[1] The Court correctly highlighted the absurdity of characterizing the equipment's use in this case as "incidentally" related to pollution control, *when it is mandated by federal law to control pollution*:

> The Other Counties argue that Colonial primarily uses the disputed property to transport refined petroleum products and any benefits of pollution control are incidental to its business purposes. Citing 84 C.J.S. *Taxation* § 278, they contend the prevailing rule is "in the absence of an exclusivity requirement, it is the primary, as distinguished from an incidental, use of the property that determines the question whether it is exempt from taxation." The Other Counties would thus have this Court conclude that even if the disputed property is facilities or equipment of an industrial plant,

We believe some perspective is helpful. Texas has addressed the pollution control function of pipeline coatings, cathodic protection, and automatic shut-off valves via statute and regulation. Like South Carolina, Texas has pollution control property tax exemption under Tex. Tax Code § 11.31(a) for "all or part of real and personal property that the person owns and that is used wholly or partly as a facility, device, or method for the control of air, water, or land pollution." To qualify, taxpayers must apply to the Texas Commission on Environmental Qualify (TCEQ) describing the purpose and benefits of the equipment.

In 2007, in an effort to provide substantive guidelines and to expedite the review of exemption requests, the Texas Legislature amended § 11.31(a) to require TCEQ to establish a three-tier review system via regulation. *See* 30 TAC § 17.1 *et seq*. Taxpayers seeking the pollution control property tax exemption must apply directly to TCEQ and identify the property as either Tier I, Tier II, or Tier III property. These tiers are summarized as follows:

> - **Tier I property** is designated on a list developed by the TCEQ Executive Director called the Tier I Table, which has also been adopted by regulation at 30 TAC § 17.14(a) (Attachment 2). The Tier I Table lists property which has been determined to be used either wholly or partly for pollution control purposes at a standard use percentage. The items listed are described in generic terms without brand names or trademarks. According to TCEQ program guidelines, "[a]n item may be added only if there is compelling evidence that the item provides pollution control benefits and a standard use percentage can be calculated." *See* TCEQ Regulatory Guidance – Property-Tax Exemptions for Pollution Control Property (2011), at p. 7 (available at https://www.tceq.texas.gov/assets/public/implementation/tax_relief/rg461_program_guidelines.pdf). In other words, so long as the property is listed on the Tier I

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because Colonial's primary use of the property is not for pollution control, Colonial cannot qualify for the exemption.

I disagree with the Other Counties' characterization of the property. The fact that federal regulations, on their own, require the disputed property for pollution control purposes defeats this argument on its own. See 49 C.F.R. § 195. Clearly, the pollution control uses for this property are more than incidental.

Order at p. 30-31.

Table and used as described thereon, a taxpayer's request for property tax exemption receives an expedited review and is automatically determined exempt as the applicable percentage.

- **Tier II property** is 100% used for pollution control, but is not listed on the Tier I Table. To qualify, the applicant must demonstrate to the satisfaction of TCEQ that (1) the property is exclusively used for pollution control, (2) the property has no production benefits, and (3) the property was installed to meet or exceed an applicable environmental regulation.

- **Tier III property** offers environmental benefits, as well as improvements to production, safety, or other processes. It includes property that has both environmental and production elements. Because Tier III property has obvious dual use, it requires a more detailed review and determination by TCEQ.

Texas' review system is relevant case because TCEQ has designated pipeline coatings, cathodic protection, and automatic shut-off valves as Tier I property, with a standard pollution control use percentage of 100%. This means that according to the TCEQ, 100% of the equipment at issue in this case is deemed 100% pollution control property, with no ancillary use.

As described above, because cathodic protection and pipeline coating systems are used in conjunction to protect the pipeline, these products are listed together in the Tier I Table:

Cathodic Protection

No.	Media	Property	Description	%
T-30	Water	Isolation Fittings	Dielectric bushings and fittings to separate underground piping from aboveground tanks and piping.	100
T-31	Water	Sacrificial Anodes	Magnesium or zinc anodes packaged in low resistivity backfill to provide galvanic protection.	100
T-32	Water	Dielectric Coatings	Factory installed coal-tar epoxies, enamels, fiberglass reinforced plastic, or urethanes on tanks and/or piping. Field installed coatings limited to exposed threads, fittings, and damaged surface areas.	100

Automatic shut-off valves are listed in a separate section of the Tier I Table and identified as No. T-3:

Equipment Located at Tank Installations including Service Stations

Spill and Overfill Prevention Equipment

No.	Media	Property	Description	%
T-1	Water	Tight Fill Fittings	Liquid tight connections between the delivery hose and fill pipe.	100
T-2	Water	Spill Containers	Spill containment manholes equipped with either a bottom drain valve to return liquids to the tank or a hand pump for liquid removal.	100
T-3	Water	Automatic Shut-off Valves	Flapper valves installed in the fill pipe to automatically stop the flow of product.	100
T-4	Water	Overfill Alarms	External signaling device attached to an automatic tank gauging system.	100
T-5	Water	Vent Restriction Devices	Float vent valves or ball float valves to prevent backflow through vents.	100

As described above, taxpayers may apply for an exemption for property not listed on TCEQ's Tier I chart using a Tier II application. However, to qualify under Tier II, "[t]he applicant is responsible for demonstrating that the property/equipment serves *100% for pollution control, has no production benefits*, and was installed to meet or exceed an applicable environmental regulation." TCEQ Regulatory Guidance – Property-Tax Exemptions for Pollution Control Property, at p. 6 (emphasis added). To reiterate, Tier I property (which includes cathodic protection, pipeline coatings, and automatic shut-off valves) qualifies for the exemption at the applicable predetermined percentage of 100%, without the need for demonstrating whether it has a role in production.

The guidance also provides a helpful example showing why the "dual use" provision in SC law simply should not apply in our case. In Texas, property with both pollution and production use is still eligible for a partial exemption under Tier III. The guidance provides the following example of dual use property:

> Tier III property/equipment may offer environmental benefits and improvements to production, safety, or other processes, including new or modified property/equipment that has both environmental and production elements. An example is the installation of a new closed vent system used to control a highly reactive volatile organic compound (HRVOC) emission from a cooling tower. The HRVOC emissions are captured by the new closed vent system and returned to the production process. Since the captured material is returned to the production process, the closed vent system is eligible for only a

> partial use determination and therefore requires a Tier III application.

TCEQ Regulatory Guidance – Property-Tax Exemptions for Pollution Control Property, at p. 7. The productive element in this example returns additional emissions to the production process, thereby increasing productivity and eventual output. It is logical that when property increases the efficiency of a production process by increasing output, it should not be eligible for a property tax exemption – that is the intent of South Carolina's dual use provision. But to completely negate a tax exemption for property clearly required by federal and state law to abate pollution based on any conceivable ancillary use runs contrary to the intent of the exemption.

We can see a real-world example of how TCEQ rules on a property tax exemption request for pipeline coatings, cathodic protection, and automatic shut-off valves. In 2016, a Texas county challenged TCEQ's grant of the pollution control property tax exemption for the property at issue in this case, which was owned by DCP Southern Hills Pipeline, LLC. *See* TCEQ Docket Nos. 2016-0055-MIS-U, 2016-0056-MIS-U, 2016-0057-MIS-U, and 2016-0058-MIS-U. The property owner in this matter filed for Tier I 100% positive use determination for, *inter alia*, three automatic shut-off valves, pipeline coating, and cathodic protection. TCEQ granted the requests, and Wise County, TX appealed TCEQ's determination. In response, the Executive Director of TCEQ filed a response to Wise County before the Commission, a copy of which is enclosed as Attachment 3. The filing makes the following arguments with respect to each piece of equipment:

> Automatic Shut-Off Valves
>
> Application 19538 designated property under Tier I Table category No. T-3 "Automatic Shut-off valves" and cited U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration (PHMSA) regulation in 49 CFR § 195.260(c)[2] that requires valves to be installed to minimize pollution from accidental discharge....

[2] Note with respect to each piece of equipment, TCEQ cites the identical federal regulations as Petitioner to demonstrate the property is required by federal law for the elimination or mitigation of pollution.

Use Determination 19538 applies to three 8-inch automatic shut-off valves for the pipeline located in Wise County. Automatic shut-off valves are installed to prevent or mitigate the release of pipeline products and fluids from leaking or discharging into the environment. Automatic shut-off valves are specifically included on the Tier I Table in 30 TAC § 17.14(a) and are determined by rule to be used wholly for pollution control purposes.

Pipeline Coatings and Cathodic Protection

Application 19543 designated property under Tier I Table category No. T-32 "Dielectric Coatings" and cited PHMSA regulations 49 CFR §§ 195.557(a) and 195.563(a) that require the installation of pipe coatings and cathodic protection....

Use Determination 19543 applies to the cathodic protection; fusion-bonded epoxy; adhesive for top coat; and top coat consisting of polyethylene or polypropylene. Cathodic protection and pipeline coatings are used to minimize corrosion of the pipeline; corrosion of the pipeline materials could lead to leaks or discharge of pipeline product or fluids into the environment. Dielectric coatings are specifically included on the Tier I Table in 30 TAC § 17.14(a) and are determined by rule to be used wholly for pollution control purposes....

The commission has previously considered appeals on similar pollution control property and upheld the Executive Director's determinations that cathodic protection and pipeline coating . . . are pollution control properties eligible for positive use determinations...On April 23, 2008, the commission issued an order that denied appeals and affirmed the Executive Director's positive use determinations for property including dielectric coating (cathodic protection) on portions of a natural gas pipeline in Rusk and Panola Counties.

CONCLUSION

After careful review of the issue raised in the appeals, the Executive Director respectfully recommends that the commission deny the appeals and affirm the Executive Director's positive use determinations. The Executive Director reviewed DCP Southern Hill's applications, found that the applications met the requirements of 30 TAC Chapter 17, and determined the subject properties are used for the control of air, water, or land pollution. The Executive Director's determinations should be affirmed.

Id. (citations omitted). Less than one week after this response was filed, the County dropped its appeal. *See* TCEQ Commissioners' Integrated Database (*available at* https://www14.tceq.texas.gov/epic/eCID/).

In sum, other states have recognized in published guidance that pipeline coatings, cathodic protection, and automatic shut-off valves serve an exclusive, 100% pollution control function. Moreover, that state has identified the equipment at issue as the most obvious "pollution control" property. This means its regulatory agency will grant a property tax pollution control exemption without the need for substantiating the use or demonstrating the lack of productive use. In other words, other regulatory agencies have determined that any of the equipment's ancillary uses (e.g., protecting the asset) are incidental and minor in relation to its overall purpose: pollution control. Further, other regulatory agencies have determined there is no productive use to the equipment at issue. Petitioner believes this Court should make a similar conclusion based on the support provided and available in the record.

E. Conclusion

Based on the foregoing, Petitioner respectfully requests that the Court amend its prior Order to grant the pollution control property tax exemption for Petitioner's pipeline coatings, cathodic protection, and automatic shut-off valves.

[SIGNATURE PAGE FOLLOWS]

Respectfully submitted,

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January 27, 2021
Columbia, South Carolina

Petitioner's Exhibit 3

Company
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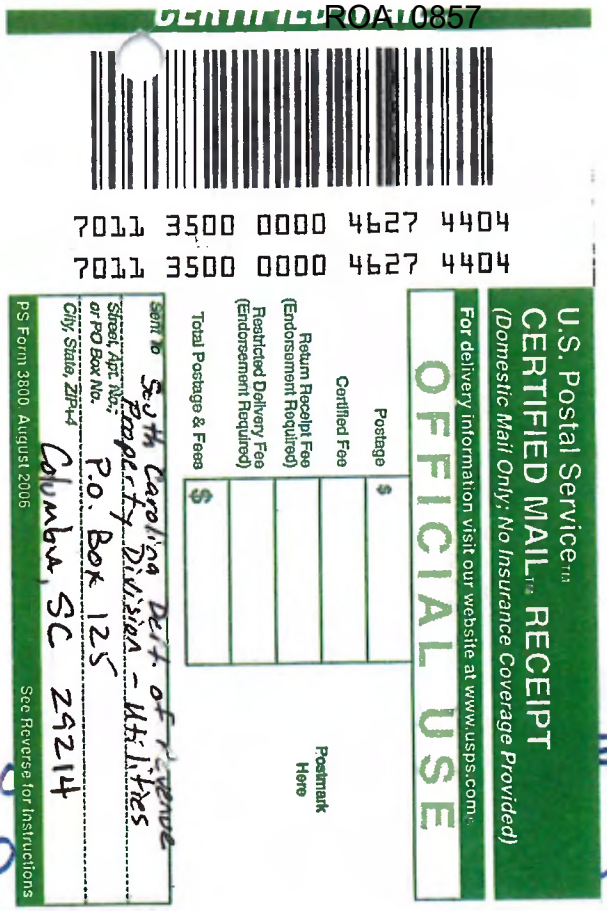

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Columbia, SC 29214

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- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:
South Carolina Dept. of Revenue
Property Division. Utilities
P.O. Box 125
Columbia, SC 29214

9590 9402 1345 5285 1621 27

2. Article Number (Transfer from service label)
7011 3500 0000 4627 4404

PS Form 3811, July 2015 PSN 7530-02-000-9053 Domestic Return Receipt

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A. Signature
X ☐ Agent ☐ Addressee

B. Received by (Printed Name) C. Date of Delivery

D. Is delivery address different from item 1? ☐ Yes
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3. Service Type
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Colonial 0957

mailed 9/7/17 BTA

Colonial Pipeline Company

J. Keith Fuqua
Indirect Tax Manager

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E-mail: kfuqua@colpipe.com

September 7, 2017

South Carolina Department of Revenue
Property Division - Utilities
P.O. Box 125
Columbia, SC 29214

RE: Colonial Pipeline Company Proposed 2017 Assessment

Director of Assessments:

Please accept this as notice we wish to appeal our Tax year 2017 proposed assessment. The taxpayer is:

Colonial Pipeline Company
1185 Sanctuary Parkway – Suite 100
Alpharetta, GA 30009-4765
FEIN: 58-0863362

The sole issue is the denial of certain pollution control property exemptions as claimed in our 2017 return. In particular the items under Transmission Pipeline – Water Pollution Control Facilities with a NBV of $16,133,333. These items are further broken down into three categories. Automatic shut-off valves, Pipeline Cathodic Protection, and Pipeline Coatings.

Attached to this notice you will find additional information about each of these three groups of assets and the applicable law that we believe makes them exempt for property tax purposes. These include a letter from our consultant (Duff & Phelps), and appendix referenced by their letter, a Power Point presentation previously provided to the department, and a court case in SC that we feel is on point.

Please review this information as soon as possible. If you need any additional information please contact me directly at 678-762-2276 or by email at kfuqua@colpipe.com.

Sincerely,

J. Keith Fuqua
Indirect Tax Manager
Colonial Pipeline Company

Via Certified Mail: 7011 3500 0000 4627 4404

DUFF & PHELPS

Mr. Taylor Ingram
Utility Assessment Coordinator
South Carolina Department of Revenue
2 South Park Circle, Suite 100
Charleston, SC 29407-4600

September 7, 2017

Re: S.C. Code Ann. § 12-37-220, Tax Treatment of Pollution Control Equipment
Colonial Pipeline Company

Dear Mr. Ingram:

Colonial Pipeline Company, ("Colonial") in response to the denial of eligibility of certain installations on its Petroleum Pipeline (the "Pipeline") to be classified as tax exempt Pollution Control Equipment (the "subject installations") for property tax purposes in the State of South Carolina, has asked Duff & Phelps, LLC ("Duff & Phelps") to prepare documentation to be shared in a request for reconsideration of this decision by the South Carolina Department of Revenue("SC DOR"),

Duff & Phelps has prepared the information enclosed in support of the subject installations' eligibility to be classified as Pollution Control Equipment, exempt from ad valorem taxation. After consideration of the materials enclosed, we respectfully request that you reconsider your current eligibility determinations regarding the subject installations.

I. Background

Colonial, with assistance from Duff & Phelps, prepared *Form: Schedule X - Pollution Control Equipment (*"Schedule X"), which was included with our PT-300: Property Return related to South Carolina property tax. Schedule X enumerates Pollution Control Equipment on the Colonial Pipeline System in the State of South Carolina. Copies of the schedule is attached for reference in **Appendix A: Form: Schedule X - Pollution Control Equipment**.

The South Carolina DOR, as required under S.C. Code Ann.§12-37-220, reviewed the schedule and did not grant the Pollution Control exemption.

Table 1 below includes a summary of the Pollution Control Equipment described in the Schedule X and the South Carolina DOR's determinations of tax exemption eligibility as Pollution Control Equipment.

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Table 1: Summary of Colonial Schedule X & South Carolina DOR Determinations

No.	Colonial Schedule X Filings	South Carolina DOR Determination
I. Transmission Pipeline		
A. Water Pollution Control Equipment		
1.	Pipeline Cathodic Protection	Denied
2.	Pipeline Coatings	Denied
3.	Automatic Shut-off Valves	Denied
II. Storage & Terminals		
A. Water Pollution Control Equipment		
4.	Waste Water Pollution Control Equipment	Approved
5.	Storm Water Pollution Control	Approved
6.	Secondary Containment	Approved
B. Air Pollution Control Equipment		
7.	Tank Internal/External Floating Roofs	Approved

II. South Carolina Statutory Analysis

Summarized below are the relevant South Carolina and federal statutes reviewed and utilized to identify the subject installations as Pollution Control Equipment. We respectfully present our interpretation and/or application of these statutes to the subject installations for your consideration.

Relevant South Carolina Property Tax Statutes

The South Carolina Property Tax Code sections below were utilized in the determination of eligible Pollution Control Equipment:

Per S.C. Code Ann. § 12-37-220:

> *"Pursuant to the provisions of Section 3 of Article X of the State Constitution and subject to the provisions of Section 12-4-720, there is exempt from ad valorem taxation: …*
>
> > ***all facilities or equipment** of industrial plants which are designed for the elimination, mitigation, **prevention**, treatment, abatement, or control of water, air, or noise pollution, both internal and external, **required by the** state or*

> ***federal government*** *and* ***used in the conduct of their business.***"[1]
> *[emphasis added]*

In reviewing this language, we concluded the subject installations placed in service on the Pipeline for corrosion control and pipeline leak detection/prevention on the Pipeline are:

1) Required for the protection and benefit of the environment by the U.S. Department of Transportation's Pipeline Hazardous Material Safety Administration ("PHMSA"), the federal regulatory authority for Petroleum pipelines.[2] The PHMSA has as its mission to *"protect people and the environment from the risks of hazardous materials transportation."*[3]

2) Designed for the prevention, abatement or control of water pollution.

Relevant South Carolina Environmental Statutes & Definitions

Per the South Carolina Code Title 48 - Environmental Protection and Conservation § 48-1-10, leaked Petroleum is a pollutant that can cause pollution as defined:

> *"'**Pollution** means (1) the presence in the environment of any substance, including, but not limited to, sewage, **industrial waste**, other waste, air contaminant, or any combination thereof in such quantity and of such characteristics and duration as may cause, or tend to cause the environment of the State to be **contaminated, unclean, noxious, odorous**, **impure** or **degraded**..."" [emphasis added]*
>
> *"**Industrial waste means** any **liquid**, gaseous, solid or other **waste substance** or a combination thereof **resulting from any process of industry**, manufacturing, trade **or business** or from the development of any natural resources" [emphasis added]*
>
> "***Waters** means lakes, bays, sounds, ponds, impounding reservoirs, springs, wells, rivers, streams, creeks, estuaries, marshes, inlets, canals, the Atlantic Ocean within the territorial limits of the State and all other **bodies of surface or underground water,** natural or artificial, public or private, inland or coastal, fresh or salt, which are wholly or partially **within or bordering the State or within its jurisdiction.**"* [emphasis added]

---

[1] *South Carolina Code of Laws Unannotated Section 12-4-720. http://www.scstatehouse.gov/code/t12c037.php*
[2] *U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration. http://www.phmsa.dot.gov/about/mission*
[3] *Ibid.*

Leaked Petroleum is unrecoverable and ceases to retain its monetary value once released from the Pipeline. As a fugitive liquid or gaseous substance upon an unintended release from the Pipeline, it becomes an industrial waste, and therefore, a "Pollutant", when such a release occurs during Pipeline operations.

Given the statutory definitions and language within the South Carolina South Carolina Code of Laws § 12-37-220 (8) Cited above, we have concluded that the subject installations are designed for the elimination, mitigation, and prevention of a release of water pollution (leaked refined petroleum products).

Relevant U.S. Environmental Statutes & Definitions

As noted earlier, environmental oversight responsibility for Petroleum pipelines in the United States falls to the U.S. Department of Transportation's PHMSA. Specifically, the PHMSA's environmental goal is:

> *"to advance **environmentally sustainable policies and investments** that reduce carbon and other harmful emissions from transportation sources. We **protect the natural environment, focusing especially on unusually sensitive areas.**"*[4]

The PHMSA's standards for Petroleum pipelines are outlined in Title 49, Code of Federal Regulations §192 ("49 CFR §192"). **Table 3** summarizes 49 CFR §192 requirements, as well as the analogous South Carolina requirements, for each of the subject installations.

Table 2: 49 CFR §195 Requirements by Pollution Control Facility

No.	Pollution Control Facility	49 CFR §195 Reference	SC Statute Reference
1.	Cathodic Protection	**49 CFR §195.563(a):** Each buried or submerged pipeline that is constructed, relocated, replaced, or otherwise changed after the applicable date in §195.401(c) must have cathodic protection. The cathodic protection must be in operation not later than 1 year after the pipeline is constructed, relocated, replaced, or otherwise changed, as applicable.	"Facilities or equipment of industrial plants used as pollution control equipment as required by the federal or state government and used in the conduct of their business are exempt from property taxation." [Constitution of S.C. §3(h); S.C. Code Ann. §12-37-220(A)(8) .]
2.	Cathodic Protection	49 CFR §195.557(A): Except bottoms of aboveground breakout tanks, each buried or submerged pipeline must have an external coating for external corrosion control if the pipeline is— Constructed, relocated, replaced, or	"Facilities or equipment of industrial plants used as pollution control equipment as required by the federal or state government and used in the conduct of their business are exempt from property

[4] Strategic Plan for 2012 -2016 - PHMSA - Department of Transportation.

		otherwise changed after the applicable date in §195.401(c), not including the movement of pipe covered by §195.424	taxation." [Constitution of S.C. §3(h); S.C. Code Ann. §12-37-220(A)(8) .]
3.	Automatic Shut-off Valves	49 CFR §195.260(a): "A valve must be installed at each of the following locations: (a) On the suction end and the discharge end of a pump station in a manner that permits isolation of the pump station equipment in the event of an emergency."	"Facilities or equipment of industrial plants used as pollution control equipment as required by the federal or state government and used in the conduct of their business are exempt from property taxation." [Constitution of S.C. §3(h); S.C. Code Ann. §12-37-220(A)(8) .]

In consideration of these federal and State statutory requirements, we have concluded that it is appropriate to classify the subject installations as Pollution Control Equipment, eligible for property tax exemption, per S.C. Code Ann. § 12-37-220.

III. Technical Justification for Pollution Control Facility Classification

Petroleum can cause severe environmental issues and contamination if leaked into the land and waters of the State of South Carolina. Therefore, Petroleum pipeline operators are required to install and maintain certain systems and equipment on their pipelines for the express purpose of abating or eliminating the risk of leaks or spills, which would cause or constitute pollution.[5] The subject installations included in Colonial's Schedule X provide the technical means for the Pipeline to prevent or eliminate leaks or spills from the Pipeline during operations. Further technical information regarding each of these installations' purpose and function are respectfully presented for your consideration.

Pipeline Water Pollution Control Installations - Corrosion Controls

Metal pipelines such as steel pipelines placed on or below ground are subject to the harmful effects of corrosion, potentially leading to pipeline failure; leakage or rupture. Corrosion Controls are put in place on pipelines to maintain the soundness and integrity of transportation pipelines and to prevent the unintended release/escape of Petroleum due to underground corrosion mechanisms. As noted by the National Association of Corrosion Engineers ("NACE") International:

> *"If a structure is free of corrosion, the risk of harmful leakage or an explosion is significantly reduced. Corrosion control offers proven, cost effective ways to reduce*

[5] Briefing: Safety Responsibilities of Pipeline Operators. Office of Pipeline Safety, Pipeline and Hazardous Materials Safety Administration. http://primis.phmsa.dot.gov/comm/SafetyResponsibilities.htm?nocache=4660

> *the premature deterioration of materials and protect both the public and the environment in the process."* [6]

Corrosion Control Equipment installed to prevent and/or eliminate risk of water pollution consists of:

- Corrosion Mitigation Coatings (FBE Coatings); and
- Cathodic Protection ("CP") Systems.

