



Robin Rorick
Group Director
Midstream and Industry Operations

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Ms. Heather Anderson
Staff, SC Petroleum Pipeline Study Committee
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RE: American Petroleum Institute's Comment on Considerations for Petroleum Pipeline Study Committee

Dear Ms. Anderson,

Thank you for your diligent and comprehensive work with the SC Petroleum Pipeline Study Committee. We also want to extend our appreciation to the Committee for the opportunity to provide written comment on certain considerations in advance of the Committee's report and recommendations to the legislature.

These comments are offered on behalf of the member companies of the American Petroleum Institute (API). API is the only national trade association representing all facets of the oil and natural gas industry, which supports 9.8 million U.S. jobs and 8 percent of the U.S. economy. API's more than 625 members include large integrated companies, as well as exploration and production, refining, marketing, pipeline, and marine businesses, and service and supply firms.

Pipelines safely and efficiently move crude oil, natural gas, and other products from production areas to consumers, delivering energy and feedstocks for everyday goods, affordable heat for homes, and fuel for cars. In addition to the benefits derived from the delivery of oil and natural gas, pipeline companies support the economy during construction of the pipeline by hiring workers, often from the skilled construction and building trades. During operation of the pipeline, local tax revenue supports communities through which the pipelines pass and, ongoing employment at and purchasing for terminal facilities produces further local economic activity. These tax revenues are, in turn, utilized by the state to fund vital functions such as schools, police and firefighting activities. This local economic activity is further multiplied, as the attached memorandum from a South Carolina economic expert notes, and these economic impacts are not contained within state borders. They spillover to and from other states due to the regional aspect of commerce.

Industry's commitment to safe operations is evident by the fact that more than 99.99 percent of crude oil, petroleum products, and natural gas are delivered safely via pipeline¹. Protecting the public and the environment is the top priority for pipeline operators and a central component to pipeline design, construction and maintenance. Pipeline operators are committed to environmental stewardship and often design routes to avoid environmentally sensitive areas.

¹ API-AOPL Pipeline Safety Excellence Performance Report and Strategic Plan 2017-2019

In response to the Committee’s primary question “[s]hould private petroleum pipeline companies be authorized to use eminent domain in South Carolina under limited circumstances after certain regulatory hurdles and other requirements are met?,” API answers “YES.”

The periodic use of eminent domain has been critical in building our nation’s extensive infrastructure network. Eminent domain has enabled the development of easements, which have been utilized to construct highways, dams, airports, railroads, telephone and electric transmission lines. These projects have become the integrated infrastructure system we rely on daily to communicate with distant relatives, heat our homes and travel to work.

During the surveying and routing of a project, operators meet with landowners and community stakeholders to discuss the proposed route as well as to hear and, wherever possible, address considerations or concerns. The vast majority of the time, agreements over a right-of-way can be reached between the landowner and the pipeline company. Pipeline operators prefer to reach agreements with landowners along the route and seek eminent domain authority only as a last resort. However, in the rare instance where an agreement cannot be reached, eminent domain may be applied by a government entity with jurisdiction. Eminent domain is a tool governments can use to ensure that the benefits to the public outweigh the benefits to the few.

As such, API encourages the Committee to recommend that eminent domain is necessary and appropriate for liquids pipelines because they provide a broad and significant public benefit. From the gasoline that powers cars and trucks, to the jet fuel that enables a globally connected world, to the natural gas liquids that power manufacturing facilities, liquids pipelines provide an immeasurable human benefit so reliable and pervasive that it’s often taken for granted.

API, further, encourages the Committee to recommend that South Carolina law categorically recognize the public benefit that liquids pipelines provide, and to provide the right for eminent domain for such pipelines under appropriate conditions. We recommend against using the term “public use” in any legislation because of the risk that a state agency or court might interpret such a term as requiring open and pervasive use of liquids pipelines by the general public.

Liquids pipelines are, in fact, available for use by any interested and qualified shipper. As a practical matter, however, the number of producers that utilize a particular pipeline may be relatively small. Requiring a showing of “public use” might lead the relevant state agency or a reviewing court to conclude that because the nature and character of a liquid pipeline differs from a state highway in terms of how the public uses such a conveyance, the pipeline should not be entitled to eminent domain. To avoid such an outcome and preserve the abundance and affordability of liquids products for South Carolina’s citizens, API encourages the Committee to recommend the use of a “public benefit” standard and to categorically recognize the public benefit that liquids pipelines provide.

We support an open and transparent process as it relates to the permitting process. Only a court of law can determine the appropriate amount of just compensation. The measure of compensation is typically the fair market value of the property that is taken or limited for public benefit use. Again, pipeline operators prefer to reach agreements with landowners along the route and seek eminent domain authority only as a last resort.

In response to the Committee’s question “[s]hould state agencies be more involved overall in regards with petroleum pipeline [safety/spill] matters?,” API responds that the current regulatory structure, from both state and federal perspective, sufficiently addresses these concerns.

To ensure environmental due-diligence and protection, API and its members, in conjunction with the Association of Oil Pipe Lines (AOPL), is wholly committed to operating liquid pipelines in a safe and reliable manner and in compliance with existing federal and state pipeline regulations. That said, it is understood that sometimes accidents do happen, and in the event of a spill, our operators are committed to a swift and thorough response.

