

Keystone Pipeline
South Dakota PUC
Liaison Annual Report
2010

January 01, through December 31, 2010

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1. General Liaison Activity

Construction of the Keystone Pipeline Phase 1 in South Dakota was completed in 2009. The following year, 2010, beginning January 1st and ending December 31st, was dedicated to the completion of clean up, reclamation and operations tasks to bring the Keystone Pipeline into operation. Clean up and reclamation of haul routes, pipe yards and the pipeline right-of-way ROW were the primary topics that came into the liaison office, many reclamation issues came into the land office as well. Keystone Pipeline operations also has a dedicated office in Brookings SD, that is available to work with landowners and stakeholders along the route as operation and maintenance activities are conducted along the line.

As anticipated, due to the rain and environmental conditions that affected work during the construction of the pipeline, there was some isolated reclamation work remaining in 2010. There were also several locations where reclamation efforts were halted due to environmental conditions in 2009 and work was resumed as conditions allowed in 2010. Some locations that were reclaimed in 2009, required additional attention in 2010 and these areas became apparent as land was returned to pre-construction uses. Issues reported to the liaison officer and other Keystone personnel were addressed as they were brought to the company's attention.

Roads were an ongoing issue that carried over from 2009, however, in 2010 all but a half mile of haul routes were repaired. The various road districts affected were evaluated and compensated for damages related to the pipeline construction. The remaining half mile was still under evaluation by the local engineering firm hired by Keystone at the end of the year but is expected to be settled in the first quarter of 2011. Weekly teleconferences continued throughout the year in order to discuss and track progress on all road issues reported. These meetings were held until late December when all road issues were resolved, with the exception of the half mile of township road.

Reclamation activities went well across the state and nearly all the tracts are reclaimed. In areas such as in Marshall Co, where saturated conditions halted reclamation in 2009 work was resumed as soils dried and conditions allowed. In all there are about 8 tracts left on the reclamation punch-list for 2011, although, there are many tracts that will continue to be monitored. The ROW will be monitored for weeds, grassland reestablishment and proper drainage, among other things, for the next couple years and some tracts will likely require additional remediation. The remaining reclamation is typical of the second year post construction, some areas are in need of contour adjustments to insure that precipitation runs off as it had prior to construction. There were also a few areas of subsidence that will need to be decompacted and re-contoured, some additional topsoil may need to be brought in for a couple of these locations. There are also expected to be some isolated areas where weed control and reseedling will be required. These issues are typical of any disturbance and are expected as the ground settles and is returned to its previous use. Keystone will continue to address these areas as they are identified by aerial surveys, operations personnel or landowners and tenants.

Land agents have remained in the state throughout the year in order to work with landowners on access notifications and any damage compensation encountered during reclamation. In addition Keystone and the liaison keep a current spreadsheet to track the status of reclamation on each tract where problems were reported. These issues are not removed from the reclamation log until they are cleared by the inspectors and landowners.

