GLENN HEGAR TEXAS COMPTROLLER OF PUBLIC ACCOUNTS

P.O. Box 13528 • Austin, TX 78711-3528

July 10, 2018

Hector Mendez
Interim Superintendent of Schools
Pecos-Barstow-Toyah Independent School District
1302 South Park Street
Pecos, Texas 79772

Re: Certificate for Limitation on Appraised Value of Property for School District Maintenance and Operations taxes by and between Pecos-Barstow-Toyah Independent School District and ETC Texas Pipeline, LTD, Application 1240

Dear Superintendent Mendez:

On April 20, 2018, the Comptroller issued written notice that ETC Texas Pipeline, LTD (applicant) submitted a completed application (Application 1240) for a limitation on appraised value under the provisions of Tax Code Chapter 313.[1] This application was originally submitted on February 2, 2018, to the Pecos-Barstow-Toyah Independent School District (school district) by the applicant.

This presents the results of the Comptroller's review of the application and determinations required:

1) under Section 313.025(h) to determine if the property meets the requirements of Section 313.024 for eligibility for a limitation on appraised value under Chapter 313, Subchapter C; and
2) under Section 313.025(d), to issue a certificate for a limitation on appraised value of the property and provide the certificate to the governing body of the school district or provide the governing body a written explanation of the Comptroller's decision not to issue a certificate, using the criteria set out in Section 313.026.

Determination required by 313.025(h)

Sec. 313.024(a)	Applicant is subject to tax imposed by Chapter 171.
Sec. 313.024(b)	Applicant is proposing to use the property for an eligible project.

[1] All Statutory references are to the Texas Tax Code, unless otherwise noted.

Sec. 313.024(d)	Applicant has committed to create the required number of new qualifying jobs and pay all jobs created that are not qualifying jobs a wage that exceeds the county average weekly wage for all jobs in the county where the jobs are located.
Sec. 313.024(d-2)	Not applicable to Application 1240.

Based on the information provided by the applicant, the Comptroller has determined that the property meets the requirements of Section 313.024 for eligibility for a limitation on appraised value under Chapter 313, Subchapter C.

Certificate decision required by 313.025(d)

Determination required by 313.026(c)(1)

The Comptroller has determined that the project proposed by the applicant is reasonably likely to generate tax revenue in an amount sufficient to offset the school district's maintenance and operations *ad valorem tax* revenue lost as a result of the agreement before the 25th anniversary of the beginning of the limitation period, see Attachment B.

Determination required by 313.026(c)(2)

The Comptroller has determined that the limitation on appraised value is a determining factor in the applicant's decision to invest capital and construct the project in this state, see Attachment C.

Based on these determinations, the Comptroller issues a certificate for a limitation on appraised value. This certificate is contingent on the school district's receipt and acceptance of the Texas Education Agency's determination per 313.025(b-1).

The Comptroller's review of the application assumes the accuracy and completeness of the statements in the application. If the application is approved by the school district, the applicant shall perform according to the provisions of the Texas Economic Development Act Agreement (Form 50-826) executed with the school district. The school district shall comply with and enforce the stipulations, provisions, terms, and conditions of the agreement, applicable Texas Administrative Code and Chapter 313, per TAC 9.1054(i)(3).

This certificate is no longer valid if the application is modified, the information presented in the application changes, or the limitation agreement does not conform to the application. Additionally, this certificate is contingent on the school district approving and executing the agreement by December 31, 2018.

Note that any building or improvement existing as of the application review start date of April 20, 2018, or any tangible personal property placed in service prior to that date may not become "Qualified Property" as defined by 313.021(2) and the Texas Administrative Code.

Should you have any questions, please contact Will Counihan, Director, Data Analysis & Transparency, by email at will.counihan@cpa.texas.gov or by phone toll-free at 1-800-531-5441, ext. 6-0758, or at 512-936-0758.

Sincerely,

Mike Reissig
Deputy Comptroller

Enclosure

cc: Will Counihan

Attachment A – Economic Impact Analysis

The following tables summarize the Comptroller's economic impact analysis of ETC Texas Pipeline, LTD (project) applying to Pecos-Barstow-Toyah Independent School District (district), as required by Tax Code, 313.026 and Texas Administrative Code 9.1055(d)(2).

Table 1 is a summary of investment, employment and tax impact of ETC Texas Pipeline, LTD.

