

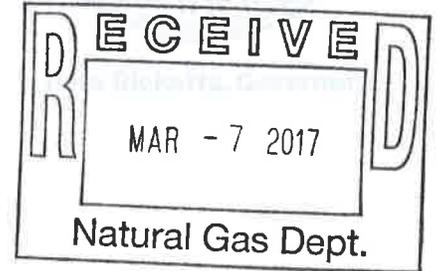
NEBRASKA

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DEPARTMENT OF REVENUE

March 2, 2017

Matthew J. Effken
Legal Counsel
Nebraska Public Service Commission
PO Box 94927
Lincoln, NE 68509-4927



RE: Application of TransCanada Keystone Pipeline, L.P.: Docket No. OOP-0003

Dear Mr. Effken:

Thank you for your February 17, 2017, letter regarding the application of TransCanada Pipeline, L.P. (TransCanada). You have requested that my agency, the Nebraska Department of Revenue (Department) submit a list of potential issues and an estimated budget for completion of a report regarding information within the Department's area of expertise relating to the impact of the TransCanada pipeline.

Rather than provide the list of issues and an estimated budget, the Department will report, via this letter, the impact of the pipeline when it comes to taxation. This will principally comprise four areas of taxation: property tax; sales tax; income tax; and tax incentives.

I. Property Tax

Property taxes are primarily assessed and collected at the local level, although the Department does determine a value for pipelines which it then certifies to the counties. The Department will determine a value for the operating unit as a whole, allocate a portion of that value to Nebraska, and then distribute that value to each political subdivision in which the pipeline has situs. It would be difficult to gauge the impact to counties, as the distributed value will be taxed based on the local levy rate set by each political subdivision. As a final matter, depreciation for personal property will depend on the year the assets are placed in service.

The Department identifies no potential issues in this area arising from the filing of this application. Therefore, there would be no report to address those issues and no budget for completing the report.

II. Sales and Use Tax

During construction of the pipeline, TransCanada or its construction contractors would incur significant sales and use tax liabilities. After construction is complete, there would be very little ongoing sales or use tax liability related to operating the pipeline. The amount of sales and use tax

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liabilities that would be expected is unknown and cannot be determined accurately by the Department at this time.

The Department is not aware of any potential issues in this area due to construction or operation of the pipeline. Therefore, there would be no report to address those issues and no budget for completing the report.

III. Income Tax

During construction of the pipeline, Nebraska would experience some increase in individual income tax revenue due to workers coming to Nebraska to work on the construction project. On an ongoing basis, TransCanada would also have increased factors for purposes of apportioning its nationwide income to Nebraska. This income would be Nebraska source income attributable to its partners. The income tax liability related to this income is unknown and cannot be determined by the Department at this time.

The Department is not aware of any potential issues in this area due to construction or operation of the pipeline. Therefore, there would be no report to address those issues and no budget for completing the report.

IV. Tax Incentives

The Department notes that transportation of tangible personal property is a qualified business under the Nebraska Advantage Act and TransCanada's activities in Nebraska could be eligible for tax incentives available under the Advantage Act. These tax incentives could include a refund of sales taxes paid, as discussed in Part II above, and investment and employment credits against income tax as discussed in Part III. It is unknown and unknowable at this time whether TransCanada will apply for benefits under the Advantage Act or whether it would ultimately qualify for the benefits in the event that it does apply.

The Department is not aware of any potential issues in this area due to construction or operation of the pipeline. Therefore, there would be no report to address those issues and no budget for completing the report.

Please contact me if you have any additional questions.

Sincerely,



Tony Fulton
Tax Commissioner
402-471-5605