



MEMORANDUM

Date: November 4, 2013

To: The Honorable Chairman and Member
Pima County Board of Supervisors

From: C.H. Huckelberry
County Administrator 

Re: **Kinder-Morgan Sierrita Pipeline Status Update and Mitigation Issues**

On October 25, 2013, the Federal Energy Regulatory Commission (FERC) issued its Notice of Availability of the Draft Environmental Impact Statement (DEIS) for the Sierrita Gas Pipeline – a new 36-inch gas pipeline running from west of the Tucson Mountains south through the Altar Valley for 60 miles. The Sierrita Pipeline will cross the international border with Mexico to join with an as-yet un-built pipeline in Mexico, running from Sasabe south to Puerto Libertad and Guaymas to supply natural gas to Mexico.

This new pipeline, to be permitted by FERC, is a major federal undertaking subject to the National Environmental Policy Act that will impact some 1,000 acres in Pima County. The recently released DEIS considers only one active alternative – the western route through remote areas to the west of the Buenos Aires National Wildlife Refuge to the international border with Mexico near Sasabe. While the route is opposed by the Tohono O’odham Nation, the Altar Valley Conservation Alliance, Pima County, Santa Cruz County, and other stakeholders, comments on the DEIS are due December 16, 2013, and the FERC will issue the final EIS by April 18, 2014 and very likely permit this project by July 17, 2014. Kinder-Morgan and its partners presume the FERC permit and the Presidential permit will be granted and requested in a recent letter to FERC that the approval process be further expedited to June 2014 so the pipeline can be built and in service by September 30, 2014.

Should the pipeline be approved as anticipated, the most significant impacts and costs to Pima County and the residents of Altar Valley can be expected in the areas of public safety, environmental damage, and ongoing degradation of the conservation values and investments made in the Altar Valley.

Staff are preparing comments on the DEIS for submittal to FERC by December 16, 2013; however, I asked that a status report be prepared for the Board of Supervisors as an update at this time. The attached report provides background information and a summary of the project’s needed permits; its regulatory status; estimated tax revenues to Pima County; and a preliminary analysis of issues, costs, impacts, and recommended mitigation measures.

The Honorable Chairman and Members, Pima County Board of Supervisors
Re: Kinder-Morgan Sierrita Pipeline Status Update and Mitigation Issues
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We will request of both Kinder-Morgan and approving federal agencies full and complete mitigation of all impacts.

CHH/mjk

Attachments

c: Linda Mayro, Director, Sustainability and Conservation
Diana Durazo, Special Staff Assistant to the County Administrator

Altar Valley Sierrita Pipeline Mitigation Issues and Recommendations

October 31, 2013

Public Safety Sheriff	Medical Examiner	Erosion Flood RFCD	Easements RP/DOT	Access Roads DOT	Ranch Issues NRPR	CLS Impacts OSC	PPC Credits NRPR	PPC Bank Land NRPR	Long-Term Env. Impacts
<u>Costs/Impacts:</u> Increased calls for vandalism, trafficking, emergency services, and increased deputy patrols.	<u>Costs/Impacts:</u> Increased UDI deaths due to migrant use of pipeline road. Increased number of un-claimed human bodies.	<u>Costs/Impacts</u> 210 washes to be open cut and crossed by pipeline, and 100 acres of riparian area to be destroyed under FPUP.	<u>Costs/Impacts</u> Sierrita has appraisals for submittal.	<u>Costs/Impacts</u> Possible road degradation, erosion, loss of vegetation.	<u>Costs/Impacts</u> Damage to open space, infrastructure, wells, fences, trash clean-up, etc. from unwanted pedestrian and vehicle traffic.	<u>Costs/Impacts</u> Direct loss of county-owned Section 10 mitigation land and lease lands; as well as 1,000+/- acres of destroyed CLS habitat on ASLD and private lands.	<u>Costs/Impacts</u> About 400+ acres of PPC habitat and about 130 PPC will be destroyed by pipeline.	<u>Costs/Impacts</u> Sale of Madera Highlands will exhaust PPC bank there. County cost to replace same size PPC bank \$2,250,000.	<u>Costs/Impacts</u> Long-term pipeline direct impacts of 1,000 acres will devalue past investments of \$2,100,000 by ranchers and agencies to stop erosion and improve watershed function.
<u>Mitigation 1:</u> Annual cost of \$ 461,436** (for 4 deputies, investigations, services) One time cost \$ 274,040* (vehicles)	<u>Mitigation 1:</u> Annual cost estimated \$174,000 to \$261,000**	<u>Mitigation 1:</u> Flat rate fee for impact mitigation in the range of \$2,500,000+/-*	<u>Mitigation:</u> TBD once easement documents and appraisals submitted.*	<u>Mitigation:</u> Cost of restoration of 13.1 miles at \$7,500/mile = \$98,250**	<u>Mitigation:</u> Annual costs for increased repairs, trash removal, etc. and staff time of \$200,000**	<u>Mitigation 1:</u> Compensatory mitigation land of 2,528 acres* to offset direct loss of 860.1 acres of CLS in Altar Valley, inclusive of County land.	<u>Mitigation:</u> Sale of Madera Highlands PPC credits at \$5,000/ credit for estimated cost to KM of \$2,250,000.	<u>Mitigation:</u> Funds from sale of Madera Highlands or 450 acres for new PPC Mitigation bank.	<u>Mitigation:</u> Establish a mitigation fund of \$7,000,000* to be used as endowment for monitoring and repair of damage.
						<u>Mitigation 2:</u> Compensatory mitigation land of 522.6 acres* to offset direct loss of County owned CLS in Altar Valley			<u>Mitigation 2:</u> Matching funds of \$1,500,000* for Altar Valley Watershed Restoration Bond Project

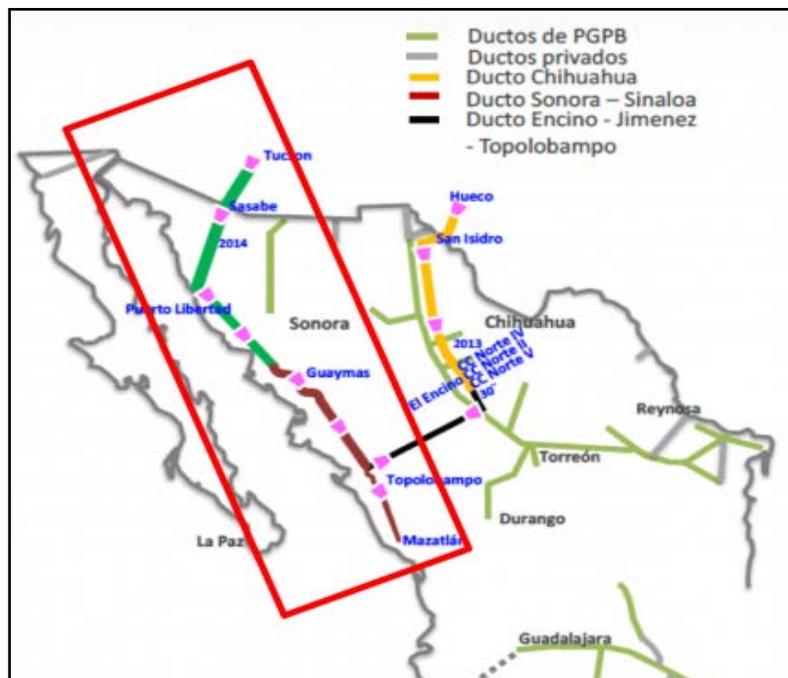
* One -Time Mitigation Costs: \$11,274,040