Applicant	ETC Texas Pipeline, LTD
Tax Code, 313.024 Eligibility Category	Manufacturing
School District	Pecos-Barstow-Toyah ISD
2016-2017 Average Daily Attendance	2,313
County	Reeves
Proposed Total Investment in District	$105,000,000
Proposed Qualified Investment	$105,000,000
Limitation Amount	$30,000,000
Qualifying Time Period (Full Years)	2019-2020
Number of new qualifying jobs committed to by applicant	10
Number of new non-qualifying jobs estimated by applicant	0
Average weekly wage of qualifying jobs committed to by applicant	$1,143.98
Minimum weekly wage required for each qualifying job by Tax Code, 313.021(5)(B)	$1,143.98
Minimum annual wage committed to by applicant for qualified jobs	$59,486.90
Minimum weekly wage required for non-qualifying jobs	$886.50
Minimum annual wage required for non-qualifying jobs	$46,098
Investment per Qualifying Job	$10,500,000
Estimated M&O levy without any limit (15 years)	$8,830,782
Estimated M&O levy with Limitation (15 years)	$4,708,029
Estimated gross M&O tax benefit (15 years)	$4,122,753

Table 2 is the estimated statewide economic impact of ETC Texas Pipeline, LTD (modeled).

	Employment			Personal Income		
Year	Direct	Indirect + Induced	Total	Direct	Indirect + Induced	Total
2018	178	258	435.79	$10,588,668	$20,761,332	$31,350,000
2019	10	60	70	$594,869	$6,335,131	$6,930,000
2020	10	52	62	$594,869	$5,585,131	$6,180,000
2021	10	39	49	$594,869	$4,665,131	$5,260,000
2022	10	32	42	$594,869	$4,135,131	$4,730,000
2023	10	29	39	$594,869	$3,885,131	$4,480,000
2024	10	29	39	$594,869	$3,835,131	$4,430,000
2025	10	30	40	$594,869	$3,985,131	$4,580,000
2026	10	32	42	$594,869	$4,235,131	$4,830,000
2027	10	34	44	$594,869	$4,545,131	$5,140,000
2028	10	36	46	$594,869	$4,885,131	$5,480,000
2029	10	37	47	$594,869	$5,185,131	$5,780,000
2030	10	38	48	$594,869	$5,525,131	$6,120,000
2031	10	39	49	$594,869	$5,865,131	$6,460,000
2032	10	40	50	$594,869	$6,225,131	$6,820,000

Source: CPA REMI, ETC Texas Pipeline, LTD

Table 3 examines the estimated direct impact on ad valorem taxes to the region if all taxes are assessed.

Year	Estimated Taxable Value for I&S	Estimated Taxable Value for M&O		Pecos-Barstow-Toyah ISD I&S Tax Levy	ISD M&O Tax Levy	M&O and I&S Tax Levies	Reeves County Tax Levy	Reeves County Hospital Tax Levy	Reeves County WCID #2 Tax Levy	Estimated Total Property Taxes
			Tax Rate*	0.0850	0.8607		0.4995	0.2400	0.1194	
2019	$95,000,000	$95,000,000		$80,750	$817,665	$898,415	$474,544	$228,000	$113,383	$1,714,342
2020	$91,200,000	$91,200,000		$77,520	$784,958	$862,478	$455,562	$218,880	$108,847	$1,645,768
2021	$87,400,000	$87,400,000		$74,290	$752,252	$826,542	$436,580	$209,760	$104,312	$1,577,194
2022	$83,600,000	$83,600,000		$71,060	$719,545	$790,605	$417,599	$200,640	$99,777	$1,508,621
2023	$79,800,000	$79,800,000		$67,830	$686,839	$754,669	$398,617	$191,520	$95,241	$1,440,047
2024	$76,000,000	$76,000,000		$64,600	$654,132	$718,732	$379,635	$182,400	$90,706	$1,371,473
2025	$72,200,000	$72,200,000		$61,370	$621,425	$682,795	$360,653	$173,280	$86,171	$1,302,900
2026	$68,400,000	$68,400,000		$58,140	$588,719	$646,859	$341,672	$164,160	$81,635	$1,234,326
2027	$64,600,000	$64,600,000		$54,910	$556,012	$610,922	$322,690	$155,040	$77,100	$1,165,752
2028	$60,800,000	$60,800,000		$51,680	$523,306	$574,986	$303,708	$145,920	$72,565	$1,097,179
2029	$57,000,000	$57,000,000		$48,450	$490,599	$539,049	$284,726	$136,800	$68,030	$1,028,605
2030	$53,200,000	$53,200,000		$45,220	$457,892	$503,112	$265,745	$127,680	$63,494	$960,031
2031	$49,400,000	$49,400,000		$41,990	$425,186	$467,176	$246,763	$118,560	$58,959	$891,458
2032	$45,600,000	$45,600,000		$38,760	$392,479	$431,239	$227,781	$109,440	$54,424	$822,884
2033	$41,800,000	$41,800,000		$35,530	$359,773	$395,303	$208,799	$100,320	$49,888	$754,310
			Total	$872,100	$8,830,782	$9,702,882	$5,125,075	$2,462,400	$1,224,531	$18,514,888

