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SC Court of Appeals

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

---

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 7 OF 7

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Colonial Pipeline Company

J. Keith Fuqua
Indirect Tax Manager

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E-mail: kfuqua@colpipe.com

April 19, 2017

South Carolina Department of Revenue
Mr. Taylor Ingram
Utilities
Columbia, SC 29214-0306

RE: SC PT-427 Report - 2017

Dear Taylor,

Enclosed, for your information and file, is the 2017 annual property tax report for Colonial Pipeline Company.

For your use and convenience, the following documents are provided:

1. South Carolina Property Tax Report – PT 420 & 427
2. FERC Asset Reconciliation by State - 12-31-16
3. Cost of Capital Study – 2017
4. Delivered Barrels for 2016
5. Pollution Control Exemption Schedules

Please contact me if further information is needed or questions arise.

Best regards,

J. Keith Fuqua
Indirect Tax Manager
Colonial Pipeline Company

April 2017

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

PC Control Facility Type	Long Asset Decription	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 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) .]	15053	02/01/11	6.00	$ 528,630	$ 454,399	$ 43,168
Subtotal - Automatic Shut-off Valves							*$ 528,630*	*$ 454,399*	*$ 43,168*
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	$ 95,020	$ 72,144	$ 8,854
Pipeline Cathodic Protection	702 Bullman Road Linear Anode System	See Above	See Above	13319	08/01/06	11.00	76,748	58,271	5,536
Pipeline Cathodic Protection	703-bethlehem Road Linear Anode System	See Above	See Above	13340	12/01/06	11.00	148,177	113,286	10,762
Pipeline Cathodic Protection	701 Cathodic Protection Systems	See Above	See Above	13683	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	14890	10/01/09	8.00	368,176	307,506	29,213
Pipeline Cathodic Protection	Sc Cp Mitigation Project	See Above	See Above	14686	12/01/09	8.00	1,060,674	904,273	85,906
Pipeline Cathodic Protection	South Carolina Cp Mitigation Project Part Ii	See Above	See Above	14916	12/01/10	7.00	1,608,062	1,383,436	131,427
Pipeline Cathodic Protection	2011 Rectifier Replacement Program Scmc	See Above	See Above	15136	08/01/11	6.00	172,728	148,986	14,154
Pipeline Cathodic Protection	2011 Sc Cp Upgrade Project	See Above	See Above	15266	12/01/11	6.00	797,938	705,073	66,982
Pipeline Cathodic Protection	0702494 Scuffletown Road	See Above	See Above	15448	07/01/12	5.00	23,613	21,392	2,032
Pipeline Cathodic Protection	Sc Mainline Monitoring Project	See Above	See Above	15965	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	587,229	99,738	9,475
Subtotal - Pipeline Cathodic Protection							*$ 8,718,254*	*$ 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 760-7 And 760-8 Recoat Project	See Above	See Above	14356	01/01/08	9.00	95,376	74,871	7,113
Pipeline Coatings	703 Recoat	See Above	See Above	14601	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	101,995	68,265	8,385
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	16076	12/01/14	3.00	133,541	126,975	12,063
Pipeline Coatings	Hunter Road Recoat Of Line 01 And 02	See Above	See Above	16728	12/01/15	2.00	1,513,559	1,469,109	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	2,936,099	2,908,121	276,272
Subtotal - Pipeline Cathodic Protection							*$ 10,981,330*	*$ 10,405,788*	*$ 988,550*
Subtotal - Transmission Pipeline							$ 18,228,215	$ 16,133,333	$ 1,532,667
II. Storage & Terminals									
A. Water Pollution Control									
1. Waste Water Pollution Control Facilities									
Waste Water Pollution Control Facilities	Gaffney Facility Drain Valve Upgrade	N/A	Consent Agreement 02-082-W Section 9	15383	12/01/12	5.00	$ 346,302	$ 313,927	$ 29,823
Waste Water Pollution Control Facilities	Simpsonville Drain Valve Upgrade	N/A	Permit No SCG630000 Part VIII. Limitations and Monitoring Requirements	16013	12/01/15	2.00	201,407	192,270	18,266
Subtotal - Secondary Containment							*$ 547,709*	*$ 506,197*	*$ 48,089*
2. Storm Water Pollution Control Facilities									
Storm Water Pollution Control	Install New Dike Drain Lines @ Belton	40 CFR 112.3 "The owner or operator or an onshore or offshore facility subject to this section must prepare in writing and implement a Spill Prevention Control and Countermeasure Plan (hereafter "SPCC Plan" or "Plan"," in accordance with § 112.7 and any other applicable section of this part." SPCC Section 2.2 Evaluation of Discharge Potential	NPDES Permit No SC3400020 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) .]	13316	11/01/06	11.00	$ 16,248	$ 12,019	$ 1,142
Subtotal - Secondary Containment							*$ 16,248*	*$ 12,019*	*$ 1,142*
3. Secondary Containment									
Secondary Containment	Line 21 Sump Replacement	40 CFR 112.3 "The owner or operator or an onshore or offshore facility subject to this section must prepare in writing and implement a Spill Prevention Control and Countermeasure Plan (hereafter "SPCC Plan" or "Plan"," in accordance with § 112.7 and any other applicable section of this part." SPCC Section 3.5 Containment and Diversionary Structures	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) .]	13740	09/01/07	10.00	$ 125,767	$ 96,411	$ 9,159
Subtotal - Secondary Containment							*$ 125,767*	*$ 96,411*	*$ 9,159*
B. Air Pollution Control									
1. Tank Floating Roofs									
Tanks - Roofs	Tank 630 Internal Floating Deck Replacement & Floor Coating	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. 0280-0210 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) .]	13369	08/01/07	10.00	$ 183,035	$ 153,196	$ 14,554
Tanks - Roofs	Tank 651 External Floating Roof Seal Replacement	49 CFR 63.1063 (a)(ii) "xternal floating roof. An EFR shall be equipped with one of the seal configurations listed in paragraphs (a)(1)(i)(A) and (a)(1)(ii)(B) of this section. (A) A liquid-mounted seal and a secondary seal. (B) A mechanical shoe seal and a secondary seal. The upper end of the shoe(s) shall extend a minimum of 61 centimeters (24 inches) above the stored liquid surface.. "	See Above	13360	10/01/07	10.00	56,625	41,144	3,909
Subtotal - Tank Floating Roofs							*$ 239,660*	*$ 194,340*	*$ 18,462*
Subtotal - Storage & Terminals							*$ 929,384*	*$ 808,966*	*$ 76,852*
Form Total:							$ 19,157,599	$ 16,942,299	$ 1,609,518

1350

STATE OF SOUTH CAROLINA
DEPARTMENT OF REVENUE

UTILITY AND RAILROAD COMPANIES PROPERTY TAX RETURN

PT-420
(Rev. 3/15/13)
7029

TAX YEAR 2017

PTUTL 5570661008

COLONIAL PIPELINE COMPANY
1185 SANCTUARY PARKWAY, SUITE 100
ALPHARETTA GA 30009-4765

FILE NUMBER: 70050040-2
FEIN: [redacted]
TELEPHONE: 678-762-2276
FAX NUMBER: 770-825-7617

The following information, where applicable, must be submitted to the Department of Revenue on or before the last day of the fourth month after the close of the taxpayer's accounting period, after which an appropriate penalty will be applied as provided by law.

1) This form completed in detail including distribution information as to gross investment in each taxing district. Forms enclosed. SEE PT-427 ATTACHED
2) A copy of the annual report of Utility or Railroad filed with the South Carolina Public Service Commission, Annual Report of the Company (financial) or USDA-REA Financial and Statistical Report (Form 7). Not Available Yet
3) A certification of Pollution Control Equipment- gross investment and depreciation schedule. N/A
4) A list of licensed vehicles- investment and depreciation schedule. SEE ATTACHED
5) A complete explanation of the method used to determine exempt property when applicable. N/A
6) Attach a schedule of construction work in progress that was capitalized for South Carolina. A separate list between real and personal property is required. SEE ATTACHED
7) A detailed list of non-operating (non-utility) real property by tax map number. SEE ATTACHED

Interstate Companies- In addition to the above information, companies not operating solely in South Carolina should file the following:

1) A copy of the annual report to a Federal Regulating Board. FORM 6 DRAFT ATTACHED
2) Allocation information

Total Revenues	SEE ATTACHED
South Carolina Revenues	SCHEDULE
Total Net Operating Income	
South Carolina Net Operating Income	
Total Gross Investment	
South Carolina Gross Investment	
Total Net Investment	
South Carolina Net Investment	

(over)

70291018

I declare that this return including any accompanying schedules and statements has been examined by me and to the best of my knowledge and belief is a true and complete return made in good faith pursuant to the 1976 Code of Laws and amendments.

Taxpayer's Signature	Title	Date
	INDIRECT TAX MANAGER	4/19/17
Accountant's Signature	Title	Date

Contact Person	Tax Preparer / Contact Phone Number
J. KEITH FUQUA	678-762-2276

Returns found incomplete or improper will be returned to the taxpayer for completion or amendment.

Mail completed returns to:

South Carolina Department of Revenue
Utilities
Columbia, SC 29214-0306

Colonial Pipeline Company
South Carolina PT-420 Reconciliation
As of 12/31/2016

2. Allocation Information

Total Revenues	1,214,958,915
South Carolina Revenues	80,784,950
Total Net Operating Income	425,676,007
South Carolina Net Operating Income	28,304,015
Total Gross Investment	3,440,158,967
South Carolina Gross Investment	189,851,791
Total Net Investment	1,908,068,986
South Carolina Net Investment	90,383,203

1350

STATE OF SOUTH CAROLINA
DEPARTMENT OF REVENUE

--DISTRIBUTION INFORMATION--

PT-427
(Rev. 6/01/10)
7042

Company Name _____ Tax Year _____

COUNTY	MUNICIPALITY OR TAX DISTRICT	REAL PROPERTY GROSS INVESTMENT	PERSONAL PROPERTY GROSS INVESTMENT	TOTAL REAL AND PERSONAL GROSS INVESTMENT
TOTALS				

1) Gross Investment - To include utility plant in service and material and supplies. Do **NOT** include licensed vehicles, construction in progress or non-operating property locally assessed.
2) Attach a list of property leased in South Carolina showing name and address of lessor and description of property.

7042101L1

ROA 2334

Company Name Colonial Pipeline Company

Tax Year 2017

PT-427
(10/89)
7042

--DISTRIBUTION INFORMATION--

COUNTY	MUNICIPALITY OR TAX DISTRICT	(1) GROSS INVESTMENT	FOR TAX COMMISSION USE ONLY (DO NOT WRITE IN THIS SPACE) DISTRIBUTION
Anderson	County total	67,088,477	
	District #1	33,947,122	
	District #2	9,304,473	
	District #3	20,510,123	
	District #5	3,326,759	
Abbeville	County Wide	4,879,308	
Aiken	County Wide	518,399	
Cherokee	County Wide	34,791,600	
	District #11	25,270,826	
	District #27	9,520,774	
Page Total		107,277,783	

1) Gross Investment - To include utility plant in service, non-utility property and material and supplies. Do NOT include licensed vehicles or construction in progress.

2) Attach a list of property leased in South Carolina showing name and address of lessor and description of property.

TOTAL ASSESSMENT _____

ROA 2335

Company Name Colonial Pipeline Company

Tax Year 2017

PT-427
(10/89)
7042

--DISTRIBUTION INFORMATION--

COUNTY	MUNICIPALITY OR TAX DISTRICT	(1) GROSS INVESTMENT	FOR TAX COMMISSION USE ONLY (DO NOT WRITE IN THIS SPACE) DISTRIBUTION
Edgefield	County total	8,405,816	
Greenville	County total	19,415,379	
	District #46	6,604,684	
	District #891	1,923,298	
	District #52	5,234,962	
	District #65	5,652,435	
Greenwood	District #02	1,196,890	
Page Total		29,018,085	

1) Gross Investment - To include utility plant in service, non-utility property and material and supplies. Do NOT include licensed vehicles or construction in progress.

2) Attach a list of property leased in South Carolina showing name and address of lessor and description of property.

TOTAL ASSESSMENT _____

ROA 2336

Company Name Colonial Pipeline Company | Tax Year 2017 | **PT-427** (10/89) 7042

--DISTRIBUTION INFORMATION--

COUNTY	MUNICIPALITY OR TAX DISTRICT	(1) GROSS INVESTMENT	FOR TAX COMMISSION USE ONLY (DO NOT WRITE IN THIS SPACE) DISTRIBUTION
Laurens	County Wide	2,568,864	
McCormick	County Wide	3,292,746	
Spartanburg	County Total	42,783,326	
	S. District #3	5,047,168	
	S. District #4	6,891,142	
	S. District #6	4,762,017	
	S. District #7	1,425,754	
	Roebuck District (Fire)	3,051,113	
	Croft Fire District	21,606,133	
York	Clover 2 School, Bethany Santiago Fire	697,832	
Page Total		49,342,768	
Report Total		185,638,636	

1) Gross Investment - To include utility plant in service, non-utility property and material and supplies. Do NOT include licensed vehicles or construction in progress.

2) Attach a list of property leased in South Carolina showing name and address of lessor and description of property.

TOTAL ASSESSMENT _____

ROA 2337

Colonial Pipeline Company
South Carolina Annual Report

SOUTH CAROLINA REPORT YEAR 2017

PIPELINE	MILES OF PIPELINE	SIZE	GROSS INVESTMENT	ASSESSED VALUE
Abbeville County				
County-Wide Schools	23.40	16 "	4,193,129	
	23.40	8 "	586,759	
Allocation of Capitalized Interest and Overhead			99,420	
		TOTAL	4,879,308	
Aiken County				
School District No. 6	1.59	16	284,918	
School District No. 6	8.89	8 "	222,918	
Allocation of Capitalized Interest and Overhead			10,563	
		TOTAL	518,399	
Greenwood County				
School District No. 2	5.74	16 "	1,028,571	
	5.74	8 "	143,931	
Allocation of Capitalized Interest and Overhead			24,388	
		TOTAL	1,196,890	
Laurens County				
Greenville School District	2.70	40 "	1,850,825	
No. 520	2.71	36 "	665,696	
Laurens Hospital District	(2.70)	40 "		
	(2.71)	36 "		
Allocation of Capitalized Interest and Overhead			52,343	
		TOTAL	2,568,864	
McCormick County				
County-Wide Schools	15.79	16 "	2,829,466	
	15.80	8 "	396,187	
Allocation of Capitalized Interest and Overhead			67,092	
		TOTAL	3,292,746	
York County				
School District	0.75	40 "	514,118	
	0.69	36 "	169,495	
Allocation of Capitalized Interest and Overhead			14,219	

		TOTAL	697,832	
PIPELINE	**MILES OF PIPELINE**	**SIZE**	**GROSS INVESTMENT**	**ASSESSED VALUE**
Anderson County				
School District No. 1	4.89	40 "	3,352,050	
	4.89	36 "	1,201,200	
School District No. 2	7.40	40 "	5,072,633	
	7.40	36 "	1,817,767	
	10.89	16 "	1,951,418	
	10.89	8 "	273,068	
School District No. 3	12.03	40 "	8,246,455	
	11.97	36 "	2,940,361	
School District No. 5	3.50	40 "	2,399,218	
	3.50	36 "	859,755	
		TOTAL PIPELINE	28,113,927	

LAND AND BUILDINGS:

Description and Location:

Land: (Anderson Station) S. D. #3

Tax Map No. 101-00-03-012-000, District 031 — 6,847
7.01 Acres, 251 Chris De Lane, Purchased 4/16/75

Land: Belton Terminal S. D. #1

Tax Map No. 248-00-06-002-000, District 101 — 191,608
53 Acres, 1916 Camelot Forest, Purchased 10/3/62

Anderson County (cont'd)	GROSS INVESTMENT	ASSESSED VALUE
Building: Anderson Station S. D. #3	204,051	
Control Building - Prefabricated Steel 34' - 9" x 56' - 1,975 sq. ft.		
Building: Belton Terminal S. C. #1		
Control Building - Prefabricated Steel 34' - 9" x 56' - 9" - 1,975 sq. ft. and Sample Building - Prefabricated Steel 10' - 6" x 12' - 6" - 131 sq. ft. Storage Building - Prefabricated Steel 100' x 50'	551,629	
TOTAL LAND & BUILDINGS	**954,135**	

PERSONAL PROPERTY:

Description and location:

Anderson Station - Varenne Township, School District #3		
Tanks: 2-500 bbl.	63,818	
Pump Equipment: 6 - 5,000 HP DVS, United Pump Units 2 - 2,000 HP DVS, United Pump Units	2,710,787	
Other Station Facilities Including small sump tanks, utility motors and properties not otherwise listed.	5,919,893	
TOTAL ANDERSON STATION	8,694,498	
Belton Junction - Belton Township, School District #1		
Tanks: 2 - 54,000 bbl. 4 - 43,000 bbl. 5 - 33,000 bbl. 5 - 24,000 bbl. 5 - 17,000 bbl.	9,370,706	
Pump Equipment: 16" system to Augusta 1 - 300 HP JTC, Pacific Pump Unit (Stored in Place)		

Anderson County (cont'd)	GROSS INVESTMENT	ASSESSED VALUE
Pump Equipment (Local):	524,341	
1 - 50 HP - Union 4 x 6 HSB) Local		
1 - 60 HP - Union 4 x 6 HSB)		
1 - 75 HP - Bingham 6 x 8 14B CVA Booster		
1 - 500 HP - United 4 x 11 MSN (4/3 STG)		
1 - 1000 HP - United 4 x 11 MSN (6 STG)		
Other Station Facilities		
Including small sump tanks, utility motors and properties not otherwise listed.	18,063,887	
TOTAL BELTON JUNCTION	27,958,933	
Total Pipeline	28,113,927	
Total Land & Building	954,135	
Total Personal Property	36,653,431	
ANDERSON COUNTY	65,721,493	
Do not include CWIP		
ALLOCATION OF CAPITALIZED INTEREST & OVERHEAD	1,366,985	
TOTAL ANDERSON COUNTY	67,088,477	

	TOTAL SCHOOL DISTRICTS	% ALLOC.	ALLOCATION*	TOTAL
School District No. 1	33,255,421	50.6005%	691,701	33,947,122
School District No. 2	9,114,886	13.8690%	189,587	9,304,473
School District No. 3	20,092,212	30.5718%	417,911	20,510,123
School District No. 5	3,258,973	4.9588%	67,786	3,326,759
TOTAL	65,721,493	100.0000%	1,366,985	67,088,477

PIPELINE	MILES OF PIPELINE	SIZE	GROSS INVESTMENT	ASSESSED VALUE
Cherokee County				
School District #11	26.60	40 "	18,234,058	
	26.55	36 "	6,521,854	
Total Pipeline			24,755,912	
LAND AND BUILDINGS:				
Description and Location:				
Land: Gaffney Station S. D. #27			2,325	
28.89 acres in White Plains Township, S. D. #27, Cherokee County, South Carolina, known as a portion of Lot No. 1 of F. C. Phillip's Farm, more particularly described in deed from C. E. St. Amand and Victor S. Sarratt to Colonial Pipeline Company dated 9/28/62 and recorded in Volume 5N, Page 93, Cherokee County Records.				
Building: Gaffney Station S. D. #27			267,444	
Control Building - Prefabricated Steel 34' - 9" x 56' - 9" - 1,975 sq. ft.				
TOTAL LAND & BUILDINGS			269,769	
PERSONAL PROPERTY:				
Description and location:				
Gaffney Station - White Plains Township, S. D. #27				
Tanks: 2-500 bbl.			50,677	
Pump Equipment:				
6 - 5,000 HP DVS, United Pump Units				
2 - 2,000 HP DVS, United Pump Units			2,771,421	
Other Station Facilities				
Including small sump tanks, utility motors and properties not otherwise listed.			6,234,914	
TOTAL PERSONAL PROPERTY			9,057,011	
CHEROKEE COUNTY			34,082,692	
Do not include CWIP				
ALLOCATION OF CAPITALIZED INTEREST & OVERHEAD			708,908	
TOTAL CHEROKEE COUNTY			34,791,600	

TOTAL SCHOOL DISTRICTS		%ALLOC.	ALLOCATION	TOTAL
School District #11	24,755,912	72.6348%	514,914	25,270,826
School District #27	9,326,780	27.3652%	193,994	9,520,774
TOTAL	34,082,692	100.0000%	708,908	34,791,600

OK

OK

PIPELINE	MILES OF PIPELINE	SIZE	GROSS INVESTMENT	ASSESSED VALUE
Edgefield County				
County-Wide School	19.27	16 "	3,453,060	
	19.71	8 "	494,231	
	TOTAL PIPELINE		3,947,291	

LAND AND BUILDINGS:

Description and Location:

Land: North Augusta Metering Site - North Augusta Outside

0.955 acres purchased from Gulf Oil Corp. dated 6/16/63 by deed and recorded 7/9/64 in Deed Book 44, Page 567, Edgefield County Records. 393

Buildings: North Augusta Metering Site - North Augusta Outside

Control Building - Prefabricated Steel
Sample Building - Prefabricated Steel on concrete slab 187,174

TOTAL LAND & BUILDINGS 187,567

PERSONAL PROPERTY:

Description and location:

North Augusta Metering Site - North Augusta Outside

Tanks: 2-500 bbl.
1 - 2,000 bbl. 120,218

Other Station Facilities
Including small sump tanks, utility motors and properties not otherwise listed. 3,979,464

TOTAL PERSONAL PROPERTY 4,099,683

EDGEFIELD COUNTY 8,234,540

Do not include CWIP

ALLOCATION OF CAPITALIZED INTEREST & OVERHEAD 171,276

TOTAL EDGEFIELD COUNTY 8,405,816

TOTAL SCHOOL DISTRICTS (COUNTY-WIDE) 8,405,816

PIPELINE	MILES OF PIPELINE	SIZE	GROSS INVESTMENT	ASSESSED VALUE
Greenville County				
Tax District No. 15	2.25	40 "	1,542,355	
	2.25	36 "	552,700	
Tax District No. 45	2.58	40 "	1,768,566	
	2.58	36 "	633,762	
Tax District No. 50	1.58	40 "	1,083,076	
	1.58	36 "	388,118	
Tax District No. 65	1.28	40 "	877,428	
	1.28	36 "	314,425	
Tax District No. 75	4.00	40 "	2,741,964	
	4.00	36 "	982,577	
Tax District No. 110	2.21	40 "	1,514,935	
	2.21	36 "	542,874	
Tax District No. 140	2.05	40 "	1,405,256	
	2.05	36 "	503,571	
Tax District No. 299	2.33	40 "	1,597,194	
	2.33	36 "	572,351	
		Total Pipeline	17,021,150	

LAND AND BUILDINGS:

Description and Location:

Land: Simpsonville Station S. D. #299	3,950
1.90 acres in Fairview Township, Greenville County, South Carolina, more particularly described in deed from Hugh Lee Gault, et al, dated 11/20/62 and recorded at Book 712, Page 3, Greenville County Records.	
2.05 acres in Fairview Township, Greenville County, South Carolina, more particularly described in deed from Benjamin Hugh Gault, et al, dated 11/20/62 and recorded at Book 712, Page 25, Greenville County Records.	
Building: Simpsonville Station S. D. #299	110,394
Control Building - Brick Veneer 23' x 43' - 989 sq. ft.	
TOTAL LAND & BUILDINGS	114,344

Greenville County (cont'd)	**GROSS INVESTMENT**	**ASSESSED VALUE**
PERSONAL PROPERTY:		
Description and location:		
Simpsonville Station S. D. #299		
Tanks: 1 - 625 bbl. Transmix Tank	20,486	
Pump Equipment:		
6 - 5,000 HP DVS, United Pump Units		
2 - 2,000 HP DVS, United Pump Units	776,756	
Other Station Facilities:		
Including small sump tanks, utility motors and properties not otherwise listed.	1,087,039	
TOTAL PERSONAL PROPERTY	1,884,280	
GREENVILLE COUNTY	19,019,774	
Do not include CWIP		
ALLOCATION OF CAPITALIZED INTEREST & OVERHEAD	395,605	
TOTAL GREENVILLE COUNTY	19,415,379	

TOTAL SCHOOL DISTRICTS:		ALLOC. %	ALLOCATION*	TOTAL
District #46	6,470,108	34.0178%	134,576	6,604,684
District #891	1,884,109	9.9061%	39,189	1,923,298
District #52	5,128,295	26.9630%	106,667	5,234,962
District #65	5,537,262	29.1132%	115,173	5,652,435
TOTAL	19,019,774	100.0000%	395,605	19,415,379

PIPELINE		MILES OF PIPELINE	SIZE		GROSS INVESTMENT	ASSESSED VALUE
Spartanburg County						
School District No. 3	3SSGF	0.21	40	36	195,538	
	3GF	3.61	40	36	3,361,398	
	3CPF	1.49	40	36	1,387,391	
School District No. 4	4REF	3.73	40	36	3,473,134	
	4WWPSF	3.52	40	36	3,277,596	
School District No. 6	6PSF	0.85	40	36	791,465	
	6WWPSF	2.45	40	36	2,281,281	
	6SSACF	1.71	40	36	1,592,241	
School District No. 7	7SSGF	0.75	40	36	698,351	
	7SSGF	0.75	40	36	698,351	
Roebuck Fire District	6WWRF	1.50	40	36	1,396,703	
	6SSWWWF	1.28	40	36	1,191,853	
	6SSRF	0.43	40	36	400,388	
Croft Fire District	7SSCF	0.43	40	36	400,388	
	7SSCF	2.45	40	36	2,281,281	
	Total Pipeline				23,427,360	

LAND AND BUILDINGS:

Description and Location:

Land: Spartanburg County

2.22 acres, Tract No. 3 and .10 acres, Tract No. 4, in District 7 C.F.D. School District, Spartanburg County, South Carolina, more particularly described in deed from JOCO, Inc., to Colonial Pipeline Company dated 9/26/62 and recorded at Deed Vol. 28M, Page 514, Spartanburg County Records. 13,292

45.33 acres, Tract No. 2 in District 7 C.F.D. School District, Spartanburg County, South Carolina, more particularly described in deed from Johnson Oil Co., Inc., to Colonial Pipeline Company, dated 9/26/62 and recorded at Deed Volume 28M, Page 517, Spartanburg County Records. 60,623

Spartanburg County (cont'd)	GROSS INVESTMENT	ASSESSED VALUE
Building: Spartanburg Terminal. S. D. #7 C.F.D.		
Control Building - Prefabricated Steel		
34' - 9" x 56' - 9" - 1,975 sq. ft. and		
Warehouse and Office Building - Prefabricated Steel		
62' x 30' - 1,890 sq. ft.	496,214	
TOTAL LAND & BUILDINGS	570,129	
PERSONAL PROPERTY:		
Description and location:		
Spartanburg Terminal. S. D. #7 C.F.D.		
Tanks:		
1 - 55,000 bbl.		
1 - 54,000 bbl.		
3 - 43,000 bbl.		
8 - 33,000 bbl.		
6 - 24,000 bbl.		
3 - 17,000 bbl.		
22 TANKS TOTAL	6,692,709	
Pump Equipment:		
HP HSH Bingham Pump Units	1,048,430	
Other Station Facilities:		
Including small sump tanks, utility motors, fire protection system, materials and supplies; properties not otherwise listed.	9,676,297	
TOTAL PERSONAL PROPERTY	17,417,436	
SPARTANBURG COUNTY	41,414,925	
MATERIALS AND SUPPLIES	496,655	
Do not include CWIP		
ALLOCATION OF CAPITALIZED INTEREST & OVERHEAD	871,746	
TOTAL SPARTANBURG COUNTY	42,783,326	

TOTAL SCHOOL DISTRICTS		% ALLOC.	ALLOCATION*	TOTAL
School District No. 3	4,944,327	11.7970%	102,840	5,047,168
School District No. 4	6,750,730	16.1071%	140,413	6,891,142
School District No. 6	4,664,987	11.1305%	97,030	4,762,017
School District No. 7	1,396,703	3.3325%	29,051	1,425,754
Roebuck Fire District	2,988,944	7.1315%	62,169	3,051,113
Croft Fire District	21,165,889	50.5013%	440,243	21,606,133

			0	0
TOTAL	41,911,580	100.0000%	871,746	42,783,326

* NOTE: ALLOCATION CONSISTS OF ALLOCATION CAPITALIZED INTEREST AND OVERHEAD

SOUTH CAROLINA REPORT YEAR 2016
List of Non-Operating (Non-Utility) real property by tax map number

Anderson County

LAND AND BUILDINGS:

Description and Location:

Tax Map No. 248-09-01-010-000, District 001
3.44 Acres, Lots 2&3 Big Creek Road, Purchased 11/5/1993

Tax Map No. 248-09-01-008-000, Tax Dist 001
4.5 Acres, Lot 9, Purchased 5/9/1989

Tax Map No. 248-09-01-006-000, Tax Dist 001
4.8 Acres, Lot 11, Purchased 5/9/1989

Tax Map No. 248-09-01-001-000, Tax Dist 001
2.53 Acres, Lot 1 off Big Creek Road, Purchased 6/3/1988

Tax Map No. 248-09-01-002-000, Tax Dist 001
Lot 4 off Big Creek Road, Purchased 6/3/1988

Tax Map No. 248-09-01-005-000, Tax Dist 001
4.96 Acres, Lot 12 off Big Creek Road, Purchased 6/4/1988

Tax Map No. 248-09-01-004-000, Tax Dist 001
3.51 Acres, Lot 13 off Big Creek Road, Purchased 6/4/1988

Tax Map No. 248-09-01-003-000, Tax Dist 001
3.99 Acres, Lot 14 off Big Creek Road, Purchased 6/3/1988

Tax Map No. 248-00-07-013-000, Tax Dist 101
.61 Acre, Camelot Forest Rd, Purchased 12/19/1995

Tax Map No. 248-00-07-001-000, Tax Dist 101
18.85 Acres, Camelot Forest Rd, Purchased 12/19/1995

SOUTH CAROLINA REPORT YEAR 2016
List of Non-Operating (Non-Utility) real property by tax map number

Fee Right of Way S. D. #5

Lot 67, Block "D", Nevitt Forest in Broadway Township, S. D. #5, Anderson County, more particularly described in deed from Albert L. Campbell to Colonial Pipeline Company dated 8/3/62 and recorded at Deed Book L, Page 162, Anderson County Records.

Lot No. 47, Block "C", Nevitt Forest in Broadway Township, S. D. #5, Anderson County, more particularly described in deed from Francis R. Fant, Trustee, to Colonial Pipeline Company dated 8/1/62 and recorded at Deed Book L, Page 160, Anderson County Records, less .03 acre to State of South Carolina, Deed 4/10/67, recorded Book 15-G, Page 426, Anderson County Records.

Lot No. 12, Block "D", Nevitt Forest in Broadway Township, S. D. #5, Anderson County, more particularly described in deed from Francis R. Fant, Trustee, dated 8/1/62 and recorded at Deed Book L, Page 160, Anderson County Records.

Lot 4, 4-a, and 5-a, Block "W", Nevitt Forest in Broadway Township, S. D. #5, Anderson County, more particularly described in deed from Nevitt Forest, Inc., dated 8/1/62 and recorded at Deed Book L, Page 160, Anderson County Records.

Cherokee County

LAND AND BUILDINGS:
Description and Location:

Tax Map No. 067-00-00-012.000, tax district 11
3.4 acres, Old Racetrac Road, Purchased 11/8/2008

Tax Map No. 085-00-00-001.000, tax district 27
30 acres, Old Racetrac Road

Tax Map No. 137-00-00-051.000

SOUTH CAROLINA REPORT YEAR 2016
List of Non-Operating (Non-Utility) real property by tax map number

2.87 acres, River Road

SOUTH CAROLINA REPORT YEAR 2016
List of Non-Operating (Non-Utility) real property by tax map number

Greenville County

LAND AND BUILDINGS:
Description and Location:

Tax Map No. 057-601-01-01-010, Tax Dist 052
5.6 acres, Harrison Bridge, purchased 3/26/1997

Tax Map No. 033-100-010-05-02, Tax Dist 697
.567 acres, Interstate 385, purchased 7/7/2004

Spartanburg County

LAND AND BUILDINGS:
Description and Location:

Tax Map No. 7-21-04-003.00, tax dist 8500
1.2 acres, Lot 12 Block B, Purchased 11/1/62

Tax Map No. 4-17-00-004.22, tax dist 4T00 / WCF
7.89 acres, Lot A, Purchased 9/1/1998

Tax Map No. 7-21-04-034.02, tax dist 8500 / CF
1.77 acres, Lot 12

Tax Map No. 7-21-04-032.00, tax dist 8500 / CF
3.97 Acres, Lot 10 Block 1, Purchased 4/1/1963

Colonial Pipeline Company
South Carolina

VEHICLES - 12/31/2016

DESCRIPTION	Location	CO. NO.	AMOUNT
1999 FORD F-250	741	1438	**20,067.55**
2002 FORD F-250	721	1579	**23,698.33**
2010 FORD F-350	721	1856	**45,217.12**
2011 FORD F-150	721	1920	**30,118.19**
2012 FORD F-150	721	1957	**30,126.38**
2012 FORD F-150	741	1963	**26,785.43**
2013 FORD F-150	721	1971	**28,746.84**
2015 FORD F-350	721	2041	**48,788.82**
2015 FORD F-350	741	2068	**50,041.18**
2016 FORD F-350	741	2095	**47,983.89**
2016 FORD F-350	741	2096	**48,418.89**
2015 FORD F-150	721	2105	**35,236.04**
2016 FORD Explorer	721	2106	**31,065.72**

Total Vehicles - SC **466,294.38** **Actual South Carolina Vehicles**

466,294.38 GL Total for South Carolina

0.00 2016 SC Vehicle Adjustment

Colonial Pipeline Company
South Carolina CWIP Worksheet
As of 12/31/2016

County	Real	Personal
Anderson		1,005,715
Cherokee		-
Spartanburg		-
Total CWIP		1,005,715

Colonial Pipeline Company

Barrel Miles / Total by State / January 2016 through December 2016

State	2015		2016	2016
TX	33,298,992,531	3.78%	30,695,815,613	3.86%
LA	124,547,511,774	14.16%	115,750,269,082	14.07%
MS	149,142,961,076	16.95%	141,343,044,847	16.93%
AL	158,659,124,338	18.03%	150,236,029,275	18.04%
GA	122,429,352,936	13.92%	114,726,564,623	13.86%
TN	9,794,674,996	1.11%	9,722,016,724	1.15%
SC	**58,498,015,011**	**6.65%**	**53,519,584,683**	**6.62%**
NC	71,312,902,447	8.11%	64,221,058,725	8.10%
VA	95,239,315,626	10.83%	83,346,551,833	10.84%
MD	27,530,385,063	3.13%	22,984,962,025	3.14%
PA	7,406,853,050	0.84%	6,153,573,374	0.85%
DE	673,242,175	0.08%	567,879,197	0.08%
NJ	21,167,282,788	2.41%	17,944,366,642	2.44%
NY	75,689,816	0.01%	58,327,204	0.01%
Total	879,776,303,627	100%	811,270,043,847	100%

Colonial Pipeline Company

Schedule of Delivered Barrels - YTD 2016

All types of fuel

State	Delivered Barrels - 2016	Percent	Delivered Barrels - 2015	Percent
Texas	54,845,220	5.94%	45,913,349	4.78%
Louisiana	10,742,041	1.16%	11,503,732	1.20%
Mississippi	61,001,874	6.61%	62,146,602	6.46%
Alabama	31,119,595	3.37%	30,094,999	3.13%
Georgia	120,201,381	13.02%	114,793,381	11.94%
Tennessee	93,379,286	10.11%	94,694,229	9.85%
South Carolina	**56,540,370**	**6.12%**	**55,132,392**	**5.74%**
North Carolina	124,971,866	13.53%	121,207,494	12.61%
Virginia	105,120,920	11.38%	109,451,556	11.39%
Maryland	50,703,515	5.49%	57,854,460	6.02%
Pennsylvania	11,570,041	1.25%	18,776,465	1.95%
Delaware		0.00%		0.00%
New Jersey	169,972,869	18.41%	199,148,939	20.72%
New York	33,279,739	3.60%	40,583,233	4.22%
Total	923,448,717	100%	961,300,831	100%

Colonial Pipeline Company
Investment - Carrier Property
As of December 31, 2016

State	Carrier Property	CWIP	Materials & Supplies	Intangibles including ROW	Non-Carrier Property	Total Investment	Percent of Total	Carrier Reserve for Depreciation	Intangibles Reserve for Depreciation	Non-Carrier Reserve for Depreciation	Total Reserve for Depreciation	Carrier Net Book	Percent of Total
Texas	235,448,281	5,572,152	189,362	42,143,287	14,629,279	297,982,362	8.66%	129,771,437	3,861,551	9,039,630	142,672,618	155,309,745	8.14%
Louisiana	373,044,957	4,729,477	926,206	42,433,178	2,211,438	423,345,256	12.31%	178,061,974	6,711,071	-	184,773,044	238,572,211	12.50%
Mississippi	249,571,339	(1,000,082)	313,493	91,525,005	23,880	340,433,634	9.90%	106,963,079	13,548,823	-	120,511,902	219,921,732	11.53%
Alabama	279,592,134	3,105,931	279,781	57,792,283	5,347,139	346,117,268	10.06%	117,392,966	4,477,304	-	121,870,270	224,246,998	11.75%
Georgia	487,296,280	10,896,081	1,471,035	7,215,455	7,418,402	514,297,253	14.95%	225,190,108	1,894,167	123,987	227,208,262	287,088,991	15.05%
Tennessee	136,646,284	320,610	30,740	3,296,168	3,995,210	144,289,012	4.19%	65,813,981	865,434	-	66,679,416	77,609,596	4.07%
South Carolina	**185,160,454**	**1,546,219**	**496,655**	**2,200,642**	**447,821**	**189,851,791**	**5.52%**	**98,930,954**	**537,634**	**-**	**99,468,588**	**90,383,203**	**4.74%**
North Carolina	363,354,521	934,879	750,707	4,295,826	2,245,028	371,580,962	10.80%	184,140,234	1,186,297	238,889	185,565,420	186,015,542	9.75%
Virginia	329,231,839	1,312,745	525,770	11,617,530	2,294,226	344,982,109	10.03%	185,957,412	2,977,192	229,354	189,163,959	155,818,150	8.17%
Maryland	148,903,401	200,898	676,308	3,242,086	564,039	153,586,733	4.46%	79,761,774	1,032,626	392,209	81,186,610	72,400,123	3.79%
Pennsylvania	25,860,116	0	-	189,673	34,924	26,084,712	0.76%	13,237,125	75,037	27,440	13,339,602	12,745,111	0.67%
Delaware	10,928,245	0	-	210,538	-	11,138,783	0.32%	7,787,853	53,956	-	7,841,810	3,296,973	0.17%
New Jersey	190,460,589	72,240,891	753,773	3,216,882	2,352,169	269,024,303	7.82%	86,520,552	969,706	543,633	88,033,890	180,990,413	9.49%
New York	7,027,499	209,451	-	152,857	-	7,389,807	0.21%	3,707,913	40,263	-	3,748,176	3,641,631	0.19%
Wash, DC	48,931	0	-	6,050	-	54,981	0.00%	23,828	2,588	-	26,416	28,565	0.00%
Totals	3,022,574,870	100,069,252	6,413,830	269,537,459	41,563,555	3,440,158,967	100.00%	1,483,261,192	38,233,648	10,595,141	1,532,089,981	1,908,068,986	100.00%
Adjusted Form 6 Balance	3,122,644,123		6,413,830	269,537,459	41,563,555	3,440,158,967		1,483,261,192	38,233,648	10,595,141	1,532,089,981		
Actual Form 6 Balance	3,122,644,121		6,413,831	269,537,459	41,563,555	3,440,158,966		1,483,261,192	38,233,648	10,595,141			
	Page 110 line 28		Page 110 line 10	Page 111 line 37	Page 111 line 33			Page 111 line 30&31	Page 111 line 38	Page 111 line 34			
Difference	**2**	**-**	**(1)**	**0**	**(0)**	**1**		**(0)**	**0**	**(0)**			

Supplement Information about Subsidiary Income

The income on Line 13, page 114 of Form 6 represents income from subsidiaries that are fully taxed for property tax purposes in their respective states of operation and Colonial feels that income should be removed from the net Income that is capitalized into value to avoid double taxation. The information included here takes that income by each year's effective tax rate and calculates the adjustment. This info is being provided as supplemental information to the current property tax return.

Year	Investment Income	Net Adjustment	Income Tax	Effective Rate
2012	16,475,435	10,476,729	6,237,366	0.37859
2013	18,420,863	11,656,400	6,868,736	0.37288
2014	20,863,682	13,118,252	7,745,430	0.37124
2015	36,787,208	22,312,112	14,475,096	0.39348
2016	39,146,866	24,323,141	14,823,725	0.37867

Notes:
Investment Income comes from Form 6 Page 114 Line 13
Net Adjustment = Investment Income - Income Tax
Income Tax = Investment Income x effective rate
Effective Rate = Income taxes from Form 6 Page 114 lines 16&17 divided by Taxable Income on Form 6 Page 114 line 16

PT- 422
(Rev. 5/4/04)
7032

PROPOSED ASSESSMENT

2017 Tax Year

SOUTH CAROLINA DEPARTMENT OF REVENUE
PROPERTY DIVISION - UTILITIES
P.O. BOX 125
COLUMBIA, SOUTH CAROLINA 29214

Keith Fuqua
Colonial Pipeline Company
1185 Sanctuary Parkway, Ste 100
Alpharetta, GA 30009

The Department of Revenue has proposed a property tax assessment of $ 12,621,080 against your company for tax year 2017 .

* This is not a tax bill. This is a property tax assessment, and any tax bills relating to this assessment will be issued by the appropriate counties at a later date.

SEE REVERSE SIDE FOR APPEAL PROCEDURE

This demand is not applicable if you are currently in bankruptcy proceedings under Title 11 of the US code. Although you are liable for the stated amount, such will be claimed through the bankruptcy courts.

Date of Notice: August 15, 2017

By: Taylor Ingram

Utility Assessment Coordinator
(843) 953-8371

APPEAL PROCEDURES

Section 12-60-450.

(A) A taxpayer can appeal a proposed assessment by filing a written protest with the department within ninety days of the date of the proposed assessment. The department may extend the time for filing a protest at any time before the period has expired.

(B) The written protest must contain:
  (1) the name, address, and telephone number of the taxpayer;
  (2) the appropriate taxpayer identification number or numbers;
  (3) the tax period or date for which the tax was proposed;
  (4) the nature and kind of tax in dispute;
  (5) a statement of facts supporting the taxpayer position;
  (6) a statement outlining the reasons for the appeal, including any law or other authority upon which the taxpayer relies; and
  (7) Any other relevant information the department may reasonably prescribe. The taxpayer does not need to provide legal or other authority, as provided in item (6), if the total amount of the proposed assessment is less than two thousand five hundred dollars, unless the taxpayer is a partnership, and "S" corporation, an exempt organization, or an employee plan and the proposed tax is imposed by Chapters 7, 11, or 13 of Title 12.

(C) The filing of an appeal of the proposed assessment as provided in subsection (A) extends the time for assessment as provided in Section 12-54-85)G).

(D) After the protest is filed and the taxpayer has completed or refused any other internal administrative appeals procedures provided by the department, the taxpayer and department representative shall stipulate the facts and issues upon which they can agree, and may attempt to settle the case. If the taxpayer fails to respond or participate in the process with the department representative, the department may view the appeal as abandoned and make a department determination using any information provided in accordance with Section 12-60-30(16)(c)(iii).

(E) (1) The department will make a department determination using the information provided by the taxpayer in accordance with Section 12-60-30(16)(c)(iii).
  (2) A department determination adverse to the taxpayer must be in writing and must:
    (a) be sent by first class mail or delivered to the taxpayer,
    (b) explain the basis for the departments determination;
    (c) inform the taxpayer of his right to request a contested case hearing; and
    (d) explain that the taxes will be assessed in thirty days and payment demanded unless the taxpayer requests a contested case hearing.

Section 12-60-2120.

