

Keystone Pipeline

SD Pipeline Liaison Quarterly Report

Third Quarter 2009
July 01, through September 30, 2009

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1. General Liaison Activity

During the third quarter of 2009, beginning July 1st and ending September 30th, construction of the Keystone pipeline continued through South Dakota. Spread 3B began in Day Co. and continued south toward Hutchinson Co., to where Spread 4B began and continued through Hutchinson Co., to Yankton Co., and into Nebraska. Cleanup and final restoration on Spread 2A also continued as conditions would allow. Rain and environmental conditions again lead to many of the issues brought to the liaison officer. It also prevented reclamation work from taking place at times and escalated the impact on haul roads across the state.

Roads were the primary issue to be reported to the liaison officer. Keystone continued to meet with the counties and townships about roads in an attempt to mitigate the impact on roads and to settle damage claims made by the road groups. Keystone continued the weekly teleconference meetings to address and update each road issue and assigning a responsible party to address the road issue.

Reclamation went well on Spread 3B in the third quarter and continues in the fourth quarter in tandem with construction as environmental conditions allow. In Spread 4B, reclamation and clean up has been primarily completed with the exception of a few locations such as the James River crossing, test sites and valve sites where work continues and reclamation will follow in the fourth quarter. In Marshall Co., and northern Day Co., Spread 2A, most reclamation and clean up has been completed with the exception of several miles south of SD Highway 10. This area was still too saturated for effective clean up. Keystone will put together a reclamation plan to address areas that have excessive water and reclamation will take place in the fourth quarter. Land agents have continued to meet with landowners to settle on 2nd and 3rd year damages and address any incidental damages that occurred as a result of construction. Construction will be completed in the fourth quarter of the year although there maybe some clean-up and reclamation issues that may linger into 2010 due to commissioning activities and environmental conditions.

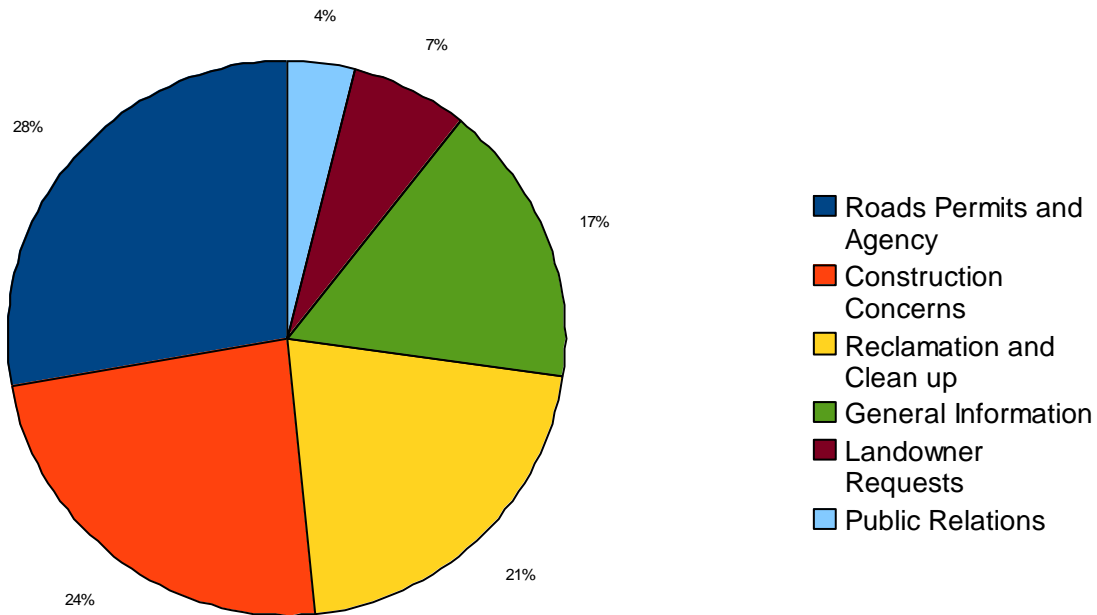
2. Issue Tracking

In the third quarter of 2009, there were a total of 315 calls related to the Keystone Pipeline and 23 meetings with concerned parties and agencies. These were again primarily related to county and township roads or clean-up and reclamation issues. The liaison officer also received 4 letters and 68 emails regarding pipeline issues. There were contacts made with 19 landowners, 5 tenants and 35 agencies and various other interested parties with project inquiries.