The application of Pipe Coatings and Cathodic Protection ("CP") are two of the primary methods for controlling corrosion on underground pipelines.[7] As excerpted from *Pipeline Corrosion: Final Report Submitted to U.S. Department of Transportation,* the following description provides a process overview of the subject Pipe Coatings' and Cathodic Protection's function and environmental purpose:

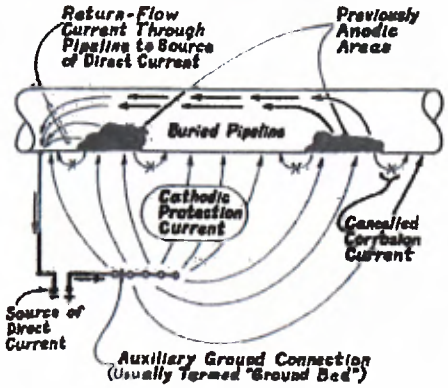
> *"Pipe Coatings and Cathodic Protection are the primary* ***method of preventing or mitigating*** *external corrosion on buried pipelines. Cathodic Protection applies a current to the underground pipeline through the soil from an external source and thus overriding the local anodes, rendering the entire exposed pipeline surface cathodic. Coatings function to separate the steel from the electrolyte, and thus preventing corrosion…"*[8]

Cathodic Protection

Cathodic protection, whether it is affected using local anodes or impressed current systems, is effective by offering a sacrificial metal, being much more anodic in the "corrosion cell" than the metal being protected. These systems are designed to force the corrosion cell current flow onto the structure being protected, the pipe, by forcing it to be cathodic. In the case of the sacrificial anode type, the electrical current is natural as opposed to the impressed current or groundbed type systems where it is externally applied.

[6] *White Papers: Corrosion Control and Environmental Protection.* Public Affairs – White Papers. NACE International. 2000-2012.
[7] Briefing: Safety Responsibilities of Pipeline Operators. Office of Pipeline Safety, Pipeline and Hazardous Materials Safety Administration. http://primis.phmsa.dot.gov/comm/SafetyResponsibilities.htm?nocache=4660
[8] *Pipeline Corrosion: Final Report.* Michael Baker Jr., Inc. 11/2008.

Figure 1



Source: Pipeline Corrosion: Final Report. Michael Baker Jr., Inc. 11/2008.

There are two types of cathodic protection systems:

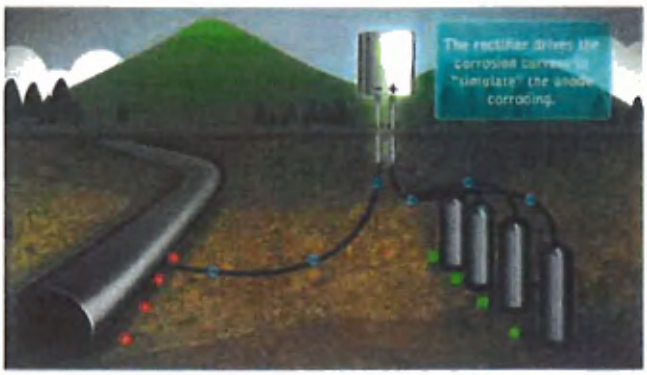
- sacrificial anode; and
- impressed current anode. [9]

Sacrificial anode systems utilize an externally connected sacrificial metal with a relative activity value greater than steel (iron) and thereby protect steel from corrosion. Alloys of zinc and magnesium are the sacrificial metals most commonly employed. The sacrificial anode is connected to the pipeline via a wire and placed some distance from the pipeline. The current flows from the anode into the surrounding soil (electrolyte) and is picked up by the pipeline at coating gaps. The circuit is completed by a wire that connects the anode to the pipe. [10]

Impressed-current anode systems involve the application of direct-current voltage between an anode and the pipeline. Impressed-current anodes can be made from graphite, high-silicon cast iron, lead-silver alloys, precious metals, mixed-metal oxides, or steel. Figure 2 below illustrates impressed-current cathodic protection on a buried pipeline. [11]

[9] *Pipeline Corrosion: Final Report.* Michael Baker Jr., Inc. 11/2008.
[10] *Ibid.*
[11] *Ibid.*

Figure 2



Source : https://www.youtube.com/user/CorrConnect.

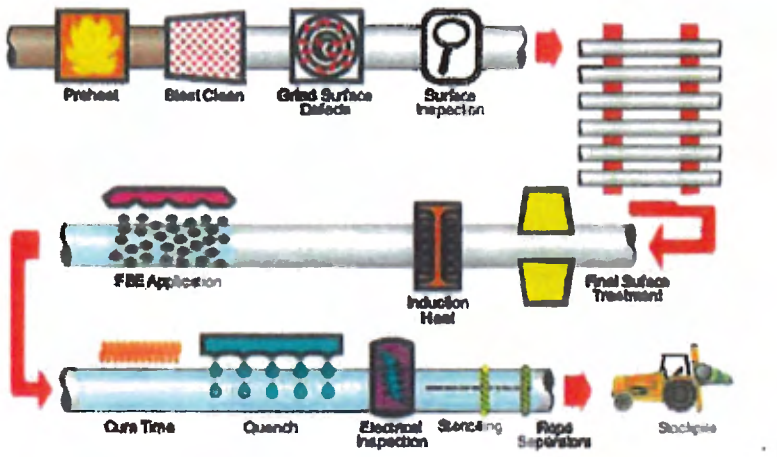
Pipe Coatings

Cathodic Protection to protect against corrosion alone is impractical, so Pipe Coatings are needed to minimize the exposed area of the pipeline and to reduce the amount of cathodic protection current needed. [12]

Fusion-bonded epoxy ("FBE") coating, sometimes called thin-film epoxy, is an epoxy-based powder coating that is currently widely used to protect pipelines. FBE coatings are thermoset polymer coatings. The name is derived from resin cross-linking and method of application, which is different from that of a conventional liquid paint. FBE coatings are made from dry powder. The resin and hardener parts of the dry powder remain unreacted at normal storage conditions. At typical coating application temperatures, usually in the range of 180° C to 250 °C (350° F to 480 °F), the contents of the powder melt and transform to a liquid. The liquid FBE film flows onto and wets the steel surface and, assisted by heating, soon becomes a solid coating by chemical cross-linking. This process is known as "fusion bonding." The chemical cross-linking reaction that takes place in this case is irreversible, which means that, once the curing takes place, the coating cannot be converted back to its original form by any means. The pipeline coating process is illustrated in Figure 3. [13]

[12] *Pipeline Corrosion: Final Report*. Michael Baker Jr., Inc. 11/2008.
[13] *Ibid*

Figure 3



Source: Pipeline Corrosion: Final Report. Michael Baker Jr., Inc. *11/2008.*

As excerpted from *Coatings Used in Conjunction with Cathodic Protection – Shielding vs Non-Shielding Pipeline Coatings* the following presents a discussion of the coordinated environmental protection benefits provided by pipeline Coatings used in conjunction with Cathodic Protection:

Coatings Used in Conjunction with Cathodic Protection

Pipe Coatings and Cathodic Protection are both reliant upon one another in the protection of the pipeline from corrosion. To adequately protect underground pipelines, a coating must conduct CP current when disbondment occurs. When disbondment or blistering occurs, most coating types divert current from its intended path, therefore, CP current cannot adequately protect the external surfaces of a pipe. These are called "shielding" pipeline coatings. There are certain types of pipeline coatings that will allow the CP current to effectively protect the pipe if disbondment occurs and water penetrates between the coating and the pipe. These are called "non-shielding" pipeline coatings. This paper will discuss the differences in the two types of coating systems and how CP works with these coatings. [14]

Additional information on the negative effects of pipeline corrosion; the need for Pipe Coatings; and the need for Cathodic Protection are further detailed in the following *"PHMSA Fact Sheets":*

- Fact Sheet: Corrosion;
- Fact Sheet: Pipe Coatings; and

[14] *Coatings Used in Conjunction with Cathodic Protection – Shielding vs Non-Shielding Pipeline Coatings.* Norsworthy, Richard. 2009

- Fact Sheet: Cathodic Protection.

Copies of these fact sheets are supplied in **Appendices B-1 through B-3**.

Pipeline Water Pollution Control Equipment - Leak Detection/Prevention

Leak Detection/Prevention equipment and practices are proven, successful methods of abating or removing the risk of pipeline leakage. Leak Detection/Prevention investments are put in place on pipelines to prevent the unintended release/escape of Petroleum from the pipeline due to pipeline metal damage or corrosion during pipeline operations. Early detection of pipeline leaks and identification of leak location(s) using best available technologies allow time for safe pipeline shutdown and rapid dispatch of assessment and/or cleanup crews.[15]

Pipeline Leak Prevention facilities installed to prevent and/or eliminate the risk of water pollution consists of the following:

- Automatic Shut-off Valves.

As excerpted from *" Studies for the Requirements of Automatic and Remotely Controlled Shutoff Valves on Hazardous Liquids and Natural Gas Pipelines with Respect to Public and Environmental Safety", the* following gives a process overview of Automatic Shut-off Valves' function and environmental purpose:

> **Automatic Shut-off Valves**
>
> An (RCV) in a pipeline is a block valve equipped with an electric, pneumatic, or Petroleum-powered actuator capable of closing the valve based on a signal from a remote location such as a control room. These valves also include a communications link between the sensors, which are located near the RCV and at various points along the pipeline, and the remote location. The communications link generally involves telemetry which is a highly-automated communications process by which data are collected from instruments located at remote or inaccessible points and transmitted to receiving equipment for measurement, monitoring, display, and recording. Transmission of the information may be over wires (telephone lines or fiber optic cables), or, more commonly, by wireless communication.[16]

[15] Technical Review of Leak Detection Technologies. Volume I: Crude Oil Transmission Pipelines. Alaska Department of Environmental Conservation. Preamble.

[16] *Studies for the Requirements of Automatic and Remotely Controlled Shutoff Valves on Hazardous Liquids and Natural Gas Pipelines with Respect to Public and Environmental Safety.* Oak Ridge National Laboratory. October 31, 2012.

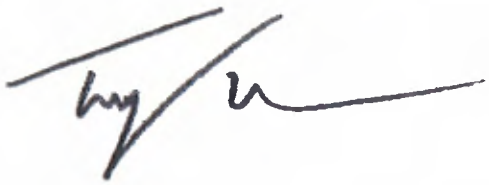
Automatic Shut-off Valves provide emergency shut off/shut down of Pipeline product flow in sections of the Pipelines in the event of a pipeline leak and/or spill, preventing further environmental damage from occurring.

IV. Conclusion

Based upon the statutory and technical information outlined, Duff & Phelps and Colonial have concluded that the subject installations are used to prevent, abate, or control water pollution by preventing the potential for the pollutant, leaked Petroleum, to reach the land and waters of the State of South Carolina. Therefore, the subject installations are eligible for classification as Pollution Control Equipment, eligible for exemption from property tax, per S.C. Code Ann. § 12-37-220.

We respectfully request that you reconsider your current eligibility determinations regarding the subject installations and approve their classification as Pollution Control Equipment for property tax purposes. If you have immediate questions related to the information and conclusions provided, or require additional information to evaluate our request, please contact me at (469)-547-8650.

Very truly yours,



Toby Reese
Managing Director
Property Tax

cc: Keith Fuqua (Colonial Pipeline Company)
Kathryn Tronsberg Macciocca (Duff & Phelps – Philadelphia)

Appendix M

Colonial Pipeline Company
SC 1120U: Public Utility Tax Return
Form: Schedule X - Pollution Control Equipment

PC Control Facility Type	Long Asset Description	Federal Environmental Requirement	State Environmental Requirement	Asset ID	In-Service	Age	Cost	Depreciated Value	Assessed Value
I. Transmission Pipeline									
A. Water Pollution Control Facilities									
1. Automatic Shut-off Valves									
Automatic Shut-off Valves	Add Upstream Isolation Valve At Gaffney Station	49 CFR §195.260(a): A valve must be installed at each of the following locations: (a) On the suction and and the discharge end of a pump station in a manner that permits isolation of the pump station equipment in the event of an emergency.	Facilities or equipment of industrial plants used as pollution control equipment as required by the federal or state government and used in the conduct of their business are exempt from property taxation. [Constitution of S.C. §3(h) ; S.C. Code Ann. §12-37-220(A)(8) .]	15053	02/01/11	6.00	$ 528,630	$ 484,389	$ 43,168
Subtotal - Automatic Shut-off Valves							$ 528,630	$ 484,389	$ 43
2. Pipeline Cathodic Protection									
Pipeline Cathodic Protection	703 Double Bridge Road Linear Anode System	49 CFR §195.563(a): Each buried or submerged pipeline that is constructed, relocated, replaced, or otherwise changed after the applicable date in §195.401(c) must have cathodic protection. The cathodic protection must be in operation not later than 1 year after the pipeline is constructed, relocated, replaced, or otherwise changed, as applicable.	Facilities or equipment of industrial plants used as pollution control equipment as required by the federal or state government and used in the conduct of their business are exempt from property taxation. [Constitution of S.C. §3(h) ; S.C. Code Ann. §12-37-220(A)(8) .]	13320	08/01/06	11.00	$ 98,020	$ 72,144	$ 6,854
Pipeline Cathodic Protection	702 Bullman Road Linear Anode System	See Above	See Above	13319	08/01/06	11.00	76,748	56,271	5,536
Pipeline Cathodic Protection	703-bethlehem Road Linear Anode System	See Above	See Above	13340	12/01/06	11.00	148,177	113,256	10,782
Pipeline Cathodic Protection	701 Cathodic Protection Systems	See Above	See Above	13563	04/01/09	8.00	1,306,590	1,028,394	97,697
Pipeline Cathodic Protection	Remote Monitor Installations In South Carolina (105)	See Above	See Above	14690	10/01/09	8.00	388,178	307,508	29,213
Pipeline Cathodic Protection	Sc Cp Mitigation Project	See Above	See Above	14656	12/01/09	8.00	1,080,674	904,273	85,908
Pipeline Cathodic Protection	South Carolina Cp Mitigation Project Part II	See Above	See Above	14915	12/01/10	7.00	1,606,062	1,383,436	131,427
Pipeline Cathodic Protection	2011 Rectifier Replacement Program Sc/nc	See Above	See Above	15136	08/01/11	6.00	172,728	149,996	14,154
Pipeline Cathodic Protection	2011 Sc Cp Upgrade Project	See Above	See Above	15255	12/01/11	6.00	797,938	705,973	66,982
Pipeline Cathodic Protection	0702494 Scottstown Road	See Above	See Above	15448	07/01/12	5.00	25,613	21,392	2,031
Pipeline Cathodic Protection	Sc Mainline Monitoring Project	See Above	See Above	16995	12/01/14	3.00	453,298	430,643	40,911
Pipeline Cathodic Protection	2015 Sc Mainline Delivery Line Cp Upgrades	See Above	See Above	16324	12/01/15	2.00	567,229	99,736	9,475
Subtotal - Pipeline Cathodic Protection							$ 8,719,254	$ 5,273,146	$ 500,949
3. Pipeline Coatings									
Pipeline Coatings	Recoat Loc 701 Line 2 Vulcan	49 CFR §195.557(A): Except bottoms of aboveground breakout tanks, each buried or submerged pipeline must have an external coating for external corrosion control if the pipeline is— Constructed, relocated, replaced, or otherwise changed after the applicable date in §195.401(c), not including the movement of pipe covered by §195.424	Facilities or equipment of industrial plants used as pollution control equipment as required by the federal or state government and used in the conduct of their business are exempt from property taxation. [Constitution of S.C. §3(h) ; S.C. Code Ann. §12-37-220(A)(8) .]	13413	08/01/06	11.00	$ 97,484	$ 74,015	$ 7,031
Pipeline Coatings	Line 700-7 And 700-8 Recoat Project	See Above	See Above	14355	01/01/09	9.00	95,378	74,871	7,113
Pipeline Coatings	703 Recoat	See Above	See Above	14691	05/01/09	8.00	1,555,799	1,243,740	118,155
Pipeline Coatings	Line 02 Location 702 Recoat	See Above	See Above	15087	12/01/10	7.00	101,965	86,265	8,195
Pipeline Coatings	2011 Sc Remediation Project - Recoats	See Above	See Above	15283	01/01/12	5.00	808,269	716,941	68,109
Pipeline Coatings	Recoat - West Prong Broad Mouth Creek Loc	See Above	See Above	16078	12/01/14	3.00	133,641	126,975	12,063
Pipeline Coatings	Hunter Road Recoat Of Line 01 And 02	See Above	See Above	16728	12/01/15	2.00	1,515,559	1,486,109	139,565
Pipeline Coatings	2015 South Carolina Recoats On Line 02 Loc 701 To 703	See Above	See Above	16325	05/01/16	1.00	3,739,109	3,703,750	351,856
Pipeline Coatings	2016 Kings Mountain South Carolina Line 02 Recoat	See Above	See Above	16827	08/01/16	1.00	2,838,099	2,808,121	276,2
Subtotal - Pipeline Cathodic Protection							$ 10,861,330	$ 10,408,788	$ 98
Subtotal - Transmission Pipeline							$ 18,229,215	$ 15,133,333	$ 1,532,667

Colonial 0050

ROA 0870

Taylor Ingram
South Carolina Department of Revenue
August 22, 2017

Appendix B: PHMSA Fact Sheets

Taylor Ingram
South Carolina Department of Revenue
August 22, 2017

Appendix B contains the PHMSA Fact Sheets described below:

- B-1 Fact Sheet: Corrosion
- B-2 Fact Sheet: Pipe Coatings
- B-3 Fact Sheet: Pipeline Cathodic Protection

Taylor Ingram
South Carolina Department of Revenue
August 22, 2017

Appendix B-1

B-1 Fact Sheet: Corrosion

U.S. Department of Transportation
Pipeline & Hazardous Materials Safety Administration

Pipeline Safety Stakeholder Communications
Pipeline Safety Connects Us All

Fact Sheet: Corrosion

Quick Facts:

- *Corrosion is the natural process of materials made from metal to their original state through a chemical reaction known as oxidation.*
- *Corrosion is one of the leading causes of pipeline leaks and ruptures.*
- *Improved technologies have led to better prevention, monitoring, detection, and mitigation of pipeline corrosion – even for old pipelines.*
- *New pipeline Integrity Management regulations will promote early identification of potentially corroded sections and their repair.*
- *Refer to other Fact Sheets for specific discussion of issues related to internal corrosion, external corrosion, selective seam corrosion, and stress corrosion cracking.*

What is corrosion and why does it occur?

Corrosion is the deterioration of metal that results from a reaction with the environment which changes the iron contained in pipe to iron oxide (rust). For example, if your car develops a rust spot, that is corrosion of metal. The same process can occur in various forms on pipelines. As is the case with your car, there are effective methods for preventing and arresting corrosion damage to pipelines.

- *External corrosion* occurs due to environmental conditions on the exterior surface of the steel pipe (e.g., from the natural chemical interaction between the exterior of the pipeline and the soil, air, or water surrounding it).
- *Internal corrosion* occurs due to chemical attack on the interior surface of the steel pipe from either the commodity transported or other materials carried along with the commodity transported within the pipeline.
- *Other, more specialized types of corrosion* such as stress corrosion cracking , microbial corrosion, and selective seam corrosion can also occur. These types of corrosion can be exacerbated by environmental conditions, manufacturing processes and applied stresses resulting from routine and normal pipeline operations.

What are the risks from corrosion?

Corrosion can result in the gradual reduction of the wall thickness of the pipe and a resulting loss of pipe strength. This loss of pipe strength could then result in leakage or rupture of the pipeline due to internal pressure stresses unless the corrosion is repaired, the affected pipeline section is replaced, or the operating pressure of the pipeline is reduced.

Pipeline corrosion creates weaknesses at points in the pipe, which in turn makes the pipe more susceptible to third party damage, overpressure events, etc. (I.e., corrosion doesn't necessarily need to cause the leak or rupture itself to increase risk).

Pipeline Failure Rates from Corrosion

Corrosion is one of the most prevalent causes of pipeline spills or failures. For the period 2002 through 2003, incidents attributable to corrosion have

represented 25% of the incidents reported to OPS for both Natural Gas Transmission Pipelines and Hazardous Liquid Transmission Pipelines.

Over this same period, approximately 1 percent of the incidents reported to OPS for Gas Distribution Pipelines were due to corrosion.

What is being done to prevent/mitigate corrosion?

- Modern manufacturing processes for steel pipe and their protective coatings are subject to rigorous fabrication and installation standards and quality control to reduce the occurrence of defects that can lead to corrosion-induced failures.
- Operators use coatings, cathodic protection systems, pipe cleaning techniques, product quality controls, and other approaches to protect pipelines from corrosion.
- The Office of Pipeline Safety has implemented new Pipeline Integrity Management ("IM") regulations that require all pipeline operators to inspect and assess all of their pipelines that could affect areas of high consequence such as populated areas or environmentally sensitive areas. The operators are required to inspect and assess their pipelines for integrity issues, such as corrosion, and repair or replace affected pipe.
- By implementing the requirements of the regulations and through responsible maintenance programs, pipeline operators continuously inspect their pipelines for corrosion damage and potential susceptibility.

Corrosion: What more can be done

- *Public*: Be aware of pipelines located near you. Be observant for signs of pipeline damage, leakage, or security concerns. Report any concerns you have regarding pipeline safety to the pipeline operator immediately. Always respect the pipeline right-of-way. Do not dig or build on a pipeline right-of-way without first contacting the pipeline operator or your state one-call center.
- *Industry*: Pipeline operators and industry stakeholders can continue to develop and implement improved corrosion detection and prevention technologies. Operators must continue to implement corrosion protection effectively and strengthen pipeline integrity management programs. Operators must mitigate the effects of corrosion when it is detected.
- *Regulators*: OPS and state regulators must continue to inspect pipeline operators to ensure they effectively implement required integrity management and corrosion control programs to ensure that risks to pipelines are identified and mitigated at the earliest possible time. Better coordination is needed between local permitting agencies and pipeline operators to facilitate expeditious granting of permits when public safety is potentially threatened.

Date of Revision: 12012011

Taylor Ingram
South Carolina Department of Revenue
August 22, 2017

Appendix B-2
B-2 Fact Sheet: Pipeline Coatings

U.S. Department of Transportation
Pipeline & Hazardous Materials Safety Administration
Pipeline Safety Stakeholder Communications
Pipeline Safety Connects Us All

Fact Sheet: Pipe Coatings

Overview:

Pipelines are usually buried underground to protect them from damage, and keep them from interfering with the movement of traffic. Underground, the exterior of the pipe is exposed to conditions that can lead to corrosion. It should be noted that the interior of pipelines can also be attacked by corrosive products, such as hydrogen sulfides, CO^2 and water, that might be contained in products transported in the pipeline.

History of Corrosion Protection

The earliest pipelines were buried without any external coatings. To prevent corrosion, pipeline manufacturers and operators began applying coatings to the exterior of pipe at the time it was being installed. This required the exterior surface of the pipe to be cleaned, usually by wire-brushing, and then application of a coating to the surface. These early pipe coatings were tape wraps and coal tars.

These coatings are susceptible to disbonding, however, and pipeline operators eventually determined that coatings alone would not provide complete corrosion protection.

Disbonding refers to a condition in which the pipe coating becomes separated from the exterior pipe wall. This allows water to come into contact with the pipe wall, setting up conditions that can lead to corrosion. Pipe coatings can also be damaged by equipment, and by rocks left in the backfill during installation, as well as by subsequent excavation activities.

To enhance protection, operators began installing cathodic protection (CP) systems. By taking periodic measurements of pipe-to-soil electrical potentials along the pipeline, CP systems can detect disbondment, and the operator can make necessary repairs to the pipe coating.

Today pipe coatings are applied by the pipe manufacturer at the time the pipe is manufactured. This has obvious advantages. The coating can be applied in a consistent manner, the exterior of the pipe is clean, and application conditions can be better controlled. Exterior pipe coatings still need to be applied during construction in the field at the girth welds when pipe sections are joined together.

The most widely used pipe coating today is Fusion Bonded Epoxy (FBE). FBE is applied to hot rotating pipe that is electrostatically charged. FBE is resistant to high temperature, can withstand high stress, and provides good protection against corrosion.

Coatings are also used to protect the interior surfaces of some pipe, but their use in that application is not pervasive in the oil and gas industries. Oil and gas pipeline operators prefer to treat their products through dewatering and the use of chemical additives to reduce corrosion, rather than using internal pipe coatings. Internal coatings may be used in pipelines were pretreatment is not

feasible, such as gathering lines. Epoxy, cement, and ceramics can be used as internal coatings.

Conclusion

Pipe coatings protect pipelines from corrosion-related defects. They are just one element of the total package operators employ to ensure their pipelines are well protected. Cathodic protection and integrity assessments are also used to prevent corrosion, and to detect any defects that may result from corrosion.

Date of Revision: 12012011

Taylor Ingram
South Carolina Department of Revenue
August 22, 2017

Appendix B-3

B-3 Fact Sheet: Pipeline Cathodic Protection

U.S. Department of Transportation
Pipeline & Hazardous Materials Safety Administration

Pipeline Safety Stakeholder Communications
Pipeline Safety Connects Us All

Fact Sheet: Cathodic Protection

Quick Facts:

- *Virtually all hazardous liquid and natural gas transmission pipe in service today is made from steel. This steel – when not otherwise protected and exposed to oxygen and/or water – can corrode. Corrosion can result in small holes in the pipe, or loss of pressure-carrying capacity.*
- *Corrosion is the electro-chemical reaction of a metallic material with its environment. Pipe environments include soil, water, air, and even the contents of the pipe itself.*
- *In all electrolytes (the ground, rain water, river or sea water, moisture in the air or transported product), metal atoms from the pipe go into solution as electrically charged ions. The movement of the ions causes a flow of electrical current from the metal pipe to the electrolyte (ground or water). This process causes loss of metal from the metal surface, and is commonly recognized as rust.*
- *Cathodic Protection (CP) systems help prevent corrosion from occurring on the exterior of pipes, by substituting a new source of electrons, commonly referred to as either a "sacrificial anode" or "impressed current anode". Both systems operate by imparting a direct current onto the buried pipeline, using devices called rectifiers. As long as the current is sufficient, corrosion is prevented, or at least mitigated and held in check.*
- *In most cases, coatings on the exterior of a pipe are used in conjunction with CP. Coatings have a high dielectric strength, which prevents the flow of electrons to the pipe's surroundings, thus interrupting the electro-chemical reaction of the metal with its environment.*

Where is cathodic protection used?

