



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

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ASSISTANT ADMINISTRATOR
FOR ENFORCEMENT AND
COMPLIANCE ASSURANCE

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Economic, Energy and Business Affairs
U.S. Department of State
Washington, DC 20520

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Dear Mr. Fernandez and Dr. Jones:

In accordance with our authorities under the National Environmental Policy Act (NEPA), the Council on Environmental Quality (CEQ) NEPA regulations, and Section 309 of the Clean Air Act, EPA has reviewed the Supplemental Draft Environmental Impact Statement (SDEIS) for TransCanada's proposed Keystone XL Project ("Project").

EPA reviewed the Draft Environmental Impact Statement (DEIS) for this project and submitted comments in July of 2010. At that time EPA rated the DEIS as "Inadequate-3" because potentially significant impacts were not evaluated and additional information and analyses were necessary to ensure that the EIS fully informed decision makers and the public about potential consequences of the Keystone XL Project. Since that time, the State Department has worked diligently to develop additional information and analysis in response to EPA's comments and the large number of other comments received on the DEIS. The State Department also made a very constructive decision to seek further public review and comment through publication of the SDEIS, to help the public and decision makers carefully weigh the environmental costs and benefits of transporting oil sands crude from Canada to delivery points in Oklahoma and Texas. The consideration of the environmental impacts associated with constructing and operating this proposed pipeline is especially important given that current excess pipeline capacity for transporting oil sands crude to the United States will likely persist until after 2020, as noted in the SDEIS.

While the SDEIS has made progress in responding to EPA's comments on the DEIS and providing information necessary for making an informed decision, EPA believes additional analysis is necessary to fully respond to our earlier comments and to ensure a full evaluation of

the potential impacts of proposed Project, and to identify potential means to mitigate those impacts. As EPA and the State Department have discussed many times, EPA recommends that the State Department improve the analysis of oil spill risks and alternative pipeline routes, provide additional analysis of potential impacts to communities along the pipeline route and adjacent to refineries and the associated environmental justice concerns, together with ways to mitigate those impacts, improve the discussion of lifecycle greenhouse gas emissions (GHGs) associated with oil sands crude, and improve the analysis of potential impacts to wetlands and migratory bird populations. We are encouraged by the State Department's agreement to include some of these additional analyses in the Final Environmental Impact Statement (Final EIS). We have noted those agreements in this letter, and look forward to working with you to develop these analyses for the Final EIS.

Pipeline Safety/Oil Spill Risks

EPA is the lead federal response agency for responding to oil spills occurring in and around inland waters. As part of that responsibility, we have considerable experience working to prevent and respond to oil spills. Pipeline oil spills are a very real concern, as we saw during the two pipeline spills in Michigan and Illinois last summer. Just in the last month, the Keystone Pipeline experienced two leaks (in North Dakota and Kansas), one of which was brought to the company's attention by a local citizen. These leaks resulted in shut-downs and issuance of an order to TransCanada from the Pipeline and Hazardous Materials Safety Administration (PHMSA), requiring that corrective measures be taken prior to the subsequently approved restart of operations. PHMSA's Order of June 3, 2011 for the Keystone Pipeline – which also carries Canadian oil sands crude oil and is operated by the same company as the proposed Keystone XL Project – was based on the hazardous nature of the product that the pipeline transports and the potential that the conditions causing the failures that led to the recent spills were present elsewhere on the pipeline. These events, which occurred after EPA's comment letter on the DEIS, underscore the comments about the need to carefully consider both the route of the proposed Keystone XL Pipeline and appropriate measures to prevent and detect a spill.

