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Keystone Pipeline in Kansas

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The Keystone Pipeline System includes several crude oil pipelines being built by TransCanada, a Canadian energy company. The map shows the various components of the System. Phase I of the Keystone Pipeline originates in Hardisty, Alberta and connects to Steele City, Nebraska before turning east to serve refineries in Illinois. A portion of this pipeline crosses Kansas for approximately 100 miles, running through Marshall, Brown, Nemaha, and Doniphan counties. Phase I of the Keystone Pipeline went into service June 30, 2010.

Phase II of the Keystone Pipeline, the “Cushing Extension,” connects Steele City, Nebraska to Cushing, Oklahoma. The extension crosses Kansas for approximately 210 miles, through Washington, Clay, Dickinson, Marion, Butler, and Cowley counties. Construction on this portion of the pipeline is projected to be completed in late 2010, with the pipeline to be in service in 2011.

Phases III and IV of the Keystone Pipeline, the Gulf Coast Expansion Project or Keystone XL, involve construction of new pipeline south from Cushing, Oklahoma to near Port Arthur and Houston, Texas and an additional pipeline from Hardisty, Canada to Steele City, Nebraska. The Gulf Coast Expansion is in the permitting process.



Kansas Property Tax Exemption for Crude Oil Pipelines

In May 2006, Kansas enacted the Kansas Energy Development Act (House Sub. for SB 303), which, among other things, provided a property tax exemption for certain types of energy-related projects, including crude oil and natural gas pipelines. The exemption can be claimed for the period of construction and for ten years after construction is completed. To qualify for the property tax exemption, a crude oil or natural gas pipeline must be located in Kansas and must meet the following criteria:

- It must be used primarily for transportation of crude oil or natural gas liquids;
- It must have a length of more than 190 miles in Kansas; and
- It must be accessible to refineries or natural gas liquid processing facilities in Kansas.

To request a property tax exemption, a pipeline company must file an application with the Division of Property Valuation in the Kansas Department of Revenue. Division staff review the application and make a recommendation to the Court of Tax Appeals, which determines whether to grant or deny the request for a property tax exemption.

In mid-October 2010, TransCanada filed a request with the Division of Property Valuation for a property tax exemption for Phase II of the Keystone Pipeline, the Cushing Extension. Division officials did not recommend approval of the tax exemption. Next, the Court of Tax Appeals will take the request under consideration. To date, TransCanada has not requested a property tax exemption for the portion of Phase I of the pipeline that runs through northeast Kansas.

The six Kansas counties affected by the Cushing Extension have expressed concerns about the revenue that would be lost if the project is granted a property tax exemption. Recently, Marion, Dickinson, Butler, Clay, Washington, and Cowley counties have hired an attorney to represent their interests with regard to the pipeline. An issue being raised by the counties is whether Kansas refineries will have access to the pipeline, which is part of the eligibility criteria for the tax exemption, and whether access means being able to directly tap into the pipeline, or whether it includes indirect methods.

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