



# ONEOK

April 4, 2017  
Before the House Taxation Committee  
Opposition testimony on HB 2406

Oral Testimony of Michael Gillaspie, Manager Governmental Affairs  
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Good afternoon Mr. Chairman and members of the committee. My name is Michael Gillaspie and I work for ONEOK, Inc. as the manager of government relations in Kansas. ONEOK owns one of the nation's premier natural gas liquids (NGL) systems, connecting NGL supply in the Mid-Continent, Permian and Rocky Mountain regions with key market centers and is a leader in the gathering, processing, storage and transportation of natural gas in the U.S.

In the early 2000's Chairman Carl Holmes of the Utilities/Energy Committee believed that infrastructure was important to the long term economic machine of the Kansas economy, thinking far into the future, hoping to attract investment from all types of industries, to make lasting investments in the state. He wasn't alone in this effort, because in his time as Chair and his service in the legislature, the legislature passed legislation that encouraged industry and gave us confidence. To better explain this point, I'll take the words from one of the statutes that go into some of the exemptions aimed at investment in Kansas during that time:

*K.S.A 79-224. Same; certain telecommunications machinery and equipment and railroad machinery and equipment. (a) It is the purpose of this section to promote, stimulate, foster and encourage new investments ..... in the state of Kansas ..... to contribute to the economic recovery of the state, to enhance business opportunities in the state, to encourage the location of new businesses and industries in the state as well as the retention and expansion of existing businesses and industries and to promote the economic stability of the state by maintaining and providing employment opportunities, thereby contributing to the general welfare of the citizens of the state, by exempting from property taxation .....*

While the legislation that included the pipeline language that passed in 2006 didn't have quite as eloquent of a preamble, the intent of the legislation was the same; to encourage new investment and continue contributions to the economic stability and general welfare of the citizens of the state. To qualify for the exemption, a pipeline must first be new construction, be over 190 miles, and finally, must apply with the Board of Tax Appeals to receive it.

We believe the legislation has accomplished the intended result, and I'd like to tell you about ONEOK and how after the construction of Overland Pass pipeline, a joint venture between ONEOK and Williams, we have grown not only our footprint in Kansas, but also a have created a long term value for the Kansas economy.

## **ONEOK's Investment in Kansas since 2005**

In 2005, ONEOK shifted its model, from focusing so much on the distribution companies in our three Midwest states, Kansas, Oklahoma and Texas, aiming itself in a new direction. This led to a major change and different direction for ONEOK within the natural gas industry. We decided to invest heavily in natural gas liquids and the midstream business.

Below is a comprehensive list of ONEOK investments and improvements in Kansas since 2005:

- Acquired Koch NGL assets in Mid-Continent
- Constructed of Overland Pass Pipeline (the only facility that receives the exemption in question)
- Acquired NGL North System from Kinder Morgan
- Restored and improved Bushton NGL fractionator and facilities
- Expanded flexibility between Hutchinson, KS fractionator and Medford, OK fractionator, and modification of existing fractionation and NGL storage at Hutchinson.
- Expanded Bushton NGL fractionator to handle 210,000 barrels per day (bpd), from former 60,000 bpd

Please review the "ONEOK Kansas Fact Sheet"; one side has is our Kansas footprint and the other side is the entire ONEOK footprint as of the end of 2016. The Kansas map, as well as 80% of the rest of the bigger map would look bare compared to what it is now, if we hadn't taken risks, making investments in the NGL and midstream space.

Kansas is one of the main hubs through which much of our business is connected. The construction of the Overland Pass Pipeline, connecting our North Dakota (Bakken) assets to our Midcontinent assets, is crucial to our business. As the largest natural gas liquids gatherer in the Bakken, we bring all of the natural gas liquids on the Overland Pass Pipeline to Bushton and Conway, Kansas, yielding opportunity for our company and benefits for our employees in Kansas and the Midcontinent.

Along with the map on the fact sheet and the list of some of our recent projects, it shows that our company employs 214 individuals in Kansas. That number may seem low for the size of our business, but it is solely because ONEOK does it's best to operate efficiently, to deal with the booms and busts of the oil and gas industry. Since founding in 1906 the company has never had a layoff, unlike what you've often seen happen from other companies in our sector. We rely heavily on contractors and services from local businesses in our state. One ONEOK job in the field typically leads to two other contractors or individuals being hired to help our business; whether it's well services for our underground storage, maintenance for our thousands of miles of our pipe, or cleaning services at our facilities.