(A) A property taxpayer may appeal a property tax assessment proposed by a division of the department by filing a written protest with the department.

(B) A property taxpayer may protest any denial of the tax exemption by the department for the property he believes is exempt from property tax by filing a written protest with the department.

(C) The protest of property taxes under this section must be mailed or delivered to either the director, or his designee, within the time limits provided in Section 12-60-450(B) and also the fair market value, special use value, if applicable, and property classification of the property the taxpayer believes is correct. If the protest claims the property is exempt, the protest must state the basis on which exemption is claimed.

(D) All appeals must be conducted as provided in Section 12-60-450(C through (E).

South Carolina Department of Revenue
P.O. Box 125
Columbia SC 29214

DISTRIBUTION REPORT
Tax Year 2017

COLONIAL PIPELINE COMPANY

Keith Fuqua

1185 Sanctuary Pkwy. Ste 100

Alpharetta, GA 30009

COUNTY	DISTRICT	GROSS INVESTMENT	ASSESSMENT
ABBEVILLE	County Wide	4,879,308	331,730
AIKEN	County Wide	518,399	35,250
ANDERSON	District #1	33,946,600	2,307,940
ANDERSON	District #2	9,304,473	632,590
ANDERSON	District #3	20,510,123	1,394,430
ANDERSON	District #5	3,326,759	226,180
CHEROKEE	District #11	25,270,826	1,718,100
CHEROKEE	District #27	9,520,774	647,290
EDGEFIELD	County Wide	8,405,816	571,490
GREENVILLE	District #46	6,604,684	449,040
GREENVILLE	District #52	5,234,962	355,910
GREENVILLE	District #65	5,652,435	384,290
GREENVILLE	District #891	1,923,298	130,760
GREENWOOD	District #02	1,196,890	81,370
LAURENS	County Wide	2,568,864	174,650
McCORMICK	County Wide	3,292,746	223,870
SPARTANBURG	3CPF	1,416,235	96,290
SPARTANBURG	3GF	3,431,317	233,290
SPARTANBURG	3SSGF	199,615	13,570
SPARTANBURG	4REF	3,545,493	241,050
SPARTANBURG	4WWPS	3,345,649	227,460
SPARTANBURG	6PSF	807,923	54,930
SPARTANBURG	6SSACF	1,625,372	110,510

South Carolina Department of Revenue
P.O. Box 125
Columbia SC 29214

DISTRIBUTION REPORT
Tax Year 2017

SPARTANBURG	6SSRF	408,544	27,780
SPARTANBURG	6SSWWWF	1,216,784	82,730
SPARTANBURG	6WWPS	2,328,722	158,320
SPARTANBURG	6WWRF	1,425,785	96,940
SPARTANBURG	7SSCF	21,606,133	1,468,950
SPARTANBURG	7SSGF	1,425,754	96,930
YORK	Clover 2 Sch, Beth-Sant Fire	697,832	47,440
Company	**Total**	**185,638,115**	**12,621,080**

Company
KA
y, Suite 100
30009

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Property Division - Utilities
Street, Apt. No.: or PO Box No.: P.O. Box 125
City, State, ZIP+4: Columbia, SC 29214

PS Form 3800, August 2006 See Reverse for Instructions

So EPT. OF REVENUE
P Utilities
P.O. Box 125
Columbia, SC 29214

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3.
- Print your name and address on the reverse so that we can return the card to you.
- 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

COMPLETE THIS SECTION ON DELIVERY

A. Signature
X ☐ Agent ☐ Addressee

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

D. Is delivery address different from item 1? ☐ Yes
If YES, enter delivery address below: ☐ No

3. Service Type
☐ Adult Signature
☐ Adult Signature Restricted Delivery
☒ Certified Mail®
☐ Certified Mail Restricted Delivery
☐ Collect on Delivery
☐ Collect on Delivery Restricted Delivery
☐ Insured Mail
☐ Insured Mail Restricted Delivery (over $500)
☐ Priority Mail Express®
☐ Registered Mail™
☐ Registered Mail Restricted Delivery
☐ Return Receipt for Merchandise
☐ Signature Confirmation™
☐ Signature Confirmation Restricted Delivery

mailed 9/7/17 BTH

Colonial Pipeline Company

J. Keith Fuqua
Indirect Tax Manager

Phone: 678-762-2276
Fax: 770-825-7617
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: [redacted]

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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Suite 2700
Philadelphia, PA 19103

T +1 215 430 6059
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kathryn.tronsberg@duffandphelps.com
www.duffandphelps.com

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.

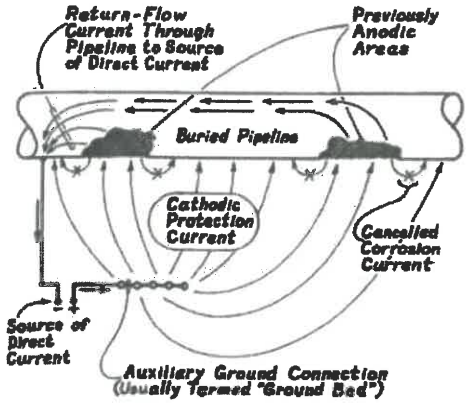
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[6] *White Papers: Corrosion Control and Environmental Protection.* Public Affairs – White Papers. NACE International. 2000-2012.

[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:

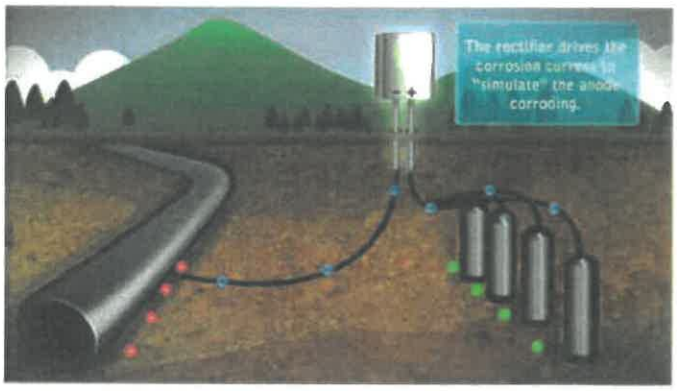
- sacrificial anode; and
- impressed current anode. [9]

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

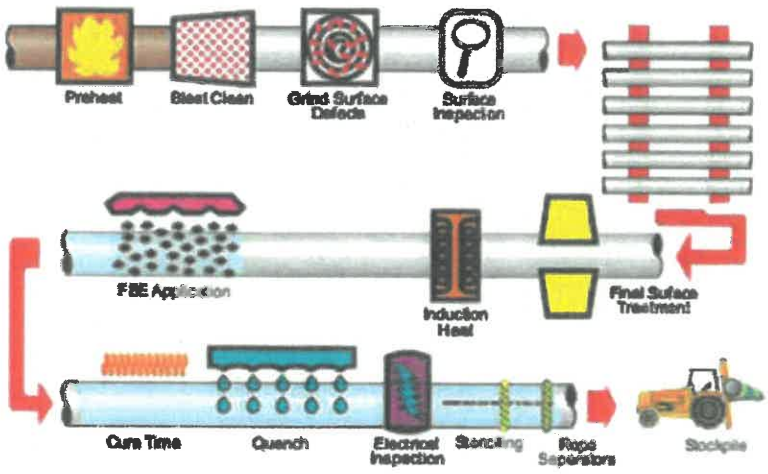
Cathodic Protection to protect against corrosion alone is impractical, so Pipe Coatings are needed to minimize the exposed area of the pipeline and to reduce the amount of cathodic protection current needed. [12]

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]

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[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 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) .]	15063	02/01/11	6.00	$ 528,630	$ 454,399	$ 43,168
Subtotal - Automatic Shut-off Valves							$ 528,630	$ 454,399	$ 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	$ 95,020	$ 72,144	$ 6,854
Pipeline Cathodic Protection	702 Sullman Road Linear Anode System	See Above	See Above	13319	08/01/06	11.00	78,748	59,271	5,536
Pipeline Cathodic Protection	703-bethlehem Road Linear Anode System	See Above	See Above	13340	12/01/06	11.00	148,177	113,286	10,762
Pipeline Cathodic Protection	701 Cathodic Protection Systems	See Above	See Above	13663	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	307,505	29,213
Pipeline Cathodic Protection	Sc Cp Mitigation Project	See Above	See Above	14885	12/01/09	8.00	1,080,674	904,273	85,906
Pipeline Cathodic Protection	South Carolina Cp Mitigation Project Part II	See Above	See Above	14916	12/01/10	7.00	1,608,062	1,383,438	131,427
Pipeline Cathodic Protection	2011 Rectifier Replacement Program Schc	See Above	See Above	15136	08/01/11	6.00	172,728	148,986	14[illegible]
Pipeline Cathodic Protection	2011 Sc Cp Upgrade Project	See Above	See Above	15266	12/01/11	6.00	797,938	705,073	66[illegible]
Pipeline Cathodic Protection	0702494 Scuffletown Road	See Above	See Above	15448	07/01/12	5.00	23,613	21,392	2033
Pipeline Cathodic Protection	Sc Mainline Monitoring Project	See Above	See Above	16965	12/01/14	3.00	453,298	430,643	40[illegible]
Pipeline Cathodic Protection	2015 Sc Mainline Delivery Line Cp Upgrades	See Above	See Above	16324	12/01/15	2.00	587,228	99,738	9,4[illegible]
Subtotal - Pipeline Cathodic Protection							$ 6,718,254	$ 5,273,146	$ 500,948
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	$ 7,032
Pipeline Coatings	Line 760-7 And 760-8 Recoat Project	See Above	See Above	14358	01/01/08	9.00	95,376	74,871	7,113
Pipeline Coatings	703 Recoat	See Above	See Above	14601	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	101,995	88,265	8,385
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	16726	12/01/15	2.00	1,513,559	1,489,109	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	2,836,099	2,808,121	276,2[illegible]
Subtotal - Pipeline Cathodic Protection							$ 10,881,330	$ 10,485,788	$ 98[illegible]
Subtotal - Transmission Pipeline							$ 18,228,215	$ 16,133,333	$ 1,532,667

RCM 2318

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

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DUFF & PHELPS

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

July 2017

Colonial Pipeline Company

ROA 2390

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ROA 2391

Section No. 01

Issue & Pipeline Pollution Control Regulatory Oversight

ROA 2392

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

ROA 2393

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

ROA 2394

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

ROA 2395

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

ROA 2397

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****…"*

ROA 2398

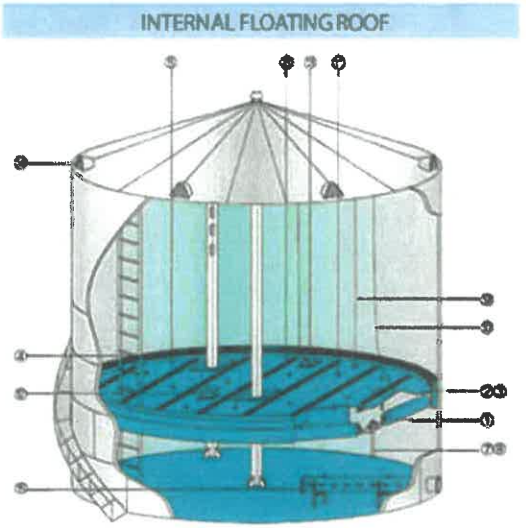
Regulatory Requirements for Environmental Protection: Tank Internal/External Floating Roofs

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..."*



ROA 2399

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.

ROA 2401

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]*

ROA 2402

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.

ROA 2404

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.

ROA 2406

Appendix A

Federal Requirements by Pollution Control Equipment

ROA 2407

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) .]

CONFIDENTIAL

Colonial Pipeline Company

J. Keith Fuqua
Indirect Tax Manager

Phone: 678-762-2276
Fax: 770-825-7617
E-mail: kfuqua@colpipe.com

April 23, 2018

South Carolina Department of Revenue
Mr. Taylor Ingram
Utilities
Columbia, SC 29214-0306

RE: SC PT-427 Report - 2018

Dear Taylor,

Enclosed, for your information and file, is the 2018 annual property tax report for Colonial Pipeline Company.

For your use and convenience, the following documents are provided:

1. South Carolina Property Tax Report – PT 420 & 427
2. FERC Asset Reconciliation by State - 12-31-17
3. Cost of Capital Study – 2018
4. Delivered Barrels for 2017
5. Pollution Control Exemption Schedules

Please contact me if further information is needed or questions arise.

Best regards,

J. Keith Fuqua
Indirect Tax Manager
Colonial Pipeline Company

Appendix A

Colonial Pipeline Company
SC 1120U: Public Utility Tax Return
Form: Schedule X - Pollution Control Equipment
TAX YEAR 2018 .

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(e): 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)(6) .]	15053	02/01/11	7.00	$ 528,630	$ 442,027	$ 41,993
Subtotal - Automatic Shut-off Valves							$ 528,630	$ 442,027	$ 41,993
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)(6) .]	13320	08/01/08	12.00	$ 95,020	$ 70,064	$ 6,656
Pipeline Cathodic Protection	702 Bullman Road Linear Anode System	See Above	See Above	13319	08/01/08	12.00	78,748	$ 58,591	$ 5,376
Pipeline Cathodic Protection	703-bethlehem Road Linear Anode System	See Above	See Above	13340	12/01/08	12.00	148,177	$ 110,114	$ 10,461
Pipeline Cathodic Protection	701 Cathodic Protection Systems	See Above	See Above	13683	04/01/09	9.00	1,305,590	$ 993,619	$ 94,394
Pipeline Cathodic Protection	Remote Monitor Installations In South Carolina (105)	See Above	See Above	14690	10/01/09	9.00	368,178	$ 299,924	$ 28,493
Pipeline Cathodic Protection	Sc Cp Mitigation Project	See Above	See Above	14686	12/01/09	9.00	1,089,574	$ 882,223	$ 83,811
Pipeline Cathodic Protection	South Carolina Cp Mitigation Project Part Ii	See Above	See Above	14918	12/01/10	8.00	1,609,062	$ 1,351,346	$ 128,378
Pipeline Cathodic Protection	2011 Rectifier Replacement Program Sc/nc	See Above	See Above	15136	08/01/11	7.00	172,728	$ 145,029	$ 13,776
Pipeline Cathodic Protection	2011 Sc Cp Upgrade Project	See Above	See Above	15286	12/01/11	7.00	797,938	$ 669,596	$ 65,512
Pipeline Cathodic Protection	0702494 Scuffletown Road	See Above	See Above	15448	07/01/12	6.00	23,613	$ 20,946	$ 1,990
Pipeline Cathodic Protection	Sc Mainline Monitoring Project	See Above	See Above	15965	12/01/14	4.00	453,298	$ 423,091	$ 40,194
Pipeline Cathodic Protection	2015 Sc Mainline Delivery Line Cp Upgrades	See Above	See Above	16324	12/01/15	3.00	587,229	$ (144,006)	$ (13,681)
Subtotal - Pipeline Cathodic Protection							$ 6,718,254	$ 4,868,544	$ 465,391
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)(6) .]	13413	08/01/08	12.00	$ 97,484	$ 71,881	$ 6,829
Pipeline Coatings	Line 700-7 And 700-8 Recoat Project	See Above	See Above	14358	01/01/08	10.00	95,376	$ 72,593	$ 6,896
Pipeline Coatings	703 Recoat	See Above	See Above	14601	05/01/09	9.00	1,555,799	$ 1,204,732	$ 114,459
Pipeline Coatings	Line 02 Location 702 Recoat	See Above	See Above	15087	12/01/10	8.00	101,995	$ 69,304	$ 6,199
Pipeline Coatings	2011 Sc Remediation Project - Recoats	See Above	See Above	15283	01/01/12	6.00	608,259	$ 508,575	$ 60,374
Pipeline Coatings	Recoat - West Prong Broad Mouth Creek Loc	See Above	See Above	16078	12/01/14	4.00	133,941	$ 124,754	$ 11,852
Pipeline Coatings	Hunter Road Recoat Of Line 01 And 02	See Above	See Above	16726	12/01/15	3.00	1,613,559	$ 1,449,884	$ 137,454
Pipeline Coatings	2015 South Carolina Recoats On Line 02 Loc 701 To 703	See Above	See Above	16325	05/01/16	2.00	3,739,109	$ 3,668,391	$ 348,497
Pipeline Coatings	2016 Kings Mountain South Carolina Line 02 Recoat	See Above	See Above	16827	08/01/16	2.00	2,036,009	$ 2,880,144	$ 273,614
Subtotal - Pipeline Cathodic Protection							$ 10,981,330	$ 10,254,358	$ 974,164
Subtotal - Transmission Pipeline							$ 18,228,215	$ 15,564,927	$ 1,481,548
II. Storage & Terminals									
A. Water Pollution Control									
1. Waste Water Pollution Control Facilities									
Waste Water Pollution Control Facilities	Gaffney Facility Drain Valve Upgrade	N/A	Consent Agreement 02-062-W Section 9.	16383	12/01/12	6.00	$ 346,302	$ 307,462	$ 29,206
Waste Water Pollution Control Facilities	Simpsonville Drain Valve Upgrade	N/A	Permit No SCG830000 Part VIII. Limitations and Monitoring Requirements	16013	12/01/15	3.00	201,407	$ 187,702	$ 17,832
Subtotal - Secondary Containment							$ 547,709	$ 495,164	$ 47,040
2. Storm Water Pollution Control Facilities									
Storm Water Pollution Control	Install New Dike Drain Lines @ Belton	40 CFR 112.3 "The owner or operator of an onshore or offshore facility subject to this section must prepare in writing and implement a Spill Prevention Control and Countermeasure Plan (hereafter "SPCC Plan" or "Plan")," in accordance with § 112.7 and any other applicable section of this part." SPCC Section 2.2 Evaluation of Discharge Potential	NPDES Permit No SC340020 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)(6) .]	13316	11/01/06	12.00	$ 16,248	$ 11,634	$ 1,105
Subtotal - Secondary Containment							$ 16,248	$ 11,634	$ 1,105
3. Secondary Containment									
Secondary Containment	Line 21 Sump Replacement	40 CFR 112.3 "The owner or operator of an onshore or offshore facility subject to this section must prepare in writing and implement a Spill Prevention Control and Countermeasure Plan (hereafter "SPCC Plan" or "Plan")," in accordance with § 112.7 and any other applicable section of this part." SPCC Section 3.5 Containment and Diversionary Structures	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)(6) .]	13740	06/01/07	11.00	$ 125,767	$ 93,475	$ 8,880
Subtotal - Secondary Containment							$ 125,767	$ 93,475	$ 8,880
B. Air Pollution Control									
1. Tank Floating Roofs									
Tanks - Roofs	Tank 630 Internal Floating Deck Replacement & Floor Coating	40 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. 0250-0210 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)(6) .]	13369	06/01/07	11.00	$ 183,035	$ 150,211	$ 14,270
Tanks - Roofs	Tank 651 External Floating Roof Seal Replacement	40 CFR 63.1063 (a)(i) "xternal floating roof. An EFR shall be equipped with one of the seal configurations listed in paragraphs (a)(1)(i)(A) and (a)(1)(i)(B) of this section. (A) A liquid-mounted seal and a secondary seal. (B) A mechanical shoe seal and a secondary seal. The upper end of the shoe(s) shall extend a minimum of 61 centimeters (24 inches) above the stored liquid surface. .."	See Above	13360	10/01/07	11.00	56,625	$ 39,598	$ 3,762
Subtotal - Tank Floating Roofs							$ 239,660	$ 189,808	$ 18,032
Subtotal - Storage & Terminals							$ 929,384	$ 790,071	$ 75,057
Form Total:							$ 19,157,599	$ 16,354,997	$ 1,556,576

ROA 2410

1350

STATE OF SOUTH CAROLINA
DEPARTMENT OF REVENUE

UTILITY AND RAILROAD COMPANIES PROPERTY TAX RETURN

PT-420
(Rev. 3/15/13)
7029

TAX YEAR 2018

PTUTL 5570661008

COLONIAL PIPELINE COMPANY
1185 SANCTUARY PARKWAY, SUITE 100
ALPHARETTA GA 30009-4765

FILE NUMBER: 70050040-2
FEIN: [redacted]
TELEPHONE: 678-762-2276
FAX NUMBER: 770-825-7617

The following information, where applicable, must be submitted to the Department of Revenue on or before the last day of the fourth month after the close of the taxpayer's accounting period, after which an appropriate penalty will be applied as provided by law.

1) This form completed in detail including distribution information as to gross investment in each taxing district. Forms enclosed. SEE PT-427 ATTACHED
2) A copy of the annual report of Utility or Railroad filed with the South Carolina Public Service Commission, Annual Report of the Company (financial) or USDA-REA Financial and Statistical Report (Form 7). Not Available Yet
3) A certification of Pollution Control Equipment- gross investment and depreciation schedule. N/A
4) A list of licensed vehicles- investment and depreciation schedule. SEE ATTACHED
5) A complete explanation of the method used to determine exempt property when applicable. N/A
6) Attach a schedule of construction work in progress that was capitalized for South Carolina. A separate list between real and personal property is required. SEE ATTACHED
7) A detailed list of non-operating (non-utility) real property by tax map number. SEE ATTACHED

Interstate Companies- In addition to the above information, companies not operating solely in South Carolina should file the following:

1) A copy of the annual report to a Federal Regulating Board. FORM 6 ATTACHED
2) Allocation information

Total Revenues	SEE ATTACHED
South Carolina Revenues	SCHEDULE
Total Net Operating Income	
South Carolina Net Operating Income	
Total Gross Investment	
South Carolina Gross Investment	
Total Net Investment	
South Carolina Net Investment	

(over)

70291018

I declare that this return including any accompanying schedules and statements has been examined by me and to the best of my knowledge and belief is a true and complete return made in good faith pursuant to the 1976 Code of Laws and amendments.

Taxpayer's Signature	Title	Date
	INDIRECT TAX MANAGER	4/23/18
Accountant's Signature	Title	Date

Contact Person	Tax Preparer / Contact Phone Number
J. KEITH FUQUA	678-762-2276

Returns found incomplete or improper will be returned to the taxpayer for completion or amendment.

Mail completed returns to:

South Carolina Department of Revenue
Utilities
Columbia, SC 29214-0306

Colonial Pipeline Company
South Carolina PT-420 Reconciliation
As of 12/31/2017

2. Allocation Information

Total Revenues	1,231,377,197
South Carolina Revenues	81,876,633
Total Net Operating Income	501,184,926
South Carolina Net Operating Income	33,324,748
Total Gross Investment	3,593,307,999
South Carolina Gross Investment	195,698,815
Total Net Investment	2,007,790,067
South Carolina Net Investment	93,275,490

Company Name Colonial Pipeline Company Tax Year 2018 PT-427

(10/89)

7042

--DISTRIBUTION INFORMATION--

COUNTY	MUNICIPALITY OR TAX DISTRICT	(1) GROSS INVESTMENT	FOR TAX COMMISSION USE ONLY (DO NOT WRITE IN THIS SPACE) DISTRIBUTION
Anderson	County total	69,019,288	
	District #1	35,382,055	
	District #2	9,454,766	
	District #3	20,799,744	
	District #5	3,382,722	
Abbeville	County Wide	4,948,003	
Aiken	County Wide	525,808	
Cherokee	County Wide	35,577,517	
	District #11	25,695,931	
	District #27	9,881,585	
Page Total		110,070,616	

1) Gross Investment - To include utility plant in service, non-utility property and material and supplies. Do NOT include licensed vehicles or construction in progress.

2) Attach a list of property leased in South Carolina showing name and address of lessor and description of property.

TOTAL ASSESSMENT _____

ROA 2414

Company Name Colonial Pipeline Company | Tax Year 2018 | PT-427 (10/89) 7042

--DISTRIBUTION INFORMATION--

COUNTY	MUNICIPALITY OR TAX DISTRICT	(1) GROSS INVESTMENT	FOR TAX COMMISSION USE ONLY (DO NOT WRITE IN THIS SPACE) DISTRIBUTION
Edgefield	County total	8,439,782	
Greenville	County total	20,904,597	
	District #46	7,111,283	
	District #891	2,070,820	
	District #52	5,636,499	
	District #65	6,085,994	
Greenwood	District #02	1,213,741	
Page Total		30,558,120	

1) Gross Investment - To include utility plant in service, non-utility property and material and supplies. Do NOT include licensed vehicles or construction in progress.

2) Attach a list of property leased in South Carolina showing name and address of lessor and description of property.

TOTAL ASSESSMENT _____

ROA 2415

Company Name Colonial Pipeline Company | Tax Year 2018 | PT-427 (10/89) 7042

--DISTRIBUTION INFORMATION--

COUNTY	MUNICIPALITY OR TAX DISTRICT	(1) GROSS INVESTMENT	FOR TAX COMMISSION USE ONLY (DO NOT WRITE IN THIS SPACE) DISTRIBUTION
Laurens	County Wide	2,612,081	
McCormick	County Wide	3,339,104	
Spartanburg	County Total	44,649,477	
	S. District #3	5,132,073	
	S. District #4	7,007,068	
	S. District #6	4,842,126	
	S. District #7	1,449,738	
	Roebuck District (Fire)	3,102,440	
	Croft Fire District	23,116,032	
York	Clover 2 School, Bethany Santiago Fire	709,558	
Page Total		51,310,220	
Report Total		191,938,956	

1) Gross Investment - To include utility plant in service, non-utility property and material and supplies. Do NOT include licensed vehicles or construction in progress.

2) Attach a list of property leased in South Carolina showing name and address of lessor and description of property.

TOTAL ASSESSMENT _____

ROA 2416

Colonial Pipeline Company
South Carolina Annual Report

SOUTH CAROLINA REPORT YEAR 2018

PIPELINE	MILES OF PIPELINE	SIZE	GROSS INVESTMENT	ASSESSED VALUE
Abbeville County				
County-Wide Schools	23.40	16 "	4,274,051	
	23.40	8 "	598,483	
Allocation of Capitalized Interest and Overhead			75,469	
		TOTAL	4,948,003	
Aiken County				
School District No. 6	1.59	16	290,416	
School District No. 6	8.89	8 "	227,372	
Allocation of Capitalized Interest and Overhead			8,020	
		TOTAL	525,808	
Greenwood County				
School District No. 2	5.74	16 "	1,048,421	
	5.74	8 "	146,807	
Allocation of Capitalized Interest and Overhead			18,512	
		TOTAL	1,213,741	
Laurens County				
Greenville School District	2.70	40 "	1,891,231	
No. 520	2.71	36 "	681,009	
Laurens Hospital District	(2.70)	40 "		
	(2.71)	36 "		
Allocation of Capitalized Interest and Overhead			39,840	
		TOTAL	2,612,081	
McCormick County				
County-Wide Schools	15.79	16 "	2,884,071	
	15.80	8 "	404,104	
Allocation of Capitalized Interest and Overhead			50,929	
		TOTAL	3,339,104	
York County				
School District	0.75	40 "	525,342	
	0.69	36 "	173,393	
Allocation of Capitalized Interest and Overhead			10,822	
		TOTAL	709,558	

PIPELINE	MILES OF PIPELINE	SIZE	GROSS INVESTMENT	ASSESSED VALUE
Anderson County				

School District No. 1	4.89	40 "	3,425,230
	4.89	36 "	1,228,832
School District No. 2	7.40	40 "	5,183,374
	7.40	36 "	1,859,582
	10.89	16 "	1,989,078
	10.89	8 "	278,525
School District No. 3	12.03	40 "	8,426,486
	11.97	36 "	3,008,000
School District No. 5	3.50	40 "	2,451,596
	3.50	36 "	879,532
	TOTAL PIPELINE		28,730,234

LAND AND BUILDINGS:

Description and Location:

Land: (Anderson Station) S. D. #3

Tax Map No. 101-00-03-012-000, District 031 — 6,847
7.01 Acres, 251 Chris De Lane, Purchased 4/16/75

Land: Belton Terminal S. D. #1

Tax Map No. 248-00-06-002-000, District 101 — 191,608
53 Acres, 1916 Camelot Forest, Purchased 10/3/62

Anderson County (cont'd)	**GROSS INVESTMENT**	**ASSESSED VALUE**
Building: Anderson Station S. D. #3	204,051	
Control Building - Prefabricated Steel 34' - 9" x 56' - 1,975 sq. ft.		
Building: Belton Terminal S. C. #1		
Control Building - Prefabricated Steel 34' - 9" x 56' - 9" - 1,975 sq. ft. and Sample Building - Prefabricated Steel 10' - 6" x 12' - 6" - 131 sq. ft. Storage Building - Prefabricated Steel 100' x 50'	551,629	
TOTAL LAND & BUILDINGS	**954,135**	
PERSONAL PROPERTY:		
Description and location:		
Anderson Station - Varenne Township, School District #3		
Tanks: 2-500 bbl.	63,818	
Pump Equipment: 6 - 5,000 HP DVS, United Pump Units 2 - 2,000 HP DVS, United Pump Units	2,710,787	
Other Station Facilities Including small sump tanks, utility motors and properties not otherwise listed.	6,062,512	
TOTAL ANDERSON STATION	8,837,117	
Belton Junction - Belton Township, School District #1		
Tanks: 2 - 54,000 bbl. 4 - 43,000 bbl. 5 - 33,000 bbl. 5 - 24,000 bbl. 5 - 17,000 bbl.	9,370,706	
Pump Equipment: 16" system to Augusta 1 - 300 HP JTC, Pacific Pump Unit (Stored in Place)		

Anderson County (cont'd)	GROSS INVESTMENT	ASSESSED VALUE
Pump Equipment (Local):	524,341	
1 - 50 HP - Union 4 x 6 HSB) Local		
1 - 60 HP - Union 4 x 6 HSB)		
1 - 75 HP - Bingham 6 x 8 14B CVA Booster		
1 - 500 HP - United 4 x 11 MSN (4/3 STG)		
1 - 1000 HP - United 4 x 11 MSN (6 STG)		
Other Station Facilities		
Including small sump tanks, utility motors and properties not otherwise listed.	19,550,051	
TOTAL BELTON JUNCTION	29,445,098	
Total Pipeline	28,730,234	
Total Land & Building	954,135	
Total Personal Property	38,282,215	
ANDERSON COUNTY	67,966,584	
Do not include CWIP		
ALLOCATION OF CAPITALIZED INTEREST & OVERHEAD	1,052,704	
TOTAL ANDERSON COUNTY	69,019,288	

	TOTAL SCHOOL DISTRICTS	% ALLOC.	ALLOCATION*	TOTAL
School District No. 1	34,842,397	51.2640%	539,658	35,382,055
School District No. 2	9,310,559	13.6987%	144,207	9,454,766
School District No. 3	20,482,500	30.1361%	317,244	20,799,744
School District No. 5	3,331,128	4.9011%	51,594	3,382,722
TOTAL	67,966,584	100.0000%	1,052,704	69,019,288

PIPELINE	MILES OF PIPELINE	SIZE	GROSS INVESTMENT	ASSESSED VALUE
Cherokee County				
School District #11	26.60	40 "	18,632,130	
	26.55	36 "	6,671,879	
Total Pipeline			25,304,009	
LAND AND BUILDINGS:				
Description and Location:				
Land: Gaffney Station S. D. #27			2,325	
28.89 acres in White Plains Township, S. D. #27, Cherokee County, South Carolina, known as a portion of Lot No. 1 of F. C. Phillip's Farm, more particularly described in deed from C. E. St. Amand and Victor S. Sarratt to Colonial Pipeline Company dated 9/28/62 and recorded in Volume 5N, Page 93, Cherokee County Records.				
Building: Gaffney Station S. D. #27			267,444	
Control Building - Prefabricated Steel 34' - 9" x 56' - 9" - 1,975 sq. ft.				
TOTAL LAND & BUILDINGS			269,769	
PERSONAL PROPERTY:				
Description and location:				
Gaffney Station - White Plains Township, S. D. #27				
Tanks: 2-500 bbl.			50,677	
Pump Equipment:				
6 - 5,000 HP DVS, United Pump Units				
2 - 2,000 HP DVS, United Pump Units			2,771,421	
Other Station Facilities				
Including small sump tanks, utility motors and properties not otherwise listed.			6,639,002	
TOTAL PERSONAL PROPERTY			9,461,100	
CHEROKEE COUNTY			35,034,877	
Do not include CWIP				
ALLOCATION OF CAPITALIZED INTEREST & OVERHEAD			542,640	
TOTAL CHEROKEE COUNTY			35,577,517	

TOTAL SCHOOL DISTRICTS		%ALLOC.	ALLOCATION	TOTAL
School District #11	25,304,009	72.2252%	391,923	25,695,931
School District #27	9,730,868	27.7748%	150,717	9,881,585
TOTAL	35,034,877	100.0000%	542,640	35,577,517
	OK			OK

PIPELINE	MILES OF PIPELINE	SIZE	GROSS INVESTMENT	ASSESSED VALUE
Edgefield County				
County-Wide School	19.27	16 "	3,519,699	
	19.71	8 "	504,107	
	TOTAL PIPELINE		4,023,806	

LAND AND BUILDINGS:

Description and Location:

Land: North Augusta Metering Site - North Augusta Outside

0.955 acres purchased from Gulf Oil Corp. dated 6/16/63 by deed and recorded 7/9/64 in Deed Book 44, Page 567, Edgefield County Records. 393

Buildings: North Augusta Metering Site - North Augusta Outside

Control Building - Prefabricated Steel
Sample Building - Prefabricated Steel on concrete slab 187,174

TOTAL LAND & BUILDINGS 187,567

PERSONAL PROPERTY:

Description and location:

North Augusta Metering Site - North Augusta Outside

Tanks: 2-500 bbl.
1 - 2,000 bbl. 120,218

Other Station Facilities
Including small sump tanks, utility motors and properties not otherwise listed. 3,979,464

TOTAL PERSONAL PROPERTY 4,099,683

EDGEFIELD COUNTY 8,311,055

Do not include CWIP

ALLOCATION OF CAPITALIZED INTEREST & OVERHEAD 128,726

TOTAL EDGEFIELD COUNTY 8,439,782

TOTAL SCHOOL DISTRICTS (COUNTY-WIDE) 8,439,782

PIPELINE	MILES OF PIPELINE	SIZE	GROSS INVESTMENT	ASSESSED VALUE
Greenville County				
Tax District No. 15	2.25	40 "	1,576,026	
	2.25	36 "	565,413	
Tax District No. 45	2.58	40 "	1,807,176	
	2.58	36 "	648,341	
Tax District No. 50	1.58	40 "	1,106,720	
	1.58	36 "	397,046	
Tax District No. 65	1.28	40 "	896,584	
	1.28	36 "	321,657	
Tax District No. 75	4.00	40 "	2,801,824	
	4.00	36 "	1,005,180	
Tax District No. 110	2.21	40 "	1,548,008	
	2.21	36 "	555,362	
Tax District No. 140	2.05	40 "	1,435,935	
	2.05	36 "	515,155	
Tax District No. 299	2.33	40 "	1,632,062	
	2.33	36 "	585,517	
		Total Pipeline	17,398,006	

LAND AND BUILDINGS:

Description and Location:

Land: Simpsonville Station S. D. #299	3,950
1.90 acres in Fairview Township, Greenville County, South Carolina, more particularly described in deed from Hugh Lee Gault, et al, dated 11/20/62 and recorded at Book 712, Page 3, Greenville County Records.	
2.05 acres in Fairview Township, Greenville County, South Carolina, more particularly described in deed from Benjamin Hugh Gault, et al, dated 11/20/62 and recorded at Book 712, Page 25, Greenville County Records.	
Building: Simpsonville Station S. D. #299	125,692
Control Building - Brick Veneer 23' x 43' - 989 sq. ft.	
TOTAL LAND & BUILDINGS	129,642

Greenville County (cont'd)	**GROSS INVESTMENT**	**ASSESSED VALUE**
PERSONAL PROPERTY:		
Description and location:		
Simpsonville Station S. D. #299		
Tanks: 1 - 625 bbl. Transmix Tank	20,486	
Pump Equipment:		
6 - 5,000 HP DVS, United Pump Units		
2 - 2,000 HP DVS, United Pump Units	776,756	
Other Station Facilities:		
Including small sump tanks, utility motors and properties not otherwise listed.	2,260,864	
TOTAL PERSONAL PROPERTY	3,058,106	
GREENVILLE COUNTY	20,585,754	
Do not include CWIP		
ALLOCATION OF CAPITALIZED INTEREST & OVERHEAD	318,844	
TOTAL GREENVILLE COUNTY	20,904,597	

TOTAL SCHOOL DISTRICTS:		ALLOC. %	ALLOCATION*	TOTAL
District #46	7,002,820	34.0178%	108,464	7,111,283
District #891	2,039,236	9.9061%	31,585	2,070,820
District #52	5,550,530	26.9630%	85,970	5,636,499
District #65	5,993,168	29.1132%	92,826	6,085,994
TOTAL	20,585,754	100.0000%	318,844	20,904,597

PIPELINE		MILES OF PIPELINE	SIZE		GROSS INVESTMENT	ASSESSED VALUE
Spartanburg County						
School District No. 3	3SSGF	0.21	40	36	199,868	
	3GF	3.61	40	36	3,435,821	
	3CPF	1.49	40	36	1,418,109	
School District No. 4	4REF	3.73	40	36	3,550,031	
	4WWPSF	3.52	40	36	3,350,163	
School District No. 6	6PSF	0.85	40	36	808,988	
	6WWPSF	2.45	40	36	2,331,790	
	6SSACF	1.71	40	36	1,627,494	
School District No. 7	7SSGF	0.75	40	36	713,813	
	7SSGF	0.75	40	36	713,813	
Roebuck Fire District	6WWRF	1.50	40	36	1,427,626	
	6SSWWWF	1.28	40	36	1,218,241	
	6SSRF	0.43	40	36	409,253	
Croft Fire District	7SSCF	0.43	40	36	409,253	
	7SSCF	2.45	40	36	2,331,790	
	Total Pipeline				23,946,052	

LAND AND BUILDINGS:

Description and Location:

Land: *Spartanburg County*

2.22 acres, Tract No. 3 and .10 acres, Tract No. 4, in District 7 C.F.D. School District, Spartanburg County, South Carolina, more particularly described in deed from JOCO, Inc., to Colonial Pipeline Company dated 9/26/62 and recorded at Deed Vol. 28M, Page 514, Spartanburg County Records. 13,290

45.33 acres, Tract No. 2 in District 7 C.F.D. School District, Spartanburg County, South Carolina, more particularly described in deed from Johnson Oil Co., Inc., to Colonial Pipeline Company, dated 9/26/62 and recorded at Deed Volume 28M, Page 517, Spartanburg County Records. 60,625

Spartanburg County (cont'd)	**GROSS INVESTMENT**	**ASSESSED VALUE**
Building: Spartanburg Terminal. S. D. #7 C.F.D.		
Control Building - Prefabricated Steel		
34' - 9" x 56' - 9" - 1,975 sq. ft. and		
Warehouse and Office Building - Prefabricated Steel		
62' x 30' - 1,890 sq. ft.	525,648	
TOTAL LAND & BUILDINGS	599,563	
PERSONAL PROPERTY:		
Description and location:		
Spartanburg Terminal. S. D. #7 C.F.D.		
Tanks:		
1 - 55,000 bbl.		
1 - 54,000 bbl.		
3 - 43,000 bbl.		
8 - 33,000 bbl.		
6 - 24,000 bbl.		
3 - 17,000 bbl.		
22 TANKS TOTAL	6,692,709	
Pump Equipment:		
HP HSH Bingham Pump Units	1,048,430	
Other Station Facilities:		
Including small sump tanks, utility motors, fire protection system, materials and supplies; properties not otherwise listed.	11,221,758	
TOTAL PERSONAL PROPERTY	18,962,897	
SPARTANBURG COUNTY	43,508,512	
MATERIALS AND SUPPLIES	459,957	
Do not include CWIP		
ALLOCATION OF CAPITALIZED INTEREST & OVERHEAD	681,008	
TOTAL SPARTANBURG COUNTY	44,649,477	

TOTAL SCHOOL DISTRICTS		% ALLOC.	ALLOCATION*	TOTAL
School District No. 3	5,053,797	11.4941%	78,276	5,132,073
School District No. 4	6,900,194	15.6935%	106,874	7,007,068
School District No. 6	4,768,272	10.8448%	73,854	4,842,126
School District No. 7	1,427,626	3.2469%	22,112	1,449,738
Roebuck Fire District	3,055,120	6.9484%	47,319	3,102,440
Croft Fire District	22,763,459	51.7722%	352,573	23,116,032
			0	0
TOTAL	43,968,469	100.0000%	681,008	44,649,477

* NOTE: ALLOCATION CONSISTS OF ALLOCATION CAPITALIZED INTEREST AND OVERHEAD

SOUTH CAROLINA REPORT YEAR 2018
List of Non-Operating (Non-Utility) real property by tax map number

Anderson County

LAND AND BUILDINGS:

Description and Location:

Tax Map No. 248-09-01-010-000, District 001
3.44 Acres, Lots 2&3 Big Creek Road, Purchased 11/5/1993

Tax Map No. 248-09-01-008-000, Tax Dist 001
4.5 Acres, Lot 9, Purchased 5/9/1989

Tax Map No. 248-09-01-006-000, Tax Dist 001
4.8 Acres, Lot 11, Purchased 5/9/1989

Tax Map No. 248-09-01-001-000, Tax Dist 001
2.53 Acres, Lot 1 off Big Creek Road, Purchased 6/3/1988

Tax Map No. 248-09-01-002-000, Tax Dist 001
Lot 4 off Big Creek Road, Purchased 6/3/1988

Tax Map No. 248-09-01-005-000, Tax Dist 001
4.96 Acres, Lot 12 off Big Creek Road, Purchased 6/4/1988

Tax Map No. 248-09-01-004-000, Tax Dist 001
3.51 Acres, Lot 13 off Big Creek Road, Purchased 6/4/1988

Tax Map No. 248-09-01-003-000, Tax Dist 001
3.99 Acres, Lot 14 off Big Creek Road, Purchased 6/3/1988

Tax Map No. 248-00-07-013-000, Tax Dist 101
.61 Acre, Camelot Forest Rd, Purchased 12/19/1995

Tax Map No. 248-00-07-001-000, Tax Dist 101
18.85 Acres, Camelot Forest Rd, Purchased 12/19/1995

SOUTH CAROLINA REPORT YEAR 2018
List of Non-Operating (Non-Utility) real property by tax map number

Fee Right of Way S. D. #5

Lot 67, Block "D", Nevitt Forest in Broadway Township, S. D. #5, Anderson County, more particularly described in deed from Albert L. Campbell to Colonial Pipeline Company dated 8/3/62 and recorded at Deed Book L, Page 162, Anderson County Records.

Lot No. 47, Block "C", Nevitt Forest in Broadway Township, S. D. #5, Anderson County, more particularly described in deed from Francis R. Fant, Trustee, to Colonial Pipeline Company dated 8/1/62 and recorded at Deed Book L, Page 160, Anderson County Records, less .03 acre to State of South Carolina, Deed 4/10/67, recorded Book 15-G, Page 426, Anderson County Records.

Lot No. 12, Block "D", Nevitt Forest in Broadway Township, S. D. #5, Anderson County, more particularly described in deed from Francis R. Fant, Trustee, dated 8/1/62 and recorded at Deed Book L, Page 160, Anderson County Records.

Lot 4, 4-a, and 5-a, Block "W", Nevitt Forest in Broadway Township, S. D. #5, Anderson County, more particularly described in deed from Nevitt Forest, Inc., dated 8/1/62 and recorded at Deed Book L, Page 160, Anderson County Records.

