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Presentation to The CAVEAT Group
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“Pipelines in America – What Do They Do For Us?”



Agenda

- 1. What Kinds of Pipelines are in the USA?**
- 2. Why are they needed in the US?**
- 3. What Where are They Located?**
- 4. How do They Work And Are they Safe?**
- 5. How are they taxed for Ad Valorem purposes?**
- 6. What is All the Fuss With Keystone Pipeline?**



What Kinds of Pipelines are in the USA?

There Are Two Major Types of Pipelines in The Oil & Gas Industry

- I. Natural Gas Pipelines**
 - A. Transportation**
 - B. Distribution Lines**

- 2. Liquids Pipelines**
 - A. Liquids Pipelines**
 - B. Heavy Liquids**
 - C. Refined Products**
 - D. Crude Oil**
 - E. CO₂**
 - F. BioFuel**

What Do Pipelines Do For Us?

❖ Deliver Fuel Used For Transportation

- Gasoline and Diesel Fuel
- Jet Fuel and Aviation Fuel
- Kerosene

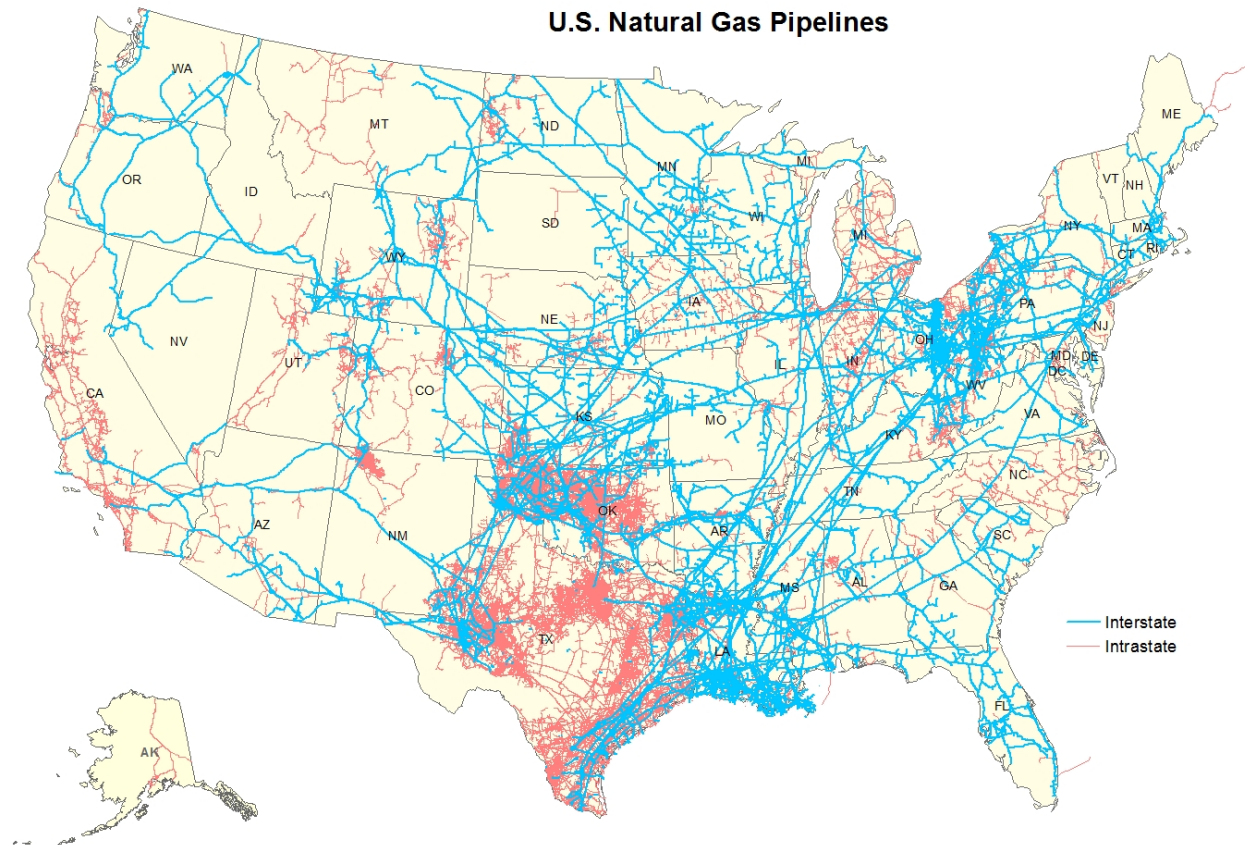
❖ Deliver Fuel For Use in Homes

- Heating Oil
- Natural Gas
- Propane

Where are Pipelines Located?

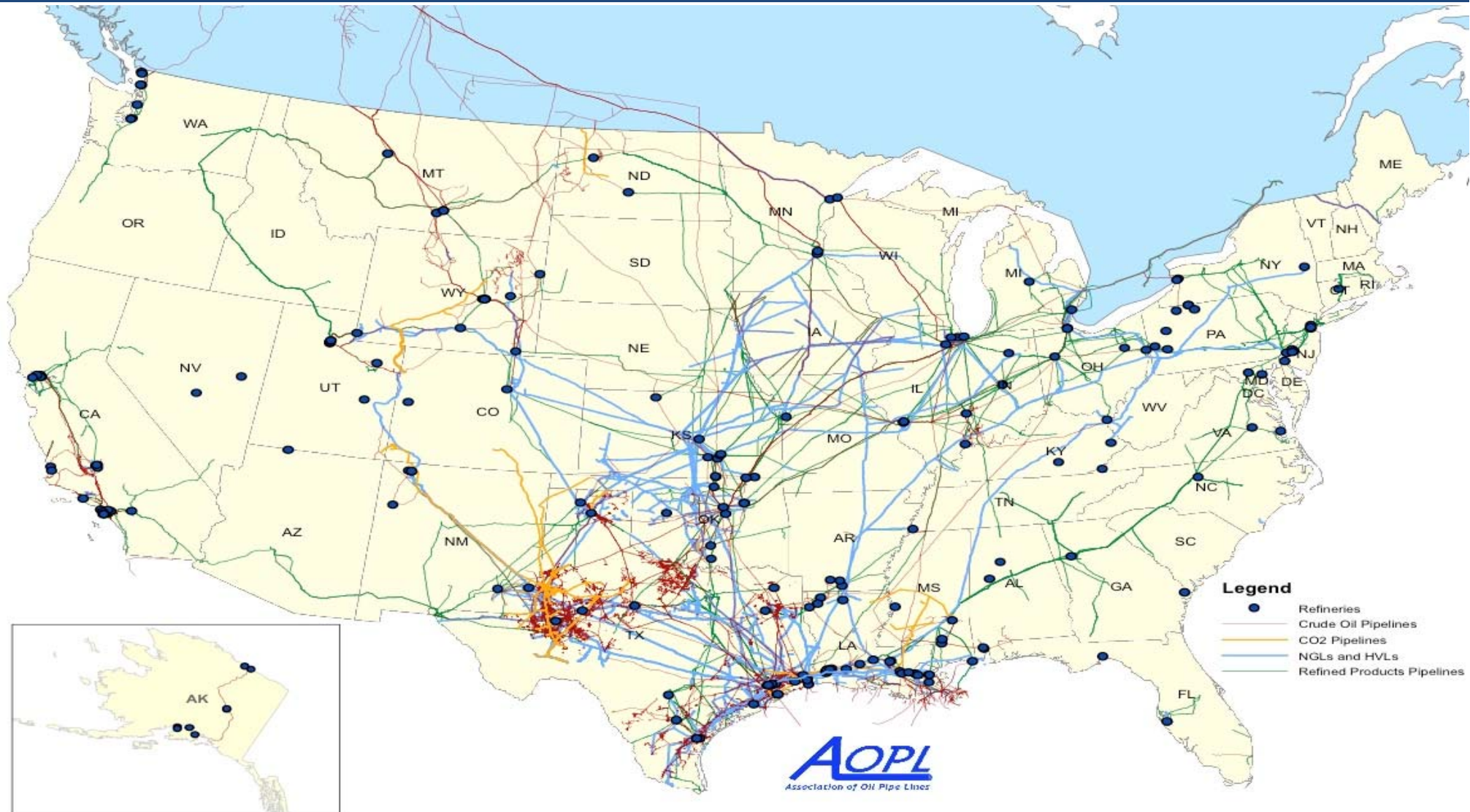
- A) In the Gulf Coast?
- B) In the Gulf Coast and Midwest?
- C) In the Gulf Coast, Midwest, and California?
- D) In Almost Every State?