### **Tax Treatment for Pipelines**

In Kansas, pipelines that cross county lines are considered "Centrally Valued" and assessed at the 33% assessment rate, which is much higher than most locally assessed commercial facilities in Kansas, who are assessed at 25%. At ONEOK, we only have three facilities locally valued; fractionation facilities at Bushton, Hutchinson and Conway. We own and operate 7,200 miles of pipeline assessed at 33%. The Overland Pass Pipeline, which is approximately 220 miles long in Kansas, is the only portion of our 7,200 mile system exempt from property tax. That line is in year 8 of the 10 year, 100% exemption for qualifying pipeline over 190 miles.

To get the bigger overall picture of how pipelines are taxed, we looked at how our pipelines are taxed in Kansas compared to surrounding states. I asked my tax department to provide me the taxes paid for two of our pipelines to compar. We used two lines that cross state lines for the comparison.

## Effective Tax Rate Comparison for Property Taxes by state:

### ONEOK North System, L.L.C.

#### 2015 Property Tax Analysis

State	Market Value	Allocation %	Allocated Value	Tax Paid	Effective Rate
IA	310,571,637	27.05%	84,000,000	2,986,051	3.55%
KS	246,000,000	31.19%	76,733,550	3,324,465	4.33%
MO	316,000,000	1.61%	5,091,905	119,682	2.35%
NE	355,000,000	2.91%	10,345,845	154,016	1.49%

### ONEOK NGL Pipeline, L.L.C.

#### 2016 Property Tax Analysis

State	Market Value	Allocation %	Allocated Value	Tax Paid	Effective Rate
KS	100,000,000	30.09%	30,094,400	1,453,612	4.83%
OK	265,647,206	16.05%	42,631,953	730,185	1.71%

To be more specific, the exact same pipeline goes through North East Kansas and Nebraska, but ONEOK pays more in Washington County, KS than it does in all of the counties crossing through Nebraska combined.

### Who has qualified for this pipeline property tax exemption?

It is our understanding that only three pipelines have qualified for this exemption as of 2017. Older pipelines didn't receive the exemption; only new pipelines over 190 mile pipelines constructed after 2005 receive it; aiming at new investment in the Kansas. The ONEOK/Williams joint venture, Overland Pass Pipeline was the first to qualify for the exemption and receive it. TransCanada was the second pipeline to receive the exemption, and it is our understanding that a Magellan, Anadarko and NGL Pipeline joint venture, was the third exemption.

According to the Pipeline and Hazardous Materials Safety Administration, there are 47,388 miles of underground pipeline in Kansas. Less than 1,500 miles of pipe are exempt from property tax, which is a little more than 3% exempt from property tax. This means almost 97% of pipelines in Kansas pay property taxes, at the highest assessed rate.

If you reference K.S.A. 79, the Taxation section of the statutes, there is a long list of items that are granted some type of exemption. There are many exemptions, from renewables to power plants, but the one exemption that more closely compares to pipelines, is K.S.A. 79-259, exempting electric transmission lines. We have comparable costs on constructing a mile of infrastructure, over \$1 million per mile, with the task of transporting product from point A to point B. However, electric lines receive a 10 year property tax exemption for any line over 5 miles, and pipelines must be 190 miles before qualifying for an exemption.

