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DUFF & PHELPS

October 4, 2007

Texas Commission on Environmental Quality
Attention: Docket Clerk
TCEQ Office of Chief Clerk MC 105
P.O. Box 13087
Austin, Texas 78711-3087

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY
2007 OCT -5 PM 3:
CHIEF CLERKS OFFICE

Subject: Response to the appeal of the Executive Director's Use Determination (06-11006 & 06-11009), regarding Energy Transfer Fuel; TCEQ Docket Nos. 2007-0903-MIS-U and 2007-0963-MIS-U

Dear Commissioners:

Pursuant to Title 30 of Chapter 17 of the Texas Administrative Code, the Applications under appeal were prepared using the Texas Commission on Environmental Quality's ("TCEQ's") Application for Use Determination for Pollution Control Property (TCEQ-0611). For these Tier I applications, the subject pollution control property included in the application is listed on the TCEQ's Predetermined Equipment List ("PEL"), and are identified and summarized as follows:

Dielectric Coatings: Cathodic Protection and Factory Installed Protective Coatings of Underground Piping Systems (PEL-T 32)

Pertinent Rule(s), Regulation(s) or Law(s):
Title 30 Texas Administrative Code Chapter 307, Texas Surface Water Quality Standards; Chapter 308, Criteria and Standards for the National Pollutant Discharge Elimination System; and Chapter327, Spill Prevention and Control.

Metal dissolution is reduced or slowed through the application of a cathodic current. Such protection is often applied to coated structures exposed to a corrosive environment. Dielectric coatings of underground piping systems, installed during initial construction, as well as factory-installed coal-tar epoxies, enamels, etc. used as protective coatings for such underground piping, are used to control and/or to prevent the degradation of metal piping through which the inadvertent release of process product, process water, wastewater or an effluent could be released to surface waters or ground waters in the State.

Pig Launcher/Receivers: Automatic Line Leak Detectors (PEL-T 24)

Pertinent Rule(s), Regulation(s) or Law(s):
Title 30 Texas Administrative Code Chapter 307, Texas Surface Water Quality Standards; Chapter 308, Criteria and Standards for the National Pollutant Discharge Elimination System; and Chapter327, Spill Prevention and Control.

Pipeline inspection gauges or "Pigs" are tools that are sent down a pipeline and propelled by the pressure of the product in the pipeline to detect pipeline breach and wear. Pigs provide inspection of the condition of pipeline walls (Inline Inspection tools). These additions control and/or prevent the inadvertent product release, through damage/leak in to pipeline, to surface waters or ground waters in the State.

RESPONSE TO PETITION

To date, neither Appellant nor their private appraisal firm with which each Appellant contracts for this purpose, Pritchard & Abbott, Inc., have recognized any exemptions granted by the TCEQ to the Applicant in either of these Appraisal Districts – whether such exemptions are in dispute or not. Appellants have instead ignored the determinations of the TCEQ and arbitrarily listed Applicant's property on their appraisal rolls for taxation at the full market value of such property, without deducting the portion of that value attributable to Applicant's approved pollution control exemptions.

Appellant:

It is our belief that some if not most, of the equipment mentioned in the dielectric coatings (cathodic protection) and pig launching/receiving equipment is part of standard production equipment associated with pipelines for many decades and does not qualify for a property tax exemption primarily because this equipment is installed for productivity and/or safety purposes, not pollution control.

Response:

Maintaining pipeline integrity and ensuring safe transportation is the highest importance to HPL pipeline operators. Dielectric coatings, cathodic protection and pigging operations are some of the principal methods used to help prevent the inadvertent release of air or water pollution, via process product releases, to the environment. The mechanics of these pollution control equipment prevention activities is described as follows:

Dielectric coatings provide cathodic protection, as well as physical protection, to the surface of pipe. Such protection slows and/or stops corrosion from occurring. Corrosion on pipelines is directly related to the internal and external (soil) conditions present for a unique location of a given pipeline, as well as to the materials of manufacturing and the quality of these materials. Pipelines in submerged conditions are subject to a greater risk of corrosion because of the continuous presence of corrosive moistures – the electrolyte necessary to have the

electrochemical corrosion reaction to proceed. The specific chemical composition, resistivity and redox potential of the soil/water table determine the relative corrosivity or risk of corrosion. Dielectric coatings act as a direct barrier between the pipeline walls and the soil.

In addition to dielectric coatings, pipeline operators employ the use of sacrificial anodes. With soil characteristics, it is useful to measure the electrochemical potential of the structure in the electrolyte (soil or water). The structure-to-soil potential of a buried asset can be related to the present state of corrosion, with less electronegative values of potential indicated an increasing likelihood of active corrosion. By using sacrificial (galvanic) cathodic protection or impressed cathodic protection system, corrosion can be mitigated by shifting the structure-to-soil potential to more electronegative values where the corrosion reactions are not favored thermodynamically.

Pipeline inspection and gauging (PIGs) is a form of non-destructive testing (NDT) and pipe wall thickness measurement. These NDT tools detect pipeline dents, buckles, wrinkles, cracks, diameter changes, slope changes, construction damage, corrosion, and determine wall thickness, as well as treat the lines with protective chemical coatings. By periodic testing and inspection of pipe using these devices for the internal surface of an entire pipeline, pipeline operators can store the data in memory for interpretation of findings and can proactively intervene to prevent any catastrophic failure and inadvertent release of particulate or gases (air pollutant emissions) to the atmosphere. In summary, by collecting, comparing and reviewing this data, pipeline operators can be proactive in finding and correcting potential defects and damage that can occur over time.

Dielectric coatings, sacrificial anodes, and pipeline inspection and gauging equipment help protect the integrity of the pipeline from inadvertent product release and consequent environmental (air and/or water) contamination to the environment and population. The inclusion of this equipment does not aid or enhance product delivery throughout a pipeline system.

Appellant:

As we understand it, the inclusion of cathodic protection as it appears in the TCEQ Predetermined Equipment List (PEL) was originally intended for gasoline storage tanks at service stations that rarely employed cathodic protection and therefore was an incentive to the owners to this equipment to prevent corrosion and associated pollution.

Response:

We are unable to determine what the "intent" was of the TCEQ Predetermined Equipment List (PEL), other than it is for predetermined pollution control equipment.

Appellant:

There are other items also on this application that we would like more time to review for their alleged pollution control aspects. We have not been given sufficient information or time to obtain and study details relative to equipment addressed in the application requesting exemption.

Response:

Appellant's allegations are groundless by his own admission.

If you have any questions regarding the application or the information supplied with these application, please contact me at (512) 671-5580 or Ms. Kathy Tronsberg of Duff & Phelps LLC at (215) 430-6059.

Very truly yours,

Mr. Greg Maxim
Duff & Phelps LLC.

Enclosures

cc: Kathy Tronsberg (Duff & Phelps LLC - Philadelphia)
Rick Fine (Duff & Phelps LLC - Austin)