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

- a) Roads, Permit and Agency Communications 28%.
- b) Construction Issues and Concerns 24%.
- c) Reclamation and Clean up 21%.
- d) General Inquires 17%.
- e) Landowner Requests for damages and crop access 7%.
- f) Public Relations and Press Events 4%.

(see Illustration 1- Issue Details)



3. Road Repair, Permits and Agency Communication

Roads were again the prevailing issue with construction in the third quarter of the year. There were calls coming from most of the areas in Spreads 2A and 3B where heavy rains and lingering frost damage contributed to the damage caused on haul routes during construction. There were no complaints however related to road issues in Spread 4B. This could be attributed to different environmental conditions in the southern part of the state and the fact that only two South Dakota counties were affected by this spread. There could also be different operations management by the contractor on that spread.

Township and county road officials contacted the liaison about damage on the roads during construction and about getting final settlements put together to facilitate repairs. Most of these negotiations will be completed early in the fourth quarter so that repairs can take place prior to the onset of harvest as well as winter weather. The liaison officer has been in contact with the contractors to repair specific areas that caused difficulty to public travel. Additionally, Keystone has hired an South Dakota engineering company to survey the roads and report on the damage caused during construction.

Keystone is committed to repairing these roads to their pre-construction conditions. There was heavy impact on roads across the state due to the heavy precipitation levels through out the year. Keystone understands that construction compounded the damage in the construction corridor. Keystone representatives will continue to meet with the counties and townships in the construction area to address concerns and try to get repairs addressed during the fourth quarter.

There were again some issues where road problems have not been addressed as quickly as they

could have been which has lead to further damage to the roads. In addition, Keystone understands that if these issues are not fully addressed early in the fourth quarter there will be even more extensive damage over the winter in these areas. Keystone has continued to hold weekly teleconferences to address all road issues across the project. A log is being maintained detailing the issues and the repair efforts and any compensation given to the counties or townships to address repairs. A responsible party is assigned to each issue that is brought to Keystone's attention and they will be tracked until the road supervisors' release Keystone from the damages and haul route agreement. The contractors have also been further directed to make immediate repairs and maintenance as construction activities take place.

Keystone anticipates that all road issues will be settled during the fourth quarter of the year and communication with the affected parties will continue until there is a settlement and release of damages and from the Haul Route agreements.

4. Construction Concerns

Concerns regarding construction were common this quarter and were the second most frequent topic. Typically these issues were addressed immediately because they were due to active construction and crews were in the area. The types of issues that came up were regarding dewatering, weed control, haul route usage, access routes, and drainage issues across the right of way (ROW) corridor.

There were several calls regarding dewatering this quarter but nothing like in previous quarters. To avoid problems, the land agents attempted to seek permission from landowners prior to dewatering. There were a few cases where dewatering caused issues with crops or access or the contractor was dewatering in the wrong location. When these instances were reported, the liaison officer contacted the project manager for the contractors and the situation was in most cases alleviated immediately. There were a few cases where dewatering did result in damages and, in these cases, land agents met with the affected parties to address compensation. There is one issue in which damages are still being assessed and it will be resolved in the fourth quarter. All other issues involving dewatering activity in the third quarter have been resolved.

There was some concern among landowners and tenants, primarily in Spread 2A, about weeds getting established along the ROW. In response to these concerns, Keystone hired a contractor to drive the ROW and spray the weeds in advance of the clean up crews. There were some isolated areas where weeds were cut by hand because of wetland areas that could not be sprayed. There were also a few areas in the southern spreads that required some weed control,, as directed by the environmental inspectors,, but these were very few as the ROW was not disturbed as long as it was in Spread 2A.

Complaints involving haul routes, aside from the road damages addressed above, were typically about speed and dust control. These issues were very isolated in the third quarter and resolved quickly by contacting the contractors. There were other issues related to trucks hauling on specific roads and access routes. These concerns were also directed to the contractor and, in most cases, they were addressed by re-routing truck traffic from areas of concern and limiting the overall traffic wherever possible. These issues as well have been resolved and should not be an issue in the fourth quart as construction will be nearing completion.