Cherokee County

LAND AND BUILDINGS:

Description and Location:

Tax Map No. 067-00-00-012.000, tax district 11
3.4 acres, Old Racetrac Road, Purchased 11/8/2008

Tax Map No. 085-00-00-001.000, tax district 27
30 acres, Old Racetrac Road

Tax Map No. 137-00-00-051.000
2.87 acres, River Road

SOUTH CAROLINA REPORT YEAR 2018
List of Non-Operating (Non-Utility) real property by tax map number

Greenville County

LAND AND BUILDINGS:
Description and Location:

Tax Map No. 057-601-01-01-010, Tax Dist 052
5.6 acres, Harrison Bridge, purchased 3/26/1997

Tax Map No. 033-100-010-05-02, Tax Dist 697
.567 acres, Interstate 385, purchased 7/7/2004

Spartanburg County

LAND AND BUILDINGS:
Description and Location:

Tax Map No. 7-21-04-003.00, tax dist 8500
1.2 acres, Lot 12 Block B, Purchased 11/1/62

Tax Map No. 4-17-00-004.22, tax dist 4T00 / WCF
7.89 acres, Lot A, Purchased 9/1/1998

Tax Map No. 7-21-04-034.02, tax dist 8500 / CF
1.77 acres, Lot 12

Tax Map No. 7-21-04-032.00, tax dist 8500 / CF
3.97 Acres, Lot 10 Block 1, Purchased 4/1/1963

Colonial Pipeline Company
South Carolina

VEHICLES - 12/31/2017

Year	DESCRIPTION	VIN	CO. NO.	AMOUNT
2017	F-150 SUPERCAB 6.5' BOX 4X4	1FTFX1EF7HFC52765	721	32,414.39
2002	F250 SUPERCAB SRW 4X4	1FTNX21L72EC08503	721	23,698.33
2016	EXPLORER XLT 4X4	1FM5K8D8XGGD04416	721	31,065.72
2015	F-350 SUPERCAB SRW 8' BOX 4X4	1FD7X3B69FEA70438	721	48,788.82
2015	F-150 SUPERCAB 6.5' BOX 4X4	1FTFX1EF1FKD17288	721	35,236.04
2013	F-150 SUPERCAB 6.5" BOX 4X4	1FTFX1EF3DKD29438	721	28,746.84
2011	F-150 SUPERCAB 6.5' BOX	1FTFX1EF1BFB47212	721	30,118.19
2010	F-350 SRW SUPER CAB 6.75' BOX	1FTSX3B56AEA49609	721	45,217.12
1999	F250 SUPER DUTY REGULAR CAB	1FTNF20L7XEE27697	741	20,067.55
2016	F-350 SUPERCAB SRW 8' BOX 4X4	1FD7X3B62GEA72498	741	48,418.89
2016	F-350 SUPERCAB SRW 8' BOX 4X4	1FD7X3B65GEA72494	741	47,983.89
2015	F-350 SUPERCAB SRW 8' BOX 4X4	1FD7X3B65FED17695	741	50,041.18
2012	F-150 SUPERCAB 4X4 6.5'BOX	1FTFX1EF5CFB27708	741	26,785.43
Total Vehicles - SC				468,582.39 **Actual South Carolina Vehicles**
				468,582.39 **GL Total for South Carolina**
				(0.00) 2017 SC Vehicle Adjustment

Colonial Pipeline Company
South Carolina CWIP Worksheet
As of 12/31/2017

County	Real	Personal
Anderson		79,776
Cherokee		-
Spartanburg		46,082
Total CWIP		125,858

Colonial Pipeline Company
Schedule of Delivered Barrels
All types of fuel

State	Delivered Barrels - 2017	Percent	Delivered Barrels - 2016	Percent
Texas	48,148,999	5.20%	54,845,220	5.94%
Louisiana	11,150,891	1.20%	10,742,041	1.16%
Mississippi	57,582,911	6.22%	61,001,874	6.61%
Alabama	32,212,595	3.48%	31,119,595	3.37%
Georgia	120,987,175	13.07%	120,201,381	13.02%
Tennessee	93,810,089	10.13%	93,379,286	10.11%
South Carolina	**57,603,653**	**6.22%**	**56,540,370**	**6.12%**
North Carolina	124,484,952	13.45%	124,971,866	13.53%
Virginia	104,927,385	11.34%	105,120,920	11.38%
Maryland	56,705,137	6.13%	50,703,515	5.49%
Pennsylvania	12,564,029	1.36%	11,570,041	1.25%
Delaware	-	0.00%		0.00%
New Jersey	168,902,824	18.25%	169,972,869	18.41%
New York	36,557,557	3.95%	33,279,739	3.60%
Total	925,638,197	100%	923,448,717	100%

Colonial Pipeline Company

Barrel Miles / Total by State

State	2017		2015	
TX	29,663,362,726	3.63%	33,298,992,531	3.78%
LA	113,783,974,709	13.91%	124,547,511,774	14.16%
MS	142,840,608,934	17.46%	149,142,961,076	16.95%
AL	152,288,517,495	18.61%	158,659,124,338	18.03%
GA	116,064,782,799	14.19%	122,429,352,936	13.92%
TN	9,731,735,357	1.19%	9,794,674,996	1.11%
SC	**54,355,844,927**	6.64%	**58,498,015,011**	**6.65%**
NC	65,505,295,594	8.01%	71,312,902,447	8.11%
VA	85,199,657,962	10.41%	95,239,315,626	10.83%
MD	23,555,357,703	2.88%	27,530,385,063	3.13%
PA	6,215,377,405	0.76%	7,406,853,050	0.84%
DE	573,092,081	0.07%	673,242,175	0.08%
NJ	18,269,899,551	2.23%	21,167,282,788	2.41%
NY	57,273,783	0.01%	75,689,816	0.01%
Total	818,104,781,026	100%	879,776,303,627	100%

Colonial Pipeline Company
Investment - Carrier Property
As of December 31, 2017

State	Carrier Property	CWIP	Materials & Supplies	Intangibles including ROW	Non-Carrier Property	Total Investment	Percent of Total	Carrier Reserve for Depreciation	Intangibles Reserve for Depreciation	Non-Carrier Reserve for Depreciation	Total Reserve for Depreciation	Carrier Net Book	Percent of Total
Texas	252,568,229	11,448,433	228,318	42,143,287	14,629,279	321,017,546	8.93%	133,404,976	5,955,233	9,385,490	148,745,699	172,271,848	8.58%
Louisiana	387,048,660	11,102,242	538,798	69,605,137	2,386,322	470,681,159	13.10%	184,611,040	12,130,547	62	196,741,650	273,939,509	13.64%
Mississippi	259,006,392	5,862,123	537,652	64,252,431	23,880	329,682,478	9.17%	112,248,633	10,762,429	1	123,011,063	206,671,415	10.29%
Alabama	283,448,115	3,569,374	1,075,921	57,792,283	5,347,139	351,232,832	9.77%	121,570,879	5,372,066	414	126,943,360	224,289,472	11.17%
Georgia	508,272,784	7,839,525	1,238,593	7,216,101	6,906,124	531,473,127	14.79%	231,651,999	2,227,525	186,509	234,066,033	297,407,094	14.81%
Tennessee	137,342,568	376,432	48,214	3,296,168	50,000	141,113,382	3.93%	68,198,029	1,026,864	5	69,224,898	71,888,485	3.58%
South Carolina	**191,947,581**	**125,858**	**459,957**	**2,200,642**	**964,778**	**195,698,815**	**5.45%**	**101,789,762**	**633,511**	**52**	**102,423,325**	**93,275,490**	**4.65%**
North Carolina	373,878,045	2,826,262	1,166,361	4,421,737	7,051,304	389,343,709	10.84%	189,831,610	1,459,740	200,412	191,491,761	197,851,948	9.85%
Virginia	345,031,062	2,217,332	627,002	11,617,530	3,309,821	362,802,747	10.10%	190,700,527	3,452,052	241,471	194,394,050	168,408,698	8.39%
Maryland	150,030,858	1,228,121	951,584	3,216,144	589,981	156,016,688	4.34%	81,613,974	1,219,759	416,312	83,250,045	72,766,643	3.62%
Pennsylvania	25,956,803	224,482	-	189,673	34,924	26,405,881	0.73%	13,585,261	91,048	27,972	13,704,281	12,701,600	0.63%
Delaware	10,928,243	0	-	210,538	-	11,138,781	0.31%	7,909,952	63,497	-	7,973,449	3,165,332	0.16%
New Jersey	288,847,732	3,967,282	981,399	3,216,882	2,352,169	299,365,464	8.33%	88,089,658	1,158,720	563,416	89,811,794	209,553,671	10.44%
New York	7,127,551	0	-	152,857	-	7,280,407	0.20%	3,661,013	47,666	-	3,708,679	3,571,729	0.18%
Wash, DC	48,931	0	-	6,050	-	54,981	0.00%	24,694	3,153	-	27,846	27,135	0.00%
Totals	3,221,483,554	50,787,464	7,853,799	269,537,459	43,645,723	3,593,307,999	100.00%	1,528,892,007	45,603,809	11,022,116	1,585,517,932	2,007,790,067	100.00%
Actual Form 6 Balance	3,221,483,554	50,787,464	7,853,799	269,537,459	43,645,723	3,593,307,999		1,528,892,007	45,603,809	11,022,116	1,585,517,932	2,007,790,067	
	Page 110 line 28		Page 110 line 10	Page 111 line 37	Page 111 line 33			Page 111 line 30&31	Page 111 line 38	Page 111 line 34			
Difference	-	0	0	0	(0)	0		(0)	0	0	0	0	

Supplement Information about Subsidiary Income

The income on Line 13, page 114 of Form 6 represents income from subsidiaries that are fully taxed for property tax purposes in their respective states of operation and Colonial feels that income should be removed from the net Income that is capitalized into value to avoid double taxation. The information included here takes that income by each year's effective tax rate and calculates the adjustment. This info is being provided as supplemental information to the current property tax return.

Year	Investment Income	Net Adjustment	Income Tax	Effective Rate
2012	16,475,435	10,476,729	6,237,366	0.37859
2013	18,420,863	11,656,400	6,868,736	0.37288
2014	20,863,682	13,118,252	7,745,430	0.37124
2015	36,787,208	22,312,112	14,475,096	0.39348
2016	39,146,866	24,323,141	14,823,725	0.37867
2017	38,265,901	23,775,770	14,490,131	0.37867

Notes:
Investment Income comes from Form 6 Page 114 Line 13
Net Adjustment = Investment Income - Income Tax
Income Tax = Investment Income x effective rate
Effective Rate = Income taxes from Form 6 Page 114 lines 16&17 divided by Taxable Income on Form 6 Page 114 line 16

PT- 422
(Rev. 5/4/04)
7032

PROPOSED ASSESSMENT

2018 Tax Year

SOUTH CAROLINA DEPARTMENT OF REVENUE
PROPERTY DIVISION - UTILITIES
P.O. BOX 125
COLUMBIA, SOUTH CAROLINA 29214

Keith Fuqua
Colonial Pipeline Company
1185 Sanctuary Parkway, Ste 100
Alpharetta, GA 30009

The Department of Revenue has proposed a property tax assessment of $ 13,682,230 against your company for tax year 2018 .

* This is not a tax bill. This is a property tax assessment, and any tax bills relating to this assessment will be issued by the appropriate counties at a later date.

SEE REVERSE SIDE FOR APPEAL PROCEDURE

This demand is not applicable if you are currently in bankruptcy proceedings under Title 11 of the US code. Although you are liable for the stated amount, such will be claimed through the bankruptcy courts.

Date of Notice: July 27, 2018

By: Taylor Ingram

Utility Assessment Coordinator
(843) 953-8371
Taylor.Ingram@dor.sc.gov

South Carolina Department of Revenue
P.O. Box 125
Columbia SC 29214

DISTRIBUTION REPORT
Tax Year 2018

COLONIAL PIPELINE COMPANY
Keith Fuqua
1185 Sanctuary Pkwy. Ste 100
Alpharetta, GA 30009

COUNTY	DISTRICT	GROSS INVESTMENT	ASSESSMENT
ABBEVILLE	County Wide	4,948,003	352,710
AIKEN	County Wide	525,808	37,480
ANDERSON	District #1	35,382,900	2,522,250
ANDERSON	District #2	9,454,766	673,970
ANDERSON	District #3	20,799,744	1,482,690
ANDERSON	District #5	3,382,722	241,130
CHEROKEE	District #11	25,695,931	1,831,710
CHEROKEE	District #27	9,881,585	704,400
EDGEFIELD	County Wide	8,439,782	601,620
GREENVILLE	District #46	7,111,283	506,920
GREENVILLE	District #52	5,636,499	401,790
GREENVILLE	District #65	6,085,994	433,830
GREENVILLE	District #891	2,070,820	147,620
GREENWOOD	District #02	1,213,741	86,520
LAURENS	County Wide	2,612,081	186,200
McCORMICK	County Wide	3,339,104	238,030
SPARTANBURG	3CPF	1,440,060	102,650
SPARTANBURG	3GF	3,489,040	248,710
SPARTANBURG	3SSGF	202,973	14,470
SPARTANBURG	4REF	3,605,136	256,990
SPARTANBURG	4WWPS	3,401,932	242,500
SPARTANBURG	6PSF	821,515	58,560
SPARTANBURG	6SSACF	1,652,714	117,810

South Carolina Department of Revenue
P.O. Box 125
Columbia SC 29214

DISTRIBUTION REPORT
Tax Year 2018

SPARTANBURG	6SSRF	415,417	29,610
SPARTANBURG	6SSWWWF	1,237,253	88,200
SPARTANBURG	6WWPSF	2,367,896	168,790
SPARTANBURG	6WWRF	1,449,770	103,350
SPARTANBURG	7SSCF	23,116,032	1,647,800
SPARTANBURG	7SSGF	1,449,738	103,340
YORK	Clover 2 Sch, Beth-Sant Fire	709,558	50,580
Company	**Total**	**191,939,797**	**13,682,230**

2018 Appeal Letter & Documentation of Amount.

Colonial Pipeline Company

J. Keith Fuqua
Director of Tax

Phone: 678-762-2276
Fax: 770-825-7617
E-mail: kfuqua@colpipe.com

August 13, 2018

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

RE: Colonial Pipeline Company Proposed 2018 Assessment

Director of Assessments:

Please accept this as notice we wish to appeal our Tax year 2018 proposed assessment. The taxpayer is:

Colonial Pipeline Company
1185 Sanctuary Parkway – Suite 100
Alpharetta, GA 30009-4765
FEIN: [redacted]

The sole issue is the denial of certain pollution control property exemptions as claimed in our 2018 return. In particular the items under Transmission Pipeline – Water Pollution Control Facilities with a NBV of $15,594,927. These items are further broken down into three categories. Automatic shut-off valves, Pipeline Cathodic Protection, and Pipeline Coatings.

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
Director of Tax
Colonial Pipeline Company

Via Certified Mail: 7016 3560 0000 4879 1777

Colonial Pipeline Company
SC 1120U: Public Utility Tax Return
Form: Schedule X - Pollution Control Equipment
TAX YEAR 2018

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(e): A valve must be installed at each of the following locations: (e) 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) .]	15053	02/01/11	7.00	$ 528,630	$ 442,027	$ 41,993
Subtotal - Automatic Shut-off Valves							$ 528,630	$ 442,027	$ 41,993
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	06/01/06	12.00	$ 95,020	$ 70,064	$ 6,656
Pipeline Cathodic Protection	702 Bullman Road Linear Anode System	See Above	See Above	13319	06/01/06	12.00	76,748	$ 56,591	$ 5,376
Pipeline Cathodic Protection	703-bethlehem Road Linear Anode System	See Above	See Above	13340	12/01/06	12.00	148,177	$ 110,114	$ 10,461
Pipeline Cathodic Protection	701 Cathodic Protection Systems	See Above	See Above	13883	04/01/09	9.00	1,306,580	$ 993,619	$ 94,364
Pipeline Cathodic Protection	Remote Monitor Installations In South Caroline (105)	See Above	See Above	14090	10/01/09	9.00	368,178	$ 279,924	$ 26,493
Pipeline Cathodic Protection	Sc Cp Mitigation Project	See Above	See Above	14696	12/01/09	9.00	1,080,674	$ 682,223	$ 53,811
Pipeline Cathodic Protection	South Carolina Cp Mitigation Project Part Ii	See Above	See Above	14916	12/01/10	8.00	1,808,062	$ 1,351,349	$ 128,378
Pipeline Cathodic Protection	2011 Rectifier Replacement Program Scinc	See Above	See Above	15138	06/01/11	7.00	172,726	$ 145,029	$ 13,778
Pipeline Cathodic Protection	2011 Sc Cp Upgrade Project	See Above	See Above	15266	12/01/11	7.00	797,936	$ 669,696	$ 65,512
Pipeline Cathodic Protection	0702404 Scaffletown Road	See Above	See Above	15448	07/01/12	6.00	23,613	$ 20,948	$ 1,990
Pipeline Cathodic Protection	Sc Mainline Monitoring Project	See Above	See Above	15985	12/01/14	4.00	453,298	$ 423,091	$ 40,194
Pipeline Cathodic Protection	2015 Sc Mainline Delivery Line Cp Upgrades	See Above	See Above	16324	12/01/15	3.00	597,229	$ (144,008)	$ (13,681)
Subtotal - Pipeline Cathodic Protection							$ 6,718,254	$ 4,898,541	$ 465,361
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	06/01/06	12.00	$ 97,484	$ 71,881	$ 6,829
Pipeline Coatings	Line 760-7 And 760-8 Recoat Project	See Above	See Above	14358	01/01/08	10.00	95,376	$ 72,693	$ 6,906
Pipeline Coatings	703 Recoat	See Above	See Above	14601	06/01/09	9.00	1,555,799	$ 1,204,732	$ 114,459
Pipeline Coatings	Line 02 Location 702 Recoat	See Above	See Above	15087	12/01/10	8.00	101,995	$ 80,304	$ 8,109
Pipeline Coatings	2011 Sc Remediation Project - Recoats	See Above	See Above	15283	01/01/12	6.00	808,299	$ 666,675	$ 66,374
Pipeline Coatings	Recoat - West Prong Broad Mouth Creek Loc	See Above	See Above	16078	12/01/14	4.00	133,641	$ 124,754	$ 11,852
Pipeline Coatings	Hunter Road Recoat Of Line 01 And 02	See Above	See Above	16728	12/01/15	3.00	1,513,589	$ 1,448,884	$ 137,454
Pipeline Coatings	2015 South Carolina Recoats On Line 02 Loc 701 To 703	See Above	See Above	16326	06/01/16	2.00	3,739,109	$ 3,668,391	$ 348,497
Pipeline Coatings	2016 Kings Mountain South Carolina Line 02 Recoat	See Above	See Above	16827	06/01/16	2.00	2,938,099	$ 2,880,144	$ 273,614
Subtotal - Pipeline Cathodic Protection							$ 10,951,330	$ 10,254,358	$ 974,164
Subtotal - Transmission Pipeline							$ 18,228,215	$ 15,594,927	$ 1,481,518

2018 Property Tax Year

Utility Appraisal Summary Worksheet

Company: **Colonial Pipeline Co.**

				With Full Pollution Control Claim
Total System Value		2,600,000,000		2,600,000,000
South Carolina Allocation		* 5.58%		* 5.58%
South Carolina System Value		145,080,000		145,080,000
Adjustments:				
S.C. Licensed Vehicles (Net)	(140,600)		(140,600)	
S.C. CWIP	(125,858)		(125,858)	
S.C. Pollution Control (Net)	(790,071)		(16,384,997)	
Other:				
		(1,056,529)		(16,651,455)
SOUTH CAROLINA TAXABLE VALUE		144,023,471		128,428,545
SOUTH CAROLINA ASSESSMENT RATIO		9.50%		9.50%
SOUTH CAROLINA PROPOSED ASSESSMENT		**13,682,230**	**80% Value as Billed 10,945,784**	**12,200,710**

2018 Partial PC

2018 w/ Full PC

ROA 2441

Appendix A

Colonial Pipeline Company
SC 1120U: Public Utility Tax Return
Form: Schedule X - Pollution Control Equipment
TAX YEAR 2018 .

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(e): 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) .]	15053	02/01/11	7.00	$ 528,630	$ 442,027	$ 41,993
Subtotal - Automatic Shut-off Valves							$ 528,630	$ 442,027	$ 41,993
2. Pipeline Cathodic Protection									
Pipeline Cathodic Protection	703 Double Bridge Road Linear Anode System	49 CFR §195.563(e): 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	12.00	$ 95,020	$ 70,064	$ 6,656
Pipeline Cathodic Protection	702 Bullman Road Linear Anode System	See Above	See Above	13319	08/01/06	12.00	76,748	$ 56,591	$ 5,376
Pipeline Cathodic Protection	703-bethlehem Road Linear Anode System	See Above	See Above	13340	12/01/06	12.00	149,177	$ 110,114	$ 10,461
Pipeline Cathodic Protection	701 Cathodic Protection Systems	See Above	See Above	13663	04/01/09	9.00	1,306,590	$ 993,619	$ 94,394
Pipeline Cathodic Protection	Remote Monitor Installations In South Carolina (105)	See Above	See Above	14690	10/01/09	9.00	393,178	$ 299,924	$ 28,493
Pipeline Cathodic Protection	Sc Cp Mitigation Project	See Above	See Above	14688	12/01/09	9.00	1,090,674	$ 832,223	$ 83,611
Pipeline Cathodic Protection	South Carolina Cp Mitigation Project Part II	See Above	See Above	14916	12/01/10	8.00	1,508,062	$ 1,361,349	$ 128,378
Pipeline Cathodic Protection	2011 Rectifier Replacement Program Scinc	See Above	See Above	15136	08/01/11	7.00	172,726	$ 145,029	$ 13,776
Pipeline Cathodic Protection	2011 Sc Cp Upgrade Project	See Above	See Above	15266	12/01/11	7.00	797,938	$ 669,596	$ 65,512
Pipeline Cathodic Protection	0702494 Snuffletown Road	See Above	See Above	15446	07/01/12	6.00	23,513	$ 20,948	$ 1,990
Pipeline Cathodic Protection	Sc Mainline Monitoring Project	See Above	See Above	15965	12/01/14	4.00	453,298	$ 423,001	$ 40,194
Pipeline Cathodic Protection	2015 Sc Mainline Delivery Line Cp Upgrades	See Above	See Above	16324	12/01/15	3.00	587,229	$ (144,008)	$ (13,681)
Subtotal - Pipeline Cathodic Protection							$ 6,718,284	$ 4,888,541	$ 465,361
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	12.00	$ 97,484	$ 71,881	$ 6,829
Pipeline Coatings	Line 760-7 And 760-8 Recoat Project	See Above	See Above	14358	01/01/08	10.00	95,376	$ 72,593	$ 6,896
Pipeline Coatings	703 Recoat	See Above	See Above	14601	06/01/09	9.00	1,555,799	$ 1,204,732	$ 114,450
Pipeline Coatings	Line 02 Location 702 Recoat	See Above	See Above	15087	12/01/10	8.00	101,995	$ 86,304	$ 8,199
Pipeline Coatings	2011 Sc Remediation Project - Recoats	See Above	See Above	15283	01/01/12	6.00	806,259	$ 698,675	$ 66,374
Pipeline Coatings	Recoat - West Prong Broad Mouth Creek Loc	See Above	See Above	16078	12/01/14	4.00	133,541	$ 124,754	$ 11,852
Pipeline Coatings	Hunter Road Recoat Of Line 01 And 02	See Above	See Above	16728	12/01/15	3.00	1,513,559	$ 1,446,884	$ 137,454
Pipeline Coatings	2015 South Carolina Recoats On Line 02 Loc 701 To 703	See Above	See Above	16325	05/01/16	2.00	3,739,109	$ 3,668,391	$ 348,497
Pipeline Coatings	2016 Kings Mountain South Carolina Line 02 Recoat	See Above	See Above	16827	08/01/16	2.00	2,936,099	$ 2,880,144	$ 273,614
Subtotal - Pipeline Cathodic Protection							$ 10,881,330	$ 10,254,358	$ 974,164
Subtotal - Transmission Pipeline							$ 18,228,216	$ 15,594,927	$ 1,481,518
II. Storage & Terminals									
A. Water Pollution Control									
1. Waste Water Pollution Control Facilities									
Waste Water Pollution Control Facilities	Gaffney Facility Drain Valve Upgrade	N/A	Consent Agreement 02-082-W Section 9.	15383	12/01/12	6.00	$ 346,302	$ 307,452	$ 29,208
Waste Water Pollution Control Facilities	Simpsonville Drain Valve Upgrade	N/A	Permit No SCG830000 Part VIII. Limitations and Monitoring Requirements	16013	12/01/15	3.00	201,407	$ 187,702	$ 17,832
Subtotal - Secondary Containment							$ 547,709	$ 495,154	$ 47,040
2. Storm Water Pollution Control Facilities									
Storm Water Pollution Control	Install New Dike Drain Lines @ Belton	40 CFR 112.3 "The owner or operator or an onshore or offshore facility subject to this section must prepare in writing and implement a Spill Prevention Control and Countermeasure Plan (hereafter "SPCC Plan" or "Plan"), " in accordance with § 112.7 and any other applicable section of this part." SPCC Section 2.2 Evaluation of Discharge Potential	NPDES Permit No SC340020 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) .]	13316	11/01/06	12.00	$ 16,248	$ 11,634	$ 1,105
Subtotal - Secondary Containment							$ 16,248	$ 11,634	$ 1,105
3. Secondary Containment									
Secondary Containment	Line 21 Sump Replacement	40 CFR 112.3 "The owner or operator or an onshore or offshore facility subject to this section must prepare in writing and implement a Spill Prevention Control and Countermeasure Plan (hereafter "SPCC Plan" or "Plan"), " in accordance with § 112.7 and any other applicable section of this part." SPCC Section 3.5 Containment and Diversionary Structures	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) .]	13740	06/01/07	11.00	$ 125,767	$ 93,475	$ 8,880
Subtotal - Secondary Containment							$ 125,767	$ 93,475	$ 8,880
B. Air Pollution Control									
1. Tank Floating Roofs									
Tanks - Roofs	Tank 630 Internal Floating Deck Replacement & Floor Coating	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. 0250-0210 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) .]	13369	06/01/07	11.00	$ 183,035	$ 150,211	$ 14,270
Tanks - Roofs	Tank 651 External Floating Roof Seal Replacement	49 CFR 63.1063 (a)(ii) "xternal floating roof. An EFR shall be equipped with one of the seal configurations listed in paragraphs (a)(1)(ii)(A) and (a)(1)(ii)(B) of this section. (A) A liquid-mounted seal and a secondary seal. (B) A mechanical shoe seal and a secondary seal. The upper end of the shoe(s) shall extend a minimum of 61 centimeters (24 inches) above the stored liquid surface..."	See Above	13360	10/01/07	11.00	56,625	$ 39,596	$ 3,762
Subtotal - Tank Floating Roofs							$ 239,660	$ 189,808	$ 18,032
Subtotal - Storage & Terminals							$ 929,384	$ 790,071	$ 75,057
Form Total:							$ 19,157,599	$ 16,384,997	$ 1,556,575

2018 schedule filed w/Return

STATE OF SOUTH CAROLINA

DEPARTMENT OF REVENUE

OFFICE OF THE GENERAL COUNSEL

Physical Address:
300A Outlet Pointe Blvd.
Columbia, SC 29210

Mailing Address:
PO Box 12265
Columbia, SC 29211-9979

November 19, 2018

J. Keith Fuqua, Director of Tax
Colonial Pipeline Company
1185 Sanctuary Parkway, Ste. 100
Alpharetta, GA 30009

Re: Department Determination
Colonial Pipeline Company
Periods Involved: 2017 and 2018 Property Tax Years

Dear Mr. Fuqua:

Enclosed is the South Carolina Department of Revenue's Determination in the above-referenced matter. If you disagree with the Determination, you may request a contested case hearing before an Administrative Law Judge. If you choose to pursue such remedy, you must do so within thirty (30) days of the date of this letter. If you fail to respond within this time limitation, you will lose your right to appeal the Department Determination and your protest will be ended. Should you desire a contested case hearing, you must complete the enclosed request form and mail it, along with a $500.00 filing fee, to the Administrative Law Court at the address stated on the form's instruction sheet.

The Administrative Law Court rules require that you also send me a copy of your request. My address is as follows: P.O. Box 12265, Columbia, SC 29211-9979.

Sincerely,

OFFICE OF GENERAL COUNSEL FOR LITIGATION

Marcus D. Antley, III

Marcus D. Antley, III
Counsel for Litigation
marcus.antley@dor.sc.gov
803-898-5623

Enclosures
MDA: tm

DEPARTMENT DETERMINATION

Taxpayer:

Colonial Pipeline Company
1185 Sanctuary Parkway, Suite 100
Alpharetta, GA 30009

Periods Involved:

2017 Property Tax Year
2018 Property Tax Year

Matter in Dispute:

Is Colonial Pipeline Company (Taxpayer) entitled to an ad valorem property tax exemption pursuant to S.C. Code Ann. § 12-37-220(A)(8) (2014)?

Assessment in Dispute:

Tax Year	Property Tax Assessment[1]	Taxpayer's Proposed Value[2]
2017	$12,621,080.00	Exempt
2018	$13,682,230.00	Exempt

Determination:

The Taxpayer is not entitled to a property tax exemption pursuant to § 12-37-220(A)(8).

Relevant Facts:

1. The Taxpayer is a pipeline company that transports refined petroleum.

2. The personal property at issue in this matter is located in the following South Carolina counties: Anderson, Abbeville, Aiken, Cherokee, Edgefield, Greenville, Greenwood, Laurens, McCormick, Spartanburg, and York (the "counties involved").

3. On April 19, 2017, the Department of Revenue (the "Department") received a 2017 application for an ad valorem tax exemption based on § 12-37-220(A)(8). In its letter and accompanying application, the Taxpayer reported a pollution control exemption for pipe

[1]This only represents the portion of the property tax assessment that is in dispute.

[2]The Taxpayer does not dispute the valuation of the property nor does it dispute the valuation method; rather, the Taxpayer argues that the property in dispute is exempt from ad valorem taxation pursuant to § 12-37-220(A)(8).

coatings, cathodic protection, and automatic shut-off valves.

4. On August 15, 2017, the Department issued a Property Assessment Notice denying the Taxpayer's exemption application for property tax year 2017.

5. On September 7, 2017, the Taxpayer protested the proposed assessment for 2017.

6. On September 20, 2017, the Department notified the county auditors for the counties involved of the Taxpayer's appeal of the 2017 assessment.

7. On October 19, 2017, the Department forwarded the 2017 exemption application information to the South Carolina Department of Health and Environmental Control ("DHEC") for investigation into whether the Taxpayer's claimed property qualified as pollution control property, pursuant to § 12-37-220(A)(8).

8. On December 18, 2017, DHEC submitted a letter to the Department in response to the Department's request to investigate the property to determine the portion of the property that qualifies as pollution control property for 2017. DHEC noted that federal agencies, like the United States Department of Transportation ("USDOT"), regulate pipelines, and DHEC lacks authority to permit, inspect, or enforce pipeline operations.

9. The file was subsequently forwarded to the Department's Office of General Counsel for Litigation.

10. On April 23, 2018, the Department received a 2018 application for an ad valorem tax exemption based on § 12-37-220(A)(8). [3]

11. On April 26, 2018, the Department mailed DHEC a letter requesting clarification of whether the claimed property qualified as pollution control equipment.

12. On July 27, 2018, the Department issued a Property Assessment Notice denying the Taxpayer's exemption application for property tax year 2018.

13. The Department received correspondence postmarked August 13, 2018 from the Taxpayer protesting the proposed assessment for property tax year 2018.

14. On August 14, 2018, the Department forwarded the 2018 exemption application information to DHEC for investigation into whether the Taxpayer's claimed property qualified as pollution control property, pursuant to § on 12-37-220(A)(8).

15. DHEC submitted a letter dated August 27, 2018 to the Department clarifying that the

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[3]The Taxpayer claimed the same property as pollution control property on its 2017 and 2018 property tax return.

property claimed for property tax years 2017 and 2018 can be described as pollution control equipment. DHEC again noted that federal agencies, like USDOT, regulate pipelines, and DHEC lacks authority to permit, inspect, or enforce pipeline operations.

Analysis:

When a taxpayer timely files an exemption application, the Department is required to determine whether the property qualifies for the exemption. S.C. Code Ann. § 12-4-710 (2014). This determination is made only after a proper investigation. S.C. Code Ann. § 12-4-730 (2014). It is well established in South Carolina that an exemption of private property is strictly construed – taxation is the rule and exemption is the exception. State v. City of Columbia, 115 S.C. 108, 104 S.E.2d 337 (1920). Exemption statutes are narrowly construed, and taxpayers bear the burden of bringing themselves squarely within the parameters of the statute which grants the exemption. See Owen Indus. Prods., Inc. v. Sharpe, 274 S.C. 193, 262 S.E.2d 33 (1980); S. Soya Corp. of Cameron v. Wasson, 252 S.C. 484, 167 S.E.2d 311 (1969); S. Weaving Co. v. Query, 206 S.C. 307, 34 S.E.2d 51 (1945).

I. The Taxpayer Is Not Entitled To An Ad Valorem Tax Exemption Pursuant To § 12-37-220(A)(8).

South Carolina law provides for a tax on "[a]ll real and personal property in this State . . . ." S.C. Code Ann. § 12-37-210 (2014). This general rule is subject to delineated exceptions which provide tax exemptions for certain property. Section 12-37-220(A)(8) states, in part, that:

> (A) [T]here is exempt from ad valorem taxation:
>
> ***
>
> (8) 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. At the request of the Department of Revenue, the Department of Health and Environmental Control shall investigate the property of any manufacturer or company, eligible for the exemption to determine the portion of the property that qualifies as pollution control property. Upon investigation of the property, the Department of Health and Environmental Control shall furnish the Department of Revenue with a detailed listing of the property that qualifies as pollution control property. For equipment that serves a dual purpose of production and pollution control, the value eligible for the ad valorem exemption is the difference in cost between

> this equipment and equipment of similar production capacity or capability without the ability to control pollution...

The exemption listed in this subsection is generally referred to as a "pollution control" exemption.

To qualify for the pollution control exemption, the claimed property must be: 1) facilities or equipment of industrial plants; 2) designed for the elimination, mitigation, prevention, treatment, abatement, or control of water, air, or noise pollution; 3) required by state or federal government; and 4) used in the conduct of their business. Here, the claimed property fails the first element because the claimed property is not a facility or equipment of an industrial plant. The Taxpayer is a pipeline company, and all property the Taxpayer submitted as exempt under § 12-37-220(A)(8) is connected to its pipeline. Although § 12-37-220(A)(8) does not define the term industrial plant,[4] S.C. Code Ann. Regs. 117-1700.4 (2012) defines "transportation companies" to include "(1) Railroad companies; (2) Pipeline companies; and (3) Express companies." See also 42 U.S.C.A. § 6326 (West) ("The term 'industrial plant' means any fixed equipment or facility which is used in connection with, or as part of, any process or system for industrial production or output."); S.C. Code Ann. Regs. 117-1700.7 (2012) ("A plant site shall consist of all land contiguous to a plant which is related to the overall manufacturing operation."). The Taxpayer is more similar to railroads and delivery companies and not a manufacturer whose plants would qualify as industrial plants.

Pursuant to § 12-37-220(A)(8), the Department requested DHEC investigate the claimed property to determine if it qualified as pollution control equipment. In its responses to the Department, DHEC noted that it does not regulate pipelines, but instead federal agencies, including USDOT, regulate interstate petroleum pipelines. In fact, the federal regulations the Taxpayer cites as requiring the claimed property fall under USDOT.[5] This emphasizes that pipelines are transportation systems and not industrial plants. While a petroleum refinery may qualify as an industrial plant, the Taxpayer's pipeline is separate and distinct and merely transports the product. See 40 C.F.R. § 60.41b ("Petroleum refinery means industrial plants as classified by the Department of Commerce under Standard Industrial Classification (SIC) Code 29.6"). Therefore, the property claimed as exempt is not facilities or equipment of industrial plants. Because exemption statutes are narrowly construed and the Taxpayer has not brought itself squarely within

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[4]Section 12-37-220(A)(8) does go on to state "property of any manufacturer or company, eligible for the exemption," and therefore industrial plants may be synonymous with manufacturing plants. Further, S.C. Const. art. X, § 1 and S.C. Code Ann. § 12-43-220 (2014) distinguish transportation companies from manufacturing companies for property tax assessments.

[5]The Taxpayer cited the following federal regulations: 49 C.F.R. § 195.557(a) (requires pipeline coatings); 49 C.F.R. § 195.563(a) (requires cathodic protection); and 49 C.F.R. § 195.260(c) (requires automatic shut-off valves).

[6]SIC is now the North American Industry Classification System (NAICS). Pipeline transportation is under NAICS Code 486 while manufacturing is under NAICS Code 31-33.

the parameters of the statute granting the exemption, the Taxpayer is not entitled to an ad valorem tax exemption under § 12-37-220(A)(8) for property tax years 2017 and 2018.

Conclusion:

In South Carolina, exemption statutes are construed narrowly, and a taxpayer bears the burden of bringing itself squarely within the parameters of the statute that grants the exemption. In this case, the Taxpayer failed to carry that burden, and the denial of the property tax exemption is proper.

November 19, 2018

Filing and Assignment of a Contested Case with the Administrative Law Court

Complete the Request for Contested Case Hearing **and** Certificate of Service form in its entirety. File the original by mailing it or hand delivering it to the Administrative Law Court, along with a copy of the decision from the agency (for example: Department Determination) **and** the appropriate filing fee. Be sure to serve a copy of the Request on the agency which you are appealing (see address below) as well as any other known parties or protestants.

Your case will be deemed filed with the Administrative Law Court upon receipt of your request and filing fee, and will normally be assigned to an administrative law judge within a week of filing. You should receive a Notice of Assignment within a few days of your case being assigned. The Notice of Assignment will have the case caption, docket number, date of filing and the name of the administrative law judge assigned to your case. Once your case has been assigned, all filings and questions regarding your case should be directed to the assigned judge.

Clerk's Office
South Carolina Administrative Law Court
1205 Pendleton Street, Suite 224
Columbia, SC 29201

South Carolina Department of Revenue
Office of General Counsel
P.O. Box 12265
Columbia, SC 29211-9979

South Carolina Administrative Law Court (SC ALC)
Request for Contested Case Hearing FORM
Mail to: 1205 Pendleton St., Suite 224, Columbia, SC 29201

Last Name:	First:	Middle:	❑ Mr. ❑ Mrs.	❑ Miss ❑ Ms.	Docket No. (To Be Completed by ALC)
Mailing Address:		City:			State and Zip:
Home Number:	Work Number:	Cell Number:			*E-Mail Address:

*By providing your e-mail address, you consent to receive court orders and notices via electronic transmission

REPRESENTATION

Are you representing yourself? ❑ Yes ❑ No

Are you represented by an Attorney? ❑ Yes ❑ No	Name of Attorney:
Attorney Mailing Address:	City, State and Zip:
Attorney Work Number and Cell Number:	Attorney E-Mail Address:

CASE INFORMATION

Name of Agency that Issued the Decision:
(Example – Dept. of Revenue, Dept. of Insurance, DHEC)

In order to have your case processed, **you must attach the agency decision.** Is it attached?: ❑ Yes ❑ No	If no, please explain:
Date the decision was issued:	Date the decision was received:

Please provide a brief statement regarding why the hearing is being requested and the relief sought:

Payment via ❑ Check ❑ Money Order ❑ Cash for $ (applicable **filing fee pursuant to** ALC Rule 71) is being submitted today to the Administrative Law Court via ❑ U.S. Postal Service ❑ Hand-delivery

_____	_____
X *Your Signature or Signature of Attorney*	*Date*

PROOF OF SERVICE (MUST BE COMPLETED)

Your Name:	Date:	City:	State:

I hereby certify that on the date and place listed above, I served a copy of the foregoing Request for Contested Case Hearing **on all other parties** to this matter by depositing the same in the United States Mail, postage paid, and addressed as follows (use the reverse side for any additional names):

Name and/or Agency Name	Address	City, State and Zip
Name and/or Agency Name	Address	City, State and Zip

X *Your Signature or Signature of Attorney*	*Date*

Attention: All cases filed in the Administrative Law Court are subject to the Rules of Procedure found at the Court's website www.scalc.net or from the Clerk of Court. Failure to follow these rules may result in dismissal of your case.

COLONIAL PIPELINE COMPANY
SYSTEM MAP

ROA 2451

NORTHEAST DISTRICT

SOUTHEAST DISTRICT

GULF COAST DISTRICT

TO LOCAL SHIPPERS AND CONNECTING CARRIERS

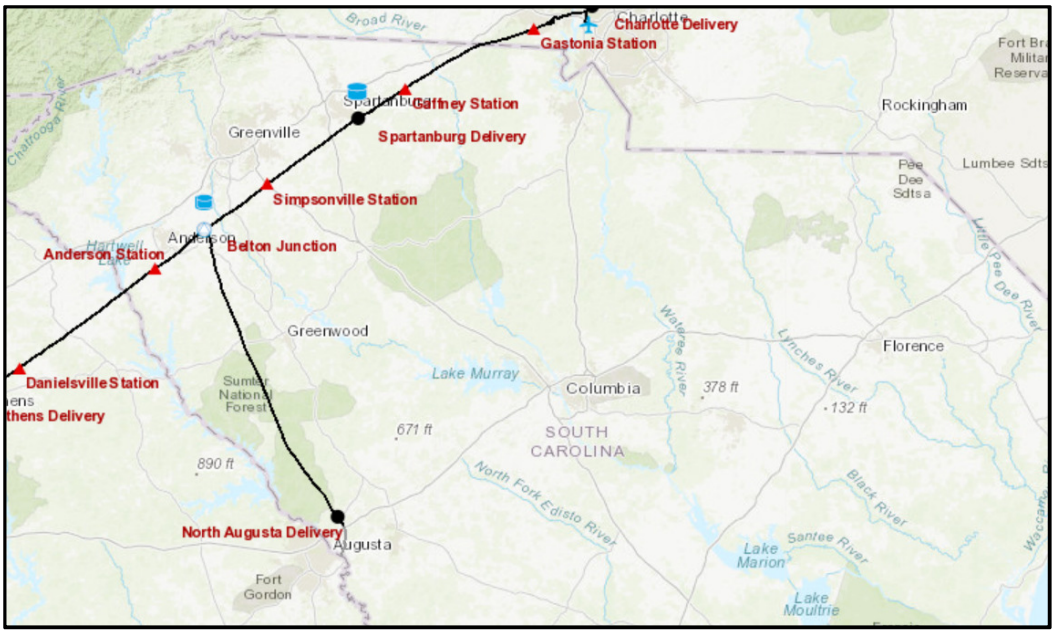
PENNSYLVANIA
PENNSAUKEN
N.J.
LINDEN JCT.
FORT MIFFLIN
GIRARD POINT
TRENTON
PAULSBORO
ALLENTOWN
LANDENBURG
BRANDYWINE
PENNSAUKEN JCT.
CONOWINGO
EAGLE POINT
ABERDEEN JCT.
BEL AIR
WOODBURY JCT.
REISTERSTOWN
BOOTH
MARCUS HOOK
DORSEY JCT.
NORTH BALTIMORE
SOUTH BALTIMORE
CURTIS BAY
DEL.
DULLES
BWI AIRPORT
BULL RUN
MD.
REMINGTON
CHANTILLY
FAIRFAX
LOCUST GROVE
JAMES RIVER
LOUISA
RUFFIN
MITCHELL JCT.
MAURY
RICHMOND
YORKTOWN JCT.
LYNCHBURG
SURRY
YORKTOWN
ROANOKE
COMMERCE
HANCOCK
CRANEY ISLAND
NORFOLK
POWHATAN
HILL
HICKORY GROVE
SOUTH NORFOLK
WITT
VIRGINIA
N. CAROLINA
P.P.L.
GREENSBORO JCT.
RALEIGH–DURHAM AIRPORT
LEXINGTON
SELMA
APEX
KANNAPOLIS
FAYETTEVILLE
GASTONIA
GAFFNEY
CHARLOTTE
CHARLOTTE–DOUGLAS AIRPORT
SIMPSONVILLE
SPARTANBURG
DANIELSVILLE
BELTON JCT.
ANDERSON
ATLANTA
ATHENS
SMYRNA
S. CAROLINA
ATLANTIC OCEAN
DACULA
NORTH AUGUSTA
DORAVILLE
AUGUSTA
CHATTAHOOCHEE
HEFLIN
BREMEN
HARTSFIELD D.F.
ROME STA.
ROME D.F.
CHATTANOOGA D.F.
CHATTANOOGA JCT
LOOKOUT MTN
MOCCASIN BEND
SIGNAL MTN
COALMONT
MURFREESBORO
SWEETWATER
KNOXVILLE
NASHVILLE AIRPORT
NASHVILLE
EAST NASHVILLE
TENNESSEE
ST. IVES
OXFORD D.F.
OXFORD STA.
BIRMINGHAM
HELENA (P.P.L.)
PELHAM
VANCE
MISSISSIPPI
GRIFFIN
MACON
SOUTH MACON
AMERICUS
ALBANY JCT.
NORTH ALBANY
SOUTH ALBANY
BAINBRIDGE
GEORGIA
MOUNDVILLE
EPES
BOLIGEE
MERIDIAN STA.
PAULDING
COLLINS STA.
COLLINS INJ.
COLLINS D.F.
MERIDIAN D.F.
ALABAMA
KOLA
COLUMBIA
McCOMB
P.P.L.
COLLINS T.F.
POPLARVILLE
FELIXVILLE
BATON ROUGE DOCK FACILITY
OPELOUSAS
CHURCH POINT
WELSH
LAKE CHARLES
BATON ROUGE INJ.
BATON ROUGE JCT.
KROTZ SPRINGS
LOUISIANA
TEXAS
BEAUMONT
PASADENA
HOUSTON
SHILOH
HEBERT
PORT ARTHUR
ALLIANCE
GULF OF MEXICO
FLORIDA

LEGEND:
- BREAKOUT TANKAGE
- INJECTION STATION
- DELIVERY FACILITY
- AIRPORT DELIVERY FACILITY
- BOOSTER STATION
- BOOSTER STATION & DELIVERY
- MAIN LINES
- STUB LINES
- WAREHOUSE

ROA 2452

South Carolina Operations Fact Sheet

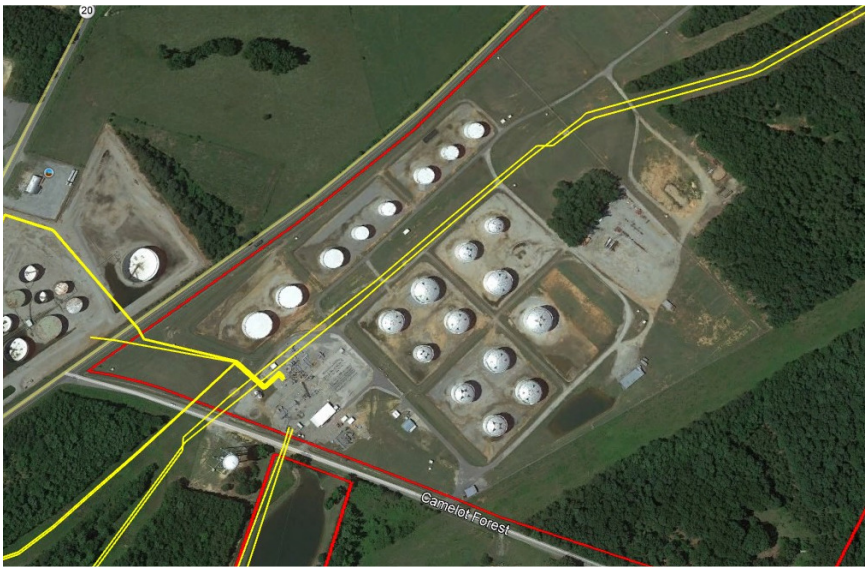
Colonial Pipeline operations in South Carolina is comprised of 515 miles of pipeline, two tank farms, three main line booster stations, and one delivery facility spanning 11 counties in the State as shown in the figure below. Of the 515 pipeline miles, 203 are mainline miles (L01/40-inch and L02/36-inch), 74 are stub line miles (L29/16-inch), and 15 miles are delivery lines. An additional 96 miles are currently out of service/idle.