Source: CPA, ETC Texas Pipeline, LTD
*Tax Rate per $100 Valuation

Table 4 examines the estimated direct impact on ad valorem taxes to the school district and Reeves County, with all property tax incentives sought being granted using estimated market value from the application. The project has applied for a value limitation under Chapter 313, Tax Code and tax abatement with the county.

The difference noted in the last line is the difference between the totals in Table 3 and Table 4.

Year	Estimated Taxable Value for I&S	Estimated Taxable Value for M&O		Pecos-Barstow-Toyah ISD I&S Tax Levy	ISD M&O Tax Levy	M&O and I&S Tax Levies	Reeves County Tax Levy	Reeves County Hospital Tax Levy	Reeves County WCID #2 Tax Levy	Estimated Total Property Taxes
			Tax Rate*	0.0850	0.8607		0.4995	0.2400	0.1194	
2019	$95,000,000	$30,000,000		$80,750	$258,210	$338,960	$237,272	$228,000	$113,383	$804,232
2020	$91,200,000	$30,000,000		$77,520	$258,210	$335,730	$227,781	$218,880	$108,847	$782,391
2021	$87,400,000	$30,000,000		$74,290	$258,210	$332,500	$218,290	$209,760	$104,312	$760,550
2022	$83,600,000	$30,000,000		$71,060	$258,210	$329,270	$208,799	$200,640	$99,777	$738,709
2023	$79,800,000	$30,000,000		$67,830	$258,210	$326,040	$199,308	$191,520	$95,241	$716,868
2024	$76,000,000	$30,000,000		$64,600	$258,210	$322,810	$379,635	$182,400	$90,706	$884,845
2025	$72,200,000	$30,000,000		$61,370	$258,210	$319,580	$360,653	$173,280	$86,171	$853,513
2026	$68,400,000	$30,000,000		$58,140	$258,210	$316,350	$341,672	$164,160	$81,635	$822,182
2027	$64,600,000	$30,000,000		$54,910	$258,210	$313,120	$322,690	$155,040	$77,100	$790,850
2028	$60,800,000	$30,000,000		$51,680	$258,210	$309,890	$303,708	$145,920	$72,565	$759,518
2029	$57,000,000	$57,000,000		$48,450	$490,599	$539,049	$284,726	$136,800	$68,030	$960,575
2030	$53,200,000	$53,200,000		$45,220	$457,892	$503,112	$265,745	$127,680	$63,494	$896,537
2031	$49,400,000	$49,400,000		$41,990	$425,186	$467,176	$246,763	$118,560	$58,959	$832,499
2032	$45,600,000	$45,600,000		$38,760	$392,479	$431,239	$227,781	$109,440	$54,424	$768,460
2033	$41,800,000	$41,800,000		$35,530	$359,773	$395,303	$208,799	$100,320	$49,888	$704,422
			Total	**$872,100**	**$4,708,029**	**$5,580,129**	**$4,033,624**	**$2,462,400**	**$1,224,531**	**$12,076,153**
			Diff	**$0**	**$4,122,753**	**$4,122,753**	**$1,091,451**	**$0**	**$0**	**$6,438,735**

Source: CPA, ETC Texas Pipeline, LTD
*Tax Rate per $100 Valuation

Disclaimer: This examination is based on information from the application submitted to the school district and forwarded to the comptroller. It is intended to meet the statutory requirement of Chapter 313 of the Tax Code and is not intended for any other purpose.

Attachment B – Tax Revenue before 25th Anniversary of Limitation Start

This represents the Comptroller's determination that ETC Texas Pipeline, LTD (project) is reasonably likely to generate, before the 25th anniversary of the beginning of the limitation period, tax revenue in an amount sufficient to offset the school district maintenance and operations ad valorem tax revenue lost as a result of the agreement. This evaluation is based on an analysis of the estimated M&O portion of the school district property tax levy directly related to this project, using estimated taxable values provided in the application.