### Recommendations

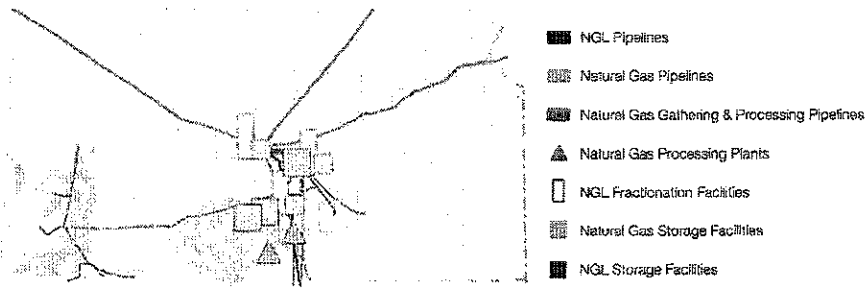
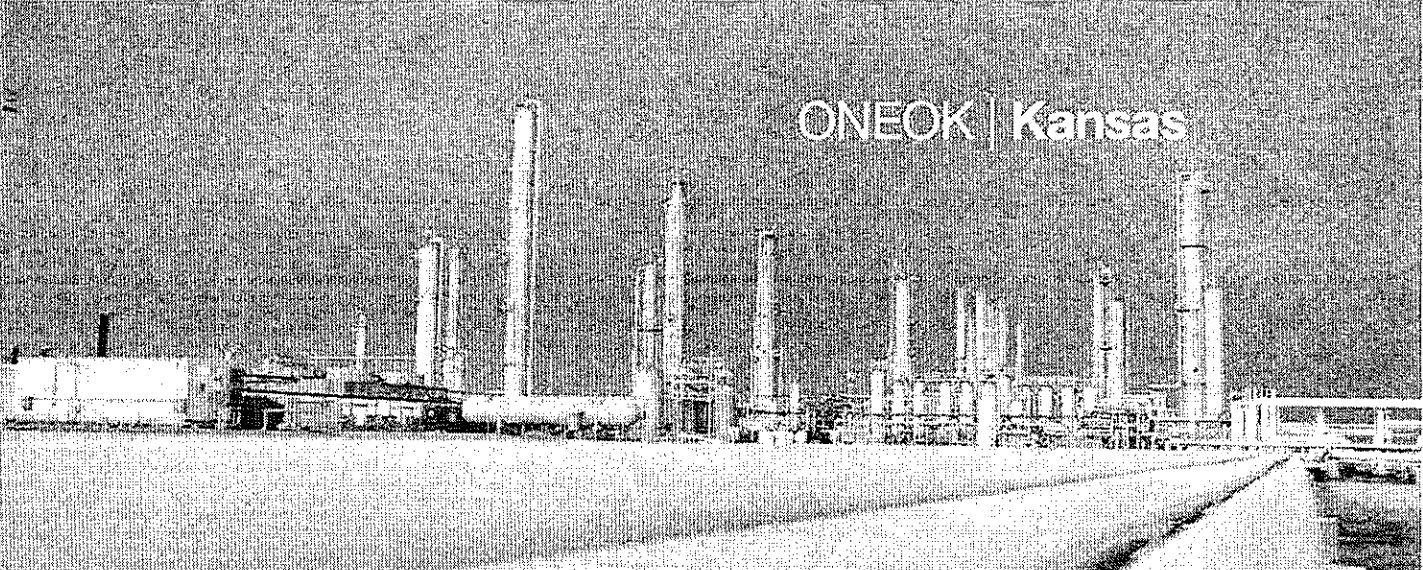
1. We believe the exemption should remain until the day the legislature makes the determination that zero property tax exemptions should exist.
2. All property currently receiving the exemption should continue to receive the exemption.
3. We recommend that any new pipeline over 5 miles, receive a 10 year, 50% tax exemption. The 50% exemption would cut the effective tax rate in half, making pipeline taxes in Kansas comparable to other states.

## **Conclusion**

ONEOK paid over \$11 million in property taxes in Kansas in 2016, and is often the one of the largest single property tax payers in the counties we operate in. Pipelines are taxed at the highest effective tax rate in Kansas, higher than our surrounding states. With an average life of 60 to 70 years, pipelines provide a solid property tax base for many of our rural counties in Kansas, even if 10 years are exempt from tax. This average life is much longer than most pieces of infrastructure in Kansas.

Pipeline companies are in a competitive market. Financial decisions are made for many reasons, and competition is the main driver. When taxes are high and increase our cost to ship, they can disadvantage a company that has assets in a high tax state.

We oppose the bill in its current form. Thank you for the opportunity to testify on HB 2406. I will be happy to answer questions or provide clarification at the appropriate time.



### Recent ONEOK Investments in Kansas

- \$115 million to \$120 million to build a 95-mile natural gas liquids (NGL) pipeline that connects existing NGL fractionation and storage facilities in Hutchinson, Kansas, to similar facilities in Medford, Oklahoma, as well as modifications to existing NGL fractionation and storage facilities at Hutchinson, Kansas.
- \$117 million for the Bushton NGL fractionator expansion, which increased NGL fractionation capacity to 210,000 barrels per day (bpd) from 60,000 bpd.
- \$36 million to expand by 60,000 bpd the capacity of the our 50 percent-owned Overland Pass Pipeline, a 760-mile NGL pipeline extending from southern Wyoming to Bushton, Kansas.

*All project investment amounts are estimates and represent entire projects. Because some projects listed cross multiple states, investment amounts are not necessarily specific to one state.*

For more information, contact **Michael Gillaspie**, manager of government affairs, 785-435-8405 or michael.gillaspie@oneok.com.

