

Kathleen Hartnett White, *Chairman*
Larry R. Soward, *Commissioner*
H. S. Buddy Garcia, *Commissioner*
Glenn Shankle, *Executive Director*



TEXAS
COMMISSION
ON ENVIRONMENTAL
QUALITY

MAY 18 2007 10:24

CHIEF CLERK'S OFFICE

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

Protecting Texas by Reducing and Preventing Pollution

USE DETERMINATION

The Texas Commission on Environmental Quality has reviewed Use Determination Application, 06-11002, filed by:

HOUSTON PIPELINE COMPANY
HOUSTON PIPELINE COMPANY
RUSK COUNTY

The pollution control property/project listed in the Use Determination Application is:

Compressor station employs state-of-the-art Lean Burn Gas-Fired Compressor Driver technology employing advanced mechanical design and electronic combustion (Caterpillar G3600 gas engine family) to reduce NOx emissions. Cathodic protection and factory installed protective coatings of the underground piping system. Automatic Line Leak Detection: pipeline inspection gauges. Stormwater run-off control.

The outcome of the review is:

A positive use determination of 100% for the Dielectric Coatings (Cathodic Protection), Pig Launcher/receiver and the stormwater controls. A positive use determination of 20% for the three lean burn gas fired compressor drivers.

This equipment is considered to be pollution control equipment and was installed to meet or exceed federal or state regulations.

A handwritten signature in black ink, appearing to read "G. Shankle".

Executive Director

5/18/2007
Date

Kathleen Hartnett White, *Chairman*
Larry R. Soward, *Commissioner*
H. S. Buddy Garcia, *Commissioner*
Glenn Shankle, *Executive Director*



TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

Protecting Texas by Reducing and Preventing Pollution
May 22, 2007

DUFF & PHELPS LLC
GREG MAXIM
111 CONGRESS 4TH FLOOR
AUSTIN TX 78701

This letter is to inform you that on 05/18/07 the technical review of Use Determination Application, 06-11002, for:

HOUSTON PIPELINE COMPANY
HOUSTON PIPELINE COMPANY
RUSK COUNTY

was completed. The use determination is included with this letter. In order to request an exemption, a copy of this Use Determination, along with a completed exemption request form #50-248 (can be found at www.cpa.state.tx.us), must be provided to the Chief Appraiser of the appropriate appraisal district. This request must be made by May 1.

House Bill 3121, enacted during the 77th Legislative Session, established a process for appealing a use determination. The Texas Commission on Environmental Quality (TCEQ) rules that implement the appeals process are at 30 TAC 17.25. Pursuant to 17.25(a)(1), an appeal must be filed within 20 days of receipt of the use determination. Should you choose to appeal the use determination, please submit a copy of your appeal to the TCEQ Tax Relief for Pollution Control Property program at the time of filing the appeal with the Chief Clerk of the commission.

If you have any questions or require any additional information please contact the Tax Relief for Pollution Control Property Program at (512) 239-6348.

Sincerely,

A handwritten signature in cursive script that reads "Ronald L. Hatlett".

Ronald L. Hatlett
Tax Relief for Pollution Control Property Program

Kathleen Hartnett White, *Chairman*
Larry R. Soward, *Commissioner*
H. S. Buddy Garcia, *Commissioner*
Glenn Shankle, *Executive Director*



TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

Protecting Texas by Regulating and Preventing Pollution

CHIEF APPRAISER
RUSK COUNTY APPRAISAL DISTRICT
PO BOX 7
HENDERSON TX 75653

This letter is to inform you that on 5/21/2007 a final determination was issued with regard to Use Determination application 06-11002 filed by:

HOUSTON PIPELINE COMPANY
HOUSTON PIPELINE COMPANY
RUSK COUNTY

A copy of the use determination is included with this letter. House Bill 3121, enacted during the 77th Legislature Session, established a process for appealing a use determination. The Texas Commission on Environmental Quality (TCEQ) rules that implement the appeals process are at 30 TAC 17.25. Pursuant to 17.25(a)(1), an appeal must be filed within 20 days of receipt of the use determination. Should you choose to appeal the use determination, please submit a copy of your appeal to the TCEQ Tax Relief for Pollution Control Property program at the time of filing the appeal with the Chief Clerk of the commission.