	Tax Year	Estimated ISD M&O Tax Levy Generated (Annual)	Estimated ISD M&O Tax Levy Generated (Cumulative)	Estimated ISD M&O Tax Levy Loss as Result of Agreement (Annual)	Estimated ISD M&O Tax Levy Loss as Result of Agreement (Cumulative)
Limitation Pre-Years	2016	$0	$0	$0	$0
	2017	$0	$0	$0	$0
	2018	$0	$0	$0	$0
Limitation Period (10 Years)	2019	$258,210	$258,210	$559,455	$559,455
	2020	$258,210	$516,420	$526,748	$1,086,203
	2021	$258,210	$774,630	$494,042	$1,580,245
	2022	$258,210	$1,032,840	$461,335	$2,041,580
	2023	$258,210	$1,291,050	$428,629	$2,470,209
	2024	$258,210	$1,549,260	$395,922	$2,866,131
	2025	$258,210	$1,807,470	$363,215	$3,229,346
	2026	$258,210	$2,065,680	$330,509	$3,559,855
	2027	$258,210	$2,323,890	$297,802	$3,857,657
	2028	$258,210	$2,582,100	$265,096	$4,122,753
Maintain Viable Presence (5 Years)	2029	$490,599	$3,072,699	$0	$4,122,753
	2030	$457,892	$3,530,591	$0	$4,122,753
	2031	$425,186	$3,955,777	$0	$4,122,753
	2032	$392,479	$4,348,256	$0	$4,122,753
	2033	$359,773	$4,708,029	$0	$4,122,753
Additional Years as Required by 313.026(c)(1) (10 Years)	2034	$327,066	$5,035,095	$0	$4,122,753
	2035	$294,359	$5,329,454	$0	$4,122,753
	2036	$261,653	$5,591,107	$0	$4,122,753
	2037	$228,946	$5,820,053	$0	$4,122,753
	2038	$204,416	$6,024,470	$0	$4,122,753
	2039	$204,416	$6,228,886	$0	$4,122,753
	2040	$204,416	$6,433,302	$0	$4,122,753
	2041	$204,416	$6,637,718	$0	$4,122,753
	2042	$204,416	$6,842,135	$0	$4,122,753
	2043	$204,416	$7,046,551	$0	$4,122,753

$7,046,551	is greater than	**$4,122,753**

Analysis Summary	
Is the project reasonably likely to generate tax revenue in an amount sufficient to offset the M&O levy loss as a result of the limitation agreement?	Yes

NOTE: The analysis above only takes into account this project's estimated impact on the M&O portion of the school district property tax levy directly related to this project.
Source: CPA, ETC Texas Pipeline, LTD

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Attachment C – Limitation as a Determining Factor

Tax Code 313.026 states that the Comptroller may not issue a certificate for a limitation on appraised value under this chapter for property described in an application unless the comptroller determines that "the limitation on appraised value is a determining factor in the applicant's decision to invest capital and construct the project in this state." This represents the basis for the Comptroller's determination.

Methodology

Texas Administrative Code 9.1055(d) states the Comptroller shall review any information available to the Comptroller including:

- the application, including the responses to the questions in Section 8 (Limitation as a Determining Factor);
- public documents or statements by the applicant concerning business operations or site location issues or in which the applicant is a subject;
- statements by officials of the applicant, public documents or statements by governmental or industry officials concerning business operations or site location issues;
- existing investment and operations at or near the site or in the state that may impact the proposed project;
- announced real estate transactions, utility records, permit requests, industry publications or other sources that may provide information helpful in making the determination; and
- market information, raw materials or other production inputs, availability, existing facility locations, committed incentives, infrastructure issues, utility issues, location of buyers, nature of market, supply chains, other known sites under consideration.

Determination

The Comptroller **has determined** that the limitation on appraised value is a determining factor in the ETC Texas Pipeline, LTD's decision to invest capital and construct the project in this state. This is based on information available, including information provided by the applicant. Specifically, the comptroller notes the following:

