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450 - 1<sup>st</sup> Street SW  
Calgary, Alberta, Canada T2P 5H1

**Kristine L. Delkus**  
tel 403.920.2161  
fax 403.920.2409  
email kristine\_delkus@transcanada.com  
web www.transcanada.com

February 27, 2012

William J. Burns  
Deputy Secretary of State  
United States Department of State  
2201 C Street, NW  
Washington, D.C. 20520

Dear Mr. Burns:

Re: TransCanada Keystone Pipeline, L.P.  
Advance Notice of Intent to Apply for Presidential Permit

TransCanada Keystone Pipeline, L.P. (Keystone) is in receipt of the Department of State's (the Department) letter of January 31, 2012 confirming the denial of Keystone's application filed on September 19, 2008 (the Application) for a Presidential Permit to construct a crude oil pipeline across the U.S./Canada international boundary as part of the proposed Keystone XL Pipeline Project. The purpose of this letter is to give the Department advance notice of Keystone's intentions in response to the denial of its Application.

As described in its Application, Keystone had proposed that the Keystone XL Pipeline would consist of 1,375 miles of new 36-inch diameter pipeline, to be built in three segments: the approximately 850-mile long "Steele City" segment from the U.S. border to Steele City, Nebraska; the approximately 478-mile long "Gulf Coast" segment from Cushing, Oklahoma to Nederland, Texas; and the approximately 47-mile long "Houston Lateral" segment from Liberty County, Texas, to the Moore Junction area in Harris County, Texas. Moreover, Keystone stated in its Application that Keystone XL would be built in phases, with the Gulf Coast segment intended to be built and placed in service by the second quarter of 2011, while the Steele City segment was not be planned to be in service until 2012.

In recommending denial of the border-crossing permit, the Department asserted that its recommendation "was predicated on the fact that the Department does not have sufficient time to obtain the information necessary to assess whether the project, in its current state, is in the national interest." Specifically, the Department found that it did not have time to adequately conduct an assessment of alternative pipeline routes that avoid the Sandhills region in Nebraska. The President's acceptance of the Department's recommendation to deny the Permit rested on the same reasoning. The Department's Report to Congress concerning the denial of the Presidential Permit expressly stated that the denial does not preclude any subsequent permit application or applications for similar projects.

REVIEW AUTHORITY: Adolph Eisner, Senior Reviewer

Keystone has been working on developing alternative routing in Nebraska that avoids the Sandhills region since November 2011, following the Department's notice that it was delaying a decision on the application pending its review of additional alternative routing in Nebraska. Keystone is fully prepared to engage in a route selection process with the appropriate state and federal agencies as soon as possible once the applicable process is confirmed. Keystone hereby advises the Department that it intends to file a Presidential Permit application with the Department of State in the near future and subsequently to supplement that application with an alternative route in Nebraska, as soon as that route is selected. Keystone's application will incorporate the already reviewed route in Montana and South Dakota. Given the comprehensive three-year review of the Keystone XL Project that has already been conducted, the extensive existing record compiled under the National Environmental Policy Act, the Final Environmental Impact Statement that the Department issued on August 26, 2011, the incorporation of already reviewed route in Montana and South Dakota, and the National Interest comment period conducted last fall, it is Keystone's expectation that its border-crossing application can be processed expeditiously and a Presidential Permit decision made once a new route in Nebraska is determined.

When it files its application for a border crossing permit, Keystone will be including for consideration only the associated 36-inch pipeline and appurtenant facilities associated with the "Steele City" segment. Keystone has concluded that the portion of the previously proposed Keystone XL Project that will serve the Gulf Coast has its own independent utility as a stand-alone pipeline project.<sup>1</sup> Keystone hereby advises the Department that it intends to continue to seek any remaining required permits from federal, state, and local entities for the Gulf Coast Project, and that it will proceed to begin construction of that project as soon as any permits necessary to specific construction activities are in place. Moreover, Keystone advises the Department that it will move forward with construction of the Gulf Coast Project regardless of whether the Presidential Permit application discussed above is approved.

If you have any questions regarding its intentions, please contact the undersigned.

Very truly yours,



Kristine L. Delkus  
Deputy General Counsel  
Pipelines and Regulatory Affairs

cc: Assistant Secretary Kerri-Ann Jones  
Assistant Secretary Jose Fernandez  
Michael Stewart

<sup>1</sup> Attached hereto is an appendix that sets forth the basis for the conclusion that the Keystone Gulf Coast Project has independent utility as a stand-alone project