BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA

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HP 14-001

IN THE MATTER OF THE APPLICATION BY TRANSCANADA KEYSTONE PIPELINE, LP FOR A PERMIT UNDER THE SOUTH DAKOTA ENERGY CONVERSION AND TRANSMISSION FACILITIES ACT TO CONSTRUCT THE KEYSTONE XL PROJECT,

DIRECT TESTIMONY OF DAVID DIAKOW

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Pursuant to the Commission's Order Granting Motion to Define Issues and Setting Procedural Schedule, Petitioner TransCanada Keystone Pipeline, LP, offers the following direct testimony of David Diakow.

1. Please state your name and address for the record.

Answer: My name is David Diakow. My business address is 450 1st Street S.W., Calgary, AB Canada T2P 5H1.

2. Please state your position with Keystone and provide a description of your areas of responsibility with respect to the Keystone XL Project.

Answer: I am Vice President, Commercial, Liquids Pipelines, for TransCanada Pipelines. I am responsible for commercial activities for TransCanada's liquids pipeline business, including the Keystone XL Project.

3. Please state your professional qualifications and experience with pipeline operations.

Answer: My professional background is stated in my resume, a copy of which is attached as Exhibit A. I have a bachelor's and master's degree in mechanical engineering, and a Master of Business Administration degree.

4. Are you responsible for portions of the Tracking Table of Changes attached as Appendix C to Keystone's certification petition?

Answer: Yes. I am individually or jointly responsible for the information provided with respect to Finding Numbers 24, 25, 26, 27, 28, and 29 related to the Project. In general, I can testify to demand for the Project.

5. Please summarize the updated information regarding Finding Number 24.

The crude oil market is dynamic. While the crude oil market has changed since 2010, demand for the Project remains strong. Keystone has binding shipper commitments for the Project. The need for the Project is driven by factors that include the need to transport safely and efficiently growing U.S. and Canadian crude oil production, insufficient pipeline capacity, and the opportunity to reduce U.S. dependence on foreign offshore crude oil through increased access to North American supplies. The continued demand for the Project is documented in the Department of State Final Supplemental Environmental Impact Statement (FSEIS), Section 1.4, Market Analysis.

6. Please summarize the updated information regarding Finding Number 25.

Answer: Since Keystone's petition for a permit was filed with the Commission in 2009, United States production of crude oil has increased significantly, from approximately 6.5 million barrels per day (bpd) in 2012, and is expected to peak at 9.6 million bpd by 2019. Even with this growth in domestic production, the United States is expected to remain a net importer of crude

oil. Keystone reviews and relies on forecasts from the U.S. Energy Information Administration (EIA). According to the EIA, U.S. demand for crude oil has held steady at approximately 15 million bpd and is expected to remain relatively stable into the future. More information from the EIA forecasts is included in the FSEIS in Section 1.4. Keystone also relies on industry information available from the CAPP Crude Oil Forecast, Markets and Transportation June 2014, which Keystone produced in discovery in this proceeding.

7. Please summarize the updated information regarding Finding Number 26.

Answer: While domestic production of light crude oil has increased since 2009 and has replaced most foreign imports of light crude, demand persists for imported heavy crude oil by U.S. refineries that are optimally configured to process heavy crude slates. The U.S. Gulf Coast continues to import approximately 3.5 million bpd of heavy and medium sour crude oil. This demand is supported by Keystone's binding shipper commitments for the Keystone XL Project.

8. Please summarize the information regarding Finding Number 27.

Answer: Continued demand for imported heavy crude oil is also demonstrated by the fact that the vast majority of Canadian heavy crude oil production is currently exported to the United States to be processed by U.S. refineries. North American crude oil production growth and logistics constraints have contributed to significant discounts on the price of landlocked crude and led to growing volumes of crude shipped by rail in the United States. As the FSEIS makes clear, in the absence of new pipelines, crude oil will continue to be transported via rail at an increasing rate. The North Dakota Pipeline Authority estimates that rail export volumes from the U.S. Williston Basin have increased from approximately 40,000 bpd in 2010 to over 700,000 bpd in early 2014. Over 60% of crude oil transported from the Williston Basin is delivered by

rail. The industry has also been making significant investments in increasing rail transport capacity for crude oil out of the Western Canadian Sedimentary Basin. In recent years, rail transport of crude oil in Canada has grown from approximately 10,000 bpd in 2010 to approximately 270,000 bpd by the end of 2013. Chapter 5 of the FSEIS (sections 5.0, 5.1, 5.2, and 5.3) indicates that transportation of crude oil by pipeline is safer and less greenhouse gas intensive than crude oil transportation by rail. Thus, the statement in Finding No. 27 remains true--that the project will provide an opportunity for U.S. refiners in Petroleum Administration for Defense District III, the Gulf Coast region, to further diversify supply away from traditional offshore foreign crude supply and to obtain direct access to secure and growing domestic crude supplies.

9. Please summarize the updated information regarding Finding No. 28.

Answer: The numbers vary slightly, but the overall fact remains the same. Reliable and safe transportation of crude oil will help ensure that U.S. energy needs are not subject to unstable political events. Canada has 173 billion barrels of oil reserves, 97% of which are located in the oil sands. Canada's reserves are third only to Venezuela and Saudi Arabia. Canada is the largest foreign supplier of crude oil to the United States and is likely to remain as such for the foreseeable future.

10. Please summarize the updated information regarding Finding No. 29.

Answer: Keystone's shippers have committed to long-term binding contracts, which demonstrate a material endorsement of support for the Project, its economics, proposed route, and target market, as well as the need for additional pipeline capacity to access domestic and

Canadian crude supplies. The FSEIS independently confirms strong market demand for the Project.

11. Are you aware of any reason that Keystone cannot continue to meet the conditions on which the Permit was granted by the Commission?

Answer: No. I have reviewed the conditions contained in the Amended Final Decision and Order dated June 29, 2010. The changes discussed in Finding Nos. 24-29 related to demand do not affect Keystone's ability to meet the conditions on which the Permit was granted.

12. Does this conclude your prepared direct testimony?

Answer: Yes.

Dated this 24 day of March, 2015.

David Diakow