

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE APPLICATION ) HP 07-001  
BY TRANSCANADA KEYSTONE PIPELINE, )  
LP FOR A PERMIT UNDER THE SOUTH )  
DAKOTA ENERGY CONVERSION AND ) **DIRECT TESTIMONY OF**  
TRANSMISSION FACILITIES ACT TO ) **ROBERT JONES**  
CONSTRUCT THE KEYSTONE PIPELINE )  
PROJECT )

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

Answer: Robert Jones. My address is 56 Straddock Cres SW, Calgary, Alberta, Canada

**2. What is your position with TransCanada ?**

Answer: I am a Vice President of TransCanada Pipelines, responsible for the implementation of the Keystone Pipeline project. In that capacity, I am responsible for overall leadership and direction of the TransCanada Keystone Pipeline project.

**3. Please state your professional qualifications.**

Answer: I am a professional engineer. I am registered to practice in the Province of Alberta.

**4. Have you provided your resume?**

Answer: Yes my resume is attached to my prepared testimony as Exhibit A.

**5. Are you responsible for portions of the application which TransCanada Keystone Pipeline, LP (Keystone) has filed with the South Dakota Public Utilities Commission seeking a siting permit for the Keystone Pipeline?**

Answer: Yes.

**6. Is Section 1, the Introduction to the Application, one of those sections of the application for which you are responsible?**

Answer: Yes.

**7. Can you summarize the information in that portion of the application?**

Answer: Section 1.1 describes the project purpose, which is to transport crude oil production from the Western Canadian Sedimentary Basin (WCSB) to meet growing demand by refineries and markets in the United States. This supply will serve to replace U.S. reliance on less stable and reliable sources of offshore crude oil. The demand for the Keystone project is addressed in greater detail later in my testimony and in Chapter 3 of the application.

Section 1.2 provides a project overview and general site description. Keystone proposes to construct and operate a crude oil pipeline and related facilities from a crude oil supply hub at Hardisty, Alberta to Wood River and Patoka, Illinois and to Cushing, Oklahoma. The initial phase of the project to Wood River and Patoka will have a nominal capacity of 435,000 barrels per day (bpd). As the result of a successful second open season, Keystone has now received sufficient shipper commitments to support the proposed extension to Cushing, which will include additional pumping capacity to expand the nominal capacity of the pipeline to 591,000 bpd. The pipeline is proposed to enter South Dakota in Marshall County and extend southerly, exiting the state underneath the Missouri River near Yankton, South Dakota. The length of the pipeline in South Dakota will be approximately 220 miles and will cross 10 counties.

Section 1.3 states that the total estimated cost of equipment and installation of the Keystone project in South Dakota is expected to be approximately \$302 million (U.S.).

Section 1.4 states that Keystone proposes to commence construction of the pipeline in South Dakota in April, 2008, and to complete construction in November, 2009. Construction in

South Dakota will be conducted in three spreads. One spread will be constructed in 2008 and the remaining two spreads will be constructed in 2009. Keystone expects to place its pipeline in service in November 2009. This in-service date is consistent with meeting the requirements of the shippers who have made the contractual commitments that underpin viability and need for the project.

Section 1.5 indicates that the permit applicant and sole participant in the project at this time is TransCanada Keystone Pipeline, LP.

Section 1.6 identifies those individuals authorized to receive communications regarding Keystone's application.

Section 1.7 states that Keystone anticipates that the pipeline will be wholly owned, managed, and operated by TransCanada Keystone Pipeline, LP., and identifies the project manager for the project.

Section 1.8 indicates that, in addition to the siting permit required from the South Dakota Public Utilities Commission, Keystone is required to obtain a Presidential Permit from the U.S. Department of State to cross the international border. As required by the National Environmental Policy Act (NEPA), the Department of State is preparing an Environmental Impact Statement (EIS) with respect to the project. On August 10, 2007, the Department of State issued a Draft EIS, which tentatively concluded that the Keystone project would result in limited adverse environmental impacts both during construction and operation, and would be an environmentally acceptable action. The comment period on the Draft EIS closes September 24, 2007, and a Final EIS is expected in November or December 2007. The principal additional Federal and South Dakota permits required are listed in Table 1 of the application.

**8. Mr. Jones, is Keystone connected or related to the proposed Hyperion refinery at Elk Point, South Dakota?**

Answer: No it is not. Keystone is a 591,000 bpd pipeline with 495,000 bpd in firm contracts. The average term of those contracts is 18 years. Keystone's firm contracts require oil to be delivered at Wood River, IL, Patoka, IL, and Cushing, OK. Hyperion is not included as a firm shipper. Keystone has not negotiated any shipping contracts or connection contracts with the proposed Hyperion refinery or any other proposed refinery.

