

Keystone Pipeline

SD Pipeline Liaison Quarterly Report

Fourth Quarter 2008
October 01, through December 31, 2008

Table Of Contents

- 1. General Liaison Activity.....3
- 2. Issue Tracking.....3
- 3. Construction Concerns4
- 4. Landowner Request6
- 5. General Project Inquiries6

1. General Liaison Activity

During the fourth quarter, beginning October 1st and continuing to year end, December 31, 2008, work continued on the Keystone Pipeline. The focus of issues to come into Sarah Metcalf, the Public Liaison Officer were primarily related to the effects of wet weather. Construction faced slow and difficult working conditions due to the heavy rains and freezing temperatures during the fourth quarter of the year. However, the weather did not have a substantial effect on the 3055 ft HDD crossing of the Missouri River near Yankton, SD. Work began in mid October and was completed in the beginning of November, the construction took place in the span of a few weeks and without incident. This section will be tied in to the mainline pipe during the 2009 construction.

As was stated in Keystone's third quarter report, wet weather hindered the construction schedule and work did not reach the completion of cleanup and final restoration for Spread 2A. Work ended Dec. 23, 2008 for the Holidays and will commence January 5th, 2009. In the beginning of the first quarter, the company plans to bore Highway 12 and re-start work on the six mile skip area in Marshall Co. where conditions were too wet for work to continue this fall. Winter conditions have halted reclamation until spring and work will continue as soon as the frost limits are lifted in South Dakota. The open ROW was prepared for winter in accordance with PUC, DOT and environmental regulations and conditions. Roadways, snowmobile routes and approaches were cleaned up by removing signs, matting and other materials noting that a few signs remain in place to mark crossings where necessary. Silt fences were placed around loose dirt near roads, ditches and wetlands, as required for spring thaw and storm events.

Other activities that will take place throughout the winter are selective tree removal, to prepare the ROW for construction in accordance with the Migratory Bird Act, and civil and environmental surveys related to tree clearing and route location. These activities will take place in Keystone construction Spreads 3B and 4B. Spread 3B includes the southern part of Day Co., Clark Co., Beadle Co., Kingsbury Co. Minor Co., Hanson, Co., McCook Co., Hutchinson Co. and northern Yankton Co. Spread 4B starts part way into Yankton Co. and continues south into Nebraska. Landowners affected by any construction activities will be contacted by land agents to address damages and other concerns they may have.

The majority of contacts to the liaison office occurred in the beginning of the quarter with fewer and fewer calls as the ground froze and winter set in.

2. Issue Tracking

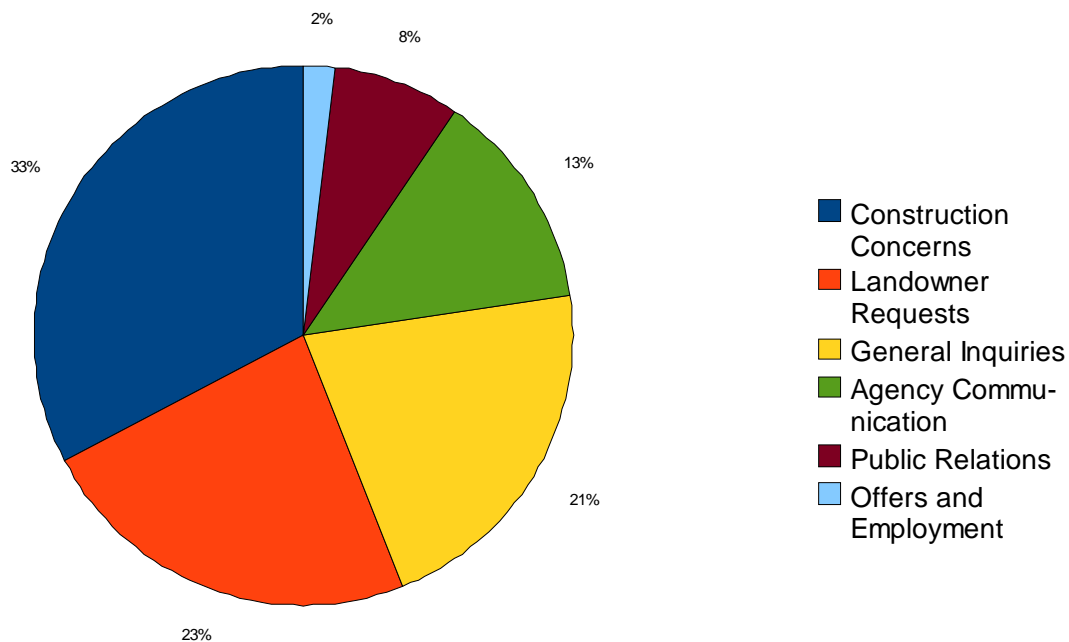
In all there were 203 calls related to the pipeline in the fourth quarter, 18 meetings with concerned parties, 8 meetings and tours with press agencies or interested parties, and 4 letters and emails to the liaison officer. There were 38 landowners and 11 tenants, 12 agencies and 6 contacts with interested groups, individuals or companies.