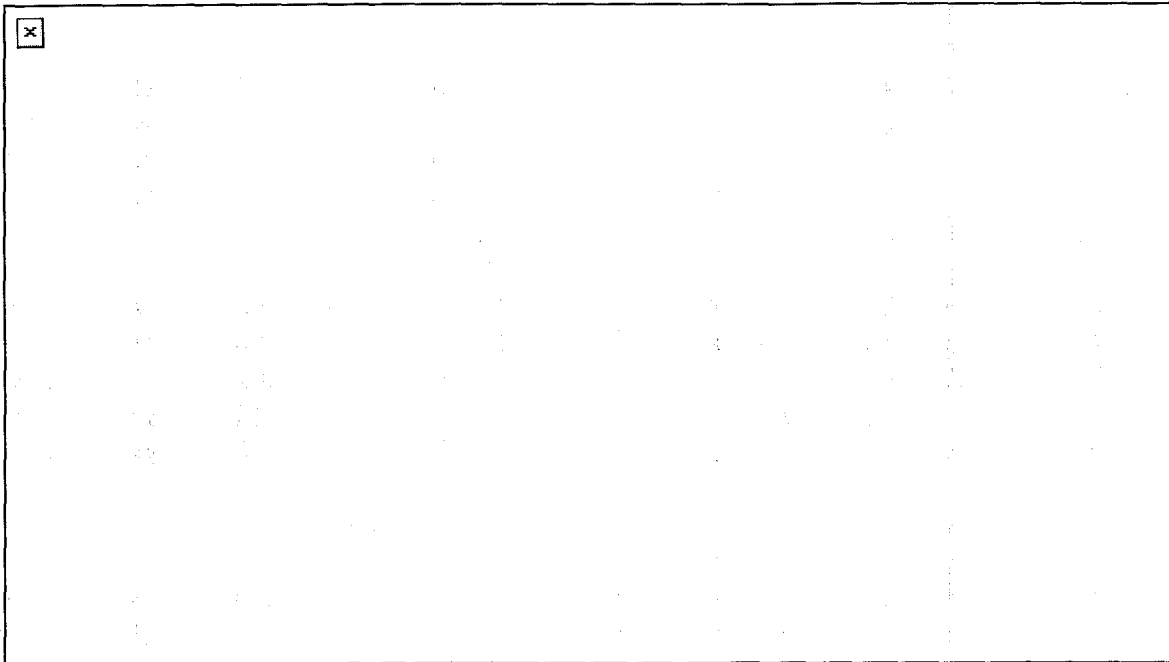
Overall the majority of reclamation on roads and the ROW was completed during the year. There are several areas remaining that are in need of additional reclamation work and these are being tracked by Keystone land department as well as the liaison office. Monitoring and supplemental work will continue into the future as needed. Keystone operations also has several employees in the state to maintain and operate the line they are also available if there are any concerns. The liaison officer will also be available to landowners, tenants, agencies and interested parties for three years post construction of the Keystone system to assist with any issues or questions that arise.

2. Issue Tracking

There were 1342 calls to the liaison during the course of the year related to the Keystone Pipeline. There were 62 meetings primarily with road groups, local emergency responders and landowners along the route. Several letters came into the liaison officer over the year and there were 74 emails regarding pipeline issues. There were contacts made with 38 landowners, 6 tenants and 49 agencies, there were approximately 135 contacts from other interested parties who had general project inquiries. There were repeated contacts with many of these groups in order to follow up on and track issues brought to Keystone's attention.

The types of issues encountered during the year of 2010 can be broken into the following five categories:

- a) Clean Up and Reclamation 41%.
- b) Road Repairs and Agency Communications 27%.
- c) General Inquires 17%.
- d) KXL Project Inquiries 11%
- e) Public Relations and Conferences 5%.



3. **Clean Up and Reclamation**

At the conclusion of 2009 there were some areas where clean up and reclamation work could not be completed, due to environmental conditions. These tracts were slated for additional work in 2010. Keystone personnel kept a spreadsheet report to track open reclamation issues and added to this list as landowners and tenants returned to the fields and reported concerns. Aerial surveys of the pipeline route also helped the company to identify areas that required additional attention. The types of reclamation encountered over the course of the year were typical of the first year post construction. Due to highly saturated soils and standing water in the previous season there were locations that showed contour issues or slumping over the ditch line at the center of the ROW. There were also some areas where weed control was necessary, as well as, some isolated reseeding of native grasslands where establishment was poor or species diversity was limited. There were also areas where work was needed on structures such as fences, ditches and field approaches or where debris from construction needed to be removed.

Keystone representatives met with landowners and tenants to identify problems and compensate for losses due to the delay of reclamation. Some reclamation was delayed due to scheduling problems related to the difficulty of coordinating access to crop fields, contractor and equipment availability, and proper environmental conditions. Due to these delays not all tracts were fully addressed during the 2010 season. By the end of the season the majority of reclamation issues had been addressed and the remaining areas are being tracked and will be addressed in 2011.

Land agents continue to meet with landowners and tenants to identify locations that require additional work. The majority of landowners and tenants have been compensated for all losses that occurred and land agents as well as the Liaison, are still in state to monitor and address any issues that may become apparent in the second season post construction.