**Annual Mitigation Costs: \$ 1,020,686

Proposed Kinder-Morgan Sierrita Pipeline- Altar Valley Update and Mitigation Recommendations

October 31, 2013

Kinder Morgan and its partners propose to build and operate the Sierrita Gas Pipeline, a large new 60 mile-long, 36" diameter natural gas pipeline in Pima County, with a right of way of 100-150' in width, running from the Tucson Mountains south through the Altar Valley to the international border with Mexico just west of Sasabe. The pipeline will cross the international border with Mexico to join with an as-yet unbuilt pipeline in Mexico from Sasabe to Puerto Libertad and south to Guaymas. The proposed pipeline, to be permitted by the Federal Energy Regulatory Commission (FERC), also requires a Presidential Permit to cross the international border with Mexico. The project will impact some 1,000 acres in the United States and is subject to the National Environmental Policy Act (NEPA), which requires preparation of an environmental impact statement (EIS) as a major federal undertaking. The Notice of Availability for the Sierrita Gas Pipeline Draft Environment Impact Statement (DEIS) was issued by FERC on October 25, 2013.

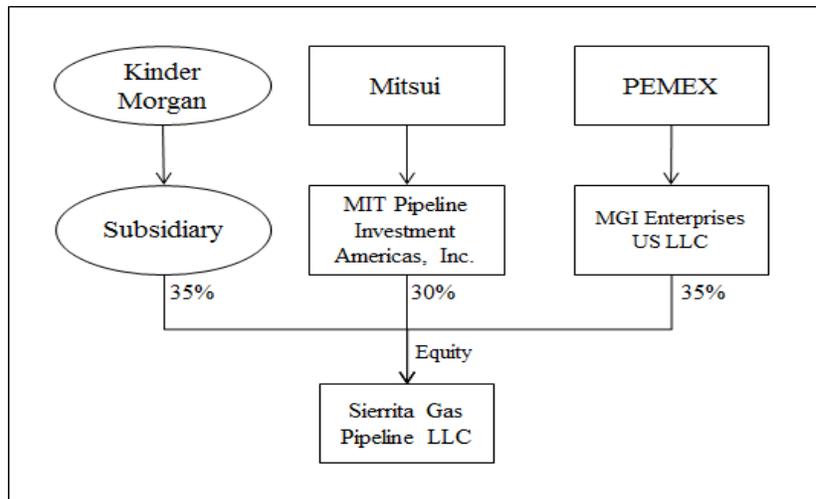


Proposed route of the Sierrita Gas Pipeline

1. Sierrita Gas Pipeline LLC Investment Partners:

In July, 2013, Mitsui & Co., Ltd. ("Mitsui") announced the following: Mitsui has agreed with Kinder Morgan and the Mexican state owned oil company, Petróleos Mexicanos ("PEMEX") to participate in the pipeline project in Arizona to export US natural gas to Mexico. Mitsui will participate in and acquire, through its 100% owned US company MIT Pipeline Investment Americas, Inc., a 30% ownership stake in the project company, Sierrita Gas Pipeline LLC ("Sierrita").

MGI Enterprises US LLC, a wholly owned affiliate of Pemex Gas y Petroquímica Básica which is a subsidiary of PEMEX, will participate in and acquire a 35% ownership stake in Sierrita. Mitsui and PEMEX entered into an MOU on April 9, 2013 for the collaboration in the energy business such as natural gas, and this investment in Sierrita marks the first joint venture project to be undertaken under such MOU.