- Per ETC Texas Pipeline, LTD, Inc. in Tab 5 of their Application for a Limitation on Appraised Value:
    A. "As the primary available property tax incentive in Texas, a 313 agreement is vital to the proposed Arrowhead II Plant economics just as potential customer response will be. Both factors will be considered before any determination is made."
    B. "Moreover, multiple other potential projects are presently competing for the same capital expenditures by the company, including Louisiana and in New Mexico."
    C. "Louisiana offers a 10-year, 100% property tax abatement under that state's Industrial Tax Exemption program as well as additional state sales tax incentives."
    D. "Because of the proximity of the system to the Waha Hub, the sytem has a variety of market outlets for the natural gas that is gathered and processed, including several major interstate and intrastate pipelines serving California, the mid-continent region of the United States and the Texas/New Mexico natural gas markets."
    E. "Because of existing and new pipeline infrastructure that is now present in New Mexico, ETC has ample freedom to choose where the proposed project can be built. The economic differences outside of tax treatment are considered miniscule because of the Waha's proximity to the NM/TX border. Because of this, the proposed 313 is considered a major determining factor in whether or not the Arrowhead II is completed in Texas."
- A November 14, 2017 *Natural Gas Intelligence (NGI)* article stated the following:
    A. Energy Transfer Partnes LP (ETP) "sees opportunities to capture value as all signs point to a continued increase in associated natural gas volumes from the Permian and potential constraints at Waha, which is in Pecos County, TX."

B. ETP is "extremely optimistic over the next 12-14 months that the basis will blow out, probably blow out materially. We're well positioned to take advantage of that. We're actually going to be feeding that with a lot of these projects that we're bringing on and ramping up with our processing plants and with our Red Bluff upstream intrastate."
C. "ETP placed its 200 MMcf/d Arrowhead processing plant in Reeves County, TX, online during the third quarter to serve the Delaware sub-basin, management said, with the 200 MMcf/d Rebel II processing plant serving the Midland sub-basin scheduled for service in 2Q2018."
D. "Including the Panther Plant, which came online in December of last year, Rebel II is our third plant in the Midland Basin," CFO Thomas Long said. "We're nearing capacity in the Permian, and we'll need Rebel II as soon as possible to meet growing producer demand in the region."
E. "The proposed Red Bluff pipeline is an 80-mile, 30- to 42-inch diameter pipe that would travel through the Delaware. The pipe would carry 1.4 Bcf/d from ETP's Red Bluff and Orla plants, as well as multiple third-party plants, to Waha. That project, which has an anchor shipping commitment from Anadarko Petroleum Corp., is expected to cost $300 million and come online in 2Q2018, management said."
F. "We continue to be believers, the industry does, the producers do," McCrea said. "If you look at what's happened to oil prices and everything that's going on in the Middle East, it points to nothing but significant volume growth out of the Permian Basin and a more significant need to move those volumes out."

- The qualified property for the Arrowhead II Plant (Application #1240) will be placed adjacent to the qualified property for the Arrowhead Plant (Application #1160). Commercial operations for Application #1160 began in 2017.
- Attached Energy Transfer Partners ETP system map with Application #1240 location added.

Supporting Information

a) Section 8 of the Application for a Limitation on Appraised Value
b) Attachments provided in Tab 5 of the Application for a Limitation on Appraised Value
c) Additional information provided by the Applicant or located by the Comptroller

Disclaimer: This examination is based on information from the application submitted to the school district and forwarded to the comptroller. It is intended to meet the statutory requirement of Chapter 313 of the Tax Code and is not intended for any other purpose.

Supporting Information

Section 8 of the Application for a Limitation on Appraised Value

SECTION 6: Eligibility Under Tax Code Chapter 313.024

1. Are you an entity subject to the tax under Tax Code, Chapter 171? ☑ Yes ☐ No
2. The property will be used for one of the following activities:
   (1) manufacturing ☑ Yes ☐ No
   (2) research and development ☐ Yes ☑ No
   (3) a clean coal project, as defined by Section 5.001, Water Code ☐ Yes ☑ No
   (4) an advanced clean energy project, as defined by Section 382.003, Health and Safety Code ☐ Yes ☑ No
   (5) renewable energy electric generation ☐ Yes ☑ No
   (6) electric power generation using integrated gasification combined cycle technology ☐ Yes ☑ No
   (7) nuclear electric power generation ☐ Yes ☑ No
   (8) a computer center that is used as an integral part or as a necessary auxiliary part for the activity conducted by applicant in one or more activities described by Subdivisions (1) through (7) ☐ Yes ☑ No
   (9) a Texas Priority Project, as defined by 313.024(e)(7) and TAC 9.1051 ☐ Yes ☑ No
3. Are you requesting that any of the land be classified as qualified investment? ☐ Yes ☑ No
4. Will any of the proposed qualified investment be leased under a capitalized lease? ☐ Yes ☑ No
5. Will any of the proposed qualified investment be leased under an operating lease? ☐ Yes ☑ No
6. Are you including property that is owned by a person other than the applicant? ☐ Yes ☑ No
7. Will any property be pooled or proposed to be pooled with property owned by the applicant in determining the amount of your qualified investment? ☐ Yes ☑ No