Two tank farms are located in South Carolina. Belton Junction is a 130-acre above ground breakout and delivery facility located in Anderson County. The facility is staffed by an Operator 24/7. The tank farm is comprised of 20 tanks with a total working capacity of approximately 488,000 barrels handling an average of 139,000 barrels per day. Belton Junction also serves as the origination for Line 29 (16-inch) which terminates at the North Augusta, SC Delivery Facility.

Gasoline	12 Tanks	289,529
Distillate	7 Tanks	171,105
Transmix	1 Tank	27,370

Belton Junction



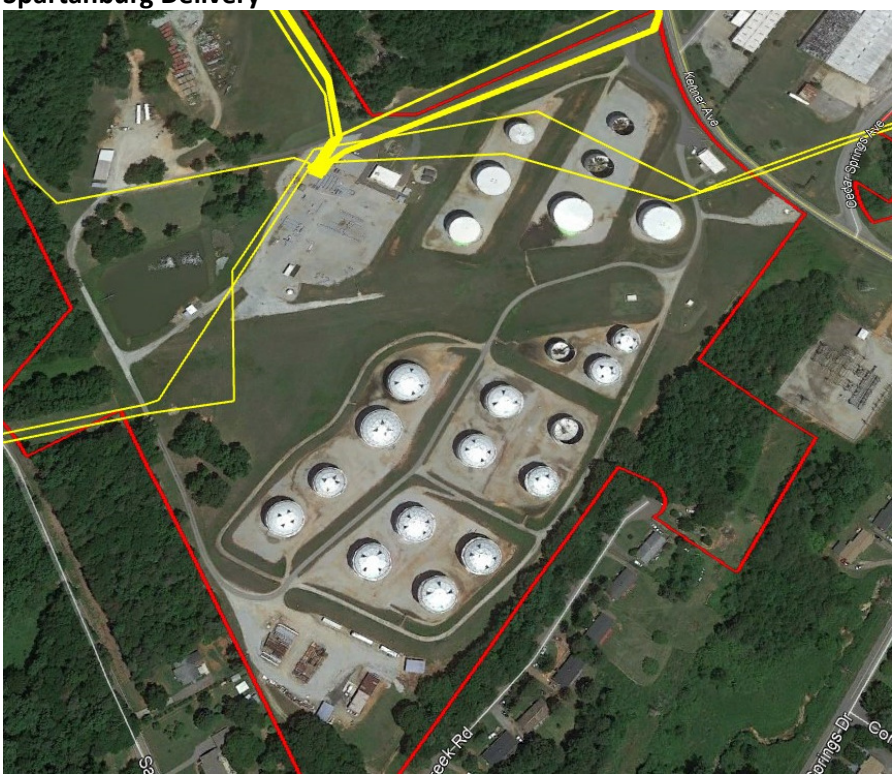
Revised 8/3/2019



Spartanburg Delivery is a 74-acre above ground breakout and delivery facility in Spartanburg, SC. The facility is staffed as Operation's schedule dictates with a minimum of one operator on shift during all product receipts and delivery operations. The tank farm is comprised of 22 tanks with a total working capacity of approximately 493,500 barrels handling an average of 45,552 barrels per day using the tanks summarized below

Gasoline	13 Tanks	307,841
Distillate	6 Tanks	185,683
Out of Service	3 Tanks (2 gas, 1 oil)	---

Spartanburg Delivery





Three main line booster stations are located in South Carolina as summarized in the following table.

Facility	Line 1	Line 2	Notes
Anderson	X	X	Line 2 launching and receiving traps
Simpsonville		X	
Gaffney	X	X	

Critical information regarding the main lines, stub lines, and delivery lines within the operating area is summarized below.

Line Number	Size of Line	Length of Line	Delivery Areas	Shippers
Mainlines/Stub lines				
Line 1	40-inch	101.7 miles	Belton, Spartanburg, Charlotte, Greensboro	
Line 2	36-inch	101.6 miles	Belton, Spartanburg, Charlotte, Greensboro	
Line 29	16-inch	74.1 miles	North Augusta, SC	Buckeye, Kinder Morgan (2), Magellan (2)
Delivery Lines				
Belton				
762-01	6-inch	0.3 miles	Belton	Buckeye (gas)
762-02	6-inch	0.3 miles	Belton	Buckeye (oil)
762-03	6-inch	0.3 miles	Belton	Marathon (gas)
762-04	6-inch	0.3 miles	Belton	Marathon (oil)
Spartanburg				
760-03	12-inch	0.6 miles	Spartanburg	Motiva (gas)
760-04	12-inch	0.6 miles	Spartanburg	Motiva (oil)
760-05	12-inch	0.9 miles	Spartanburg	Magellan WTH (gas)
760-06	12-inch	0.9 miles	Spartanburg	Magellan WTH (oil)
760-07	12-inch	1.0 miles	Spartanburg	Kinder Morgan (gas)

760-08	12-inch	1.0 miles	Spartanburg	Kinder Morgan (oil)
760-09	12-inch	0.6 miles	Spartanburg	Magellan MTH (gas)
760-10	12-inch	0.6 miles	Spartanburg	Magellan MTH (oil)
760-13	12-inch	0.8 miles	Spartanburg	Buckeye (gas)
760-14	12-inch	0.8 miles	Spartanburg	Buckeye (oil)
760-15	10-inch	0.3 miles	Spartanburg	Citgo (gas)
760-16	10-inch	0.3 miles	Spartanburg	Citgo (oil)
760-20	12-inch	0.4 miles	Spartanburg	Transmontaigne (oil)
North Augusta				
761-01	8-inch	0.1 Miles	N. Augusta	Kinder Morgan 1 KME (Oil)
761-02	8-inch	0.1 Miles	N. Augusta	Kinder Morgan 1 KME (Gas)
761-03	8-inch	0.02 Miles	N. Augusta	Buckeye BET (Oil)
761-04	8-inch	0.02 Miles	N. Augusta	Buckeye BET (Gas)
761-05	8-inch	0.02 Miles	N. Augusta	Magellan MTH (Oil)
761-06	8-inch	0.02 Miles	N. Augusta	Magellan MTH (Gas)
761-07	8-inch	0.04 Miles	N. Augusta	Magellan WTH (Oil)
761-08	8-inch	0.04 Miles	N. Augusta	Magellan WTH (Gas)
760-10	16-inch	2.4 Miles	N. Augusta	Kinder Morgan KM2 (Gas/Oil)

The Charlotte/South Carolina Operations Team has 32 team members consisting of the following: 1 Operations Manager, 2 Lead Operators, 6 Senior Operators, 8 A-Operators, 1 Operator, 2 Lead Technicians, 2 Senior Technicians, 5 Technicians, 3 ROW Inspectors, 1 Planner, and 1 Administrative Assistant. These team members are based out of the Belton, Spartanburg, and Charlotte facilities and support all operations in South Carolina. Also based at these facilities are Southeast District support personnel consisting of a 1 Senior Field Project Manager, 1 Field Project Manager, 6 Project Inspectors, 2 Corrosion Technicians, 1 Environmental Specialist, and a Safety Specialist.

to South Carolina customers. The Department points to the BSA's provision that Amazon has the exclusive right to receive sales proceeds on behalf of Merchants in these transactions to show Amazon is in the best position to collect the tax because they are the point of contact for the sale. Moreover, the Department argues Amazon already collects and remits sales tax for sales involving its own products and its affiliates' products, so it has the ability and infrastructure in place to collect tax on Merchant products. The Department maintains that collecting the tax through one point—Amazon—is much more efficient than trying to collect the tax from individual Merchants.

In opposition, Amazon argues the Department's retroactive attempt to invoke the efficient administration clause to obligate Amazon to remit the tax is improper. Amazon contends the Department did not rely on this clause as a ground for obligating Amazon to remit sales and use tax when it issued its Department Determination, nor did it mention the clause in its Pre-Hearing Statement. Accordingly, Amazon maintains the Department has waived this argument. Further, Amazon contends retroactive application of this clause fails to give Amazon the constitutionally required "fair notice"[11] that it could be taxed under this provision. Amazon emphasizes that the Department failed to previously apply this provision during the almost twenty years Amazon has been in business.

Amazon also argues the application of this clause would contravene the South Carolina Constitution's Equal Protection Clause because it would impose a tax on Amazon rather than on all similarly situated marketplace facilitators. Additionally, Amazon argues this clause is inapplicable because statutes cannot be applied retroactively without an expressed intent that they do so. Next, Amazon argues it is not a "salesman" under the clause because it does not "sell" anything and it is not a "representative" because it is not an "agent." And finally, Amazon argues the Department exceeds its authority in attempting to collect sales and use tax from Amazon because this is the "most efficient way." Amazon points out that the Department has already started to the collect the tax from individual Merchants and can continue to do so.

Taking Amazon's arguments in turn, if Amazon is implying that the Department has failed to comply with SCALC Rule 14 in raising the issue of the efficient administration clause, then it has a point. SCALC Rule 14 provides that "the administrative law judge assigned to the case, by

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[11] For the principle of "fair notice," Amazon cites to *F.C.C. v. Fox Television Stations, Inc.*, 567 U.S. 239 (2012), in which the U.S. Supreme Court held that "laws regulating persons or entities must give fair notice of what conduct is required or proscribed" because this is "essential to the protections provided by the Fifth Amendment's Due Process Clause . . . which requires the invalidation of impermissibly vague laws."

pre-hearing order, may request each party to prepare and return a Pre-Hearing Statement setting forth with particularity the issues in the contested case."[12] Nevertheless, since filing its Pre-Hearing Statement, the Department has clearly set forth its position that the efficient administration clause should be an issue considered by this court. Furthermore, in light of that contention, whether this argument is waived must be evaluated at the conclusion of the preceding and not at its initial stages. For instance, SCALC Rule 16 provides that "[a]ny document filed with the Court may be amended at any time upon motion and for good cause shown, unless the amendment would prejudice any other party in the presentation of its case." Here, for some reason the Department has made no effort to amend its Pre-Hearing Statement. However, the Department's actions (or in this case, inaction) have yet to operate as a waiver because the time to amend the Pre-Hearing Statement has not been exhausted. If the Department subsequently fails to amend its Pre-Hearing Statement before the conclusion of this case, this Court will certainly entertain this issue again.

Second, Amazon contends retroactive application of this provision fails to give it constitutionally required "fair notice" that it could be taxed pursuant to this provision. Amazon emphasizes that the Department failed to previously apply this provision during the almost twenty years Amazon has been in business. Clearly, the language of a statute gives notice as to its provisions. In fact, Amazon is not contending that the statutory provision fails to notify a taxpayer that the Department could utilize the "efficient administration clause" of section 12-36-70. Rather, Amazon appears to assert that the Department should be estopped from utilizing this provision because it has not exercised its option to utilize the provision for almost twenty years. However, "[t]he doctrine of estoppel will not be applied to deprive the State of the due exercise of its police

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[12] Notably, SCALC Rule 14 was amended in response to the South Carolina Court of Appeals' decision in *Sierra Club v. South Carolina Department of Health & Environmental Control*, 387 S.C. 424, 432, 693 S.E.2d 13, 17 (Ct. App. 2010). In *Sierra Club*, the Court of Appeals held that because "the Sierra Club raised overall compliance with regulation 61–63 in its prehearing statement," any issue falling under that extensive regulation could be considered at trial. The implication of that holding was that a party could raise any issue by simply asserting an overall violation of a broad regulation, and then the ALC and the other parties would have to discern from the Department's extensive regulatory scheme what specific parts of the regulation were at issue in the proceeding. Moreover, if the Court failed to discern and address those issues, a party could explicitly raise the sub-issue for the first time in a motion for reconsideration.

In light of this holding, the ALC amended Rule 14 to provide that the administrative law judge "may request each party to prepare and return a Pre-Hearing Statement setting forth *with particularity* the issues in the contested case." SCALC Rule 14 (emphasis added). Moreover, the note to the Rule provides that "Rule 14 is amended to require that prehearing statements must set forth with particularity the issues for consideration in the contested case." Therefore, it is now abundantly clear that if a prehearing statement is requested, a party must now must set forth the issues it wishes to be considered with particularity. A party can no longer rely upon a blanket assertion of a violation of a regulation to raise a sub-issue to the ALC.

Chris Harrington

From: Maybank, Burnet R. III <BMaybank@nexsenpruet.com>
Sent: Thursday, August 29, 2019 1:52 PM
To: Marcus 'Trey' Antley, III
Cc: Rourke, Jim; Cartin, Walt H.; Jason Luther; Michael Kozlarek
Subject: Re: Amended DD

Follow Up Flag: Follow up
Flag Status: Completed

We would oppose a new DD; even if amended I suppose we would have to appeal

Can you forward us the Order referenced below?

Sent from my iPhone

On Aug 29, 2019, at 1:45 PM, Marcus 'Trey' Antley, III <Trey.Antley@dor.sc.gov> wrote:

{EXTERNAL EMAIL}

All,

As you know from my call to each of you yesterday, the Department is prepared to issue an amended Determination to clarify that none of Colonial's property qualifies for the pollution control exemption – including the property that was initially exempted by the Property Division. Based on my conversation with Jim, I understand that Colonial has concerns about the potential procedural impact of the Department issuing an Amended Determination. The original Department Determination stated: "The Taxpayer is not entitled to a property tax exemption pursuant to § 12-37-220(A)(8)." That determination would not change in an Amended DD. In my opinion, the Amended Determination is a non-substantive change that would have no impact on the case procedurally. Therefore, Colonial would not need to request another contested case hearing to challenge the Amended DD; the pending contested case hearing covers it.

Even if the Amended DD were a substantive change, I still do not think that creates any procedural issues. Judge Anderson recently ruled in another Department matter that because a contested case hearing is de novo, any issues raised in the Pre-Hearing Statement are ripe for consideration (even if not specifically addressed in the Determination) and that the PHS can be amended at any time prior to trial. I intend to file an amended PHS, so perhaps amending the DD is unnecessary. It is certainly not my intent to create any additional work or procedural hoops for everyone to jump through; however, in my view, issuing an Amended DD consistent with the amended PHS ensures that the issues in dispute are clearly before the Court and makes for a cleaner record for the Court to rule on.

Regardless, I think we can head off any procedural problems if the parties all consent in advance that the issuance of an amended DD does not require Colonial or the Counties to request a new contested case hearing, but that all of the issues in the amended DD are preserved and ripe for consideration in the current pending contested case. Please let me know your thoughts; I would like to send both of these out sooner rather than later.

Thanks,
Trey



Marcus 'Trey' Antley, III
Counsel for Litigation
Litigation & Appeals
803-898-5623 | Trey.Antley@dor.sc.gov
South Carolina Department of Revenue | dor.sc.gov
PO Box 12265, Columbia, SC 29211-9979

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NEXSEN|PRUET

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

December 5, 2019

VIA HAND DELIVERY
The Honorable Ralph King Anderson III
South Carolina Administrative Law Court
1205 Pendleton Street, Suite 224
Columbia, SC 29201

RE: Colonial Pipeline Company, Petitioner v. South Carolina Department of Revenue, Respondent, and Abbeville County, Anderson County, Greenville County, Aiken County, Laurens County and York County, Intervenors
Docket No. 18-ALJ-17-0443-CC

Dear Judge Anderson:

Enclosed please find an original and one (1) copy of the fully-executed Stipulation of Facts entered with respect to the above-referenced matter. Please return a file-stamped copy to me via our courier.

If there are any questions, or if the Court requires anything further, please let me know.

Very truly yours,

Jim Rourke

Enclosure

cc: Jason Luther, Esq.
Marcus D. Antley, III, Esq.
Michael E. Kozlarek, Esq.
Walter H. Cartin, Esquire
J. Evan Phillips, Esq.
Madison Felder, Esq.
Scott Ahmed, Esq.
Jennifer James, Esq.

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Attorneys and Counselors at Law

STATE OF SOUTH CAROLINA
ADMINISTRATIVE LAW COURT

Colonial Pipeline Company, Petitioner, vs. South Carolina Department of Revenue, Respondent, and Abbeville County, Anderson County, Greenville County, Aiken County, Laurens County, and York County, Intervenors.	DOCKET NO. 18-ALJ-17-0443-CC **STIPULATION OF FACTS**

Pursuant to S.C. Code Ann. § 12-60-3320 (2014), the Parties do hereby stipulate to the following:

A. Taxpayer:

Colonial Pipeline Company
1185 Sanctuary Parkway, Suite 100
Alpharetta, GA 30009

B. Periods Involved:

2017 Property Tax Year
2018 Property Tax Year

[REMAINDER OF PAGE INTENTIONALLY BLANK]

C. Assessment:

Assessment in Dispute[1]:

Tax Year	Property Tax Assessment (without exemption)	Property Tax Assessment (with exemption)	Portion of Assessment Claimed as Pollution Control Property
2017	$12,697,930.00	$11,088,410.00	$1,609,520.00
2018	$13,757,290.00	$12,200,710.00	$1,556,580.00

D. Relevant Facts:

1. The Taxpayer is a pipeline company that transports refined petroleum, jet fuel, gasoline, diesel, heating oil, kerosene, and blend stocks (collectively, "Refined Petroleum Products," each, a "Refined Petroleum Product").

2. Taxpayer injects drag reducing agents to reduce friction on the lines in South Carolina, and does various inspections in this state.

3. Refined Petroleum Products are all present in the pipeline simultaneously. There are no physical barriers between each Refined Petroleum Product in the pipeline, so the Refined Petroleum Products interface with one another in the pipeline. When one Refined Petroleum Product interfaces with another Refined Petroleum Product, they mix to create a fluid called "Transmix."

4. Transmix is a fluid that does not meet the specifications for a fuel that can be used or sold for use.

5. Taxpayer could elect to transport a single Refined Petroleum Product at one time in the pipeline.

6. If the Taxpayer transported a single Refined Petroleum Product, then the Taxpayer would not create Transmix.

7. Each Refined Petroleum Product that combines to create Transmix can be separated into a once again saleable Refined Petroleum Product.

8. Separating Transmix back into each Refined Petroleum Product is part of the Taxpayer's transportation services and is not charged to the customer.

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[1]The Taxpayer does not dispute the valuation of the property nor does it dispute the valuation method; rather, the Taxpayer argues that the property in dispute is exempt from ad valorem taxation pursuant to § 12-37-220(A)(8).

9. The Taxpayer's activities ensure that the quality of each Refined Petroleum Product received by the customer is the same as the Refined Petroleum Product that went into the pipeline.

10. At least 90% of each Refined Petroleum Product transported by the Taxpayer is of the same specification and quantity when it enters the pipeline as it is when it leaves the pipeline.

11. The Taxpayer's pipeline connects to a refinery's storage tanks, which each contain a Refined Petroleum Product.

12. The Taxpayer does not own the Refined Petroleum Products it transports.

13. In addition to other counties, the property at issue in this matter is located in the following South Carolina counties: Anderson, Abbeville, Aiken, Greenville, Laurens, and York (the "counties involved").

14. The Taxpayer has tank farms, delivery facilities, and booster stations in South Carolina. The Taxpayer has two tank farms in South Carolina—one in Belton and the other in Spartanburg. Those tank farms receive and store Refined Petroleum Products from the transmission pipeline and pump the product to individual truck terminals. The Taxpayer's delivery stations in South Carolina are located at the tank farms and deliver Refined Petroleum Products on a transmission line to a truck terminal. The Taxpayer has three booster stations in South Carolina—one in Anderson, one in Simpsonville, and another in Gaffney. The booster stations push Refined Petroleum Products through the pipeline..

15. On April 19, 2017, the Department's Government Services Division received a 2017 application for an ad valorem tax exemption based on § 12-37-220(A)(8). In its letter and accompanying application, the Taxpayer reported a pollution control exemption on pipe coatings, cathodic protection, automatic shut-off valves, wastewater pollution control equipment, storm water pollution control, secondary containment, and tank internal/external floating roofs.

16. The Government Services Division evaluated the exemption application based on whether the property was designed for the elimination, mitigation, prevention, treatment, abatement, or control of water, air, or noise pollution. On August 15, 2017, based on its evaluation, the Government Services Division issued a Property Assessment Notice granting the exemption application as to wastewater pollution control equipment, storm water pollution control, secondary containment, and tank internal/external floating roofs for property tax year 2017 but denying the Taxpayer's exemption application as to pipe coatings, cathodic protection, and automatic shut-off valves.

17. On September 7, 2017, the Taxpayer protested the proposed assessment for 2017. Exhibit A is a true and accurate copy of the protest that the Taxpayer submitted to the Department.

18. On September 20, 2017, the Government Services Division notified the county auditors for the counties involved of the Taxpayer's appeal of the 2017 assessment.

19. On October 19, 2017, the Government Services Division forwarded the 2017 exemption application information to the South Carolina Department of Health and Environmental Control ("DHEC") for investigation into whether the Taxpayer's claimed property, specifically, pipe coatings, cathodic protection, and automatic shut-off valves qualified as pollution control property, pursuant to § 12-37-220(A)(8).

20. On December 18, 2017, DHEC submitted a letter to the Department in response to the Department's request to investigate the property to determine the portion of pipe coatings, cathodic protection, and automatic shut-off valves that qualifies as pollution control property for 2017. DHEC noted that federal agencies, like the United States Department of Transportation ("USDOT"), regulate pipelines, and DHEC lacks authority to permit, inspect, or enforce pipeline operations.

21. On or around April 11, 2018, the Government Services Division forwarded the file to the Department's Office of General Counsel for Litigation for further analysis of whether the pipe coatings, cathodic protection, and automatic shut-off valves qualified for the pollution control exemption under § 12-37-220(A)(8).

22. On April 23, 2018, the Government Services Division received a 2018 application for an ad valorem tax exemption based on § 12-37-220(A)(8). The Taxpayer claimed the same property as pollution control property on its 2017 and 2018 property tax return.

23. On April 26, 2018, the Department's Office of General Counsel mailed DHEC a letter requesting that DHEC investigate the property of Colonial Pipeline Company to determine the portion of the property that qualifies as pollution control property pursuant to S.C. Code Ann. § 12-37-220(A)(8). The letter further requested that DHEC furnish the Department of Revenue with a detail listing of the property that qualifies as pollution control property.

24. On July 27, 2018, the Government Services Division issued a Property Assessment Notice denying the Taxpayer's exemption application as to pipe coatings, cathodic protection, and automatic shut-off valves but granting the exemption application as to wastewater pollution control equipment, storm water pollution control, secondary containment, and tank internal/external floating roofs for property tax year 2018.

25. The Government Services Division received correspondence postmarked August 13, 2018, from the Taxpayer protesting the proposed assessment for property tax year 2018.

26. On August 14, 2018, the Department's Office of General Counsel forwarded the 2018 exemption application for pipe coatings, cathodic protection, automatic shut-off valves, wastewater pollution control equipment, storm water pollution control, secondary containment, and tank internal/external floating roofs to DHEC for investigation into whether the Taxpayer's claimed property qualified as pollution control property, pursuant to § 12-37-220(A)(8).

27. DHEC submitted a letter dated August 27, 2018 to the Department's Office of General Counsel clarifying that the pipe coatings, cathodic protection, and automatic shut-off valves for property tax years 2017 and 2018 can be described as pollution control

equipment. DHEC again noted that federal agencies, like USDOT, regulate pipelines, and DHEC lacks authority to permit, inspect, or enforce pipeline operations.

28. The Department issued its Determination in this matter on November 19, 2018.

29. The Taxpayer timely requested a contested case hearing on December 5, 2018.

30. The Government Services Division denied the Taxpayer's 2019 application for an ad valorem tax exemption based on § 12-37-220(A)(8) as to all claimed property. The Taxpayer claimed the same property as pollution control property for 2019 as it did for 2017 and 2018. On August 6, 2019, the Taxpayer timely protested the 2019 exemption denial.

31. On September 4, 2019, the Department clarified through its Second Amended Prehearing Statement that Taxpayer does not qualify for an ad valorem property tax exemption pursuant to S.C. Code Ann. § 12-37-220(A)(8) (2014) for *any* of its claimed property—including property for which the Department initially granted the exemption.

32. Attached as Exhibit B is the Colonial Pipeline System Map. Attached as Exhibit C is a map of the Colonial Charlotte/South Carolina Operating Area. Attached as Exhibit D is Management's Discussion and Analysis of Financial Conditions and Results of Operations. Attached as Exhibit E is the DOR Proposed Assessment for the 2017 Tax year and 2018 Tax year as well as the Colonial Pipeline 2017 and 2018 Property Tax Returns.

33. Petitioner has environmental permits, including air, NPS, groundwater and solid waste disposal. A list of the environmental permits is attached as Exhibit F.

The Parties so stipulate.

[SIGNATURE PAGES FOLLOW]
[REMAINDER OF PAGE INTENTIONALLY BLANK]

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December 4, 2019
Columbia, South Carolina

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Attorney for Respondent

_____, 2019
Columbia, South Carolina

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_____, 2019
Columbia, South Carolina

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Attorney for Respondent

December 2, 2019
Columbia, South Carolina

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December 2, 2019
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Attorneys for Intervenors
Aiken and Laurens Counties

_____, 2019
Columbia, South Carolina

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Attorneys for Intervenors
Aiken and Laurens Counties

December 2, 2019
Columbia, South Carolina

Chris Harrington

From: Stephanie Perez <sperez@scalc.net>
Sent: Monday, April 20, 2020 11:52 AM
To: Amber Hogan; 'Michael Kozlarek'; Maybank, Burnet R. III; Rourke, Jim; Cartin, Walt H.; Phillips, J. Evan; Felder, Madison; Marcus 'Trey' Antley, III
Subject: Colonial Pipeline Company vs. South Carolina Department of Revenue 18-ALJ-17-0443-CC

Good morning,

I have received the below messages from Susan Dickerson, our assistant clerk of court, however, please only email me since Judge Anderson has been assigned this case and once a judge is assigned, all correspondence and filing of documents regarding the case must be done directly with the assigned judge and his law clerk. As for the motion, Mr. Kozlarek is correct that a motion is not necessary to amend prehearing statements. You can just amend it, serve it on opposing side, and not have to pay a motion fee. If you have any questions, let me know.

Sincerely,
Stephanie Michelle Perez
Law Clerk to Judge Ralph King Anderson, III
S.C. Administrative Law Court
803-734-6409

From: Cartin, Walt H. <waltcartin@parkerpoe.com>
Sent: Monday, April 20, 2020 11:27 AM
To: Michael Kozlarek <michael@kozlareklaw.com>; Amber Hogan <Amber.Hogan@dor.sc.gov>; Susan C. Dickerson <sdickerson@scalc.net>
Cc: Maybank, Burnet R. III <BMaybank@nexsenpruet.com>; Rourke, James P. <JRourke@nexsenpruet.com>; Phillips, J. Evan <evanphillips@parkerpoe.com>; Felder, Madison <madisonfelder@parkerpoe.com>; Marcus 'Trey' Antley, III <Trey.Antley@dor.sc.gov>
Subject: RE: Colonial Pipeline Company vs. South Carolina Department of Revenue 18-ALJ-17-0443-CC

Aiken and Laurens County have no objections either. Best,

WHC

Walt Cartin
Partner

Parker Poe

1221 Main Street | Suite 1100 | Columbia, SC 29201
Office: 803.253.6840 | Fax: 803.255.8017 | vcard | map

Visit our website at
www.parkerpoe.com

From: Michael Kozlarek <michael@kozlareklaw.com>
Sent: Monday, April 20, 2020 11:10 AM
To: Amber Hogan <Amber.Hogan@dor.sc.gov>; Susan C. Dickerson <sdickerson@scalc.net>
Cc: Maybank, Burnet R. III <BMaybank@nexsenpruet.com>; Rourke, James P. <JRourke@nexsenpruet.com>; Cartin, Walt H. <waltcartin@parkerpoe.com>; Phillips, J. Evan <evanphillips@parkerpoe.com>; Felder, Madison <madisonfelder@parkerpoe.com>; Marcus 'Trey' Antley, III <Trey.Antley@dor.sc.gov>
Subject: RE: Colonial Pipeline Company vs. South Carolina Department of Revenue 18-ALJ-17-0443-CC
Importance: High

Caution: External email

Ms. Dickerson,

Although Intervenors Abbeville County, Anderson County, Greenville County, and York County do not think the motion is necessary, these Intervenors consent.

Thank you,

Michael E. Kozlarek
Admitted: SC, GA, NC, VA

KOZLAREK LAW LLC

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From: Amber Hogan <Amber.Hogan@dor.sc.gov>
Sent: Monday, April 20, 2020 08:55
To: Susan C. Dickerson <sdickerson@scalc.net>
Cc: Maybank, Burnet R. III <BMaybank@nexsenpruet.com>; Rourke, James P. <JRourke@nexsenpruet.com>; Michael Kozlarek <michael@kozlareklaw.com>; Cartin, Walt H. <waltcartin@parkerpoe.com>; evanphillips@parkerpoe.com; madisonfelder@parkerpoe.com; Marcus 'Trey' Antley, III <Trey.Antley@dor.sc.gov>
Subject: Colonial Pipeline Company vs. South Carolina Department of Revenue 18-ALJ-17-0443-CC

Ms. Dickerson,

Attached please find a courtesy copy of the South Carolina Department of Revenue's Motion to Amend Respondent's Prehearing Statement. A hard copy is being placed in today's mail.

I'm copying all counsel of record to advise of my communication with the Court.

If you have any questions or need any further information from me, please do not hesitate to give me a call.

Amber Hogan
Paralegal and Assistant to General Counsel for Litigation
Litigation & Appeals
803-898-5008 | Amber.Hogan@dor.sc.gov
South Carolina Department of Revenue | dor.sc.gov
PO Box 12265, Columbia, SC 29211-9979

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Chris Harrington

From: Stephanie Perez <sperez@scalc.net>
Sent: Friday, May 1, 2020 10:30 AM
To: Marcus 'Trey' Antley, III; Rourke, Jim
Cc: Maybank, Burnet R. III; michael@kozlareklaw.com; Cartin, Walt H.; evanphillips@parkerpoe.com; madisonfelder@parkerpoe.com; Jason Luther
Subject: RE: Colonial Pipeline Company vs. South Carolina Department of Revenue 18-ALJ-17-0443-CC [IWOV-NPCOL1.FID1998684]

Good morning,

Historically, parties' consent to amending prehearing statements so a motion is not necessary. However, since that is not case here, a motion to amend prehearing statements was necessary. So, a reply to the motion in opposition is proper.

Sincerely,
Stephanie Michelle Perez
Law Clerk to Judge Ralph King Anderson, III
S.C. Administrative Law Court
803-734-6409

From: Marcus 'Trey' Antley, III <Trey.Antley@dor.sc.gov>
Sent: Friday, May 01, 2020 10:18 AM
To: Stephanie Perez <sperez@scalc.net>; Rourke, Jim <JRourke@nexsenpruet.com>
Cc: Maybank, Burnet R. III <BMaybank@nexsenpruet.com>; michael@kozlareklaw.com; Cartin, Walt H. <waltcartin@parkerpoe.com>; evanphillips@parkerpoe.com; madisonfelder@parkerpoe.com; Jason Luther <Jason.Luther@dor.sc.gov>
Subject: RE: Colonial Pipeline Company vs. South Carolina Department of Revenue 18-ALJ-17-0443-CC [IWOV-NPCOL1.FID1998684]

Good morning Stephanie,

Your email on April 20, 2020 regarding the Department's Motion to Amend its Prehearing Statement said "a motion is not necessary to amend prehearing statements." My understanding is the court would not entertain a Motion in Opposition because the Motion to Amend was not necessary. However, if that is incorrect, please let me know so that I may timely file a Reply to the Motion in Opposition.

Thanks,
Trey

SOUTH CAROLINA DOR DEPARTMENT OF REVENUE

Marcus 'Trey' Antley, III
Counsel for Litigation
Litigation & Appeals
803-898-5623 | Trey.Antley@dor.sc.gov

South Carolina Department of Revenue | dor.sc.gov
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The content of this email and any attachments may be confidential and legally protected from disclosure. If you are not the intended recipient of this email, please reply immediately to notify the sender, then delete it from your system. You are prohibited from sharing any part of this message with a third party.

From: Stephanie Perez <sperez@scalc.net>
Sent: Friday, May 1, 2020 8:56 AM
To: Rourke, Jim <JRourke@nexsenpruet.com>
Cc: Maybank, Burnet R. III <BMaybank@nexsenpruet.com>; michael@kozlareklaw.com; Cartin, Walt H. <waltcartin@parkerpoe.com>; evanphillips@parkerpoe.com; madisonfelder@parkerpoe.com; Marcus 'Trey' Antley, III <Trey.Antley@dor.sc.gov>; Amber Hogan <Amber.Hogan@dor.sc.gov>
Subject: RE: Colonial Pipeline Company vs. South Carolina Department of Revenue 18-ALJ-17-0443-CC [IWOV-NPCOL1.FID1998684]

Thank you. Can you send me this Motion in Opposition in word format whenever you get a chance?

Sincerely,
Stephanie Michelle Perez
Law Clerk to Judge Ralph King Anderson, III
S.C. Administrative Law Court
803-734-6409

From: Rourke, Jim <JRourke@nexsenpruet.com>
Sent: Thursday, April 30, 2020 4:58 PM
To: Stephanie Perez <sperez@scalc.net>
Cc: Maybank, Burnet R. III <BMaybank@nexsenpruet.com>; michael@kozlareklaw.com; Cartin, Walt H. <waltcartin@parkerpoe.com>; evanphillips@parkerpoe.com; madisonfelder@parkerpoe.com; Marcus 'Trey' Antley, III <Trey.Antley@dor.sc.gov>; Amber Hogan <Amber.Hogan@dor.sc.gov>
Subject: RE: Colonial Pipeline Company vs. South Carolina Department of Revenue 18-ALJ-17-0443-CC [IWOV-NPCOL1.FID1998684]

Stephanie:

Attached please find a copy of Petitioner's Motion in Opposition to the Department's Motion to Amend its Prehearing Statement. Our original, along with a check, was placed in the mail this afternoon.

Jim

Jim Rourke
Member
Nexsen Pruet, LLC
1230 Main Street, Suite 700
Columbia, SC 29201
Post Office Box 2426 (29202)
Direct Dial: 803.540.2030, Fax: 803.727.1475
Cell: 803.414.1443
JRourke@nexsenpruet.com

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From: Amber Hogan <Amber.Hogan@dor.sc.gov>
Sent: Monday, April 20, 2020 8:55 AM
To: Susan C. Dickerson <sdickerson@scalc.net>
Cc: Maybank, Burnet R. III <BMaybank@nexsenpruet.com>; Rourke, Jim <JRourke@nexsenpruet.com>; michael@kozlareklaw.com; Cartin, Walt H. <waltcartin@parkerpoe.com>; evanphillips@parkerpoe.com; madisonfelder@parkerpoe.com; Marcus 'Trey' Antley, III <Trey.Antley@dor.sc.gov>
Subject: Colonial Pipeline Company vs. South Carolina Department of Revenue 18-ALJ-17-0443-CC

{EXTERNAL EMAIL}

Ms. Dickerson,

Attached please find a courtesy copy of the South Carolina Department of Revenue's Motion to Amend Respondent's Prehearing Statement. A hard copy is being placed in today's mail.

I'm copying all counsel of record to advise of my communication with the Court.

If you have any questions or need any further information from me, please do not hesitate to give me a call.

SOUTH CAROLINA DEPARTMENT OF REVENUE

Amber Hogan
Paralegal and Assistant to General Counsel for Litigation
Litigation & Appeals
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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-17-0443-CC **[PROPOSED] FINAL ORDER**

STATEMENT OF THE CASE

This matter is before the Court pursuant to a request for contested case hearing filed by Colonial Pipeline Company ("Colonial" or "Taxpayer") on December 5, 2018. Colonial contests the decision of the South Carolina Department of Revenue ("Department" or "DOR") finding certain Colonial assets were not eligible for a property tax exemption for pollution control equipment pursuant to section 12-37-220(A)(8) of the South Carolina Code and Article 10, Section 3(h) of the South Carolina Constitution. Colonial challenges the Department decision for tax years 2017 and 2018.

On March 20, 2019, Abbeville County and Anderson County filed a Consolidated Motion to Intervene, which was granted on April 16, 2019. Greenville County filed a Motion to Intervene on May 17, 2019, which was granted on May 29, 2019. On May 28, 2019, Aiken County and Laurens County moved to intervene, and York County moved separately to intervene; the Court granted the motions on June 13, 2019. Collectively, the counties are referenced as the Counties,[1] and collectively with the Department, Respondents.

On December 11, 2019, the parties filed cross-motions for summary judgment, contending no material facts were at issue and the only issue before this Court was whether, as a matter of law, Colonial's facilities constituted an "industrial plant" for purposes of the pollution control equipment exemption. The parties thereafter filed Responses and Replies to the cross-motions

[1] Although all the counties are intervenors, the counties are separately represented and have distinct positions and filed distinct motions for summary judgment. Aiken County and Laurens County are both represented by Parker Poe Adams & Bernstein LLP. Abbeville County, Anderson County, Greenville County, and York County are represented by Kozlarek Law LLC.

before a hearing on the cross-motions was held at this Court's headquarters in Columbia, SC, on January 6, 2020. On March 6, 2020, this Court filed its Order on Motions for Summary Judgment, denying all parties' motions. A hearing on the merits was held on August 3–4, 2020. In addition to the Stipulations of Fact agreed to by the parties, the Court heard live testimony from five witnesses and admitted 29 exhibits into evidence, including the entire transcript of Colonial's 30(b)(6) deposition testimony.

This case presents the question of whether certain property belonging to a transportation company is exempt from taxation pursuant to the pollution control exemption codified at S.C. Code Ann. § 12-37-220(A)(8) for Tax Years 2017 and 2018. Although this case presents a number of ancillary questions, the primary dispute involves whether a transportation company's underground pipeline[2] used to transport refined petroleum products can be considered an "industrial plant" for the purposes of the exemption. Having observed the witnesses and considered the evidence and arguments submitted by the parties, and taking into account the stringent standards placed on taxpayers seeking to qualify for an tax exemption under South Carolina law, I find that Colonial is not entitled to receive the pollution control exemption for Tax Years 2017 and 2018.

STIPULATIONS OF FACTS

At the hearing in this matter and pursuant to SCALC Rule 25(c), the parties entered the following written stipulations of facts into the Record (the "Stipulations").[3] The Stipulations provide substantially all of the procedural background and, therefore, they are reproduced here without substantive modification:

Assessment in Dispute[4]

Tax Year	Property Tax Assessment (without exemption)	Property Tax Assessment (with exemption)	Portion of Assessment Claimed as Pollution Control Property
2017	$12,697,930.00	$11,088,410.00	$1,609,520.00
2018	$13,757,290.00	$12,200,710.00	$1,556,580.00

[2] This Order focuses exclusively on Colonial's cathodic protection, pipe coatings, and an automatic shut-off valve, which is the only property involved in the dispute for Tax Years 2017 and 2018. Pursuant to the Court's May 20, 2020 Order Denying Motion to Amend Prehearing Statement, Colonial's other property is beyond the scope of this contested case hearing.

[3] These Stipulations were entered as Joint Exhibit 20. Although certain terms are defined in the Stipulations, they are not necessarily applied throughout the balance of this Order.

[4] Colonial does not dispute the valuation of the property nor does it dispute the valuation method; rather, Colonial argues that the property in dispute is exempt from ad valorem taxation pursuant to S.C. Code Ann. § 12-37-220(A)(8).

1. Colonial is a pipeline company that transports refined petroleum, jet fuel, gasoline, diesel, heating oil, kerosene, and blend stocks (collectively, "Refined Petroleum Products," and each, a "Refined Petroleum Product").

2. Colonial injects drag reducing agents to reduce friction on the lines in South Carolina and does various inspections in this state.

3. Refined Petroleum Products are all present in the pipeline simultaneously. There are no physical barriers between each Refined Petroleum Product in the pipeline, so the Refined Petroleum Products interface with one another in the pipeline. When one Refined Petroleum Product interfaces with another Refined Petroleum Product, they mix to create a fluid called "Transmix."

4. Transmix is a fluid that does not meet the specifications for a fuel that can be used or sold for use.

5. Colonial could elect to transport a single Refined Petroleum Product at one time in the pipeline.

6. If Colonial transported a single Refined Petroleum Product, then Colonial would not create Transmix.

7. Each Refined Petroleum Product that combines to create Transmix can be separated into a once again saleable Refined Petroleum Product.

