

Keystone Pipeline SD Pipeline Liaison Quarterly Report

**First Quarter 2009
January 01, through March 31, 2009**

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1. General Liaison Activity

The first quarter, beginning January 1st and continuing to March 31st, 2009, was overall a slow quarter, as far as the liaison office was concerned. Work continued on the skipped areas of Spread 2A on the Keystone Pipeline and was completed in less than six weeks. In early March, the contractor shut down operations until frost limits on roadways are lifted sometime in May. There were very few issues that came into Sarah Metcalf, the Public Liaison Officer. Most calls were primarily either landowner requests or general inquiries about jobs and the construction schedule. There were also several inquiries as to the timing of the remaining damage payments and a few requests for additional or off right-of-way (ROW) damages.

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Work on Keystone did not reach completion of cleanup and final restoration for Spread 2A. However, the remainder of pipe was installed during the first quarter of 2009. Reclamation and clean up will begin sometime in the second quarter of the year as soon as environmental conditions allow for effective work to begin.

Work in the first quarter began on January 5th, 2009, the company completed work at Highway 12 and finished work on the six mile skip area in Marshall Co. where conditions were too wet for work to continue this fall. There were several issues with snow melt and water run off which will be monitored until the spring thaw has completed. Any potential damages to the land from erosion will be evaluated and addressed with affected landowners as conditions allow access.

Other activities that took place throughout the first quarter were civil and environmental surveys and selective tree removal, to prepare the Spread 3 and 4 ROWs for construction in compliance with the requirements of the Migratory Bird Treaty Act. Civil and environmental surveys will continue into the Second Quarter.

Reclamation and clean up of Spread 2A, from the North Dakota border through Marshal and Day Counties will begin as soon as conditions allow. The contractors for Spreads 3B and 4B will start staging activities in late April and early May. Spread 3B includes the southern part of Day Co. where construction will start and continue through Clark Co., Beadle Co., Kingsbury Co., Minor Co., Hanson, Co., McCook Co., into Hutchinson Co. Spread 4B starts part way into Hutchinson and continues south through Yankton Co. into Nebraska. Land agents will continue to communicate with affected parties as construction activities progress.

The majority of contacts to the liaison office occurred in the last month of the quarter with very few calls when the ground was frozen and no major complaints about the winter construction.

2. Issue Tracking

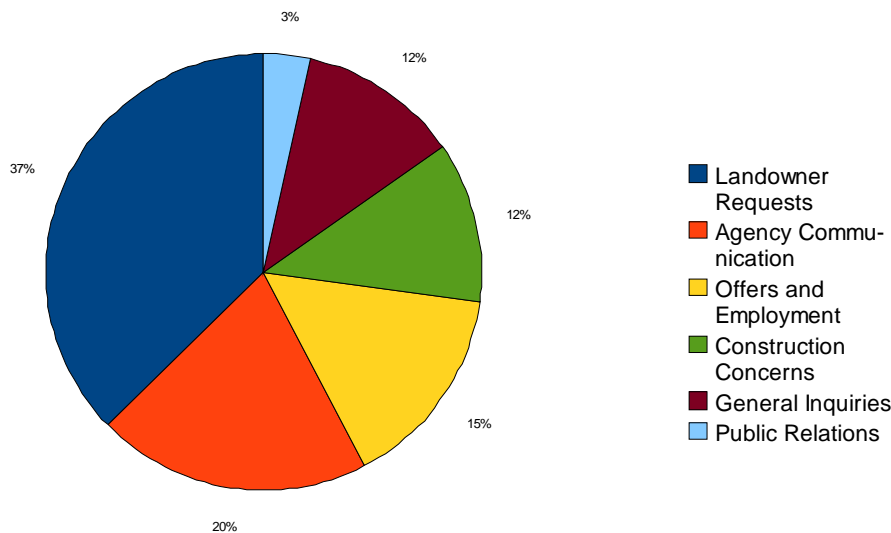
There were 57 calls related to the pipeline in the first quarter of 2009, and 7 meetings with concerned parties and agencies. There were also 2 letters and 8 issues emailed to the liaison officer. There were contacts with 12 landowners, 11 tenants, 5 agencies and 14 interested groups, individuals or companies.

Of all the contacts, approximately 7 were individual complaints or issues resulting from active construction. There were 22 landowner requests, 11 needing spring field access, 6 requesting

damage compensation and 5 needing fencing. General inquiries about the pipeline continued with 11 about construction and timing and 5 inquiries about employment. There were 12 contacts related to agencies and 2 pertaining to the media. The remaining contacts were follow up calls and meetings 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) Landowner Requests for damages and crop access 37%.
 - b) Permit and Agency Communications 20%.
 - c) Offers to the Contractor/Inquiries to Employment Possibilities 15%.
 - d) Construction Issues and Concerns 12%.
 - e) General Inquires 12%.
 - f) Public Relations and Press Events 3%.
- (see Illustration 1- Issue Details)



3. Landowner Requests

Landowner requests were the main reasons for calls received by the liaison office. The primary concern was with the construction schedule and when they would be able to get access to portions of their field that are blocked by the topsoil. There is also concern as to whether or not it is safe for them to take equipment across the ROW. In some cases they have requested an access be put in to get them access to certain areas. These issues will be addressed by the contractor when frost laws are lifted and they can gain access to these locations with the equipment needed.

There were six requests or inquiries as to damage payments. These concerns were directed to

the Land Office in Huron SD. Typically, a land agent was sent out to address the landowner concerns and pay damage compensation on all legitimate claims.

