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December 3, 2007

Mr. Curt Hohn
 WEB Water Development Association, Inc.
 P.O. Box 51
 Aberdeen, SD 57402-0051

RE: TransCanada-Keystone Pipeline

Dear Mr. Hohn:

I have your letter of November 27, 2007, in which you ask a number of questions regarding the TransCanada-Keystone Pipeline. Your questions concern property taxes and tax refunds.

Pipelines are centrally assessed by the Department. The Department determines a value of the company owning the pipeline, and then allocates a portion of that value to the State of South Dakota. Generally, the allocation is based upon the amount of property in South Dakota versus property located outside of South Dakota. The Department then divides the value allocated to the State among all of the different taxing districts in South Dakota where the pipeline is located. After the value distributed to each of the taxing districts in South Dakota is equalized to 85 percent – like all other property in South Dakota – the local property tax rates are applied to the taxable value to determine the amount of taxes the pipeline pays to the particular taxing district. The property taxes would go to the counties, schools, and other local taxing districts through which the pipeline passes – no property taxes are paid to the State.

The construction of the TransCanada-Keystone Pipeline has not started. As with any new project that has not started construction, the exact taxable value in each of the taxing districts through which the pipeline would pass, as well as the amount of taxes paid to each taxing district, is unknown. I understand that the TransCanada-Keystone Pipeline has made property tax estimates that have been published in several newspapers in South Dakota. I do not know if these property tax estimates are correct. The TransCanada-Keystone Pipeline did not ask the Department to review its property tax estimates.

Your letter also refers to a refund of sales, use, and contractors' excise tax. Construction projects are subject to the contractors' excise tax, and the materials used in the construction project are subject to sales and use taxes. The Legislature enacted SDCL ch.

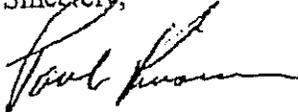
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10-45B, Tax Refunds for Construction of Agricultural Processing and New Business Facilities, which permits the refund of a portion of the sales, use, and contractors' excise tax paid on qualifying construction projects. If a particular construction project meets the criteria of SDCL ch. 10-45B, the construction project is eligible for a refund of a portion of the sales, use, and contractors' excise tax paid for the construction project. The TransCanada-Keystone Pipeline is a new business facility as defined by SDCL 10-45B-1.1, and thus would be eligible to apply for the sales, use, and contractors' excise tax refund of SDCL ch. 10-45B.

I hope that I have answered the questions you have raised.

Sincerely,



Paul Kinsman
Secretary