Drainage through the disturbed ROW was another construction concern that came into the liaison officer. Due to the high precipitation levels this summer, there were some cases where the stripped ROW or topsoil piles interfered with normal drainage across fields and pastures. There were a couple places where water was unable to access its normal runoff path and flooded some cropland. These areas were documented and the owners were compensated for their loss. The areas were also marked for reclamation to make sure original contours are restored during the reclamation process. The liaison will follow up with the affected parties post reclamation to ensure that there are no on going issues and have the contractors correct any area that is not draining as it did pre-construction.

5. Reclamation and Clean-up

Clean up and reclamation went very well in the third quarter and continues into the fourth quarter. The majority of the project has been reclaimed in South Dakota. Clean up and reclamation follows the main line construction closely and will be complete in the fourth quarter with the possible exception of locations around test sites and valves where reclamation will be completed following all work activities.

There is an area in Spread 2A south of SD Highway 10 that crews were unable to reclaim during the third quarter due to saturated conditions. Keystone will work with their environmental consultants to formulate a reclamation plan that will take place during the fourth quarter to address these areas. Most of the calls to the liaison regarding clean up were about this area. Landowners were concerned that compaction would remain and there was a risk of topsoil mixing because of the wet conditions. Keystone has presented reclamation plans to concerned parties and will conduct the remaining clean up in the fourth quarter. The liaison officer will follow up with concerned parties during the next growing season and will be available to address any issues that arise if there are areas where additional work may be required.

Other calls that came into the liaison officer were requests for additional attention to specific areas. Issues were usually addressed quickly by clean up crews who were sent back to adjust or rebuild fences, and do additional pick up of rocks, timbers and/or other construction debris that may have been exposed during rains. Most landowners have reported that they are fully satisfied with the reclaimed ROW and feel that things went well. There are always a few areas where things are missed but typically the contractor has returned and addressed all issues brought to their attention by the landowners.

It is anticipated that the majority of reclamation will be complete in the fourth quarter of the year. There may be a few areas that will be addressed in 2010 because of additional work or testing. It is also anticipated that there will be some spot reclamation in areas that are not apparent until the first growing season following construction. The liaison will work with Keystone to address all reclamation and clean up as the land recovers from construction.

6. General Project Inquiries

There were not a lot of general inquiries this quarter. Again, the main questions asked were about the time line of construction and reclamation of the Keystone. There were also several questions regarding the commissioning of the Keystone and people were curious about the overall capacity and destination of the line. There were more general questions about the

Keystone XL project this quarter. These questions were referred to the proper personnel working on that project. There were also many calls from landowners and tenants looking for an update on the progress of construction or reclamation on their property and for the project in general.

7. Landowner Requests

Landowner requests this quarter were generally regarding 2nd and 3rd year crop damage compensation and were directed to Keystone and the Land Office in Huron SD. Land agents have been meeting with landowners and tenants across the state to pay damages for the post construction years. They are also addressing concerns and paying compensation for any unanticipated damages that came up during construction. Most landowner requests and concerns are being addressed as the reclamation crews progress through the state.

8. Public Relations and Media

During the third quarter, there were just a few calls regarding news stories and those were referred to Keystone personnel. Other public relations events were related to meetings and seminars held with or for emergency responders throughout South Dakota. The liaison attended several presentations throughout the state given by Keystone management personnel where they detailed information on Keystone's Emergency Response Plan and contact information for the 811 "One Call" program and Keystone Operations management. The goal was to share procedural information related to Keystone Pipeline operations safety and to insure that SD Emergency responders were aware of Keystone's plan and resources should there be an emergency incident related to the pipeline. These events were well received and served to share information with Sheriff's offices, fire departments and ambulance services in the pipeline corridor. Additional information will be provided to residents along the pipeline corridor as well to ensure that they are aware of the pipeline, the one call system and things to be aware of if there is an issue with the pipeline in their area.

9. Open Issue Update from Previous Quarters

Several open issues are being tracked from 2008 and the first half of the 2009, the status on these are as follows;

- a) Reclamation commenced during the third quarter in the locations of Marshall and Day Counties where heavy rain and run off water caused issues in the spring. Reclamation is nearly complete in spread 2A with the exception of about 10 mile south of SD Hwy 10. A remediation plan is being developed by Keystone's environmental consultants and reclamation will take place in the fourth quarter according to this plan.
- b) The Anderson property has been reclaimed.
 - Keystone representatives along with the liaison met with the Anderson's to go over the comprehensive reclamation plan for their property. Prior to reclamation commencing, Mr. Anderson was notified and agreed to allow crews to begin work.. He would have preferred to let the soil dry further but did grant permission for Keystone to conduct clean up work. Keystone will address any issues that become apparent in the following

seasons.