Of all the contacts approximately 52 were individual complaints or issues resulting from active construction, 37 landowner requests such as crop access or damage claims, 34 general inquiries about the pipeline, and 21 contacts related to regulatory agencies and permitting. Other contacts consisted of 12 contacts with media and press outlets and 5 requests for jobs, offers for housing, or offers to supply goods and serves to the contractor. The remaining contacts were

follow up calls and meeting that related to one of these proceeding categories.

The types of issues to come into the liaison office can be broken into the following six categories:

- a) Construction Issues and Concerns 32%.
- b) Landowner Requests for damages and crop access 23%.
- c) General Inquires 21%.
- d) Permit and Agency Communications 13%.
- e) Public Relations and Press Events 7%.
- f) Offers to the Contractor/Inquiries to Employment Possibilities 3%,
(see Illustration 1- Issue Details)



3. Construction Concerns

Issues that have arisen from construction in the fourth quarter are primarily a result of the unusual fall weather conditions. These issues can be broken down into several categories as follows:

- a) Rain & Dewatering

The main complaints that we have received this fall relate to rainwater and the pumping of water to allow workers to continue construction of the pipeline. During the month of October an unusual excessive amount of rain fell in the area. This rain saturated the soil and left standing water on many areas of the ROW and the resulting wet conditions hindered harvest as well as construction work. In order to work, the contractor was forced to pump water off of the ROW onto adjacent properties. Some landowners were upset about this

pumping and asked workers to stop or worked with them to find areas de-watering would not affect the land. Other landowners contacted the liaison office and we asked the contractor to stop pumping in those areas until a solution was found. Land agents contacted landowners in areas where pumping was necessary and requested permission to de-water. Most landowners granted permission to the company to de-water as soon as crops were harvested in that area. Some areas held too much water or too little drainage for pumping to be effective, so six miles of the line in southern Marshall Co., was skipped until conditions would allow for workers to come back in and work effectively and without causing lasting damage to the land. Construction will commence on the skipped area early in the first quarter of 2009, the area that was skipped. Compensation and damages are being address by land agents with tenants and landowners affected by the de-watering activities. The moisture also effected road conditions which is the second most pressing issue during the four quarter.

b) Road Damage

At the beginning of the 4th quarter, we were receiving many calls regarding dust control of the ROW as well as haul routes. There were fewer calls regarding the speed control signs, however, there were some complaints about the placement of the caution signs. The contractor kept a list of dust control requests and sprayed a water/magnesium-chloride solution in areas where dust became a problem. A safety inspector for the contractor also drove the roads to insure that the caution signs did not cause any “pinch points” along the roadways in the construction area. As the quarter progressed dust was no longer a problem due to the heavy rains, however, the calls kept coming in requesting gravel and grading of the county and township roads where construction was taking place. Many local residents became very upset with the condition of the roads, as construction and harvest combined with the heavy rains left many roads muddy, rutted and, at times, impassible. The contractor again made a list of problems as they were identified and applied gravel and graded as they were able to effectively do so. When the rains finally ceased and the roads dried or became frozen, the contractor was finally able to keep up and all roads in Marshall and Day Co., SD were graded, graveled and had the crown restored. There will be areas that will require more repair work in the 2009 construction season but the roads have all been prepared for safe passage this winter and left in a condition acceptable to each county or township affected.