If an event were to occur, the operator would notify the National Response Center (NRC), which would coordinate from the federal level if any response resources are necessary. In addition to the federal notifications, operators would notify Local Emergency Planning Committees (LEPCs), and the State of South Carolina (pursuant to SC Code of Law Title 48 Chapter 43 Articles 3 and 4). Should the South Carolina Department of Health and Environmental Control determine that the spill constitutes an environmental emergency, an order requiring any immediate remedial action DHEC deems necessary could be issued pursuant to SC Code of Law Title 48 Chapter 1 Section 48-1-290. Further, the state’s participation in the existing area planning and regional response initiatives gives them a substantive voice both in emergency planning as well as in the actual implementation of a response.

With regard to the costs associated with cleanup after an oil spill, South Carolina has an Emergency Fund (pursuant to Title 48 Chapter 2 Article 3) and additionally would have access to the Oil Spill Liability Trust Fund (OSLTF - https://www.uscg.mil/npfc/about_npfc/osltf.asp). Therefore, additional funding mechanisms for cost recovery after a spill are not necessary.

Finally, extensive efforts at the federal level exist for pipeline inspections. As such, any state effort would result in duplicative and possibly conflicting compliance endpoints. We support an open and robust emergency prevention, preparedness and response effort supported across the full range of stakeholders, both federal and state. For the reasons outlined above, the current, proven mechanisms and statutory authorities sufficiently address the questions raised.

Again, thank you for the opportunity to provide input for the Committee’s consideration. We remain willing to provide further information that may be needed.

Sincerely,

A handwritten signature in black ink that reads "Robin Rorick". The signature is written in a cursive style with a large initial "R".

Robin Rorick
Group Director
Midstream and Industry Operations
American Petroleum Institute

MEMORANDUM

TO: Bonnie Loomis, Executive Director
American Petroleum Institute, South Carolina

FROM: Joseph Von Nessen, Ph.D.
Research Economist

DATE: June 2, 2017

RE: Quantifying the Economic Impact of Petroleum Pipeline
Infrastructure on South Carolina

The purpose of this memorandum is to provide a summary overview of a new study that will be conducted by the Division of Research at the Moore School of Business in the coming months to estimate the economic impact of petroleum pipeline infrastructure on South Carolina. Specifically, this study will examine both the *current* economic impact of existing pipeline infrastructure to the state as well as the *future* economic impact to the state that will likely arise as a result of actively maintaining adequate infrastructure in the presence of steady increases in energy demand. All impact estimates will be reported in terms of total jobs, income, and economic output at both the state and county level.

Current Economic Impact of Existing Pipeline Infrastructure

The current economic impact of existing pipeline infrastructure in South Carolina can be broken down into two components:

- (1) *The economic impact arising from the ongoing operations of in-state terminal facilities attached to in-state pipeline infrastructure*
- (2) *The economic spillover effects arising from the ongoing operations of out-of-state terminal facilities attached to in-state pipeline infrastructure*

The existing pipeline infrastructure that runs through South Carolina has multiple terminal facilities located throughout the state that serve as distribution points for petroleum to both retail outlets and to individual homes in South Carolina. These terminal facilities, like all businesses located throughout the state, generate new economic activity through their procurement of local goods and services as well as through the labor income paid to employees. This initial injection of funding into the local economy then leads to additional rounds of spending through various economic multiplier effects.

Similarly, there are also terminal facilities connected to South Carolina's pipeline infrastructure that are located in other Southeastern states. These serve as

distribution points for petroleum to various retail outlets and individual homes in these other states. Nevertheless, because of their proximity to South Carolina, some of the spending activity of these terminal facilities and their employees “spillover” to South Carolina and generate a net increase in demand in South Carolina. For example, some of the suppliers for a terminal facility in Georgia will likely be located in South Carolina. Thus, pipeline infrastructure running through South Carolina that serves the Southeast has an ongoing positive impact on South Carolina even if the pipeline infrastructure does not have an in-state terminal point. *These economic spillover effects represent a hidden economic benefit of South Carolina’s pipeline infrastructure that is often overlooked.*

Future Economic Impact Arising from Maintaining Adequate Pipeline Infrastructure

South Carolina – along with most Southeastern states – anticipates significant population growth in the coming years. Not only does South Carolina currently have one of the fastest growing economies among all states in the U.S., it also ranks highly on various quality of life measures, making the state attractive to out-of-state residents for relocation. As a result, South Carolina is likely to experience a significant increase in the demand for petroleum products over time. Without an appropriate increase in the supply of pipeline infrastructure, South Carolinians will likely face a price increase that will accompany this rise in demand.

To effectively examine these price effects, this study will model several hypothetical scenarios in which the demand for petroleum increases in South Carolina at rates that are consistent with current projections from the U.S. Energy Information Administration (EIA). In each case, it will be assumed that the current pipeline infrastructure in South Carolina will not be expanded. Any increase in price that results from these distribution constraints will generate a net reduction in total consumer purchases. Thus, the economic impact to South Carolina from maintaining adequate pipeline infrastructure will be represented by the consumer spending activity that is not lost due to petroleum price increases that would otherwise occur.