Reclamation issues that are open going into 2010 are listed on a spreadsheet updated by the Keystone Land Office in Huron SD. As concerns were reported to the land agents, the liaison or other Keystone personnel they were added to this spreadsheet. This spreadsheet is distributed throughout the company and to its contractors, responsible for repairs. Issues are not removed from the list until they are signed off by land, environmental and construction inspectors, as well as, the landowners.

Going into the construction season of 2010 there were 50 tracts in South Dakota in need of some type of clean up or restoration work. Of these 50 tracts there were 38 landowners and 3 tenants involved. This number changed throughout the year as issues were discovered and resolved. Going into 2011 there are 26 tracts consisting of 22 landowners, on the list for additional reclamation and monitoring. The majority of the outstanding work is monitoring drainage, re-vegetation and weed control, with only about 8 tracts that require de-compaction, re-contouring and/or other moderate reclamation work.

An issue with de-watering occurred early in the fourth quarter of 2009 and involved several landowners in Marshall Co. They contacted the liaison about a valve site de-watering and the liaison and Keystone investigated their claims for damage compensation. A settlement was reached in the first quarter of 2010, after the hydrology of the area was investigated and all the affected parties were compensated for losses. Heavy October rains in 2009 lead to other issues with clean up efforts along the pipeline corridor. South of State Highway 10, crews were unable to reclaim a portion of the ROW, due to the saturated conditions. Keystone was able to re-claim the majority of the area late in 2010 as the soils dried, but there is still one drainage area to address in 2011. There are two other locations in the Marshall Co., area where Keystone will monitor and address any issues that become apparent in 2011.

There are three areas where Keystone will need to bring in a crew to do some decompaction and re-contouring work in 2011. One area will require reseeding to better establish the native grassland and several areas that will likely need additional weed control during the 2011 season. All the open reclamation issues are to be anticipated with any construction project that causes ground disturbance and there are no major concerns at this time. It is anticipated that even the native grassland areas will return to pre-construction conditions with in the next three to five years. Keystone will have operations personnel in state to monitor and address any future concerns that landowners might have. Land agents will also remain in state to address reclamation issues and damages for a period post construction. The liaison officer will be available to concerned parties for a period of three years post construction to address any issues that might arise.

4. Road Repair and Agency Communication

Many of the road issues that had been identified in 2009 were settled in the fourth quarter but there were several counties and townships that carried over into 2010. The ongoing issues were caused by the extraordinary environmental conditions in 2009 and the ongoing reclamation and clean-up work that continued to utilize some of the haul routes into 2010. In 2010 road issues were secondary to reclamation concerns in regard to the number of issues reported to the liaison. Although in the first half of the year roads were the primary issue and were surpassed

by reclamation concerns as the year went on. The majority of meetings attended by the liaison were with county and township road boards. Meetings were conducted in order to identify areas affected, review engineering documents and to reach agreements between the road groups and Keystone on the scopes of work on each route.

Multiple other contacts were made with each township and county road district through the Land Department, as well as, via email and phone calls. There were again road cases where formal meetings were not necessary to settle road issues and the liaison was not involved. At the close of 2010 damages have been settled with all road groups and the majority of repairs have already been made to haul routes. There remains a half mile section of township road in Hutchinson Co., SD that is still under review by Keystone's engineering firm and is expected to be settled in the first quarter of 2011.

Keystone continued to hold its weekly meetings throughout the year to track the progress of each road district, as damage was identified and reviewed. Reports were delivered to each county and township where necessary and meetings were held to reach settlement agreements. Once settlements were reached and repairs made the road districts signed release of damages for Keystone dated for the specific time of use. Keystone continues to be committed to working with road districts and will continue to communicate with them as the pipeline reclamation is completed and operations continues.

Below is a table that shows the road districts along the Keystone route that have made claims for road damage and the release of damages dates for each. There are several that show multiple release dates, which indicate locations where damages may have become apparent after the initial investigation or where additional work may have created a new repair locations. Not all counties and townships along the route requested funding for repairs to haul routes, this list includes only those that made claims to Keystone for haul route repairs.