Other landowner requests pertained to fencing and reclamation issues that will be monitored and followed up on throughout the 2009 construction and reclamation season.

4. Agency Communications

The primary communications with agencies were with members of the PUC this quarter. The primary focus was on complaints that came into the PUC regarding construction and winterization. These concerns were addressed by Keystone personnel and a formal reply was sent to the PUC addressing each concern.

There were a few calls from County officials in Spreads 3B and 4B requesting information on the 2009 construction. The liaison office coordinated with these agencies and the contractors to get the proper persons in touch with one another. There were also several calls regarding the frost restrictions and estimates of when those might be lifted. Again, weather is going to play a crucial role in how construction progresses in the coming year.

5. Offers and Employment

Many calls came from the southern spreads on the pipeline primarily regarding offers for lodging including hotels and apartment complexes as well as private individuals with rentals. There have been many calls regarding employment opportunities and these calls have been picking up as the construction season nears. There were also inquiries about providing materials or services for the pipeline project. Most of these were directed to Keystone and the contractors for more information on hiring or to give information on lodging or services they could provide.

6. Construction Concerns

Issues that arose in the fourth quarter are continuing to affect landowner relations into the first quarter. The issues that continue are related primarily to the heavy rains and dewatering. Some pertain to winterization efforts. The primary issue in the first quarter of the year relates to the spring thaw. There were a couple areas of the project that road ditches were not completely cleaned up enough to allow the substantial amounts of run off water to pass. There were a few road approaches onto the right-of-way from township roads that were not removed and there was some diversion or back up of run off water causing some of the water run off to take paths that it doesn't typically follow. We continue to monitor these problem areas and will fully assess any potential damages that may arise from erosion or saturated soils. We have been working with affected landowners to take care of the problem and to assess to what extent, if any, Keystone has affected water run off. These areas will receive full reclamation this summer and all drainages that the project crosses, natural or man-made, will be restored to their original condition.

There are still some complaints arising from the wet conditions in the fourth quarter that hindered harvest and there are concerns about spring planting. These issues will be addressed in the second quarter as field conditions become more apparent. Road damage has been repaired and there were no calls in the first quarter regarding road conditions other than to warn of problem thaw areas and flooding locations. As 2009 construction begins, road maintenance will also start again.

7. General Project Inquiries

The time line of construction was again one of the primary questions that came into the liaison office during the first quarter. Landowners and affected persons were interested in knowing when construction and particularly reclamation and clean up would begin. Questions about the winter construction project also came in. As the construction season approaches, the liaison office is getting more calls regarding job opportunities and offers for housing 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. We also received a call from Northern State University wanting information for a class on reclamation practices. There were also a few calls regarding the proposed Keystone XL project which were referred to the correct department.

8. Public Relations and Media

As there was very little activity on the pipeline during the first quarter, there was very little media interest in the pipeline. Only two calls came in and they were referred to Keystone management as some of their questions also pertained to the Keystone XL pipeline.

9. Closed Issues from 2008

There was only one issue that remained from the 2008 construction season that was resolved during the first quarter as follows:

- a) Additional damage payments for 25% crop loss have been made to the majority of landowners in Spread 2A where reclamation was not completed. Additionally, damages are being addressed as they are claimed regarding off ROW damages related to dewatering or other construction activities that came about due to the weather last fall. If more losses are claimed as we move into the 2009 farming season, Keystone will investigate each case individually and compensate for legitimate losses.

10. Open Issues going into the Second Quarter

Several issues can not be taken care of until the second quarter of the year when construction can recommence. Situations that will be monitored and addressed through the 2009 construction season are as follows;

- b) Water run off will continue to be monitored into the second quarter at several locations of Marshall and Day Counties this spring. The construction corridor will be investigated when conditions allow for equipment to return to work and reclamation will take place in any area that requires it.
- c) 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 potential interference will be addressed during construction. This should be addressed early in the second quarter.
- d) There are several reclamation items on the Anderson property that will be followed into the 2009 season and monitored post reclamation. The pipe installation work was completed on the Anderson property in January and February 2009.
 - Mr. Anderson has requested that no reclamation work take place on their property until he is notified and agrees that conditions are right.
 - This property will continue to be monitored in the spring as water is causing some 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 with herbicide application.
- e) Fence installation or repairs 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.
- f) Several landowners may need assistance getting access to areas of their field for spring planting. The contractor is coordinating with these individuals and will provide access as required when frost limits are lifted from the roads and they are able to get equipment moved to the locations needed.

11. Summary

There was very little activity overall during this first quarter of the year. Construction was completed on the skip areas of the project and there were very few issues pertaining to construction. There are some residual issues from the difficult weather in 2008 and Keystone is continuing to work with landowners and agencies to get through this shut down phase and will begin full clean up and reclamation in Spread 2A. Initial construction will begin midway through Day County for Spread 3B and part way into Hutchinson Co. for Spread 4B. Crews will begin arriving in the State throughout April and May and construction will begin as soon as the frost limits are lifted from local roads.

Keystone has been in touch with, and has almost completed payments to, all parties that may have suffered additional damages due to construction delays in 2008. Any parties who are unable to plant crops in 2009 or otherwise use their property in a normal way due to access should contact the liaison office so Keystone can address the issue. If access is not possible, any losses will be assessed with the affected party. All parties that have requested access during the first quarter have been referred to the contractor and they will meet with the affected party and address the issue as soon as conditions allow. The liaison office will be available throughout the construction/reclamation season to address any issues that may arise regarding the Keystone project.