- Specific attention was paid to the adjacent contours of the property to insure that spring run off water does not cause topsoil erosion. The reclamation plan also called for the seeding of a sterile wheat crop (Quick Guard) to establish a root system and aid in successful long term reclamation of this property. Keystone Operations Management and the liaison will continue to monitor this property to address any future problems.
 - All of the Anderson's ROW was cleaned up, de-compacted and the topsoil replaced by Keystone's contractor, the area that was previously cropland was seeded with Quick Guard. The half acre of native grassland on the southern end of Anderson's property will be seeded under Anderson's direction by Parkview Nursery or the contractor of Anderson's choosing. Keystone agreed to compensate the Andersons for the cost of the native grass re-seeding.
 - The property was also sprayed prior to clean up work to control weeds. It will also be closely monitored to ensure that no leafy spurge was introduced to the property during the construction and reclamation activities. If any noxious weeds appear, they will be controlled with herbicide application.
- c) Fence issues have been addressed by the clean up and reclamation crews. There is one fence that is in need of repair and that will be addressed as soon as the area allows for crews to work without causing damage to the reclaimed ROW.
- d) Road repairs and maintenance will continue as construction progresses. The contractor has been asked to address areas that will affect public travel as they arise. Keystone continues to work with affected counties and townships along the construction corridor to address the road damage issues caused by construction. Keystone has hired a local engineering company to assess damages and help work toward the final reclamation and repair of haul routes. As settlements are reached between Keystone and the governing road officials and final repairs are made, Keystone will seek release of liability on the roads with haul route agreements. It is anticipated that these issues will be resolved in the fourth quarter.

10. Open Issues from the Third Quarter

- a) Roads are the major issue open going into the fourth quarter. Keystone is working to resolve these issues as quickly as they can and will follow the recommendations made by the local engineering firm. Reports will be shared with the counties and townships and Keystone will meet with them to reach an agreement with each group.
- b) Reclamation is the other issue Keystone faces in the fourth quarter. Crews are working to satisfy landowners and tenants as they cross their property. Any issues that are brought to Keystone's attention are being addressed as conditions allow. Again, heavy precipitation and saturated soils in many areas have hindered some of the clean up and reclamation work from taking place. Going into the fourth quarter, it is fully expected that all reclamation issues can be addressed as construction is completed and more crews are available to address clean up concerns.

11. Summary

Reclamation and road repairs were the primary concerns that were brought to the liaison officer as they were in the second quarter. Most of the open issues from previous quarters were completed over the course of the summer and, as construction nears the end in the fourth quarter, it is anticipated that all of these issues will be addressed.

Wet weather has plagued the construction area since 2008 and has caused many of the issues that arose during construction. Roads have suffered damage all over the state but construction has increased the impact on the haul routes. The liaison officer has had many meetings regarding road use, maintenance and final repairs. To insure that every road issue is addressed as quickly as possible, Keystone has continued to hold weekly conference calls to track the status of road damage issues that arises. The engineering firm is taking an inventory of all haul routes and preparing detailed reports for Keystone to base their compensation offers to the counties and townships for repairs. Meetings will be held with the counties to make sure that the offers will cover the repairs Keystone is responsible for.

Reclamation went well during the third quarter and many of the trouble areas were cleaned up during this time period. Only about ten miles remained of Spread 2A where there were the most drastic weather delays. Reclamation is following active construction in Spreads 3B and moving along without issue and reclamation is complete in Spread 4B with the exception of some valve sites and test site areas.

Mainline construction is expected to be fully completed and tested during the fourth quarter and commissioning activities will also commence with operation of the Keystone pipeline expected in 2010. It is anticipated that there may be some isolated areas remaining that require reclamation work that will take place in 2010 as well. Overall, construction of the Keystone pipeline is nearing the end and going well. The liaison officer will continue to work to address every concern that is brought to attention and will work with landowners, tenants and agencies through the fourth quarter and into the post construction years.