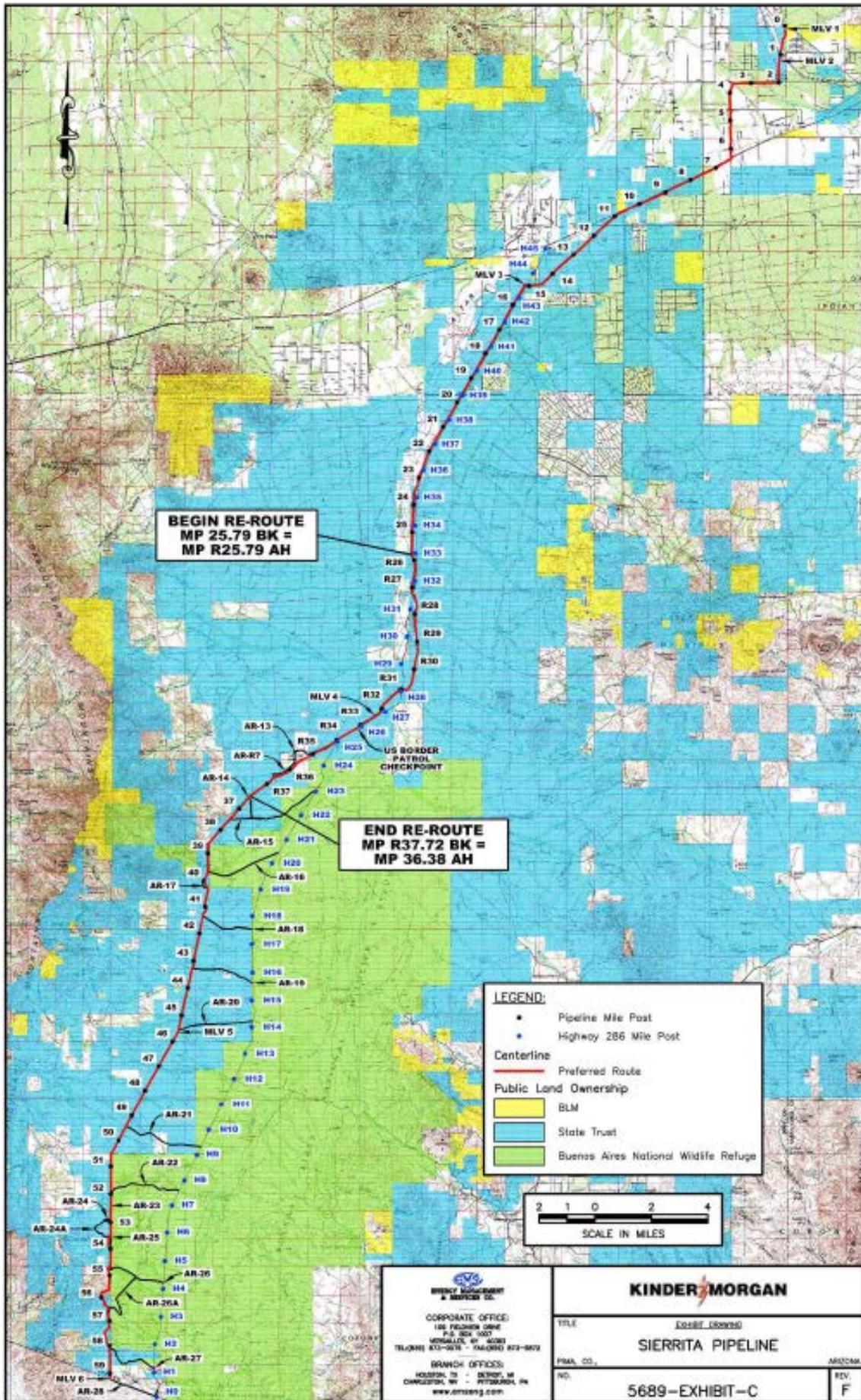


The project will have a design capacity of approximately 200 million cubic feet per day, and its estimated project cost is approximately \$200 million. MGI Supply, Ltd a wholly owned affiliate of Pemex Gas y Petroquímica Básica, which is a subsidiary of PEMEX, has executed a 25-year transportation service agreement with Sierrita for the full design capacity of the project. The project estimates an in-service date no later than September 30, 2014, subject to approvals from the US Federal Energy Regulatory Commission and the issuance of the Presidential Permit. Supported by the development of the shale gas projects in the US and Mexico and the stable growth of the Mexican economy, it is expected that the demand for the natural gas in Mexico will continue to increase. Through the cooperation with PEMEX and Kinder Morgan on the realization of this project, Mitsui plans to continue its efforts to contribute to the stable supply of energy through the expansion of the natural gas value chain both in Mexico and the US.

2. Project Background and Final Route Selection: 2012-present

Kinder Morgan (then El Paso Natural Gas) first met with county staff in spring 2012 to present what was then called the Sasabe Lateral pipeline. Staff prepared a background and issues report on October 1, 2012, and Pima County officially provided scoping comments to FERC on October 25, 2012. Due to significant issues pertaining to the likelihood of increased trafficking along the pipeline route, threats to public safety, and degradation of the environment, Pima County recommended the line be constructed along the federally designated utility corridor along I-19 to Nogales and not placed in the Altar Valley. Santa Cruz County and Nogales, AZ also asked that the pipeline follow I-19; however, Kinder Morgan maintained the I-19 route was not acceptable to their Mexican and international partners and that only the Altar Valley would be considered. Two routes in Altar Valley were initially under consideration – the east route adjacent to State Route 286, and the west route through remote areas to the west of the Buenos Aires National Wildlife Refuge (BANWR).

Despite expert opinion from within the US Fish & Wildlife Service (FWS) and other agencies that very significant impacts to the ecological integrity of the valley would ensue from construction of the west route, BANWR and the FWS Regional Director decided that the eastern route along SR 286 would not be compatible with the mission of the BANWR, leaving only the west route. Kinder-Morgan then filed application on February 7 and 8, 2013 with FERC for the west route, which was published by FERC on February 22, 2013. The pipeline route shown below follows SR 286 to Milepost 26 near the Border Patrol checkpoint where the pipeline route diverges from the road and heads southwest for some 30 miles into remote areas west of the BANWR. This is now the only action alternative that is being considered in the FERC DEIS.

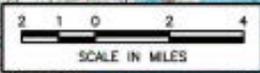


**BEGIN RE-ROUTE
MP 25.79 BK =
MP R25.79 AH**

**END RE-ROUTE
MP R37.72 BK =
MP 36.38 AH**

LEGEND:

- Pipeline Mile Post
- Highway 286 Mile Post
- Centerline
- Preferred Route
- Public Land Ownership
- BLM
- State Trust
- Buena Aires National Wildlife Refuge



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www.emsc.com

KINDER MORGAN		TITLE	
		Exhibit (b)(5) SIERRITA PIPELINE	
PRJAL CO.	REV. DATE	REV.	
NO.	5689-EXHIBIT-C	F	

Because of the anticipated threats to public safety, impacts and degradation of the environment, and devaluation of county conservation lands from this pipeline, the Board of Supervisors, the Tohono O’odham Nation, and the Altar Valley Conservation Alliance have all taken positions in opposition to the construction of this pipeline in the Altar Valley. On March 12, 2013, the Board of Supervisors unanimously passed Resolution 2013-17 to state the County’s opposition and protest of the Sierrita Pipeline in Altar Valley and to file a motion to intervene to become a party to the proceedings, and on April 5, 2013, the County filed a statement of opposition to: 1) the Sierrita Gas Pipeline, LLC application filed with FERC under Section 7c of the Natural Gas Act (NGA) to construct and operate a natural gas pipeline (Docket No. CP13-73-000); and 2) to their application pursuant to Section 3 of the NGA for a Presidential Permit and authorization to construct a new border crossing near Sasabe for the export of natural gas to Mexico (Docket No. CP13-74-000).

3. FERC Pipeline Restoration Plans:

Successful restoration of constructed pipeline routes in the Southwest to their pre-construction condition has proven to be extremely difficult if not impossible. In June 2013, FERC held a meeting in Tucson with interested stakeholders to review the Sierrita Pipeline draft restoration plans - “Reclamation Plan, Upland Erosion Control, Revegetation and Maintenance Plan, and Wetland and Waterbody Construction and Mitigation Procedures.” This meeting was attended by about 65 people representing FERC, Kinder Morgan, the Altar Valley Conservation Alliance, area residents, biologists, Arizona State Land Department, Arizona Game and Fish, Fish & Wildlife Service, BANWR, Tohono O’odham Nation, Pima County, and Sasabe Ejido, Sonora.

FERC staff set the “rules” for the meeting stating it would only entertain discussion of the various vegetation and erosion reclamation plans. Discussion focused on the inadequacy of the plans, that respondents’ comments have been ignored, the high probability that restoration would fail, that five years of monitoring is grossly inadequate, that “monitoring does not mean remediation” – only the documentation of failure, that no other KM pipelines have ever been successfully restored, and that there can be no assurances that vehicle traffic, foot traffic, and increased smuggling and trafficking can be prevented. Access to the pipeline was also discussed and will impact the following roads: ADOT highways SR-86 and SR-286; Pima County roads: San Joaquin Road, Snyder Hill, Elk Horn Ranch Road, La Delicias Road, Presumido Road, Aros Wash Road, Sierra Vista Ranch Road, El Mirador Road, Rancho de la Osa Road, as well as Brown Canyon Road, Santa Margarita Ranch Road and other access roads, several of which cross the BANWR. Impacts to the more than 200 wash crossings and the increased likelihood of erosion were also discussed. No borings under washes or the Altar Wash itself are being considered, and Kinder Morgan has filed for a Nationwide-12 Permit with the US Army Corps of Engineers (COE) under the Clean Water Act.

