



January 4, 2008

Keystone Pipeline Project
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Dear Marshall County Board Members,

I am writing to respond to the concerns stated in your resolution of November 27, 2007 regarding the Keystone Pipeline. Below, I have addressed each issue in the Board's resolution. Since many of the topics are also addressed in a Q&A document we provided landowners in late June 2007, I have included copies of that document for your reference. On July 9, 2007, we provided a second set of written responses specifically to Marshall County landowners that touched on additional items in your resolution. Copies of this correspondence have also been included for your reference.

The first issue in the resolution is the **possibility of a spill and the subsequent clean-up costs**. Keystone will employ industry leading best practices to prevent spills or leaks from the pipeline. The pipeline will meet or exceed all regulatory requirements. These include state and federal requirements designed to ensure the safety of pipelines like Keystone throughout the United States. While state and federal regulatory processes continue, some results of these reviews are already available.

The Draft Environmental Impact Statement, prepared as required by the National Environmental Policy Act and reviewed by multiple federal agencies, concluded that the construction and operation of the pipeline would have limited adverse environmental consequences and would be an environmentally acceptable action. A Final Environmental Impact Statement is expected later this month.

The design of the Keystone Pipeline has been reviewed by the regulator responsible for pipeline safety in the United States, the Pipeline Hazardous Materials Safety Administration. The review concluded that Keystone will be as safe as or safer than other pipelines.

Some specific measures Keystone will employ in the design and operation of its pipeline to prevent spills from occurring are reflected in the enclosed Q&A document.

Regardless of our efforts to prevent a spill, it is impossible to guarantee that one will never occur. Consequently, it is important for us to be prepared to respond in the unlikely event that a spill does occur. Emergency response for all pipelines like Keystone must meet stringent federal standards. Prior to operation, Keystone will have in place an emergency response plan that meets or exceeds these requirements. In the event of a

spill, Keystone is responsible for clean-up and for addressing damages caused. As with any utility facility, in the rare event it is warranted, Keystone might seek restitution from a party causing damage well after the clean up. This too is addressed in the document we provided landowners in June 2007.

The second item in the Board's resolution deals with **restoration of damages** done during construction. Keystone is liable for these damages and will address them with the appropriate private or public entities.

Part of our agreement with individual landowners requires us to restore areas disturbed by pipeline construction. In recent decades, the ability to bury a pipeline and restore the area to full productivity has improved tremendously. It is our expectation that restoration will be very successful in the Marshall County area. Our agreements with individual landowners incorporate payments to compensate landowners for damages in the area disturbed by construction activities which is later restored. For instance, for land in crop production, Keystone will pay a minimum of 100% of the value of the crop in the permanent and temporary right-of-way the first year, 75% the second year and 50% the third year. It is expected that land will be back in full production after two years. If actual damages are greater or extend beyond three years, Keystone remains responsible for damages associated with the pipeline and will continue to take appropriate action.

Keystone will also address damages to any county or other public property. Primarily counties and towns have been concerned about potential road damages resulting either from hauling of pipe and heavy equipment or from the installation of the pipe below roadways. Since the pipeline will be installed by boring under rather than open-cutting all paved roads (and some non-paved roads), damages from construction itself are expected to be minimal. Nevertheless, actual damages remain Keystone's responsibility to address.

With respect to increased wear on roads from hauling, Keystone expects to have an agreement with each local unit of government covering road use plan and restoration, under terms of which, roads used by Keystone will be restored as necessary to original condition or better. In addition, Keystone will post an indemnity bond with the state for damage to local roads and bridges in accordance with the requirements of South Dakota Statute 49-41B-38. This bond, to be used in lieu of any county or township indemnity bond, will run in favor of and for the benefit of the townships, counties, and any other governmental entities whose property Keystone crosses to insure that any damage beyond normal wear to public roads, highways, bridges, or other related facilities will be adequately compensated. The form, terms, and conditions of this bond will be subject to the approval of the South Dakota Public Utilities Commission.

Your resolution also expresses concern about **liability after sale**. In the event of a sale of the pipeline, the new owner will have to meet all regulatory requirements for operation and will have to assume with the pipeline itself the liability for any problems it causes. And, whether owned by TransCanada or another owner, South Dakota and federal laws would still apply. In this regard, the Board may be interested in testimony presented by Mr. Bill Markely of the South Dakota Department of Environment and Natural Resources (DENR) on December 7, 2007 in Pierre, as part the Public Utility Commission's review of the Keystone proposal. Mr. Markely testified that the DENR has had experience with pipeline leaks in South Dakota and that the responsible pipeline company has always cleaned them up. However, if not, he also testified that existing South Dakota state law

gave the DENR all the power it needs to force the pipeline to clean up any spill – regardless of whether it is on public or private land, and regardless of whether it is in Marshall County or anywhere else in the state.

Your resolution also expressed concern about **continued maintenance of the pipeline and plans for removal**. Both of these items are covered by federal regulation.

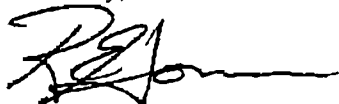
Keystone will meet or exceed all requirements for ongoing maintenance of the pipeline and associated facilities. These include requirements for periodic inspections of the pipe using techniques including internal inspection with "smart pigs" that can map the integrity of the pipe walls. Repair of defects if any is also covered by federal regulation which Keystone will meet or exceed.

Modern pipelines are maintained so that they function as a near permanent asset. With the prospect for increased oil production in Canada in the coming decades and with the world's second largest oil reserves on one end of the pipeline, we expect Keystone to be a viable path for the delivery of crude oil for many, many years to come. If at some future date it is no longer viable as a pipeline, it will be decommissioned in accordance with the federal regulatory requirements in place at the time. These requirements reflect interests of landowners. Removal may be more of an intrusion for landowners than other methods of maintaining the pipeline, such as filling it with an inert substance. Consequently, under today's existing regulations, both options are allowed. If the pipeline is maintained in an inert status, the pipeline owner remains responsible for any impacts.

Keystone stands to bring great benefits to Marshall County, to South Dakota and to the United States. By providing access to a significant, stable, secure source of crude oil, domestic to North America, Keystone can help meet our energy needs while reducing the reliance on shipments of off-shore crude oil. Locally, construction of Keystone will generate significant economic benefits in eastern South Dakota, estimated to exceed \$4 million. With an estimated construction cost of more than \$500 million in South Dakota, Keystone is also expected to generate significant local tax revenues for South Dakota schools and counties.

We are hopeful that these assurances and this additional information enable you to support the Keystone project. If at any time, the Board feels it needs additional information from Keystone or has issues it would like to see addressed, please don't hesitate to contact me or our representative, Jeff Rauh (262.853.6567).

Sincerely,



Robert Jones
Vice President Keystone Pipeline

Enclosures