8. Separating Transmix back into each Refined Petroleum Product is part of Colonial's transportation services and is not charged to the customer.

9. Colonial's activities ensure that the quality of each Refined Petroleum Product received by the customer is the same as the Refined Petroleum Product that went into the pipeline.

10. At least 90% of each Refined Petroleum Product transported by Colonial is of the same specification and quantity when it enters the pipeline as it is when it leaves the pipeline.

11. Colonial's pipeline connects to a refinery's storage tanks, which each contain a Refined Petroleum Product.

12. Colonial does not own the Refined Petroleum Products it transports.

13. In addition to other counties, the property at issue in this matter is located in the following South Carolina counties: Anderson, Abbeville, Aiken, Greenville, Laurens, and York (the "counties involved").

14. Colonial has tank farms, delivery facilities, and booster stations in South Carolina. Colonial has two tank farms in South Carolina—one in Belton and the other in Spartanburg. Those tank farms receive and store Refined Petroleum Products from the transmission pipeline and pump the product to individual truck terminals. Colonial's delivery stations in South Carolina are located at the tank farms and deliver Refined Petroleum Products on a

transmission line to a truck terminal. Colonial has three booster stations in South Carolina—one in Anderson, one in Simpsonville, and another in Gaffney. The booster stations push Refined Petroleum Products through the pipeline.

15. On April 19, 2017, the Department's Government Services Division received a 2017 application for an ad valorem tax exemption based on S.C. Code Ann. § 12-37-220(A)(8). In its letter and accompanying application, Colonial reported a pollution control exemption on pipe coatings, cathodic protection, automatic shut-off valves, wastewater pollution control equipment, storm water pollution control, secondary containment, and tank internal/external floating roofs.

16. The Government Services Division evaluated the exemption application based on whether the property was designed for the elimination, mitigation, prevention, treatment, abatement, or control of water, air, or noise pollution. On August 15, 2017, based on its evaluation, the Government Services Division issued a Property Assessment Notice granting the exemption application as to wastewater pollution control equipment, storm water pollution control, secondary containment, and tank internal/external floating roofs for property tax year 2017 but denying Colonial's exemption application as to pipe coatings, cathodic protection, and automatic shut-off valves.

17. On September 7, 2017, Colonial protested the proposed assessment for 2017. Exhibit A is a true and accurate copy of the protest that Colonial submitted to the Department.

18. On September 20, 2017, the Government Services Division notified the county auditors for the counties involved of the Colonial's appeal of the 2017 assessment.

19. On October 19, 2017, the Government Services Division forwarded the 2017 exemption application information to the South Carolina Department of Health and Environmental Control ("DHEC") for investigation into whether Colonial's claimed property, specifically, pipe coatings, cathodic protection, and automatic shut-off valves qualified as pollution control property, pursuant to S.C. Code Ann. § 12-37-220(A)(8).

20. On December 18, 2017, DHEC submitted a letter to the Department in response to the Department's request to investigate the property to determine the portion of pipe coatings, cathodic protection, and automatic shut-off valves that qualifies as pollution control property for 2017. DHEC noted that federal agencies, like the United States Department of Transportation ("USDOT"), regulate pipelines, and DHEC lacks authority to permit, inspect, or enforce pipeline operations.

21. On or around April 11, 2018, the Government Services Division forwarded the file to the Department's Office of General Counsel for Litigation for further analysis of whether the pipe coatings, cathodic protection, and automatic shut-off valves qualified for the pollution control exemption under S.C. Code Ann. § 12-37-220(A)(8).

22. On April 23, 2018, the Government Services Division received a 2018 application for an ad valorem tax exemption based on S.C. Code Ann. § 12-37-220(A)(8). Colonial claimed the same property as pollution control property on its 2017 and 2018 property tax return.

23. On April 26, 2018, the Department's Office of General Counsel mailed DHEC a letter

requesting that DHEC investigate the property of Colonial Pipeline Company to determine the portion of the property that qualifies as pollution control property pursuant to S.C. Code Ann. § 12-37-220(A)(8). The letter further requested that DHEC furnish the Department with a detail listing of the property that qualifies as pollution control property.

24. On July 27, 2018, the Government Services Division issued a Property Assessment Notice denying Colonial's exemption application as to pipe coatings, cathodic protection, and automatic shut-off valves but granting the exemption application as to wastewater pollution control equipment, storm water pollution control, secondary containment, and tank internal/external floating roofs for property tax year 2018.

25. The Government Services Division received correspondence postmarked August 13, 2018, from Colonial protesting the proposed assessment for property tax year 2018.

26. On August 14, 2018, the Department's Office of General Counsel forwarded the 2018 exemption application for pipe coatings, cathodic protection, automatic shut-off valves, wastewater pollution control equipment, storm water pollution control, secondary containment, and tank internal/external floating roofs to DHEC for investigation into whether Colonial's claimed property qualified as pollution control property, pursuant to S.C. Code Ann. § 12-37-220(A)(8).

27. DHEC submitted a letter dated August 27, 2018 to the Department's Office of General Counsel clarifying that the pipe coatings, cathodic protection, and automatic shut-off valves for property tax years 2017 and 2018 can be described as pollution control equipment. DHEC again noted that federal agencies, like USDOT, regulate pipelines, and DHEC lacks authority to permit, inspect, or enforce pipeline operations.[5]

28. The Department issued its Determination in this matter on November 19, 2018.

29. Colonial timely requested a contested case hearing on December 5, 2018.

30. The Government Services Division denied Colonial's 2019 application for an ad valorem tax exemption based on S.C. Code Ann. § 12-37-220(A)(8) as to all claimed property. Colonial claimed the same property as pollution control property for 2019 as it did for 2017 and 2018. On August 6, 2019, Colonial timely protested the 2019 exemption denial.

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[5] Although not part of the Stipulation, the DHEC letter stated, in part:

> Colonial has specifically listed three items purported to be pollution control equipment that remain at issue in the 2017 and 2018 property tax determination: (1) pipeline cathodic protection, (2) pipeline coatings, and (3) automatic shut-off valves. In the context of USTs, each of these technologies would be characterized by the Department as pollution control equipment. UST's are designed to store petroleum products, and corrosion protection is required for all UST systems to prevent petroleum releases into the environment. Cathodic protection is one method to meet the corrosion protection standard for USTs. Shear valves (considered an automatic shut-off valve) are installed to prevent, or limit the extent of, a petroleum release into the environment. Pipeline coatings are designed to isolate the pipeline to prevent corrosion. While releases from petroleum pipelines would not generally be directly to "water" but more likely to the ground surface, any release of sufficient size from a petroleum pipeline is likely to impact groundwater and may under certain conditions contribute contamination to surface waters via overland flow or groundwater seeps. Therefore, the Department believes the listed technologies can be fairly described as pollution control equipment.

31. On September 4, 2019, the Department clarified through its Second Amended Prehearing Statement that Colonial does not qualify for an ad valorem property tax exemption pursuant to S.C. Code Ann. § 12-37-220(A)(8) (2014) for *any* of its claimed property—including property for which the Department initially granted the exemption.

32. Attached as Exhibit B is the Colonial Pipeline System Map. Attached as Exhibit C is a map of the Colonial Charlotte/South Carolina Operating Area. Attached as Exhibit D is Management's Discussion and Analysis of Financial Conditions and Results of Operations. Attached as Exhibit E is the DOR Proposed Assessment for the 2017 Tax year and 2018 Tax year as well as the Colonial Pipeline 2017 and 2018 Property Tax Returns.

33. Petitioner has environmental permits, including air, NPS, groundwater and solid waste disposal. A list of the environmental permits is attached as Exhibit F.

FINDINGS OF FACT

Although the Stipulations cover many of the material facts, Colonial presented four[6] witnesses at the hearing and the Department presented one witness. Having listened to the testimony, and after reviewing the Record, I make the following findings of fact based on a preponderance of the evidence.

Testimony of Buster Brown

Colonial presented testimony from Buster Brown,[7] its Director of Commercial Affairs and Special Projects. (Trial Tr. 89). Colonial is a pipeline company that first established its pipeline in South Carolina in 1962. (*Id.* at 91). Colonial transports refined petroleum products for its customers (e.g., refined petroleum, jet fuel, gasoline, diesel, heating oil, and kerosene). It does not own the products that it ships. (*Id.* at 93). Although it provides other ancillary services, Colonial primarily gets paid "for transporting barrels [of refined petroleum products] from point A to point B." (*Id.* at 95). Colonial's main competitors—both nationally and in South Carolina—are businesses that transport refined petroleum products through other means, such as trucks, railroads, and barges. (*Id.* at 94).

Colonial receives products from approximately thirty refineries in the Gulf Coast region of the United States. (*Id.* at 121). In South Carolina, Colonial ships ultra-low sulfur diesel, heating oil, marine diesel, jet fuel, and kerosene. Ultra-low sulfur diesel and jet fuel are shipped as finished

[6] Colonial presented testimony from Keith Fuqua, Buster Brown, Robert Hughes, and Joshua Stanley. Due to the Court's previous ruling regarding the scope of this contested case hearing, Mr. Hughes's testimony is largely irrelevant to the question before the Court. Indeed, Mr. Hughes's testimony was cut short based on objections from Respondents. Therefore, this Order omits any discussion of Mr. Hughes's testimony.

[7] Although Colonial presented its witnesses in a certain order, I will discuss their testimony an different order for the sake of clarity and context.

products. (*Id.* at 129). Colonial does not refine any petroleum products (*Id.* at 162). Colonial has approximately 250 customers that ship products through its lines. (*Id.* at 121). These companies are required to have title to the product as it moves through Colonial's lines. (*Id.* at 123). Put another way, Colonial does not own the product it transports at any time during transit.

Colonial's operations in South Carolina are comprised of 515 miles of pipeline, two tank farms, three main line booster stations, and one delivery facility spanning eleven counties in the State. (*Id.* at 161). All of Colonial's pipelines are buried between four and five feet below the ground. (*Id.* at 103). Thus, an observer on the ground would not be able to see the pipeline itself, although pipeline markers would be visible at certain intervals. (*Id.* at 169). Colonial has two main pipelines in South Carolina: Line 1 and Line 2. (*Id.* at 97). Lines 1 and Line 2 run from Pasadena, Texas, to Greensboro, North Carolina. (*Id.* at 101). Line 1 transports gasoline, and Line 2 transports distillate, which includes jet fuel and ultra-low sulfur diesel. (*Id.* at 97–98). Line 1 was built in 1962. Line 2 was built in the late 1970s, but became operational in the 1980s. (*Id.* at 96). The South Carolina portions of Lines 1 and 2 are each about 101 miles long. (*Id.* at 98). Colonial also owns Line 29, which is a multi-products line that originates in Belton, South Carolina. (*Id.* at 98). Line 29 is approximately 75 miles long. It also has a number of delivery lines, which run directly to truck terminals. (*Id.* at 99).

Line 1 transports gasoline products. (*Id.* at 102). Line 2 transports distillates, such as diesel, jet fuel, and certain distillate blend stocks. (*Id.* at 102). Line 29 carries all of the refined petroleum products, with the exception of heating oil. Colonial transports between 180,000 to 185,000 barrels of refined petroleum products each day through the South Carolina portion of its pipeline. (*Id.* at 102).

Colonial has two tank farms: one in Belton, South Carolina, and one in Spartanburg, South Carolina. (*Id.* at 98). Each tank farm includes pumps, motors, valves, manifolds, injection equipment, control systems, and other infrastructure aimed at transporting the product. (*Id.* at 113). The two tank farms receive petroleum products from Lines 1 and 2 into tankage and then that product is delivered out from that tankage to multiple delivery lines to customers. (*Id.* at 104). Colonial does not refer to any of its property as a "plant," and it does not employ any employees classified as "plant managers." (*Id.* at 162).

Belton Junction is a 130-acre above ground breakout and delivery facility located in Anderson County. (*Id.* at 104). The tank farm is comprised of twenty tanks: twelve for gasoline, seven for distillate, and only one tank for storing Transmix. (*Id.* at 106). The Spartanburg tank farm is a 74-acre above ground breakout and delivery facility. It is comprised of twenty-two tanks,

including thirteen gasoline tanks, six distillate tanks, and three tanks that are out of service. (*Id.* at 107). It does not contain any tanks dedicated to storing Transmix. (*Id.* at 107).

Colonial also provides petroleum storage services at its Belton and Spartanburg facilities for third parties. (*Id.* at 110). Colonial charges its customers for its storage services. (*Id.* at 110). Additionally, truck terminals, which are owned by third parties, are strategically located close to the tank farm facilities in Belton and Spartanburg to facilitate transportation of the product to Colonial's customers. (*Id.* at 105). Delivery lines[8] from Colonial's facilities deliver the product to individual truck terminals where the product is ultimately delivered to Colonial's customers. (*Id.* at 113).

Every fifty to sixty miles along its pipeline (but as far as 75 miles apart), Colonial operates a "booster station" that increases pressure in the pipeline and allows for the continued movement of petroleum through the pipeline. (*Id.* at 108). To ensure the product is safely transported to its customers in a form that meets the customers' specifications, Colonial constantly measures gravity, pressure, and temperature of the products it transports. (*Id.* at 141). Equipment is also used to measure and detect leaks. (*Id.* at 241). Additionally, there are three pump stations in South Carolina on Lines 1 and 2, typically with four to five pumps per station, and there are pumps at the tank farms.

In the geographic area at issue in this case (which covers small parts of Georgia and North Carolina, as well as South Carolina), Colonial employees 30-35 operators and technicians on a full-time basis (as well as a number of independent contractors) to oversee operations, run its facilities, make repairs, and respond to issues as needed. (*Id.* at 114–15). Lines 1 and 2 are operated from Alpharetta, Georgia. (*Id.* at 118–19). The Alpharetta office controls flow rates and pressure in the lines. (*Id*.) Although Colonial employees a number of South Carolina based employees, Mr. Brown testified that "at any given time, the vast majority of the pipeline probably doesn't have somebody physically with it." (*Id.* at 179–80).

The products Colonial receives are moved together "fungibly," meaning similar products are interchangeable and a customer may not receive the exact same product it paid Colonial to transport. (*Id.* at 124). Well over 90% of the products shipped by Colonial are fungible. (*Id.* at 125). Further, Colonial transports multiple products back-to-back through the pipe, which results in some mixing of the products where they interface. (*Id.* at 126–27). All products are shipped on a five-day cycle. (*Id.* at 126). When different products mix in the pipeline, the result is called

[8] A delivery line is simply "that last bit of pipe that goes directly to a single terminal." (Trial Tr. 112).

Transmix. If Colonial only transported one product at a time in its pipeline, it would not generate any Transmix. (*Id.* at 167–68). Transmix does not meet the Refined Petroleum Product specifications that can be sold for use. At any given time, Line 1 will generate/contain approximately 15,000 barrels of Transmix. (*Id.* at 130). Line 2 will contain approximately 12,000 to 16,000 barrels of Transmix. (*Id.* at 131). These barrels would account for approximately 15–20 minutes of pipeline flow on the five-day cycle of products. (*Id.* at 133).

Because Transmix is not always a saleable product, it must be handled differently. (*Id.* at 136). Although Transmix can exist in the pipeline itself, the vast majority of the pipeline is underground and, therefore, inaccessible on a practical level. Thus, the Transmix is primarily disposed of at Colonial's isolated tank farms, pump stations, and delivery facilities. (*Id.* at 137). The first step in dealing with Transmix is to isolate the Transmix. (*Id.* at 137). Colonial monitors the flow of Transmix using a variety of equipment at its tank farms, delivery facilities, and junctions. (*Id.* at 145). Colonial isolates the Transmix by diverting the product into the single separate storage tank. (*Id.* at 146). Of the 42 tanks that Colonial owns in South Carolina, only one[9] is dedicated to storing Transmix.

Step two involves the actual disposition of the Transmix. Mr. Brown testified that there are three ways to handle Transmix. (*Id.* at 149). First, certain Transmix can be re-sold as is, even though it does not technically meet the customers specifications. For example, a customer who purchased gasoline will accept a gasoline with an octane rating that is better than what it purchased (e.g., a customer purchased "regular" gasoline, but it received a product more akin to "premium" gasoline). (*Id.* at 149). Second, Transmix can be injected in smaller quantities back into the line. (*Id.* at 149). So long as the Transmix is injected in sufficiently small quantities that it does not impermissibly adulterate the other product by causing it to deviate from customer specifications, the Transmix can be handled using this recycling process. Third, Transmix that cannot be either sold as is or injected into another product is placed on trucks and shipped to an independent Transmix processor to be separated into saleable products. (*Id.* at 149). Importantly, Colonial does not do this processing itself, and there was no evidence presented that the processing occurs using any of the property involved in this matter (or even in the State of South Carolina).

Colonial also has to manage the movement of product through its pipeline. To accomplish this task, Colonial adds Drag Resisting Agents ("DRA") to the product as it is transported, which reduces the amount of friction loss. (*Id.* at 152). DRA allows higher flow rates through the pipeline.

[9] Put differently, approximately 2.3% of Colonial's storage tanks are devoted to holding Transmix.

(*Id.* at 152). Colonial introduces DRA at its booster facilities and pump stations, as well as at tank farms and stub lines. (*Id.* at 153). Thus, DRA is only introduced every 40 or 50 miles or so. Because DRA moves the product faster, using DRA helps to increase Colonial's revenue. (*Id.* at 187).

Colonial must also remove water that accumulates in and around the transported product through a process called "sting." (*Id.* at 156). Colonial removes "sting water" at the Belton and Spartanburg facilities. Most water gets into the product at the refinery level, but some water infiltrates the product through hatches at the tank farms and through condensation. (*Id.* at 157). Because water is heavier than petroleum products, it settles at the bottom of the tanks. (*Id.* at 159). When products are placed in the tanks, they are allowed to settle so that the water will sink to the bottom of the tank. (*Id.* at 159).

The actual process of removing sting water is very simple, as it is "nothing more fancier" than draining off water. (*Id.* at 160). Each tank has a small piece of pipe at the bottom of the tank. (*Id.* at 158). The sting water simply flows out of the pipe at the bottom of the tank. (*Id.* at 158). Colonial observes the flow through a glass aperture. When water stops flowing, and petroleum starts to drain through the pipe, Colonial stops the flow. (*Id.* at 158). Colonial collects the sting water and provides it to a separate company that Colonial pays to dispose of the waste product. (*Id.* at 160).

Testimony of Joshua Stanley

Joshua Stanley, Colonial's Manager of Corrosion Prevention, provided testimony regarding the function and maintenance of the specific property at issue in this case: cathodic protection, pipe coatings, and the automatic shut-off valve. Mr. Stanley manages Colonial's corrosion prevention program, which is part of its asset integrity department. (*Id.* at 223).

Cathodic Protection

Cathodic protection is installed alongside the pipeline throughout the entire pipeline corridor. (*Id.* at 228). As most of the pipeline is made of steel, and steel corrodes, the CP system prevents the pipe from breaking down. (*Id.* at 229). In addition to preventing corrosion, cathodic protection systems prevent an unintended loss of product. (*Id.* at 228). Mr. Stanley stated his believe that the CP systems were intended to prevent, eliminate, treat or abate water or air pollution, and he testified that the CP system was required by Federal law. (*Id.* at 229).

Citing from Petitioner's Exhibit 3, which is a United States Department of Transportation (USDOT) publication, Mr. Stanley explained what corrosion is and how cathodic protection helps protect Colonial's assets:

> 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 a loss of pressure carrying capacity.
>
> Corrosion is the electro-chemical reaction of metallic material with its environment. Pipe environments include soil, water, air and even contents of the pipe itself.
>
> In all electrolytes, electrolyte is ground, rain water or river or sea water or moisture in the air or a transported product, metal atoms from the pipe go into solution as electrically charged ions. The movement of the ions cause a flow of electrical current from the metal pipe to the electrolyte. This process causes loss of metal from the metal surface, and is commonly recognized as rust.
>
> Cathodic protection systems help prevent corrosion from -- from occurring on the exterior pipes by substituting a new source of electrons, commonly referred to as a sacrificial anode or impressed current anode. Both systems operate by imparting a direct current onto the buried pipeline using a device -- 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 the pipe are used in conjunction with cathodic protection. 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.
>
> Cathodic protection protects buried pipelines, ship halls, underground tanks, offshore platforms and 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.
>
> 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.
>
> Performance of cathodic protection systems must be monitored regularly with tests performed at least once per year. Records must be maintained for the life of the pipeline.
>
> Where cathodic protection systems utilize rectifiers, each rectifier must be checked six times a year, with a maximum interval between checks of two and a half months.

(*Id.* at 225–227). Mr. Stanley stated that this general description from the USDOT accurately

described Colonial's corrosion issues and the functions of its cathodic protection system. (*Id.* at 227).

Pipe Coatings

Mr. Stanley testified that all modern pipelines are coated with a number of different substances aimed at protecting the pipe, including asphalt based enamel, coal tar coating, extruded polyethylene or fusion bonded epoxy. (*Id.* at 234). The coating is already installed when Colonial buys the pipe. (*Id.* at 234). With regard to the purposes and function of the pipe coatings, Mr. Stanley, reading again from the USDOT publication, stated:

> 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 the pipelines can also be attacked by corrosion products, such as hydrogen sulfides, CO2, water, that might be contained in products transported in the pipeline.
>
> The earliest pipelines were buried without any external coatings. To prevent corrosion, pipeline manufacturers and operators began applying coatings to the exterior of the pipe at the time it was being installed. This required the exterior surface of the pipe to be cleaned, usually by wire brush, 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, the pipeline operators eventually determine 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 in 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 back fill during installation, as well as by subsequent excavation activities.
>
> To enhance protection, operators began installing cathodic protection systems. By taking periodic measurements of pipe-to-soil electrical potentials along the pipeline, cathodic protection systems can detect disbondment, and the operator can make the 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 the application conditions can be controlled better. Exterior pipe coatings still need to be applied during construction in the field at the girth welds when pipe sections are joined.

> The most widely used pipe coating today is fusion bonded epoxy, otherwise known as 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.

(*Id.* at 231–33). Pipe coating has an average 25 year life span, so it must be replaced and repaired periodically. (*Id.* at 235). Mr. Stanley stated that the pipe coatings prevent corrosion of the pipe, which in turn prevents release of the refined petroleum products, and, therefore, the pipe coating prevented air or water pollution. (*Id.* at 235). He stated that pipe coatings were required by Federal law. (*Id.* at 236).

Automatic Shut-Off Valve

An automatic shut-off valve is a way to isolate product in the pipeline. (*Id.* at 236). When a breach occurs, the valve shuts off the flow of product to impacted portions of the pipeline. The purpose of the valve is to minimize the release of product if the pipeline is compromised or breached. (*Id.* at 236). Colonial only has one automatic shut-off valve in South Carolina. Colonial's valve is controlled from Alpharetta, Georgia. (*Id.* at 236). He testified that the valve was required by Federal law and that its purpose was to prevent air or water pollution. (*Id.* at 236).

Oversight of the Pipeline

Mr. Stanley provided an overview of Colonial's pipeline oversight activities. The pipeline is monitored, at various intervals, both visually and mechanically. Mechanically, Colonial's control room monitors the pipeline from its Alpharetta office twenty four hours a day. (*Id.* at 253). Visual and physical inspections are far less frequent.

Every two weeks, Colonial conducts an aerial inspection of the pipeline corridor by flying over the corridor in a plane. (*Id.* at 241). Once a year, Colonial mows the pipeline right of way and clear debris from the right of way. (*Id.* at 243). Right of way inspectors inspect the corridor periodically to ensure there are no encroachments on the pipeline, as well as conducting flooding and erosion monitoring to ensure the pipeline has not become exposed. (*Id.* at 246–249).

Every five years, Colonial conducts a "close interval survey." During this close interval survey, Colonial inserts an electrode into the ground every 2.5 feet to take a polarization reading. (*Id.* at 266). The electrode checks voltage levels to ensure the cathodic protection is still working. (*Id.* at 268).

Devices called "smart PIGS" are used to identify cracks and compromises in the pipeline. (*Id.* at 272). These are essentially small machines that are inserted into the pipeline. The PIGS flow along with the product in the pipe. The PIGS gather data through a variety of means, which is then transmitted back to Colonial. The PIGS are inserted at pump stations, using a long pipe called a

launcher. (*Id.* at 275). Every 200 miles or so, the PIGS are extracted using a "PIG trap."

The rectifiers that form a part of the cathodic protection system are physically inspected twice a year. (*Id.* at 281). Rectifiers are also remotely monitored to make sure they are functioning. (*Id.* at 282). When Colonial detects that a rectifier is not functioning, Colonial sends out a crew to fix the rectifier.

Regarding the pipeline coating, Colonial has to replace periodically the coating on older sections of the pipeline. Even though it has a very long life span, the coating can break down over time. Mr. Stanley did not know for sure, but he stated that they dig up and replace "thousands of feet a year of pipeline" on their approximately 2,719,200 feet of pipeline (515 miles x 5,280 feet per mile) per year. (*Id.* at 289).

Colonial's oversight activities are also practical. On cross examination, Mr. Stanley stated that "it costs a lot of money" when Colonial leaks product, so there is a business reason to prevent leakage. (*Id.* at 284). Essentially, it "makes good business sense to not lose the product you're responsible for containing." (*Id.* at 285). Further, he admitted that if the pipeline was not malfunctioning or damaged, the only time any Colonial employee or contractor would physically visit the pipeline would be twice a year: when it is mowed and when cathodic testing is completed. (*Id.* at 293).

Testimony of Keith Fuqua

Keith Fuqua is Colonial's Director of Tax. He was the Colonial employee responsible for Colonial's efforts to seek the tax exemption. Because his testimony was largely duplicative of the procedural description contained in the Stipulation, the Court will only set forth portions of the testimony that provide additional context for the legal analysis.

Like every other Colonial witness, he confirmed that Colonial is, first and foremost, a transportation company. Colonial does not make any products in South Carolina. (*Id.* at 45). Colonial does not sell any products in South Carolina. (*Id.* at 45). Colonial is merely a transportation company, (*id.* at 44), and all of its property in South Carolina is assessed at the transportation company ratio of 9.5%. (*Id.* at 51).

Mr. Fuqua explained that he retained a consultant called Duff & Phelps to assist Colonial with identifying tax exemption opportunities. Duff & Phelps had a contingent fee arrangement with Colonial, whereby it would be paid based on the amount of money Duff & Phelps helped Colonial save on its property taxes. (*Id.* at 45). Duff & Phelps encouraged Colonial to apply for

the pollution control exemption.[10]

Because Colonial has over 515 miles of pipeline, its infrastructure traverses miles and miles of real property. The zoning of this real property is significant. Joint Exhibit 14 shows how the real property in the pipeline corridor is zoned. It was prepared by Colonial's GIS department. (*Id.* at 54). Mr. Fuqua confirmed that the overwhelming majority of the pipeline is laid over agriculturally zoned property. (*Id.* at 55). Indeed, very little of the pipeline is zoned over property that is classified as industrial property. (*Id.* at 55). The Court's examination of Joint Exhibit 14 confirms that the vast majority of Colonial's property is not located in an area zoned for industrial use.

Testimony of Taylor Ingram

Taylor Ingram is the Department's Utility Assessment Coordinator. As with Mr. Fuqua, much of Mr. Ingram's testimony is already covered by the Stipulations. Nevertheless, Mr. Ingram did testify to a few facts not included in the Stipulations.

In his capacity as Utility Assessment Coordinator, Mr. Ingram oversee the assessments for utilities and "transportation for hire" companies like railroads and pipelines. (*Id.* at 302). Because Colonial is a transportation company, Mr. Ingram was the Department employee responsible for processing the exemption request. Being unfamiliar with the property Colonial proposed to exempt, he sought clarification from DHEC regarding whether the property was "pollution control" property. (*Id.* at 309). As will be discussed in greater detail below, he did not receive an answer from DHEC.

Mr. Ingram testified that he had never considered whether the property at issue here was part of an "industrial plant" within the meaning of the exemption. (*Id.* at 310). Further, he could not articulate what the term industrial plant means or how it would apply to the property at issue here. (*Id.* at 310). He stated that the Department does not have a long standing agency interpretation of the phrase "industrial plant." (*Id.* at 310).

CONCLUSIONS OF LAW

Standard of Review

This Court has jurisdiction over this case pursuant to section 12-60-460 of the South Carolina Code (2014) and section 1-23-600 of the South Carolina Code (Supp. 2019). Generally,

[10] Mr. Fuqua, as Colonial's designee, testified in his 30(b)(6) deposition that Duff & Phelps assisted Colonial in filing a number of "test" cases around the country to determine the viability of Duff & Phelps' novel tax exemption theories.

the petitioner bears the burden of proof by a preponderance of the evidence. *See Nat'l Health Corp. v. S.C. Dep't of Health & Envtl. Control*, 298 SC 373, 379, 380 S.E.2d 841, 844 (Ct. App. 1989).

South Carolina's tax exemption statutes are strictly construed against taxpayers. *See, e.g.*, *CFRE, LLC v. Greenville Cty. Assessor*, 395 S.C. 67, 74, 716 S.E.2d 877, 881 (2011) (stating that South Carolina courts have a long-standing policy of "strictly construing tax exemption statutes against the taxpayer"). In other words, the "statutory language will not be strained or liberally construed in the taxpayer's favor." *Southeastern Kusan, Inc. v. S.C. Tax Comm'n*, 276 S.C. 487, 489, 280 S.E.2d 57, 58 (1981). "The deduction and benefit is allowed as a matter of legislative grace." *S. Soya Corp. of Cameron v. Wasson*, 252 S.C. 484, 488, 167 S.E.2d 311, 313 (1969). Furthermore, although ambiguities in tax statutes are generally construed in favor of the taxpayer, this rule "does not apply in the construction of a statute authorizing deductions; rather, the ambiguity will be resolved against the taxpayer." *S. Soya Corp. of Cameron*, 252 S.C. at 489, 167 S.E.2d at 313 (citing 47 C.J.S. Internal Revenue 230).

The burden is thus on the taxpayer to prove whether it is entitled to an exemption by bringing itself clearly within the conditions imposed by the statute. *TNS Mills, Inc. v. S.C. Dep't of Revenue*, 331 S.C. 611, 618, 503 S.E.2d 471, 475 (1998) (citing *York Cty. Fair Assoc. v. S.C. Tax Comm'n*, 249 S.C. 337, 341, 154 S.E.2d 361, 363 (1967)); *see also Asmer v. Livingston*, 225 S.C. 341, 82 S.E.2d 465, 466 (1954) (stating that a refund of taxes is solely a matter of governmental grace, and taxpayers seeking such relief must bring themselves clearly within the terms of the statute authorizing a refund).

The Elements of the Pollution Control Exemption

The pollution control exemption has its basis in both the South Carolina Constitution and the South Carolina Code of Laws. Section 3 of Article X of the South Carolina Constitution provides, in relevant part:

> There shall be exempt from ad valorem taxation . . . (h) **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.

S.C. Const. Art. X, § 3(h) (West) (2009) (emphasis added). Section 12-37-220(A)(8) governs ad valorem property tax exemptions and discusses the exemption in more detail. It provides, in part:

> (A) Pursuant to the provisions of Section 3, Article X of the State Constitution and subject to the provisions of Section 12-4-720, there is exempt from ad valorem taxation: . . . (8) **all facilities**[11] **or equipment of industrial plants** which are

[11] S.C. Code Ann. Regs. 117-1700.5 defines a facility as follows:

> [G]enerally a single physical location, where a taxpayer's business is conducted or where its services or industrial operations are performed. Where two or more distinct and separate economic activities

> 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). It also provides the following instructions for pollution control equipment that also has another function (dual-purpose equipment):

> For equipment that **serves a dual purpose** of **production** and **pollution control**, the value eligible for the ad valorem exemption is the difference in cost between this equipment and equipment of similar production capacity or capability without the ability to control pollution.

S.C. Code Ann. § 12-37-220 (emphasis added).

Thus, in order for Colonial to be granted the pollution control tax exemption, Colonial must establish, by a preponderance of the evidence, that the property at issue is:

(1) the facilities or equipment of an "industrial plant";

(2) designed for the elimination, mitigation, prevention, treatment, abatement, or control of water, air, or noise pollution;

(3) required by the state or federal government; and

(4) used in the conduct of its business.

Because I find that Colonial has failed to meet its burden, I will not discuss each and every element. Rather, I will focus on the elements where it is clear that Colonial does not qualify for the exemption.

Is the Property at Issue in this Case Part of Facilities or Equipment of an "industrial plant"?

What is an "Industrial Plant"?

In order to determine whether Colonial is entitled to the exemption, the Court must construe the term "industrial plant." Colonial argues their operations constitute an "industrial plant" under section 12-37-220(A)(8) because their operations involving tank farms,[12] pipelines, boosters, motors, injection equipment, and the handling of Transmix collectively qualify as a "plant." Colonial thus contends that the definition of "plant" should include the infrastructure or buildings

> are performed at a single physical location, each separate economic activity will be treated as a separate facility when: (1) each activity has its own separate and dedicated personnel; (2) separate reports can be prepared on the numbers of employees, their wages and salaries, sales, or receipts and expenses; (3) and employment and output are significant as to the activity. For purposes of item (2) above, it is irrelevant if separate reports are actually prepared, so long as separate reports can be prepared, this criteria is met.

[12] The Court notes that the property located at the tank farms and delivery stations is not before the Court pursuant to the May 20th Order Denying Motion to Amend Prehearing Statement. Given that the definition of "facility" in S.C. Code Ann. Regs. 117-1700.5 allows for the segregation of otherwise contiguous property into separate analytical "facilities" based on distinct economic activity, the Court can consider the pipeline and Colonial's tank farms and delivery stations separately.

necessary to carry on their operations. Contrary to the strict construction that must be applied to tax exemption statutes, Colonial urges the Court to adopt a broad definition of the term industrial plant based on a variety of dictionary definitions—most of which mean something akin to "used in business."

The Department argues that none of Colonial's property qualifies as a "plant." The Department contends that a "plant" must have some form of production or output. To this end, the Department maintains Colonial is merely a transportation company that is treated differently under the tax code than manufacturing companies (which have a clear productive function) and other companies that produce a product. The Department asserts Colonial's business is transporting fuels from one point to another without engaging in any kind of production and, to the extent Colonial "processes" the products it transports, its processing simply allows Colonial to continuously transport different products while retaining the integrity of the product at the final destination.

Similar to the Department, Aiken and Laurens Counties argue the term "industrial plant" must mean the physical location where goods or materials are actually and substantially produced (as opposed to a location where minor modifications to a product occur). These Counties further argue that based on the statutory and regulatory scheme as a whole, it is clear the exemption was intended for companies engaged in industrial production, not a transportation company like Colonial. Finally, the Counties urge the Court to adopt a more moderate construction of the term industrial plant, which circumscribes the threat that the exemption could apply to, essentially, any commercial enterprise.

Taking into account the mandate that the exemption be construed strictly against a taxpayer, I find that the term "industrial plant" means the physical location where goods or materials are actually and substantially produced as opposed to a location where minor modifications to a product occur. "Where a word is not defined in a statute, our appellate courts have looked to the usual dictionary meaning to supply its meaning." *See Lee v. Thermal Eng'g Corp.*, 352 S.C. 81, 91–92, 572 S.E.2d 298, 303 (Ct. App. 2002). In Merriam-Webster's Online Dictionary, "plant" is defined as:

> a: the land, buildings, machinery, apparatus, and fixtures employed in carrying on a trade or an industrial business;
>
> b: a factory or workshop for the **manufacture of a particular product** also: POWER PLANT;
>
> c: the total facilities available for **production** or service;
>
> d: the buildings and other physical equipment of an institution.

Plant, MERRIAM-WEBSTER'S ONLINE DICTIONARY, https://www.merriam-

webster.com/dictionary/plant (last visited February 19, 2020) (emphasis added). The definitions are broad, but two definitions of "plant" relate directly to manufacturing and production. The definitions of "industrial" and "industry" are not limited to manufacturing. "Industrial" is defined as "of or relating to industry." *Industrial*, MERRIAM-WEBSTER'S ONLINE DICTIONARY, https://www.merriam-webster.com/dictionary/industrial (last visited February 19, 2020). "Industry" is defined as:

> a: **manufacturing activity** as a whole (the nation's industry);
>
> b: a distinct group of **productive** or profit-making enterprises (the banking industry);
>
> c: a department or branch of a **craft, art**, business, or **manufacturer** (especially one that employs a large personnel and capital especially in **manufacturing**);
>
> d: systematic labor especially for some useful purpose or the **creation of something of value**.

Industry, MERRIAM-WEBSTER'S ONLINE DICTIONARY, https://www.merriam-webster.com/dictionary/industry (last visited February 19, 2020) (emphasis added).[13] The majority of the definitions of the term industry include expressly, or allude to, a production element. Definition (a) specifically references "manufacturing." Definition (c) expressly references the creation of products and, again, includes the term "manufacture." Definition (d) goes even further, referencing the "creation of something of value."

Thus, the definition of industrial plant could be construed broadly to apply to any business enterprise. Or, it could be construed narrowly to include the element of production which is present in a majority of the definitions. Any ambiguity in the exemption statute must be resolved against the taxpayer. *S. Soya Corp. of Cameron*, 252 S.C. at 489, 167 S.E.2d at 313 (citing 47 C.J.S. Internal Revenue 230). When faced with a legitimate choice between a broad definition and a narrow one, the Court is required by our South Carolina case law to adopt the narrower of the two constructions. Faced with this restriction, the question remains: what, specifically, does the term industrial plant mean if it is to be given a narrow construction. Here, the Counties' arguments provide an avenue to define the term in the greater legislative context.

Section 12-37-220 does not define "industrial plant," but the General Assembly provides strong contextual clues regarding what the term means. First, the statute indicates that a greige mill is an example of an "industrial plant" within the meaning of the exemption. A greige mill is a type of textile mill where a raw material is manufactured into an unfinished product. *See* S.C. Code

[13] The American Heritage Dictionary (1993) contains similar definitions of "plant," "industrial," and "industry."

Ann. § 12-37-220(A)(8) ("'Greige mill' means all textile processes from opening through fabric formation before dyeing and finishing." (emphasis added)). The inclusion of a greige mill as an example strongly suggests that an "industrial plant" is a place where products are created from raw materials.

The "dual purpose" provisions of Section 12-37-220(A)(8) provide further context. Specifically, the exemption states that for "equipment that serves a dual purpose of ***production*** and pollution control, the value eligible for the ad valorem exemption is the difference in cost between this equipment and equipment of similar ***production capacity or capability*** without the ability to control pollution" (emphasis added). We have to assume that this instruction regarding valuing "dual purpose" property would apply to all exempt property, not just some narrow subsection of production-related property, whereas non-production related dual purpose property would somehow be excluded. The underlying assumption in this language is that the only property subject to the exemption at all is property associated with "production." Again, the language suggests that the exemption applies to a physical place that is primarily engaged in production.

Furthermore, the Department's regulations suggest that Colonial's property is not part of an "industrial plant." Regulation 117-1700.4 defines "transportation companies" to include "(1) Railroad companies; (2) Pipeline companies; and (3) Express companies." Colonial is clearly, under the Department's regulations and, by its own admission, a transportation company. Regulation 117-1700.7 defines the term "plant site." It states that "[a] plant site shall consist of all land contiguous to a plant which is related to the overall ***manufacturing operation***" (emphasis added). The terms "plant" and "plant site" are essentially analogous. Because the Department's duly promulgated regulation ties the existence of a plant to a manufacturing operation, the exemption should be applicable only to property that is used in manufacturing or other production. Consequently, a transportation company should not be allowed to take advantage of an exemption clearly aimed at taxpayers engaged in production activities. As the agency charged with interpreting and administering the tax laws, the Department's appropriately promulgated regulations are entitled to deference. *Brown v. S.C. Dep't of Health & Envtl. Control*, 348 S.C. 507, 515, 560 S.E.2d 410, 414 (2002). The Department's construction of the term "plant site," which is simply an analog for "plant," is consistent with the statute and, therefore, entitled to deference.

Finally, the Constitutional taxation structure implies that transportation companies and companies that produce goods are, and should be, treated differently for property tax purposes. As a transportation company, Colonial should not be allowed to take advantage of an exemption meant

for an entirely different class of taxpayers. Article X, section 1 of the South Carolina Constitution sets forth the assessment ratios applicable to different classes of property. Many of these separate classifications are based on the activities of the property's owner. Section 1(1) states that all "real and personal property owned by or leased to manufacturers, utilities, and mining operations . . . shall be taxed on an assessment equal to [10.5%] of the fair market value of such property." Thus, taxpayers that manufacture products, create energy, or pull raw materials from the earth are subject to a 10.5% assessment ratio. Section 1(2) states that all "real and personal property owned by or leased to companies primarily engaged in transportation for hire of persons or property . . . shall be taxed on an assessment equal to [9.5%] of the fair market value of such property." Every Colonial witness stated that Colonial was, first and foremost, a transportation company.

While the court is not inclined to limit the exemption to manufactures only,[14] the exemption is clearly intended for those engaged in the production of tangible goods—not for transportation companies. While the Constitution does not expressly address the definition of "industrial plant," the categorical segregation shows that there is a clear delineation between the activities of a transportation company and the activities of a company that produces goods or raw materials. This delineation is so meaningful that entirely different assessment ratios apply to these different types of companies. While a manufacturing company subject to the 10.5% assessment ratio should be able to claim the exemption, the Constitutional segregation of transportation companies and manufacturers suggests that a transportation company's activities are fundamentally different than those of manufacturers, such that their facilities and equipment could not be part of the "industrial plant" contemplated in the exemption.

Based on the statutory context, the Counties assert that the term "industrial plant" must mean the physical location where goods or materials are actually and substantially produced. This

[14] In the portion of the exemption dealing with the referral of the pollution control exemption to DHEC, Section 12-37-220(A)(8) states: "At the request of the Department of Revenue, the Department of Health and Environmental Control shall investigate the property of any manufacturer or company, eligible for the exemption . . . ." The inclusion of "or company" seems to imply that a company that is not purely engaged in manufacturing could qualify. However, it could also reference the parent company of a manufacturer, which might have the right to claim the exemption on behalf of a wholly owned subsidiary (e.g., a pass through entity), thereby making it clear that the parent could also seek the exemption on behalf of the wholly owned subsidiary, even if the parent was not technically a manufacturing company. Given, however, that the Court must adopt a strict construction, and looking at the other contextual markers in the statute and Constitution, the Court limits the application of the statute to those companies that are actually engaged in substantial production activities. The Court adds the modifiers of "actual" and "substantial" production because requiring only a *de minimis* level of production activity would open the exemption to almost every existing business enterprise, as most businesses create—in a wooden-headedly literal sense—something. For example, law firms produce and create subpoenas, complaints, and other tangible filings, but it would be absurd to assert that law firms are engaged in industrial production. In order to strictly construe the statute, there must be a logical backstop that gives effect to the legislature's intent but does not open the floodgates to every entity that qualifies as a business.

interpretation is consistent with the language of the statute itself, the Department's regulations, and the South Carolina Constitution. Colonial argues that "industrial plant" simply means a location used as part of a business involving a tangible product. (*See* Pet. Prehearing Statement 3–4). Such a broad definition would expand the application of the exemption to virtually every business in South Carolina. The term cannot mean simply any location where a tangible product is transported, handled, or stored. The term cannot mean any location where minor modifications to a product occur.

Colonial cites to federal law in support of its claim that it is an industrial plant. First, Colonial notes that 42 U.S.C.A. § 6326(5) (West) provides that "industrial plant" means "any fixed equipment or facility which is used in connection with, or as part of, any process or system for industrial production or output." This section falls within Title 42, governing health and safety, and in particular, a part of the code dealing with State Energy Conservation Plans. It thus does not relate to South Carolina's tax scheme.