FERC responded they would take into consideration all comments provided and asserted that since this is a natural gas pipeline FERC has ongoing authority to make KM fulfill its obligations as a condition of its permit to restore the graded right of way. Questions were asked of Kinder Morgan as to what steps were being taken in Mexico to limit trafficking and to restore the pipeline right of way, and this was dismissed as “no one knows.” The manager of the Sasabe Ejido indicated that they had been “well-paid” for the right of way that crosses the ejido and that residents of Sasabe, Sonora had no objection to the pipeline.

The discussion concluded with strategies for mitigation. FERC indicated they could not require any specific mitigation strategies outside the permitted 100’ right of way, including the indirect impacts from erosion, invasive species, etc., and that off-site mitigation would have to be arranged between stakeholders and Kinder Morgan. Arizona Game & Fish suggested “a mitigation fund of several million dollars” for impacts. Kinder Morgan staff did not respond affirmatively, but

Game and Fish and others reiterated there needs to be a compensatory mitigation package of land acquisition and funding to offset habitat loss and to mitigate long-term impacts. FERC concluded the meeting and noted that all comments would be considered in the EIS and that FERC would be publishing in the Docket the Notice of Schedule for release of the EIS.

4. Arizona State Land Department Right of Way Application:

The Sierrita pipeline as proposed will require significant right of way from the Arizona State Land Department (ASLD), as well as some private land, and public rights of way. The Kinder Morgan (El Paso Natural Gas Company LLC) filed application 14-116689 to the Arizona State Land Department on August 14, 2013 for an easement for the construction and operation of the Sierrita pipeline.

The estimated cost to Kinder Morgan for destruction of native vegetation on ASLD easement is \$3.0 million, and a 25 year agreement is currently being negotiated. Other than imposing this “stumpage fee,” it is not known what conditions might be imposed on Kinder Morgan by ASLD.

5. FERC Draft and Final Environmental Impact Statement:

Permitting of the Sierrita Gas Pipeline is considered a major federal undertaking by FERC, and is subject to the National Environmental Policy Act (NEPA), the National Historic Preservation Act (NHPA), Clean Water Act, Section 7 of the Endangered Species Act, and other permits and approvals that are listed below. The Administrative Draft EIS was previously released by FERC to cooperating agencies – AZ Game & Fish, the US Fish & Wildlife Service and Customs and Border Patrol and the draft EIS was issued October 25, 2013. Comments on the Draft EIS are due on December 16, 2013.

On September 10, 2013, FERC issued its official notice of schedule for environmental review in the following statement:

NOTICE OF SCHEDULE FOR ENVIRONMENTAL REVIEW OF THE SIERRITA PIPELINE PROJECT

On February 7 and 8, 2013, Sierrita Gas Pipeline LLC (Sierrita) filed applications in Docket Nos. CP13-73-000 and CP13-74-000 requesting authorizations pursuant to Sections 7(c) and 3 of the Natural Gas Act, respectively, to construct, operate, and maintain certain natural gas pipeline facilities and to export natural gas. The proposed project is known as the Sierrita Pipeline Project (Project) and would link El Paso Natural Gas Company’s (EPNG’s) existing South Mainline System near Tucson to an interconnect with the Puerto Libertad Pipeline at the U.S.- Mexico border near the town of Sasabe, Arizona. The Project would be capable of transporting up to 200,846 dekatherms per day of natural gas.

On February 22, 2013, the Federal Energy Regulatory Commission (FERC or Commission) issued its Notice of Application for the Project. Among other things, that notice alerted other agencies issuing federal authorizations of the requirement to complete all necessary reviews and to reach a final decision on the request for a federal authorization within 90 days of the date of issuance of the Commission staff’s final Environmental Impact Statement (EIS) for the Sierrita Pipeline Project. This notice identifies the FERC staff’s planned schedule for completion of the final EIS for the Project.

- *Issuance of Notice of Availability of the final EIS* *April 18, 2014*
- *90-day Federal Authorization Decision Deadline* *July 17, 2014*

In a letter dated September 27, 2013, MGI Supply LTD. urged FERC to expedite the EIS process and permit approval so that the pipeline can start construction in June 2014 and be built and in-service by September 30, 2014. MGI stated in their letter that, *“to do otherwise, will cost “in the range of \$1.0 million (US) per day both from the economic loss for unused capacity on the Sasabe-Guaymas Pipeline and additional operational costs due to the inability to convert the Puerto Libertad Plant from heavy fuel to natural gas.”* At present, the Altar Valley Conservation Alliance and Santa Margarita Ranch have officially protested the MGI presumption that the permit will be issued, and FERC has not formally responded in the Docket to the MGI request to expedite the EIS or the permit approval; however, the recent release of the DEIS was several weeks earlier than the date of mid-November that Kinder Morgan representatives provided to Pima County.

6. Status of Sierrita Pipeline Federal Permits:

Permit/Approval/ Consultation	Issue	Anticipated/Actual Date		Agency Contact	Comments
		Submittal	Approval		
U.S. Army Corps of Engineers - Los Angeles District					
Section 404 Clean Water Act - Nationwide Permit 12 (Notifying)	Dredge and fill activities in waters of the U.S.	August 2013	January 2014	U.S. Army Corps of Engineers Los Angeles District - Phoenix, Arizona Branch 3636 N. Central Avenue, Suite 900 Phoenix, Arizona 85012 Attn: Sallie DiBolt, Branch Chief Phone: (602) 230-6950 Fax: (602) 640-2020 Sallie.DiBolt@usace.army.mil U.S. Army Corps of Engineers Los Angeles District - Tucson, Arizona Office 5205 E. Comanche Street Tucson, Arizona 85707 Attn: Michael Langley, Pima County Regulatory Project Manager Phone: (602) 230-6900 Fax: (602) 640-2617 Michael.Langley@usace.army.mil	

Federal Energy Regulatory Commission

Section 3 Natural Gas Act - Authorization to Construct and Operate Facilities Used for the Export of Natural Gas	Exportation of natural gas to Mexico	February 8, 2013	February 2014	Federal Energy Regulatory Commission Office of Energy Projects 888 First Street, NE Washington, DC 20426 Attn: David Hanobic Phone: (202) 502-8312	Issued Docket No. CP13-74-000
Section 3 Natural Gas Act - Presidential Permit to Construct, Operate, and Connect Facilities	Crossing of United States-Mexico border	February 8, 2013	February 2014		Issued Docket No. CP13-74-000