**9. Are you responsible for Section 2.1 Nature of Proposed Project”?**

Answer: Yes.

**10. Can you summarize the information in that portion of the application?**

Answer: Section 2.1.1 states that approximately 220 miles of pipeline will be constructed in South Dakota. Detailed route maps for the project are provided at Appendix A of the Application. There will be aboveground facilities including four pump stations, isolation valves, and densitometers. Powerlines required to provide power to pump stations, remotely activated isolation valves, and densitometers will be permitted and constructed by local utilities, not by Keystone.

Section 2.1.2 addresses future expansion. As I stated, sufficient shipper commitments have been obtained to support expansion of the pipeline to Cushing, and to a nominal capacity of 591,000 bpd, which will require the addition of one to three additional electric pumps within the footprint of the proposed pump stations located in South Dakota.

**11. Are you responsible for Section “3.0 Demand for Facility”?**

Answer: Yes.

**12. Can you summarize the information in that portion of the application?**

Answer: Yes I can. The need for the project is dictated by a number of factors including increasing crude oil demand in the United States, and decreasing United States' domestic crude oil supply, opportunity to reduce U.S. dependence on foreign off-shore sources of crude oil, increasing WCSB crude oil supply, insufficient pipeline capacity, and binding shipper commitments to utilize the Keystone Pipeline Project. The United States' demand for petroleum products continues to increase at the same time domestic crude oil supplies continue to decline. The United States historically has compensated for decreases in domestic production through increased imports in Canada and off-shore sources. Keystone will provide opportunities for refiners in the United States to utilize Canadian crude oil and will provide the United States with access to secure and growing Canadian crude oil supplies. Access to that Canadian crude oil supply provides an opportunity for the U.S. to decrease its dependence on off-shore foreign crude oil. Established crude oil reserves in the WCSB are estimated at 179 billion barrels of oil. Therefore, Canada has the second largest amount of crude oil reserves in the world.

As discussed at the South Dakota public input hearings, TransCanada and Keystone neither produce nor own the crude oil. TransCanada is a regulated utility providing owners of the crude oil or shippers with a means to transport their commodity to market. The Keystone Project will provide initially 435,000 bpd of capacity and will provide up to 591,000 bpd. Keystone conducted a binding open season in December, 2005, and a subsequent expansion open season in April 2007 to provide shippers an opportunity to participate in the Project by entering into commitments for pipeline capacity. Binding contracts for 495,000 bpd have been executed. These binding commitments demonstrate the need for incremental pipeline capacity and access to Canadian crude supplies. Keystone expects the remainder of the excess capacity will be utilized by non-contract shippers at the tariff rate to be approved by FERC.

**13. Does the proposed Hyperion refinery or any other proposed refinery have an impact on the need for the Keystone project?**

Answer: No, Keystone is not dependent on the construction of the Hyperion refinery or any other proposed refinery.

**14. Are you responsible for Section 6.1.5 "Taxes"?**

Answer: Yes.

**15. Can you summarize the information in that portion of the application?**

Answer: Section 6.1.5 of Keystone's application estimates that, based on current tax rates, the Keystone pipeline will generate approximately \$6.5 million in tax revenues to the state in the first year after construction. During construction, the Keystone project will pay sales tax and contractor's excise tax. Based on an estimated construction cost of \$300 million and state sales and use tax at 4%, Keystone would pay approximately \$12 million in state sales and use tax over the construction of the project. Contractor's excise tax is 2% additional, which would result in another \$6 million. This would result in an estimated \$18 million in sales and use taxes for the construction of the project. I am informed that there is a provision in current South Dakota law providing for a refund of sales taxes which may apply to the project. Thus, it is quite possible that Keystone could receive a 75% refund of those taxes, which would result in a refund amount of \$13.5 million.

It is difficult to state with certainty what the eventual property taxes of the system will be. The pipeline itself will be centrally assessed under state law, assigned a value by the South Dakota Department of Revenue and Regulation, and the values sent back to the county for application of their mill levies. Further, the four pump stations will be assessed most likely as

industrial property by the counties in which they are situated and those tax revenues will go directly to those counties as well.

Keystone does believe that the property taxes paid to each county will be counted as “local effort” as far as the state’s education funding formula under current state law.

**16. Are you responsible for Section “6.1.6 Other Economic Benefits”?**

Answer: Yes.

**17. Can you summarize the information in that portion of the application?**

Answer: Keystone intends to purchase fuel and associated equipment and will require equipment rentals, maintenance and repair during construction of the project. All of these additional expenditures will produce economic benefits in the state.