CP protects buried pipelines, ship hulls, underground tanks, offshore platforms and any other metal surfaces which may come in contact with the ground or with water. It is not used to prevent atmospheric corrosion, or corrosion that may occur inside the pipe due to its contents. Other corrosion-control measures are used in these cases.

What are the regulatory requirements for cathodic protection on a pipeline?

- Gas pipelines installed after July 31, 1971, and hazardous liquid interstate pipelines installed after March 31, 1970, must be properly coated and have CP. Effective dates for other categories of pipelines apply.
- CP is required on any pipeline installed before these dates if the pipeline is coated, or where areas of active corrosion are present if the line is bare or ineffectively coated.
- Performance of CP Systems must be monitored regularly with tests performed at least once per year. Records must be maintained for the life of the pipeline.
- Where CP systems utilize rectifiers, each rectifier must be checked six times a year, with a maximum interval between checks of 2 ½ months.
- Each pipeline must have sufficient test points for electrical measurement to determine CP adequacy. Test points should be shown on CP system maps.

- Operators must maintain records or maps of their CP systems. Records of all tests, surveys, or inspections required by the regulations must be maintained.
- Pipelines that are found to have deficient CP must be remediated in a timely manner (usually within 12 to 18 months after discovery).
- More stringent requirements apply to gas pipelines operating under an alternative (higher) MAOP.
- More detailed information on the regulatory requirements pertaining to cathodic protection can be found in 49 CFR 192 Subpart I and 49 CFR 195 Subpart H.

Date of Revision: 12012011

DUFF & PHELPS

Pipeline Pollution Control Facilities – Equipment Eligible for SC Property Tax Exemption

July 2017

Colonial Pipeline Company

Table of Contents

Section No. 01

Issue & Pipeline Pollution Control Regulatory Oversight

Issue & Pipeline Pollution Control Regulatory Oversight

Issue

- SC Assessor reviewed Colonial's Pollution Control Schedule X in PT-300 Return, which enumerates certain pollution control facilities on the Colonial Pipeline System
- Taxpayer contends property is eligible for 100% property tax exemption per S.C. Code Ann. § 12-37-220
- The assessor is not sure. He has asked the following:
  - How would FERC describe these assets; i.e. safety or pollution control property?
  - What FERC reference or contact can be provided as justification to classify the subject property as pollution control equipment?

Response

- Colonial Pipeline, a hazardous materials liquids transmission pipeline in South Carolina, is providing the following information in response to the assessors request

Issue & Pipeline Pollution Control Regulatory Oversight

Issue #1: How would the Federal Energy Regulatory Commission ("FERC") describe these assets?

FERC: NO Environmental Regulatory Oversight for Colonial Pipeline System

- FERC's authority is limited to rates over hazardous materials & oil pipelines[1]
- FERC has no operational oversight/environmental protection responsibility for these pipelines

DOT – PHMSA: HAS Environmental Regulatory Oversight for Colonial Pipeline System

- The Department of Transportation ("DOT") regulates the **construction** and **operation** of hazardous materials & oil pipelines under the Hazardous Liquid Pipeline Safety Act of 1979
- The DOT's Pipeline and Hazardous Materials Safety Administration ("PHMSA") through the Office of Pipeline Safety ("OPS"), regulates the safety of natural gas, oil, and hazardous materials pipelines[1]
- PHMSA's safety enforcement authority of pipeline operations is defined as the protection of: 1) people, 2) property and 3) the **environment**[2]

[1] Pipeline Regulatory and Environmental Permits, William E. Bauer
[2] https://www.phmsa.dot.gov/about/faq

Colonial 0966

ROA 0886

Issue & Pipeline Pollution Control Regulatory Oversight

PHMSA's Job is to Protect People and the Environment from Pipeline Failures

- Pipeline failures can kill and injure people, damage property, harm the environment and disrupt energy supplies
- PHMSA administers safe pipeline operation through Pipeline Integrity Management
  - Pipeline Integrity Management:
    - » Encompasses the environment as well as the pipeline;
    - » Sets priorities for inspection and operations and maintenance based on whether people, property or the **environment** might be at risk should a pipeline failure occur;
    - » Regulations for Integrity Management of hazardous liquid pipelines have been in effect since 1987 (49 CFR 195.1) and amended in 2001 (49 CFR 195.450 and 195.452); and
    - » These regulations outline specific property installations for **safe and environmentally sound operation** of the pipeline.

[1] *Pipeline Regulatory and Environmental Permits, William E. Bauer*

Section No. 02

Regulatory Requirements for Environmental Protection

Regulatory Requirements for Environmental Protection

PHMSA Pipeline Oversight and Enforcement Authority

- 49 CFR § 190.1 prescribes "*procedures used by PHMSA in carrying out duties regarding pipeline safety under 49 U.S.C. 60101 et seq. (the pipeline safety laws) and 33 U.S.C. 1321 (the water pollution control laws)...*"

Installations Required for Safe and Environmentally Sound Operation of the Pipeline

- 49 CFR § 195.0, prescribes, "*...requirements for pipeline facilities used in the transportation of hazardous liquids...*"
  - The following pipeline installations are required environmental protection devices:

Colonial Installations	**Pipeline Integrity Statutory Requirement**
Pipeline Coatings	49 CFR § 195.557 (A)
Cathodic Protection	49 CFR § 195.563 (a)
Automatic Shut-Off Valves	49 CFR § 195.260 (a)
Colonial Installations	**Tank Floating Roof Statutory Requirement**
Tank Internal/External Floating Roofs	49 CFR § 63.1062 (a)

- See **Appendix A: Form: Schedule X - Pollution Control Equipment** for statutory requirements for listed Pollution Control Equipment

Regulatory Requirements for Environmental Protection: Pipeline Integrity

What do they prevent?

- Pipeline Coatings, Cathodic Protection, & Automatic Shut-Off Valves are installed to prevent the unintended or fugitive release of petroleum products from the Pipeline

Why are they required?

- Pipeline Coatings per 49 CFR § 195.557(a):
  - *"…Each buried or submerged pipeline must have an external coating for external corrosion control…"*

- Pipeline Cathodic Protection per 49 CFR § 195.563(a):
  - *"Each buried or submerged pipeline that is constructed, relocated, replaced, or otherwise changed…must have cathodic protection."*

- Automatic Shut-Off Valves per 49 CFR § 195.260(c):
  - *"A valve must be installed at each of the following locations:…(c) On each mainline at locations along the pipeline system that will* ***minimize damage or pollution from accidental hazardous liquid discharge****…"*

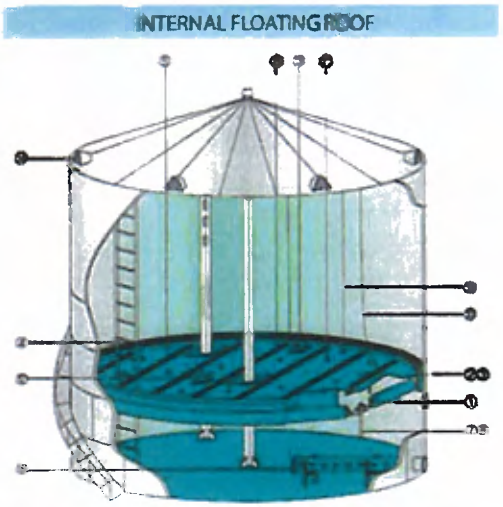
Regulatory Requirements for Environmental Protection: Tank Internal/External Floating Roofs

What do they prevent?

- Tank Internal/External Floating Roofs installed to prevent the unintended or fugitive release of volatile organic compound emissions ("VOCs") that may result from the storage of petroleum products

Why are they required?

- Per 49 CFR 63.1062 (a)
  - *"For each storage vessel to which this subpart applies, the owner or operator shall comply with one of the requirements listed in paragraphs (a)(1) through (a)(3) of this section. (1) Operate and maintain an IFR. (2) Operate and maintain an EFR..."*



Colonial 0971

ROA 0891

Section No. 03

Regulatory Requirements for South Carolina Tax Exemption

Regulatory Requirements for South Carolina Tax Exemption

SC: Constitution of S.C. § 3

- *"There shall be exempt from ad valorem taxation:…"*
  - *"**all facilities or equipment** of industrial plants[1] which are designed for the elimination, mitigation, **prevention**, treatment, abatement or control of **water**, **air** or noise pollution…" [emphasis added]*

S.C. Code Ann. § 12-37-220 General exemption from taxes

- *"Pursuant to the provisions of Section 3 of Article X of the State Constitution and subject to the provisions of Section 12-4-720, there is exempt from ad valorem taxation:…"*
  - ***all facilities or equipment** of industrial plants[1] which are designed for the elimination, mitigation, **prevention**, treatment, abatement, or control of water, air, or noise pollution, both internal and external, **required by the** state or **federal government** and **used in the conduct of their business.**" [emphasis added]*

The subject installations are designed for the prevention of air and water pollution, required by the state and/or federal government, and used in the conduct of their business.

[1] Pipelines are subject to the pollution control equipment exemption, per Taylor R. Ingram, Utility Assessment Coordinator SC DOR in an email dated 2/9/2015.

Regulatory Requirements for South Carolina Tax Exemption

South Carolina Code Title 48 - Environmental Protection and Conservation § 48-1-10

- *"**Pollution** means (1) the presence in the environment of any **substance**, including, but not limited to, sewage, **industrial waste**, other waste, air contaminant, or any combination thereof in such quantity and of such characteristics and duration as may cause, or tend to cause the environment of the State to be **contaminated, unclean, noxious, odorous, impure** or **degraded**…" [emphasis added]*

- *"**Industrial waste** means any **liquid**, gaseous, solid or other waste substance or a combination thereof resulting from any process of **industry**, manufacturing, trade or business or from the **development of any natural resources**" [emphasis added]*

- *"**Waters** means lakes, bays, sounds, ponds, impounding reservoirs, springs, wells, rivers, streams, creeks, estuaries, marshes, inlets, canals, the Atlantic Ocean within the territorial limits of the State and all other bodies of **surface or underground water**, natural or artificial, public or private, inland or coastal, fresh or salt, which are wholly or partially within or bordering the State or within its jurisdiction" [emphasis added]*

Colonial 0974

ROA 0894

Section No. 04

PHMSA Reference for Pollution Control Equipment Classification

PHMSA Reference for Pollution Control Facility Classification

Issue #2: What FERC reference or contact can be provided as justification to classify the subject property as pollution control equipment?

- Per conversations on July 19, 2017 with Mr. Tewabe Asebe, PHMSA Standards & Rulemaking Division, in regards to tax credits for certain pipeline equipment required to be installed:
  - PHMSA uses its regulatory oversight to ensure the safe operation of all pipeline without causing any harm to the environment;
  - Each rule developed and implemented by PHMSA undergoes an environmental analysis;
  - The environmental protection aspect of pipeline safety is a priority in PHMSA rulemaking; and
  - He is willing to entertain additional phone calls on the matter.

Section No. 05

Conclusion

Conclusion

Duff & Phelps and Colonial have concluded:

- FERC has no environmental regulatory oversight for Colonial Pipeline System;
- DOT PHMSA **has** environmental regulatory oversight for Colonial Pipeline System;
- PHMSA's regulates Pipeline Safety, which encompasses 1) people, 2) property, and 3) **the environment**;
- The subject installations are installed for the elimination, mitigation, **prevention**, treatment, abatement, or control water/air pollution by preventing industrial water pollutants and leaked petroleum products/VOCs, to reach the waters/air of the State of South Carolina;
- PHMSA contact, Mr. Tewabe Asebe, confirms conclusions 2 & 3; and
- The subject installations are therefore eligible for classification as Pollution Control Equipment in South Carolina, exempt from property tax.

Colonial 0978

ROA 0898

Appendix A

Federal Requirements by Pollution Control Equipment

Federal Requirements by Pollution Control Facility

Colonial Pipeline Company
SC 1120U: Public Utility Tax Return
Form: Schedule X - Pollution Control Equipment

PC Control Facility Type	Federal Environmental Requirement	State Environmental Requirement
I. Transmission Pipeline		
A. Water Pollution Control Facilities		
1. Automatic Shut-off Valves		
Automatic Shut-off Valves	49 CFR §195.260(a): A valve must be installed at each of the following locations: (a) On the suction end and the discharge end of a pump station in a manner that permits isolation of the pump station equipment in the event of an emergency.	Facilities or equipment of industrial plants used as pollution control equipment as required by the federal or state government and used in the conduct of their business are exempt from property taxation. [Constitution of S.C. §3(h) ; S.C. Code Ann. §12-37-220(A)(8) .]
2. Pipeline Cathodic Protection		
Pipeline Cathodic Protection	49 CFR §195.563(a): Each buried or submerged pipeline that is constructed, relocated, replaced, or otherwise changed after the applicable date in §195.401(c) must have cathodic protection. The cathodic protection must be in operation not later than 1 year after the pipeline is constructed, relocated, replaced, or otherwise changed, as applicable.	Facilities or equipment of industrial plants used as pollution control equipment as required by the federal or state government and used in the conduct of their business are exempt from property taxation. [Constitution of S.C. §3(h) ; S.C. Code Ann. §12-37-220(A)(8) .]
3. Pipeline Coatings		
Pipeline Coatings	49 CFR §195.557(A): Except bottoms of aboveground breakout tanks, each buried or submerged pipeline must have an external coating for external corrosion control if the pipeline is— Constructed, relocated, replaced, or otherwise changed after the applicable date in §195.401(c), not including the movement of pipe covered by §195.424	Facilities or equipment of industrial plants used as pollution control equipment as required by the federal or state government and used in the conduct of their business are exempt from property taxation. [Constitution of S.C. §3(h) ; S.C. Code Ann. §12-37-220(A)(8) .]
II. Storage & Terminals		
A. Air Pollution Control		
1. Tank Floating Roofs		
Tanks - Roofs	49 CFR 63.1062 (a) "For each storage vessel to which this subpart applies, the owner or operator shall comply with one of the requirements listed in paragraphs (a)(1) through (a)(3) of this section. (1) Operate and maintain an IFR. (2) Operate and maintain an EFR..."	State Operating Permit No. 0260-0210 Facilities or equipment of industrial plants used as pollution control equipment as required by the federal or state government and used in the conduct of their business are exempt from property taxation. [Constitution of S.C. §3(h) ; S.C. Code Ann. §12-37-220(A)(8) .]

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Texas Administrative Code

TITLE 30	ENVIRONMENTAL QUALITY
PART 1	TEXAS COMMISSION ON ENVIRONMENTAL QUALITY
CHAPTER 17	TAX RELIEF FOR PROPERTY USED FOR ENVIRONMENTAL PROTECTION
RULE §17.14	Tier I Pollution Control Property

(a) For the property listed in the Tier I Table located in this subsection that is used wholly for pollution control purposes, a Tier I application is required. A Tier I application must not include any property that is not listed in this subsection or that is used for pollution control purposes at a use percentage that is different than what is listed in the table. Unless otherwise designated with a partial use percentage on the Tier I Table, if a marketable product is recovered (not including materials that are disposed) from property listed in this subsection, a Tier III application is required.

Attached Graphic

(b) The commission shall review and update the Tier I Table at least once every three years.

(1) The commission may add an item to the table only if there is compelling evidence to support the conclusion that the item provides pollution control benefits and a justifiable pollution control percentage is calculable.

(2) The commission may remove an item from the table only if there is compelling evidence to support the conclusion that the item does not render pollution control benefits.

Source Note: The provisions of this §17.14 adopted to be effective February 7, 2008, 33 TexReg 932; amended to be effective December 13, 2010, 35 TexReg 10964; amended to be effective August 28, 2014, 39 TexReg 6483; amended to be effective January 7, 2021, 46 TexReg 176

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Figure: 30 TAC §17.14(a)

Tier I Table The property listed in this table is property that the executive director has determined is used wholly or partly for pollution control purposes when used as shown in the Description section of the table and when no marketable product arises from using the property, except heat recovery steam generators listed as a partial use percentage. The items listed are described in generic terms without the use of brand names or trademarks. The use percentages on all property on the table are established based on standard uses of the pieces of equipment involved. If the executive director determines that the equipment is not being used in a standard manner (e.g., use in production or recovery of a marketable product), the executive director may require that a Tier III application, using the Cost Analysis Procedure, be filed by the applicant to calculate the appropriate use determination percentage. For items where the description limits the use determination to the incremental cost difference, the cost of the property or device with the pollution control feature is compared to a similar device or property without the pollution control feature. The table is a list adopted under Texas Tax Code, §11.31(g).

Air Pollution Control Equipment

Particulate control Devices

No.	Media	Property	Description	%
A-1	Air	Dust Collection Systems	Structures containing filters, blowers, ductwork - used to remove particulate matter from exhaust gas streams in order to prevent release of particulate matter to ambient air.	100
A-2	Air	Demisters or Mist Eliminators Added	Mesh pads or cartridges - used to remove entrained liquid droplets from exhaust gas streams.	100
A-3	Air	Electrostatic Precipitators	Wet or dry particulate collection created by an electric field between positive or negative electrodes and collection surface.	100
A-4	Air	Dry Cyclone Separators	Single or multiple inertial separators with blowers and ductwork used to remove particulate matter from exhaust gas streams.	100
A-5	Air	Scrubbers	Wet collection device using spray chambers, wet cyclones, packed beds, orifices, venturi, or high- pressure sprays to remove particulates and chemicals from exhaust gas streams. System may include pumps, ductwork, and blowers needed for the equipment to function.	100

No.	Media	Property	Description	%
A-6	Air	Water/ Chemical Sprays and Enclosures for Particulate Suppression	Spray nozzles, conveyor and chute covers, windshields, piping, and pumps used to reduce fugitive particulate emissions.	100
A-7	Air	Smokeless Ignitors	Installed on electric generating units to control particulate emissions and opacity on start-up.	100

Combustion Based Control Devices

No.	Media	Property	Description	%
A-20	Air	Thermal Oxidizers	Thermal destruction of air pollutants by direct flame combustion.	100
A-21	Air	Catalytic Oxidizer	Thermal destruction of air pollutants that uses a catalyst to promote oxidation.	100
A-22	Air	Flare/Vapor Combustor	Stack, burner, flare tip, and blowers used to destroy air contaminants in a vent gas stream.	100

Non-Volatile Organic Compounds Gaseous Control Devices

No.	Media	Property	Description	%
A-40	Air	Molecular Sieve	Microporous filter used to remove hydrogen sulfide (H_2S) or nitrogen oxides (NO_x) from a waste gas stream.	100
A-41	Air	Strippers Used in Conjunction with Final Control Device	Stripper, with associated pumps, piping - used to remove contaminants from a waste gas stream or waste liquid stream.	100
A-42	Air	Chlorofluorocarbon (CFC) Replacement Projects	Projects to replace one CFC with an environmentally cleaner CFC or other refrigerant where there is no increase in the cooling capacity or the efficiency of the unit. Includes all necessary equipment needed to replace the CFC and achieve the same level of cooling capacity.	100
A-43	Air	Halon Replacement Projects	All necessary equipment needed to replace the Halon in a fire suppression system with an environmentally cleaner substance.	100

Monitoring and Sampling Equipment

No.	Media	Property	Description	%
A-60	Air	Fugitive Emission Monitors	Organic vapor analyzers - used to discover leaking piping components.	100

No.	Media	Property	Description	%
A-61	Air	Continuous & Noncontinuous Emission Monitors	Monitors, analyzers, buildings, air conditioning equipment, and optical gas imaging instruments used to demonstrate compliance with emission limitations of regulated air contaminants, (including flow and diluent gas monitors and dedicated buildings).	100
A-62	Air	Monitoring Equipment on Final Control Devices	Temperature monitor or controller, flow-meter, pH meter, and other meters for a pollution control device. Monitoring of production equipment or processes is not included.	100
A-63	Air	On or Off-Site Ambient Air Monitoring Facilities	Towers, structures, analytical equipment, sample collectors, monitors, and power supplies used to monitor for levels of contaminants in ambient air.	100
A-64	Air	Noncontinuous Emission Monitors, Portable	Portable monitors, analyzers, structures, trailers, air conditioning equipment, and optical gas imaging instruments used to demonstrate compliance with emission limitations.	100
A-65	Air	Predictive Emission Monitors	Monitoring of process and operational parameters that are used solely to calculate or determine compliance with emission limitations.	100
A-66	Air	Sampling Ports	Construction of stack or tower sampling ports used for emission sampling or for the monitoring of process or operational parameters that are used to calculate or determine compliance with emission limitations.	100
A-67	Air	Automotive Dynamometers	Automotive dynamometers used for emissions testing of fleet vehicles.	100

Nitrogen Oxides Controls

No.	Media	Property	Description	%
A-80	Air	Selective Catalytic and Non-catalytic Reduction Systems	Catalyst bed, reducing agent injection and storage, monitors - used to reduce nitrogen oxides (NO_x) emissions from combustion sources. Non-catalytic systems use a reducing agent without a catalyst.	100
A-81	Air	Catalytic Converters for Stationary Sources	Used to reduce NO_x emissions from internal combustion engines.	100
A-82	Air	Air/Fuel Ratio Controllers for Piston-Driven Internal Combustion Engines	Used to control the air/fuel mixtures and reduce NO_x formation for fuel injected, naturally aspirated, or turbocharged engines.	100
A-83	Air	Flue Gas Recirculation	Ductwork and blowers used to redirect part of the flue gas back to the	100

No.	Media	Property	Description	%
			combustion chamber for reduction of NO_X formation. May include fly ash collection in coal fired units.	
A-84	Air	Water/Steam Injection	Piping, nozzles, and pumps to inject water or steam into the burner flame of utility or industrial burners or the atomizer ports for gas turbines, used to reduce NO_X formation.	100
A-85	Air	Over-fire Air & Combination of asymmetric over-fire air with the injection of anhydrous ammonia or other pollutant-reducing agents	The asymmetric over- fire air layout injects preheated air and anhydrous ammonia or other pollutant-reducing agent through nozzles through a series of ducts, dampers, expansion joints, and valves.	100
A-86	Air	Low-NO_X Burners	Installation of low-NO_X burners. The eligible portion is the incremental cost difference. For a replacement burner, the incremental cost difference is calculated by comparing the cost of the new burner with the cost of the existing burner. For new installations, the incremental cost difference is calculated by comparing the cost of the new burner to the cost of a similarly sized burner without NO_X controls from the most recent generation of burners.	100
A-87	Air	Water Lances	Installed in the fire box of boilers and industrial furnaces to eliminate hot spots, thereby reducing NO_X formation.	100
A-88	Air	Electric Power Generation Burner Retrofit	Retrofit of existing burners on electric power generating units with components for reducing NO_X including directly related equipment.	100
A-89	Air	Wet or Dry Sorbent Injection Systems	Use of a sorbent for flue gas desulfurization or NO_X control.	100
A-90	Air	Dry Low-NO_X Emission Systems	Equipment installed on natural gas-fired compression turbines to reduce NO_X emissions including combustor liners, injectors, fuel conditioning system, fuel ring, fuel control valve, pilot valve, sensors, controls, fuel gas treater, fuel nozzle assemblies, transition piece assemblies, cap assemblies, inner crossfire tubes and outer crossfire tubes.	100
A-91	Air	Lean-Burn Portions of Reciprocating Engines	Turbocharger, fuel injection system consisting of fuel nozzles positioned within a pre-combustion chamber, and pre-combustion chamber for engines.	100
A-92	Air	Heat Recovery Steam Generators	A boiler designed to capture waste heat from combustion turbine exhaust for the	65

No.	Media	Property	Description	%
			generation of steam while reducing unit output-based emissions.	