Section 7(c) Natural Gas Act - Certificate of Public Convenience and Necessity	Construction and operation of interstate natural gas pipeline facilities	February 7, 2013	February 2014		Issued Docket No. CP13-73-000
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U.S. Fish and Wildlife Service

General Special Use Permit (appropriateness determination)	Use of access roads within a National Wildlife Refuge	August 2013	March 2014	U.S. Fish and Wildlife Service Buenos Aires National Wildlife Refuge P.O. Box 109 Sasabe, AZ 85633 Phone: (520) 823-4251 sally_gall@fws.gov	Draft Biological Assessment filed on August 13, 2013
Section 7 Endangered Species Act Formal Consultation	Potential to adversely impact federally listed species and designated critical habitat	May 2013	March 2014	U.S. Fish and Wildlife Service Arizona Ecological Services Office 2321 W. Royal Palm Road, Suite 103 Phoenix, Arizona 85021 Attn: Steve Spangle, Field Supervisor Phone: (602) 242-0210 ext. 244 Fax: (602) 242-2513 steve_spangle@fws.gov U.S. Fish and Wildlife Service Arizona Ecological Services Office 201 N. Bonita Ave., Suite 141 Tucson, Arizona 85745 Attn: Jean Calhoun, Asst. Field Supervisor Phone: (520) 670-6150 ext. 223 jean_calhoun@fws.gov	
Migratory Bird Treaty Act Consultation	Potential to impact migratory birds or their nests or eggs	January 2013	March 2014		

International Boundary and Water Commission (USIBWC), United States Section

USIBWC Permit/License	Construction activities within the IBWC right-of-way	August 2013	February 2014	International Boundary and Water Commission - U.S. Section Boundary and Realty Office 4171 North Mesa, Suite C-100 El Paso, Texas 79902-1441 Attn: Duane C. Price, PLS, RLS, Boundary and Realty Officer Phone: (915) 832-4139 Duane.Price@ibwc.gov	
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Arizona State Parks, State Historic Preservation Office

Section 106 National Historic Preservation Act Consultation	Potential to impact cultural resources	October 2012	<i>Potential MOA December 2013</i>	State Historic Preservation Office 1300 W. Washington Street Phoenix, Arizona 85007 Attn: James Garrison, State Historic Preservation Officer Phone: (602) 542-4009 jgarrison@azstateparks.gov	
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7. Revenue to Arizona/Pima County from Transaction Privilege Tax (TPT)

In a response on August 8, 2013 to a question from FERC to verify if the Arizona Transaction Privilege tax would apply to the proposed project and, if so, to provide an estimate of the amount the tax would generate for the State of Arizona and/or Pima County, Kinder Morgan provided the following response:

Arizona Revised Statute 42-5067 describes the Transaction Privilege Tax (TPT) as it applies to pipeline operators that transport "oil or natural or artificial gas through pipes or conduits from one point to another point in this state." The TPT will not apply to Sierrita's gross income since the custody transfer of the gas itself will occur at the international boundary between the United States and Mexico and not within the State of Arizona. Additionally, the TPT will not apply to purchases of pipeline components because an exemption applies to such components when the pipeline is four inches or larger in diameter. Sierrita will qualify for this exemption since the pipeline will be 36 inches in diameter. However, the TPT will apply to payments to contractors for work performed to the physical land, such as clearing and grading, ditching, backfilling, and restoration of the easement that is part of pipeline construction. This amount has been estimated at approximately \$12.4 million and has already been included in the total price of the contract with the primary construction contractor. Finally, the TPT will not apply to other payments to contractors to construct the pipeline because the §42-5075(B)(7) exemption is applicable.

Response prepared by or under the supervision of D. Glen Eisen, Senior Counsel

While Kinder Morgan has provided FERC an estimate of \$12.4 million in TPT revenue to the State and/or Pima County, further analysis by Pima County Finance Department suggests that Pima County would receive only a small portion of the prime contracting tax revenue through "state-shared sales tax." The State would share a portion of 20% of the tax revenue it receives from 5% of its overall TPT rate (6.6% before 6/1/2013 and 5.6% from 6/1/2013) with all Arizona counties and incorporated cities/towns. It is estimated that the Pima County share of "state-shared sales tax" would be only about \$120,000, based on the overall \$12.4 million of TPT tax.

8. Ad Valorem Tax Revenue

In public meetings, Kinder Morgan representatives have asserted that Pima County would benefit from \$4.9 million in "ad valorem" taxes from the assessed value of the pipeline itself. In checking with the County Assessor and Finance departments, Kinder Morgan's annual property tax base would be determined by the Arizona Department of Revenue – Centrally Valued Property Unit.

The Pima County Finance Department refined this statement and offers the following analysis of the Kinder Morgan assertion of added value property tax revenue to Pima County. Based on the projected \$200 million pipeline cost, the original cost base would be \$200 million (+/- whatever adjustments ADOR may determine). When an 18% commercial property assessment ratio is applied to the \$200 million original cost base, the taxable value of the pipeline would be \$36 million for the first year. In following years, the taxable value would decrease by approximately 3% to 4% (depending on asset useful lives per ADOR CVP guidelines) each year, unless Kinder Morgan added new assets to the system.

When Kinder Morgan prepared its pro forma tax estimates, the company likely had 2012 tax rates available. The 2012 tax rates for areas in which the pipeline would be located were:

<u>Tax Area</u>	<u>Applicable Tax Rate</u>	<u>Description of Area</u>
5100	\$10.3674	Altar Valley School District
5101	\$12.7698	Altar Valley School District & Fire District
3500	\$17.5198	San Fernando School District
“Average”	\$13.5523	

For the first year, the taxable value of the pipeline would be \$36 million. If the \$36 million taxable value is divided by \$100 and the result is multiplied by the “average” tax rate of \$13.5523. The resulting amount of property taxes to all state and local authorities would be approximately \$4,878,828, which is in line with the \$4.9 million estimate from Kinder Morgan. Of that amount, approximately \$1.6 million would be realized by Pima County, using 2013 tax rates.

	2012 Tax Rates	Property Tax Assuming 100% Collection Rate	2013 Tax Rates	Property Tax Assuming 100% Collection Rate
Pima County General Fund Primary	\$3.4178	\$1,230,408	\$3.6665	\$1,319,940
Pima County Debt Service	\$0.7800	\$280,800	\$0.7800	\$280,800
Total Pima County Government	\$4.1978	\$1,511,208	\$4.4465	\$1,600,740

Assuming tax rates remain unchanged in following years, the amount of property taxes for state and local authorities would decrease by the estimated 3% to 4% depreciation rate as the pipeline’s taxable value determined by ADOR.