In order to qualify for a tax exemption the applicant must file an exemption request with your appraisal district. This exemption request must be accompanied by a copy of the positive use determination issued by the TCEQ. If you have any questions regarding this Use Determination or the appeals process please call me at 512/239-6348.

Sincerely;

Ronald A. Hatlett

Ronald Hatlett
Tax Relief for Pollution Control Property

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY
APPLICATION FOR USE DETERMINATION
FOR POLLUTION CONTROL PROPERTY

The Texas Commission on Environmental Quality (TCEQ) has the responsibility to determine whether a property is a pollution control property. A person or political subdivision seeking a use determination for pollution control property must complete the attached application or use a copy or similar reproduction. For assistance in completing this form refer to the TCEQ guidelines document, *Property Tax Exemptions for Pollution Control Property*, as well as 30 TAC §17, rules governing this program. For additional assistance please contact the TCEQ Tax Relief for Pollution Control Property Program at 512/239-6348. The application should be completed and mailed, with the appropriate fee, to: TCEQ MC-214, Cashiers Office, P.O. Box 13088, Austin, Texas, 78711-3088.

1. GENERAL INFORMATION

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

- Corporation Sole Proprietor
 Partnership Utility
 Limited Partnership Other _____

B. Size of company: Number of Employees

- 1 to 99
 100 to 499
 500 to 999
 1,000 to 1,999
 2,000 or more

C. Business Description: Natural Gas Transmission

2. TYPE OF APPLICATION

A. Tier I \$150 Application Fee

If all property listed in Section 8 of this application is on the predetermined equipment list (PEL) or is necessary for the installation or operation of equipment on the list, then check this box.

B. Tier II \$1,000 Application Fee

If any property listed in Section 8 is not on the PEL, and all of this property is used 100% for pollution control, then check this box.

C. Tier III \$2,500 Application Fee

If any property listed in Section 8 is not on the PEL and if a partial use determination is being requested for ANY of the property included in the application, then check this box.

NOTE: Enclose a check or money order to the TCEQ along with the application to cover the required fee.

3. NAME OF APPLICANT

- A. Company Name: Houston Pipeline Company
B. Mailing Address (Street or P.O. Box): 800 E Sonterra Blvd Suite 400
C. City, State, ZIP: San Antonio, Texas 78258

4. PHYSICAL LOCATION OF PROPERTY REQUESTING A TAX EXEMPTION
(SEE ATTACHED SCHEDULE 11)

- A. Name of Facility or Unit: _____
B. Type of Mfg. Process or Service: Natural Gas Transmission SIC 4922
C. Street Address: _____
D. City, State, ZIP: _____
E. Tracking Number Assigned by Applicant (Optional): _____

06-11002

5. APPRAISAL DISTRICT WITH TAXING AUTHORITY OVER PROPERTY

A. Name of Appraisal District: See Attached Schedule 11

6. CONTACT NAME (must be provided)

A. Company/Organization Name: Duff & Phelps LLC

B. Name of Individual to Contact: Greg Maxim

C. Mailing Address: 111 Congress, 4th Floor, Austin, Texas 78701

D. City, State, ZIP: Austin, Texas 78701

E. Telephone number and fax number: 512-391-4984 512-391-6814

F. E-Mail address (if available): gregory.maxim@duffandphelps.com

7. RELEVANT RULE, REGULATION, OR STATUTORY PROVISION

Rule, regulation, or law that requires the installation or construction of the property.

MEDIUM	RULE/REGULATION/LAW
Air	<ul style="list-style-type: none"> Title 30 Texas Administrative Code Chapter 117, Control of Air Pollution from Nitrogen Compounds, Rule 117.105
Water	<ul style="list-style-type: none"> 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 Chapter 327, Spill Prevention and Control.