U.S. Natural Gas Pipelines



Source: American Energy Mapping (AEM) 2013

U.S. Liquid Pipelines



Source: Petroleum Geographics Corporation 2012

How Much Pipeline Is In The US?

❖ Natural Gas Pipelines (2.4M Miles)

- 300,000 miles Interstate Lines
- 2.1 million miles of Distribution Lines

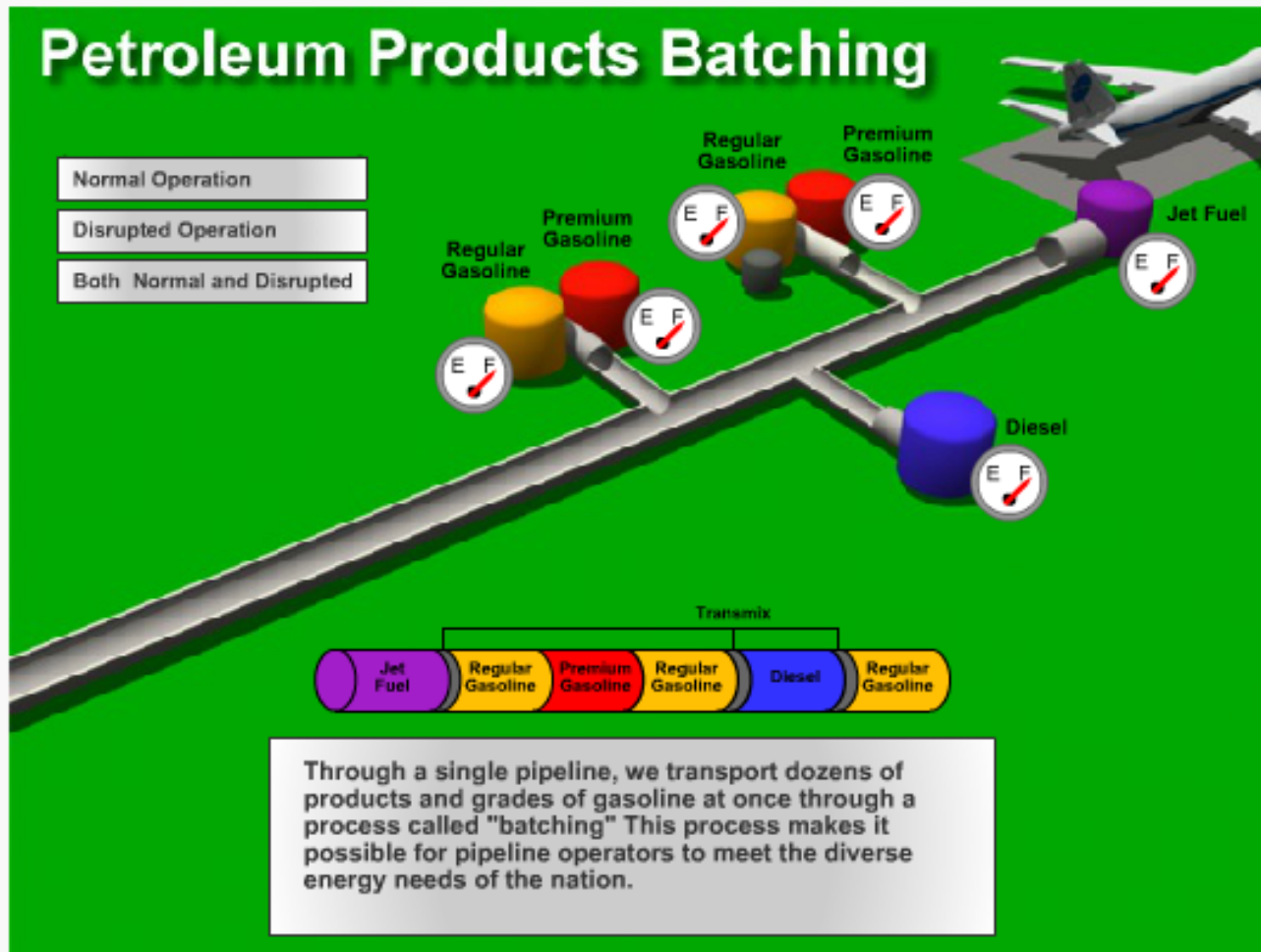
❖ Liquids Pipelines (192K Miles)