9. Pima County Agreements/Permits Required for the Pipeline:

The following is a list of permits and other approvals that Kinder Morgan needs from Pima County in order to proceed:

1. Easement and Mitigation Agreement. Funding and possible compensatory lands, similar to the Pima County Agreement executed in August 2007 for KM pipeline that crossed Cienega Creek.
2. Easements on Pima County and RFCD property. Kinder Morgan has completed appraisals for and is ready to submit offers for permanent easements and TCEs.
3. Flood Plain Use Permits/Wash Crossings. Kinder Morgan consultant AMEC completed field analysis of all 200 + wash crossings. A report on the resulting data and recommendations will be ready soon, and Sierrita will meet with RFCD to review the results and discuss mitigation and restoration. Approximately 133 acres of riparian area will be impacted or destroyed by the pipeline.
4. License Agreement. Kinder Morgan is ready to submit for Board approval.
5. Air Quality Permits - To be determined.
6. Road Crossings and Access Road Right of Way Use Permits. The project engineering consultant is preparing permit drawings for each pipeline road crossing to be submitted to PCDOT. Access road submittal from Kinder Morgan will include road exhibits, table of planned use and improvements, vehicle and traffic counts, environmental technical memorandum, and request for heavy load permits. At present, virtually the entire pipeline, all wash crossings, and all road crossings are planned as “open cut.” The only borings planned include the CAP canal and state highways 86 and 286. The following table and project map above shows temporary access roads to be used for construction.

Temporary Access Roads

Road		MP ¹	New/Existing	Current Condition					New Temporary Disturbance (acres) ²
ID No.	Name			Ownership	Surface Type	Average Width (feet)	Length (feet)	Proposed Improvements/Modifications	
AR-01	(Unnamed)	0.7	Existing	U.S./Central Arizona Project	Gravel	20	1,345	Grade to 20-foot width	0.62 ²
AR-02	S. Braniff Road	2.3	Existing	Pima County	Gravel	20	82	Grade within existing road footprint	0.04
AR-03	(Unnamed)	2.5	Existing	Pima County	Dirt	20	75	Grade within existing road footprint	0.03
AR-04	S. Continental Road	2.8	Existing	Pima County	Gravel	20	82	Grade within existing road footprint	0.04
AR-05	(Unnamed)	6.3	Existing	Arizona Board of Regents	Gravel	20	215	Grade to 20-foot width	0.1 ²
AR-06	(Unnamed)	7.1	Existing	Arizona Board of Regents	Gravel	20	245	Grade within existing road footprint	0.11
AR-07	S. Sandario Road	7.6	Existing	State of Arizona	Gravel	20	185	Grade within existing road footprint	0.08
AR-08	(Unnamed)	16.5	Existing	State of Arizona	Gravel	20	202	Grade within existing road footprint	0.09
AR-R1	(Unnamed)	R26.3	Existing	State of Arizona	Dirt	12	150	Grade to 20-foot width	0.07
AR-R2	(Unnamed)	R27.9	Existing	Drew C. Reeves	Asphalt	18	1,035	None	0.43
AR-R3	(Unnamed)	R28.3	Existing	State of Arizona	Gravel	10	1,703	Grade within existing road footprint	0.39
AR-R4	(Unnamed)	R28.5	Existing	State of Arizona	Dirt	10	2,248	Grade within existing road footprint	0.52
AR-R5	(Unnamed)	R30.9	Existing	State of Arizona	Gravel	10	385	Grade within existing road footprint	0.09
AR-R6	(Unnamed)	R32.4	Existing	State of Arizona	Dirt	10	247	Grade within existing road footprint	0.06
AR-13	Elkhorn Ranch Road	R34.0	Existing	State of Arizona	Dirt	15	824	Grade within existing road footprint	0.28
AR-R7	(Unnamed)	R36.6	Existing	State of Arizona/Santa Margarita Ranch Inc	Dirt	12	7,935	Grade within existing road footprint	2.19
AR-14	(Unnamed)	36.4	Existing	State of Arizona	Dirt	9	4,410	Grade to 20-foot width	2.0 ²
AR-15	Las Delicias Road	37.4	Existing	State of Arizona	Dirt	16	18,020	Grade to 20-foot width	8.3 ²
AR-16	Brown Canyon Road	39.6	Existing	State of Arizona/US	Dirt	24	15,950	Grade within existing road footprint	8.79
AR-17	(Unnamed)	40.0	Existing	State of Arizona	Dirt	10	1,975	None	0.45
AR-18	(Unnamed)	41.2	Existing	US/State of Arizona/Santa Margarita Ranch Inc	Dirt	10	10,260	Grade to 20-foot width	4.7 ²
AR-19	Stillwood Ranch Road	43.2	Existing	State of Arizona/Santa Margarita Ranch Inc	Dirt	23	12,150	Grade within existing road footprint	6.42
AR-20	Santa Margarita Road	45.4	Existing	State of Arizona/US	Dirt	25	14,020	Grade within existing road footprint	8.05
AR-21	Presumido Road	49.3	Existing	State of Arizona/Santa Margarita Ranch Inc	Gravel	25	15,180	Grade within existing road footprint	8.71
AR-22	Aros Wash Road	51.8	Existing	BANWR	Gravel	22	13,850	Grade within existing road footprint	6.99
AR-23	(Unnamed)	51.8	Existing	State of Arizona/US	Dirt	13	4,950	Grade to 20-foot width	2.3 ²
AR-24	(Unnamed)	52.8	Existing	State of Arizona	Dirt	10	2,490	Grade within existing road footprint	0.57
AR-24A	(Unnamed)	53.5	Existing	State of Arizona	Dirt	10	7,128	Grade within existing road footprint	1.64
AR-25	(Unnamed)	52.9	Existing	State of Arizona/US	Dirt	10	8,000	Grade within existing road footprint	1.84
AR-26	Sierra Vista Road	54.6	Existing	BANWR	Gravel	22	11,295	Grade within existing road footprint	5.70
AR-26A	(Unnamed)	56.8	Existing	BANWR	Dirt	12	13,400	Grade within existing road footprint	3.69
AR-27	El Mirador Road	58.0	Existing	State of Arizona/US	Gravel	22	10,640	Grade within existing road footprint	5.37
AR-28	Border Road	59.2	Existing	Baboquivan LLC	Gravel	25	9,800	Grade within existing road footprint	5.62

10. Summary and Stakeholder Recommendations:

The most significant impacts and costs to Pima County and the residents of Altar Valley can be expected in the areas of public safety, environmental damage, and ongoing degradation of the conservation values and investments made in the Altar Valley.