We have several recommendations for additional analyses that relate to the potential for oil spills, as well as the potential impacts and implications for response activities in the event of a pipeline leak or rupture. We recommend and appreciate your agreement that the Final EIS use data from the National Response Center, which reports a more comprehensive set of historical spill events than the Pipeline and Hazardous Material Safety Administration's incident database, to assess the risk of a spill from the proposed pipeline. With respect to the spill detection systems proposed by the applicant, we remain concerned that relying solely on pressure drops and aerial surveys to detect leaks may result in smaller leaks going undetected for some time, resulting in potentially large spill volumes. In light of those concerns, we also appreciate your agreement that the Final EIS consider additional measures to reduce the risks of undetected leaks. For example, requiring ground-level inspections of valves and other parts of the system several times per year, in addition to aerial patrols, could improve the ability to detect leaks or spills and minimize any damage.

The SDEIS indicates that there may be a "minor" increase in the number of mainline valves installed to isolate pipeline segments and limit impacts of a spill, compared to what was

originally reported in the DEIS (SDEIS, pg. 2-4). However, no detailed information or decision criteria are provided with regard to the number of valves, or their location. In order to evaluate potential measures to mitigate accidental releases, we appreciate your agreement to provide additional information in the Final EIS on the number and location of the valves that will be installed and to evaluate the feasibility of increasing the number of valves in more vulnerable areas. For example, it may be appropriate to increase the number of valves where the water table is shallow, or where an aquifer is overlain by highly permeable soils, such as the Ogallala aquifer. We also recommend consideration of external pipe leak detection systems in these areas to improve the ability to detect pinhole (and greater) leaks that could be substantial, yet below the sensitivity of the currently proposed leak detection systems. In addition, while we understand that valves are not proposed to be located at water crossings that are less than 100 feet wide, we recommend that the Final EIS nevertheless consider the potential benefits of installing valves at water crossings less than 100 feet wide where there are sensitive aquatic resources.

Predicting the fate and transport of spilled oil is also important to establish potential impacts and develop response strategies. While the SDEIS provides additional information about the different classes of crude oils that may be transported, we recommend the Final EIS evaluate each class of crude that will be transported, how it will behave in the environment, and qualitatively discuss the potential issues associated with responding to a spill given different types of crude oils and diluents used.

With regard to the chemical nature of the diluents that are added to reduce the viscosity of bitumen, the SDEIS states "the exact composition may vary between shippers and is considered proprietary information" (SDEIS, pg. 3-104). We believe an analysis of potential diluents is important to establish the potential health and environmental impacts of any spilled oil, and responder/worker safety, and to develop response strategies. In the recent Enbridge oil spill in Michigan, for example, benzene was a component of the diluent used to reduce the viscosity of the oil sands crude so that it could be transported through a pipeline. Benzene is a volatile organic compound, and following the spill in Michigan, high benzene levels in the air prompted the issuance of voluntary evacuation notices to residents in the area by the local county health department. Similarly, although the SDEIS provides additional information on the potential impact of spills on groundwater, we recommend that the Final EIS improve the risk assessment by including specific information on the groundwater recharge areas along the pipeline route, recognizing that these areas are more susceptible to groundwater contamination from oil spills.

We appreciate that the SDEIS provides additional information about the feasibility of alternative pipeline routes that would reduce the risk of adverse impacts to the Ogallala aquifer, by re-routing the pipeline so it does not cross the aquifer. Many commenters, including EPA, expressed concerns over the potential impacts to this important resource during the review of the DEIS. If a spill did occur, the potential for oil to reach groundwater in these areas is relatively high given shallow water table depths and the high permeability of the soils overlying the aquifer. In addition, we are concerned that crude oil can remain in the subsurface for decades, despite efforts to remove the oil and natural microbial remediation.