Volatile Organic Compounds Control

No.	Media	Property	Description	%
A-110	Air	Carbon Adsorption Systems	Carbon beds or liquid-jacketed systems, blowers, piping, condensers - used to remove volatile organic compounds (VOC) emissions and odors from exhaust gas streams.	100
A-111	Air	Storage Tank Secondary Seals and Internal Floating Roofs	Used to reduce VOC emissions caused by evaporation losses from aboveground storage tanks.	100
A-112	Air	Replacement of Existing Pumps, Valves, or Seals in Piping Service	The incremental cost difference between the cost of the original equipment and the replacement equipment is eligible only when the replacement of these parts is done for the sole purpose of eliminating fugitive VOC emissions. New systems do not qualify for this item.	100
A-113	Air	Welding of Pipe Joints in VOC Service (Existing Pipelines)	Welding of existing threaded or flanged pipe joints to eliminate fugitive emission leaks.	100
A-114	Air	Welding of Pipe Joints in VOC Service (New Construction)	The incremental cost difference between the cost of using threaded or flanged joints and welding of pipe joints in VOC service.	100
A-115	Air	External Floating Roofs	Used to reduce VOC emissions caused by evaporation losses from aboveground storage tanks. Must be installed to meet or exceed §115.112 of this title (relating to Control Requirements).	100
A-116	Air	Fixed Storage Tank Roofs	Fixed roofs installed on external floating roof tanks used to store any product containing VOC as an additional VOC control measure.	100
A-117	Air	Geodesic Domes	Geodesic domes installed on external floating roof storage tanks as a means of controlling VOC emissions.	100
A-118	Air	Submerged Fill Pipes	Submerged fill pipes installed in storage tanks used to store any product containing VOC.	100
A-119	Air	Dual Mechanical Pump Seals	The incremental cost difference between the cost of dual mechanical seal pumps and comparable single sealed pumps.	100
A-120	Air	Seal-Less Pumps	The incremental cost difference between the cost of seal-less pumps and the cost of similarly sized pumps with seals.	100

Mercury Control

No.	Media	Property	Description	%
A-130	Air	Sorbent Injection Systems	Sorbents sprayed into the flue gas that chemically react to absorb mercury. The sorbents are then removed by a particulate removal device. Equipment may include pumps, tanks, blowers, nozzles, ductwork, hoppers, and particulate collection devices needed for the equipment to function.	100
A-131	Air	Fixed Sorbent Systems	Equipment, such as stainless steel plate with a gold coating that is installed in the flue gas to absorb mercury.	100
A-132	Air	Mercury Absorbing Filters	Filters that absorb mercury such as those using the affinity between mercury and metallic selenium.	100
A-133	Air	Oxidation Systems	Equipment used to change elemental mercury to oxidized mercury. This can be catalysts (similar to Selective Catalytic Reduction (SCR) catalyst) or chemical additives that can be added to the flue gas or directly to the fuel.	100
A-134	Air	Photochemical Oxidation	Use of an ultraviolet light from a mercury lamp to provide an excited state mercury species in flue gas, leading to oxidation of elemental mercury. These units are only eligible if mercury is removed from flue gas.	100
A-135	Air	Chemical Injection Systems	Equipment used to inject chemicals into the combustion zone or flue gas that chemically bonds mercury to the additive, which is then removed in a particulate removal device.	100

Sulfur Oxides Controls

No.	Media	Property	Description	%
A-160	Air	Wet and Dry Scrubbers	Circulating fluid bed and moving bed technologies using a dry sorbent or various wet scrubber designs that inject a wet sorbent into the scrubber.	100
A-161	Air	Selective Catalytic and Non-catalytic Reduction Systems	Catalyst bed, reducing agent injection and storage, monitors - used to reduce sulfur oxide emissions from combustion sources. Non-catalytic systems use a reducing agent without a catalyst.	100

Miscellaneous Control Equipment

No.	Media	Property	Description	%
A-180	Air	Hoods, Duct and Collection Systems connected to Final Control Devices	Piping, headers, blowers, hoods, and ducts used to collect air contaminants and route them to a control device.	100
A-181	Air	Stack Modifications	Construction of stack extensions to meet a permit requirement.	100
A-182	Air	New Stack Construction	The incremental cost difference between the stack height required for production purposes and the stack height required for pollution control purposes.	100
A-183	Air	Stack Repairs	Repairs made to an existing stack for that stack to provide the same level of pollution control as was previously provided.	100
A-184	Air	Vapor/Liquid Recovery Equipment (for venting to a control device)	Piping, blowers, vacuum pumps, and compressors used to capture a waste gas or liquid stream and vent to a control device, including those used to eliminate emissions associated with loading tank trucks, rail cars, and barges.	100
A-185	Air	Paint Booth Control Devices	Pollution control equipment associated with the paint booth - including the items such as the control device, water curtain, filters, or other devices to capture paint fumes.	100
A-186	Air	Blast Cleaning System - Connected to a Control Device	Particulate control device and blast material recycling system.	100
A-187	Air	Amine or Chilled Ammonia Scrubber	Installed to provide post combustion capture of pollutants (including carbon dioxide (CO_2) upon the effective date of a final rule adopted by the United States Environmental Protection Agency (EPA) regulating CO_2 as a pollutant).	100
A-188	Air	Catalyst-based Systems	Installed to allow the use of catalysts to reduce pollutants in emission streams.	100
A-189	Air	Enhanced Scrubbing Technology	Installed to enhance scrubber performance, including equipment that promotes the oxidation of elemental mercury in the flue gas prior to entering the scrubber.	100
A-190	Air	Airless Paint Spray Gun	The incremental cost difference between an airless paint spray gun and a comparable standard air powered paint spray gun.	100

Water and Wastewater Pollution Control Equipment

Solid Separation and De-watering

No.	Media	Property	Description	%
W-1	Water	API Separator	Separates oil, water, and solids by settling and skimming.	100
W-2	Wastewater	CPI Separator	Mechanical oil, water, and solids separator.	100
W-3	Wastewater	Dissolved Air Flotation	Mechanical oil, water, and solids separator.	100
W-4	Wastewater	Skimmer	Used to remove hydrocarbon from process wastewater.	100
W-5	Wastewater	Decanter	Used to decant hydrocarbon from process wastewater.	100
W-6	Wastewater	Belt Press, Filter Press, or Plate and Frame	Mechanical de-watering devices.	100
W-7	Water	Centrifuge	Separation of liquid and solid waste by centrifugal force, typically a rotating drum.	100
W-8	Water	Settling Basin	Simple tank or basin for gravity separation of suspended solids.	100
W-9	Water	Equalization	Tank, sump, or headbox used to settle solids and equilibrate process wastewater streams.	100
W-10	Water	Clarifier	Circular settling basins usually containing surface skimmers and sludge removal rakes.	100

Disinfection

No.	Media	Property	Description	%
W-20	Water	Chlorination	Wastewater disinfection treatment using chlorine	100
W-21	Water	De-chlorination	Equipment for removal of chlorine from water or wastewater.	100
W-22	Water	Electrolytic Disinfection	Disinfect water by the use of electrolytic cells.	100
W-23	Water	Ozonization	Equipment that generates ozone for the disinfection of wastewater.	100
W-24	Water	Ultraviolet	Disinfection of wastewater by the use of ultraviolet light.	100
W-25	Water	Mixed Oxidant Solution	Solution of chlorine, chlorine dioxide, and ozone to replace chlorine for disinfection.	100

Biological Systems

No.	Media	Property	Description	%
W-30	Water	Activated Sludge	Wastewater treatment using microorganisms to metabolize biodegradable organic matter in aqueous waste streams. Can include tanks, aeration equipment, clarifiers, and equipment used to handle sludge.	100
W-31	Water	Adsorption	Use of activated carbon to remove organic contaminants from wastewater.	100
W-32	Water	Aeration	Passing air through wastewater to increase oxygen available for bacterial activities that remove contaminants.	100
W-33	Water	Rotary Biological Contactor	Use of large rotating discs that contain a bio- film of microorganisms that promote biological purification of the wastewater.	100
W-35	Water	Trickling Filter	Fixed bed of highly permeable media in which wastewater passes through and forms a slime layer to remove contaminants.	100
W-36	Water	Wetlands and Lagoons (artificial)	Artificial marsh, swamp, or pond that uses vegetation and natural microorganisms as bio- filters to remove sediment and other pollutants from wastewater or stormwater.	100
W-37	Water	Digester	Enclosed, heated tanks for treatment of sludge that is broken down by bacterial action.	100

Other Equipment

No.	Media	Property	Description	%
W-50	Water	Irrigation	Equipment that is used to disburse treated wastewater through irrigation on the site.	100
W-51	Water	Outfall Diffuser	Device used to diffuse effluent discharge from an outfall.	100
W-52	Water	Activated Carbon Treatment	Use of carbon media such as coke or coal to remove organics and particulate from wastewater. May be used in either fixed or fluidized beds.	100
W-53	Water	Oxidation Ditches and Ponds	Process of pumping air bubbles into a pond to assist in oxidizing organic and mineral pollution.	100
W-54	Water	Filters: Sand, Gravel, or Microbial	Passing wastewater through a sand or gravel bed to remove solids and reduce bacteria.	100
W-55	Water	Chemical Precipitation	Process used to remove heavy metals from wastewater.	100

No.	Media	Property	Description	%
W-56	Water	Ultra-filtration	Use of semi-permeable membrane and hydrostatic pressure to filter solids and high molecular weight solutes from wastewater.	100
W-57	Water	Conveyances, Pumps, Sumps, Tanks, Basins	Used to segregate storm water from process water, control storm water runoff, or convey contaminated process water.	100
W-58	Water	Water Recycling Systems	Installed systems, excluding cooling towers, that clean, recycle, or reuse wastewater or use gray water or storm water to reduce the amount of a facility's discharge or the amount of new water used as process or make-up water including Zero Discharge Systems.	100
W-59	Water	Wastewater Treatment Facility/Plant	New wastewater treatment facilities (including on-site septic systems) constructed to process wastewater generated on site.	100
W-60	Water	High-Pressure Reverse Osmosis	The passing of a contaminated water stream over a permeable membrane at high pressure to collect contaminants.	100
W-61	Water	Hydro-cyclone Vapor Extraction	An air-sparged hydro-cyclone for the removal of VOCs from a wastewater stream.	100
W-62	Water	Recycled Water Cleaning System	Equipment used to collect and recycle the water used in a high-pressure water system for cleaning contaminants from equipment and pavement.	100
W-63	Water	Chemical Oxidation	Use of hydrogen peroxide or other oxidants for wastewater treatment.	100
W-64	Water	Storm Water Containment Systems	Structures or liners used for containment of runoff from rainfall. The land that is actually occupied by the containment structure is eligible for a positive use determination.	100
W-65	Water	Wastewater Impoundments	Ponds used for the collection of water after use and before circulation.	100
W-66	Water	Oil/Water Separator	Mechanical device used to separate oils from storm water.	100

Control/Monitoring Equipment

No.	Media	Property	Description	%
W-70	Water	pH Meter, Dissolved Oxygen Meter, or Chart Recorder	Used for wastewater operations control and monthly reporting requirements.	100
W-71	Water	On-line Analyzer	Device that conducts chemical analysis on sample streams for wastewater operations control.	100
W-72	Water	Neutralization	Control equipment used to adjust pH of wastewater treatment components.	100
W-73	Water	Respirometer	Device used to measure oxygen uptake or CO_2 release in wastewater treatment systems.	100
W-74	Water	Diversion	Structures used for the capture and control of storm water and process wastewater or emergency diversion of process material. Land means only land that is actually occupied by the diversion or storage structure.	100
W-76	Water	Building	Used for housing wastewater control and monitoring equipment.	100
W-77	Water	De-foaming Systems	Systems consisting of nozzles, pilings, spray heads, and piping used to reduce surface foam.	100

Solid Waste Management Pollution Control Equipment

Solid Waste Management

No.	Media	Property	Description	%
S-1	Land / Water	Stationary Mixing and Sizing Equipment	Immobile equipment used for solidification, stabilization, or grinding of self-generated waste material for the purpose of disposal.	100
S-2	Land / Water	Decontamination Equipment	Equipment used to remove waste contamination or residues from vehicles that leave the facility.	100
S-3	Land / Water	Solid Waste Incinerator (not used for energy recovery and export or material recovery)	Solid waste incinerators, feed systems, ash handling systems, and controls.	100
S-4	Land / Water / Air	Monitoring and Control Equipment	Alarms, indicators, and controllers, for high liquid level, pH, temperature, or flow in waste treatment system. Does not include fire alarms.	100
S-5	Land / Water	Solid Waste Treatment Vessels	Any vessel used for waste treatment.	100

No.	Media	Property	Description	%
S-6	Land / Water	Secondary Containment	External structure or liner used to contain and collect liquids released from a primary containment device and/or ancillary equipment. Main purpose is to prevent groundwater or soil contamination.	100
S-7	Land / Water	Liners (Noncommercial Landfills and Impoundments)	A continuous layer or layers of natural and/or man-made materials that restrict downward or lateral escape of wastes or leachate in an impoundment or landfill.	100
S-8	Land / Water	Leachate Collection and Removal Systems	A system capable of collecting leachate or liquids, including suspended solids, generated from percolation through or drainage from a waste. Systems for removal of leachate may include sumps, pumps, and piping.	100
S-9	Land/ Water	Leak Detection Systems	A system capable of detecting the failure of a primary or secondary containment structure or the presence of a liquid or waste in a containment structure.	100
S-10	Land/ Water	Final Cover Systems for Landfills (Noncommercial)	A system of liners and materials to provide drainage, erosion prevention, infiltration minimization, gas venting, and a biotic barrier.	100
S-11	Land/ Water	Lysimeters	An unsaturated zone monitoring device used to monitor soil-pore liquid quality at a waste management unit (e.g., below the treatment zone of a land treatment unit).	100
S-12	Water	Groundwater Monitoring Well and Systems	A groundwater well or system of wells designed to monitor the quality of groundwater at a waste management unit (e.g., detection monitoring systems or compliance monitoring systems).	100
S-13	Air	Fugitive Emission Monitors	A monitoring device used to monitor or detect fugitive emissions from a waste management unit or ancillary equipment.	100
S-14	Land / Water	Slurry Walls/Barrier Walls	A pollution control method using a barrier to minimize lateral migration of pollutants in soils and groundwater.	100
S-15	Water	Groundwater Recovery or Remediation System	A groundwater remediation system used to remove or treat pollutants in contaminated groundwater or to contain pollutants (e.g., pump-and-treat systems).	100
S-16	Water	Noncommercial Injection Wells (Including Saltwater Disposal Wells) and Ancillary Equipment	Injection well, pumps, collection tanks and piping, pretreatment equipment, and monitoring equipment.	100

No.	Media	Property	Description	%
S-17	Land / Water	Noncommercial Landfills (used for disposal of self - generated waste materials) and Ancillary Equipment	Excavation, clay and synthetic liners, leak detection systems, leachate collection and treatment equipment, monitor wells, waste hauling equipment, decontamination facilities, security systems, and equipment used to manage the disposal of waste in the landfill.	100
S-18	Land / Water	Resource Conservation Recovery Act Containment Buildings (used for storage or treatment of hazardous waste)	Pads, structures, solid waste treatment equipment used to meet the requirements of 30 TAC Chapter 335, Subchapter O – Land Disposal Restrictions, §335.431.	100
S-19	Land / Water	Surface Impoundments and Ancillary Equipment (Including Brine Disposal Ponds)	Excavation, ponds, clay and synthetic liners, leak detection systems, leachate collection and treatment equipment, monitor wells, and pumps.	100
S-20	Land / Water	Waste Storage Used to Collect and/or Store Waste Prior to Treatment or Disposal	Tanks, containers and ancillary equipment such as pumps, piping, secondary containment, and vent controls (e.g., Resource Conservation Recovery Act Storage Tanks, 90-Day Storage Facilities, Feed Tanks to Treatment Facilities).	100
S-21	Air	Fugitive Emission Containment Structures	Structures or equipment used to contain or reduce fugitive emissions or releases from waste management activities (e.g., coverings for conveyors, chutes, enclosed areas for loading and unloading activities).	100
S-22	Water	Double-Hulled Barge	If double-hulled to reduce chance of leakage into public waters, calculate the incremental cost difference between a single-hulled barge and a double-hulled barge.	100
S-23	Land	Composting Equipment	Used to compost material where the compost will be used on site. (Does not include commercial composting facilities.)	100
S-24	Land	Compost Application Equipment	Equipment used to apply compost that has been generated on-site.	100
S-25	Land	Vegetated Compost Sock	Put in place as part of a facility's permanent Best Management Plan (BMP).	100
S-26	Air	Foundry Sand Reclamation Systems for Foundries	Components of a sand reclamation system that provide specific pollution control. Includes hooding over shaker screens vented to a dust collector, conveyor covers, and emission control devices at other points.	100
S-27	Air / Water / Land	Concrete Reclaiming Equipment	Processes mixed, un-poured concrete batches to reclaim the sand and gravel for reuse and recycles the water in a closed loop system.	100

No.	Media	Property	Description	%
S-28	Land	Fencing installed for the control of windblown trash or access control.	Fencing installed at landfills, solid waste transfer stations, or storage/treatment areas located at hazardous waste management facilities to meet environmental regulations.	100
S-29	Land / Water	Reclamation Equipment	Construction type equipment such as dozers, front-end loaders and dump trucks used exclusively for land reclamation. Does not include commercial reclamation equipment.	100

Miscellaneous Pollution Control Equipment

No.	Media	Property	Description	%
M-1	Air / Land / Water	Spill Response/ Cleanup Equipment Pre-positioned and Stored for Addressing Future Emergencies	Boats, barges, booms, skimmers, trawls, pumps, power units, packaging materials and containers, vacuum trailers, storage sheds, diversion basins, tanks, and dispersants.	100
M-2	Air / Land	Hazardous Air Pollutant Abatement Equipment - required removal material contaminated with asbestos, lead, or some other hazardous air pollutant	High-Efficiency Particulate Arresting (HEPA) Vacuum Equipment, Negative Air Pressure Enclosures, Glove Bags, and Disposal Containers.	100
M-3	Air / Land / Water	Vacuum Trucks, Street Sweepers and Watering Trucks	Mobile Surface Cleaning Equipment - used exclusively to control particulate matter on plant roads. (Does not include sweepers or scrubbers used to control particulate matter within buildings.)	100
M-4	Land	Compactors, Barrel Crushers, Balers, Shredders	Compactors and similar equipment used to change the physical format of waste material for recycling/reuse purposes or on-site disposal of facility-generated waste.	100
M-5	Air / Land / Water	Solvent Recovery Systems	Used to remove hazardous content from waste solvents by heat, vaporization, and condensation, by filtration, or by other means. The recycled solvents must be reused at the facility generating the waste.	100
M-6	Land / Water	Boxes, Bins, Carts, Barrels, Storage Bunkers	Collection/storage containers for source-separation of materials to be recycled or reused. Does not include product storage containers or facilities.	100
M-7	Air	Environmental Paving Located at Industrial Facilities	Paving of outdoor vehicular traffic areas in order to meet or exceed an adopted air quality rule, regulation, or law. Does not include paving of parking areas or driveways for convenience purposes or storm water control. Does not include dirt or gravel. Value of the paving must be stated on a square foot basis with a plot plan provided that shows the paving in question.	100
M-8	Air / Land / Water	Sampling Equipment	Equipment used to collect samples of exhaust gas, wastewater, soil, or other solid waste to be analyzed for specific contaminants or pollutants.	100
M-9	Water	Dry Stack Building for Poultry Litter	A pole-barn type structure used to temporarily store poultry litter in an environmentally safe manner.	100
M-10	Land / Water	Poultry Incinerator	Incinerators used to dispose of poultry carcasses.	100

M-11	Land / Water	Structures, Enclosures, Containment Areas, Pads for Composting Operations	Required to meet 'no exposure' storm water regulations.	100
M-12	Air	Methane Capture Equipment	Equipment used to capture methane generated by the decomposition of waste material on site. Methane must be sent to a control device rather than used.	100
M-13	Land	Drilling Mud Recycling System	Consisting of only the Shaker Tank System, Shale Shakers, Desilter, Desander, and Degasser.	100
M-14	Land	Drilling Rig Spill Response Equipment	Includes only the Ram Type Blowout Preventers, Closing Units, and Choke Manifold Systems.	100
M-15	Air	Odor Neutralization and Chemical Treatment Systems	Carbon adsorption, zeolite adsorption, and other odor neutralizing and chemical treatment systems to meet local ordinance or to prevent/correct nuisance odors at off-site receptors.	100
M-16	Air	Odor Dispersing and Removal Systems	Electrostatic precipitators, vertical dispersing fans, stack extensions, and other physical control equipment used to dilute, disperse, or capture nuisance odor vent streams.	100
M-17	Air	Low NO_X Combustion System for Drilling Rigs	Equipment on power generating units designed solely to reduce NO_X generation	100
M-18	Air	Odor Detectors	Olfactometers, gas chromatographs, and other analytical instrumentation used specifically for detecting and measuring ambient odor, either empirically or chemical specific.	100
M-19	Land	Cathodic Protection	Cathodic protection installed to prevent corrosion of metal tanks and piping.	100
M-20	Water	Fish and Other Aquatic Organism Protection Equipment	Equipment installed to protect fish and other aquatic organisms from entrainment or impingement in an intake cooling water structure. Equipment includes: Aquatic Filter Barrier Systems, Fine-Mesh Traveling Intake Screens, Fish Return Buckets, Sprays, Flow-Altering Louvers, Fish Trough, Fish Behavioral Deterrents, and Wetland Creation.	100
M-21	Water / Land	Double-walled Piping	The difference between cost of single walled piping and the cost of double-walled piping, when the double-walled piping is installed to prevent unauthorized discharges.	100
M-22	Water / Land	Double-walled Tanks	The difference between cost of single walled tanks and the cost of double-walled tanks, when the double-walled tanks are installed to prevent unauthorized discharges.	100

M-23	Land / Water / Air	Remote Controlled Block Valves	Valves installed on pipelines used to transport hydrocarbons and natural gas as a spill control measure.	100
M-24	Land / Water	Nondestructive Pipeline Testing	Expenditures for nondestructive pipeline testing such as radiography. Expenditures for non-pollution control purposes are not included.	100

Equipment Located at Tank Installations including Service Stations

Spill and Overfill Prevention Equipment

No.	Media	Property	Description	%
T-1	Water	Tight Fill Fittings	Liquid tight connections between the delivery hose and fill pipe.	100
T-2	Water	Spill Containers	Spill containment manholes equipped with either a bottom drain valve to return liquids to the tank or a hand pump for liquid removal.	100
T-3	Water	Automatic Shut-off Valves	Flapper valves installed in the fill pipe to automatically stop the flow of product.	100
T-4	Water	Overfill Alarms	External signaling device attached to an automatic tank gauging system.	100
T-5	Water	Vent Restriction Devices	Float vent valves or ball float valves to prevent backflow through vents.	100

Secondary Containment

No.	Media	Property	Description	%
T-10	Water	Double-walled Tanks	The difference between cost of single-walled tanks and the cost of double-walled tanks, when the double-walled tanks are installed to prevent unauthorized discharges or leaks.	100
T-11	Water	Double-walled Piping	The difference between cost of single-walled piping and the cost of double-walled piping, when the double-walled piping is installed to prevent unauthorized discharges or leaks.	100
T-12	Water	Tank Top Sumps	Liquid tight containers to contain leaks or spills that involve tank top fittings and equipment.	100
T-13	Water	Under Dispenser Sumps	Contains leaks and spills from dispensers and pumps.	100
T-14	Water	Sensing Devices	Installed to monitor for product accumulation in secondary containment sumps.	100

No.	Media	Property	Description	%
T-15	Land / Water	Concrete Paving Above Underground Tanks and Pipes	Required concrete paving located above underground pipes and tanks. The use determination value is limited to the difference between the cost per square foot of the concrete paving and the cost per square foot of the other paving installed at the service station. This item only applies to service stations.	100

Release Detection for Tanks and Piping

No.	Media	Property	Description	%
T-20	Water	Automatic Tank Gauging	Includes tank gauging probe and control console	100
T-21	Water	Groundwater or Soil Vapor Monitoring	Observation wells located inside the tank excavation or monitoring wells located outside the tank excavation	100
T-22	Water	Monitoring of Secondary Containment	Liquid sensors or hydrostatic monitoring systems installed in the interstitial space for tanks or piping	100
T-23	Water	Automatic Line Leak Detectors	Devices installed at the pump that are designed to detect leaks in underground piping. Mechanical and electronic devices are acceptable.	100
T-24	Water	Under Pump Check Valve	Valve installed to prevent back flow in the fuel dispensing line. This device is only used on suction pump piping systems.	100
T-25	Water	Tightness Testing Equipment	Equipment purchased to comply with tank and/or piping tightness testing requirements.	100

Cathodic Protection

No.	Media	Property	Description	%
T-30	Water	Isolation Fittings	Dielectric bushings and fittings to separate underground piping from aboveground tanks and piping.	100
T-31	Water	Sacrificial Anodes	Magnesium or zinc anodes packaged in low resistivity backfill to provide galvanic protection.	100
T-32	Water	Dielectric Coatings	Factory installed coal-tar epoxies, enamels, fiberglass reinforced plastic, or urethanes on tanks and/or piping. Field installed coatings limited to exposed threads, fittings, and damaged surface areas.	100

Emissions Control Equipment

No.	Media	Property	Description	%
T-40	Air	Stage I or Stage II Vapor Recovery	Includes pressure/vacuum vent relief valves, vapor return piping, stage 2 nozzles, coaxial hoses, vapor processing units, and vacuum- assist units. Used for motor vehicle fuel dispensing facilities. Does not include fuel delivery components of fuel dispensing unit.	100

TCEQ DOCKET Nos. 2016-0055-MIS-U, 2016-0056-MIS-U, 2016-0057-MIS-U, and 2016-0058-MIS-U

USE DETERMINATION NOS. 19538, 19543, 19551, AND 19575

APPEAL OF THE EXECUTIVE DIRECTOR'S USE DETERMINATION ISSUED TO DCP SOUTHERN HILLS PIPELINE, LLC APPLICATION NOS. 19538, 19543, 19551, AND 19575	§ § § § § §	**BEFORE THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY**

THE EXECUTIVE DIRECTOR'S RESPONSE TO WISE COUNTY APPRAISAL DISTRICT'S APPEALS OF THE EXECUTIVE DIRECTOR'S USE DETERMINATIONS

The Executive Director of the Texas Commission on Environmental Quality (the Commission or TCEQ) files this response to Wise County Appraisal District's (Appraisal District) appeals of the Executive Director's positive use determinations issued to DCP Southern Hills Pipeline, LLC (Applicant). The appeals were submitted by Michael Hand, Chief Appraiser of the Appraisal District.