South Dakota Haul Route Agreement Release			
Road District	2009 Release Date	2010 Release Date	Open Issues
Marshall Co. SD		05/12/10	
Newport Twp, Marshall Co	08/11/09	10/12/10	
Stena Twp, Marshall Co.	07/30/09	09/29/10	
Weston Twp, Marshall Co.		04/11/10	
Lowell Twp, Marshall Co.	11/09/09	09/29/10	
Brown Co. SD	09/04/09		
Bates Township, Brown Co.		04/11/10	
Day Co, SD	06/17/09 08/11/09 12/02/09		
Farmington Twp, Day Co.	08/14/09		
Andover Twp, Day Co. (North and South)	07/30/09		
Oak Gulch Twp Day Co.	11/09/09		
Clark Co. SD	11/16/09	05/04/10	

Fordham Twp, Clark Co.	11/16/09		
Raymond Twp, Clark Co.	10/20/09	03/08/10	
Richland Twp, Clark Co.		03/04/10	
Logan Twp, Clark Co.		01/25/10	
Warren Twp Clark Co.	10/06/09		
Beadle Co. SD	09/23/09 10/30/09 11/20/09		
Beadle Co. Township Roads.	11/20/09		
Spink Co. SD	06/23/09 12/03/09		
Olean Twp. Spink Co.	10/08/09		
Kingsbury Co. SD	-	-	
Iroquois Twp., Kingsbury Co.	--	01/25/10	
Esmond Twp., Kingsbury Co.	-	04/09/10	
Miner Co. SD	12/03/09	-	
Roswell Twp, Miner Co	11/02/09	-	
Green Valley Twp, Miner Co.	11/09/09	-	
Rock Creek Twp, Miner	-	06/09/10	
Hanson Co. SD	12/03/09	-	
Edgerton Twp, Hanson Co.	12/03/09	-	
Pleasant Twp Hanson Co.	-	01/25/10	
Spring Lake Twp., Hanson Co.	12/03/09		
McCook Co., SD	-	10/13/10	
Bridgewater Twp., McCook Co.	-	07/26/10	
Jefferson Twp., McCook Co.	-	05/17/10	
Hutchinson Co. SD	12/17/09	12/03/10	
Valley Twp, Hutchinson Co.	11/09/09	(01/27/11)	½ mile under review as of 12/31/10
Pleasant Twp, Hutchinson Co.	12/21/09		
Wolf Creek Twp, Hutchinson Co		01/25/10	
Grandview Twp, Hutchinson Co.		05/05/10	
Yankton Co. SD			
Mission Hill North Twp., Yankton Co.		05/17/10	

5. General Project Inquiries

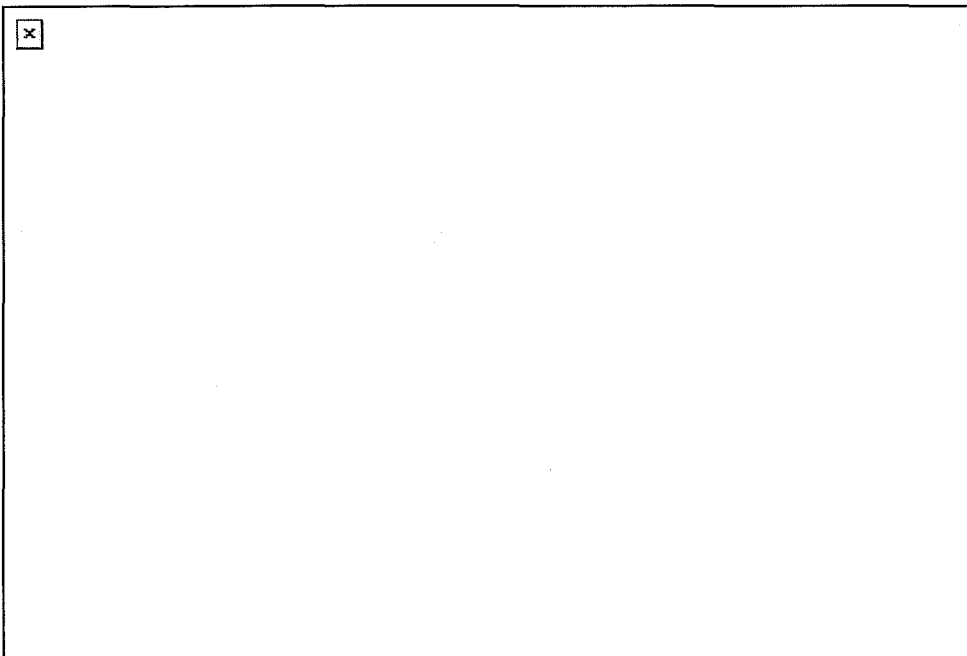
General inquiries over the course of the year consisted mostly of calls regarding the completion