- Heavy Liquids (63K Miles)
- Refined Products (63K Miles)
- Crude Oil (61K Miles)
- CO₂ (5K Miles)
- BioFuel (0K Miles –16 Miles)

So How do They Work?

- Natural Gas
 - Gas powered compressors are used to pressurize the pipeline and keep the gas moving.
- Liquids
 - Electric powered pumps are used to pressurize the pipeline and keep the liquids moving.

Batching of Liquids



Are Pipelines Safe?

- Pipelines like Colonial work with the Federal Government to Research and Develop ever improving safety standards and equipment.
- Constant investment in pipeline integrity through maintenance programs.

Colonial Corporate Goals

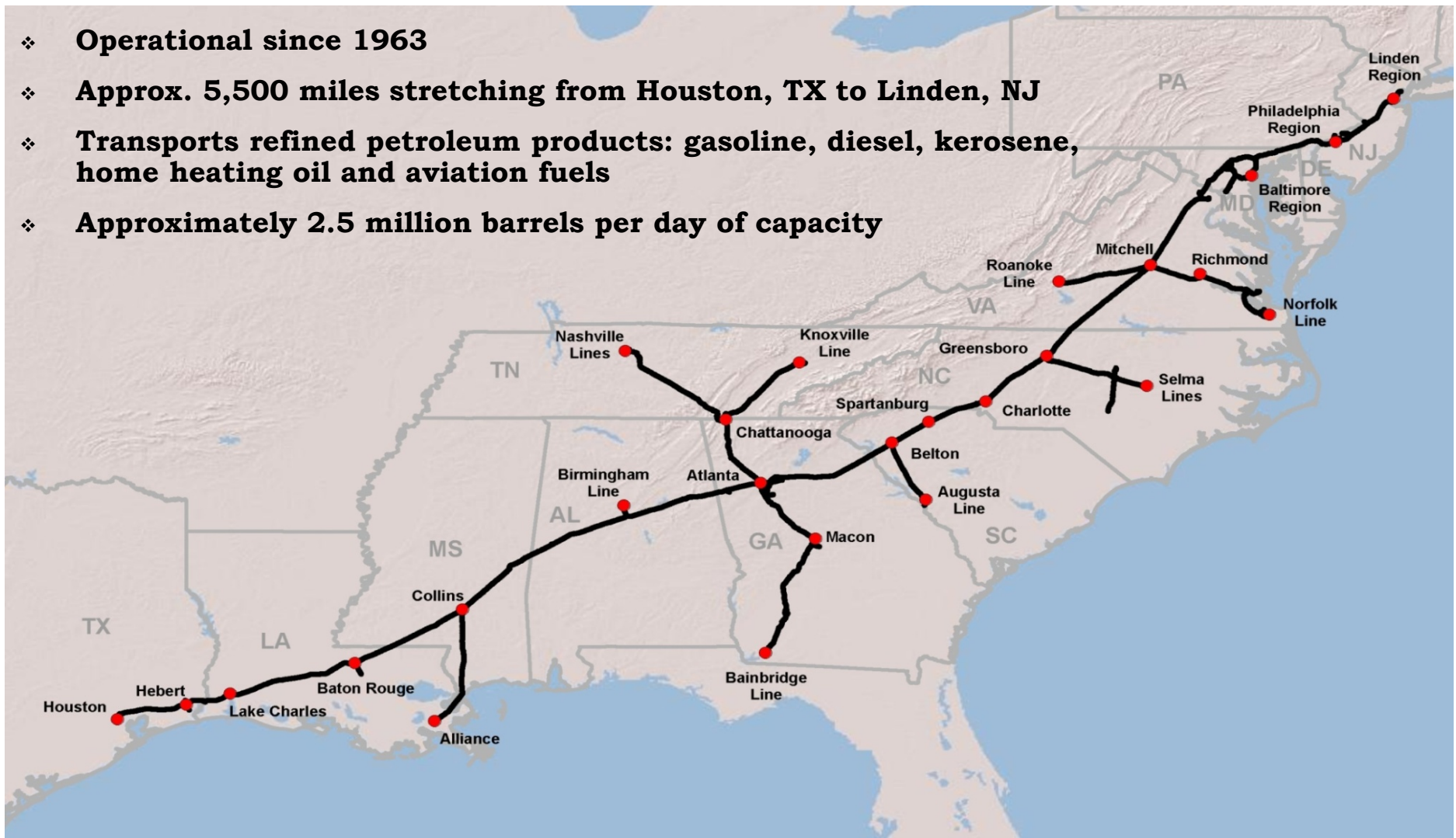
Our Corporate Goals

- 1. Operate safely**
- 2. Keep the product in the pipe**