Colonial also cites to the code of federal regulations (CFR) in support of its claim that it is an industrial plant. Specifically, Colonial points to 29 C.F.R. § 1910.106, which sets forth that industrial plants, for the purpose of this regulation, include areas where "[t]he use of flammable liquids is incidental to the principal business" and "where flammable liquids are handled or used only in unit physical operations such as mixing, drying, evaporating, filtering, distillation, and similar operations which do not involve chemical reaction." *See* 29 C.F.R. § 1910.106 (West). Although the definition would seem to imply certain facilities that handle flammable liquids like petroleum are industrial plants, in reality this regulation is singling out a certain type of facility for the purpose of labor regulations (not tax regulations) and does not give us a general definition of industrial plant. Moreover, clearly the industrial plants described in this regulation engage in more than the processing of flammable liquids and would not necessarily be defined as an industrial plant solely based upon the "incidental" activities discussed in the regulation. *See id*. Colonial's reliance on federal law is misplaced.

Absent some indication that the General Assembly assumed, or otherwise intended, some nexus between the exemption statute and these federal laws, the federal definitions are inapposite. Respondents or this Court could, undoubtedly, come up with any number of federal definitions that bolster the opposite argument. However, there is nothing in the statute that implies we should look to federal law to construe a statute enacted by the General Assembly. Accordingly, the Court rejects Colonial's expansive definition.

Is Colonial's Property Part of a Physical Locations Where Goods or Materials are Actually and Substantially Produced?

If the term "industrial plant" means the physical location where goods or materials are actually and substantially produced, we must still determine if Colonial's property meets the definition. Colonial operates a transportation company. It does not refine petroleum. It does not own the products it transports. The overwhelming majority of the refined petroleum products that go into the pipeline leave the pipeline in the exact same form that they entered it. Colonial does not even control the pipeline from a site within this State, but, rather, remotely operates it from Georgia most of the time. Functionally, and for tax purposes, Colonial is no different than a railroad company, a trucking company, or a barge company. Each of these transporters can transport refined petroleum products—just like Colonial. Each of these transporters use equipment that keeps refined petroleum products contained and prevents accidental leakage into the environment—just like Colonial. If the Court were to adopt Colonial's expansive interpretation, then there would be no reason that railroads, trucking companies, and shipping companies could not seek the exemption on their trucks, tankers, cars, and ships as well.

Colonial's witnesses provided a great deal of testimony about the handling of Transmix and the "sting" process. Both of these activities fall short of the production requirement to qualify as an industrial plant. The Transmix handling process is not at all production-related. Fungible refined petroleum products interface in the pipeline to create Transmix. Colonial can do three things with the Transmix. First, Colonial can sell some Transmix as is. This is an option if a customer is willing to take a product that is better than the product it purchased. For example, a customer who ordered regular gasoline will have no problem accepting premium gasoline for the same price. Second, Colonial can inject the Transmix into other refined petroleum products, so long as the amount of Transmix injected into the product does not cause the other product to deviate from customer specifications. This is, again, just reselling the product by recycling it into another product. Finally, certain Transmix cannot be sold as is or injected into other products. For this finite class of Transmix, Colonial ***outsources the Transmix processing to another company***. A company that actually turns Transmix into something useful physically takes the Transmix away from Colonial's facilities and processes it somewhere else. While Transmix is something that has to be dealt with, the process is really nothing more than disposing of a waste product—it is not production activity.

The sting removal process is even less like a production activity. It is most analogous to taking out the garbage. At base, sting water is removed by turning on a tap, draining it into a barrel,

and then giving the barrel to a hazardous waste disposal company. Again, the sting removal process is nothing more than disposing of a waste product.

Colonial further argues that the addition of DRA to the pipeline shows it is part of an industrial plant. DRA is injected every 40 or 50 miles at booster and pump stations. There was no testimony that it enhanced the product itself or even changed the nature of what was in the pipeline. The only testimony about DRA was that it cuts down friction loss and allows Colonial to move product faster so that it can generate more revenue. It appears to be nothing more than the functional equivalent of a lubricant, which helps product flow more quickly through the pipeline so that Colonial can serve more customers. DRA neither enhances nor alters the product itself in any manner whatsoever.

Colonial also argues that its maintenance and pipeline oversight activities show that it is an industrial plant. Colonial's property is spread across eleven South Carolina counties. Yet, it has somewhere around 40 employees based in South Carolina. The vast majority of its infrastructure is buried five feet underground. As a practical matter, and as admitted by Colonial's witnesses, the vast majority of the 515 miles worth of pipeline is unattended most of the time. While there may be periodic physical inspections of the right of way (which is the only thing that can practically be inspected because the pipe is underground) and testing that occurs, this activity does not make the subterranean pipeline an industrial plant. Every business has some maintenance and oversight activities that must be conducted. Every business, from the Waffle House to a legal office, maintains its equipment. Thus, the fact that Colonial oversees its pipeline to protect its assets cannot be the deciding factor.

Finally, the Court notes that the vast majority of Colonial's pipeline is laid over real property that is not approved for "industrial" use. Indeed, reviewing the zoning maps produced by Colonial, most of the pipeline corridor is zoned for agricultural or residential use. While not dispositive, the local governments' conclusions/pronouncements about what land use the property is approved for is somewhat persuasive. If there were really "industrial" activity occurring in the pipeline corridor (especially in a residential area), presumably some of the local governments, or residents with "industrial activity" taking place in their backyard, would have pushed for a rezoning classification. But, of course, that has not happened because the pipeline corridor is mostly 515 miles worth of substantially unattended subterranean transportation infrastructure.

Finally, the Court will note that even if Colonial were to qualify for the exemption, the value of the exemption would be $0. Assuming, for the sake of argument, that the Court had found the property to be part of an industrial plant and, therefore, used in production, the dual purpose

provision of the exemption would apply. "For equipment that **serves a dual purpose** of production and pollution control, the value eligible for the ad valorem exemption is the difference in cost between this equipment and equipment of similar production capacity or capability without the ability to control pollution." S.C. Code Ann. 12-37-220(A)(8) (emphasis added). Colonial's witnesses testified that these items did three things: (a) they prevented air, water and soil pollution; (b) they protected the product that Colonial was paid to transport; and (c) they protected Colonial's infrastructure.

There is no such thing as a pipeline that does not use coated pipe, cathodic protection and automatic shut-off valves. These items may have the ancillary benefit of preventing pollution, but there are also a *sine qua non* of any pipeline. Put another way, a pipeline practically cannot exist without these elements. Because there is no such thing as a pipeline without these items, the difference in value is essentially $0.[15]

This is yet another reason that the exemption could not have been intended for an entity like Colonial. If the statute is intended to provide an incentive to eligible taxpayers to encourage them to protect against pollution (which Colonial asserted in its Motion for Summary Judgment), then Colonial needed no such incentive. In order to protect its asset and remain a viable business, Colonial had to have these items incorporated in its pipeline. Indeed, there could be no functional pipeline without them.

I conclude that Colonial's property is not part of the facilities or equipment of an industrial plant within the meaning of 12-37-220(A)(8). While the term industrial plant could be broadly construed, that is not what South Carolina law requires. Rather, the Court must adopt the stricter construction which includes the production requirement imbedded in the dictionary definitions and that must be inferred from looking at the entire legislative scheme. Colonial cannot qualify for the exemption.

Colonial Cannot Show that the Property is Pollution Control Equipment.

Colonial has also failed to show that its property is pollution control equipment. Section 12-37-220(A)(8), sets forth a procedure whereby the Department can seek the expertise of DHEC to determine whether certain property is pollution control equipment. It states, in relevant part:

> (A) Pursuant to the provisions of Section 3, Article X of the State Constitution and subject to the provisions of Section 12-4-720, there is exempt from ad valorem

[15] If a pipeline can, practically, only be built if it has pipe coatings, cathodic protection and automatic shut off valves, then there is not any such thing as "equipment of similar production capacity or capability without the ability to control pollution." If reduced to an equation, it would read: (Irreducible Pipeline Cost) – (Irreducible Pipeline Cost) = $0.

> taxation: . . . (8) all facilities[16] 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.

S.C. Code Ann. § 12-37-220(A)(8) (2014). Moreover, it further provides:

> At the request of the Department of Revenue, the Department of Health and Environmental Control **shall investigate** the property of any manufacturer or company, eligible for the exemption to determine the portion of the property that qualifies as pollution control property. Upon investigation of the property, the Department of Health and Environmental Control **shall furnish** the Department of Revenue with a detailed listing of the property that qualifies as pollution control property.

Id. (emphasis added). The Department invoked this portion of the exemption by submitting an inquiry to DHEC on October 19, 2017.

On December 18, 2017, DHEC responded to the Department, concluding that it lacked authority to permit, inspect, or enforce pipeline operations. Notwithstanding the fact that it had a ***statutory mandate to make a decision***, DHEC never issued a determination regarding whether the Property qualifies for the exemption. Colonial never challenged DHEC's failure to make a determination.

While there is nothing in the statute that says the Department must ask DHEC to evaluate whether the Property is "pollution control" property, when the Department chose to seek DHEC's advice, it changed the nature of the evaluation. Having asked DHEC to investigate, the decision as to whether the Property was "pollution control" property arguably sat, and still sits, exclusively with DHEC. While the Department could deny the exemption on other grounds (such as it did here), Colonial should have disputed DHEC's decision. At a minimum, Colonial could have sent a letter to DHEC asking it to retract its non-committal letter and to issue the detailed determination it is ***required by law to make***. If DHEC still refused, Colonial could have sought a writ of mandamus to force DHEC to issue a determination—as it is required by law to do.

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[16] S.C. Code Ann. Regs. 117-1700.5 defines a facility as follows:

> [G]enerally a single physical location, where a taxpayer's business is conducted or where its services or industrial operations are performed. Where two or more distinct and separate economic activities are performed at a single physical location, each separate economic activity will be treated as a separate facility when: (1) each activity has its own separate and dedicated personnel; (2) separate reports can be prepared on the numbers of employees, their wages and salaries, sales, or receipts and expenses; (3) and employment and output are significant as to the activity. For purposes of item (2) above, it is irrelevant if separate reports are actually prepared, so long as separate reports can be prepared, this criteria is met.

Although the Department typically has the sole authority to make exemption determinations, the language of the exemption statute short circuits this authority. The statute says the DHEC "***shall*** investigate" and then DHEC "***shall*** furnish the [DOR] with a ***detailed listing*** of the property that qualifies as pollution control property." By using the mandatory term "shall," the General Assembly signaled that once DOR posed the question, the power to make the determination with regard to ***one element of the analysis*** passed exclusively to DHEC. This is further evidenced by the language regarding a detailed list of "property ***that qualifies*** as pollution control property." The statute does not say "property that could possibly be pollution control property." It does not say "property that can fairly be considered pollution control property" or property that "might be pollution control property." The statute says that DHEC must provide a detailed list of the "property ***that qualifies*** as pollution control property" (emphasis added). There is no conditional qualifier here, or any other language that implies DHEC's decision is a suggestion or simply an information point for DOR to consider. Moreover, the statute requires a "detailed" list of the property that qualifies. This implies (a) a meaningful and thorough investigation on the part of DHEC, and (b) the creation of a list that can actually be used to issue an assessment. None of that happened in this case.

Only one agency could determine whether the property is pollution control property—DHEC. However, DHEC did not provide what was required by the statute, nor did Colonial even attempt to follow up or demand an answer. Therefore, I find that Colonial has failed to exhaust its administrative remedies and cannot establish that its property is pollution control property.

Conclusion

Because I find that Colonial has failed to meet its burden in this case, Colonial is not entitled to receive the pollution control exemption for Tax Years 2017 and 2018.

ORDER

IT IS THEREFORE ORDERED that Petitioner is not entitled to the pollution control exemption for Tax Years 2017 and 2018.

AND IT IS SO ORDERED.

_____

Ralph King Anderson, III
Chief Administrative Law Judge

_____, 202__
Columbia, South Carolina

NEXSEN|PRUET

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

September 30, 2020

VIA EMAIL
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 v. South Carolina Department of Revenue
Docket No. 18-ALJ-17-0443-CC

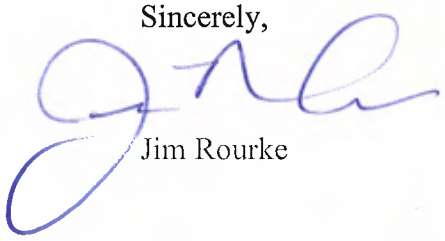
Dear Judge Anderson:

Enclosed please find the Petitioner's Proposed Final Decision and Order and related Certificate of Service for filing in the above-referenced matter.

I would appreciate if you would please file the original and return a clocked copy to me via email.

Thank you for your attention to this matter.

Sincerely,



Jim Rourke

JR/mw

Enclosure – Petitioner's Proposed Final Decision and Order
cc: Marcus D. Antley III, Esq.
Michael Kozlarek, Esq.
Kimila L. Wooten, Esq.
Walter Cartin, Esq.
J. Evan Phillips
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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-17-0443-CC **PETITIONER'S PROPOSED FINAL DECISION AND ORDER**

APPEARANCES:

FOR THE PETITIONER: Burnet R. Maybank, III, Esquire and Jim Rourke, Esquire

FOR THE RESPONDENT: Marcus D. Antley, III, Esquire

FOR THE INTERVENORS:

- Aiken & Laurens Counties: Walter H. Cartin, Esquire
- Abbeville, Anderson, Greenville, and York Counties: Kimila L. Wooten, Esquire

STATEMENT OF THE CASE

This matter came before the Court pursuant to a request for contested case filed by Colonial Pipeline Company (Petitioner or Colonial) on December 5, 2018. Colonial contests the decision of the South Carolina Department of Revenue (Department or DOR) finding certain Colonial assets were not eligible for a property tax exemption for pollution control equipment pursuant to section 12-37-220(A)(8) of the South Carolina Code and Article 10, Section 3(h) of the South

Carolina Constitution. Colonial challenges the Department decision for the 2017 and 2018 Tax Years.

On March 20, 2019, Abbeville County and Anderson County filed a Consolidated Motion to Intervene, which was granted on April 16, 2019. Greenville County filed a Motion to Intervene on May 17, 2019, which was granted on May 29, 2019. On May 28, 2019, Aiken County and Laurens County moved to intervene, and York County moved separately to intervene; the Court granted the motions on June 13, 2019. Collectively, the counties are referenced as the Counties[1], and collectively with the Department, Respondents.

On December 11, 2019, the parties filed cross-motions for summary judgment which were denied by the Court by Order dated March 9, 2020. A hearing on the merits was heard on August 9 and 10, 2020.

STIPULATIONS OF FACTS

The parties stipulated to the following facts at the hearing:

Assessment in Dispute[2]

Tax Year	Property Tax Assessment (without exemption)	Property Tax Assessment (with exemption)	Portion of Assessment Claimed as Pollution Control Property
2017	$12,697,930.00	$11,088,410.00	$1,609,520.00
2018	$13,757,290.00	$12,200,710.00	$1,556,580.00

1. The Taxpayer is a pipeline company that transports refined petroleum, jet fuel, gasoline, diesel, heating oil, kerosene, and blend stocks (collectively, "Refined Petroleum Products," each, a "Refined Petroleum Product").

[1] Although all the counties are Intervenors, the counties are separately represented and have distinct positions. Aiken County and Laurens County are both represented by Parker Poe Adams & Bernstein LLP. Abbeville County, Anderson County, Greenville County, and York County are represented by Kozlarek Law LLC.

[2] Colonial does not dispute the valuation of the property nor does it dispute the valuation method; rather, Colonial argues that the property in dispute is exempt from ad valorem taxation pursuant to § 12-37-220(A)(8).

2. Taxpayer injects drag reducing agents to reduce friction on the lines in South Carolina and does various inspections in this state.

3. Refined Petroleum Products are all present in the pipeline simultaneously. There are no physical barriers between each Refined Petroleum Product in the pipeline, so the Refined Petroleum Products interface with one another in the pipeline. When one Refined Petroleum Product interfaces with another Refined Petroleum Product, they mix to create a fluid called "Transmix."

4. Transmix is a fluid that does not meet the specifications for a fuel that can be used or sold for use.

5. Taxpayer could elect to transport a single Refined Petroleum Product at one time in the pipeline.

6. If the Taxpayer transported a single Refined Petroleum Product, then the Taxpayer would not create Transmix.

7. Each Refined Petroleum Product that combines to create Transmix can be separated into a once again saleable Refined Petroleum Product.

8. Separating Transmix back into each Refined Petroleum Product is part of the Taxpayer's transportation services and is not charged to the customer.

9. The Taxpayer's activities ensure that the quality of each Refined Petroleum Product received by the customer is the same as the Refined Petroleum Product that went into the pipeline.

10. At least 90% of each Refined Petroleum Product transported by the Taxpayer is of the same specification and quantity when it enters the pipeline as it is when it leaves the pipeline.

11. The Taxpayer's pipeline connects to a refinery's storage tanks, which each contain a Refined Petroleum Product.

12. The Taxpayer does not own the Refined Petroleum Products it transports.

13. In addition to other counties, the property at issue in this matter is located in the following South Carolina counties: Anderson, Abbeville, Aiken, Greenville, Laurens, and York (the "counties involved").

14. The Taxpayer has tank farms, delivery facilities, and booster stations in South Carolina. The Taxpayer has two tank farms in South Carolina—one in Belton and the other in Spartanburg. Those tank farms receive and store Refined Petroleum Products from the transmission pipeline and pump the product to individual truck terminals. The Taxpayer's delivery stations in South Carolina are located at the tank farms and deliver Refined Petroleum Products on a transmission line to a truck terminal. The Taxpayer has three

booster stations in South Carolina—one in Anderson, one in Simpsonville, and another in Gaffney. The booster stations push Refined Petroleum Products through the pipeline.

15. On April 19, 2017, the Department's Government Services Division received a 2017 application for an ad valorem tax exemption based on § 12-37-220(A)(8). In its letter and accompanying application, the Taxpayer reported a pollution control exemption on pipe coatings, cathodic protection, automatic shut-off valves, wastewater pollution control equipment, storm water pollution control, secondary containment, and tank internal/external floating roofs.

16. The Government Services Division evaluated the exemption application based on whether the property was designed for the elimination, mitigation, prevention, treatment, abatement, or control of water, air, or noise pollution. On August 15, 2017, based on its evaluation, the Government Services Division issued a Property Assessment Notice granting the exemption application as to wastewater pollution control equipment, storm water pollution control, secondary containment, and tank internal/external floating roofs for property tax year 2017 but denying the Taxpayer's exemption application as to pipe coatings, cathodic protection, and automatic shut-off valves.

17. On September 7, 2017, the Taxpayer protested the proposed assessment for 2017. Exhibit A is a true and accurate copy of the protest that the Taxpayer submitted to the Department.

18. On September 20, 2017, the Government Services Division notified the county auditors for the counties involved of the Taxpayer's appeal of the 2017 assessment.

19. On October 19, 2017, the Government Services Division forwarded the 2017 exemption application information to the South Carolina Department of Health and Environmental Control ("DHEC") for investigation into whether the Taxpayer's claimed property, specifically, pipe coatings, cathodic protection, and automatic shut-off valves qualified as pollution control property, pursuant to § 12-37-220(A)(8).

20. On December 18, 2017, DHEC submitted a letter to the Department in response to the Department's request to investigate the property to determine the portion of pipe coatings, cathodic protection, and automatic shut-off valves that qualifies as pollution control property for 2017. DHEC noted that federal agencies, like the United States Department of Transportation ("USDOT"), regulate pipelines, and DHEC lacks authority to permit, inspect, or enforce pipeline operations.

21. On or around April 11, 2018, the Government Services Division forwarded the file to the Department's Office of General Counsel for Litigation for further analysis of whether the pipe coatings, cathodic protection, and automatic shut-off valves qualified for the pollution control exemption under § 12-37-220(A)(8).

22. On April 23, 2018, the Government Services Division received a 2018 application for an ad valorem tax exemption based on § 12-37-220(A)(8). The Taxpayer claimed the same property as pollution control property on its 2017 and 2018 property tax return.

23. On April 26, 2018, the Department's Office of General Counsel mailed DHEC a letter requesting that DHEC investigate the property of Colonial Pipeline Company to determine the portion of the property that qualifies as pollution control property pursuant to S.C. Code Ann. § 12-37-220(A)(8). The letter further requested that DHEC furnish the Department of Revenue with a detail listing of the property that qualifies as pollution control property.

24. On July 27, 2018, the Government Services Division issued a Property Assessment Notice denying the Taxpayer's exemption application as to pipe coatings, cathodic protection, and automatic shut-off valves but granting the exemption application as to wastewater pollution control equipment, storm water pollution control, secondary containment, and tank internal/external floating roofs for property tax year 2018.

25. The Government Services Division received correspondence postmarked August 13, 2018, from the Taxpayer protesting the proposed assessment for property tax year 2018.

26. On August 14, 2018, the Department's Office of General Counsel forwarded the 2018 exemption application for pipe coatings, cathodic protection, automatic shut-off valves, wastewater pollution control equipment, storm water pollution control, secondary containment, and tank internal/external floating roofs to DHEC for investigation into whether the Taxpayer's claimed property qualified as pollution control property, pursuant to § 12-37-220(A)(8).

27. DHEC submitted a letter dated August 27, 2018 to the Department's Office of General Counsel clarifying that the pipe coatings, cathodic protection, and automatic shut-off valves for property tax years 2017 and 2018 can be described as pollution control equipment. DHEC again noted that federal agencies, like USDOT, regulate pipelines, and DHEC lacks authority to permit, inspect, or enforce pipeline operations.[3]

28. The Department issued its Determination in this matter on November 19, 2018.

29. The Taxpayer timely requested a contested case hearing on December 5, 2018.

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[3] Although not part of the stipulation of facts, the DHEC letter stated, in part:

> Colonial has specifically listed three items purported to be pollution control equipment that remain at issue in the 2017 and 2018 property tax determination: (1) pipeline cathodic protection, (2) pipeline coatings, and (3) automatic shut-off valves. In the context of USTs, each of these technologies would be characterized by the Department as pollution control equipment. UST's are designed to store petroleum products, and corrosion protection is required for all UST systems to prevent petroleum releases into the environment. Cathodic protection is one method to meet the corrosion protection standard for USTs. Shear valves (considered an automatic shut-off valve) are installed to prevent, or limit the extent of, a petroleum release into the environment. Pipeline coatings are designed to isolate the pipeline to prevent corrosion. While releases from petroleum pipelines would not generally be directly to "water" but more likely to the ground surface, any release of sufficient size from a petroleum pipeline is likely to impact groundwater and may under certain conditions contribute contamination to surface waters via overland flow or groundwater seeps. Therefore, the Department believes the listed technologies can be fairly described as pollution control equipment.

30. The Government Services Division denied the Taxpayer's 2019 application for an ad valorem tax exemption based on § 12-37-220(A)(8) as to all claimed property. The Taxpayer claimed the same property as pollution control property for 2019 as it did for 2017 and 2018. On August 6, 2019, the Taxpayer timely protested the 2019 exemption denial.

31. On September 4, 2019, the Department clarified through its Second Amended Prehearing Statement that Taxpayer does not qualify for an ad valorem property tax exemption pursuant to S.C. Code Ann. § 12-37-220(A)(8) (2014) for *any* of its claimed property—including property for which the Department initially granted the exemption.

32. Attached as Exhibit B is the Colonial Pipeline System Map. Attached as Exhibit C is a map of the Colonial Charlotte/South Carolina Operating Area. Attached as Exhibit D is Management's Discussion and Analysis of Financial Conditions and Results of Operations. Attached as Exhibit E is the DOR Proposed Assessment for the 2017 Tax year and 2018 Tax year as well as the Colonial Pipeline 2017 and 2018 Property Tax Returns.

33. Petitioner has environmental permits, including air, NPS, groundwater and solid waste disposal. A list of the environmental permits is attached as Exhibit F.

FINDINGS OF FACT

Having observed the witnesses and exhibits presented at the hearing and taking into consideration the burden of proof and the credibility of the witnesses, I make the following findings of fact by a preponderance of the evidence.

Colonial's Pipeline Operations and Practices

The Court further finds that the following pertinent facts are undisputed. Colonial is a pipeline company that transports Refined Petroleum Products (e.g., refined petroleum, jet fuel, gasoline, diesel, heating oil, and kerosene). It receives products from approximately thirty refineries in the Gulf Coast region of the United States. In South Carolina, Colonial ships gasoline, ultra-low sulfur diesel, heating oil, marine diesel, jet fuel, and kerosene. Ultra-low sulfur diesel and jet fuel are shipped as finished products.

Colonial's operations in South Carolina are comprised of 515 miles of pipeline, two tank farms, three main line booster stations, and one delivery facility spanning eleven counties in the

State. Colonial has two main pipelines in South Carolina, Line 1 and Line 2, which were built in 1962 and the late 1970s respectively. Lines 1 and Line 2 are 40-inch pipelines which run from Pasadena, Texas, to Greensboro, North Carolina. Of the 515 pipeline miles in the State, 203 are mainline miles (lines 1 & 2), 74 are stub line miles (line 29), 15 miles are delivery lines, and 96 miles are currently out of service. Line 1 transports gasoline, and Line 2 transports distillate, which includes jet fuel and ultra-low sulfur diesel. The pipelines are all three to six feet underground except where they come to pump stations and tank farms.

Colonial ships over 100 million gallons of product per day nationally of which 185,000 barrels per day are delivered into South Carolina for distribution within the state. It ships both fungible and segregated product. In a segregated shipment (which is more expensive and limited to the transportation of blendstocks), the shipper gets the same product at the end of the line that the shipper put into the pipeline at injection. However, the vast majority of the products Colonial receives are moved together "fungibly," meaning similar products are interchangeable and a customer may not receive the exact same product that it injected into the pipeline. Further, Colonial transports multiple products back-to-back through the pipe, which results in some mixing of the products where they interface. When different products mix in the pipeline, the result is called "transmix." Transmix does not meet the Refined Petroleum Product specifications for a product that can be sold for use. Therefore, it first must be isolated and then disposed of by either selling it or injecting it back into the system in small enough quantities that its presence in delivered product is within that products specifications.

However, Colonial is able to process transmix into a once-again saleable Refined Petroleum Product. This is a very controlled process by which Colonial isolates the product and then blends it into a sellable product. Although the mixing occurs in the pipeline, the reengineering

of the transmix to produce a sellable product occurs primarily at tank farms, pump stations, and delivery facilities.

The amount of the transmix created is a function of (1) the size of the pipeline; (2) the length of the pipeline; (3) the number of pump stations; and (4) the product being shipped. Line 1 generates 15,000 barrels of transmix per five-day day shipment; Line 2 generates 10-15,000 barrels per shipment; and Line 29 generates 500 barrels per shipment.

Colonial also has to manage the movement of product through its pipeline. To accomplish this task, Colonial adds Drag Reducing Agents (DRA) to the product as it is transported, which reduces the amount of friction loss. DRA is added at the pump stations and on Colonial's line 29. In South Carolina, DRA is injected into the pipeline from multiple additive tanks with injection pumps and measuring equipment. Colonial must also remove water that accumulates in and around the transported product through a process called "sting." Colonial filters and removes "sting water" daily at the Belton and Spartanburg facilities through the use of oil and water separators, puts it into sting tanks, and disposes of it. Colonial also regrades fuel in this State. "Regrade" is a process by which Colonial "change[s] a label of the product, the product's grade." Examples include regrading regular or premium gasoline.

Every 50 to 60 miles along its mainlines, Colonial operates a booster station on the line that increases pressure in the pipeline system and allows for the movement of petroleum through the pipeline. To ensure safety and quality control, Colonial constantly measures gravity, pressure, and temperature of the products it transports. Equipment is also used to measure and detect leaks. Additionally, there are three pump stations in South Carolina on Lines 1 and 2, typically with four to five pumps per station, and there are pumps at the tank farms.

Colonial has two tank farms: one in Belton, South Carolina, and one in Spartanburg, South Carolina. Each tank farm has a complex system of pumps, motors, valves, manifolds, injection equipment, control systems, and other industrial infrastructure necessary to move product. The two tank farms receive petroleum products from Lines 1 and 2 into tankage and then that product is delivered out from that tankage to multiple delivery lines to customers. Belton Junction is a 130-acre above ground breakout and delivery facility located in Anderson County. The tank farm is comprised of twenty tanks, including twelve for gasoline, seven for distillate, and one for transmix. The facility is staffed by at least one Operator twenty-four hours a day every day of the year. Spartanburg Delivery is a 74-acre above ground breakout and delivery facility. It is comprised of twenty-two tanks, including thirteen gasoline tanks, six distillate tanks, and three tanks that are out of service. The facility is staffed as operations' schedule dictates with a minimum of one operator on shift during all product receipts and delivery operations. All the tank farms have sting systems that remove water off the tank. These facilities also have utility tanks, which are used to drain product so that Colonial can work on the facility.

Colonial also provides petroleum storage services at its Belton and Spartanburg facilities for third parties. The third parties are charged for storage services. Additionally, truck terminals, which are owned by third parties, are strategically located close to the tank farm facilities in Belton and Spartanburg to ensure timely transmission.

Colonial requires a substantial and continuous team operators and technicians on a full-time basis (and an equal number of independent contractors) to oversee operations, run its facilities, make repairs, and respond to issues as needed. As discussed more fully below, the pipelines are constantly monitored 24/7/365 by employees at Colonial's facilities in South Carolina and the Company's pipeline control center, which is located in Alpharetta, Georgia. The

South Carolina "core operations" consists of 32 full time employees consisting of operators, technicians and inspectors as well as another twelve support personnel in the immediate area consisting of project managers, project inspectors, corrosion technicians and environmental and safety specialists. The Company has approximately 300 other employees in Alpharetta, Georgia, who perform control center and "back office-type" functions. All of those employees have at least some responsibilities for the South Carolina facilities.

Colonial was issued environmental permits from DHEC and Spartanburg Water & Sewer Authority that are designated for "industrial activities" like petroleum bulk stations and terminals.[4] Colonial's permits include an NPDES General Permit for Storm Water Discharges Associated with Industrial Activities, SCR 000000 (September 1, 2016). Section 1.1.1 of the permit, Facilities Covered, states: "To be eligible to discharge under this permit, you must (1) have a storm water discharge associated with industrial activity from your primary industrial activity." The permit specifically references "industrial plant" as follows: "Storm Water Discharges Associated with Industrial Activity – the discharge from any conveyance that is used for collecting and conveying storm water and that is directly related to manufacturing, processing or raw materials storage areas at an industrial plant."

The Department previously granted the pollution control exemption for waste water and storm water pollution control, secondary containment and tanks internal/external floating roofs. At issue in the hearings were (1) pipeline cathodic protection, (2) pipeline coatings and (3) one automatic shutoff valve.

This Court has previously ruled that the main Colonial operations consisted of an "industrial plant." At issue were the pipelines.

[4] Some of these permits have expired or are no longer in place.

Contested Equipment

At issue at the Hearing were pipeline coatings, pipeline cathodic protection systems and one automatic shut-off valve. Pipeline coatings and cathodic protection devices are designed to prevent corrosion in the pipeline. The U.S. Department of Transportation, Pipeline & Hazardous Materials Safety Administration states in Fact Sheet: Corrosion notes that "*Corrosion is one of the leading causes of pipeline leaks and ruptures.*" (Emp. In orig.) The Fact Sheet describes corrosion as follows:

> **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 environmental conditions 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.

The Fact Sheet also notes:

What is being done to prevent/mitigate 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.

Pipeline Coatings are described in the U.S. Department of Transportation Pipeline Hazardous Safety Administration Fact Sheet as follows:

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.

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 coat 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.

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.

Pipeline Coatings are required by federal law and are on every pipeline used by Colonial in South Carolina (and elsewhere).

Pipeline cathodic protection devices are described by the DOT as follows:

Cathodic Protection

- *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 call 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, off shore 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 time manner (usually within 12 to 18 months after discovery).

Pipeline cathodic protection devices are installed throughout Colonial's pipeline system in South Carolina and are, as stated above, required by both federal law as well as industry best practices.

The automatic shut off valve at issue in this matter was installed in Gaffney, South Carolina in 2011. It is required by federal law (49 CFR 195) and must be inspected annually. The valve allows Colonial to shut off a pipeline in the event of a release of the product.

The Pipeline coatings and cathodic protection systems are designed to prevent and reduce corrosion in the pipelines. Corrosion in the pipeline can lead to a release of petroleum products from the pipeline, which can cause both water and air pollution.

Pipeline coatings, pipeline cathodic protection devices and the automatic shut-off valve are required by federal law, designed to prevent water or air pollution and used in the conduct of Colonial's business.

Visual monitoring is done in a variety of contexts. First, every two weeks, Colonial engages an airplane to fly over Lines 1 and 2 to visually inspect them and look for issues, including erosion, encroachment by third parties and dead vegetation. Dead vegetation may be a sign of small pipeline leakages. The planes videotape their flights.

The pipeline right-of-ways are also mowed, and trees and other vegetation are trimmed away, on a routine basis. Colonial right-of-way employees and contractors also inspect the pipeline right-of-ways to make sure that the required pipeline above-ground markers are in place and are visible. These individuals also are responsible for investigating issues, such as dead vegetation, encroachments on the right-of-way, erosion, etc., that are reported through aerial patrol

or calls from the public to the pipeline control center.

Colonial is also required by federal law to maintain a database of neighboring property owners and to regularly notify them of the existence of the pipeline and to contact Colonial of any pipeline issues. Neighbors who report such issues are eligible to receive a monetary reward.

Colonial also has to inspect for erosion and flooding for any of its pipelines that go over rivers and lakes. In South Carolina, Colonial crosses the Savannah and Saluda Rivers as well as numerous smaller bodies of water. Colonial has an engineer who monitors the South Carolina pipelines after heavy rains or floods. Colonial also has retained an independent contractor, a Fluvial Geomorphologist, who inspects the pipelines that cross water after hurricanes, flooding or heavy rains.

Colonial also does mechanical monitoring of the entire pipeline system. Mechanical Monitoring is done 24/7/365 from the Central Office in Alpharetta, Georgia. They monitor pressure systems contained in the tank farms and pump stations and have the ability to shut off a line if they note a pressure drop or other issue.

In addition to the mechanical monitoring, Colonial also has physical monitoring programs, which include (1) annually inspecting the lines; (2) doing a close interval survey every five years; and (3) running Pigs through the lines, as described below.

The pipeline cathodic devices are inspected at a minimum of twice per year. Thus occurs during the close interval surveys, annual test point surveys, as well as annual preventive maintenance surveys.

Every pipeline has cathodic protection devices throughout the pipeline consisting of nodes, power rectifiers, wire attachments and power feed, and all are regularly inspected. The cathodic protection devices are typically placed at five miles apart, and in some cases closer depending on

the condition of the pipeline. Federal law requires rectifier inspections six times a calendar year, not to exceed 75 days. Every rectifier has a remote monitoring unit hooked up to either a cell phone or satellite. They are constantly monitored in South Carolina by a local corrosion technician.

The cathodic protection survey involves hooking electric wires to the pipelines and measuring the cathodic protection levels. Federal law requires this to be done each year not to exceed every fifteen months. Testing is done at test stations, which are located at about every mile along the pipeline. The test measures voltage of the cathodic protection devices with a test probe. Testing is done in accordance with NACE industry standard SP-0169, as required by 49 CFR 195.

The testing is designed to monitor both the performance of the cathodic protection device, as well as corrosion protection levels along the pipeline. If the test shows issues with the cathodic protection device it is repaired or replaced.

Every five years Colonial does a close interval survey. During this survey, a crew of five people walks the pipeline (locater, operator, wire puller, vehicle driver and inspector). The locater crewmember identifies the middle of the pipeline using a pipeline locater device, and the crew surveys the pipeline using wires connected to the pipeline s well as reference probes used to evaluate cathodic protection levels.

If there is a concern with pipeline coating, Colonial may be required to recoat the pipeline if other remediation measures are insufficient. During this process, Colonial excavates the pipeline, and then the existing coating is abrasive blasted off and replaced with a new two-part epoxy coating. After the coating has cured and been inspected, the pipeline is backfilled.

Colonial also uses mechanical devices called "pigs" to internally monitor the pipelines. Federal law requires the usage of pigs every five years, but Colonial staggers the inspections, so that they may be done more frequently. The pigs are run through the lines to measure pipe cracks,

leakage, corrosion, remaining wall thickness and the geometry of the pipes. Several different types of pigs are used, including Ultrasonic Thickness, Smart Ball, Magnetic Flux Leakage, and Geometry Pigs.

Colonial is required to keep a log of all the inspections done above. The logs are examined by the PMSA during their inspections that are performed on three-year intervals.

ISSUES

1. Did the Department err in concluding that the pipeline operated by Petitioner did not constitute an "industrial plant"? The Court has previously ruled that at least part of Colonial's operations, specifically including the tank farms, constituted a "plant." At issue was whether the long stretches of pipeline also constituted a "plant."

2. If the pipeline constituted a Plant, whether the equipment for which Colonial seeks an exemption is pollution control equipment under section 12-37-220(A)(8).

CONCLUSIONS OF LAW

This Court has subject matter jurisdiction in this case pursuant to section 1-23-600(A) of the South Carolina Code (Supp. 2017) and section 12-60-460 of the South Carolina Code (2014). This is a contested case, and is heard *de novo. Be Mi, Inc. v. S.C. Dep't of Revenue,* 408 S.C. 290, 297, 758 S.E.2d 737, 740 (Ct. App. 2014) ("In reaching a decision in a contested violation matter, the ALC serves as the sole finder of face in the de novo contested case proceeding." (citation omitted)); *Brown v. S.C. Dep't of Health & Envtl. Control,* 348 S.C. 507, 512, 560 S.E. 2d 410, 413 (2002) (explaining that a contested case before ALC is "in the nature of a de novo hearing with the presentation of evidence and testimony"). The standard of review is a preponderance of the evidence. S.C. Code Ann. § 1-23-600(A)(5) (Supp. 2017); *see also Anonymous (M-156-90) v. State Bd. of Med. Exam'rs, 329 S.C. 371, 375-78, 496, S.E. 2d 17, 19-20 (1998)* ("Absent an

allegation of fraud or statu[t]e or a court rule requiring a higher standard, the standard of proof in administrative hearings is generally a preponderance of the evidence."). Because Colonial is challenging a Department Determination, Colonial has the burden of proof to show by a preponderance of the evidence that the Department's Determination was incorrect. *Leventis v. Dep't of Health and Envtl. Control,* 340 S.C. 118, 132-33, 530 S.E. 2d 643, 651 (Ct. App. 2000) (holding that generally, the complaining party bears the burden of proof.

Construction of Tax Exemptions

South Carolina's tax exemption statutes are strictly construed against taxpayers. *See, e.g.*, *CFRE, LLC v. Greenville Cty. Assessor*, 395 S.C. 67, 74, 716 S.E.2d 877, 881 (2011) (stating that South Carolina courts have a long-standing policy of "strictly construing tax exemption statutes against the taxpayer"). In other words, the "statutory language will not be strained or liberally construed in the taxpayer's favor." *Southeastern Kusan, Inc. v. S.C. Tax Comm'n*, 276 S.C. 487, 489, 280 S.E.2d 57, 58 (1981). "The deduction and benefit is allowed as a matter of legislative grace." *S. Soya Corp. of Cameron v. Wasson*, 252 S.C. 484, 488, 167 S.E.2d 311, 313 (1969). Furthermore, although ambiguities in tax statutes are generally construed in favor of the taxpayer, this rule "does not apply in the construction of a statute authorizing deductions; rather, the ambiguity will be resolved against the taxpayer." *S. Soya Corp. of Cameron*, 252 S.C. at 489, 167 S.E.2d at 313 (citing 47 C.J.S. Internal Revenue 230). The burden is thus on the taxpayer to prove whether it is entitled to an exemption by bringing itself clearly within the conditions imposed by the statute. *TNS Mills, Inc. v. S.C. Dep't of Revenue*, 331 S.C. 611, 618, 503 S.E.2d 471, 475 (1998) (citing *York Cty. Fair Assoc. v. S.C. Tax Comm'n*, 249 S.C. 337, 341, 154 S.E.2d 361, 363 (1967)); *see also Asmer v. Livingston*, 225 S.C. 341, 82 S.E.2d 465, 466 (1954) (stating that a refund of

taxes is solely a matter of governmental grace, and taxpayers seeking such relief must bring themselves clearly within the terms of the statute authorizing a refund).

Pollution Control Equipment Exemption

The major issue before this Court is whether the automatic shut-off valve, pipeline cathodic protection and pipeline coatings identified by Petitioner in its property tax refund claim are exempt from property tax under S.C. Const. Art. X, § 3(h) and § 12-37-220(A)(8) as pollution control property. The Department's Determination (Nov. 19, 2018) states, "To qualify for the pollution control exemption, the claimed property must be (1) facilities or equipment of industrial plants; (2) designed for the elimination, mitigation, prevention, treatment, abatement, or control of water, air, or noise pollution; (3) required by state or federal government; and (4) used in the conduct of their business. Here, the claimed property fails the first element because the claimed property is not a facility or equipment of an industrial plant. The Taxpayer is a pipeline company." Although the Department appeared to concede requirements (2) through (4) in its Department Determination, the Court addresses each in turn.

Is the Equipment at Issue Designed for the Elimination, Prevention, or Abatement of Pollution?

As provided by § 12-37-220(A)(8)[5], the Department sought DHEC's input regarding whether the property at issue qualified as "pollution control property." In response, DHEC submitted a letter dated August 27, 2018 to the Department's Office of General Counsel clarifying that the pipe coatings, cathodic protection, and automatic shut-off valves for the 2017 and 2018 Tax Years can be described as pollution control equipment.

> Colonial has specifically listed three items purported to be pollution control equipment that remain at issue in the 2017 and 2018 property tax

[5] The exemption provides: "At the request of the Department of Revenue, the Department of Health and Environmental Control shall investigate the property of any manufacturer or company, eligible for the exemption to determine the portion of the property that qualifies as pollution control property."

> determination: (1) pipeline cathodic protection, (2) pipeline coatings, and (3) automatic shut-off valves. In the context of USTs, each of these technologies would be characterized by the Department as pollution control equipment. UST's are designed to store petroleum products, and corrosion protection is required for all UST systems to prevent petroleum releases into the environment. Cathodic protection is one method to meet the corrosion protection standard for USTs. Shear valves (considered an automatic shut-off valve) are installed to prevent, or limit the extent of, a petroleum release into the environment. Pipeline coatings are designed to isolate the pipeline to prevent corrosion. While releases from petroleum pipelines would not generally be directly to "water" but more likely to the ground surface, any release of sufficient size from a petroleum pipeline is likely to impact groundwater and may under certain conditions contribute contamination to surface waters via overland flow or groundwater seeps. *Therefore, the Department believes the listed technologies can be fairly described as pollution control equipment.*

Moreover, the uncontroverted testimony from the several witnesses was that pipeline coatings, cathodic protection devices, and the one automatic shutoff valve were designed for the elimination, mitigation, prevention, abatement or control of water and air pollution. Therefore, based on DHEC's conclusions and the uncontroverted testimony of Colonial's witnesses, I find the property at issue is designed for the elimination, mitigation, prevention, treatment, abatement, or control of water, air, or noise pollution.

Is the Property at Issue Required by State or Federal Law?

Colonial's witnesses testified that all of the disputed property is required by federal regulation. Pipeline coatings and cathodic protection devices are required by federal law to prevent corrosion of the pipeline. Corrosion can lead to large or small leaks in the pipes which allows the discharge of petroleum products into the air or water. The automatic shutoff valve allows Colonial to shut off or "control" a line in the event of leakage. The disputed items are required by federal law for pipeline facilities that transport hazardous liquids (petroleum), see 49 CFR § 195, as follows:

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)

The pollution control exemption makes no distinction between federal requirements that are governed and enforced by certain agencies, e.g., the Environmental Protection Agency, and requirements governed and enforced by other agencies, i.e., in this case, the Pipeline and Hazardous Materials Safety Administration, which is under the Department of Transportation. Therefore, I find the property at issue is required by state or federal government.

Is the Property at Issue Used in the Conduct of Colonial's Business?

Colonial's witnesses testified at length regarding how the pipeline coatings, cathodic protection devices, and automatic shut-off value at issue support Colonial's business operations. This testimony was uncontroverted. Therefore, I find the property at issue is used in the conduct of Colonial's business.

Is the Property at Issue "Equipment of Industrial Plants"?