For the reasons described below, the Executive Director respectfully requests that the Commission deny the Appraisal District's appeals and affirm the Executive Director's positive use determinations. Because the appeals concern related components of the same natural gas liquids pipeline, the Executive Director will respond to all of the appeals in one response.

PROGRAM BACKGROUND

Wise County Appraisal District challenges the Executive Director's determinations that certain property is used for pollution control purposes as provided under the Tax Relief Program for property used for environmental protection (also called the "Prop 2" program) established in the Texas Constitution, Texas Tax Code Section 11.31, and 30 Texas Administrative Code (TAC) Chapter 17. The appeals of the Executive Director's use determinations were filed pursuant to 30 TAC § 17.25, which establishes the appeals process for use determinations issued by the Executive Director.

In 1993, the citizens of Texas voted to adopt a tax measure called Proposition 2. Proposition 2 was implemented when Article VIII, § 1-l was added to the Texas Constitution on November 2, 1993. The amendment allowed the legislature to "exempt from ad valorem taxation all or part of real and personal property used, constructed, acquired, or installed wholly or partly to meet or exceed rules or regulations adopted by any environmental protection agency of the United States, this state, or a political subdivision of this state for the prevention, monitoring, control, or reduction of air, water, or land pollution."

The Texas Legislature codified the constitutional amendment in 1993 as TEX. TAX CODE § 11.31 (effective January 1, 1994). The statutory language in the codified version mirrored the language of Article VIII, § 1-l. Under the Prop 2 program, certain property owners may apply to the Executive Director for a determination of pollution control use for their subject property. In 2001, the legislature amended TEX. TAX CODE § 11.31 when it passed HB 3121 (effective September 1, 2001). This bill added several new procedural requirements to TEX. TAX CODE § 11.31, including a provision requiring the establishment and implementation of a process to appeal use determinations. The amendment also required the Commission to adopt new rules establishing specific standards for the Executive Director to follow in making use determinations for property that qualified for either full or partial positive use determinations.[1] Appeals under 30 TAC § 17.25 may be filed by either the applicant seeking the determination, or by the chief appraiser of the tax appraisal district affected by the determination.[2] The appellant is required to explain the basis for the appeal.[3]

PROCEDURAL HISTORY

On December 14, 2015, DCP Southern Hills, LLC filed applications for Tier I and Tier II 100% positive use determinations for various components of a natural gas liquids pipeline.[4] The applicant states that the pipeline runs from Kansas to the Texas Gulf Coast with 390 miles of pipeline situated in Texas. The applications subject to these appeals concern the portion of the pipeline in Wise County, Texas. Application 19538 seeks a Tier I 100% positive use determination for three 8-inch automatic shut-off valves. Application 19543 seeks a Tier I 100% positive use determination for pipeline coating and cathodic

[1] TEX. TAX CODE § 11.31(g).
[2] TEX. TAX CODE § 11.31(e) and 30 TAC § 17.25(a)(2).
[3] 30 TAC § 17.25(b)(5).
[4] Applications 19538, 19543, 19551, and 19575 are provided as **ATTACHMENT 1**.

protection. Application 19551 seeks a Tier II 100% positive use determination for nondestructive testing procedures conducted on 2.5 miles of the natural gas liquids pipeline located in Wise County. Application 19575 seeks a Tier I 100% positive use determination for the leak detection system, including intelligent pipeline inspection gauge launchers and receivers. On December 23, 2015, the Executive Director issued 100% positive use determinations for the pollution control property claimed in the four Applications described above.[5] The Appraisal District's appeals of the positive use determinations were filed with the TCEQ's Office of the Chief Clerk on January 12, 2016.

PROPERTY DESCRIPTION

Tier I Applications

DCP Southern Hill's applications seek use determinations for components of its natural gas liquids pipeline that are located in Wise County. Three of the applications are for property included on the Tier I Table in 30 TAC § 17.14(a). For property that is used as described in the Tier I Table, the Executive Director has predetermined that the property is used wholly for the control of pollution. Application 19538 designated property under Tier I Table category No. T-3 "Automatic Shut-off valves" and cited U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration (PHMSA) regulation in 49 CFR § 195.260(c) that requires valves to be installed to minimize pollution from accidental discharge. Application 19543 designated property under Tier I Table category No. T-32 "Dielectric Coatings" and cited PHMSA regulations 49 CFR §§ 195.557(a) and 195.563(a) that require the installation of pipe coatings and cathodic protection. Application 19575 designated the intelligent pipeline inspection gauge launchers and receivers under Tier I Table category No. S-9 "Leak Detection Systems" and cited PHMSA regulation 49 CFR § 195.120(a) that requires instrumented internal inspection devices.

[5] Use Determination Nos. 19538, 19543, 19551, and 19575 are provided as **ATTACHMENT 2**.

Tier II Application

DCP Southern Hill's application 19551 seeks a Tier II use determination for its expenditures on non-destructive testing procedures required to detect and prevent leaks in its pipeline. The Applicant describes the radiography testing that was performed on the pipeline welds to detect any defects in the welds. A Tier II application is submitted for property that is used wholly for the control of air, water and/or land pollution but is not identified on the Tier I Table in 30 TAC § 17.14(a). In support of its Tier II application, DCP Southern Hills cites PHMSA regulations 49 CFR §§ 195.228(a) and 195.234(a) that require non-destructive testing of pipeline welds, including radiography testing.

APPELLANT'S CLAIM

In each of its appeals, the Appraisal District contends that the subject property is not used for pollution control. The Appraisal District presents no information to support this position.

LEGAL ANALYSIS

DCP SOUTHERN HILLS IS ENTITLED TO POSITIVE USE DETERMINATIONS

The Executive Director reviewed the applications and determined that each application was eligible for a 100% positive use determination under the program requirements in 30 TAC Chapter 17. The Appraisal District contends that the subject properties are not used for pollution control. The Executive Director disagrees with this opinion and asserts that the applicant has demonstrated that the property is used for pollution control purposes.

Use Determination 19538 applies to three 8-inch automatic shut-off valves for the pipeline located in Wise County. Automatic shut-off valves are installed to prevent or mitigate the release of pipeline products and fluids from leaking or discharging into the environment. Automatic shut-off valves are specifically included on the Tier I Table in 30 TAC § 17.14(a) and are determined by rule to be used wholly for pollution control purposes. Use Determination 19543 applies to the cathodic protection; fusion-bonded epoxy; adhesive for top coat; and top coat consisting of polyethylene or polypropylene. Cathodic protection and pipeline coatings are used to minimize corrosion of the pipeline; corrosion of the pipeline materials could lead to leaks or discharge of pipeline product or fluids into the environment.

Dielectric coatings are specifically included on the Tier I Table in 30 TAC § 17.14(a) and are determined by rule to be used wholly for pollution control purposes. Use Determination 19551 applies to the nondestructive pipeline testing expenditures using radiography. Radiography testing of the pipeline welds is used to identify flaws, defects or damage in the pipeline welds. Such damage to the welds could lead to leaks or discharge of pipeline fluids into the environment. Thus, the radiography testing on the welds is used for pollution control purposes. Use Determination 19538 applies to one 8-inch intelligent pipeline inspection gauge (PIG) receiver and two 8-inch PIG launchers. A PIG is an inspection device that is inserted into a pipeline to provide information about the internal conditions of the pipeline, including information on corrosion, formation of cracks, and leak detection. The PIG is introduced into the pipeline at the PIG launcher and removed from the PIG receiver. The PIG launchers and receivers are components of a leak detection system for the pipeline used to monitor and prevent leaks or discharge of pipeline product or fluids into the environment. A leak detection system is specifically included on the Tier I Table in 30 TAC § 17.14(a) and is determined by rule to be used wholly for pollution control purposes.

The commission has previously considered appeals on similar pollution control property and upheld the Executive Director's determinations that cathodic protection and pipeline coating; pipeline leak detection systems, including PIG launchers and receivers; and non-destructive weld testing are pollution control properties eligible for positive use determinations. On July 21, 2014, the commission issued an order that denied an appeal and affirmed the Executive Director's positive use determination for nondestructive pipeline testing expenditures—radiography for the DCP Sand Hills Pipeline located in Edwards County. This previously affirmed determination covered expenditures for weld testing on a pipeline and is similar to use determination 19551.[6] On April 23, 2008, the commission issued an order that denied appeals and affirmed the Executive Director's positive use determinations for property including dielectric coating (cathodic protection) and automatic leak line detectors (PIG launching/receiving equipment) on portions of a natural gas pipeline in Rusk and Panola Counties.[7] On this occasion, the commission affirmed the Executive

[6] TCEQ Docket No. 2014-0288-MIS-U, Edwards Central Appraisal District's appeal of the Executive Director's Positive Use Determination regarding DCP Sand Hills Pipeline, LLC Application No. 17494, considered at the July 2, 2014 commission meeting.

[7] TCEQ Docket Nos. 2007-0961-MIS-U and 2007-0962-MIS-U, Appeals filed by the Chief Appraisers for Panola and Rusk Counties with regard to the Executive Director's Positive Use Determinations for the Houston Pipeline Company Applications Nos. 06-11002 and 06-11004, considered at the April 2, 2008 commission meeting.

Director's positive use determinations for cathodic protection and coatings and leak detection systems similar to use determinations 19543 and 19538.

CONCLUSION

After careful review of the issue raised in the appeals, the Executive Director respectfully recommends that the commission deny the appeals and affirm the Executive Director's positive use determinations. The Executive Director reviewed DCP Southern Hill's applications, found that the applications met the requirements of 30 TAC Chapter 17, and determined the subject properties are used for the control of air, water, or land pollution. The Executive Director's determinations should be affirmed.

Respectfully submitted,

Texas Commission on Environmental Quality

Richard Hyde
Executive Director

Robert Martinez, Director
Environmental Law Division

By Don Redmond

Don Redmond, Attorney
State Bar #24010336
Environmental Law Division
P.O. Box 13087, MC-173
Austin, Texas 78711-3087
Phone: 512.239.0600
Fax: 512.239.0606

REPRESENTING THE
EXECUTIVE DIRECTOR OF THE
TEXAS COMMISSION ON
ENVIRONMENTAL QUALITY

CERTIFICATE OF SERVICE

I certify that on February 4, 2016, an original and seven copies of the "Executive Director's Response to Wise County Appraisal District's Appeals of the Executive Director's Positive Use Determinations" was filed with the Texas Commission on Environmental Quality's Office of the Chief Clerk, and a complete copy was transmitted by mail, facsimile, electronic mail or hand-delivery to all persons on the attached mailing list.

By Don Redmond
Don Redmond, Attorney
Environmental Law Division

Mailing List
DCP Southern Hills Pipeline, LLC
TCEQ Docket Nos. 2016-0055-MIS-U, 2016-0056-MIS-U, 2016-0057-MIS-U, and 2016-0058-MIS-U

Michael Hand
Chief Appraiser
Wise County Appraisal District
400 East Business 380
Decatur, Texas 78876234
FAX: 940.627.5187

DCP Southern Hills Pipeline, LLC
370 17th Street, Suite 2500
Denver, Colorado 80202-5604

Kathryn Tronsberg Macciocca
Director, Property Tax
Duff & Phelps, LLC
2000 Market Street, Suite 2700
Philadelphia, Pennsylvania 19103

Vic McWherter
TCEQ Office of Public Interest Council MC 105
P.O. Box 13087
Austin, Texas 78711-3087

Docket Clerk
TCEQ Office of Chief Clerk MC 105
P.O. Box 13087
Austin, Texas 78711-3087

Attachment 1

19538

Texas Commission on Environmental Quality

Use Determination for Pollution Control Property Application

A person seeking a use determination must complete this application form. For assistance in completing the application form please refer to the *Instructions for Use Determination for Pollution Control Property Application Form TCEQ-00611*, as well as the rules governing the Tax Relief Program in Title 30 Texas Administrative Code Chapter 17 (30 TAC 17). Information relating to completing this application form is also available in the TCEQ regulatory guidance document, *Property-Tax Exemptions for Pollution Control Property, RG-461*. For additional assistance, please call the Tax Relief Program at 512-239-4900.

You must supply information for each field of this application form unless otherwise noted.

Section 1. Property Owner Information

1. Company Name of Owner: **DCP Southern Hills Pipeline, LLC**
2. Mailing Address: **370 17th Street, Suite 2500**
3. City, State, Zip: **Denver, Colorado 80202-5604**
4. Customer Number (CN): **CN604984823**
5. Regulated Entity Number (RN): **RN108852948**
6. Is this property/equipment owned by the CN listed in Question 4? Yes ☒ No ☐

If the answer is 'No,' please explain:

To be eligible for a positive use determination the property must be owned and operated by the same entity.

7. Is this property subject to any lease or lease-to-own agreement? Yes ☐ No ☒

If the answer is 'Yes,' please explain:

8. Is this property operated by the RN listed in Question 5? Yes ☒ No ☐

If the answer is 'No,' please explain:

To be eligible for a positive use determination the property must be owned and operated by the same entity.

Section 2. Physical Location of Property

1. Name of Facility or Unit where the property/equipment is physically located:

   Southern Hills Pipeline
2. Type of Mfg. Process or Service: **Pipeline Transportation of Natural Gas Liquids**
3. Street Address: **940 Mile, 8 - 20" Diameter NGL Pipeline**
4. City, State, Zip: **2.5 Mile, 8" NGL pipeline running from east of Chico to southeast of Alvord in Wise County (see Attachment A)**
5. County: **Wise**

6. Appraisal District Account Number(s): **N002042979; N002046859; N002042982; N002042974; N002021214; N002042977; N002046665; N002046858; N002046945; and N002042968**

Section 3. Contact Name

1. Company Name: **Duff & Phelps, LLC**
2. First Name of Contact: **Kathryn**
3. Middle Initial: **L.**
4. Last Name of Contact: **Tronsberg Macciocca**
5. Salutation: Mr. ☐ Mrs. ☐ Ms. ☒ Dr. ☐ Other:
6. Title: **Director, Property Tax**
7. Suffix:
8. Mailing Address: **2000 Market Street, Suite 2700**
9. City, State, Zip: **Philadelphia, Pennsylvania, 19103**
10. Phone Number/Fax Number: **(215)430-6059**
11. Email Address: **kathryn.tronsberg@duffandphelps.com**
12. Self-Assigned Tracking Number (optional): **SO-2015-32**

Section 4. General Information

1. What is the type of ownership of this facility?

Corporation ☐	Limited Partner ☐	Other:
Sole Proprietor ☐	Limited Liability Corporation ☒	
Partnership ☐	Utility ☐	

2. Size of Company: Number of Employees

1 to 99 ☒	500 to 999 ☐	2,000 to 4,999 ☐
100 to 499 ☐	1,000 to 1,999 ☐	5,000 or more ☐

3. Business Description: (Briefly describe the type of business or activity at the facility)

   Pipeline Transportation of Natural Gas Liquids

4. Provide the North American Industry Classification System (NAICS) six-digit code for this facility.

   486910 – Natural Gas Liquids Pipeline Transportation

Section 5. Property Description, Applicable Rule, and Environmental Benefit

For each piece, or each category, of pollution control property for which a use determination is being sought, answer the following questions.

Attach additional response sheets to the application for each piece of integrated pollution control property if a use determination is being sought for more than one (1) piece.

General Information

1. Name the property: **Automatic Shut-Off Valves**
2. Is the property used 100% as pollution control equipment? Yes ☒ No ☐

   Explain your answer: Through a technical/engineering review of the Facility's process activities, (NGL pipeline transportation), the subject property was determined to have no productive benefit for the Facility. Rather, this property was installed at the Facility solely to comply with environmental laws or rules to control or prevent the creation of (air, water, or land) pollution.
3. Does the property generate a Marketable Product? Yes ☐ No ☒

   Marketable Product: Anything produced or recovered using pollution control property that is sold as a product, is accumulated for later use, or is used as a raw material in a manufacturing process. Marketable product includes, but is not limited to, anything recovered or produced using the pollution control property and sold, traded, accumulated for later use, or used in a manufacturing process (including at a different facility).

   If the answer is 'Yes,' describe the marketable product: **N/A**
4. What is the appropriate Tier I Table or Expedited Review List number?

   T-3 Automatic Shut-Off Valves
5. Is the property integrated pollution control equipment? Yes ☒ No ☐

   If the answer is 'No,' separate applications must be filed for each piece of property.
6. List applicable permit number(s) for the pollution control property: **N/A**

Incremental Cost Difference

7. Is the Tier I Table item number A-86, A-112, A-114, A-182, or S-22? Yes ☐ No ☒

   If the answer is 'Yes,' the use determination percentage is based on the incremental cost difference and you must answer the following questions:
8. What is the cost of the new piece of property? **N/A**
9. What is the cost of the comparable property without controls? **N/A**
10. How was the value of the comparable property calculated? **N/A**

Property Description

11. Describe the property. (What is it? Where is it located within the production process? How is it used to control, prevent, or monitor pollution?)

    Facility Description

    The Southern Hills Pipeline (the "Pipeline") is a 940-mile-long, 8" -20"- diameter natural gas liquids ("NGL") pipeline that runs from Seward County, KS to the Texas Gulf Coast and Mont Belvieu, Texas. The Texas portion of the Pipeline is a 390-mile-long, 8"-20" NGL pipeline. The Pipeline is designed to provide takeaway service from DCP Midstream, LLC and third-party plants in the Midcontinent to fractionation facilities along the Texas Gulf Coast and the Mont Belvieu market hub (800-mile mainline). The Pipeline has a current design capacity of 200,000 barrels per day, which is expandable to 350,000 with future pumping station additions. The Pipeline was placed in service in 2013 with a target capacity

of 175,000 barrels per day. The subject segment of the Pipeline is 2.5 miles of 8" pipe in Wise County.

Pollution Control Property Description – Automatic Shut-Off Valves

The following installations were made on the Southern Hills Pipeline:

- (3) 8" Automatic Shut-Off Valves located at
  - 33°18'28.6"N 97°46'41.6"W (See Attachment B)
  - 33°18'14.2"N 97°39'01.4"W (See Attachment B)
  - 33°18'52.4"N 97°50'13.1"W (See Attachment B)

During pipeline operations, a potential for unintended NGL releases exists from unexpected pipeline ruptures or leaks due to pipeline damage or defects.[1] Mitigating the consequences of an unintended NGL release requires limiting the overall volume of NGL that might escape from the pipeline and flow into the surrounding environment. Automatic Shut-off Valves are installed at intervals along the pipeline to reduce or prevent any such negative impacts to the environment caused by an NGL release.[2]

An Automatic Shutoff Valve is a block valve equipped with an electric, pneumatic, or natural gas-powered actuator capable of closing the valve automatically when a change in pressure or flow rate exceeds a specified limit. Data needed to determine change are provided by sensors attached to the pipeline.[3] Isolating the damaged pipeline segment by quickly closing upstream and downstream block valves is an effective method for mitigating the consequences of an unintended NGL fugitives release, thus reducing risk of environmental damage from pollutants by controlling the overall volume of any NGL release.[4]

Leaked or spilled NGLs are non-recoverable and become potential water or land pollutants upon release with the potential to contaminate both the waters and lands of the State of Texas.

Applicable Rule

12. What adopted environmental rule or regulation is being met by the construction or installation of the property? The citation must be to the specific section, subsection, paragraph, subparagraph, or clause level. Describe how the property meets or exceeds the requirements.

    Should any leaked NGLs inadvertently be released from the pipeline during handling, they are non-recoverable and meet the definition of "Industrial Solid Waste" as defined in 30 Texas Administrative Code ("TAC") §335.1(80) and the definition of "Solid Waste" as defined in 30 TAC §335.1(140)(a). The Nondestructive Testing Expenditures are implemented to meet the requirements of 30 TAC §335.4 under which:

    "no person may **cause**, suffer, **allow**, or **permit** the collection, **handling**, processing, or **disposal of industrial solid waste** or municipal hazardous waste in such a

[1] Interstate Natural Gas Association of America. Pipeline Valve Operation Quick Facts. 7/29/2011.
[2] *Studies for the Requirements of Automatic and Remotely Controlled Shutoff Valves on Hazardous Liquids and Natural Gas Pipelines with Respect to Public and Environmental Safety.* Oak Ridge National Laboratory ORNL/TM-2012/411. October 31, 2012. P. 33.
[3] Ibid. P. 171
[4] *Ibid.* P. 33.

manner to as to cause (1) the discharge or **imminent threat of discharge** of industrial solid waste or municipal hazardous waste into or adjacent to the waters in the state . . . ." [emphasis added]

Furthermore, hazardous liquids pipelines are regulated by the US Department of Transportation Pipeline and Hazardous Materials Safety Administration ("PHMSA"), who require under 49 Code of Federal Regulations ("CFR") §195.260(c) that valves be installed on each mainline at locations along the pipeline system that will minimize damage or pollution from accidental hazardous liquid discharge.

Environmental Benefit

13. What is the anticipated environmental benefit related to the construction or installation of the property?

Automatic Shut-off Valves are installed at intervals along the Pipeline to reduce or prevent an NGL release which may cause adverse impacts to the waters and lands of the State of Texas.

Section 6. Process Flow Diagram (Optional)

Attach documentation to the application showing a Process Flow Diagram for the property.

A process flow diagram has not been provided for this application.

Section 7. Partial-Use Percentage Calculation

This section must be completed for all Tier III applications. Attach documentation to the application showing the calculations used to determine the partial-use percentage for the property.

This application is for Tier I 100% pollution control property.

Section 8. Property Categories and Costs

List each piece of integrated pollution control property for which a use determination is being sought.

Property Name	Tier 1 Table No. or Expedited Review List No.	Use Percent	Estimated Dollar Value
Land:			
Property: **Automatic Shut-Off Valves**	**T-3**	**100%**	**$540,809**
Property:			
		Total:	**$540,809**

Attach additional response sheets to the application if more than five (5) pieces of property need to be listed.

NOTE: Separate applications must be filed for each piece of nonintegrated pollution control property.

Section 9. Type of Application and Fee

1. Type of Application being filed: *Select only one.*

Tier I – Fee: $150 ☒ Tier II – Fee: $1,000 ☐ Tier III – Fee: $2,500 ☐

2. Fee Payment Type:

Check ☒ Money Order ☐ Electronic Payment ☐

3. Payment Receipt Number: **N/A**
4. Payment Amount: **$150.00**
5. Payer Name on Payment: **Duff & Phelps, LLC**
6. Total Amount of Payment: **$150.00**

NOTE: Enclose a check, money order to the TCEQ, or a copy of the ePay receipt along with the application to cover the required fee.

In accordance with the TCEQ's Delinquent Fee Protocol, the Tax Relief Program will not consider applications administratively complete until all delinquent fees the company owes to the TCEQ are paid.

Information regarding the TCEQ's Delinquent Fee Protocol is available at:

http://www.tceq.state.tx.us/agency/delin/index.html.

Section 10. Certification Statement

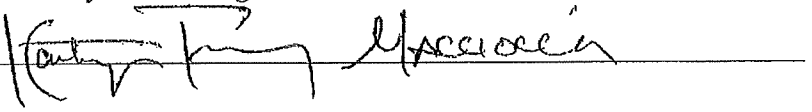
Must be signed by owner or designated representative.

I certify under penalty of law that this document and all attachments were prepared under my direction or supervision in accordance with a system designed to assure that qualified personnel properly gather and evaluate the information submitted. Based on my inquiry of the person or persons who manage the system, or those persons directly responsible for gathering the information, the information submitted is, to the best of my knowledge and belief, true, accurate, and complete. I further certify that the property listed in this application is eligible for a tax exemption under Texas Tax Code, §11.31 given that:

- the property is not solely used, constructed, acquired, or installed to manufacture or produce a good or provide a service, including a good or service that prevents, monitors, controls, or reduces air, water, or land pollution,
- the environmental benefit associated with the property is not wholly derived from the use or characteristics of the goods or services produced by the property,
- the property is wholly or partly used, constructed, acquired, or installed to meet or exceed law, rule, regulation adopted by an environmental protection agency of the United States, Texas, or a political subdivision of Texas for the prevention, monitoring, control, or reduction of air, water, or land pollution,
- the property is not used for residential purposes, or for recreational, park, or scenic uses as defined by Texas Tax Code, §23.81,
- the property is not a motor vehicle, except for a dedicated service motor vehicle used solely for pollution control, and
- the property was not acquired, constructed, or installed before January 1, 1994.

I am aware there are significant penalties for submitting false information, including the possibility of fine and imprisonment for knowing violations.