8. DESCRIPTION OF PROPERTY (Complete for all applications)

The following property descriptions outline the environmental purpose, including the anticipated environmental benefit of pollution control additions constructed and placed into use as of January 1st, or currently in Construction Work In Progress and anticipated to be in-service in the future:

1. Lean Burn Gas-Fired Compressor Engines (PEL-A57)

Pertinent Rule(s), Regulation(s) or Law(s):

Title 30 Texas Administrative Code Chapter 117, Control of Air Pollution from Nitrogen Compounds.

The newly constructed compressor station employs state-of-the-art Lean Burn Gas-Fire Compressor driver technology employing advanced mechanical design and electronic combustion controls (e.g., Caterpillar G3600 gas engine family) to reduce NOx emissions from compressor station operation for natural gas pipeline transmission and storage activities.

2. Dielectric Coatings: Cathodic Protection and Factory Installed Protective Coatings of Underground Piping Systems (PEL-T32)

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 Chapter 327, 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.

3. Automatic Line Leak Detectors (PEL-T24)

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 Chapter 327, 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.

9. DECISION FLOWCHART

All property on this application qualifies under Box 7 TCEQ Tier I.

Each piece of equipment or process change must be processed through the following Decision Flow Chart. Each item of property listed on the application must result in a yes answer to boxes 3 and 5. Use the table in section 11 to document which box (7, 9 or 10) was the final destination of each piece of equipment.

The following instructions should be used with the flow chart. **The numbered items below do not correspond to the box numbers in the flow chart.**

1. Prepare a list of all process equipment and pollution control equipment that is considered to be pollution control property.
2. Each item on the list must be run through the flow chart separately. Some items will likely end at different points on the flow chart.
3. Determine whether the item is required to meet or exceed a state, local, or federal environmental regulation, rule or law. If no specific rule citation can be made, then this item does not qualify as pollution control property (Box 4).
4. Determine if there is an environmental benefit at the site where the equipment item is installed. A yes answer to this question is needed to continue evaluating the equipment. If the answer is no, then the equipment does not qualify (Box 4).
5. If the equipment is listed on the Predetermined Equipment List (PEL), then it qualifies as Tier I (Box 7). Determine the appropriate PEL number for each item.
6. Specify all PEL equipment for the project in a single list that is included with the application.
7. If the equipment is not on the PEL, then determine whether the equipment is used wholly for pollution control, i.e., the equipment is not production related and/or does not increase production or improve product quality.
8. If it is wholly for pollution control, then the equipment may qualify as 100% pollution control property under Tier II (Box 9). The applicant must provide sufficient written documentation and justification to prove that it qualifies.
9. If the equipment has both environmental and production elements, then the equipment must be evaluated as a Tier III partial determination (Box 10). The applicant must provide a detailed capital