- 3. Comply with all applicable laws and regulations**
- 4. Operate profitably**



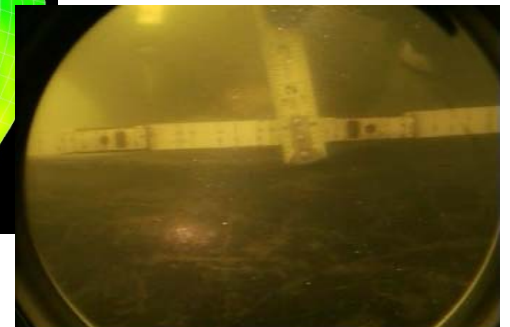
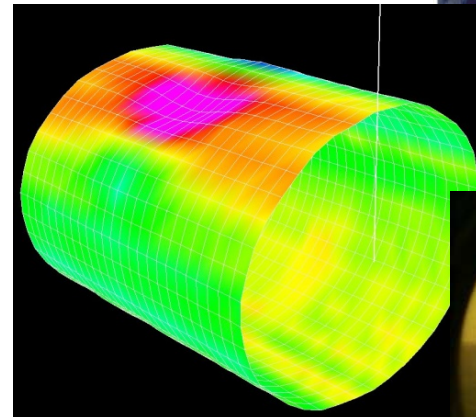
System Overview

- ❖ **Operational since 1963**
- ❖ **Approx. 5,500 miles stretching from Houston, TX to Linden, NJ**
- ❖ **Transports refined petroleum products: gasoline, diesel, kerosene, home heating oil and aviation fuels**
- ❖ **Approximately 2.5 million barrels per day of capacity**



How Do We Operate Safely and Keep the Product in the Pipeline

- ❖ **Over the last decade, Colonial has invested more than \$500 million on system integrity**
- ❖ **Activities include: in-line inspections (smart pigs), corrosion prevention, tank inspections, leak detection systems and protecting the right-of-way**