Careers: [www.oneok.com/careers](http://www.oneok.com/careers)  
[www.oneok.com](http://www.oneok.com) or [www.oneokpartners.com](http://www.oneokpartners.com)

### Business at a Glance

#### Current Kansas Infrastructure

#### Natural Gas

Miles of natural gas pipelines	5,269
Natural gas processing plants	2
Natural gas storage facilities	4

#### Natural Gas Liquids (NGL)

Miles of NGL pipelines	1,960
NGL fractionation facilities	3
NGL storage facilities	3

#### Economic Impact (2016 Totals)

Employees (as of February 2017)	214
Payroll (federal taxable wages)	\$16,857,701
Property tax	\$11,024,720

*These figures do not include tax or employee information from ONEOK's former natural gas distribution business*

### Community Investments



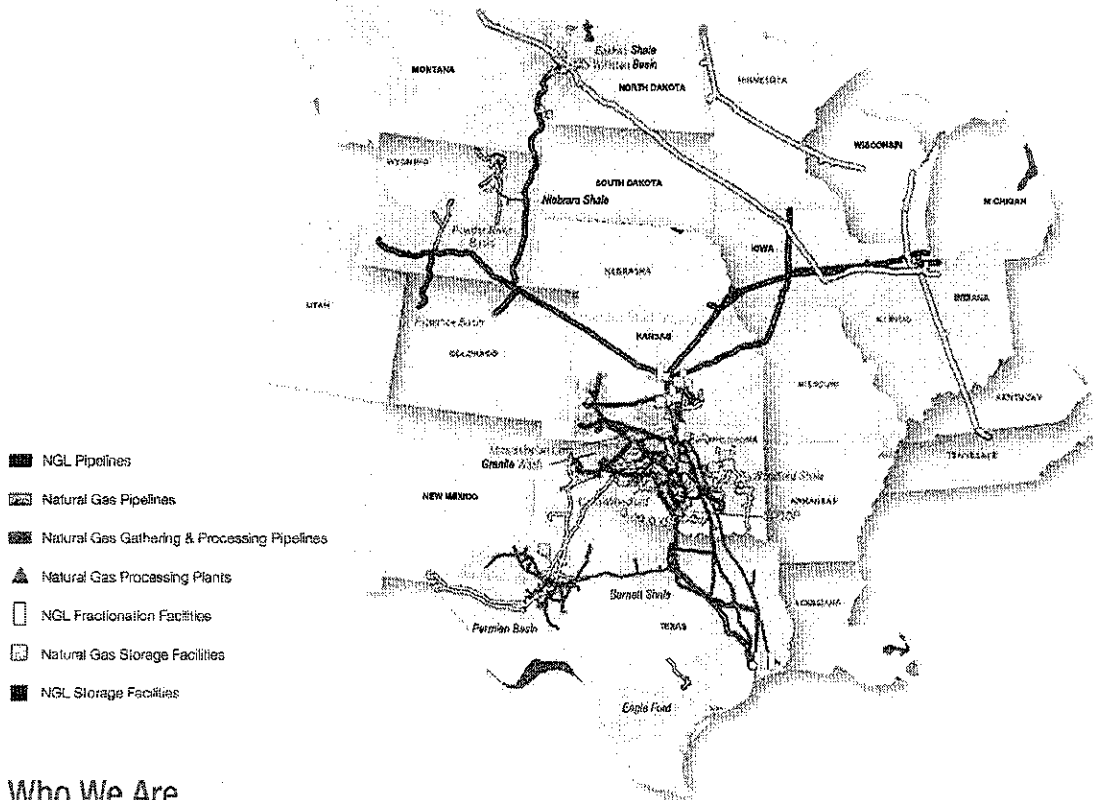
Kansas, 2016 Total

Contributions: \$126,371

*Image: Holyrood Fire Department awarded emergency responder grant.*



**ONEOK**



## Who We Are

Tulsa-based ONEOK (NYSE: OKE) is the general partner and, as of Dec. 31, 2016, owns 41.2 percent of ONEOK Partners, L.P. (NYSE: OKS), one of the largest publicly traded master limited partnerships, which owns one of the nation's premier natural gas liquids (NGL) systems, connecting NGL supply in the Mid-Continent, Permian and Rocky Mountain regions with key market centers and is a leader in the gathering, processing, storage and transportation of natural gas in the U.S.

- ONEOK provides the management resources that enable ONEOK Partners to execute its growth strategies allowing ONEOK to grow its dividend.
- ONEOK Partners completed more than \$9 billion in growth projects from 2006-2016 that complement and strengthen our business well into the future.
- ONEOK is a FORTUNE 500 company and is included in Standard and Poor's (S&P) 500 Stock Index.

## Natural Gas

- 18,900 miles of gathering pipelines
- 6,700 miles of transmission pipelines
- 55 billion cubic feet of storage capacity
- 21 processing plants
- 1,830 million cubic feet per day of processing capacity

## Natural Gas Liquids

- 7,100 miles of gathering pipelines
- 4,370 miles of distribution pipelines
- 27 million barrels of storage capacity
- 7 fractionators
- 8 NGL product terminals
- 854,000 barrels per day of net fractionation capacity