Printed Name: Kathryn Tronsberg Macciocca Date: December 9, 2015

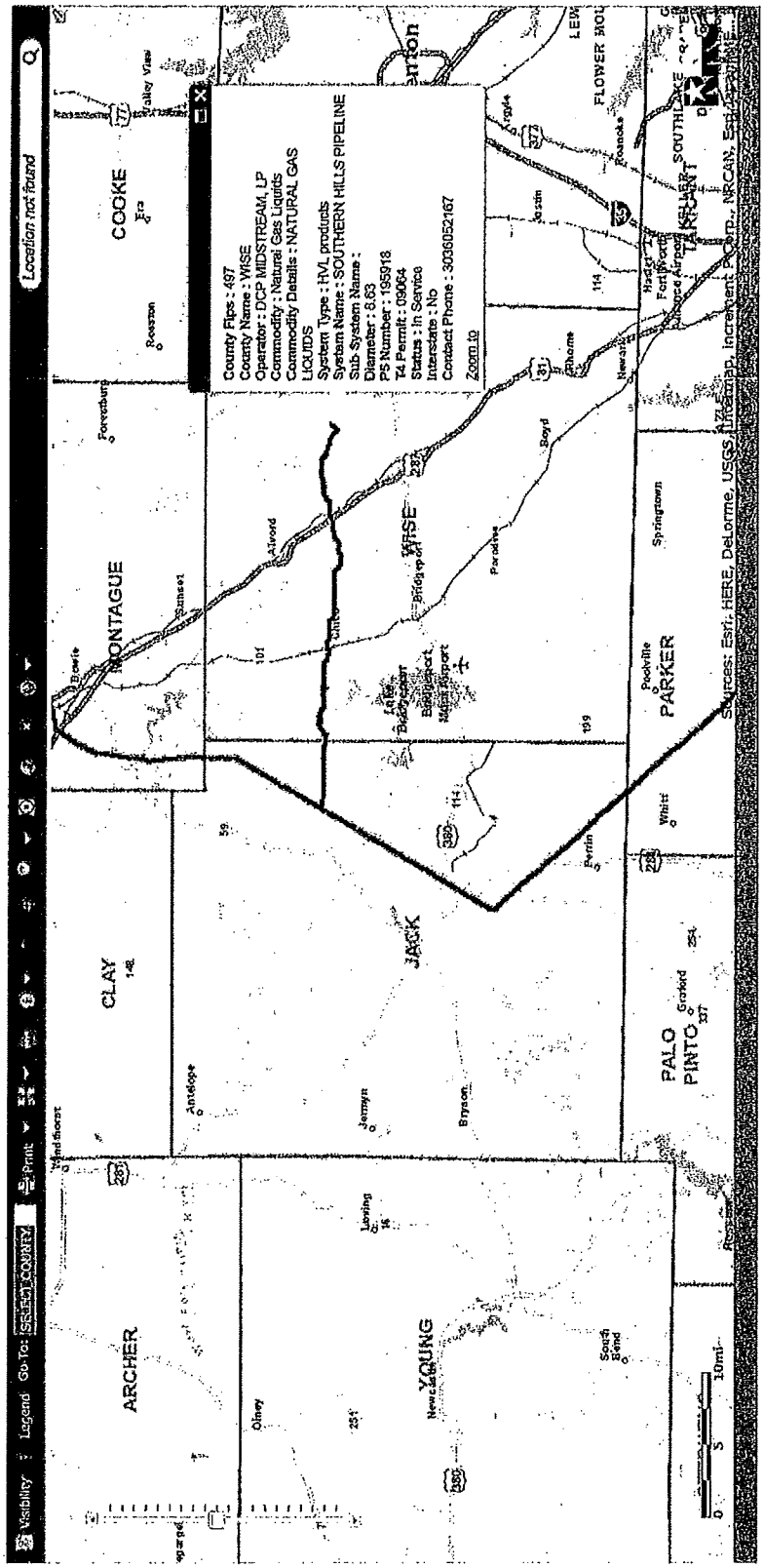
Signature: 

Title: Director

Company Name: Duff & Phelps, LLC

Under Texas Penal Code 37.10, if you make a false statement on this application, you could receive a jail term of up to one year and a fine up to $2,000, or a prison term of two to 10 years and a fine of up to $5,000.

Attachment A



Attachment B

Google Maps

33°18'28.6"N 97°46'41.6"W

8" Automatic Shut-Off Valve in Wise County

Imagery ©2015 DigitalGlobe, Texas Orthoimagery Program, Map data ©2015 Google 50 ft

33°18'28.6"N 97°46'41.6"W

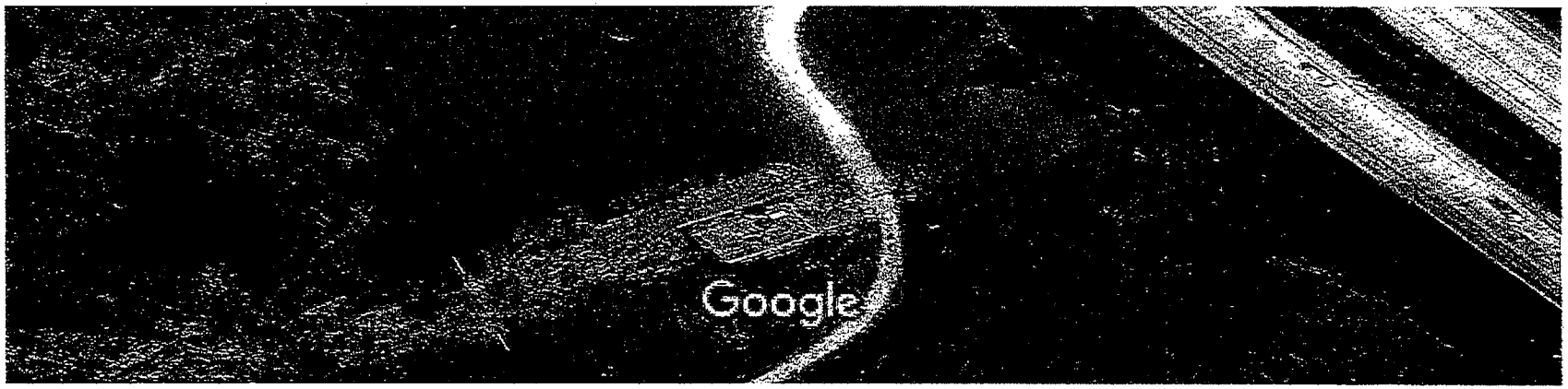
ROA 0940

Attachment B

Google Maps

33°18'14.2"N 97°39'01.4"W

8" Automatic Shut-Off Valve in Wise County



Map data ©2015 Google 20 ft

33°18'14.2"N 97°39'01.4"W

ROA 0941

Attachment B

Google Maps

33°18'52.4"N 97°50'13.1"W

8" Automatic Shut-Off Valve in Wise County

Imagery ©2015 DigitalGlobe, Texas Orthoimagery Program, Map data ©2015 Google 50 ft

33°18'52.4"N 97°50'13.1"W

ROA 0942

DUFF & PHELPS

TCEQ Cashier's Office - MC-214
Building A
12100 Park 35 Circle
Austin, TX 78753

December 9, 2015

Re: Application for Use Determination for Water Pollution Control Property Located at Southern Hills Pipeline (the "Facility") in Wise County

Enclosed please find one application (the "Application") for property tax exemption for Water Pollution Control Property located at Southern Hills Pipeline (the "Facility") in Wise County, Texas. A copy of the Application has been provided for the appraisal district.

Pursuant to Title 30 of Chapter 17 of the Texas Administrative Code, the Application has been prepared using the Texas Commission on Environmental Quality ("TCEQ") Application for Use Determination for Pollution Control Property. The enclosed application is a Tier I Application. Submission of this Application is required as a process step in the TCEQ's pollution control certification process for tax exemption of certain assets used in pollution control capacities within the Facility. As outlined by the application instructions, the fee for this Tier I Application is $150. Please find enclosed a check for the $150 Tier I Application Fee.

The Application can be summarized as follows:

Property	Description	Estimated Cost
Tier I	Pipeline Coatings & Cathodic Protection	$ 372,963

Please send one copy of the completed property tax exemption Use Determination to the following address:

Kathryn Tronsberg Macciocca
c/o Duff & Phelps LLC
919 Congress Avenue, Ste 1450
Austin, TX 78701

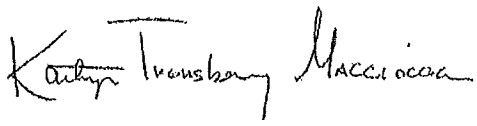
Duff & Phelps, LLC
2000 Market Street
Suite 2700
Philadelphia, PA 19103

T +1 215 430 6059
F +1 215 240 6334

kathryn.tronsberg@duffandphelps.com
www.duffandphelps.com

If you have any questions regarding the Application or the information supplied within the Application, please feel free to contact me at (215) 430-6059 or by e-mail at kathryn.tronsberg@duffandphelps.com.

Very truly yours,



Kathryn Tronsberg Macciocca
Director
Property Tax

Enclosures

19543

Texas Commission on Environmental Quality

Use Determination for Pollution Control Property Application

A person seeking a use determination must complete this application form. For assistance in completing the application form please refer to the *Instructions for Use Determination for Pollution Control Property Application Form TCEQ-00611*, as well as the rules governing the Tax Relief Program in Title 30 Texas Administrative Code Chapter 17 (30 TAC 17). Information relating to completing this application form is also available in the TCEQ regulatory guidance document, *Property-Tax Exemptions for Pollution Control Property, RG-461*. For additional assistance, please call the Tax Relief Program at 512-239-4900.

You must supply information for each field of this application form unless otherwise noted.

Section 1. Property Owner Information

1. Company Name of Owner: **DCP Southern Hills Pipeline, LLC**
2. Mailing Address: **370 17th Street, Suite 2500**
3. City, State, Zip: **Denver, Colorado 80202-5604**
4. Customer Number (CN): **CN604984823**
5. Regulated Entity Number (RN): **RN108852948**
6. Is this property/equipment owned by the CN listed in Question 4? Yes ☒ No ☐

If the answer is 'No,' please explain:

To be eligible for a positive use determination the property must be owned and operated by the same entity.

7. Is this property subject to any lease or lease-to-own agreement? Yes ☐ No ☒

If the answer is 'Yes,' please explain:

8. Is this property operated by the RN listed in Question 5? Yes ☒ No ☐

If the answer is 'No,' please explain:

To be eligible for a positive use determination the property must be owned and operated by the same entity.

Section 2. Physical Location of Property

1. Name of Facility or Unit where the property/equipment is physically located:

   Southern Hills Pipeline
2. Type of Mfg. Process or Service: **Pipeline Transportation of Natural Gas Liquids**
3. Street Address: **940 Mile, 8 - 20" Diameter NGL Pipeline**
4. City, State, Zip: **2.5 Mile, 8" NGL pipeline running from east of Chico to southeast of Alvord in Wise County (see Attachment A)**
5. County: **Wise**

6. Appraisal District Account Number(s): **N002042979; N002046859; N002042982; N002042974; N002021214; N002042977; N002046665; N002046858; N002046945; and N002042968**

Section 3. Contact Name

1. Company Name: **Duff & Phelps, LLC**
2. First Name of Contact: **Kathryn**
3. Middle Initial: **L.**
4. Last Name of Contact: **Tronsberg Macciocca**
5. Salutation: Mr. ☐ Mrs. ☐ Ms. ☒ Dr. ☐ Other:
6. Title: **Director, Property Tax**
7. Suffix:
8. Mailing Address: **2000 Market Street, Suite 2700**
9. City, State, Zip: **Philadelphia, Pennsylvania, 19103**
10. Phone Number/Fax Number: **(215)430-6059**
11. Email Address: **kathryn.tronsberg@duffandphelps.com**
12. Self-Assigned Tracking Number (optional): **SO-2015-02**

Section 4. General Information

1. What is the type of ownership of this facility?

Corporation ☐	Limited Partner ☒	Other:
Sole Proprietor ☐	Limited Liability Corporation ☒	
Partnership ☐	Utility ☐	

2. Size of Company: Number of Employees

1 to 99 ☒	500 to 999 ☐	2,000 to 4,999 ☐
100 to 499 ☐	1,000 to 1,999 ☐	5,000 or more ☐

3. Business Description: (Briefly describe the type of business or activity at the facility)

   Pipeline Transportation of Natural Gas Liquids

4. Provide the North American Industry Classification System (NAICS) six-digit code for this facility.

   486910 – Natural Gas Liquids Pipeline Transportation

Section 5. Property Description, Applicable Rule, and Environmental Benefit

For each piece, or each category, of pollution control property for which a use determination is being sought, answer the following questions.

Attach additional response sheets to the application for each piece of integrated pollution control property if a use determination is being sought for more than one (1) piece.

General Information

1. Name the property: **Pipeline Coatings & Cathodic Protection**
2. Is the property used 100% as pollution control equipment? Yes ☒ No ☐

   Explain your answer: Through a technical/engineering review of the Facility's process activities, (NGL pipeline transportation), the subject property was determined to have no productive benefit for the Facility. Rather, this property was installed at the Facility solely to comply with environmental laws or rules to control or prevent the creation of (air, water, or land) pollution.
3. Does the property generate a Marketable Product? Yes ☐ No ☒

   Marketable Product: Anything produced or recovered using pollution control property that is sold as a product, is accumulated for later use, or is used as a raw material in a manufacturing process. Marketable product includes, but is not limited to, anything recovered or produced using the pollution control property and sold, traded, accumulated for later use, or used in a manufacturing process (including at a different facility).

   If the answer is 'Yes,' describe the marketable product: **N/A**
4. What is the appropriate Tier I Table or Expedited Review List number?

   M-19 Cathodic Protection; T-32 Dielectric Coatings
5. Is the property integrated pollution control equipment? Yes ☒ No ☐

   If the answer is 'No,' separate applications must be filed for each piece of property.
6. List applicable permit number(s) for the pollution control property: **N/A**

Incremental Cost Difference

7. Is the Tier I Table item number A-86, A-112, A-114, A-182, or S-22? Yes ☐ No ☒

   If the answer is 'Yes,' the use determination percentage is based on the incremental cost difference and you must answer the following questions:
8. What is the cost of the new piece of property? **N/A**
9. What is the cost of the comparable property without controls? **N/A**
10. How was the value of the comparable property calculated? **N/A**

Property Description

11. Describe the property. (What is it? Where is it located within the production process? How is it used to control, prevent, or monitor pollution?)

    Facility Description

    The Southern Hills Pipeline (the "Pipeline") is a 940-mile-long, 8" -20"- diameter natural gas liquids ("NGL") pipeline that runs from Seward County, KS to the Texas Gulf Coast and Mont Belvieu, Texas. The Texas portion of the Pipeline is a 390-mile-long, 8"-20" NGL pipeline. The Pipeline is designed to provide takeaway service from DCP Midstream, LLC and third-party plants in the Midcontinent to fractionation facilities along the Texas Gulf Coast and the Mont Belvieu market hub (800-mile mainline). The Pipeline has a current design capacity of 200,000 barrels per day, which is expandable to 350,000 with future pumping station additions. The Pipeline was placed in service in 2013 with a target capacity

of 175,000 barrels per day. The subject segment of the Pipeline is 2.5 miles of 8" pipe in Wise County.

Pollution Control Property Description – Pipeline Coatings & Cathodic Protection

Protective pipe coatings are applied at the pipe vendor's manufacturing facility, and used to minimize the potential for corrosion which would allow for leakage and potential contamination of soil, groundwater, and surface waters of the State of Texas. The plastic coating consists of three layers:

- Fusion-bonded epoxy ("FBE") on the pipe surface
- Adhesive for topcoat
- Top coat consisting of polyethylene or polypropylene[1]

To prepare for FBE coating, the external surface of the pipe is cleaned with a shot-blast process. The pipe is heated to a prescribed temperature and an epoxy powder is applied. The powder melts onto the heated pipe and forms a watertight barrier. The adhesive and topcoat are applied before transport.[2]

Cathodic protection ("CP") is a technology that employs electrochemical principles to mitigate corrosion of the pipeline. It is applied to the pipeline as a supplement to the protective pipe coating. The "anode" is the metal in danger of corrosion; in this case, the anode is the pipeline. The "CP" technology utilizes sacrificial anodes, which are metal rods that oxidize more easily than the metal being protected. During oxidation, electrons are stripped from the anode and conducted to protect the pipe. The pipe becomes a cathode, which is protected from corrosion through the process of gaining electrons. This process of gaining electrons is referred to as "reduction."[3]

The pipe coatings and "CP" are used to control and/or prevent the degradation of metal piping through which the inadvertent release of natural gas liquids ("NGLs") could be released to waters and lands of the State of Texas. Leaked NGLs are a fugitive material. If leakage occurs, the NGLs are non-recoverable and, therefore, cease to retain monetary value.

Applicable Rule

12. What adopted environmental rule or regulation is being met by the construction or installation of the property? The citation must be to the specific section, subsection, paragraph, subparagraph, or clause level. Describe how the property meets or exceeds the requirements.

    Should any leaked NGLs inadvertently be released from the pipeline during handling, the material is non-recoverable and meets the definition of "Industrial Solid Waste" as defined in 30 Texas Administrative Code ("TAC") §335.1(80) and the definition of "Solid Waste" as defined in 30 TAC §335.1(140)(a). The Pipe Coatings and Cathodic Protection are installed to meet the requirements of 30 TAC §335.4 under which:

---

[1] P. Singh, J. Cox. Shaw Pipe Protection Limited and DuPont Canada, Inc. *Development of a Cost Effective Powder Coated Multi-component Coating for Underground Pipelines.*
[2] *Pipe Coating.* INGAA. http://www.ingaa.org/cms/127.aspx.
[3] *Cathodic Protection – Electrochemical Principles and Design Considerations.* Corrosion Probe, Inc.

"no person may **cause**, suffer, **allow**, or **permit** the collection, **handling**, processing, or **disposal of industrial solid waste** or municipal hazardous waste **in such a manner to as to cause** (1) the discharge or **imminent threat of discharge** of industrial solid waste or municipal hazardous waste into or adjacent to the waters in the state . . . ." [emphasis added]

Furthermore, hazardous liquids pipelines are regulated by the US Department of Transportation Pipeline and Hazardous Materials Safety Administration ("PHMSA"), who require under 49 Code of Federal Regulations ("CFR") §§195.557(a) and .563(a) the installation of Pipe Coatings and Cathodic Protection.

Environmental Benefit

13. What is the anticipated environmental benefit related to the construction or installation of the property?

The Pipeline's pipe coatings and cathodic protection are used to control and/or prevent the degradation of metal piping through which the inadvertent release of NGLs could be released to the waters and lands of the State of Texas.

Section 6. Process Flow Diagram (Optional)

Attach documentation to the application showing a Process Flow Diagram for the property.

A process flow diagram has not been provided for this application.

Section 7. Partial-Use Percentage Calculation

This section must be completed for all Tier III applications. Attach documentation to the application showing the calculations used to determine the partial-use percentage for the property.

This application is for Tier I 100% pollution control property.

Section 8. Property Categories and Costs

List each piece of integrated pollution control property for which a use determination is being sought.

Property Name	Tier 1 Table No. or Expedited Review List No.	Use Percent	Estimated Dollar Value
Land:			
Property: **Pipeline Coatings & Cathodic Protection**	**M-19, T-32**	**100%**	**$372,963**
Property:			
		Total:	**$372,963**

Attach additional response sheets to the application if more than five (5) pieces of property need to be listed.

NOTE: Separate applications must be filed for each piece of nonintegrated pollution control property.

Section 9. Type of Application and Fee

1. Type of Application being filed: *Select only one.*

Tier I – Fee: $150 ☒ Tier II – Fee: $1,000 ☐ Tier III – Fee: $2,500 ☐

2. Fee Payment Type:

Check ☒ Money Order ☐ Electronic Payment ☐

3. Payment Receipt Number: **N/A**
4. Payment Amount: **$150.00**
5. Payer Name on Payment: **Duff & Phelps, LLC**
6. Total Amount of Payment: **$150.00**

NOTE: Enclose a check, money order to the TCEQ, or a copy of the ePay receipt along with the application to cover the required fee.

In accordance with the TCEQ's Delinquent Fee Protocol, the Tax Relief Program will not consider applications administratively complete until all delinquent fees the company owes to the TCEQ are paid.

Information regarding the TCEQ's Delinquent Fee Protocol is available at:

http://www.tceq.state.tx.us/agency/delin/index.html.

Section 10. Certification Statement

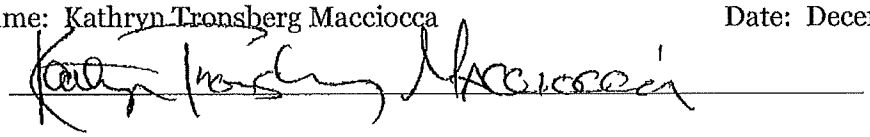
Must be signed by owner or designated representative.

I certify under penalty of law that this document and all attachments were prepared under my direction or supervision in accordance with a system designed to assure that qualified personnel properly gather and evaluate the information submitted. Based on my inquiry of the person or persons who manage the system, or those persons directly responsible for gathering the information, the information submitted is, to the best of my knowledge and belief, true, accurate, and complete. I further certify that the property listed in this application is eligible for a tax exemption under Texas Tax Code, §11.31 given that:

- the property is not solely used, constructed, acquired, or installed to manufacture or produce a good or provide a service, including a good or service that prevents, monitors, controls, or reduces air, water, or land pollution,
- the environmental benefit associated with the property is not wholly derived from the use or characteristics of the goods or services produced by the property,
- the property is wholly or partly used, constructed, acquired, or installed to meet or exceed law, rule, regulation adopted by an environmental protection agency of the United States, Texas, or a political subdivision of Texas for the prevention, monitoring, control, or reduction of air, water, or land pollution,
- the property is not used for residential purposes, or for recreational, park, or scenic uses as defined by Texas Tax Code, §23.81,
- the property is not a motor vehicle, except for a dedicated service motor vehicle used solely for pollution control, and
- the property was not acquired, constructed, or installed before January 1, 1994.

I am aware there are significant penalties for submitting false information, including the possibility of fine and imprisonment for knowing violations.

Printed Name: Kathryn Tronsberg Macciocca Date: December 9, 2015

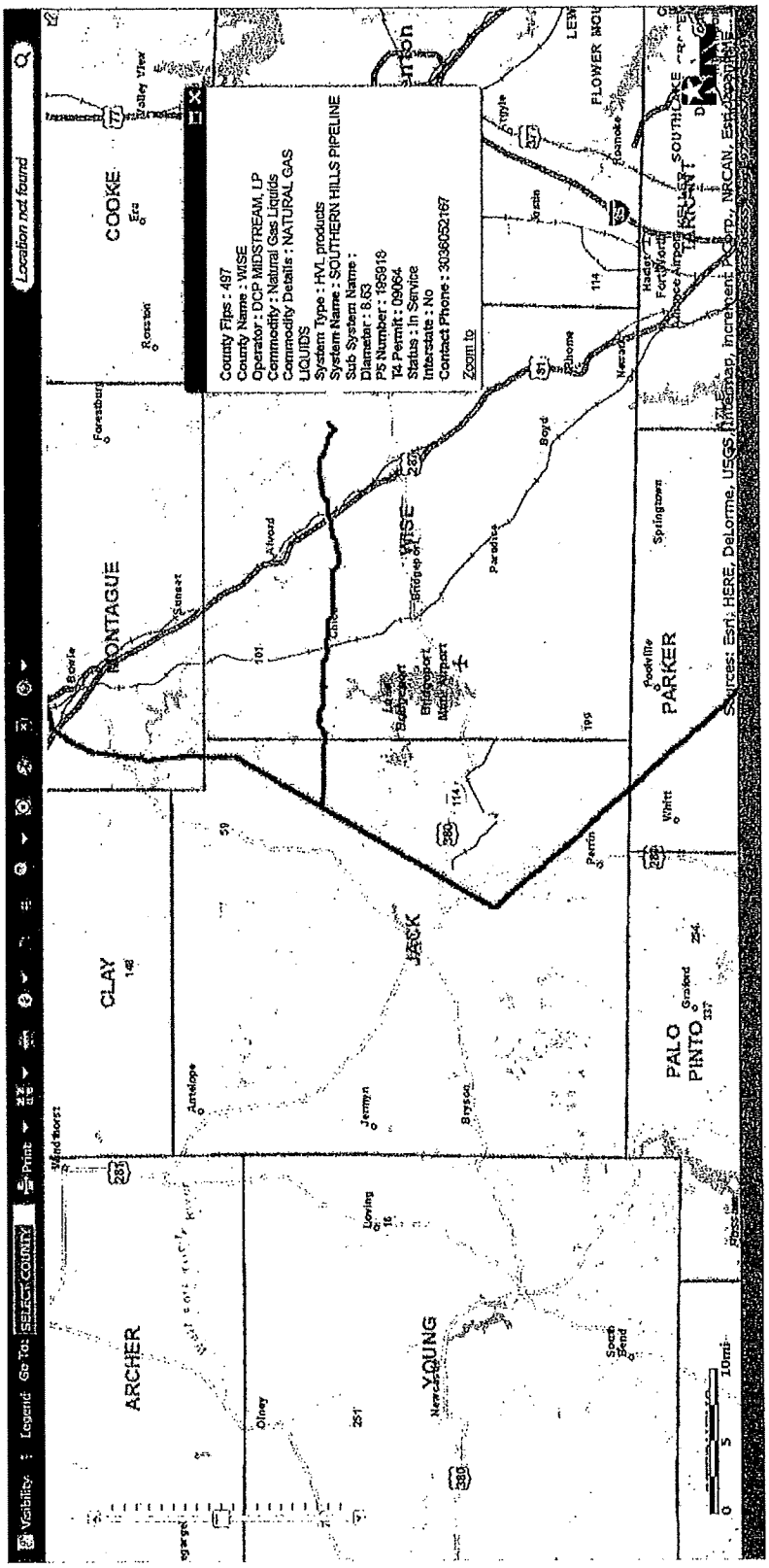
Signature: 

Title: Director

Company Name: Duff & Phelps, LLC

Under Texas Penal Code 37.10, if you make a false statement on this application, you could receive a jail term of up to one year and a fine up to $2,000, or a prison term of two to 10 years and a fine of up to $5,000.