SECTION 7: Project Description

1. In **Tab 4**, attach a detailed description of the scope of the proposed project, including, at a minimum, the type and planned use of real and tangible personal property, the nature of the business, a timeline for property construction or installation, and any other relevant information.
2. Check the project characteristics that apply to the proposed project:
   - ☑ Land has no existing improvements
   - ☐ Land has existing improvements *(complete Section 13)*
   - ☐ Expansion of existing operation on the land *(complete Section 13)*
   - ☐ Relocation within Texas

SECTION 8: Limitation as Determining Factor

1. Does the applicant currently own the land on which the proposed project will occur? ☑ Yes ☐ No
2. Has the applicant entered into any agreements, contracts or letters of intent related to the proposed project? ☐ Yes ☑ No
3. Does the applicant have current business activities at the location where the proposed project will occur? ☐ Yes ☑ No
4. Has the applicant made public statements in SEC filings or other documents regarding its intentions regarding the proposed project location? ☐ Yes ☑ No
5. Has the applicant received any local or state permits for activities on the proposed project site? ☐ Yes ☑ No
6. Has the applicant received commitments for state or local incentives for activities at the proposed project site? ☐ Yes ☑ No
7. Is the applicant evaluating other locations not in Texas for the proposed project? ☑ Yes ☐ No
8. Has the applicant provided capital investment or return on investment information for the proposed project in comparison with other alternative investment opportunities? ☐ Yes ☑ No
9. Has the applicant provided information related to the applicant's inputs, transportation and markets for the proposed project? ☑ Yes ☐ No
10. Are you submitting information to assist in the determination as to whether the limitation on appraised value is a determining factor in the applicant's decision to invest capital and construct the project in Texas? ☑ Yes ☐ No

Chapter 313.026(e) states "the applicant may submit information to the Comptroller that would provide a basis for an affirmative determination under Subsection (c)(2)." If you answered "yes" to any of the questions in Section 8, attach supporting information in Tab 5.

Supporting Information

Attachments provided in Tab 5 of the Application for a Limitation on Appraised Value

AMENDMENT 1 04.09.2018

Tab 5 Limitation as Determining Factor w/ability to locate or relocate:

ETC Texas Pipeline, LTD (or "the Company") is a leading midstream energy company whose primary activities include gathering, treating, processing and transporting natural gas and natural gas liquids to a variety of markets and states. In the states mentioned below, Energy Transfer currently operates over 34,050 miles of pipeline, 32 gas processing plants, 19 gas treating facilities and 3 gas conditioning plants. The states where these operations are located include, Arizona, New Mexico, Utah, Colorado, Kansas, Oklahoma, Texas, Arkansas and Louisiana.

As the primary available property tax incentive in Texas, a 313 agreement is vital to the proposed Arrowhead II Plant economics just as potential customer response will be. Both factors will be considered before any determination is made. Moreover, multiple other potential projects are presently competing for the same capital expenditures by the company, including possible plants in Louisiana and in New Mexico.

- Louisiana offers a 10-year, 100% property tax abatement under that state's Industrial Tax Exemption program as well as additional state sales tax incentives
- New Mexico offers Industrial Revenue Bonds and Job Training incentive programs

In the Delaware/Permian Basin alone, the company owns approximately 7,820 miles of natural gas pipeline, 7 processing facilities with aggregate capacity of 815 MMcf/d (*Waha, Coyanosa, Red Bluff, Halley, Jal, Keystone, and Tippet*), and two treating facilities with aggregate capacity of 200 MMcf/d.

The Delaware/Permian Basin assets offer wellhead-to-market services to producers not only in the Texas counties, but also in the New Mexico Counties of Eddy and Lea which surround the Waha Hub.

Because of the proximity of the system to the Waha Hub, the system has a variety of market outlets for the natural gas that is gathered and processed, including several major interstate and intrastate pipelines serving California, the mid-continent region of the United States and the Texas/New Mexico natural gas markets.

Because of existing and new pipeline infrastructure that is now present in New Mexico, ETC has ample freedom to choose where the proposed project can be built. The economic differences outside of tax treatment are considered miniscule because of the Waha's proximity to the NM/TX border. Because of this, the proposed 313 is considered a major determining factor in whether or not the Arrowhead II is completed in Texas.

Supporting Information

Additional information provided by the Applicant or located by the Comptroller

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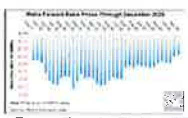
Energy Transfer Says Waha-to-Mexico Ramping Up 'Some Time Down the Road'

Jeremiah Shelor November 14, 2017



Basis differentials at the Waha Hub, situated at the heart of the Permian Basin, could "blow out materially" over the next year or two, and Energy Transfer Partners LP (ETP) is poised to take advantage, management said.