c) Fences & Gates

Temporary fences and the repair of temporary gates was again an issue that the liaison office received calls on. As harvest was completed many people wanted to get cattle out to graze corn stalks. We had several calls come in to request new temporary fencing or to repair the fencing installed early in the year by the clearing crew. Some of the temporary fencing and gates were not strung tight enough and had to be re-built to prevent cattle form escaping. The contractor had a crew put together to address fencing issues. There were several requests for fencing that are still open issues and will be addressed during the reclamation phase of the project.

d) Winterization & Reclamation

Winterization and reclamation were areas of concern for landowners in spread 2A. The liaison office explained the winterization plan with those who contacted the office and a letter addressing the issue was sent to all effected parties. Land agents will be available to meet with landowners and tenants to address compensation for any additional damages in 2009. Until the snow melts and the next growing season begins it is difficult to completely address damages.

e) Driving Safety/Speeding

There were a couple of complaints about driving safety and speeding by the contractor again this quarter although not nearly as many as when the active construction began. The contractor continues to hold weekly safety meetings and reinforced company policy for safe courteous driving.

As with the third quarter the bulk of complaints came in during the most active phases of construction. Some landowners were upset, however, most were fine with the work taking place, most issues were taken care of through communication efforts so that both parties were aware of the others concerns. Overall there have been no major issues that could not be addressed.

In most cases, Keystone and the contractors addressed any problem soon after it was brought to their attention, or as soon as environmental conditions would allow. The contractor faced great difficulty in maintaining the quality of local roads and minimizing impact to the land. Considering the major rain events that occurred during this period they have worked extremely hard on maintenance to keep roads passable and safe. Reclamation of spread 2A will commence as soon as the frost limits lift in the spring, additional damages due to the weather hindrance will be addressed with the landowner and compensation and repairs will take place during the 2009 construction season. Keystone will also continue to reinforce personal and public safety with all staff members.

4. Landowner Request

The majority of requests from landowners and/or tenants were for access to their crops during harvest. In many cases, the pipeline construction blocked access to part of a farmer's land. Landowners and tenants contacted the liaison office as well as the contractor to request help gaining access for harvest. In most cases access was provided by the contractor. If no access could be provided, the contractor compensated landowners to install their own access point. In cases where no access was possible or crops were lost outside of the ROW, land agents met with the affected party to compensate them for the loss. There were again some requests from locals to purchase material from the pipeline such as broken timbers and sections of flume pipe. One landowner requested a culvert crossing the ROW which was installed and another requested a permanent road approach be left to access his field. Most landowner requests were feasible and were granted. Any requests for damage payment were directed to the Keystone Land Office and all legitimate damages were paid.

5. General Project Inquiries

The time line of construction was one of the primary questions that came into the liaison office

during the fourth quarter. Landowners and affected persons were interested in knowing the time line of construction and how things had been altered as a result of the harsh weather conditions workers were faced with. They were interested in knowing how long construction would last in the state and if reclamation was going to be completed this year. They were also interested in knowing what would be done in order to winterize the construction area once active construction was shut down. Other questions related to when construction would pick up again next spring and when they could expect to see workers in their areas. Several calls also came in regarding the overall project status and when construction would begin in the more southern parts of South Dakota.

The Missouri River HDD drilling operation also generated a few calls for general information on the time line and nature of the work around the river. There were calls regarding supplies and services for the contractor, as with last quarter the names and numbers of these people were referred to the contractor Michel's Pipeline Co.

6. Agency Communications

Agency meetings during the fourth quarter have been related primarily to the Missouri River HDD site as the work for the crossing started up. Also, there were several construction tours and meetings with regulatory agencies in Spread 2A. The liaison met with City officials in Yankton, Department of Natural Resources, and agencies concerned with the Missouri River crossing in both South Dakota and Nebraska. There have also been several correspondences with staff and commissioners of the PUC regarding concerned parties and regulatory issues. There were three letters or emails sent to the PUC from concerned landowners this quarter. Their concerns were mostly focused on de-watering and road conditions that resulted from the heavy rain events. There are some on going conditions with some of these landowners who have requested notification of activities and/or future repairs or damage payments. However, there are no major open issues that Keystone is aware of going into 2009.