Attachment A



19551

Texas Commission on Environmental Quality

Use Determination for Pollution Control Property Application

A person seeking a use determination must complete this application form. For assistance in completing the application form please refer to the *Instructions for Use Determination for Pollution Control Property Application Form TCEQ-00611*, as well as the rules governing the Tax Relief Program in Title 30 Texas Administrative Code Chapter 17 (30 TAC 17). Information relating to completing this application form is also available in the TCEQ regulatory guidance document, *Property-Tax Exemptions for Pollution Control Property, RG-461*. For additional assistance, please call the Tax Relief Program at 512-239-4900.

You must supply information for each field of this application form unless otherwise noted.

Section 1. Property Owner Information

1. Company Name of Owner: **DCP Southern Hills Pipeline, LLC**
2. Mailing Address: **370 17th Street, Suite 2500**
3. City, State, Zip: **Denver, Colorado 80202-5604**
4. Customer Number (CN): **CN604984823**
5. Regulated Entity Number (RN): **RN108852948**
6. Is this property/equipment owned by the CN listed in Question 4? Yes ☒ No ☐

If the answer is 'No,' please explain:

To be eligible for a positive use determination the property must be owned and operated by the same entity.

7. Is this property subject to any lease or lease-to-own agreement? Yes ☐ No ☒

If the answer is 'Yes,' please explain:

8. Is this property operated by the RN listed in Question 5? Yes ☒ No ☐

If the answer is 'No,' please explain:

To be eligible for a positive use determination the property must be owned and operated by the same entity.

Section 2. Physical Location of Property

1. Name of Facility or Unit where the property/equipment is physically located:

   Southern Hills Pipeline
2. Type of Mfg. Process or Service: **Pipeline Transportation of Natural Gas Liquids**
3. Street Address: **940 Mile, 8 - 20" Diameter NGL Pipeline**
4. City, State, Zip: **2.5 Mile, 8" NGL pipeline running from east of Chico to southeast of Alvord in Wise County (see Attachment A)**
5. County: **Wise**

6. Appraisal District Account Number(s): **N002042979; N002046859; N002042982; N002042974; N002021214; N002042977; N002046665; N002046858; N002046945; and N002042968**

Section 3. Contact Name

1. Company Name: **Duff & Phelps, LLC**
2. First Name of Contact: **Kathryn**
3. Middle Initial: **L.**
4. Last Name of Contact: **Tronsberg Macciocca**
5. Salutation: Mr. ☐ Mrs. ☐ Ms. ☒ Dr. ☐ Other:
6. Title: **Director, Property Tax**
7. Suffix:
8. Mailing Address: **2000 Market Street, Suite 2700**
9. City, State, Zip: **Philadelphia, Pennsylvania, 19103**
10. Phone Number/Fax Number: **(215)430-6059**
11. Email Address: **kathryn.tronsberg@duffandphelps.com**
12. Self-Assigned Tracking Number (optional): **SO-2015-50**

Section 4. General Information

1. What is the type of ownership of this facility?

Corporation ☐	Limited Partner ☐	Other:
Sole Proprietor ☐	Limited Liability Corporation ☒	
Partnership ☐	Utility ☐	

2. Size of Company: Number of Employees

1 to 99 ☒	500 to 999 ☐	2,000 to 4,999 ☐
100 to 499 ☐	1,000 to 1,999 ☐	5,000 or more ☐

3. Business Description: (Briefly describe the type of business or activity at the facility)

   Pipeline Transportation of Natural Gas Liquids

4. Provide the North American Industry Classification System (NAICS) six-digit code for this facility.

   486910 – Natural Gas Liquids Pipeline Transportation

Section 5. Property Description, Applicable Rule, and Environmental Benefit

For each piece, or each category, of pollution control property for which a use determination is being sought, answer the following questions.

Attach additional response sheets to the application for each piece of integrated pollution control property if a use determination is being sought for more than one (1) piece.

General Information

1. Name the property: **Nondestructive Testing Expenditures**
2. Is the property used 100% as pollution control equipment? Yes ☒ No ☐

   Explain your answer: Through a technical/engineering review of the Facility's process activities, (NGL pipeline transportation), the subject property was determined to have no productive benefit for the Facility. Rather, this property was installed at the Facility solely to comply with environmental laws or rules to control or prevent the creation of (air, water, or land) pollution.
3. Does the property generate a Marketable Product? Yes ☐ No ☒

   Marketable Product: Anything produced or recovered using pollution control property that is sold as a product, is accumulated for later use, or is used as a raw material in a manufacturing process. Marketable product includes, but is not limited to, anything recovered or produced using the pollution control property and sold, traded, accumulated for later use, or used in a manufacturing process (including at a different facility).

   If the answer is 'Yes,' describe the marketable product: **N/A**
4. What is the appropriate Tier I Table or Expedited Review List number?

   Tier II
5. Is the property integrated pollution control equipment? Yes ☒ No ☐

   If the answer is 'No,' separate applications must be filed for each piece of property.
6. List applicable permit number(s) for the pollution control property: **N/A**

Incremental Cost Difference

7. Is the Tier I Table item number A-86, A-112, A-114, A-182, or S-22? Yes ☐ No ☒

   If the answer is 'Yes,' the use determination percentage is based on the incremental cost difference and you must answer the following questions:
8. What is the cost of the new piece of property? **N/A**
9. What is the cost of the comparable property without controls? **N/A**
10. How was the value of the comparable property calculated? **N/A**

Property Description

11. Describe the property. (What is it? Where is it located within the production process? How is it used to control, prevent, or monitor pollution?)

    Facility Description

    The Southern Hills Pipeline (the "Pipeline") is a 940-mile-long, 8" -20"- diameter natural gas liquids ("NGL") pipeline that runs from Seward County, KS to the Texas Gulf Coast and Mont Belvieu, Texas. The Texas portion of the Pipeline is a 390-mile-long, 8"-20" NGL pipeline. The Pipeline is designed to provide takeaway service from DCP Midstream, LLC and third-party plants in the Midcontinent to fractionation facilities along the Texas Gulf Coast and the Mont Belvieu market hub (800-mile mainline). The Pipeline has a current design capacity of 200,000 barrels per day, which is expandable to 350,000 with future pumping station additions. The Pipeline was placed in service in 2013 with a target capacity

of 175,000 barrels per day. The subject segment of the Pipeline is 2.5 miles of 8" pipe in Wise County.

Pollution Control Property Description – Nondestructive Testing Expenditures

During pipeline construction, weld inspections and testing must be conducted as a form of leak detection and prevention. Radiography, one of the most reliable and widely used nondestructive testing methods, has been carried out on the pipeline using X-rays to detect internal flaws, defects, or damage in the welds.[1]

Radiography testing is performed by using radiation from a controlled source to penetrate the test items (in this case, pipeline welds) and expose a specially formulated film. As the radiation passes through the pipeline weld, a portion of it is absorbed by the molecular structure of the material. The amount of radiation absorbed depends on the density and composition of the material. As any cracks, fissures, and pockets in the material have different densities, they will be characterized by different exposure values as more or less radiation penetrates at those points during exposure. [2]

Costs for nondestructive testing are instrumental in detecting defects that may lead to inadvertent NGL leakage from the pipeline once operational. Leaked NGLs may become a fugitive material that can contribute to the pollution of waters and lands of the State of Texas.

Applicable Rule

12. What adopted environmental rule or regulation is being met by the construction or installation of the property? The citation must be to the specific section, subsection, paragraph, subparagraph, or clause level. Describe how the property meets or exceeds the requirements.

    Should any leaked NGLs inadvertently be released from the pipeline during handling, they are non-recoverable and meet the definition of "Industrial Solid Waste" as defined in 30 Texas Administrative Code ("TAC") §335.1(80) and the definition of "Solid Waste" as defined in 30 TAC §335.1(140)(a). The Nondestructive Testing Expenditures are implemented to meet the requirements of 30 TAC §335.4 under which:

    > "no person may **cause**, suffer, **allow**, or **permit** the collection, **handling**, processing, or **disposal of industrial solid waste** or municipal hazardous waste in such a manner to as to cause (1) the discharge or **imminent threat of discharge** of industrial solid waste or municipal hazardous waste into or adjacent to the waters in the state . . . ." [emphasis added]

    Furthermore, hazardous liquids pipelines are regulated by the US Department of Transportation Pipeline and Hazardous Materials Safety Administration ("PHMSA"), who require under 49 Code of Federal Regulations ("CFR") §195.228(a) that each pipeline weld must be inspected, and visual inspections must be supplemented by nondestructive testing to ensure pipeline integrity and reduce and/or prevent the unintended leakage of fugitive material from a damaged or incorrectly installed pipeline weld. Per 49 CFR §195.234(a), pipeline welds may be nondestructively tested by any method that will clearly indicate any defects that may affect weld integrity.

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[1] Trinity NDT, 2012. http://www.trinityndt.com/services.php.
[2] Ibid.

Environmental Benefit

13. What is the anticipated environmental benefit related to the construction or installation of the property?

Nondestructive Testing is instrumental in detecting weld defects that may lead to inadvertent NGL leakage from the Pipeline that can contribute to the pollution of waters and lands of the State of Texas

Section 6. Process Flow Diagram (Optional)

Attach documentation to the application showing a Process Flow Diagram for the property.

A process flow diagram has not been provided for this application.

Section 7. Partial-Use Percentage Calculation

This section must be completed for all Tier III applications. Attach documentation to the application showing the calculations used to determine the partial-use percentage for the property.

This application is for Tier II 100% pollution control property.

Section 8. Property Categories and Costs

List each piece of integrated pollution control property for which a use determination is being sought.

Property Name	Tier 1 Table No. or Expedited Review List No.	Use Percent	Estimated Dollar Value
Land:			
Property: **Nondestructive Testing Expenditures**	**Tier II**	**100%**	**$322,299**
Property:			
		Total:	**$322,299**

Attach additional response sheets to the application if more than five (5) pieces of property need to be listed.

NOTE: Separate applications must be filed for each piece of nonintegrated pollution control property.

Section 9. Type of Application and Fee

1. Type of Application being filed: *Select only one.*

Tier I – Fee: $150 ☐ Tier II – Fee: $1,000 ☒ Tier III – Fee: $2,500 ☐

2. Fee Payment Type:

Check ☒ Money Order ☐ Electronic Payment ☐

3. Payment Receipt Number: **N/A**
4. Payment Amount: **$1,000.00**
5. Payer Name on Payment: **Duff & Phelps, LLC**
6. Total Amount of Payment: **$1,000.00**

NOTE: Enclose a check, money order to the TCEQ, or a copy of the ePay receipt along with the application to cover the required fee.

In accordance with the TCEQ's Delinquent Fee Protocol, the Tax Relief Program will not consider applications administratively complete until all delinquent fees the company owes to the TCEQ are paid.

Information regarding the TCEQ's Delinquent Fee Protocol is available at:

http://www.tceq.state.tx.us/agency/delin/index.html.

Section 10. Certification Statement

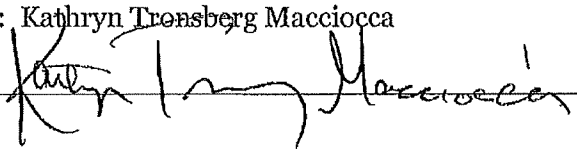
Must be signed by owner or designated representative.

I certify under penalty of law that this document and all attachments were prepared under my direction or supervision in accordance with a system designed to assure that qualified personnel properly gather and evaluate the information submitted. Based on my inquiry of the person or persons who manage the system, or those persons directly responsible for gathering the information, the information submitted is, to the best of my knowledge and belief, true, accurate, and complete. I further certify that the property listed in this application is eligible for a tax exemption under Texas Tax Code, §11.31 given that:

- the property is not solely used, constructed, acquired, or installed to manufacture or produce a good or provide a service, including a good or service that prevents, monitors, controls, or reduces air, water, or land pollution,
- the environmental benefit associated with the property is not wholly derived from the use or characteristics of the goods or services produced by the property,
- the property is wholly or partly used, constructed, acquired, or installed to meet or exceed law, rule, regulation adopted by an environmental protection agency of the United States, Texas, or a political subdivision of Texas for the prevention, monitoring, control, or reduction of air, water, or land pollution,
- the property is not used for residential purposes, or for recreational, park, or scenic uses as defined by Texas Tax Code, §23.81,
- the property is not a motor vehicle, except for a dedicated service motor vehicle used solely for pollution control, and
- the property was not acquired, constructed, or installed before January 1, 1994.

I am aware there are significant penalties for submitting false information, including the possibility of fine and imprisonment for knowing violations.

Printed Name: Kathryn Tronsberg Macciocca Date: December 9, 2015

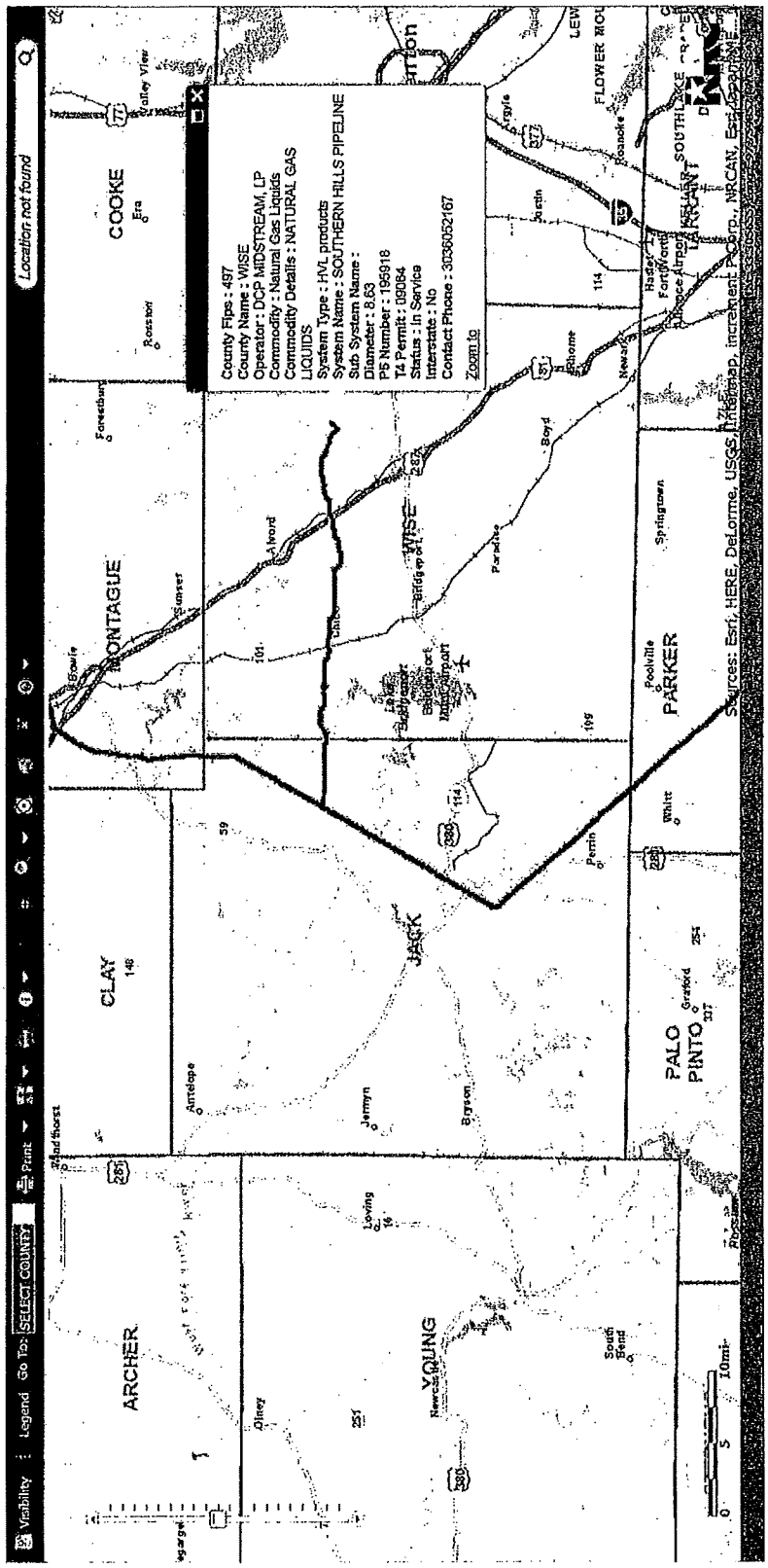
Signature: 

Title: Director

Company Name: Duff & Phelps, LLC

Under Texas Penal Code 37.10, if you make a false statement on this application, you could receive a jail term of up to one year and a fine up to $2,000, or a prison term of two to 10 years and a fine of up to $5,000.

Attachment A



DUFF & PHELPS

TCEQ Cashier's Office - MC-214
Building A
12100 Park 35 Circle
Austin, TX 78753

December 9, 2015

Re: Application for Use Determination for Water Pollution Control Property Located at Southern Hills Pipeline (the "Facility") in Wise County

Enclosed please find one application (the "Application") for property tax exemption for Water Pollution Control Property located at Southern Hills Pipeline (the "Facility") in Wise County, Texas. A copy of the Application has been provided for the appraisal district.

Pursuant to Title 30 of Chapter 17 of the Texas Administrative Code, the Application has been prepared using the Texas Commission on Environmental Quality ("TCEQ") Application for Use Determination for Pollution Control Property. The enclosed application is a Tier II Application. Submission of this Application is required as a process step in the TCEQ's pollution control certification process for tax exemption of certain assets used in pollution control capacities within the Facility. As outlined by the application instructions, the fee for this Tier II Application is $150. Please find enclosed a check for the $150 Tier II Application Fee.

The Application can be summarized as follows:

Property	Description	Estimated Cost
Tier II	Nondestructive Testing Expenditures	$ 322,299

Please send one copy of the completed property tax exemption Use Determination to the following address:

Kathryn Tronsberg Macciocca
c/o Duff & Phelps LLC
919 Congress Avenue, Ste 1450
Austin, TX 78701

Duff & Phelps, LLC
2000 Market Street
Suite 2700
Philadelphia, PA 19103

T +1 215 430 6059
F +1 215 240 6334

kathryn.tronsberg@duffandphelps.com
www.duffandphelps.com

If you have any questions regarding the Application or the information supplied within the Application, please feel free to contact me at (215) 430-6059 or by e-mail at kathryn.tronsberg@duffandphelps.com.

Very truly yours,

Kathryn Tronsberg Macciocca
Director
Property Tax

Enclosures

19575

Texas Commission on Environmental Quality

Use Determination for Pollution Control Property Application

A person seeking a use determination must complete this application form. For assistance in completing the application form please refer to the *Instructions for Use Determination for Pollution Control Property Application Form TCEQ-00611*, as well as the rules governing the Tax Relief Program in Title 30 Texas Administrative Code Chapter 17 (30 TAC 17). Information relating to completing this application form is also available in the TCEQ regulatory guidance document, *Property-Tax Exemptions for Pollution Control Property, RG-461*. For additional assistance, please call the Tax Relief Program at 512-239-4900.

You must supply information for each field of this application form unless otherwise noted.

Section 1. Property Owner Information

1. Company Name of Owner: **DCP Southern Hills Pipeline, LLC**
2. Mailing Address: **370 17th Street, Suite 2500**
3. City, State, Zip: **Denver, Colorado 80202-5604**
4. Customer Number (CN): **CN604984823**
5. Regulated Entity Number (RN): **RN108852948**
6. Is this property/equipment owned by the CN listed in Question 4? Yes ☒ No ☐

If the answer is 'No,' please explain:

To be eligible for a positive use determination the property must be owned and operated by the same entity.

7. Is this property subject to any lease or lease-to-own agreement? Yes ☐ No ☒

If the answer is 'Yes,' please explain:

8. Is this property operated by the RN listed in Question 5? Yes ☒ No ☐

If the answer is 'No,' please explain:

To be eligible for a positive use determination the property must be owned and operated by the same entity.

Section 2. Physical Location of Property

1. Name of Facility or Unit where the property/equipment is physically located:

   Southern Hills Pipeline
2. Type of Mfg. Process or Service: **Pipeline Transportation of Natural Gas Liquids**
3. Street Address: **940 Mile, 8 - 20" Diameter NGL Pipeline**
4. City, State, Zip: **2.5 Mile, 8" NGL pipeline running from east of Chico to southeast of Alvord in Wise County (see Attachment A)**
5. County: **Wise**

6. Appraisal District Account Number(s): **N002042979; N002046859; N002042982; N002042974; N002021214; N002042977; N002046665; N002046858; N002046945; and N002042968**

Section 3. Contact Name

1. Company Name: **Duff & Phelps, LLC**
2. First Name of Contact: **Kathryn**
3. Middle Initial: **L.**
4. Last Name of Contact: **Tronsberg Macciocca**
5. Salutation: Mr. ☐ Mrs. ☐ Ms. ☒ Dr. ☐ Other:
6. Title: **Director, Property Tax**
7. Suffix:
8. Mailing Address: **2000 Market Street, Suite 2700**
9. City, State, Zip: **Philadelphia, Pennsylvania, 19103**
10. Phone Number/Fax Number: **(215)430-6059**
11. Email Address: **kathryn.tronsberg@duffandphelps.com**
12. Self-Assigned Tracking Number (optional): **SO-2015-48**

Section 4. General Information

1. What is the type of ownership of this facility?

Corporation ☐	Limited Partner ☐	Other:
Sole Proprietor ☐	Limited Liability Corporation ☒	
Partnership ☐	Utility ☐	

2. Size of Company: Number of Employees

1 to 99 ☒	500 to 999 ☐	2,000 to 4,999 ☐
100 to 499 ☐	1,000 to 1,999 ☐	5,000 or more ☐

3. Business Description: (Briefly describe the type of business or activity at the facility)

   Pipeline Transportation of Natural Gas Liquids

4. Provide the North American Industry Classification System (NAICS) six-digit code for this facility.

   486910 – Natural Gas Liquids Pipeline Transportation

Section 5. Property Description, Applicable Rule, and Environmental Benefit

For each piece, or each category, of pollution control property for which a use determination is being sought, answer the following questions.

Attach additional response sheets to the application for each piece of integrated pollution control property if a use determination is being sought for more than one (1) piece.

General Information

1. Name the property: **Intelligent Pipeline Inspection Gauge ("PIG") Launchers & Receivers**
2. Is the property used 100% as pollution control equipment? Yes ☒ No ☐

   Explain your answer: Through a technical/engineering review of the Facility's process activities, (NGL pipeline transportation), the subject property was determined to have no productive benefit for the Facility. Rather, this property was installed at the Facility solely to comply with environmental laws or rules to control or prevent the creation of (air, water, or land) pollution.
3. Does the property generate a Marketable Product? Yes ☐ No ☒

   Marketable Product: Anything produced or recovered using pollution control property that is sold as a product, is accumulated for later use, or is used as a raw material in a manufacturing process. Marketable product includes, but is not limited to, anything recovered or produced using the pollution control property and sold, traded, accumulated for later use, or used in a manufacturing process (including at a different facility).

   If the answer is 'Yes,' describe the marketable product: **N/A**
4. What is the appropriate Tier I Table or Expedited Review List number?

   S-9: Leak Detection Systems
5. Is the property integrated pollution control equipment? Yes ☒ No ☐

   If the answer is 'No,' separate applications must be filed for each piece of property.
6. List applicable permit number(s) for the pollution control property: **N/A**

Incremental Cost Difference

7. Is the Tier I Table item number A-86, A-112, A-114, A-182, or S-22? Yes ☐ No ☒

   If the answer is 'Yes,' the use determination percentage is based on the incremental cost difference and you must answer the following questions:
8. What is the cost of the new piece of property? **N/A**
9. What is the cost of the comparable property without controls? **N/A**
10. How was the value of the comparable property calculated? **N/A**

Property Description

11. Describe the property. (What is it? Where is it located within the production process? How is it used to control, prevent, or monitor pollution?)

    Facility Description

    The Southern Hills Pipeline (the "Pipeline") is a 940-mile-long, 8" -20"- diameter natural gas liquids ("NGL") pipeline that runs from Seward County, KS to the Texas Gulf Coast and Mont Belvieu, Texas. The Texas portion of the Pipeline is a 390-mile-long, 8"-20" NGL pipeline. The Pipeline is designed to provide takeaway service from DCP Midstream, LLC and third-party plants in the Midcontinent to fractionation facilities along the Texas Gulf Coast and the Mont Belvieu market hub (800-mile mainline). The Pipeline has a current design capacity of 200,000 barrels per day, which is expandable to 350,000 with future

pumping station additions. The Pipeline was placed in service in 2013 with a target capacity of 175,000 barrels per day. The subject segment of the Pipeline is 2.5 miles of 8" pipe in Wise County.