During a conference call last week to discuss 3Q2017 results, COO Marshall McCrea said the Dallas-based midstreamer sees opportunities to capture value as all signs point to a continued increase in associated natural gas volumes from the Permian and potential constraints at Waha, which is in Pecos County, TX.

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"We're probably more well-positioned than anybody," McCrea said. "There's not a lot of capacity out of West Texas. Really, the only way out other than west is through our pipe to Mexico, which we still believe will be some time down the road before they're fully ramping up. So, getting volume growth out of there is going to depend on either a new project or existing capacity, of which we have.

"So, we're extremely optimistic over the next 12-14 months that the basis will blow out, probably blow out materially. We're well positioned to take advantage of that. We're actually going to be feeding that with a lot of these projects that we're bringing on and ramping up with our processing plants and with our Red Bluff upstream intrastate."

ETP placed its 200 MMcf/d Arrowhead processing plant in Reeves County, TX, online during the third quarter to serve the Delaware sub-basin, management said, with the 200 MMcf/d Rebel II processing plant serving the Midland sub-basin scheduled for service in 2Q2018.

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"Including the Panther Plant, which came online in December of last year, Rebel II is our third plant in the Midland Basin," CFO Thomas Long said. "We're nearing capacity in the Permian, and we'll need Rebel II as soon as possible to meet growing producer demand in the region."

The proposed Red Bluff pipeline is an 80-mile, 30- to 42-inch diameter pipe that would travel through the Delaware. The pipe would carry 1.4 Bcf/d from ETP's Red Bluff and Orla plants, as well as multiple third-party plants, to Waha. That project, which has an anchor shipping commitment from Anadarko Petroleum Corp., is expected to cost $300 million and come online in 2Q2018, management said.

"We continue to be believers, the industry does, the producers do," McCrea said. "If you look at what's happened to oil prices and everything that's going on in the Middle East, it points to nothing but significant volume growth out of the Permian Basin and a more significant need to move those volumes out.

"We certainly continue to evaluate other ways to more efficiently and inexpensively move volumes out by expanding systems that we have or using systems that we have in different manners," he said. "We'll continue to evaluate that, and we do believe we'll play a part of that growth on the expansion out of the Waha area. But in the meantime, we're pretty excited about what's going to happen as far as basis spread and how it benefits our assets over the next couple of years."

In the interstate segment of its business, ETP confirmed that the next phase of its 3.25 Bcf/d Rover Pipeline remains on track for completion by the end of the year.

"For Phase 1B, drilling operations on our remaining" horizontal directional drills (HDD) "are nearly complete," Long said. "We expect this phase will be in service and that we will be collecting demand fees on all of Phase 1 before the end of this year. In addition, construction of Phase 2 continues, and we feel confident the entire pipeline will be in service by the end of the first quarter of 2018."

Following a moratorium on HDD activities issued earlier this year, FERC recently provided ETP with several reports from third-party technical advisor J.D. Hair & Associates covering "the remaining HDDs on Rover, which should allow us to resume construction on these drills in short order. Both of these developments provide us with more certainty in meeting our projected in-service dates," Long said.

Rover, which has been flowing about 1 Bcf/d east-to-west through Ohio, is designed to deliver Marcellus and Utica shale gas to markets in the Midwest, Gulf Coast and Canada.

By segment, ETP saw third quarter interstate natural gas transportation volumes increase to 6.075 billion Btu/d from 5.386 billion Btu/d in the year-ago quarter. Management attributed the increase in 3Q2017 to Rover, as well as to increased backhaul deliveries on its Trunkline pipeline, increases on the Tiger pipeline from higher Haynesville Shale production and increases on the Transwestern pipeline from demand in the West and "opportunities in the Texas intrastate market."

"We continue to expect earnings in this segment to pick up once the remaining sections of Rover are in service and we are able to efficiently provide end-user customers with Marcellus and Utica gas," Long said. "In addition, we will also be receiving significant revenues from our backhaul capabilities on Panhandle and Trunkline."

Intrastate natural gas volumes also increased during the quarter to 8.94 billion Btu/d from 8.29 billion Btu/d, with higher exports to Mexico and new pipe additions partially offsetting lower production from the Barnett Shale, management said.