of construction and the operation of the pipeline systems. There were general questions about the project capacity, pressure, barrels per day flowing and other points of interest. Interested parties, landowners, tenants as well as people in the area of the project called to ask various questions. There were also inquiries about construction completion, reclamation progress or practices and about operations plans or schedules. People were again curious about the overall capacity and destination of the line. There were also calls related to various news articles and legislative actions in South Dakota that people call the liaison to voice their support of or concerns about. Many of these inquiries were directed to the TransCanada website dedicated to the Keystone Pipeline. Others were directed to Keystones Operations Office in Brookings SD, or various other Keystone personnel with the proper knowledge to address the topic. All landowner and tenant requests for damages or easement information were referred to the Land Office in Huron, SD where the land agents are also available to assist.

6. **KXL Project**

Construction activities in South Dakota are anticipated to start in late 2011 on the Keystone KXL Project. The route includes approximately 311 miles of pipeline in South Dakota, crossing Harding, Butte, Perkins, Meade, Pennington, Haakon, Jones, Lyman, and Tripp Counties. In addition, facilities in South Dakota include seven pump stations to be located in Harding, Meade, Haakon, Jones, and Tripp Counties. Construction is planned to commence following the completion of the regulatory process late in 2011, construction is expected to be completed in 2012.

The South Dakota Public Utility Commission issued the Notice of Entry- Final Decision Order during the first quarter of the 2010. These construction conditions ordered Keystone to appoint a Liaison Officer for the KXL project as well. During the second quarter the Commission approved Sarah Metcalf to be the Liaison Officer for the Keystone KXL Project. Over the course of the year there were approximately 25 contacts made to the liaison office regarding the KXL project composed of six 6 landowners, 2 tenants and various interested parties. The number of contacts increased toward the end of the year and often coincided with news reports on the project. Most of the parties were seeking general information on the project and were interested in employment or offering services to the project and it's contractors. Many of the calls and emails were referred to KXL personnel and/or the project website. On the website vendors can send their contact information and services provided directly to the project coordinators. Other calls were seeking information on the overall Keystone project, construction procedures status of the project, regulatory processes and construction schedule.



There were several open house meetings that the Liaison Officer attended across the state related to the KXL project and permitting. One landowner visited a pump station and spoke with operations staff on the existing Keystone line because he lives near a proposed station and had concerns about the noise level. He also spoke with the liaison and KXL land personnel regarding his questions about the project and pump stations specifically. There were several calls voicing support of the project and inquiring about the final pump station locations. These people were also interested in information on the economic boost seen during and following the construction of the Keystone Pipeline, for the state and local communities. There were also a few calls seeking information about the liaison role and duties.

Four complaints came through the PUC to the liaison over the course of the year, three related to the easement acquisition process and one related to an aerial survey of the proposed route. The liaison met with and spoke to these landowners and worked with Keystone to help resolve their concerns. At the year end Keystone was still in negotiations with the three landowners who contacted the liaison about easements, but they were working with Keystone and the Liaison to reach an agreement they felt comfortable with. Keystone followed up on the complaint regarding the aerial flight and no damages were claimed by the landowner. There was also a FAA investigation into the complaint and no action was taken regarding the incident but a report was filed noting the complaint. As a result, of this complaint Keystone issued clear guidelines to all contractors who might fly the proposed route in order to help prevent landowners and livestock from being disturbed during future flights. Going into 2011 there are no major issues outstanding on the KXL project but the liaison is still in contact with landowners who have questions or concerns about the project.