All issues concerning roads have been addressed with the counties and townships that maintain these roads. There will be more work and repair for roadways in 2009, however, all the roads were in acceptable condition and in accordance with the conditions set forth in the winterization plan as well as in accordance with the state and local governments. Most concerns have been addressed quickly by Keystone and actions taken were reported back to the originating agency and to all parties involved.

7. Public Relations and Media

As with the third quarter, there was some media interest regarding the Keystone project. Contacts this quarter concerned the construction schedule and how weather events have affected work on the line. Aside from the weather stories, other stories have also covered the work taking place on the Missouri River and general pipeline construction and landowner opinions. Most landowners have conveyed that although the weather has caused problems for them and increased the inconvenience brought by the construction, for the most part, they feel that they have been treated fairly and well compensated. There have also been several tours of the Keystone in order to document construction. This is a project TransCanada hopes will help to clarify public understanding of pipeline projects and might help to improve the landowner and tenant understanding of what is being asked of them on future projects. All persons who wished to enter the construction area attended a visitors training on safety and environmental

requirements. All visitors were required to have personal protection equipment most of which can be provided by Keystone although steel toed boots must be provided by the individual.

8. Offers and Requests

There were again a few contacts from people who were interested in working for the contractor or providing some type of material or service for the pipeline project. Most of these were directed to the contractor for more information on hiring or to give information on lodging or services they could provide.

9. Closed Issues from the Second Quarter and Third Quarter

There are several issues from the second quarter and third quarter that were resolved during the fourth quarter:

- a) The Crow Creek Drainage ditch crossing concerns were addressed at a meeting taking place on the first of October. The pipe has been installed and tied into the mainline in this area and there are no further concerns, this issue is closed.
- b) A tour with representatives from the Governors office, the PUC and the SD Department of Natural Resources, was conducted on Thursday, October 9th, 2008, as planed. The "issue" is closed.
- c) A field approach was provided to the Anderson's so they can access their property on the west side of the ROW, so he can harvest and plant the cropland.

10. Open Issues going into the New Year

There are no major open issues for the coming year, however there are several situations that will have to be monitored into the 2009 construction season and are as follow;

- d) The cathodic protection inquiry about a radio tower near Yankton, SD will be addressed when the final plan for cathodic protection on spread 4B has been completed, any interference will be addressed during construction. This is still an open item and will be addressed with the 2009 construction.
- e) There are several open items on the Anderson property that will be followed into 2009.

Work was halted on the Anderson property due to standing water. The Anderson's did not give permission to de-water and work was halted until January 2009. When the ground is frozen, there will be less impact and compaction to the land during construction.

- This property will be monitored in the spring for water and drainage issues related to construction.
- Parkview Nursery will provide an exact seed match of the native grasses on Anderson's property and will re-seed the grassland area following reclamation work and topsoil replacement.
- The property will also be closely monitored to ensure that no leafy spurge was

introduced to the property during the construction activities, if any weeds appear they will be immediately controlled.

- f) Fence installation or repair will be monitored, there are six landowners who have requested temporary fencing following reclamation, to keep cattle off of the ROW as the grass reestablishes.
- g) Several landowners have contacted the liaison office about damages, reclamation and winter conditions. The liaison will follow up with these people to insure that their concerns are addressed in the following seasons.
- h) Water run off will be monitored this spring and during construction around the Anderson's and their neighbors in the skip area of Marshall, Co.

11. Summary

Weather was the overwhelming factor during the fourth quarter of 2008. Unusual levels of precipitation not only impeded work on the pipeline but also on the harvest for local farms. The combined efforts of these activities left roads in poor condition and some people affected by the construction were very upset. As complaints came into the liaison office, the issues were addressed and reported to Keystone and its contractor. The majority of issues were addressed in a timely manner and taken care of as quickly as conditions would allow. There are some areas that the company will be unable to address until the ground thaws and construction begins again in full swing. These are fairly minor issues primarily related to clean up and reclamation and should not be difficult to take care of.

Keystone is aware that there will be additional damages due to those landowners who's property was not reclaimed in 2008. There will be parties who are unable to plant crops in 2009 or otherwise use their property in a normal way. Land agents will meet with these persons and go over any losses a landowner or tenant may suffer. The Keystone Pipeline Liaison Office will be available throughout the coming construction season, to any concerned party that has questions regarding the Keystone project. We will also follow up with those who have contacted us previously about construction concerns in 2009.