In the midstream segment, gathered volumes increased to 11.09 billion Btu/d from 9.675 billion Btu/d, while natural gas liquids (NGL) production moved higher to 449,454 b/d versus 420,877 b/d in the year-ago quarter. NGL transportation volumes increased to 836,000 b/d versus 766,000 b/d a year ago.

ETP reported net income for the quarter of $761 million (33 cents/unit) versus net income of $136 million (minus 33 cents/unit) in the year-ago period. Quarterly revenues were $6.97 billion versus $5.53 billion in 3Q2016.

Energy Transfer Equity LP reported quarterly net income of $252 million (22 cents/unit) versus $209 million (20 cents) in the year-ago quarter. Revenue totaled $9.47 billion from $7.71 billion.

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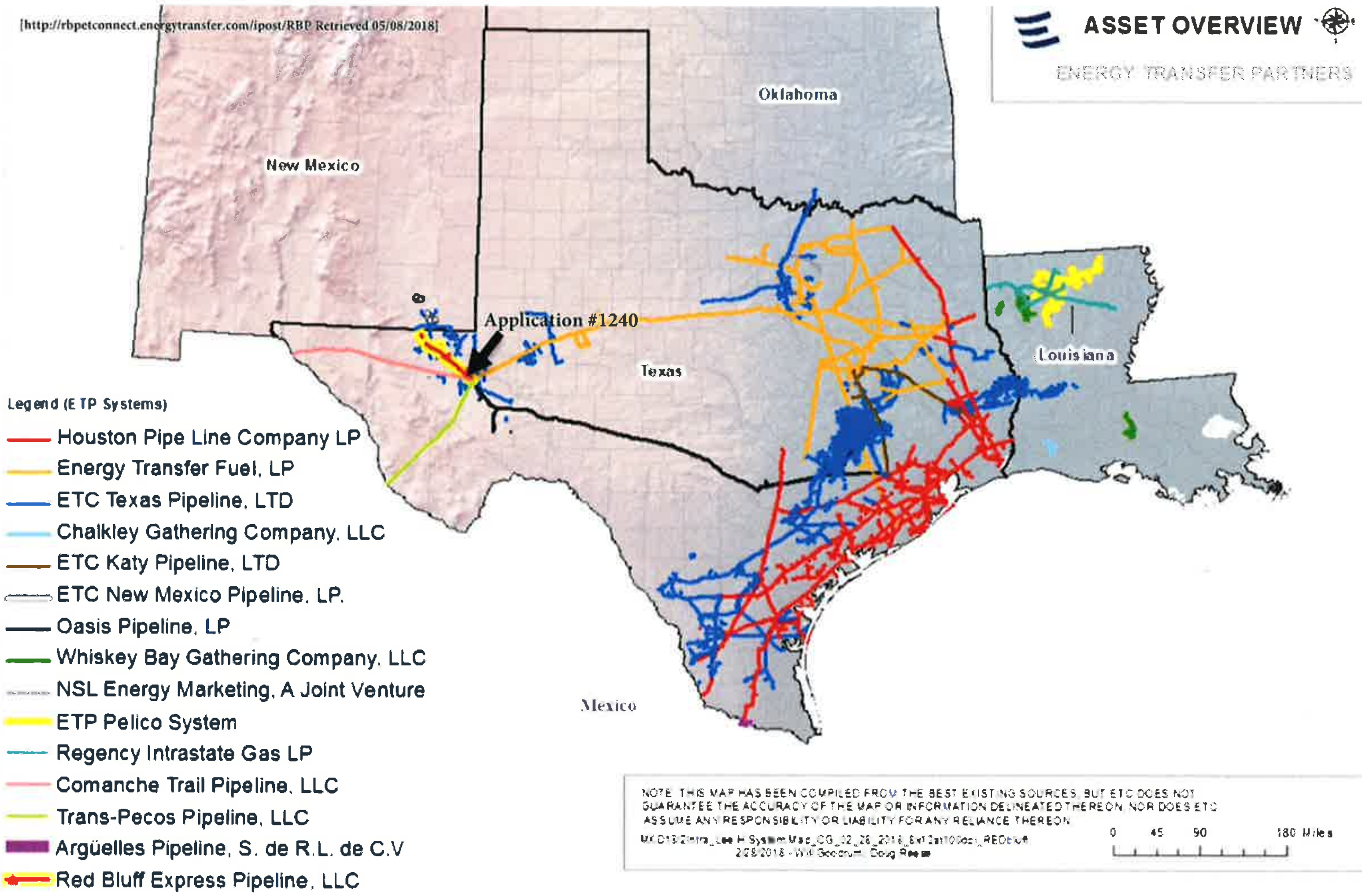
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