



January 15, 2008

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Donald Hentges, President  
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Dear Mr. Hentges:

I am writing to respond to the resolution passed at your Association's December 6, 2007 Board Meeting concerning the proposed Keystone Pipeline that you forwarded to the South Dakota Public Utilities Commission (PUC).

Before commenting on the resolution, however, I'd like to mention that we continue to work productively with each of the rural water systems Keystone will cross to develop specific crossing plans. I am confident that this effort will be successful in producing plans acceptable to both the water utilities and Keystone.

With respect to the resolution, in early December the PUC completed seven days of technical hearings in Pierre on the Keystone pipeline. The Commission had opportunity to hear sworn testimony and to cross examine witnesses on issues, including those represented in your resolution.

While the transcript offers much detailed information on these issues, a few items responsive to your concerns bear mention.

First, Keystone will meet or exceed all applicable state and federal regulatory requirements. The federal requirements applicable to Keystone are designed for the safe transportation of hazardous liquids, such as crude oil or other petroleum products, and reflect the experience of nearly 100 years of petroleum pipeline operations.

While state and federal regulatory reviews of our proposal continue, some results of these reviews are already available. A Final Environmental Impact Statement (EIS), issued on January 11, 2008, has been prepared as required by the National Environmental Policy Act and reviewed by multiple federal agencies. The Final EIS concluded that the construction and operation of the pipeline would have limited adverse environmental consequences. Also, the design of the Keystone Pipeline, including planned wall thickness, has been reviewed by the regulator responsible for pipeline safety in the United States, the Pipeline Hazardous Materials Safety Administration within the U.S. Department of Transportation. The review concluded that Keystone will be as safe as or safer than other pipelines.

Second, pipelines are the safest way to transport petroleum products. That is why each day, hundreds of millions of gallons of crude oil (including that produced in western South Dakota) and refined petroleum products (including that consumed in South Dakota) are delivered by pipelines to refineries and fuel depots. Pipelines are also efficient. Delivering similar volumes of oil by means other than a pipeline would require more than 17,500 tanker trucks or more than 3,300 rail tanker cars in continuous service.

Consequently, it is not surprising that many of the same South Dakota rural water systems that Keystone will cross are already crossed by other petroleum pipelines. Because of the state of the art design features Keystone will incorporate – such as a fusion bonded epoxy coating that has all but eliminated external corrosion as a failure mode and deeper depth of cover to reduce risk of external impact, Keystone can be expected to outperform these existing pipelines.

Keystone will have in place the necessary plans and equipment to respond in the unlikely event a spill should occur. Emergency response for all pipelines like Keystone must meet stringent federal standards. Keystone's emergency response plan will meet or exceed these requirements. In the event of a spill, Keystone is responsible for clean-up and for addressing damages caused. Keystone would implement its response plan without regard to what or who caused the incident.

By resolution, you have requested that a "reserve fund" be established to pay for any adverse impacts from the Keystone Pipeline. South Dakota is already well-protected by existing laws. Passage of measures such as you outline would be both unnecessary and detrimental.

Keystone is already responsible by law to clean-up any spill and for addressing damages. Under existing laws, clean-up would be accomplished under the supervision of the South Dakota Department of Environmental Resources (DENR) and must meet state and federal standards.

In hearings on the Keystone proposal, DENR officials, Bill Markley (Ground Water Quality Program Director) and Kim McIntosh (Team Leader of Spill Remediation), testified that the state already has all the power it needs in existing rules and laws to ensure spills are cleaned up and appropriate remediation takes place.

They testified that the DENR has had experience with crude oil leaks associated with oil wells in Harding County and with leaks from existing hydrocarbon pipelines in the state. In the event of pipeline leaks, they testified that the responsible pipeline company has always cleaned them up. However, if not, they also testified that the DENR can force the pipeline to clean up any spill from its facilities.

Some might say that clean up costs can be so high that there is a risk that a pipeline company might "walk away" from clean-up responsibilities and that a reserve fund is required. However, even for a significant spill, clean-up and remediation costs are dwarfed by the value of the pipeline itself and the value of ongoing service. For instance, Keystone assets alone have an estimated value well over five billion dollars. The value is backed up by contracts for shipment of oil which are regulated by the Federal Energy Regulatory Commission. Because ongoing operation of Keystone is subject to federal regulation, a pipeline company that does not promptly address problems that may occur as required by existing laws and regulations may be shut down by the federal government.

Consequently, from both a legal and an economic perspective, it is in Keystone's interest to promptly and thoroughly address any spill, as required by state and federal laws and regulation.

Keystone will be financially responsible for clean-up and remediation of any spill from the pipeline. However, because hydrocarbon spills can come from other sources in South Dakota, including storage tanks and wells, for instance, you may be interested to know that South Dakota already has access to back-

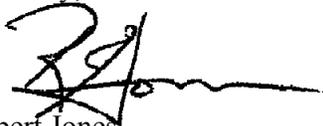
up funding for clean-up, if for some reason funding were unavailable from the party responsible for the spill. As described in testimony by Mr. Markley and Ms. McIntosh of the DENR, the South Dakota Regulated Substance Response Fund represents a “reserve fund” funded by non-tax sources and available to use for clean-up of any spill or release in South Dakota, if necessary. DENR also testified that the state has the power to recover from the responsible party any funds it might expend. Therefore, the creation of a new reserve fund is not needed to protect South Dakota

It also is important to consider that the creation of a new “reserve fund” would likely have adverse impacts. Principal among these is that costs associated with the establishment of such a fund will ultimately be born by consumers at the gas pump and by users of other oil products in South Dakota and elsewhere.

Keystone stands to bring great benefits to South Dakota and to the United States. By providing access to a significant, secure source of Canadian crude oil, Keystone can help meet the energy needs of South Dakota and the U.S. while reducing the reliance on shipments of off-shore crude oil. Locally, construction of Keystone will generate significant economic benefits, 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 very pleased that the Keystone Pipeline has received its Final Environmental Impact Statement and we look forward to the completion of the detailed regulatory review of Keystone by the South Dakota PUC. We also look forward to completing plans for crossing the many critical utilities of South Dakota including your association’s rural water systems in the coming months. Should you have any questions or if you would like to further discuss the Keystone project, please contact either myself or Jeff Rauh (262-821-5230).

Sincerely,

A handwritten signature in black ink, appearing to read 'RJ', with a long horizontal flourish extending to the right.

Robert Jones  
Vice President Keystone Pipeline

Copy to:

Governor Mike Rounds  
Attorney General Larry Long  
Public Utilities Commission  
Steven M. Pirner, Department of Environment and Natural Resources  
Senator Tim Johnson  
Senator John Thune  
Representative Stephanie Herseth Sandlin  
Senator Dave Knudson  
Senator Scott Heidepriem  
Representative Larry Rhoden  
Representative Dale Hargens