Accordingly, the issues before the Court are whether Petitioner's operations constitute an "industrial plant" in South Carolina. Colonial disputes the Department's determination that some of Colonial's assets are not entitled to the pollution control property tax exemption pursuant to section 12-37-220(A)(8) for the 2017 and 2018 Tax Years.[6] Specifically, Colonial contends the

[6] The Department initially found that some of Colonial's property qualified for the exemption. The Department contends that although its Government Services Division initially granted the exemption for some of Colonial's property, its analysis was whether the property was used for pollution control, and it did not dispute whether the property satisfied the first element of the exemption – whether the claimed property was a facility or equipment of an industrial plant. The Department now asserts that none of Colonial's property is eligible for the exemption because it is not property that is a facility or equipment of an industrial plant. *See* § 12-37-220(A)(8).

automatic shut-off valves, pipeline cathodic protection, and pipeline coatings it identified in its property tax refund claim are exempt from property tax as pollution control facilities or equipment of an "industrial plant."

What is a Plant?

Colonial argues their operations, and specifically the pipelines, constitute an "industrial plant" under section 12-37-220(A)(8) because their "complex and dynamic" operations involving tank farms, pipelines, boosters, motors, injection equipment, and the processing of transmix collectively qualify as a "plant." Colonial thus contends that the definition of "plant" should include the infrastructure or buildings, including 515 miles of piping which were necessary to carry on industrial operations. Significantly, the Department's witness who was in control of granting exemptions did not dispute or testify that pipelines did not constitute an industrial plant.

The Department concedes that Colonial's business can be described as "industrial," but argues that none of its property qualifies as a "plant." The Department contends that a "plant" must have some form of production or output. To this end, the Department maintains Colonial is merely a transportation company that is treated differently under the tax code than manufacturing companies and other companies that produce a product. The Department asserts Colonial's business is transporting fuels from one point to another without engaging in any kind of production and, to the extent Colonial "processes" the products it transports, its processing is not required to make a new product[7] but rather to allow Colonial to continuously transport different products while retaining the integrity of the product at the destination.

[7] Notably, I do not find a requirement in the statutes that a business must be engaged in creating a "new product" to be a plant.

Similar to the Department, the Counties argue the term "industrial plant" must mean the physical location where goods or materials are actually and substantially produced as opposed to a location where minor modifications to a product occur. The Counties further argue that based on the statutory and regulatory scheme as a whole, it is clear the exemption was intended for manufacturers and other companies who produce a product, not a transportation company like Colonial.

Section 3 of Article X of the South Carolina Constitution provides, in relevant part:

> There shall be exempt from ad valorem taxation . . . (h) **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.

S.C. Const. Art. X, § 3(h) (West) (2009) (emphasis added). Section 12-37-220(A)(8) governs ad valorem property tax exemptions and discusses the exemption in more detail. It provides, in part:

> (A) Pursuant to the provisions of Section 3, Article X of the State Constitution and subject to the provisions of Section 12-4-720, there is exempt from ad valorem taxation: . . . (8) **all facilities**[8] **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.

(emphasis added). It also provides the following instructions for pollution control equipment that also have another function (dual-purpose equipment):

> For equipment that **serves a dual purpose** of production and pollution control, the value eligible for the ad valorem exemption is the difference in

[8] S.C. Code Ann. Regs. 117-1700.5 defines a "facility" as follows:

> [G]enerally a single physical location, where a taxpayer's business is conducted or where its services or industrial operations are performed. Where two or more distinct and separate economic activities are performed at a single physical location, each separate economic activity will be treated as a separate facility when: (1) each activity has its own separate and dedicated personnel; (2) separate reports can be prepared on the numbers of employees, their wages and salaries, sales, or receipts and expenses; (3) and employment and output are significant as to the activity. For purposes of item (2) above, it is irrelevant if separate reports are actually prepared, so long as separate reports can be prepared, this criteria is met.

> cost between this equipment and equipment of similar production capacity or capability without the ability to control pollution.

S.C. Code Ann. § 12-37-220. There are no statutes, regulations, or Department policy documents or rulings defining "industrial plant" under this statute. The Department conceded there was no longstanding agency interpretation.

Dictionary Definition

"Where a word is not defined in a statute, our appellate courts have looked to the usual dictionary meaning to supply its meaning." *See Lee v. Thermal Eng'g Corp.*, 352 S.C. 81, 91–92, 572 S.E.2d 298, 303 (Ct. App. 2002). In Merriam-Webster's Online Dictionary, "plant" is defined as:

> a: the land, buildings, machinery, apparatus, and fixtures employed in carrying on a trade or an industrial business;
>
> b: a factory or workshop for the manufacture of a particular product also: POWER PLANT;
>
> c: the total facilities available for production or service;
>
> d: the buildings and other physical equipment of an institution.

Plant, MERRIAM-WEBSTER'S ONLINE DICTIONARY, https://www.merriamwebster.com/dictionary/plant (last visited February 19, 2020). The definitions are broad, and only one constrains the definition of "plant" to manufacturing and production. Taken together, the definitions indicate a plant can mean the overall collection of property necessary to carry on an industrial business, manufacturing, or a service. Moreover, the definitions of "industrial" and "industry" are not limited to manufacturing. "Industrial" is defined as "of or relating to industry." *Industrial*, MERRIAM-WEBSTER'S ONLINE DICTIONARY, https://www.merriam-webster.com/dictionary/industrial (last visited February 19, 2020). "Industry" is defined as:

> a: manufacturing activity as a whole (the nation's industry);

b: a distinct group of productive or profit-making enterprises (the banking industry);

c: a department or branch of a craft, art, business, or manufacture (especially one that employs a large personnel and capital especially in manufacturing);

d: systematic labor especially for some useful purpose or the creation of something of value.

Industry, MERRIAM-WEBSTER'S ONLINE DICTIONARY, https://www.merriam-webster.com/dictionary/industry (last visited February 19, 2020).[9] The Department has conceded that the extensive Colonial operations were "industrial."

Google defines the term "industrial plant" as "buildings for carrying on industrial labor." Wikipedia does not have an independent definition for "industrial plant." However, the term "industrial plant" is encompassed within the definition of "physical plant," which is defined as follows: "Physical plant, mechanical plant, or industrial plant (and where context is given, often just plant) refers to the necessary infrastructure used in operation and maintenance of a given facility. The operation of these facilities, or the department of an organization which does so, is called "plant operations" or facility management. *Industrial plant should not be confused with "manufacturing plant" in the sense of "a factory."* (Emp. Added).

Thus, the dictionary definition of plant is broad enough to include the "land, buildings, machinery, apparatus, and fixtures" as well as the pipeline Colonial employs in carrying out its transportation business. Notably, the Court of Appeals of North Carolina relied on Merriam-Webster's broad definition of "plant" to find that a small, unincorporated business that manufactured pallets qualified as a manufacturing "plant." *Richards v. Jolley*, 208 N.C. App. 436, 441, 703 S.E.2d 467, 470 (2010) (citing the definition of "plant" in Merriam–Webster's Collegiate

[9] The American Heritage Dictionary (1993) contains similar definitions of "plant," "industrial," and "industry."

Dictionary 948 (11th ed.2005)). Like in this case, the statute at issue in *Jolley* did not define "plant." *See id.* Further, the dictionary definition of "plant" does not exclude companies that are not manufacturers from owning and operating plants. Nor does the definition restrict the definition of plant to those companies that produce some kind of "output."

Even considering the Department's narrow construction that a plant must be engaged in some form of production or output, the undisputed facts show that Colonial processes the products it transports to create an output, even if that output just recreates the original product that entered its transportation system. Its processing may be incidental to its primary business, which is transporting Refined Petroleum Products, but these processes ensure that a saleable product is delivered and distinguishes it from a pure transporter.[10] Specifically, it is undisputed that Colonial processes transmix into a sellable product, changes the chemical composition of the product moving through the pipeline by injecting DRA into it, and removes sting that occurs as a result of transportation. Colonial's activities clearly meet the dictionary definition of a plant.

State Statutory and Regulatory Scheme

Regardless of the dictionary definition, the Department and Counties argue the overall statutory and regulatory scheme shows the legislature intended the exemption to be limited to manufacturers and companies that produce something. For example, the Counties cite to article X, section 1 of the South Carolina Constitution and section 12-43-220 of the South Carolina Code, which generally treat manufacturers and utilities similarly for property tax assessment purposes while distinguishing them from transportation companies like Colonial. Specifically, article X,

[10] The Counties contend that Colonial cannot argue it processes or produces anything because any processing that occurs is its own fault for choosing a transportation method that creates transmix. The Court does not find this argument persuasive. There is no restriction in the exemption that would prohibit Colonial from receiving it just because it chooses to transport products in a certain way.

section 1(1) and section 12-43-220(a) provide an assessment ratio for manufacturers of 10.5%, while article 10, section 1(2) and section 12-43-220(g) provide an assessment ratio for transportation companies of 9.5%.[11] Based on these constitutional and statutory sections, the Counties argue transportation companies and manufacturing/utility companies treated differently for tax assessment purposes.[12]

While it is true that the legislature assesses manufacturers and transporters at different percentage rates for property tax purposes, this does not signify that Colonial is excluded from the pollution control equipment exemption merely because it is a transporter. As demonstrated by this case, simply because a company engages in transportation does not necessarily mean that it is also not engaged in an industrial function. Moreover, if a taxpayer's company is distinct from other transportation companies, would it not be entitled to be treated differently? Furthermore, looking at disparate assessment ratios does not capture the legislative purpose of the pollution exemption, which presumably is to financially reward those who install equipment that prevents or minimizes pollution. *See State v. Sweat*, 379 S.C. 367, 376, 665 S.E.2d 645, 650 (Ct. App. 2008), *aff'd as modified*, 386 S.C. 339, 688 S.E.2d 569 (2010) ("A statute as a whole must receive a practical, reasonable, and fair interpretation consonant with the purpose, design, and policy of the

[11] S.C. Const. Art. X, § 1(1) (2009) ("All real and personal property owned by or leased to manufacturers, utilities and mining operations and used by the manufacturer, utility or mining operation, in the conduct of such business shall be taxed on an assessment equal to ten and one-half percent of the fair market value of such property."); S.C. Const. Art. X, § 1(2) (2009) ("All real and personal property owned by or leased to companies primarily engaged in transportation for hire of persons or property and used by the company in the conduct of such business shall be taxed on an assessment equal to nine and one-half percent of the fair market value of such property."); S.C. Code Ann. § 12-43-220(a)(1) ("All real and personal property owned by or leased to manufacturers and utilities and used by the manufacturer or utility in the conduct of the business must be taxed on an assessment equal to ten and one-half percent of the fair market value of the property."); S.C. Code Ann. § 12-43-220(g) ("All real and personal property owned by or leased to companies primarily engaged in the transportation for hire of persons or property and used by such companies in the conduct of such business and required by law to be assessed by the department shall be taxed on an assessment equal to nine and one-half percent of the fair market value of such property.").

[12] The Department appraises the property of pipelines similarly to utilities, but this is for valuation purposes only. As authorized by section 12-4-540 of the South Carolina Code (2014), the Department uses unit valuation for certain companies including pipelines, railroads, and utilities to consider a taxpayer's operations as a whole.

lawmakers."); *City of Columbia v. Niagara Fire Ins. Co.*, 249 S.C. 388, 391, 154 S.E.2d 674, 676 (1967) ("The true guide to statutory construction is not the phraseology of an isolated section or provision, but the language of the statute as a whole considered in the light of its manifest purpose.").

And, indeed, when we look at the language of the exemption itself, it indicates the exemption is not limited to manufactures. In relevant part, the exemption statute instructs DHEC to investigate "the property of any manufacturer **or company**." § 12-37-220(A)(8) (emphasis added). In construing a statute, we presume that no word is superfluous or without meaning. *Sweat*, 379 S.C. at 377, 665 S.E.2d at 651 ("A statute should be so construed that no word, clause, sentence, provision or part shall be rendered surplusage, or superfluous . . . ." (citation omitted)). Therefore, the words "or company" must refer to a company that is separate and distinct from a "manufacturer" or the terms would be redundant.[13] If the General Assembly had wished to limit the pollution control exemption to manufacturers, then it certainly knows how to do so—i.e., it could have used narrower, more specific terminology than "company" similar to the language it has used in other tax statutes. *See* S.C. Code Ann. § 12-36-2120(17) (exemptions pollution control "machines used in manufacturing, processing, recycling, compounding, mining or quarrying") S.C. Code Ann. § 12-43-220(a)(1) (classifying and assessing ad valorem property taxation of "[a]ll real and personal property owned by or leased to **manufacturers** and utilities and used by the **manufacturer** or utility in the conduct of the business" at ten and one-half percent of the fair market value of the property); S.C. Code Ann. § 12-36-2120(9) (2014 & Supp. 2019) (exempting, for example, the gross proceeds of sales, or sales price of "coal, or coke or other fuel sold to

[13] Colonial also argues that reading a manufacturing requirement into the definition of "plant" would render the term manufacturing plant redundant and meaningless.

manufacturers, electric power companies, and transportation companies" for certain enumerated uses).

Moreover, the Court disagrees with Respondent's contention that "company" refers to utilities. If the legislature intended "company" to refer only to utilities, it would have said so. *See, e.g.,* S.C. Code Ann. § 12-43-220(a)(1) ("All real and personal property owned by or leased to manufacturers and utilities and used by the manufacturer or utility in the conduct of the business must be taxed on an assessment equal to ten and one-half percent of the fair market value of the property."). It is thus reasonable to conclude the breadth of the word "company" is meant to capture those operations that may not fall within the definition of manufacturer to incentivize as many industrial polluters as possible to acquire pollution control equipment and thereby limit the possibility of environmental contamination.

In defense of its position that a plant can include operations like its own, Colonial further cites to Chapter 28 of Title 12, which imposes user fees on gasoline and diesel fuel, including fuel at a "bulk plant." Section 12-28-110(7) defines "bulk plant" as "a motor fuel **storage and distribution facility** that is not a terminal and from which motor fuel may be removed at a rack." (emphasis added). In the context of these user fees, it appears the legislature labeled a storage and distribution facility without a manufacturing component a "plant."

Nevertheless, the Counties argue that to broaden the application of the exemption to all "companies" that might transport environmentally harmful products would extend the application of the exemption beyond what the legislature intended. They contend that, functionally, and for tax purposes, Colonial is no different than a railroad company, a trucking company, or a shipping company. Each of these transporters can transport petroleum products—just like Colonial. Each of these transporters use equipment that keeps petroleum products contained and prevents

accidental leakage into the environment—just like Colonial. Therefore, the Counties argue that if the Court were to interpret the exemption as applying to Colonial, then there would be no reason that railroads, trucking companies, and shipping companies could not seek the exemption on their trucks, tankers, cars, and ships as well. However, simply because the construction of the statute may allow other parties to utilize the pollution control exemption is not a reason to deny its use. Additionally, there is no evidence that these other transportation companies process the products they transport like Colonial. Moreover, since the purpose of the pollution control exemption provision is to encourage the installation of equipment designed to prevent pollution, extension of the exemption to instances that fulfill that purpose would not be beyond what the legislature intended in establishing the exemption. Consequently, the statutory scheme does not demonstrate a legislative intent to restrict interpretation of "companies" as narrowly as the Counties suggest.

The Counties further point to the language in the exemption that discusses dual-purpose property to suggest that it is only property used for "production" for which the exemption is intended. Specifically, the exemption provides that "[f]or equipment that serves a dual purpose of **production** and pollution control," then value of the exemption is reduced based upon a formula. § 12-37-220. This narrow portion of the statute suggests that the property of an industrial plant is used to produce something. However, "[a] court should not consider a particular clause in a statute as being construed in isolation, but should read it in conjunction with the purpose of the whole statute and the policy of the law." *Enos v. Doe*, 380 S.C. 295, 305, 669 S.E.2d 619, 623 (Ct. App. 2008). Following this principle, the purpose of the statute, especially in light of the broad meaning of "company," reflects that this provision should not be read as narrowly as the Counties propose.

Respondents next contend the definitions in regulation 117-1700 of the South Carolina Code of Regulations (2012), which is associated with property taxes, suggest plants are creatures

of manufactures and pipelines companies are not manufactures. For instance, regulation 117-1700.4 defines "transportation companies" to include "(1) Railroad companies; (2) **Pipeline companies**; and (3) Express companies." S.C. Regs. Ann. 117-1700.4 (2012) (emphasis added). However, the Court must consider the purpose for this definition. The need to define "transportation companies" is certainly needed in determining the application of section 12-43-220(g) (2014) which provides that "[t]he department shall apply an equalization factor to real and personal property owned by or leased to **transportation companies** for hire as mandated by federal legislation." (emphasis added). Yet, in this instance Respondents seek to distinguish Colonial from the umbrella of "other companies" by inferring the existence of a statutory directive that transportation companies cannot be "other companies" because they are specifically defined in regulation 117-1700.4. This reasoning violates the principle of Occam's Razor. The simpler explanation of the purpose of the regulation 117-1700.4 definition is its application to section 12-43-220(g) rather than a convoluted application to section 12-37-220(A)(8).

Respondents next point to regulation 117-1700.7, which defines a "plant site" as:

> A plant site shall consist of all land contiguous to a plant which is related to the overall manufacturing operation. It shall include all land on which personal property is located including but not limited to the following: parking lots, manufacturing areas, buildings, landscaping, piping, railroad siding, docking, water sheds, ditching, pollution control facilities, pumping stations, wells, roads, water tanks, areas for ingress and egress, water storage facilities, and all other lands directly related to manufacturing. When possible, a plant site will be one contiguous parcel using legal and or natural boundaries.

S.C. Code Ann. Regs. 117-1700.7 (2012). This regulation suggests plant sites are limited to manufacturing sites and are further limited to a contiguous piece of property. But, similar to regulation 117-1700.4, this regulation does not suggest that transportation companies cannot be engaged in both transportation and other business activities, such as processing or manufacturing. Moreover, returning to dictionary definitions, manufacture (verb) is defined as "to make a product

suitable for use." *Manufacture*, MERRIAM-WEBSTER'S ONLINE DICTIONARY, https://www.merriamwebster.com/dictionary/manufacture (last visited February 26, 2020). In this instance, Colonial processes transmix to make it suitable for sale is in keeping with this definition.

Next, Colonial argues it would qualify for industrial revenue bonds to suggest it is an industrial plant. Under section 4-29-10(3) of the South Carolina Code (Supp. 2019), a "Project" eligible for industrial revenue bonds includes

> any land and any buildings and other improvements on the land including, without limiting the generality of the foregoing, water, sewage treatment and disposal facilities, air pollution control facilities, and all other machinery, apparatus, equipment, office facilities, and furnishings which are considered necessary, suitable, or useful by the following investors or any combination of them:
>
> (a) any enterprise for the manufacturing, processing, or assembling of any agricultural or manufactured products;
>
> (b) **any commercial enterprise engaged in storing, warehousing, distributing, transporting, or selling products of agriculture, mining, or industry**, or engaged in providing laundry services to hospitals, to convalescent homes, or to medical treatment facilities of any type, public or private, within or outside of the issuing county or incorporated municipality and within or outside of the State;

(emphasis added). Colonial would qualify for industrial bonds because it engages in the "commercial enterprise" of "storing, warehousing, distributing [and] transporting" refined petroleum, which is the product of industry. However, this statute does not define industrial plant and does not limit the distribution of industrial bonds to industrial plants. Notwithstanding the foregoing, this statute, in conjunction with the guidance cited above, is suggestive of the intended breadth of the pollution control exemption's application.

Cases from Other States

The Supreme Court of Florida has interpreted "industrial plant" in several cases regarding tax issues. For instance in *Jacksonville Port Authority v. Florida* the court determined that a food distribution center for some 180 retail outlets constituted an industrial plant by referencing several

cases and concluding that the legislature "intended the phrase to be liberally construed." See *State v. Jackson Port Auth.,* 305 2d 166, 168 (Fla. 1974). The court also held that a commercial laundry facility constituted an "industrial plant." The court considered several factors in reaching this conclusion such as whether the plant contributes to the prosperity of the state, the clientele, the size of the plant, and the number of employees. *Id.* Additionally, the court noted that the term "plant" applied to facilities that render services and process or distribute products.

Furthermore, in *Richards v. Jolley*, the North Carolina Court of Appeals turned to the common meaning of the word "plant" to relate it to the statute in question. The court stated that "in common usage a "plant" is defined as "the land, buildings, machinery, apparatus, and fixtures employed in carrying on a trade or an industrial business." *Richards v. Jolley,* 208 N.C. App. 436, 441, 703 S.E.2d 467, 470 (2010) *citing* Merriam-Webster's Collegiate Dictionary 948 (11th ed. 2005).

There are several sales tax cases in which certain machinery and equipment used by companies which shipped gas (as opposed to extracting or refining gas) were held exempt under the state's sales tax exemption statute for manufacturers. *See Great Lakes Transmission L.P. v. Commissioner of Revenue,* 638 N.W. 2d 435 (Minn. Sup. Ct. 2002); *Southern Natural Gas Co. v. State*, 261 Ala. 222, 73 So.2d 731 (1954) and *State v. Alabama Gas Corp.*, 258 Ala. 356, 62 So.2d 454 (1952).

Are the Pipelines a "Plant"?

As stated above, the Court has previously ruled that Colonial's main operations, including the tank farms and booster stations, constitutes an industrial "plant." (The Department conceded the facility was "industrial"). Thus, the remaining issue is whether the 515 miles of pipelines constitute a "plant." More specifically, because the tank farms and booster stations constitute an

industrial plant, is the pipeline either (1) an industrial plant itself or (2) a component of an industrial plant because it feeds the tank farms and booster stations?

I find the uncontroverted evidence at trial was that the pipeline itself does constitute a "plant." There was exhaustive testimony, for example, of the monitoring of the pipeline, both visually and mechanically. Obviously the pipeline is critical to Colonial's operations.

Respondents have pointed to Regulation 117-1700.7 which defines a "plant site." It includes "all land contiguous to a plant which is related to the overall manufacturing [transportation] operation." The pipelines are all contiguous to Colonial's tank farms and other industrial operations. The regulation includes "all land on which personal property is located including but not limited to the following: ... piping, ... pollution control facilities, ... pumping stations, wells, roads, ... water storage facilities, and all other lands directly related to manufacturing [transportation.]" S.C. Regs. 117-1700.7. The pipelines are all directly related to Colonial's industrial operations.

The Department's witness testified there was no long-standing agency interpretation of "industrial plant." Indeed, he had granted the pollution control exemption to one other petroleum transportation company, in addition to Colonial. Significantly, the Department's only witness did not testify that the piping did not constitute a "plant," and the Intervenors produced no witness who so testified. Hence, the evidence was uncontroverted.

Alternatively, I find that the pipelines are an indispensable component of the industrial plant because the pipelines feed the tank farms and booster stations where the processing and reengineering occurs, and that therefore Colonial is entitled to the pollution control exemption on the pipeline-related equipment. While not directly on point, regulations interpreting S.C. Code Ann. 12-36-2120(17), the sales tax machine exemption, are instructive. A recurring issue in the

application of the machine exemption is at what point the machine at issue is "used in the manufacturing process." According to S.C. Regs. 117-302.5(B)(4), which addresses the application of the machine exemption to conveyances which move materials through the manufacturing process:

> (a) The general rule with reference to material handling machinery and/or mechanical conveyors is that such machinery is subject to the tax up to the point where the materials go into process. *The machine **feeding** the first processing machine(s) is exempt. The last machine to come within the exemption is that machine which **discharges** the finished product from the last machine used in the process. Material handling machinery used for **transporting (in process) material from one process stage to another** comes within the exemption.*

(emphasis added).

As noted above, as the Refined Petroleum Products flow through Colonial's operations, they are continually processed to create an output, even if that output just recreates the original product that entered its transportation system. This processing ensures that a saleable product is delivered and distinguishes Colonial from a pure transporter. In this case, the pipeline is responsible for (1) "feeding" the products into the tank farms and booster stations, where the processing occurs; (2) "discharging" the results of the processing occurring at the tank farms and booster stations; and (3) "transporting (in process) material from one process stage to another…." Further, the fact Colonial has developed a procedure for transporting products that requires multiple processing steps as product passes through its pipeline has no impact on its eligibility for the property tax exemption at issue. While the machine sales tax exemption is not at issue in this case, Department regulations interpreting the exemption are instructive because they reflect a more expansive view of the exemption that recognizes the continuity of the processing activities and contiguity of equipment required to conduct the processing. Therefore, because the pipelines are an indispensable component of the industrial plant, the pollution control property tax exemption

applies to the cathodic protection devices, pipeline coatings, and automatic shut-off valve at issue in this case.

CONCLUSION

The cathodic protection equipment, pipeline coatings, and automatic shut-off valve at issue in this matter are designed for the elimination, mitigation, prevention, treatment, abatement, or control of water, air, or noise pollution; required by state or federal government; and used in the conduct of their business. Colonial's operations, which includes tank farms, booster stations, and delivery facilities, as well as the pipeline and various other equipment fit within the broad dictionary definition of plant, which includes "the land, buildings, machinery, apparatus, and fixtures employed in carrying on a trade or an industrial business." *Plant*, MERRIAM-WEBSTER'S ONLINE DICTIONARY, https://www.merriam-webster.com/dictionary/plant (last visited February 19, 2020). And, although Colonial operates within the transportation industry, it also clearly operates an industrial business that engages in industrial processing. As part of its business model, Colonial processes the fuels it transports by adding certain additives to ensure continued movement of the products it transports through its pipes, eliminating water from the products, and turning transmix back into a sellable product. Therefore, Colonial arguably also operates within the petroleum/fuel industry and engages in industrial processing similar to a manufacturer.

Colonial's pipelines similarly fit within the definition of "plant." The pipelines are heavily maintained, are all contiguous to Colonial's main operations, and are directly related to their industrial operations.

ORDER

IT IS THEREFORE ORDERED that Colonial is entitled to the pollution control exemption for the cathodic protection, pipeline coatings, and automatic shut-off valves at issue in this matter for the 2017 and 2018 Tax Years.

AND IT IS SO ORDERED.

_____, 2020
Columbia, South Carolina

Ralph King Anderson, III
Chief Administrative Law Judge

STATE OF SOUTH CAROLINA

DEPARTMENT OF REVENUE

OFFICE OF THE GENERAL COUNSEL

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September 30, 2020

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
Our File Number: 180048

Dear Judge Anderson:

Enclosed please find the Respondent's (Department's) Proposed Final Order 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 **DEPARTMENT'S PROPOSED FINAL ORDER**

STATEMENT OF THE CASE

This matter is before the Court pursuant to a request for a contested case filed by Colonial Pipeline Company (Petitioner or Colonial) on December 5, 2018. Colonial contests the decision of the South Carolina Department of Revenue (Department or DOR) finding certain Colonial assets were not eligible for a property tax exemption for pollution control equipment pursuant to S.C. Code Ann. § 12-37-220(A)(8) (2014) of the South Carolina Code and Article 10, Section 3(h) of the South Carolina Constitution. Colonial challenges the Department's decision for tax years 2017 and 2018.

On March 20, 2019, Abbeville County and Anderson County filed a Consolidated Motion to Intervene, which was granted on April 16, 2019. Greenville County filed a Motion to Intervene on May 17, 2019, which was granted on May 29, 2019. On May 28, 2019, Aiken County and Laurens County moved to intervene, and York County moved separately to intervene; the Court granted the motions on June 13, 2019. Collectively, the counties are referenced as the Counties,[1] and collectively with the Department, Respondents.

On December 11, 2019, the parties filed cross-motions for summary judgment. The next day, a deposition of Colonial was filed with the Court. The parties thereafter filed Responses and Replies to the cross-motions before a hearing on the cross-motions was held on January 6, 2020.

[1] Although all the counties are intervenors, the counties are separately represented and have distinct positions. Aiken County and Laurens County are both represented by Parker Poe Adams & Bernstein LLP. Abbeville County, Anderson County, Greenville County, and York County are represented by Kozlarek Law LLC.

The Court denied the cross-motions for summary judgment on March 6, 2020. On August 4 and 5, 2020, a contested case hearing was held at this Court's headquarters in Columbia, SC.

STIPULATIONS OF FACTS

The parties stipulated to the following facts at the hearing:

Assessment in Dispute[2]

Tax Year	Property Tax Assessment (without exemption for any property)	Property Tax Assessment (with exemption)	Portion of Assessment Claimed as Pollution Control Property
2017	$12,697,930.00	$11,088,410.00	$1,609,520.00
2018	$13,757,290.00	$12,200,710.00	$1,556,580.00

1. The Taxpayer is a pipeline company that transports refined petroleum, jet fuel, gasoline, diesel, heating oil, kerosene, and blend stocks (collectively, "Refined Petroleum Products," each, a "Refined Petroleum Product").

2. Taxpayer injects drag reducing agents to reduce friction on the lines in South Carolina and does various inspections in this state.

3. Refined Petroleum Products are all present in the pipeline simultaneously. There are no physical barriers between each Refined Petroleum Product in the pipeline, so the Refined Petroleum Products interface with one another in the pipeline. When one Refined Petroleum Product interfaces with another Refined Petroleum Product, they mix to create a fluid called "Transmix."

4. Transmix is a fluid that does not meet the specifications for a fuel that can be used or sold for use.

5. Taxpayer could elect to transport a single Refined Petroleum Product at one time in the pipeline.

6. If the Taxpayer transported a single Refined Petroleum Product, then the Taxpayer would not create Transmix.

7. Each Refined Petroleum Product that combines to create Transmix can be separated into a once again saleable Refined Petroleum Product.

8. Separating Transmix back into each Refined Petroleum Product is part of the Taxpayer's transportation services and is not charged to the customer.

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[2] Colonial does not dispute the valuation of the property nor does it dispute the valuation method; rather, Colonial argues that the property in dispute is exempt from ad valorem taxation pursuant to § 12-37-220(A)(8).

9. The Taxpayer's activities ensure that the quality of each Refined Petroleum Product received by the customer is the same as the Refined Petroleum Product that went into the pipeline.

10. At least 90% of each Refined Petroleum Product transported by the Taxpayer is of the same specification and quantity when it enters the pipeline as it is when it leaves the pipeline.

11. The Taxpayer's pipeline connects to a refinery's storage tanks, which each contain a Refined Petroleum Product.

12. The Taxpayer does not own the Refined Petroleum Products it transports.

13. In addition to other counties, the property at issue in this matter is located in the following South Carolina counties: Anderson, Abbeville, Aiken, Greenville, Laurens, and York (the "counties involved").

14. The Taxpayer has tank farms, delivery facilities, and booster stations in South Carolina. The Taxpayer has two tank farms in South Carolina—one in Belton and the other in Spartanburg. Those tank farms receive and store Refined Petroleum Products from the transmission pipeline and pump the product to individual truck terminals. The Taxpayer's delivery stations in South Carolina are located at the tank farms and deliver Refined Petroleum Products on a transmission line to a truck terminal. The Taxpayer has three booster stations in South Carolina—one in Anderson, one in Simpsonville, and another in Gaffney. The booster stations push Refined Petroleum Products through the pipeline.

15. On April 19, 2017, the Department's Government Services Division received a 2017 application for an ad valorem tax exemption based on § 12-37-220(A)(8). In its letter and accompanying application, the Taxpayer reported a pollution control exemption on pipe coatings, cathodic protection, automatic shut-off valves, wastewater pollution control equipment, storm water pollution control, secondary containment, and tank internal/external floating roofs.

16. The Government Services Division evaluated the exemption application based on whether the property was designed for the elimination, mitigation, prevention, treatment, abatement, or control of water, air, or noise pollution. On August 15, 2017, based on its evaluation, the Government Services Division issued a Property Assessment Notice granting the exemption application as to wastewater pollution control equipment, storm water pollution control, secondary containment, and tank internal/external floating roofs for property tax year 2017 but denying the Taxpayer's exemption application as to pipe coatings, cathodic protection, and automatic shut-off valves.

17. On September 7, 2017, the Taxpayer protested the proposed assessment for 2017. Exhibit A is a true and accurate copy of the protest that the Taxpayer submitted to the Department.

18. On September 20, 2017, the Government Services Division notified the county auditors for

the counties involved of the Taxpayer's appeal of the 2017 assessment.

19. On October 19, 2017, the Government Services Division forwarded the 2017 exemption application information to the South Carolina Department of Health and Environmental Control ("DHEC") for investigation into whether the Taxpayer's claimed property, specifically, pipe coatings, cathodic protection, and automatic shut-off valves qualified as pollution control property, pursuant to § 12-37-220(A)(8).

20. On December 18, 2017, DHEC submitted a letter to the Department in response to the Department's request to investigate the property to determine the portion of pipe coatings, cathodic protection, and automatic shut-off valves that qualifies as pollution control property for 2017. DHEC noted that federal agencies, like the United States Department of Transportation ("USDOT"), regulate pipelines, and DHEC lacks authority to permit, inspect, or enforce pipeline operations.

21. On or around April 11, 2018, the Government Services Division forwarded the file to the Department's Office of General Counsel for Litigation for further analysis of whether the pipe coatings, cathodic protection, and automatic shut-off valves qualified for the pollution control exemption under § 12-37-220(A)(8).

22. On April 23, 2018, the Government Services Division received a 2018 application for an ad valorem tax exemption based on § 12-37-220(A)(8). The Taxpayer claimed the same property as pollution control property on its 2017 and 2018 property tax return.

23. On April 26, 2018, the Department's Office of General Counsel mailed DHEC a letter requesting that DHEC investigate the property of Colonial Pipeline Company to determine the portion of the property that qualifies as pollution control property pursuant to S.C. Code Ann. § 12-37-220(A)(8). The letter further requested that DHEC furnish the Department of Revenue with a detail listing of the property that qualifies as pollution control property.

24. On July 27, 2018, the Government Services Division issued a Property Assessment Notice denying the Taxpayer's exemption application as to pipe coatings, cathodic protection, and automatic shut-off valves but granting the exemption application as to wastewater pollution control equipment, storm water pollution control, secondary containment, and tank internal/external floating roofs for property tax year 2018.

25. The Government Services Division received correspondence postmarked August 13, 2018, from the Taxpayer protesting the proposed assessment for property tax year 2018.

26. On August 14, 2018, the Department's Office of General Counsel forwarded the 2018 exemption application for pipe coatings, cathodic protection, automatic shut-off valves, wastewater pollution control equipment, storm water pollution control, secondary containment, and tank internal/external floating roofs to DHEC for investigation into whether the Taxpayer's claimed property qualified as pollution control property, pursuant to § 12-37-220(A)(8).

27. DHEC submitted a letter dated August 27, 2018 to the Department's Office of General Counsel clarifying that the pipe coatings, cathodic protection, and automatic shut-off valves for property tax years 2017 and 2018 can be described as pollution control equipment. DHEC again noted that federal agencies, like USDOT, regulate pipelines, and DHEC lacks authority to permit, inspect, or enforce pipeline operations.[3]

28. The Department issued its Determination in this matter on November 19, 2018.

29. The Taxpayer timely requested a contested case hearing on December 5, 2018.

30. The Government Services Division denied the Taxpayer's 2019 application for an ad valorem tax exemption based on § 12-37-220(A)(8) as to all claimed property. The Taxpayer claimed the same property as pollution control property for 2019 as it did for 2017 and 2018. On August 6, 2019, the Taxpayer timely protested the 2019 exemption denial.

31. On September 4, 2019, the Department clarified through its Second Amended Prehearing Statement that Taxpayer does not qualify for an ad valorem property tax exemption pursuant to S.C. Code Ann. § 12-37-220(A)(8) (2014) for *any* of its claimed property—including property for which the Department initially granted the exemption.

32. Attached as Exhibit B is the Colonial Pipeline System Map. Attached as Exhibit C is a map of the Colonial Charlotte/South Carolina Operating Area. Attached as Exhibit D is Management's Discussion and Analysis of Financial Conditions and Results of Operations. Attached as Exhibit E is the DOR Proposed Assessment for the 2017 Tax year and 2018 Tax year as well as the Colonial Pipeline 2017 and 2018 Property Tax Returns.

33. Petitioner has environmental permits, including air, NPS, groundwater and solid waste disposal. A list of the environmental permits is attached as Exhibit F.

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[3] Although not part of the stipulation of facts, the DHEC letter was admitted as evidence and states, in relevant part:

> Colonial has specifically listed three items purported to be pollution control equipment that remain at issue in the 2017 and 2018 property tax determination: (1) pipeline cathodic protection, (2) pipeline coatings, and (3) automatic shut-off valves. In the context of USTs, each of these technologies would be characterized by the Department as pollution control equipment. UST's are designed to store petroleum products, and corrosion protection is required for all UST systems to prevent petroleum releases into the environment. Cathodic protection is one method to meet the corrosion protection standard for USTs. Shear valves (considered an automatic shut-off valve) are installed to prevent, or limit the extent of, a petroleum release into the environment. Pipeline coatings are designed to isolate the pipeline to prevent corrosion. While releases from petroleum pipelines would not generally be directly to "water" but more likely to the ground surface, any release of sufficient size from a petroleum pipeline is likely to impact groundwater and may under certain conditions contribute contamination to surface waters via overland flow or groundwater seeps. Therefore, the Department believes the listed technologies can be fairly described as pollution control equipment.

FINDINGS OF FACT

Having observed the witnesses and exhibits presented at the hearings and taking into consideration the burden of proof, the credibility of the witnesses, and the written stipulations of facts, the Court makes the following findings of fact by a preponderance of the evidence. Colonial is a pipeline company that transports refined petroleum products (e.g., refined petroleum, jet fuel, gasoline, diesel, heating oil, and kerosene). It receives products from approximately thirty refineries in the Gulf Coast region of the United States. In South Carolina, Colonial ships ultra-low sulfur diesel, heating oil, marine diesel, jet fuel, and kerosene. Ultra-low sulfur diesel and jet fuel are shipped as finished products.

Colonial's operations in South Carolina are comprised of 515 miles of pipeline, two tank farms, three main line booster stations, and one delivery facility spanning eleven counties in the State. Colonial has two main pipelines in South Carolina, Line 1 and Line 2. Lines 1 and Line 2 run from Pasadena, Texas, to Greensboro, North Carolina. Line 1 transports gasoline and Line 2 transports distillate, which includes jet fuel and ultra-low sulfur diesel. In the geographical area at issue in this case (which covers small parts of Georgia and North Carolina, as well as South Carolina), Colonial employees 30-35 operators and technicians on a full-time basis (including an equal number of independent contractors) to oversee operations, run its facilities, make repairs, and respond to issues as needed.

The products Colonial receives are moved together "fungibly," meaning similar products are interchangeable and a customer may not receive the exact same petroleum it paid Colonial to transport. Further, Colonial transports multiple products back-to-back through the pipe, which results in some mixing of the products where they interface. When different products mix in the pipeline, the result is called transmix. Transmix does not meet the Refined Petroleum Product specifications that can be sold for use. However, Colonial is able to process transmix into a once-again saleable Refined Petroleum Product. This is a very controlled process by which Colonial isolates the product and then separates it into a saleable product. Although the mixing occurs in the pipeline, the separating of the transmix to produce a saleable product occurs primarily at tank farms, pump stations, and delivery facilities.

Colonial also has to manage the movement of product through its pipeline. To reduce friction loss, Colonial adds Drag Resisting Agents (DRA) to some products it transports. Colonial does not add DRA to the jet fuel it transports. (Hr'g Tr. 153:4-7). Colonial must also remove water

that accumulates in and around the transported product through a process called "sting." Water contaminates the product if Colonial's drains and tank seals do not work well. (Hr'g Tr. 157:4-16). Colonial filters and removes "sting water" at the Belton and Spartanburg facilities through the use of oil and water separators. Colonial also regrades fuel in this State. "Regrade" is a process by which Colonial "change[s] a label of the product, the product's grade." Examples include regrading a premium gasoline as regular gasoline after the two mix. (Hr'g Tr. 191:2-8).

Every forty to seventy-five miles along its mainlines, Colonial operates a booster station on the line that increases pressure in the pipeline system and allows for the movement of petroleum through the pipeline. (Hr'g Tr. 113:9-21). To ensure safety and quality control, Colonial constantly measures gravity, pressure, and temperature of the products it transports. Equipment is also used to measure and detect leaks. Additionally, there are three pump stations in South Carolina on Lines 1 and 2, typically with four to five pumps per station, and there are pumps at the tank farms.

Colonial has two tank farms: one in Belton, South Carolina, and one in Spartanburg, South Carolina. Each tank farm has a system of pumps, motors, valves, manifolds, injection equipment, control systems, and other industrial infrastructure necessary to move product. The two tank farms receive petroleum products from Lines 1 and 2 "into tankage and then that product is delivered out from that tankage to multiple delivery lines to customers." Belton Junction is a 130-acre above ground breakout and delivery facility located in Anderson County. The tank farm is comprised of twenty tanks, twelve for gasoline, seven for distillate, and one for transmix. The facility is staffed by an Operator 24/7. Spartanburg Delivery is a 74-acre above ground breakout and delivery facility. It is comprised of twenty-two tanks, including thirteen gasoline tanks, six distillate tanks, and three tanks that are out of service. The facility is staffed as Operation's schedule dictates with a minimum of one operator on shift during all product receipts and delivery operations. All the tank farms have sting systems that remove water off the tank. These facilities also have utility tanks, which are used to drain product so that Colonial can work on the facility.

Colonial also provides petroleum storage services at its Belton and Spartanburg facilities for third parties. Additionally, truck terminals, which are owned by third parties, are strategically located close to the tank farm facilities in Belton and Spartanburg to ensure timely transmission. All of Colonial's property in South Carolina is assessed as a transportation company at 9.5%. (Hr'g Tr. 51:7–52:17). Colonial does not refer to any of its property in South Carolina as a plant and has

no plant managers in South Carolina. (Hr'g Tr. 161:22–162:16). All of Colonial's property in South Carolina supports its primary purpose of transporting refined petroleum products. (Hr'g Tr. 168:5-10).

Although Colonial's witnesses may have provided more detail about its infrastructure and the maintenance of that infrastructure, their testimony was largely consistent with the facts before the Court in denying the cross motions for summary judgment. Likewise, the Department's witness reiterated the same undisputed facts before the Court in ruling on the cross motions for summary judgment. However, the Department's witness made clear that the issue of what constitutes an industrial plant is a legal question that the Department had not fully analyzed until the genesis of this case. (Hr'g Tr. 310:14-23).

CONCLUSIONS OF LAW

Standard of Review

The hearing before the ALC is a contested case hearing and is heard **de novo**. *Marlboro Park Hosp. v. S.C. Dep't of Health and Envtl. Control*, 358 S.C. 573, 579, 595 S.E.2d 851, 854 (2004). This Court must make its factual findings based on the preponderance of the evidence. *See* S.C. Code Ann. § 1-23-600(A)(5) (Supp. 2019); *see also Anonymous (M-156-90) v. State Bd. of Med. Exam'rs*, 329 S.C. 371, 375-78, 496 S.E.2d 17, 19-20 (1998); *Nat'l Health Corp. v. Dep't of Health and Envtl. Control*, 298 S.C. 373, 379, 380 S.E.2d 841, 844 (Ct. App. 1989).

Burden of Proof

"In general, the party asserting the affirmative issue in an adjudicatory administrative proceeding has the burden of proof." *DIRECTV, Inc. & Subsidiaries v. S.C. Dep't of Revenue*, 421 S.C. 59, 78, 804 S.E.2d 633, 643 (Ct. App. 2017). Accordingly, the Taxpayer is the party asserting the affirmative issue and has the burden of proof.

Construction of Tax Exemptions

South Carolina's tax exemption statutes are strictly construed against taxpayers. *See, e.g., CFRE, LLC v. Greenville Cty. Assessor*, 395 S.C. 67, 74, 716 S.E.2d 877, 881 (2011) (stating that South Carolina courts have a long-standing policy of "strictly construing tax exemption statutes against the taxpayer"). In other words, the "statutory language will not be strained or liberally construed in the taxpayer's favor." *Southeastern Kusan, Inc. v. S.C. Tax Comm'n*, 276 S.C. 487, 489, 280 S.E.2d 57, 58 (1981). "The deduction and benefit is allowed as a matter of legislative grace." *S. Soya Corp. of Cameron v. Wasson*, 252 S.C. 484, 488, 167 S.E.2d 311, 313 (1969).

