

Windfall From First Keystone Pipeline Falls Short

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NEBRASKA OIL PIPELINES



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LINCOLN — When TransCanada officials began promoting the benefits of its first pipeline to cross Nebraska, they projected a \$5.5 million tax windfall for the state in the first year of operation.

The actual tax bill for the original Keystone pipeline is less than half that figure.

State and county records indicate that TransCanada this year will pay \$2.2 million in personal property and real estate taxes to eight rural counties in eastern Nebraska crossed by the 30-inch, crude-oil pipeline.

A TransCanada official says the tax bill, while far short of projections, should rise next year, and a state official said next year's taxes will go up substantially.

Opponents of the pipeline and its more controversial companion — the proposed Keystone XL — dispute that.

They say the much lower tax harvest is another reason to doubt other claimed benefits of the two projects.

“TransCanada's business model is based on deceiving and distracting us with fancy ads, dollar signs and false promises,” said Jane Kleeb of Bold Nebraska, a Lincoln-based environmental group.

The original Keystone project carries crude oil from Canada's tar sand region to a pipeline terminal in Cushing, Okla., and was completed in 2010.

The larger Keystone XL project, which would run in a more direct line from the company's pipeline terminal at Hardisty, Alberta, still requires federal and state approval.

At a 2007 meeting in Seward, Neb., Buster Gray, the engineering and construction manager of the first Keystone project, said TransCanada planned to spend \$245 million in Nebraska and pay \$5.5 million a year in taxes in the state, including \$660,000 a year in Seward County.

But it's clear now that TransCanada's estimate was more than double what is being paid.

Shawn Howard, a spokesman for TransCanada, said the company expects the tax bill to almost quadruple, to \$8.5 million, next year, based on a preliminary new state valuation provided to the corporation.

Ruth Sorensen, who heads the state property tax division that sets the value for the Keystone pipeline, said that preliminary valuation is not finished, but she expects the tax bill to be “substantially higher” next year.

That, Sorensen said, is because some construction work was still under way during 2011, and thus would not be subject to taxation until next year.

Sorensen said she could not predict if the impact would quadruple the taxes, as TransCanada maintains.

Typically, personal property has its highest value in the first year, when it is newest. Property is depreciated over the years, lowering the valuation and tax bill.

The new tax revenue has always been one of the benefits touted by TransCanada for supporting the controversial pipeline projects. That revenues didn't match the company's claims has provided new ammunition for opponents of the pipelines.

It says something about the credibility of the company, said Ken Winston of the Nebraska chapter of the Sierra Club.

Some officials with Nebraska counties along the route of the first pipeline said that even though the tax revenue is less than half of projections, they're glad for any new money.

"Anything was welcome. It was a win situation for us," said Dave McGregor of Hartington, Neb., chairman of the Cedar County Board.

McGregor and David Mach, a county board member from Butler County, both said they would welcome the second pipeline, the Keystone XL, in their counties due to the tax benefits.

TransCanada will pay \$334,266 in taxes this year to Cedar County and \$317,255 to Butler County, which are likely the largest personal property tax bills in the two rural counties, according to officials there.

Both McGregor and Mach said the pipeline company treated landowners well in terms of payments for easements and restoration of farm land.

"I've made that comment, 'Bring the second one right alongside the other one,'" Mach said.

TransCanada has consistently rejected suggestions that it locate the proposed Keystone XL parallel to the existing Keystone pipeline.

The company has said that would make the project longer and too expensive. TransCanada has also maintained that the shortest pipeline has the least environmental risk.

Almost all of the taxes paid by the company in Nebraska are for personal property, such as pipe and pumping equipment, and are allocated to the counties, school districts and other local governments through which the pipeline crosses.

TransCanada owns only a few acres of real estate in the state where its pumping stations are located, so its tax bill on real property is less than \$10,000 statewide.

The value of the pipeline for tax purposes is set by the state, and is based on the value of the entire Keystone pipeline located within the United States.

The portion of that value in Nebraska, in personal property and real estate, was calculated at \$145.3 million in 2011.

When local property tax rates were applied, it resulted in a \$2.2 million tax bill.

This is the first time TransCanada has had to pay personal property taxes in Nebraska because, under state law, such taxes are due only if the property was in use as of Jan. 1.

The Keystone pipeline went into service in June 2010, making 2011 the first year that taxes were owed. The taxes are paid the following year.

Pipe has a 15-year depreciation schedule, so after 15 years, it will have no value, and no taxes will be due.

TransCanada, after that period, would still be paying real estate taxes, and would have to pay personal property taxes on any replacement pipe or equipment installed.

How much tax revenue will be generated by the Keystone XL project is a subject of debate, though it's safe to assume it will produce more in tax benefits than the first pipeline because it will be larger (a 36-inch pipe versus a 30-inch pipe) and longer (288 miles versus 215 miles across Nebraska).

Howard, the TransCanada spokesman said the XL is now projected to generate \$17.6 million in taxes in Nebraska. That is slightly lower than a \$21.9 million estimate made by the U.S. Department of State in its environmental impact statement last year on the Keystone XL project.

Paul Blackburn, an attorney who studied the tax payments for Bold Nebraska, said both TransCanada and the State Department have “grossly overestimated” the tax benefits of the pipelines in Nebraska as well as the other pipeline states in an effort to “sell” the two projects.

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