However, the SDEIS concludes that the alternative routes that avoid the Ogallala aquifer are not reasonable, and consequently does not provide a detailed evaluation of the environmental impacts of routes other than the applicant's proposed route. The SDEIS indicates that no other alternatives are considered in detail because, in part, they do not offer an overall environmental advantage compared to other routes. In support of this conclusion the SDEIS presents a limited analysis of the potential environmental impacts of the alternative routes and offers qualitative judgments about the relative severity of impacts to different resources, e.g., considering potential impacts from spills to the Ogallala aquifer less important than impacts to surface waters from a spill associated with an additional crossing of the Missouri River. We think this limited analysis does not fully meet the objectives of NEPA and CEQ's NEPA regulations, which provide that agencies rigorously explore and objectively evaluate reasonable alternatives. CEQ guidance states that reasonable alternatives include those that are practical or feasible from the technical and economic standpoint and using common sense.¹ Recognizing the regional significance of these groundwater resources, we recommend that the State Department re-evaluate the feasibility of these alternative routes and more clearly outline the environmental, technical and economic reasons for not considering other alternative routes in more detail as part of the NEPA analysis.

Oil Spill Impacts on Affected Communities and Environmental Justice Concerns

The communities facing the greatest potential impact from spills are of course the communities along the pipeline route. We are concerned that the SDEIS does not adequately recognize that some of these communities may have limited emergency response capabilities and consequently may be more vulnerable to impacts from spills, accidents and other releases. This is particularly likely to be true of minority, low-income and Tribal communities or populations along the pipeline route. We appreciate your agreement to address this issue in the Final EIS by clarifying the emergency response capability of each county along the pipeline route using the plans produced by Local Emergency Planning Committees. We also appreciate your agreement to identify potential mitigation measures in the Final EIS based on this information. We look forward to working with your staff to identify data sources and approaches for addressing these issues.

As part of this analysis, we are concerned that the SDEIS may have underestimated the extent to which there are communities along the pipeline with less capacity to respond to spills and potentially associated health issues, particularly minority, low-income or Tribal communities. We appreciate your agreement to re-evaluate in the Final EIS which communities may have such capacity issues by adopting the more commonly-used threshold of 20% higher low-income, minority or Tribal population compared to the general population, instead of the 50% used in the SDEIS.

With respect to data on access to health care, we are encouraged that the SDEIS provided critically important information on medically underserved areas and on health professional shortage areas. We will provide recommendations on methods to present this data to make it

¹ 40 CFR 1502.14; "Forty Most Asked Questions Concerning CEQ's National Environmental Policy Act Regulations," 46 FR 18026 (1981) - Question 2a: Alternatives Outside the Capability of Applicant or Jurisdiction of Agency.

more meaningful to reviewers and will work with your staff as you move towards publishing a Final EIS.

The SDEIS does recognize that minority, low-income or Tribal populations may be more vulnerable to health impacts from an oil spill, and we appreciate the applicant's commitment to provide an alternative water supply "if an accidental release from the proposed Project that is attributable to Keystone's actions contaminates groundwater or surface water used as a source of potable water or for irrigation or industrial purposes..." (SDEIS, pg. 3-154). Further, the SDEIS states that impacts would be mitigated by the applicant's liability for costs associated with cleanup, restoration and compensation for any release that could affect surface water (SDEIS, pg. 3-154). We believe that this mitigation measure should also apply for releases that could affect groundwater. Finally, we recommend that the Final EIS evaluate additional mitigation measures that would avoid and minimize potential impacts through all media (i.e., surface and ground water, soil, and air) to minority, low-income and Tribal populations rather than rely solely on after-the-fact compensation measures. Some examples of additional mitigation include developing a contingency plan before operations commence for emergency response and remedial efforts to control the contamination. This would also include providing notification to individuals affected by soil or groundwater contamination, ensuring the public is knowledgeable and aware of emergency procedures and contingency plans (including posting procedures in high traffic visibility areas), and providing additional monitoring of air emissions and conducting medical monitoring and/or treatment responses where necessary.