Resource reports provided by Kinder Morgan to date do not provide sufficient detail to fully disclose and quantify the direct, indirect, and long-term cumulative impacts of the pipeline, and the proposed FERC and Kinder Morgan reclamation/ restoration plans are inappropriate for this area and generic in treatment. Moreover, other pipelines recently constructed in Pima County by Kinder Morgan remain virtually barren after 6 years or more of restoration monitoring, and there is little to no confidence that restoration efforts will ever be effective unless there are new standards and obligations set by FERC and local and state government agencies, which will require a significant investment of resources by Kinder Morgan to be effective.

In discussing these issues at meetings among various stake holders including County staff, the Altar Valley Conservation Alliance, Altar Valley residents, BANWR, the Cultural Affairs manager of the Tohono O’odham Nation, Arizona Game and Fish, and others, there was consensus that the following recommendations be presented to Kinder Morgan as the basis for mitigation of environmental impacts, assuming the pipeline is approved and permitted.

1. Detailed Assessment/ Restoration Plans - The detail of the current draft EIS and mitigation/remediation plans are insufficient to do a proper analysis and ensure protection of the base resources of the lands impacted. Much of the resource information is incomplete, and FERC restoration plans are not consistent with the project area’s

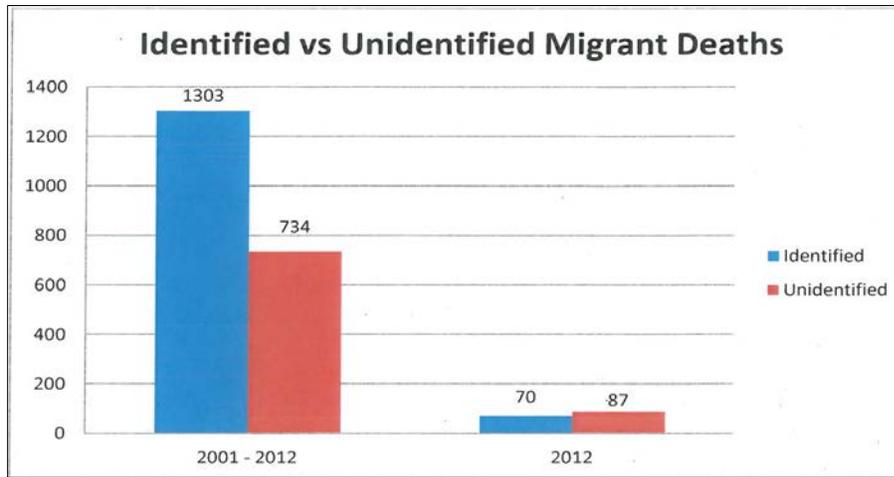
ecological systems. It is therefore recommended that the applicant provide detailed mile by mile resource inventories, impact assessments, and remediation and restoration plans.

2. Oversight Committee - An independent project monitoring and remediation oversight committee made of agencies, property owners and other stakeholders in Altar Valley should be required of Kinder Morgan to establish and ensure landscape level consistency and implementation of appropriate mitigation measures during the initial restoration period and over the long term since the impacts from this project will take decades to track. The committee would be comprised of various stakeholders in Altar Valley and include a range of technical experts to determine priorities and best approaches to implementing mitigation measures.
3. Mitigation Endowment Fund – Environmental impacts from this pipeline will be long-term, if not permanent, and will cause ongoing degradation of conservation values and investments made in the Altar Valley. A significant monitoring and remediation fund, or mitigation endowment, should be established by Kinder Morgan to cover the costs of long-term and ongoing monitoring and repair of environmental damage. Over the last ten years, Pima County, the AVCA and other agencies have invested about \$2.1 million in grants and other funding sources to implement various conservation actions. To prevent devaluation of these investments, a minimum of \$200,000 per year is estimated as necessary to maintain and expand these conservation efforts as possible. Assuming an annual 3 percent return on any investment, establishing a mitigation fund of \$7,000,000 is recommended to meet this goal.

11. Estimated Costs To Pima County and Recommended Mitigation

In addition to these stakeholder recommendations to offset environmental degradation, the following section presents a set of issues to be addressed together with estimated costs to Pima County that are likely to result from the pipeline that affect several County departments. The following preliminary cost estimates, funding, and mitigation recommendations are provided for review and consideration:

1. **Public Safety- Sheriff** – The Sheriff’s Department is recommending that four additional law enforcement deputies and vehicles will be required for increased emergency calls and timely responses to incidents, as well as the need for increased patrols. In September 2012, Lt. Jim Murphy provided a cost estimate of **\$461,436** in annual costs plus an initial one-time cost of **\$274,040** to mitigate the costs to the Sheriff’s Department associated with the increase in demand for law enforcement. Calculations included four additional deputies for routine patrol (\$311,436); incident investigation (\$125,000); outside resources (\$25,000) in annual costs. Start-up costs include four 4WD vehicles (\$224,040) and two ATVs (\$50,000). These recommendations and costs were verified by Lt. Nicole Feldt, Commander of the San Xavier District, on 10/11/2013.
2. **Migrant Deaths - Medical Examiner and Public Fiduciary** – With more than 300 miles of new pipeline route in Mexico and Arizona, essentially creating a new “highway” for travel, migrant deaths are likely to increase as a consequence. This year there have been 152 individuals recovered, an increase of 19 percent from last year at this time. Costs to Pima County are substantial – about **\$2,000- \$3,000 per individual** who remains unidentified and un-repatriated. From 2001-2012, there were 2,037 migrant deaths, and 734 who remain unidentified. In 2012 alone, there were 157 migrant deaths and 87 who remain unidentified. Current costs to Pima County of **\$174,000-\$261,000** per year are likely to increase once the pipeline is built and if this upward trend continues.



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3. **Erosion/Flood Control RFCD** - Some 210 washes in Altar Valley, including Altar Wash itself and Brown Canyon, will be crossed by the pipeline, which will be subject to a Floodplain Use Permit. Kinder Morgan has also applied to the COE for a Nationwide 12 permit, which is under review. We understand that the COE is not likely to require any mitigation.

It is anticipated that about 133 acres of regulated riparian habitat will be impacted by the pipeline. Kinder Morgan is finalizing its estimate of total disturbance within the pipeline right of way and in ancillary areas from other activities, and is working with the Regional Flood Control District (RFCD) to apply the Riparian Classification Map to determine the types of riparian habitat that will be disturbed. These parameters are used to determine the project's mitigation obligation. In response to Kinder Morgan's inquiry about the potential cost for mitigation, the following table was provided by RFCD as a flat rate that could be applied. This Table is excerpted from the *Regulated Riparian Habitat Off-site Mitigation Guidelines Manual*, dated Nov. 2011.