The Pipeline Liaison Officer will be available throughout construction and for a period of three years post-construction to assist landowner's, tenants, agencies and other interested parties with any questions, concerns or issues that might arise during the project. Formal quarterly reporting on this project will begin in 2011.

7. Public Relations and Media

There was no formal media activity with the liaison office during the year. However, there were several contacts to the liaison from reporters, who were referred to the Keystone representatives who could speak directly to the subject. There were several Emergency Responder meetings held over the year. Keystone presented information to communities along the route on Keystone's Emergency Response Plan, equipment and resource availability, as well as, their personnel emergency response training procedures. The liaison also attended the 22nd Annual Environmental and Ground Water Quality Conference, in Pierre SD, with Keystone in order to further share information on emergency response and spill prevention. The goal is to share information with the public and emergency responders in the vicinity of the pipeline so they know what is expected of them if there is ever a problem on the line. Keystone would like to bring more awareness of the "811" One Call program, the location of their own 800 number signs along the route and to get concerned parties in direct contact with Keystone operations if an issue is suspected. Keystone also wants to inform the public of their general plan and resources available should there be an emergency incident related to the pipeline.

8. Open Issues

Open issues from 2009 were all related to reclamation of the ROW and roads along the Keystone corridor. As reported in the specific sections above all but one half mile of haul routes in South Dakota have been addressed and the majority of reclamation was completed.

Remaining reclamation at the end of 2010 is as follows:

- a) In Marshall Co. there are three tracts where low spots are holding water where crews will need to rip or deep till in order to decompact the soil, then disc it smooth and measure the elevations. If the location is still low soil will be hauled in and placed after analysis by the Environment Inspector. Soil brought in is inspected to insure that it is of acceptable quality and composition, so it will not be a source of further reclamation issues. Once the elevation is restored the area will be re-seeded to match pre-existing conditions and the area will be monitored for weeds, re-vegetation and proper drainage.

There are several other areas in Marshal Co that will continue to be monitored during the 2011 season for weed control and to watch the progress of native grassland regeneration.

- b) In Beadle Co there is one tract that will continue to be monitored to insure that drainage has been restored to the field and decompaction is adequate. Inspectors, for both construction and environmental, have approved the reclamation at this site. The landowner has further concerns so Keystone will continue to monitor the area.
- c) There are three tracts in Minor Co that are awaiting decompaction and re-contouring of soils that were not completed this year. The heavy saturation of soils and scheduling difficulties made it difficult to fully de-compact these areas during 2010. One tract in this county will need some major reseeding efforts to bring the native grassland into preexisting conditions. Although there was good vegetative cover along the ROW, the species composition did not match due to low species diversity compared to adjacent grassland. All three of these tracts along with several others will continue to be monitored for drainage, weed control and re-vegetation success.

All reclamation will recommence in the spring of 2011 as conditions allow and moitoring of tracts will be on going. Any additional reclamation not on this report, that might become apparent as land is utilized for its pre-construction uses will be addressed as it is reported to Keystone.

9. Summary

Overall clean up and reclamation went well across the state in 2010, haul routes were studied and repaired and settlements were reached with the various road groups that govern them. In 2011 the remaining locations and any other areas reported to have problems will be addressed. Keystone will monitor the construction corridor as the land recovers from disturbance and it is returned to pre-construction uses. Weeds, re-seeding, erosion or other issues will be addressed as they come to the attention of the company. Land agents will continue to work with landowners to address all damages that resulted from construction and will stay in state until reclamation activities are completed.

Road repairs were the primary concern going into 2010 and all haul routes were analyzed and construction related damages compensated for. The remaining half mile in Hutchinson Co is under investigation and Keystone will continue to work with the affected township. Any other road issues that are presented to the company in the coming year will be addressed as well. Keystone held weekly teleconferences to track the status of road damages until the majority of roads were settled. The liaison officer attended many meetings with road officials and Keystone representatives and will continue to be available if any new issues should arise.

Overall, construction of the Keystone pipeline is completed, the majority of reclamation has taken place and the line is in operation. The liaison officer will continue to be available to share information and address any issues that may arise over the next two years.