Pipeline Safety

- ❖ **Added full-time position completely dedicated to Emergency Preparedness and Response**
- ❖ **Conducted another large-scale exercise during 2014 to improve our response capabilities**
 - ❖ Included full-scale exercise involving Colonial, the EPA, the State of Georgia and numerous stakeholders
- ❖ **Ongoing training and simulations will continue to improve response capabilities**



Liquid Lines Safety Statistics

- ❖ 14.1B barrels of crude oil & petroleum products delivered by pipeline in 2012 (592.2B gallons)
- ❖ \$1.6 Billion spent on Pipeline Maintenance in 2012
- ❖ \$20 Million spent on ongoing safety R&D projects
- ❖ 62% Decrease in product releases since 2001 as an industry
- ❖ 47% Decrease in volume/Barrels released since 2001 as an industry

99.999% of products delivered safely by pipelines yearly

Safety and The US Public

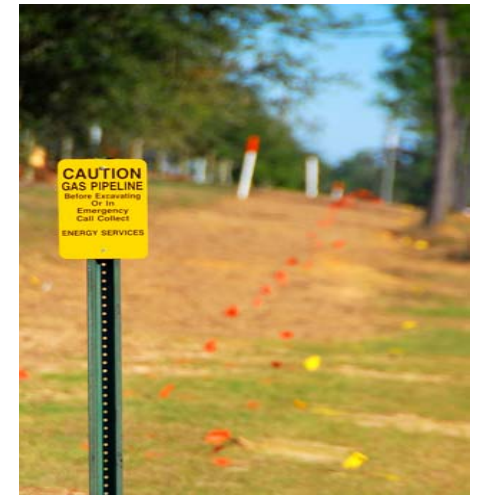
Pipelines Sponsor a National Call Line - 811



Safety and the US Public

Pipelines are marked around the US by pipeline markers when they cross roads or private property.

Call “811” the Call Before You Dig National Pipeline Marking System helps prevent unintentional line strikes.



Pipeline Operations and Safety

- ❖ **Pipelines are the cheapest way to ship oil and refined gasoline to market**

- ❖ Cheaper than trains and trucks to transport across the US
- ❖ \$2 a barrel (less than 5 cents/gallon) to move a barrel across the country by pipeline.
- ❖ \$12 a barrel (almost 30 cents per gallon) to move a barrel across the country by rail.
- ❖ Regional trucking costs in the NE area is about \$0.20 to \$0.30 per gallon.

Pipeline Operations and Safety

- ❖ **Pipelines are safer than rail, truck and barge alternatives**
 - ❖ Pipeline operators exceed safety requirements in many instances.
 - ❖ Accidents are 3,000 times more likely to occur with truck, 38 times more likely to occur by barge and 25 more times by rail.



Source: AOPL website

Pipeline Operations and Safety

❖ Pipelines are environmentally friendly

- ❖ A single pipeline can remove the need for hundreds of train cars and trucks clogging the rails and roads
- ❖ Replacing rail or truck traffic with a pipeline reduces unhealthy air pollution and congestion



Source: AOPL website

How are Pipelines Taxed for Ad Valorem ?

❖ **Pipelines are Assessed in Various Ways**

- ❖ Centrally Assessed by a State Agency
- ❖ Locally Assessed by the County/Parish Assessor
- ❖ Not Taxed at all – Exempt
- ❖ Some Combination