Environmental and Health Impacts to Communities Adjacent to Refineries

We are also concerned with the conclusion that there are no expected disproportionate adverse impacts to minority or low-income populations located near refineries that are expected to receive the oil sands crude, particularly because many of these communities are already burdened with large numbers of high emitting sources of air pollutants. It is not self-evident that the addition of an 830,000 barrels per day capacity pipeline from Canada to refineries in the Gulf Coast will have no effect on emissions from refineries in that area. We recommend that the Final EIS re-examine the potential likelihood of increased refinery emissions, and provide a clearer analysis of potential environmental and health impacts to communities from refinery air emissions and other environmental stressors. As part of this re-evaluation, we encourage the State Department to provide more opportunities for people in these potentially affected communities to have meaningful engagement, including additional public meetings, particularly in Port Arthur, Texas, before publication of the Final EIS. Public meetings in these potentially affected communities provide an opportunity for citizens to present their concerns, and also for the State Department to clearly explain its analysis of potential impacts associated with the proposed project to the people potentially affected.

Lifecycle GHG Emissions

We appreciate the State Department's efforts to improve the characterization of lifecycle GHG emissions associated with Canadian oil sands crude. The SDEIS confirms, for example, that Canadian oil sands crude are GHG-intensive relative to other types of crude oil, due primarily to increased emissions associated with extraction and refining.

The SDEIS also includes an important discussion of lifecycle GHG emissions associated with oil sands crude and provides quantitative estimates of potential incremental impacts associated with the proposed Project. For example, the SDEIS (pg. 3-198) states that under at least one scenario, additional annual lifecycle GHG emissions associated with oil sands crude compared to Middle East Sour crude are 12 to 23 million metric tons of CO₂ equivalent (CO₂-e) at the proposed Project pipeline's full capacity (roughly the equivalent of annual emissions from 2 to 4 coal-fired power plants).² While we appreciate the inclusion of such estimates, EPA believes that the methodology used by the State Department and its contractors to calculate those estimates may underestimate the values at the high-end of the ranges cited in the lifecycle GHG emissions discussion by approximately 20 percent. We will continue to work with your staff to address this concern as you move towards publishing a Final EIS.

Further, in discussing these lifecycle GHG emissions, the SDEIS concludes "on a global scale, emissions are not likely to change" (SDEIS, pg. 3-197). We recommend against comparing GHG emissions associated with a single project to global GHG emission levels. As recognized in CEQ's draft guidance concerning the consideration of GHG emissions in NEPA analyses, "[T]he global climate change problem is much more the result of numerous and varied sources, each of which might seem to make a relatively small addition to global atmospheric GHG concentrations."³

Moreover, recognizing the proposed Project's lifetime is expected to be at least fifty years, we believe it is important to be clear that under at least one scenario, the extra GHG emissions associated with this proposed Project may range from 600 million to 1.15 billion tons CO₂-e, assuming the lifecycle analysis holds over time (and using the SDEIS' quantitative estimates as a basis). In addition, we recommend that the Final EIS explore other means to characterize the impact of the GHG emissions, including an estimate of the "social cost of carbon" associated with potential increases of GHG emissions.⁴ The social cost of carbon includes, but is not limited to, climate damages due to changes in net agricultural productivity, human health, property damages from flood risk, and ecosystem services due to climate change. Federal agencies use the social cost of carbon to incorporate the social benefits of reducing CO₂ emissions into analyses of regulatory actions that have a marginal impact on cumulative global emissions; the social cost of carbon is also used to calculate the negative impacts of regulatory actions that increase CO₂ emissions.

Finally, we continue to be concerned that the SDEIS does not discuss opportunities to mitigate the entire suite of GHG emissions associated with constructing the proposed Project. We appreciate your agreement to identify practicable mitigation measures in the Final EIS for

² <http://www.epa.gov/cleanenergy/energy-resources/calculator.html>

³ "Draft NEPA Guidance on Consideration of the Effects of Climate Change and Greenhouse Gas Emissions," (February 18, 2010)

⁴ "Social Cost of Carbon for Regulatory Impact Analysis Under Executive Order 12866;" Interagency Working Group on Social Cost of Carbon, United States Government, February 2010. Presents four estimates of estimated monetized damages associated with a ton of CO₂ released in 2010 (\$5, \$21, \$35, \$65) (\$2007); these estimates grow over time and are associated with different discount rates.