Pollution Control Property Description – Intelligent Pipeline Inspection Gauge ("PIG") Launchers & Receivers

The following installations were made on the Southern Hills Pipeline:

- (1) 8" Intelligent PIG Launcher located at
  - 33°18'45.4"N 97°52'29.6"W (See Attachment B)
- (1) 8" Intelligent PIG Launcher located at
  - 33°18'39.2"N 97°31'44.8"W (See Attachment B)
- (1) 8" Intelligent PIG Receiver located at
  - 33°18'45.4"N 97°52'29.3"W (See Attachment B)

A pipeline inspection gauge, or "PIG," is a technology used to detect breach and wear in a pipeline. PIGs used for inspection are sometimes referred to as "in-line inspection," "intelligent," or "smart" PIGs. The PIG utilizes magnetic flux leakage ("MFL") technology that detects corrosion and pitting in the pipeline. [1]

Information that can be provided by a PIG may include the following:

- Temperature and pressure recording,
- Metal-loss and corrosion detection,
- Photographic inspection,
- Crack detection,
- Leak detection, and
- Mapping.

The PIG is introduced to the pipeline in a module known as a PIG Launcher. The PIG is inserted and then launched from a PIG trap. When the inspection is complete, the PIG is received in a PIG Receiver and removed. The PIG is propelled by the pressure of the product and collects real-time data while traveling through the pipeline. The sophisticated MFL technology allows the PIG to detect defects as small as 1 x 1 cm.[2]

After a PIG run is complete, positional data and pipeline evaluation data are collected from the PIG to ultimately provide a specific defect map of the pipeline. By evaluating these defects, the pipeline can be repaired before any leakage or environmental damage develops.[3]

If leakage occurs, the NGLs are non-recoverable and, therefore, cease to retain monetary value. Furthermore, leaked NGLs are a fugitive material that can contribute to the pollution of waters and lands of the State of Texas.

---

[1] *Fact Sheet: In-line Inspections (Smart Pig).* U.S. Department of Transportation. 12/1/2011.
[2] Ibid.
[3] *Pipeline Safety & Pigging*, Patchworks, May 2012. Petroleum Services Association of Canada.

Applicable Rule

12. What adopted environmental rule or regulation is being met by the construction or installation of the property? The citation must be to the specific section, subsection, paragraph, subparagraph, or clause level. Describe how the property meets or exceeds the requirements.

    Should any leaked NGLs inadvertently be released from the pipeline during handling, they are non-recoverable and meet the definition of "Industrial Solid Waste" as defined in 30 Texas Administrative Code ("TAC") §335.1(79) and the definition of "Solid Waste" as defined in 30 TAC §335.1(138)(a). The Intelligent Pig Launchers and Receivers are installed to meet the requirements of 30 TAC §335.4 under which:

    > "no person may **cause**, suffer, **allow**, or **permit** the collection, **handling**, processing, or **disposal of industrial solid waste** or municipal hazardous waste in such a manner to as to cause (1) the discharge or **imminent threat of discharge** of industrial solid waste or municipal hazardous waste into or adjacent to the waters in the state . . . ." [emphasis added]

    Furthermore, hazardous liquids pipelines are regulated by the US Department of Transportation Pipeline and Hazardous Materials Safety Administration ("PHMSA"), who require under 49 Code of Federal Regulations § 195.120(a) that pipelines must be designed and constructed to accommodate the passage of instrumented internal inspection devices

Environmental Benefit

13. What is the anticipated environmental benefit related to the construction or installation of the property?

    Intelligent PIG Launchers and Receivers are used in conjunction with intelligent PIGs to detect and locate pipeline leaks and defects that can lead to inadvertent leaks or spills, contaminating groundwater, surface water, and lands of the State of Texas.

Section 6. Process Flow Diagram (Optional)

Attach documentation to the application showing a Process Flow Diagram for the property.

A process flow diagram has not been provided for this application.

Section 7. Partial-Use Percentage Calculation

This section must be completed for all Tier III applications. Attach documentation to the application showing the calculations used to determine the partial-use percentage for the property.

This application is for Tier I 100% pollution control property.

Section 8. Property Categories and Costs

List each piece of integrated pollution control property for which a use determination is being sought.

Property Name	Tier 1 Table No. or Expedited Review List No.	Use Percent	Estimated Dollar Value
Land:			
Property: **Intelligent PIG Launchers & Receivers**	**S-9**	**100%**	**$392,743**
Property:			
		Total:	**$392,743**

Attach additional response sheets to the application if more than five (5) pieces of property need to be listed.

NOTE: Separate applications must be filed for each piece of nonintegrated pollution control property.

Section 9. Type of Application and Fee

1. Type of Application being filed: *Select only one.*

Tier I – Fee: $150 ☒ Tier II – Fee: $1,000 ☐ Tier III – Fee: $2,500 ☐

2. Fee Payment Type:

Check ☒ Money Order ☐ Electronic Payment ☐

3. Payment Receipt Number: **N/A**
4. Payment Amount: **$150.00**
5. Payer Name on Payment: **Duff & Phelps, LLC**
6. Total Amount of Payment: **$150.00**

NOTE: Enclose a check, money order to the TCEQ, or a copy of the ePay receipt along with the application to cover the required fee.

In accordance with the TCEQ's Delinquent Fee Protocol, the Tax Relief Program will not consider applications administratively complete until all delinquent fees the company owes to the TCEQ are paid.

Information regarding the TCEQ's Delinquent Fee Protocol is available at:

http://www.tceq.state.tx.us/agency/delin/index.html.

Section 10. Certification Statement

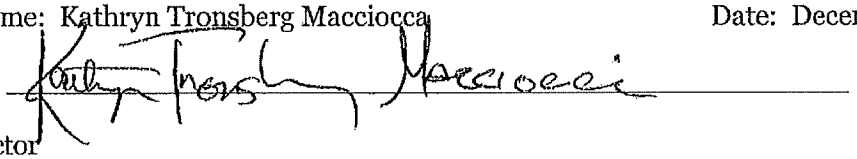
Must be signed by owner or designated representative.

I certify under penalty of law that this document and all attachments were prepared under my direction or supervision in accordance with a system designed to assure that qualified personnel properly gather and evaluate the information submitted. Based on my inquiry of the person or persons who manage the system, or those persons directly responsible for gathering the information, the information submitted is, to the best of my knowledge and belief, true, accurate, and complete. I further certify that the property listed in this application is eligible for a tax exemption under Texas Tax Code, §11.31 given that:

- the property is not solely used, constructed, acquired, or installed to manufacture or produce a good or provide a service, including a good or service that prevents, monitors, controls, or reduces air, water, or land pollution,
- the environmental benefit associated with the property is not wholly derived from the use or characteristics of the goods or services produced by the property,
- the property is wholly or partly used, constructed, acquired, or installed to meet or exceed law, rule, regulation adopted by an environmental protection agency of the United States, Texas, or a political subdivision of Texas for the prevention, monitoring, control, or reduction of air, water, or land pollution,
- the property is not used for residential purposes, or for recreational, park, or scenic uses as defined by Texas Tax Code, §23.81,
- the property is not a motor vehicle, except for a dedicated service motor vehicle used solely for pollution control, and
- the property was not acquired, constructed, or installed before January 1, 1994.

I am aware there are significant penalties for submitting false information, including the possibility of fine and imprisonment for knowing violations.

Printed Name: Kathryn Tronsberg Macciocca Date: December 10, 2015

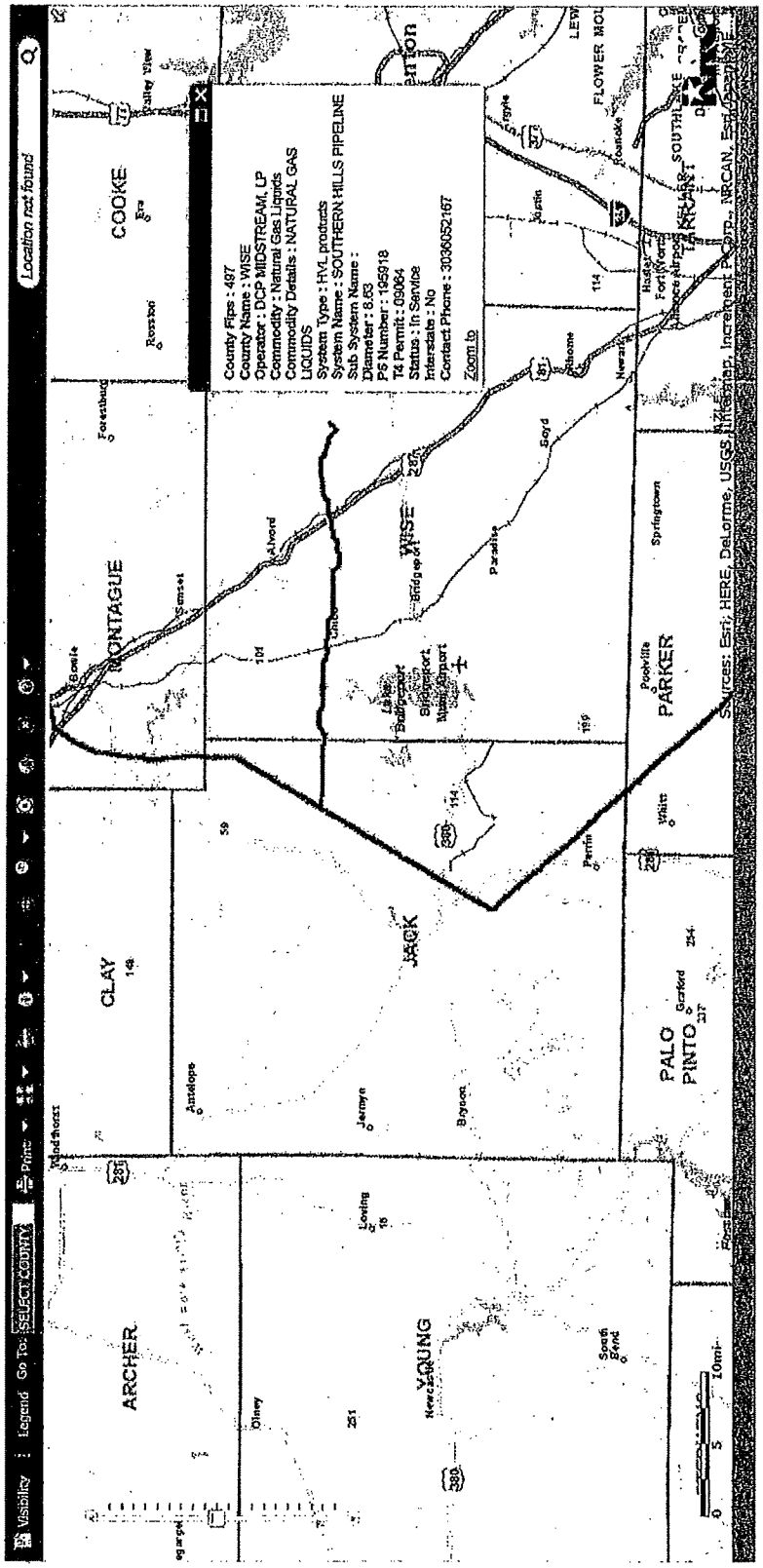
Signature: 

Title: Director

Company Name: Duff & Phelps, LLC

Under Texas Penal Code 37.10, if you make a false statement on this application, you could receive a jail term of up to one year and a fine up to $2,000, or a prison term of two to 10 years and a fine of up to $5,000.

Attachment A

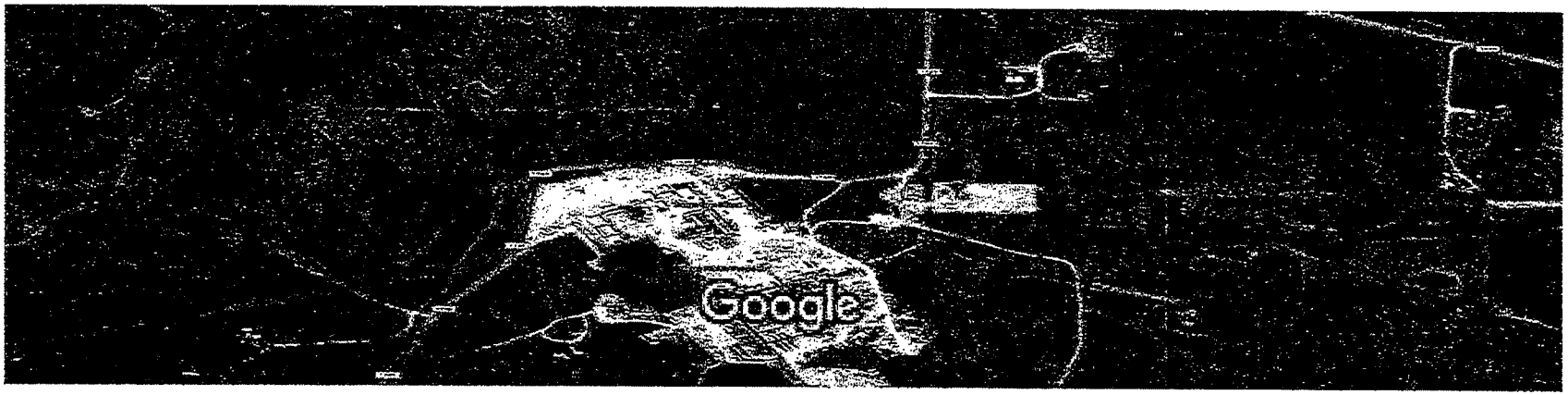


Attachment B

Google Maps

33°18'45.4"N 97°52'29.6"W

8" Intelligent "PIG" Launcher in Wise County



Imagery ©2015 DigitalGlobe, Texas Orthoimagery Program, USDA Farm Service Agency, Map data ©2015 Google 200 ft

33°18'45.4"N 97°52'29.6"W

Attachment B

Google Maps

33°18'39.2"N 97°31'44.8"W

8" Intelligent "PIG" Launcher in Wise County

Imagery ©2015 DigitalGlobe, Texas Orthoimagery Program, Map data ©2015 Google 100 ft

33°18'39.2"N 97°31'44.8"W

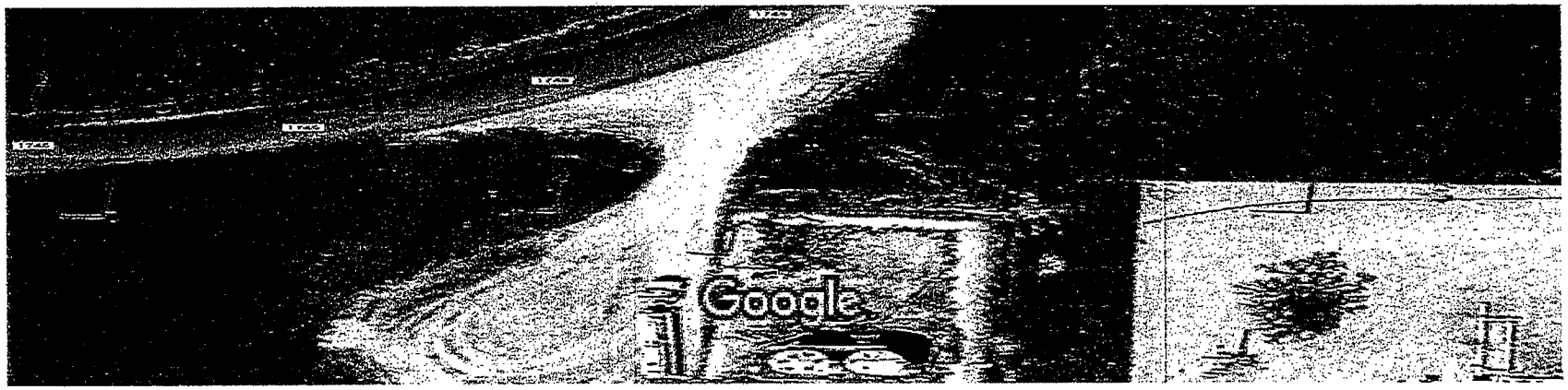
ROA 0972

Attachment B

Google Maps

33°18'45.4"N 97°52'29.3"W

8" Intelligent "PIG" Receiver in Wise County



Map data ©2015 Google 20 ft

33°18'45.4"N 97°52'29.3"W

ROA 0973

Attachment 2

The State of Texas

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

Application Number: 19538

County: Wise

USE DETERMINATION CERTIFICATE

This certifies that
DCP Southern Hills Pipeline, LLC
DCP Southern Hills Pipeline – Wise County
Natural Gas Liquids Pipeline 8 Inch
Wise County, Texas

installed the following property that is used 100% for pollution control to meet or exceed federal or state regulations:

three 8 inch automatic shut-off valves for natural gas liquids pipeline.

December 23, 2015

Date

David Brymer
Division Director

ROA 0975

The State of Texas

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

Application Number: 19543

County: Wise

USE DETERMINATION CERTIFICATE

This certifies that
DCP Southern Hills Pipeline, LLC
DCP Southern Hills Pipeline – Wise County
Natural Gas Liquids Pipeline 8 Inch
Wise County, Texas

installed the following property that is used 100% for pollution control to meet or exceed federal or state regulations:

cathodic protection; fusion-bonded epoxy (FBE) on the pipe surface; adhesive for top coat; and top coat consisting of polyethylene or polypropylene.

December 23, 2015

Date

David Brymer
Division Director

ROA 0976

The State of Texas

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

Application Number: 19551

County: Wise

USE DETERMINATION CERTIFICATE

This certifies that
DCP Southern Hills Pipeline, LLC
DCP Southern Hills Pipeline – Wise County
Natural Gas Liquids Pipeline 8 Inch
Wise County, Texas

installed the following property that is used 100% for pollution control to meet or exceed federal or state regulations:

Nondestructive pipeline testing expenditures – radiography.

December 23, 2015

Date

David Brymer
Division Director

ROA 0977

The State of Texas

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

Application Number: 19575

County: Wise

USE DETERMINATION CERTIFICATE

This certifies that
DCP Southern Hills Pipeline, LLC
DCP Southern Hills Pipeline – Wise County
Natural Gas Liquids Pipeline 8 Inch
Wise County, Texas

installed the following property that is used 100% for pollution control to meet or exceed federal or state regulations:

one 8 inch intelligent pipeline inspection gauge (PIG) receiver and two 8 inch PIG launchers.

December 23, 2015

Date

David Brymer
Division Director

ROA 0978

STATE OF SOUTH CAROLINA

DEPARTMENT OF REVENUE

OFFICE OF THE GENERAL COUNSEL

300A Outlet Pointe Blvd.
Columbia, SC 29210

PO Box 12265
Columbia, SC 29211-9979

January 27, 2021

The Honorable Ralph King Anderson, III
Chief Administrative Law Judge
Edgar A. Brown Building
1205 Pendleton Street, Suite 224
Columbia, SC 29201

Re: **Colonial Pipeline Company vs. South Carolina Department of Revenue**
Docket No. 18-ALJ-17-0443-CC

Dear Judge Anderson:

Enclosed please find the Supplemental Brief of the Department in connection to the above-referenced matter. Also enclosed is a Proof of Service.

If you should have any questions, please do not hesitate to contact me at 803-898-5623 or Marcus.Antley@dor.sc.gov.

Sincerely,

OFFICE OF GENERAL COUNSEL FOR LITIGATION

Marcus D. Antley, III, Esquire
Counsel for Litigation

MDA/hch
Enclosures

c: Burnet R. Maybank, III, Esquire and Jim Rourke, Esquire; Michael Kozlarek, Esquire for Intervenors (*Abbeville, Anderson, Greenville, and York*); Walter Cartin, Esquire, J. Evan Phillips, Esquire, and Madison Felder, Esquire for Intervenors (*Aiken and Laurens*)

STATE OF SOUTH CAROLINA
ADMINISTRATIVE LAW COURT

Colonial Pipeline Company, Petitioner, vs. South Carolina Department of Revenue, Abbeville County, Anderson County, Greenville County, Aiken County, Laurens County, and York County, Respondents.	DOCKET NO. 18-ALJ-17-0443-CC **SUPPLEMENTAL BRIEF OF THE DEPARTMENT**

Respondent South Carolina Department of Revenue (Department) submits this Supplemental Brief in response to questions raised by the Court during a hearing on January 20, 2021. The Department understood the Court's questions generally to be the following: (1) whether cathodic protection and pipeline coatings were separate equipment, and (2) whether the Petitioner employed cathodic protection prior to a state or federal law requiring it.

ANALYSIS

I. Cathodic protection and pipeline coatings are separate equipment.

At the January 20, 2021 hearing, all the parties agreed cathodic protection is separate equipment from pipeline coatings, and the record supports this.

Cathodic protection and pipeline coatings both prevent the pipeline from deteriorating to the point where it leaks.

> A. The cathodic protection is there to protect the integrity of the outer walls of the pipeline to keep them from deteriorating to the point where they leak, and that's the same thing with pipe coatings.

> Colonial 30(b)(6) Depo. p. 64:19-23[1]; *see also* Joint Exhibit 16 p. DHEC_SUBPOENA_RESP_000024-28 (Fact sheets on pipeline coating and cathodic protection).

The Petitioner explains the interplay of cathodic protection and pipeline coatings as essentially a belt and suspenders approach. Both are required to prevent corrosion because neither is perfect.

> A. The cathodic protection - - if the cathodic protection fails, then - - then you're relying a hundred percent on - - on the coating to be perfect and that - - that doesn't exist. Coatings are never perfect. Even - - even the day you put one in, there's always a pinhole or a holiday somewhere and we know that. That's why coatings and cathodic protection are - - are required to be applied together. Colonial Depo. p. 268:15-23.
>
> ***
>
> A. …Pipe coatings can also be damaged by equipment and by rocks left in the back fill during installation, as well as by subsequent excavation activities. To enhance protection, operators began installing cathodic protection systems… Tr. p. 232:17-23.

Therefore, cathodic protection and pipeline coatings are separate and distinct equipment that slow the deterioration of the pipeline.

II. The Petitioner had cathodic protection prior to the any state or federal requirement.

The record shows that the Petitioner had cathodic protection prior to any state or federal law requiring it as illustrated by the portions of the record cited below.

First, Petitioner's 30(b)(6) witness testified that cathodic protection was first required in 1970 or later.

---

[1] The 30(b)(6) deposition of the Petitioner was admitted into evidence as Joint Exhibit 19.

> Q. And you're required to put it on your pipeline, did you say, within a year of installing pipe?
> A. Within one year of new construction, correct.
> Q. And was this requirement in place all the way back in 1962 when the facility was made?
> A. So post 1971, I know coatings were required. Now, it doesn't mean that you don't have coated pipe. It just means that it became a federal requirement.
> Cathodic protection, I don't know that I can answer exactly when that was required. It might be '71 or --
> Q. A long time?
> A. - -or maybe - - maybe a little bit after that. That, I don't remember that specifically. Colonial Depo. p. 277:4-20.

***

> A. …Gas pipelines installed after July 31, 1971, and hazardous liquid interstate pipelines installed after March 31, 1970, must be properly coated and have cathodic protection. Effective dates for other categories of pipelines apply.
> Cathodic protection is required on any pipeline installed before these dates if the pipeline is coated, or where areas of active corrosion are present if the line is bare or ineffectively coated… Tr. 226:24-25 -227:1-9.

Second, the Petitioner used cathodic protection before it was required by law because it was in its best business interest to protect its assets.

> Q. So those three assets would have been used prior to any kind of regulatory requirements that they be used?
> A. That's correct.
> Q. So why would they have been used in 1962 if they weren't required by state or federal law?
> A. It's in our—it's in the best interest to protect the asset and keep the product in the pipeline. So at the time, a decision was made to spend the extra money. Coatings were being used and cathodic protection were used well before 1971 and—and most of the companies were using them. But it wasn't a federal requirement, so not all were using them. Colonial Depo. p. 291:4-19.

Third, the Petitioner has always had cathodic protection since the original installation of the pipeline in 1962.

> A. Cathodic protection was installed – it's been installed for a long time. Back in 1962 when the pipe was, was installed, it had cathodic protection at a very limited capacity. Since then, we've installed more systems as the coating degraded over time. Tr. p. 230:9-14. Tr. p. 230:9-14.
>
> ***
>
> A. ...And cathodic protection has always been on our system... Colonial Depo. p. 263:18-19. Colonial Depo. p. 263:18-19.

In short, the record demonstrates the Petitioner purchased and installed cathodic protection systems long before any state or federal law required it, because the use of cathodic protection served a business purpose that was unrelated to pollution control.

CONCLUSION

Cathodic protection and pipeline coatings are separate equipment that protect the pipeline and keep the product in it. The Petitioner used both equipment for financial reasons prior to any state or federal law requiring its use. Therefore, the Department asks the Court to deny the Petitioner's Motion for Reconsideration.

{Signature on following page}

Respectfully submitted,

Marcus D. Antley, III, Esquire (Bar No. 102176)
Counsel for Litigation
Jason P. Luther, Esquire (Bar No. 78021)
General Counsel for Litigation
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Columbia, South Carolina
January 27, 2021