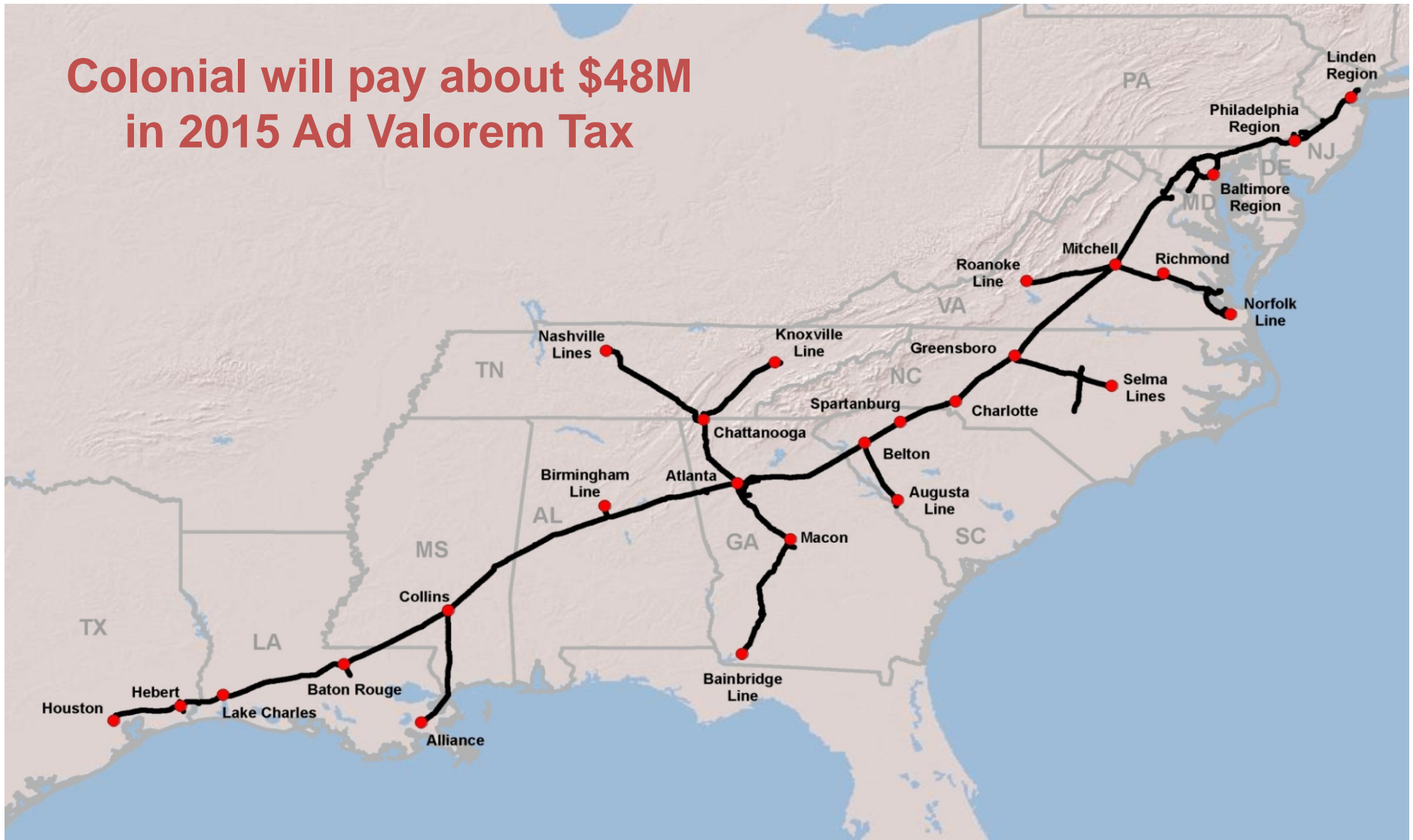
How are Pipelines Taxed for Ad Valorem ?

❖ **Breakdown of Assessment Methods**

- ❖ Centrally Assessed – About 35 States
- ❖ Locally Assessed - About 10 States
- ❖ Exempt – About 5 States
- ❖ Some Combination- Various methods - ??

How About Colonial Taxation?

**Colonial will pay about \$48M
in 2015 Ad Valorem Tax**



How is Colonial Taxed?