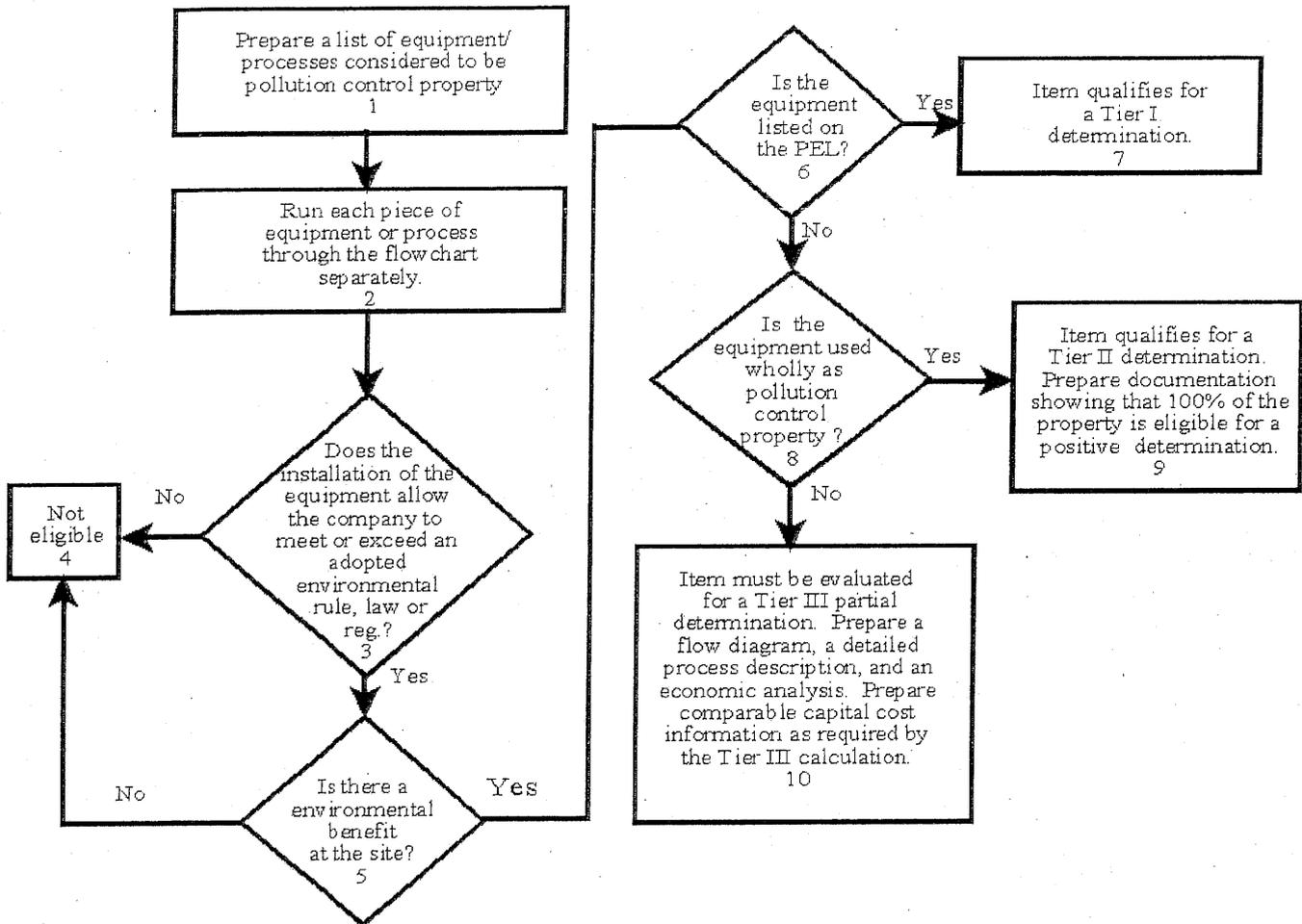
TCEQ Use Determination Application
 Schedule 11
 Tier I Items

Company	County	Property	Item No.	Description	PEL Number	Media	Decision Flow Chart Box 1994?	Property Taxable on or Before 1994?	In Service Date	Estimated Purchased Cost	Eligible Percentage	Total Estimated Purchase Cost
Houston Pipeline Company Risk		Lean Burn Low NOx NG Compressor Engine(s) New Model	1	CAT 3616 (3)	A-57	Air	7	NO	2007 (CWIP)	\$2,400,376	20%	\$480,075
Houston Pipeline Company Risk		Natural Gas Pipeline - Cathodic and Protective Coatings	2	19100804 42" TEXOMA TO CARTHAGE T-32		Water	7	NO	2006/2007	\$1,280,554	100%	\$1,280,554
Houston Pipeline Company Risk		Natural Gas Pipeline - Environmental Controls	3	19100804 42" TEXOMA TO CARTHAGE S-20 / W-57		Land/Water	7	NO	2006/2007	\$398,849	100%	\$398,849
Houston Pipeline Company Risk		Natural Gas Pipeline - Pig Launcher/Receiver	4	19100804 42" TEXOMA TO CARTHAGE T-24		Water	7	NO	2006/2007	\$280,669	100%	\$280,669

3699101

Prop 2 Decision Flow Chart

Applicants must use this flowchart for each piece of equipment or process. In order for a piece of equipment or process to be eligible for a positive use determination the item must generate 'yes' answers to the questions asked in boxes 3 and 5.