GHG emissions associated with operation of the pipeline in the United States. As part of that analysis, we recommend consideration of opportunities for energy efficiency and utilization of green power for pipeline operations. In addition, we recommend a discussion of mitigation approaches for GHG emissions from extraction activities that are either currently or could be employed to help lower lifecycle GHG emissions to levels closer to those of conventional crude oil supplies. We recommend that this discussion include a detailed description of efforts ongoing and under consideration by producers, as well as the government of Alberta, to reduce GHG emissions from oil sands production.

Wetlands Impacts

EPA co-administers the Clean Water Act Section 404 regulatory program, which regulates the discharge of dredged or fill material into waters of the United States, including wetlands. While we appreciate that the U.S. Army Corps of Engineers is responsible for day-to-day processing of permit applications, our review of aerial photography recently posted on the Project's website indicates that the DEIS may have underestimated the extent of ecologically valuable bottomland hardwood wetlands in Texas. We appreciate your agreement to evaluate these wetland estimates in the Final EIS and to display the location of the bottomland hardwood wetlands with maps and aerial photography. Given their ecological importance, we recommend the same evaluation be done for prairie pothole wetlands that may be impacted by the proposed Project. EPA also recommends that the Final EIS discuss whether it is possible to make further pipeline route variations to avoid both bottomland hardwood and prairie pothole wetlands.

Our review of the aerial photography also indicates that there may be numerous wetland crossings that would impact more than 0.5 acres of wetlands, which is the upper threshold for impacts under the US Army Corps of Engineers' (Corps) nationwide general permit for utility line crossings in waters of the United States. In that light, and recognizing that there will be several hundred acres of wetlands affected along the entire pipeline route, we recommend that the Corps review the proposed wetland impacts as a single project requiring an individual Clean Water Act Section 404 permit. Consolidating each of these crossings into one individual permit review would also provide for more transparency as to the project impacts and allow for more effective mitigation planning, as well as compliance monitoring of the entire project.

Finally, we appreciate your agreement to provide a discussion of potential mitigation measures for project activities that permanently convert forested wetlands to herbaceous wetlands. We continue to recommend providing a conceptual wetland mitigation plan in the Final EIS, including a monitoring component that would, for a specified period of time, direct field evaluations of those wetlands crossed by the pipeline (and mitigation sites) to ensure wetland functions and values are recovering. We also recommend that the Final EIS evaluate the feasibility of using approved mitigation banks to compensate for wetlands impacts.

Migratory Birds

The SDEIS includes a summary of regulatory and other programs aimed at protecting migratory bird populations that may be affected by oil sands extraction activities in Canada. However, we recommend that the Final EIS provide additional information that would address

potential impacts to specific migratory species, with an emphasis on already-vulnerable species, and we appreciate your agreement to provide that information in the Final EIS. Data found in the North American Breeding Bird Survey (a partnership between the U.S. Geological Survey's Patuxent Wildlife Research Center and the Canadian Wildlife Service's National Wildlife Research Center), which monitors bird populations and provides population trend estimates, should be helpful. We also recommend that the Final EIS discuss mitigation measures that are either currently or could be employed for identified impacts.