❖ **Colonial Is in 14 States**

❖ Centrally Assessed in Nine States

❖ LA, MS, AL, GA, SC, NC, TN, VA, MD

❖ Locally Assessed in Three States

❖ TX, DE, NJ

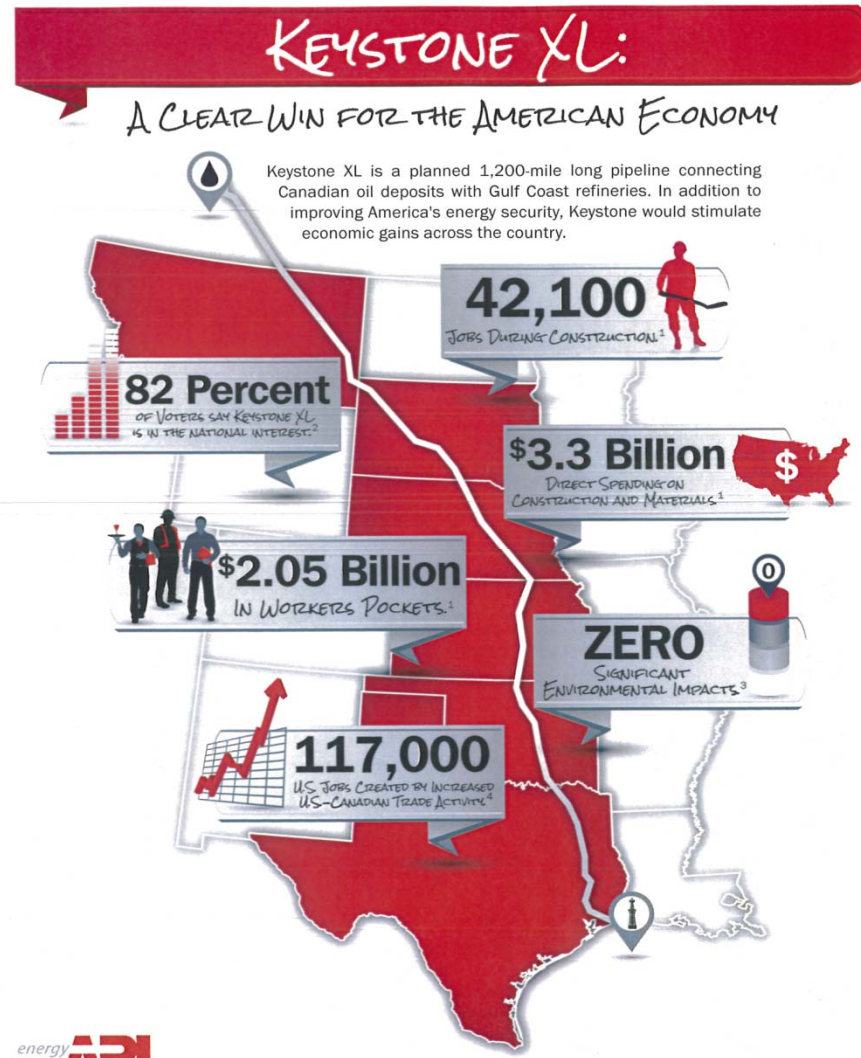
❖ Exempt in One State

❖ PA only taxes real estate

❖ Some Combination in One State

❖ NY has both state & local taxation

What About Keystone Pipeline?



¹ State Department Draft Supplementary Environmental Impact Statement (<http://Lusa.gov/1912408>)
² Harris Interactive Poll (<http://bit.ly/191250m>)
³ State Department Draft Supplementary Environmental Impact Statement (<http://bit.ly/191250G>)
⁴ Canadian Economic Research Institute (<http://bit.ly/1913PXS>)

Key Facts on Keystone Pipeline

1. Would provide 42,000 US jobs with an annual payroll of \$2.1B
2. Has agreed to 59 special safety conditions to make it the safest pipeline ever built in the US
3. Recent Approval Activity
 - a. Congress approved 270-152
 - b. Senate approved 62-36
 - c. Vetoed by President
 - d. Senate over-ride failed 62-36

The Keystone Route Map

- The Route



Questions?