	XA	XB	XC	XD	H, IRA/H	IRA/XA	IRA/XB	IRA/XC	IRA/XD
Cost per Acre	\$17,000	\$16,000	\$14,000	\$12,000	\$40,000	\$30,000	\$28,000	\$25,000	\$22,000

Using this Table, a very preliminary estimate of their mitigation obligation would be in the range of **\$2,500,000+/-**. Some of the assumptions used by RFCD in this cost estimate include:

- 1) Use of flat fee to estimate mitigation dollar value. Kinder Morgan could prepare a different estimate of anticipated dollar value for mitigation.
- 2) Assumption of 133 acres of disturbance. The actual areas of disturbance are currently being refined in a few locations that may cause this number to change. The estimate currently assumes full disturbance of the right of way, and smaller right of way footprints might result that would reduce disturbance and mitigation costs.
- 3) No other mitigation is occurring. If other mitigation is proposed by Kinder Morgan or required by a different entity, it is possible these efforts, depending on the mitigation, could be used offset some of this mitigation requirement.

In addition to the regulated riparian habitat mitigation obligation for this project, it is also recommended that matching funds for the proposed **\$1.5 million bond project** for the Altar Valley Watershed Restoration Project be provided for detailed inventory of erosion problems, and geomorphology and soils studies of the valley. These studies will assist in prioritizing and addressing the most immediate erosion problems using structural and vegetative solutions. Remedying of erosional features such as head-cutting along upland tributaries that could affect the integrity of the pipeline would help to ensure public safety as well as help restore watershed function.

4. **Right of Way Easements - RP, DOT** - Kinder Morgan has prepared appraisals for County right of way and temporary construction easements needed for pipeline construction including a one mile long segment that along Snyder Hill Road. These appraisals have not yet been submitted to Pima County for consideration, but the appraisal costs of these easements will reviewed by Pima County, and appropriate compensation determined.

5. **Access Road Maintenance- DOT** – In addition to construction of the 60 mile long pipeline, approximately 36 miles of dirt and gravel roads maintained by various agencies and private land owners would be graded and some widened to provide access and accommodate heavy equipment for pipeline construction. A table of proposed access roads is provided above, and the DEIS states that some 30 access roads would be improved or modified affecting nearly 85 acres. Approval to use these roads is not fully determined at this time; some 11 access roads cross through BANWR and are subject to an “appropriateness determination” by the FWS, and approximately 13.1 miles of access roads are maintained by Pima County and will require permits to grade and widen. FERC notes in the DEIS that restoration of roads is very difficult. Because trees and mature vegetation would be removed, reseeding will not fully restore the roads, and erosion and other damage are likely to ensue over time. Because these County-maintained roads require will additional maintenance and restoration, the cost to Pima County to maintain these roads is **\$7,500 per mile, or \$98,250 total annual costs.**

6. **Open Space Management- NRPR** – Because the pipeline will open up areas to unwanted and illegal vehicular and pedestrian traffic, this impact directly compromises the County’s ability to maintain a responsible level of land stewardships and burdens NRPR to fund and maintain fundamental infrastructure and livestock operations. NRPR estimates the annual additional costs of fencing and waters repairs, trash clean-up, and incident responses due to the pipeline to be **\$200,000.**

7. **CLS Impacts – OSC** – The Sonoran Desert Conservation Plan identified the Altar Valley as having exceptionally high value habitat conservation values. Compensatory land to County is recommended due to direct loss and impacts to the Conservation Lands System (CLS). Using estimates of 860.1 acres of impact in the CLS, approximately **2,528.6 acres of mitigation land** is needed to offset impacts using the mitigation ratio per CLS guidelines. Direct loss of CLS high value habitat and open space is estimated as follows:

Direct Impacts and Loss of CLS Land throughout Altar Valley

CLS category	Acres of Impact	Mitigation Ratio per CLS guidelines	Mitigation Acres
IRA	64.2	4	256.8
Bio Core	340.0	4	1360
Multiple Use	75.1	2	150.2
SSMA	380.8	4	761.6
Total in CLS	860.1		2,528.6

Direct loss of County-owned CLS conservation fee lands and grazing leases that could serve as future County Section 10 permit mitigation lands is 127.3 acres. Applying CLS mitigation ratios to County owned and leased lands requires **522.6 acres** to offset the loss of these lands.

Direct Impacts and Loss of CLS Land in Altar Valley owned by Pima County

CLS category	Acres of Impact	Mitigation Ratio per CLS guidelines	Mitigation Acres
IRA	6.7	4	40.2
Bio Core	0.0	4	0.0
Multiple Use + SSMA	120.6	4	482.4
Total in CLS	127.3		522.6

8. **Madera Highlands PPC Mitigation Bank -NRPR** – Kinder Morgan will be required by the FWS to mitigate the loss of Pima Pineapple Cactus (PPC). We understand that Kinder Morgan will be required to purchase in excess of 400 PPC mitigation credits from a recognized PPC mitigation bank. There are approximately ca. 450 PPC remaining PPC credits held in the County-owned Madera Highlands PPC bank. If sold to Kinder Morgan at **\$5,000 per credit**, this would generate approximately **\$2.0 - \$2.25 million**.

9. **PPC Mitigation Bank Replacement- NRPR** – Sale of the 450 Madera Highlands credits will essentially exhaust the County’s PPC bank. Because it will be to Pima County’s benefit to hold a PPC bank in the future, it will be necessary to either acquire additional land elsewhere for such use or to designate currently owned land as future PPC bank. Approximately **450 acres** are required should the Madera Highlands PPC bank be sold.

10. **Mitigation Endowment Fund for Altar Valley** – The Sierrita pipeline will directly impact some 1,000 acres along its length from clear-grading of all vegetation along its right of way, access roads, staging areas, and ancillary disturbances. Past failures of pipeline restoration efforts indicate that the direct and indirect impacts from Sierrita pipeline construction will leave more than 1,000 acres in a highly degraded state. More than **\$2.0 million** has been invested in Altar Valley conservation efforts by state and federal agencies, the Altar Valley Conservation Alliance, and Pima County. These efforts to stop erosion, improve watershed and ecological function, and enhance forage and wildlife habitat will be permanently compromised by the pipeline and will devalue these investments significantly. As suggested by various agencies and stakeholders, it is recommended that Kinder Morgan create a mitigation fund in the amount of **\$7.0 million** as an endowment to generate sufficient annual funds to maintain and improve local and agency investments and to cover the costs of long-term and ongoing monitoring and repair of environmental damage caused by the construction of the Sierrita pipeline.

To conclude, the above costs and recommendations are preliminary attempts to quantify costs to Pima County and what funding and compensatory lands might be required to offset impacts to public safety and the environment from the pipeline, and the resultant long-term degradation of the exceptional conservation values of Altar Valley. These cost and mitigation estimates will undoubtedly continue to be refined as the project unfolds, but the current report begins to frame the magnitude of what can be expected.