Furthermore, although ambiguities in tax statutes are generally construed in favor of the taxpayer, this rule "does not apply in the construction of a statute authorizing deductions; rather, the ambiguity will be resolved against the taxpayer." *S. Soya Corp. of Cameron*, 252 S.C. at 489, 167 S.E.2d at 313 (citing 47 C.J.S. Internal Revenue 230). The burden is thus on the taxpayer to prove whether it is entitled to an exemption by bringing itself clearly within the conditions imposed by the statute. *TNS Mills, Inc. v. S.C. Dep't of Revenue*, 331 S.C. 611, 618, 503 S.E.2d 471, 475 (1998) (citing *York Cty. Fair Assoc. v. S.C. Tax Comm'n*, 249 S.C. 337, 341, 154 S.E.2d 361, 363 (1967)); *see also Asmer v. Livingston*, 225 S.C. 341, 82 S.E.2d 465, 466 (1954) (stating that a refund of taxes is solely a matter of governmental grace, and taxpayers seeking such relief must bring themselves clearly within the terms of the statute authorizing a refund).

Pollution Control Equipment Exemption

The Department determined that Colonial's assets are not entitled to the pollution control property tax exemption pursuant to section 12-37-220(A)(8) for tax years 2017 and 2018.[4] Colonial disputes this determination, and contends the automatic shut-off valves, pipeline cathodic protection, and pipeline coatings it identified in its property tax refund claim are exempt from property tax as pollution control facilities or equipment of an "industrial plant."

Department Determination

At the division level, the Department granted Colonial the Pollution Control Equipment Exemption for some of its property, but not for automatic shut-off valves, pipeline cathodic protection, and pipeline coatings. In the Department Determination, the Department determined that Colonial did not qualify for the Pollution Control Exemption because the claimed property was not "facilities of equipment of industrial plants." Although the Department Determination only specifically addressed automatic shut-off valves, pipeline cathodic protection, and pipeline coatings, the Department's analysis would result in a denial for any of the property Colonial

[4] The Department's Government Services Division initially granted the exemption for some of Colonial's property but denied the exemption for the automatic shut-off valves, pipeline cathodic protection, and coatings. Taylor Ingram is the Utility Coordinator who reviewed Colonials exemption application and made the initial decision regarding the disputed property. During the contested case hearing, Mr. Ingram testified that his analysis regarding Colonial's exemption request was limited to whether the property was used for pollution control—he never considered whether the property satisfied the first element of the exemption – whether the claimed property was a facility or equipment of an industrial plant. The Department now asserts that if Colonial is not an industrial plant, then none of Colonial's property is eligible for the exemption (including the property Mr. Ingram initially exempted) because it is not property that is a facility or equipment of an industrial plant. *See* § 12-37-220(A)(8).

claimed as exempt because Colonial's property in South Carolina is not an industrial plant. The Department attempted to clarify its position that none of Colonial's property qualifies for the exemption in its amended pre-hearing statement and motion, which the Court denied. Colonial argues its property in South Carolina is an industrial plant because the Department granted the exemption for some of the claimed property at the division level. Regardless of whether the Department denied or granted the Pollution Control Exemption, this is a de novo hearing, and the Court must render its decision in accordance with the law. "A trial *de novo* is one in which the whole case is tried as if no trial whatsoever had been had in the first instance." *Blizzard v. Miller*, 306 S.C. 373, 375, 412 S.E.2d 406, 407 (1991) (internal quotation marks and citation omitted); *see Be Mi, Inc. v. S.C. Dep't of Revenue*, 408 S.C. 290, 297, 758 S.E.2d 737, 740 (Ct. App. 2014) ("In reaching a decision in a contested violation matter, the ALC serves as the sole finder of fact in the de novo contested case proceeding." (citation omitted)); *see also Heyward v. S.C. Tax Comm'n*, 240 S.C. 347, 351, 126 S.E.2d 15, 17 (1962) ("[T]he doctrine of estoppel will not be applied to deprive the government of the due exercise of its police power, or to effect public revenues or property rights, or to frustrate the purpose of its laws or thwart its public policy."). In its Order Denying the Department's Motion to Amend Prehearing Statement, this Court held that only the automatic shut-off valves, pipeline cathodic protection, and pipeline coatings are ripe for its consideration. However, this does not mean that by granting the pollution control exemption for other items that the Department has conceded that Colonial's property constitutes an industrial plant. That is a question of law for this Court to decide and neither the Court nor the Department can be estopped from correctly applying the law to Colonial. In other words, the Court is free to issue a decision that if applied to the previously granted property would result in a denial.

The Department is required to apply all of the elements of the Pollution Control Exemption established by the General Assembly. *TNS Mills,* 331 S.C. at 623, 503 S.E.2d at 478; *Asmer,* 225 S.C. at 343-44, 82 S.E.2d at 466. In *TNS Mills,* the taxpayer contended that the Department had the authority to grant the Pollution Control Exemption retroactively. 331 S.C. at 621, 503 S.E.2d at 476-77. This contention was based in part on a memorandum prepared by a Department employee opining that a recently-enacted statute authorized accepting exemption applications at any time. *Id.* The Court rejected this contention, holding that "[a]lthough the employee] believed the Department had the authority to grant retroactive exemptions, and exemptions may have been granted under this erroneous view, neither the Commission nor the courts are bound by his

erroneous interpretation." *Id.* at 621-22, 503 S.E.2d at 477. Thus, the Department is not estopped from invoking the correct elements of the Pollution Control Exemption even if its employees incorrectly or inadvertently misapplied those elements by granting the Pollution Control Exemption.

What is an Industrial Plant?

Colonial argues their operations constitute an "industrial plant" under section 12-37-220(A)(8) because their "complex and dynamic" operations involving tank farms, pipelines, boosters, motors, injection equipment, and the processing of transmix collectively qualify as a "plant." Colonial thus contends that the definition of "plant" should include the infrastructure or buildings necessary to carry on industrial operations.

The term at issue in this case is an "industrial plant," and the Department argues that none of Colonial's property in South Carolina qualifies as an "industrial plant." Colonial's business may be described as "industrial" in the sense it is related to the petroleum industry. Similarly, a bank building may be described as "industrial" because it is related to the banking industry. However, the Department contends that an "industrial *plant*" must have some form of production or output. To this end, the Department maintains Colonial is merely a transportation company that is treated differently under the tax code than manufacturing companies and other companies that produce a product. The Department asserts Colonial's business is transporting fuels from one point to another without engaging in any kind of production. To the extent Colonial "processes" the products it transports, its processing is de minimus and incidental to allowing Colonial to continuously transport different products while retaining the integrity of the product at the destination.

Similar to the Department, the Counties argue the term "industrial plant" must mean the physical location where goods or materials are actually and substantially produced as opposed to a location where minor modifications to a product occur. The Counties further argue that based on the statutory and regulatory scheme as a whole, it is clear the exemption was intended for manufacturers and other companies who produce a product, not a transportation company like Colonial.

Section 3 of Article X of the South Carolina Constitution provides, in relevant part:

> There shall be exempt from ad valorem taxation . . . (h) **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.

S.C. Const. Art. X, § 3(h) (West) (2009) (emphasis added). Section 12-37-220(A)(8) governs ad valorem property tax exemptions and discusses the exemption in more detail. It provides, in part:

> (A) Pursuant to the provisions of Section 3, Article X of the State Constitution and subject to the provisions of Section 12-4-720, there is exempt from ad valorem taxation: . . . (8) **all facilities**[5] **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.

(emphasis added). It also provides the following instructions for pollution control equipment that also have a production function (dual-purpose equipment):

> For equipment that **serves a dual purpose of production and pollution control**, the value eligible for the ad valorem exemption is the difference in cost between this equipment and equipment of similar production capacity or capability without the ability to control pollution.

S.C. Code Ann. § 12-37-220 (emphasis added). There are no statutes, regulations, or Department policy documents or rulings defining "industrial plant" under this statute.

Dictionary Definition

"Where a word is not defined in a statute, our appellate courts have looked to the usual dictionary meaning to supply its meaning." *See Lee v. Thermal Eng'g Corp.*, 352 S.C. 81, 91–92, 572 S.E.2d 298, 303 (Ct. App. 2002). In Merriam-Webster's Online Dictionary, "plant" is defined as:

> a: the land, buildings, machinery, apparatus, and fixtures employed in carrying on a trade or an industrial business;
>
> b: a factory or workshop for the manufacture of a particular product also: POWER PLANT;
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> c: the total facilities available for production or service;
>
> d: the buildings and other physical equipment of an institution.

Plant, MERRIAM-WEBSTER'S ONLINE DICTIONARY, https://www.merriam-

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[5] S.C. Code Ann. Regs. 117-1700.5 defines a facility as follows:

> [G]enerally a single physical location, where a taxpayer's business is conducted or where its services or industrial operations are performed. Where two or more distinct and separate economic activities are performed at a single physical location, each separate economic activity will be treated as a separate facility when: (1) each activity has its own separate and dedicated personnel; (2) separate reports can be prepared on the numbers of employees, their wages and salaries, sales, or receipts and expenses; (3) and employment and output are significant as to the activity. For purposes of item (2) above, it is irrelevant if separate reports are actually prepared, so long as separate reports can be prepared, this criteria is met.

webster.com/dictionary/plant (last visited February 19, 2020). While some of these definitions are broad, one mentions production and another limits the definition of "plant" to manufacturing and production—consistent with the language used in the exemption statute. "Industrial" is defined as "of or relating to industry." *Industrial*, MERRIAM-WEBSTER'S ONLINE DICTIONARY, https://www.merriam-webster.com/dictionary/industrial (last visited February 19, 2020). "Industry" is defined as:

> a: manufacturing activity as a whole (the nation's industry);
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> b: a distinct group of productive or profit-making enterprises (the banking industry);
>
> c: a department or branch of a craft, art, business, or manufacture (especially one that employs a large personnel and capital especially in manufacturing);
>
> d: systematic labor especially for some useful purpose or the creation of something of value.

Industry, MERRIAM-WEBSTER'S ONLINE DICTIONARY, https://www.merriam-webster.com/dictionary/industry (last visited February 19, 2020).[6] Again, the definitions are broad, but two of the four definitions reference manufacturing and a third references creation (a synonym of production)—consistent with the language used in the exemption statute. *See State v. Sweat*, 379 S.C. 367, 376, 665 S.E.2d 645, 650 (Ct. App. 2008), *aff'd as modified*, 386 S.C. 339, 688 S.E.2d 569 (2010) ("A statute as a whole must receive a practical, reasonable, and fair interpretation consonant with the purpose, design, and policy of the lawmakers."); *City of Columbia v. Niagara Fire Ins. Co.*, 249 S.C. 388, 391, 154 S.E.2d 674, 676 (1967) ("The true guide to statutory construction is not the phraseology of an isolated section or provision, but the language of the statute as a whole considered in the light of its manifest purpose.").

Although a broad dictionary definition of plant may include the "land, buildings, machinery, apparatus, and fixtures" Colonial employs in carrying out its transportation business, exemptions must be narrowly construed within the context of the rest of the statute's language. Notably, none of the definitions mention size or complexity—characteristics emphasized by Colonial—in defining a plant. In fact, the Court of Appeals of North Carolina relied on Merriam-Webster's definition of "plant" to find that a business that manufactured pallets qualified as a manufacturing "plant" regardless of the size and complexity of the operations. *Richards v. Jolley*,

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[6] The American Heritage Dictionary (1993) contains similar definitions of "plant," "industrial," and "industry."

208 N.C. App. 436, 441, 703 S.E.2d 467, 470 (2010) (citing the definition of "plant" in Merriam–Webster's Collegiate Dictionary 948 (11th ed.2005)). As in this case, the statute at issue in *Jolley* did not define "plant." *See id.* Further, to the extent North Carolina law is persuasive, N.C. Gen. Stat. Ann. § 62-3(13) defines industrial plant as "any plant, mill, or factory engaged in the business of manufacturing." This more tailored definition fits better with other language used in the pollution control exemption statute like "manufacturer" and "production."

Considering the Department's construction that a plant must be engaged in some form of production or output, the undisputed facts show that Colonial only minimally processes the products it transports to recreate the original product that entered its transportation system. Any processing is incidental to Colonial's primary business, which is transporting refined petroleum products. It is undisputed that Colonial processes transmix into a sellable product, injects drag reducing agent, and removes sting that occurs as a result of transportation. These activities ensure that the product moves efficiently and the customer receives the same product it paid Colonial to transport. Presumably, a customer would expect any transportation company to maintain the quality of the product it is paid to move. Looking at Colonial's operations as a whole, these ancillary activities are clearly de minimus and incidental to the primary purpose of transportation.

State Statutory and Regulatory Scheme

Regardless of the dictionary definition, the Department and Counties argue the overall statutory and regulatory scheme shows the legislature intended the exemption to be limited to manufacturers and companies that produce something. For example, the Counties cite to article X, section 1 of the South Carolina Constitution and section 12-43-220 of the South Carolina Code, which generally treat manufacturers and utilities similarly for property tax assessment purposes while distinguishing them from transportation companies like Colonial. Specifically, article X, section 1(1) and section 12-43-220(a) provide an assessment ratio for manufacturers of 10.5%, while article X, section 1(2) and section 12-43-220(g) provide an assessment ratio for transportation companies of 9.5%.[7] Based on these constitutional and statutory sections, the

[7] S.C. Const. Art. X, § 1(1) (2009) ("All real and personal property owned by or leased to manufacturers, utilities and mining operations and used by the manufacturer, utility or mining operation, in the conduct of such business shall be taxed on an assessment equal to ten and one-half percent of the fair market value of such property."); S.C. Const. Art. X, § 1(2) (2009) ("All real and personal property owned by or leased to companies primarily engaged in transportation for hire of persons or property and used by the company in the conduct of such business shall be taxed on an assessment equal to nine and one-half percent of the fair market value of such property."); S.C. Code Ann. § 12-

Counties argue transportation companies and manufacturing/utility companies are treated differently for tax assessment purposes.[8] It is true that the legislature assesses manufacturers and utilities at different percentage rates for property tax purposes than transportation companies. Looking at disparate assessment ratios captures the legislative purpose to provide an exemption to companies with the higher assessment ratio of 10.5%. All of Colonial's property in South Carolina has an assessment ratio of 9.5%. (Hr'g Tr. 51:7–52:17). Since Colonial concedes we must look at its property as a whole, this signifies that Colonial is excluded from the pollution control equipment exemption because it is a transporter. (Hr'g Tr. 359:17-360:9).

And, indeed, when considering the language of the exemption itself, it indicates the exemption is for manufactures or similar companies. In relevant part, the exemption statute instructs DHEC to investigate "the property of any **manufacturer** or company." § 12-37-220(A)(8) (emphasis added). In construing a statute, courts presume that no word is superfluous or without meaning. *Sweat*, 379 S.C. at 377, 665 S.E.2d at 651 ("A statute should be so construed that no word, clause, sentence, provision or part shall be rendered surplusage, or superfluous . . . ." (citation omitted)). Because every manufacturer would be a company, the word "manufacturer" must inform the term "company" or the terms would be redundant and meaningless. If the General Assembly had wished to offer the pollution control exemption to transportation companies, it could have used the more specific terminology of "transportation company" similar to the language it has used in other tax statutes. *See* S.C. Code Ann. § 12-36-2120(9) (2014 & Supp. 2019) (exempting, for example, the gross proceeds of sales, or sales price of "coal, or coke or other fuel sold to manufacturers, electric power companies, and transportation companies" for certain enumerated uses).

Moreover, the Court agrees with the Respondent's contention that a more reasonable interpretation of "company" is that it refers to utilities, which are often grouped with manufacturers. *See, e.g.,* S.C. Code Ann. § 12-43-220(a)(1) ("All real and personal property

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43-220(a)(1) ("All real and personal property owned by or leased to manufacturers and utilities and used by the manufacturer or utility in the conduct of the business must be taxed on an assessment equal to ten and one-half percent of the fair market value of the property."); S.C. Code Ann. § 12-43-220(g) ("All real and personal property owned by or leased to companies primarily engaged in the transportation for hire of persons or property and used by such companies in the conduct of such business and required by law to be assessed by the department shall be taxed on an assessment equal to nine and one-half percent of the fair market value of such property.").

[8] The Department appraises the property of pipelines similarly to utilities, but this is for valuation purposes only. As authorized by section 12-4-540 of the South Carolina Code (2014), the Department uses unit valuation for certain companies including pipelines, railroads, and utilities to consider a taxpayer's operations as a whole.

owned by or leased to manufacturers and utilities and used by the manufacturer or utility in the conduct of the business must be taxed on an assessment equal to ten and one-half percent of the fair market value of the property."). Further, industrial polluters do not require additional incentives to acquire pollution control equipment because an element of the pollution control exemption statute is that the facilities or equipment are "required by the state or federal government." It is thus reasonable to conclude that the legislature intended to limit the exemption's benefit to companies assessed at a higher rate like manufacturers and utilities instead of transportation companies.

Accordingly, the Counties argue that to broaden the application of the exemption to all "companies" that might transport environmentally harmful products would extend the application of the exemption beyond what the legislature intended. They contend that, functionally, and for tax purposes, Colonial is no different than a railroad company, a trucking company, or a shipping company. Each of these transporters can transport petroleum products—just like Colonial. Each of these transporters use equipment that keeps petroleum products contained and prevents accidental leakage into the environment—just like Colonial. Therefore, the Counties argue that if the Court were to interpret the exemption as applying to Colonial, then there would be no reason that railroads, trucking companies, and shipping companies could not seek the exemption on their trucks, tankers, cars, and ships as well. This argument exposes the broadness of Colonial's reading of the exemption statute despite the settled law that exemption statutes must be narrowly construed.

The Respondents further point to the language in the exemption that discusses dual-purpose property to suggest that it is only property used for "production" for which the exemption is intended. Specifically, the exemption provides that "[f]or equipment that serves a dual purpose of **production** and pollution control," then value of the exemption is reduced based upon a formula. § 12-37-220 (emphasis added). This portion of the statute suggests that the property of an industrial plant is used to produce something. "A court should not consider a particular clause in a statute as being construed in isolation, but should read it in conjunction with the purpose of the whole statute and the policy of the law." *Enos v. Doe*, 380 S.C. 295, 305, 669 S.E.2d 619, 623 (Ct. App. 2008). Following this principle, the purpose of the statute, especially in light of the statute's use of the terms manufacturer and production reflects that this provision should be read as limited to companies that manufacture or produce.

Respondents next contend the definitions in regulation 117-1700 of the South Carolina Code of Regulations (2012), which is associated with property taxes, suggest plants are creatures of manufactures and pipelines companies are not manufactures. For instance, regulation 117-1700.4 defines "transportation companies" to include "(1) Railroad companies; (2) **Pipeline companies**; and (3) Express companies." S.C. Regs. Ann. 117-1700.4 (2012) (emphasis added). Respondents also point to regulation 117-1700.7, which defines a "plant site" as:

> A plant site shall consist of all land contiguous to a plant which is related to the overall manufacturing operation. It shall include all land on which personal property is located including but not limited to the following: parking lots, manufacturing areas, buildings, landscaping, piping, railroad siding, docking, water sheds, ditching, pollution control facilities, pumping stations, wells, roads, water tanks, areas for ingress and egress, water storage facilities, and all other lands directly related to manufacturing. When possible, a plant site will be one contiguous parcel using legal and or natural boundaries.

S.C. Code Ann. Regs. 117-1700.7 (2012). This regulation suggests plant sites are limited to manufacturing sites and are further limited to a contiguous piece of property. Moreover, returning to dictionary definitions, manufacture (verb) is defined as "to make a product suitable for use." *Manufacture*, MERRIAM-WEBSTER'S ONLINE DICTIONARY, https://www.merriam-webster.com/dictionary/manufacture (last visited February 26, 2020). While Colonial processing transmix to make it suitable for sale may keep with this definition, the property that processes transmix, interestingly, is not assessed as a manufacturer. (Hr'g Tr. 51:7–52:17). Again, such processing is de minimus when looking at Colonial's operations in South Carolina as a whole. Colonial seeks to double dip by claiming exemptions for manufacturers and utilities while enjoying the lower assessment ratio of transportation companies.

Colonial's Property as a Whole

One issue upon which the Department and Colonial agree is that Colonial's property must be considered as a whole. Colonial admits that the Court must look at the pipeline as a whole rather than segregating different parts of it—i.e. either the whole pipeline is an industrial plant or none of it is an industrial plant. (Hr'g Tr. 359:17-360:9). The Department agreed that the Court should look at the pipeline as a whole instead of zooming in on certain portions of it. (Hr'g Tr. 362:13-15; 363:17-23). This is consistent with testimony by the Department's witness about how the Department uses unit valuation for pipeline companies and values the business as a whole rather than considering individual pieces. (Hr'g Tr. 304:1-305:2). Rather than focusing on discrete parts of the pipeline's infrastructure, the proper analysis looks at the totality of Colonial's property

in South Carolina. Considering Colonial's property in South Carolina as a whole, any activities that may near production or output such as removing sting water, separating transmix, and injecting lubricant are de minimus and incidental to its primary purpose of transportation. Even if Colonial does industrial activities in South Carolina, its property in South Carolina cannot be categorized as an industrial *plant*.

Conclusion

Exemption statutes must be narrowly construed, and Colonial's 515 miles of largely unattended pipeline in South Carolina do not fit within a narrow construction of industrial plant. While some of Colonial's operations might meet a broad dictionary definition of "plant," these operations are de minimus and incidental to its primary purpose of transportation. The long stretches of unattended pipeline that make up the majority of Colonial's property in South Carolina and do nothing but carry product would not even meet a broad definition of "plant." This remains true even if once a year Colonial mows the grass above the buried pipeline. (Hr'g Tr. 292:11-13). The Court finds that Colonial's property in South Carolina cannot be deemed a "plant" for the purpose of the pollution control exemption. Because exemption statutes are construed narrowly and Colonial failed to meet its burden, the exemption must be denied.

{signature on following page}

ORDER

IT IS THEREFORE ORDERED that Petitioner's application for the pollution control exemption is DENIED.

AND IT IS SO ORDERED.

Ralph King Anderson, III
Chief Administrative Law Judge

September 30, 2020
Columbia, South Carolina

KOZLAREK LAW LLC

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September 30, 2020

By United States Postal Service
South Carolina Administrative Law Court
1205 Pendleton Street, Suite 224
Columbia, South Carolina 29201

Re: ***Colonial Pipeline Company v. South Carolina Department of Revenue***
Docket No., 18-ALJ-17-0433-CC

Dear Sir/Madam:

On behalf of the Intervenors Abbeville County, Anderson County, Greenville County, and York County, please find enclosed a Proposed Order with related Certificate of Service for the referenced Contested Case.

Please return an executed, clocked copy in the self-addressed, stamped envelope.

Do not hesitate to contact me if you have any questions or require additional information.

Sincerely,

Christie B. Satter

Enclosure: stated

cc: Burnett R. Maybank, III, Esq.
Jim Rourke, Esq.
Jason Luther, Esq.
Marcus D. Antley, III, Esq.
Walter H. Cartin, Esq.
J. Evan Phillips, Esq.
Madison Felder, Esq.

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 **PROPOSED ORDER**

STATEMENT OF THE CASE

This matter is before the Court pursuant to a request for contested case filed by Colonial Pipeline Company (Petitioner or Colonial) on December 5, 2018. Colonial contested the decision of the South Carolina Department of Revenue (Department or DOR) finding certain Colonial assets were not eligible for a property tax exemption for pollution control equipment pursuant to section 12-37-220(A)(8) of the South Carolina Code and Article 10, Section 3(h) of the South Carolina Constitution. Colonial challenges the Department decision for tax years 2017 and 2018.

On March 20, 2019, Abbeville County and Anderson County filed a Consolidated Motion to Intervene, which was granted on April 16, 2019. Greenville County filed a Motion to Intervene on May 17, 2019, which was granted on May 29, 2019. On May 28, 2019, Aiken County and Laurens County moved to intervene, and York County moved separately to intervene; the Court granted the motions on June 13, 2019. Collectively, the counties are referenced as the Counties,[1] and collectively with the Department, Respondents.

On December 11, 2019, the parties filed cross-motions for summary judgment. Summary judgment motions were denied. On August 4 and 5, 2020, a final hearing was held before this Court.

STIPULATIONS OF FACTS

The parties stipulated to the following facts at the hearing:

[1] Although all the counties are intervenors, the counties are separately represented and have distinct positions. Aiken County and Laurens County are both represented by Parker Poe Adams & Bernstein LLP. Abbeville County, Anderson County, Greenville County, and York County are represented by Kozlarek Law LLC.

Assessment in Dispute[2]

Tax Year	Property Tax Assessment (without exemption)	Property Tax Assessment (with exemption)	Portion of Assessment Claimed as Pollution Control Property
2017	$12,697,930.00	$11,088,410.00	$1,609,520.00
2018	$13,757,290.00	$12,200,710.00	$1,556,580.00

1. The Taxpayer is a pipeline company that transports refined petroleum, jet fuel, gasoline, diesel, heating oil, kerosene, and blend stocks (collectively, "Refined Petroleum Products," each, a "Refined Petroleum Product").

2. Taxpayer injects drag reducing agents to reduce friction on the lines in South Carolina and does various inspections in this state.

3. Refined Petroleum Products are all present in the pipeline simultaneously. There are no physical barriers between each Refined Petroleum Product in the pipeline, so the Refined Petroleum Products interface with one another in the pipeline. When one Refined Petroleum Product interfaces with another Refined Petroleum Product, they mix to create a fluid called "Transmix."

4. Transmix is a fluid that does not meet the specifications for a fuel that can be used or sold for use.

5. Taxpayer could elect to transport a single Refined Petroleum Product at one time in the pipeline.

6. If the Taxpayer transported a single Refined Petroleum Product, then the Taxpayer would not create Transmix.

7. Each Refined Petroleum Product that combines to create Transmix can be separated into a once again saleable Refined Petroleum Product.

8. Separating Transmix back into each Refined Petroleum Product is part of the Taxpayer's transportation services and is not charged to the customer.

9. The Taxpayer's activities ensure that the quality of each Refined Petroleum Product received by the customer is the same as the Refined Petroleum Product that went into the pipeline.

10. At least 90% of each Refined Petroleum Product transported by the Taxpayer is of the same specification and quantity when it enters the pipeline as it is when it leaves the pipeline.

11. The Taxpayer's pipeline connects to a refinery's storage tanks, which each contain a Refined Petroleum Product.

[2] Colonial does not dispute the valuation of the property nor does it dispute the valuation method; rather, Colonial argues that the property in dispute is exempt from ad valorem taxation pursuant to § 12-37-220(A)(8).

12. The Taxpayer does not own the Refined Petroleum Products it transports.

13. In addition to other counties, the property at issue in this matter is located in the following South Carolina counties: Anderson, Abbeville, Aiken, Greenville, Laurens, and York (the "counties involved").

14. The Taxpayer has tank farms, delivery facilities, and booster stations in South Carolina. The Taxpayer has two tank farms in South Carolina—one in Belton and the other in Spartanburg. Those tank farms receive and store Refined Petroleum Products from the transmission pipeline and pump the product to individual truck terminals. The Taxpayer's delivery stations in South Carolina are located at the tank farms and deliver Refined Petroleum Products on a transmission line to a truck terminal. The Taxpayer has three booster stations in South Carolina—one in Anderson, one in Simpsonville, and another in Gaffney. The booster stations push Refined Petroleum Products through the pipeline.

15. On April 19, 2017, the Department's Government Services Division received a 2017 application for an ad valorem tax exemption based on § 12-37-220(A)(8). In its letter and accompanying application, the Taxpayer reported a pollution control exemption on pipe coatings, cathodic protection, automatic shut-off valves, wastewater pollution control equipment, storm water pollution control, secondary containment, and tank internal/external floating roofs.

16. The Government Services Division evaluated the exemption application based on whether the property was designed for the elimination, mitigation, prevention, treatment, abatement, or control of water, air, or noise pollution. On August 15, 2017, based on its evaluation, the Government Services Division issued a Property Assessment Notice granting the exemption application as to wastewater pollution control equipment, storm water pollution control, secondary containment, and tank internal/external floating roofs for property tax year 2017 but denying the Taxpayer's exemption application as to pipe coatings, cathodic protection, and automatic shut-off valves.

17. On September 7, 2017, the Taxpayer protested the proposed assessment for 2017. Exhibit A is a true and accurate copy of the protest that the Taxpayer submitted to the Department.

18. On September 20, 2017, the Government Services Division notified the county auditors for the counties involved of the Taxpayer's appeal of the 2017 assessment.

19. On October 19, 2017, the Government Services Division forwarded the 2017 exemption application information to the South Carolina Department of Health and Environmental

    Control ("DHEC") for investigation into whether the Taxpayer's claimed property, specifically, pipe coatings, cathodic protection, and automatic shut-off valves qualified as pollution control property, pursuant to § 12-37-220(A)(8).

20. On December 18, 2017, DHEC submitted a letter to the Department in response to the Department's request to investigate the property to determine the portion of pipe coatings, cathodic protection, and automatic shut-off valves that qualifies as pollution control property for 2017. DHEC noted that federal agencies, like the United States Department of Transportation ("USDOT"), regulate pipelines, and DHEC lacks authority to permit,

inspect, or enforce pipeline operations.

21. On or around April 11, 2018, the Government Services Division forwarded the file to the Department's Office of General Counsel for Litigation for further analysis of whether the pipe coatings, cathodic protection, and automatic shut-off valves qualified for the pollution control exemption under § 12-37-220(A)(8).

22. On April 23, 2018, the Government Services Division received a 2018 application for an ad valorem tax exemption based on § 12-37-220(A)(8). The Taxpayer claimed the same property as pollution control property on its 2017 and 2018 property tax return.

23. On April 26, 2018, the Department's Office of General Counsel mailed DHEC a letter requesting that DHEC investigate the property of Colonial Pipeline Company to determine the portion of the property that qualifies as pollution control property pursuant to S.C. Code Ann. § 12-37-220(A)(8). The letter further requested that DHEC furnish the Department of Revenue with a detail listing of the property that qualifies as pollution control property.

24. On July 27, 2018, the Government Services Division issued a Property Assessment Notice denying the Taxpayer's exemption application as to pipe coatings, cathodic protection, and automatic shut-off valves but granting the exemption application as to wastewater pollution control equipment, storm water pollution control, secondary containment, and tank internal/external floating roofs for property tax year 2018.

25. The Government Services Division received correspondence postmarked August 13, 2018, from the Taxpayer protesting the proposed assessment for property tax year 2018.

26. On August 14, 2018, the Department's Office of General Counsel forwarded the 2018 exemption application for pipe coatings, cathodic protection, automatic shut-off valves, wastewater pollution control equipment, storm water pollution control, secondary containment, and tank internal/external floating roofs to DHEC for investigation into whether the Taxpayer's claimed property qualified as pollution control property, pursuant to § 12-37-220(A)(8).

27. DHEC submitted a letter dated August 27, 2018 to the Department's Office of General Counsel clarifying that the pipe coatings, cathodic protection, and automatic shut-off valves for property tax years 2017 and 2018 can be described as pollution control equipment. DHEC again noted that federal agencies, like USDOT, regulate pipelines, and DHEC lacks authority to permit, inspect, or enforce pipeline operations.

28. The Department issued its Determination in this matter on November 19, 2018.

29. The Taxpayer timely requested a contested case hearing on December 5, 2018.

30. The Government Services Division denied the Taxpayer's 2019 application for an ad valorem tax exemption based on § 12-37-220(A)(8) as to all claimed property. The Taxpayer claimed the same property as pollution control property for 2019 as it did for 2017 and 2018. On August 6, 2019, the Taxpayer timely protested the 2019 exemption denial.

31. On September 4, 2019, the Department clarified through its Second Amended Prehearing

Statement that Taxpayer does not qualify for an ad valorem property tax exemption pursuant to S.C. Code Ann. § 12-37-220(A)(8) (2014) for *any* of its claimed property—including property for which the Department initially granted the exemption.

STIPULATED EXHIBITS

32. The parties stipulated to the admission into evidence of the following Exhibits, to which the court cites in this Order:

Exhibit No.	Stipulated Exhibits
1	Colonial Pipeline – How Fuel Gets to You
2	Colonial Pipeline Website -Frequently Asked Questions
3	Colonial Pipeline Website – About Colonial
4	Colonial Pipeline Website-CP Community
5	Spill Prevention, Control & Countermeasures Plan – Colonial Pipeline Company Belton Junction Facility – Section 1 Plan Administration and 1.1 Management Approval and Designated Person
6	Spill Prevention, Control & Countermeasures Plan – Colonial Pipeline Company Belton Junction Facility – Section 2.1 General Facility Information, 2, 2.1, 2.1.1, 2.1.2
7	Spill Prevention, Control & Countermeasures Plan – Colonial Pipeline Company Belton Junction Facility Oil Water Separators, Portable tanks on standby, 2.1.2.2, 2.2, 2.2.1
8	Spill Prevention, Control & Countermeasures Plan – Colonial Pipeline Company Spartanburg Delivery Facility – Section 1 Plan Administration, 1.1
9	Petitioner's Responses to Respondent's First Set of Request for Production of Documents
10	SC PCP Tax Exemption
11	Regulatory Requirements for South Carolina Tax Exemption
12	Colonial Pipeline Company SC 1120 Public Utility Tax Return 2018
13	Notice of Deposition Pursuant to Rule 30(b)(6), SCRCP
14	Colonial Landuse by Parcel Maps
15	Pollution Control Property Statutory Review
16	8/27/28 DHEC letter to DOR
17	Google Earth Picture
18	Charlotte/South Carolina Operating Area
19	30(b)(6) Deposition of Colonial Pipeline Company
20	Stipulations of Fact with Exhibits
21	U.S. Securities and Exchange Commission Form 10-K Annual Report of The Williams Companies, Inc.

FINDINGS OF FACT

The Court further finds the following pertinent facts. Colonial is a pipeline company that transports refined petroleum products (e.g., refined petroleum, jet fuel, gasoline, diesel, heating oil, and kerosene). A such, it is regulated as a "transportation company" by the United States

Department of Transportation. Tr. pp. 182-184. Colonial considers itself to be primarily a "transportation company." On the company web site, Colonial states that its mission is to move energy where it is needed. Tr. p. 63. In various regulatory materials submitted by Colonial as part of USDOT requirements, Colonial represents itself to be a "transportation company." Tr. p. 60. Colonial does not refer to itself as either an "industrial company" or a "plant." It has no plant managers, no facilities designated as "plants." Tr. p. 162. Colonial does not conduct any of its blendstock operations in South Carolina. Tr. p. 163. No customers pay Colonial to manufacture any products in South Carolina. Tr., p. 45. Colonial sells no products in South Carolina. Tr. p. 45.

All of Colonial's activities in South Carolina, whether pushing products through the pipeline, injecting lubricant, or separating transmix at "junction" areas, relate to its primary purpose of transporting fuel in its pipeline. Tr. pp. 60, 63, 67, 162, 168; Joint Exhibit 3.

Colonial has two tank farms: one in Belton, South Carolina, and one in Spartanburg, South Carolina. These tank farms fall under USDOT jurisdiction and are related primarily to the transport of Colonial's energy products. Tr. p. 65; Joint Exhibit 3. In fact, Colonial itself, in regulatory documents, describes the tank farm at Belton as consisting of " 20 USDOT regulated pipeline breakout and/or relief tanks." Tr. p. 66; Joint Exhibit 6. Portable tanks at these facilities are described by Colonial as "transportation related and USDOT regulated." Tr. p. 68, 215, 217; Joint Exhibit 7. In fact, Colonial admits that every part of the pipeline is regulated as a transportation company by USDOT. Tr. p. 219. Specifically, the parts of Colonial's operations at issue in the present case, i.e., cathodic protection, pipe coatings, and automatic shutoff valves are regulated by USDOT through PHMSA.

There was substantial testimony at the hearing about the federal regulations under which Colonial operates. Colonial admitted that its regulatory scheme is overseen by PHMSA and the Office of Pipeline Safety, which are divisions of USDOT. Tr. pp. 182-184. PHMSA regulates and establishes the standards for the transport of hazardous materials. PHMSA also ensures the safety of the design, construction, maintenance and spill response planning for all pipelines. Tr. p. 212.

There was also substantial testimony about transmix operations run by Colonial. Colonial admitted that the decision was made by Colonial to run its pipelines so as to result in transmix. This was done so that Colonial's products could be transported faster. Tr. p. 186. The same applies to drag resistant agents that Colonial chooses to inject into the pipes to transport the materials faster. Tr. p. 187. These operations that Colonial claims are "plant" operations are really unnecessary parts of their transportation business that adds to Colonial's bottom line.

Colonial's competition includes companies that run barges, trucks, and trains. Tr. pp. 175-176.

No other pipeline companies have been granted an exemption for pollution control equipment in 2019 or after. No other state has language like South Carolina's relating to "industrial plants." Manufacturers are assessed at a tax rate of 10.5% in South Carolina. Transportation companies are assessed at a rate of 9.5%. Colonial is, and has always been, assessed at the 9.5% rate as a transportation company. Tr. p. 51. The North American Industry Classification System (NAICS) is the standard used by Federal statistical agencies in classifying business establishments The NAICS Code assigned to Colonial is a transportation company.

In 2018, the SC DOR contacted SCDHEC to determine whether it considered Colonial's equipment to be "pollution control" equipment. DHEC is the statutory agency that his to provide a decision on these matters. On August 27, 2018, DHEC issued a letter explaining that interstate petroleum pipeline operations were beyond its purview, as these operations are regulated exclusively by USDOT. Tr. p. 71, Joint Exhibit 16. DHEC also indicated that it lacked authority to issue any opinion on whether Colonial's equipment was "pollution control" equipment. Tr. p. 314; Joint Exhibit 16. DHEC, in its letter, only opined on underground storage tanks, which are not present in any of Colonial's operations.

CONCLUSIONS OF LAW

I. ***Burden*** **of Proof**

In South Carolina, the general rule is that exemptions of private property are strictly construed, because in such cases taxation is the rule and exemption the exception *State v. Columbia*, 115 S.C. 108, 112, 104 S.E. 337, 338 (1920). Exemption statutes are narrowly construed, and taxpayers who claim exemptions under the tax exemption statute must prove they come clearly within such exemptions. *Henry P. Moses Co. v. S.C. Tax Com.*, 224 S.C. 193, 198, 78 S.E.2d 187, 189 (1953). Statutes granting property tax exemptions will not be strained or liberally construed in favor of the taxpayer and, to be entitled to an exemption, the taxpayer must clearly bring itself within the exemption upon which it relies. *Textile Hall Corp. v. Hill*, 215 S.C. 262, 54 S.E.2d 809 (1949). Taxpayer has not met the terms of the Pollution Control Exemption.

II. ***The Pollution Control Exemption Does Not Apply to Property Unless Such Property is Determined by DHEC and the Department to be Facilities or Equipment of Industrial Plants***

The Department's denial of the Pollution Control Exemption to Taxpayer for tax years 2017 through 2019 is correct as a matter of law because S.C. Code Ann. § 12-37-220(A)(8) predicates the Department's approval of such exemption upon an affirmative determination from DHEC, and DHEC has repeated stated that it is not authorized to make such a determination.

Pursuant to S.C. Code Ann. § 12-37-220(A)(8), the Department requested DHEC investigate the claimed property to determine if it qualified as pollution control equipment. In its responses, DHEC noted that it does not regulate pipelines, but instead federal agencies, including USDOT, regulate interstate petroleum pipelines. In further support of the accuracy of DHEC's determination, the Petitioner cites USDOT regulations as a basis for the requirement that it utilize the claimed property. Thus, both the USDOT and DHEC have determined that pipelines are regulated as transportation systems and not industrial plants. While Taxpayer posits that a petroleum refinery may qualify as an industrial plant, the Taxpayer's pipeline is separate and distinct and merely transports the product. See 40 C.F.R. § 60.41 b ("Petroleum refinery means industrial plants as classified by the Department of Commerce under Standard Industrial Classification (SIC) Code 29.6"). Therefore, the Claimed Property is not facilities or equipment of industrial plants.

To qualify for the pollution control exemption, the claimed property must be: 1) facilities or equipment of industrial plants; 2) designed for the elimination, mitigation, prevention, treatment, abatement, or control of water, air, or noise pollution; 3) required by state or federal government; and 4) used in the conduct of their business. The Taxpayer is a pipeline company, and of the Claimed Property is connected to its pipeline. The Claimed Property does not qualify for the Pollution Control Exemption because it is not a facility or equipment of an industrial plant. While S.C. Code § 12-37-220(A)(8) does not expressly define industrial plant, it does require that DHEC make an affirmative determination that any claimed property qualifies for an exemption, and DHEC does not have regulatory authority over interstate petroleum pipelines.

Additionally, Taxpayer's Claimed Property is not located on a Plant Site. "A plant site shall consist of all land contiguous to a plant which is related to the overall ***manufacturing operation***. It shall include all land on which personal property is located including but not limited to the following: parking lots, manufacturing areas, buildings, landscaping, piping, railroad siding, docking, water sheds, ditching, pollution control facilities, pumping stations, wells, roads, water tanks, areas for ingress and egress, water storage facilities, and ***all other lands directly related to manufacturing***. When possible, ***a plant site will be one contiguous parcel*** using legal and or

natural boundaries." S.C. Code Ann. Regs. 117-1700.7 (2012) (emphasis added). Referring to federal law for additional guidance, "The term "industrial plant" means any fixed equipment or facility which is used in connection with, or as part of, any process or system for industrial production or output." 42 U.S.C.S. § 6326(5) (LexisNexis, Lexis Advance through Public Law 116-77, approved November 27, 2019, with a gap of P.L. 116-74).

By way of contrast, Taxpayer is a "'Transportation company[y]'' [] hereby defined to include but not necessarily be limited to (1) Railroad companies; (2) ***Pipeline companies***; and (3) Express companies." S.C. Code Ann. Regs. 117-1700.4 (2012). The Taxpayer is most akin to a wastewater collection pipe, rather than a sewage treatment plant or a manufacturer which would qualify as industrial plant.

Because exemption statutes are narrowly construed and the Taxpayer has not brought itself squarely within the parameters of the statute granting the exemption, the Taxpayer is not entitled to an ad valorem tax exemption under§ 12-37-220(A)(8) for property tax years 2017 through 2019.

Even if Taxpayer could meet its burden and prove that it is squarely within the parameters of the statute, which it has failed to do in the two years since it applied for the exemption and cannot do for the aforementioned reasons, Taxpayer has conceded that regulatory requirements or pollution control aspects of the Claimed Property are not the only reason that the Claimed Property is used by the Taxpayer. The Claimed Property serves a dual purpose of production and pollution control and has for decades. "[T]hose types of assets, cathodic protection, coating, shut-off valves, things of that nature, have been present on our -- present on our system since original construction." (Colonial Pipeline Company Dep. 181, August 6, 2019).

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." 84 C.J.S. Taxation § 278; *City of York v. York County Bd. of Equalization*, 266 Neb. 297, 664 N.W.2d 445 (2003) ("The primary or dominant use, and not an incidental use, is controlling in determining whether property is exempt from taxation."). As a pipeline company, Taxpayer's primary use of its property is clearly transporting refined petroleum products and only incidentally providing pollution control. Therefore, even if the Claimed Property were facilities or equipment of industrial plants, Taxpayer's property would not be exempt under the Pollution Control Exemption. Taxpayer has not met the terms of the Pollution Control Exemption.

ORDER

IT IS THEREFORE ORDERED that the Taxpayer's request under the Pollution Control Exemption for tax years 2017 through 2019 is denied.

AND IT IS SO ORDERED.

_____

Ralph King Anderson, III
Chief Administrative Law Judge

_____, 2020
Columbia, South Carolina

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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
Trial Court Case No. 18-ALJ-17-0443-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.

CERTIFICATE OF COUNSEL

The undersigned hereby certifies that the Record on Appeal contains all material proposed to be included by any of the parties and not any other material.

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Greenville, South Carolina
October 29, 2021