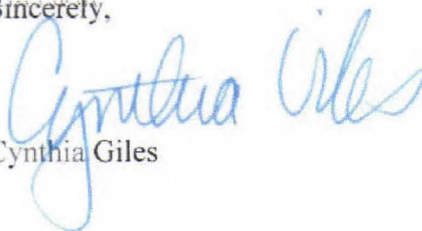
Conclusion

Based on our review, we have rated the SDEIS as "Environmental Objections - Insufficient Information (EO-2)" (see enclosed "Summary of Rating Definitions and Follow-up Actions"). As explained in this letter, we have a number of concerns regarding the potential environmental impacts of the proposed Project, as well as the level of analysis and information provided concerning those impacts. Our concerns include the potential impacts to groundwater resources from spills, as well as effects on emission levels at refineries in the Gulf Coast. In addition, we are concerned about levels of GHG emissions associated with the proposed Project, and whether appropriate mitigation measures to reduce these emissions are being considered. Moreover, the SDEIS does not contain sufficient information to fully assess the environmental impacts of the proposed Project, including potential impacts to groundwater resources and communities that could be affected by potential increases in refinery emissions.

We look forward to continuing to work with you to strengthen the environmental analysis of this project and to provide any assistance you may need to prepare the Final EIS. In addition, we will be carefully reviewing the Final EIS to determine if it fully reflects our agreements and that measures to mitigate adverse environmental impacts are fully evaluated. We look forward as well to working with you as you consider the determination as to whether approving the proposed project would be in the national interest under the provisions of Executive Order 13337.

Please feel free to contact me at (202) 564-2400, or have your staff contact Susan Bromm, Director, Office of Federal Activities, at (202) 564-5400, if you have any questions or would like to discuss our comments.

Sincerely,



Cynthia Giles

Enclosure

Summary of Rating Definitions and Follow-up Action

Environmental Impact of the Action

LO--Lack of Objections

The EPA review has not identified any potential environmental impacts requiring substantive changes to the proposal. The review may have disclosed opportunities for application of mitigation measures that could be accomplished with no more than minor changes to the proposal.

EC--Environmental Concerns

The EPA review has identified environmental impacts that should be avoided in order to fully protect the environment. Corrective measures may require changes to the preferred alternative or application of mitigation measures that can reduce the environmental impact. EPA would like to work with the lead agency to reduce these impacts.

EO--Environmental Objections

The EPA review has identified significant environmental impacts that must be avoided in order to provide adequate protection for the environment. Corrective measures may require substantial changes to the preferred alternative or consideration of some other project alternative (including the no action alternative or a new alternative). EPA intends to work with the lead agency to reduce these impacts.

EU--Environmentally Unsatisfactory

The EPA review has identified adverse environmental impacts that are of sufficient magnitude that they are unsatisfactory from the standpoint of public health or welfare or environmental quality. EPA intends to work with the lead agency to reduce these impacts. If the potentially unsatisfactory impacts are not corrected at the final EIS stage, this proposal will be recommended for referral to the CEQ.

Adequacy of the Impact Statement

Category 1--Adequate

EPA believes the draft EIS adequately sets forth the environmental impact(s) of the preferred alternative and those of the alternatives reasonably available to the project or action. No further analysis or data collection is necessary, but the reviewer may suggest the addition of clarifying language or information.

Category 2--Insufficient Information

The draft EIS does not contain sufficient information for EPA to fully assess environmental impacts that should be avoided in order to fully protect the environment, or the EPA reviewer has identified new reasonably available alternatives that are within the spectrum of alternatives analyzed in the draft EIS, which could reduce the environmental impacts of the action. The identified additional information, data, analyses, or discussion should be included in the final EIS.

Category 3--Inadequate

EPA does not believe that the draft EIS adequately assesses potentially significant environmental impacts of the action, or the EPA reviewer has identified new, reasonably available alternatives that are outside of the spectrum of alternatives analyzed in the draft EIS, which should be analyzed in order to reduce the potentially significant environmental impacts. EPA believes that the identified additional information, data, analyses, or discussions are of such a magnitude that they should have full public review at a draft stage. EPA does not believe that the draft EIS is adequate for the purposes of the NEPA and/or Section 309 review, and thus should be formally revised and made available for public comment in a supplemental or revised draft EIS. On the basis of the potential significant impacts involved, this proposal could be a candidate for referral to the CEQ.