**18. Are you responsible for providing the information requested in Data Request 1-1?**

Answer: Yes.

**19. Please summarize your response to Data Request 1-1.**

Answer: Delay or termination of the project would have substantial adverse impacts upon the local economies, Keystone shippers, US refiners and US consumers. Delay or termination would prevent Keystone from meeting the needs of these constituencies in providing them with needed crude oil necessary to meet demand as outlined in the response.

**20. Are you responsible for providing the information requested in Data Request 1-8?**

Answer: Yes.

**21. Please summarize your response to Data Request 1-8.**

Answer: Construction of the pipeline will create positive impacts upon the income of the communities near the pipeline in the short term. In the long term, the pipeline is not expected to have a significant impact on the income, occupational distribution or cohesion of the local communities.

**22. Are you responsible for providing the information requested in Data Request 1-11?**

Answer: Yes.

**23. Please summarize your response to Data Request 1-11.**

Answer: Keystone anticipates three full time employees in South Dakota, including two journeyman electricians and one pipeline technician. We expect that there will be from 50-60 part time contractual positions for various aspects of operation.

**24. Do you adopt the information in the above Sections of Keystone's application, and the above data responses as your testimony in this proceeding?**

Answer: Yes I do.

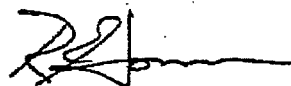
**25. Do the portions of the application for which you are responsible support the granting of a siting permit by the Commission for the Keystone Pipeline Project?**

Answer: Yes they do.

**26. Does this conclude your testimony?**

Answer: Yes it does.

Dated this 21 day of September, 2007.



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ROBERT JONES



**ROBERT E. JONES**

**Robert E. Jones, P.Eng.**

56 Straddock Cres. S.W.

Calgary, Alberta, Canada

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**PROJECT ROLE:**

VICE PRESIDENT KEYSTONE OIL PIPELINE

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**QUALIFICATIONS:**

- *B.Sc. Engineering – University of Alberta, 1983*
- *International Finance Certificate*
- *APEGGA - Professional Engineer*

**EXPERIENCE SUMMARY:**

*Appointed Vice President of the Keystone Oil Pipeline project in June 2006. Lead developer of the Keystone project from initial concept in 2003.*

*Worked in the Business Development group for TransCanada since 2000 with responsibilities to identify new business opportunities and providing commercial and market expertise. These efforts include TransCanada's re-entry into Mexico, market analysis of LNG proposals, and commercial analysis of pipeline acquisition opportunities.*

*Over twenty three years of professional experience in Business Development, Management, Engineering, and Operations of natural gas and liquid hydrocarbon pipeline systems. Highly skilled in negotiating, relationship management, selling, project management, and business analysis. Effective in finding new business opportunities, developing and signing large, complex deals.*

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**TRANSCANADA**

12/1997 – Present

**TransCanada PipeLines**

*Director Eastern Business Development*

Calgary, AB

- accountable for developing pipeline projects in the US Northeast and lead developer of the Northwinds project
- Management committee representative on Iroquois, Millennium and Portland partially owned pipeline entities

*Director Operations Services*

Calgary, AB

- Engineering & Operations Process Optimization initiative

**TransCanada International**

- Venture Manager* Calgary, AB
- Bid Manager – Jose Crude Oil Storage and Ship Loading Terminal
  - US \$400 million Acquisition, Build, Own & Operate Bid
  - Bid Manager – Bare/Aguasay Gas Compression and Processing Project
  - US \$200 million Build, Own and Operate Bid

**ENBRIDGE**

02/1996 – 12/1997

**IPL International**

*Manager Venezuela Operations* Caracas, Venezuela

- Business Development
- TAP, Oriente, Cerro-Negro and PetroZuata Pipeline proposals

*Project Specialist*

Calgary, AB

- OCENSA PRB member
- Proposals in Russia, Thailand and Venezuela

09/1987 - 02/1996

**Interprovincial Pipeline**

*Project Manager*

Edmonton, AB

- System Expansion Program Phase I & II

**ENBRIDGE**

*Senior System Development Engineer*

Edmonton, AB

*Team Leader, Pipeline Integrity*

Edmonton, AB

*Senior Operations Engineer*

Edmonton, AB

*Operations Engineer. District 2*

Regina, SK

*Project Engineer*

Edmonton, AB

**NOVA**

06/1983 – 09/1987

**Nova Corporation**

*Pipeline Engineer, Operations*

Edmonton, AB

*District Engineer, Brooks*

Brooks, AB

*EIT, Western Operations*

Edmonton, AB

05/1981 – 08/1981, 05/1982 – 08/1982

Edmonton, AB

*Gas Control*