10. PARTIAL PERCENTAGE CALCULATION

N/A

11. PROPERTY CATEGORIES AND COSTS

Please see attached schedule 11.

12. EMISSION REDUCTION INCENTIVE GRANT

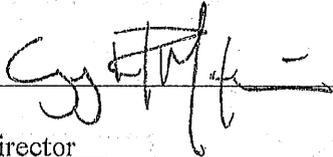
Will an application for an Emission Reduction Incentive Grant be filed for this property/project:

Yes No

14. FORMAL REQUEST FOR SIGNATURE

By signing this application, you certify that this information is true to the best of your knowledge and belief.

Greg Maxim, Director
Property Tax Advisory Services
Duff & Phelps LLC

NAME:  DATE: 03 May 2007
TITLE: Director

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

TAX RELIEF FOR POLLUTION CONTROL PROPERTY: TECHNICAL REVIEW DOCUMENT

Reviewed By: RLH App. No.: 06 - 11002 Review Start Date: 5/18/2007
Company Name: HOUSTON PIPELINE COMPANY
Facility Name: HOUSTON PIPELINE COMPANY

TIER LEVEL

What Tier is this application? The application was filed as a Tier I application.

The property listed on this application on the predetermined equipment list. This is a Tier I application.

RELEVANT RULE, REGULATION, OR STATUTORY PROVISION

The rule listed in the application is:

30 TAC 117.105

30 TAC 117.105: Control of Air Pollution from Nitrogen Compounds, Combustion at Major Sources, Utility Electric Generation in Ozone Non-Attainment Areas, Emission Specifications for Reasonably Available Control Technology (RACT). This an appropriate rule.

DESCRIPTION OF PROPERTY

Description: Is an adequate description and purpose of the property provided? Does it list the anticipated environmental benefits? Are sketches and flow diagrams provided if needed?

The property is described as:

Compressor station employs state-of-the-art Lean Burn Gas-Fired Compressor Driver technology employing advanced mechanical design and electronic combustion (Caterpillar G3600 gas engine family) to reduce NOx emissions. Cathodic protection and factory installed protective coatings of the underground piping system. Automatic Line Leak Detection: pipeline inspection gauges. Stormwater run-off control.

The description is appropriate.

DECISION FLOWCHART

Mark the appropriate boxes: Box 3 Y Box 5 Y Box 6 Y Box 8 Box 10

Reason this box was chosen:

The property meets an environmental rule and exits Box 3. It has an environ. benefit and exits Box 5. It is listed on the PEL and exits at Box 7.

TIER III APPLICATIONS

Did the applicant use the CAP? Recalculate the CAP. Does your calculation agree with the applicants?

This is not a Tier III application.

PROPERTY CATEGORIES AND COSTS

Is the table completed correctly? Has the applicant certified that all listed property became taxable for the first time after January 1, 1994? Is all information necessary for conducting the technical review included.

The table is completed appropriately

TECHNICAL REVIEW

Is the application technically complete? If the answer is no, what is missing? Provide the language used in the NOD letter. If yes then develop the use determination language.

Technically complete when received: Y

NOD RESPONSE

Full Property Description:

Compressor station employs state-of-the-art Lean Burn Gas-Fired Compressor Driver technology employing advanced mechanical design and electronic combustion (Caterpillar G3600 gas engine family) to reduce NOx emissions. Cathodic protection and factory installed protective coatings of the underground piping system. Automatic Line Leak Detection: pipeline inspection gauges.

DETERMINATION

Provide the reason for your determination.

The property item is on the PEL. There is an environmental benefit provided at the site. It was installed to meet an adopted environmental rule. The application was completed correctly and the correct fee was paid. A positive determination should be issued.

Provide the language for the final determination.

A positive use determination of 100% for the Dielectric Coatings (Cathodic Protection), Pig Launcher/receiver and the stormwater controls. A positive use determination of 20% for the three lean burn gas fired compressor drivers.

***** ED Approval Required: N *****

Reviewed by: *Gary E. McArthur*

Date: 5/18/2007

Peer Reviewed By: *Ronald A. Hallett*

Date: 5/18/2007