

TESTIMONY OF ALEX POURBAIX
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HOUSE COMMITTEE ON ENERGY AND COMMERCE
SUBCOMMITTEE ON ENERGY AND POWER
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Good afternoon. My name is Alex Pourbaix. I am President, Energy and Oil Pipelines for TransCanada Corporation. In my position, I am responsible for TransCanada's oil pipeline business, as well as the Company's power and non-regulated gas storage businesses.

I would like to thank the Subcommittee for the opportunity to testify today on behalf of TransCanada, the developer of the Keystone XL Pipeline Project and the operator of the Keystone Pipeline System. TransCanada is a leader in the pipeline industry with more than 60 years of experience in the responsible development and reliable operation of North American energy infrastructure. TransCanada's network of wholly owned natural gas pipelines extends more than 35,000 miles, tapping into virtually all of the major natural gas supply basins in North America and has the capacity to move 20% of the natural gas produced daily in North America. TransCanada is one of the largest providers of gas storage and related services on the continent with approximately 380 billion cubic feet of storage capacity. Moreover, TransCanada owns, or has interests in, over 10,800 megawatts of power generation in Canada and the United States, which is enough electricity to power approximately 12 million homes. Now with the Keystone Pipeline System, TransCanada is developing one of North America's largest oil delivery systems. TransCanada serves the vitally important role of safely and responsibly delivering energy to North American consumers who need it for their daily lives.

TransCanada is excited to be developing the \$13 billion Keystone Pipeline System, which will link secure and growing supplies of U.S. and Canadian crude oil with the largest refining markets in the United States, thereby significantly improving North American security supply. While we expect North America to significantly reduce its reliance on oil, we believe that day is many years in the future. In the meantime, it is critical to the economic and energy security of the continent that reliable crude oil supplies be available and accessible from North American sources.

In June 2010 TransCanada commenced commercial operation of the first phase of the Keystone Pipeline System, which extends from the important crude oil marketing supply and pipeline hub at Hardisty, Alberta, Canada to the refining and market centers at Wood River and Patoka, Illinois. TransCanada received a Presidential Permit from the U.S. Department of State authorizing the international boundary crossing for the initial phases of the Keystone Pipeline System after a comprehensive 23-month review.

Keystone Phase II is an extension of the Keystone Pipeline System from Steele City, Nebraska to Cushing, Oklahoma, which went into service in February 2011. Cushing is a major crude oil marketing and pipeline hub serving numerous Midwest refineries. Together, the first two phases of the Keystone Pipeline System have the capacity to deliver almost 600,000 barrels of crude oil to U.S. refineries every day.

The proposed Keystone Gulf Coast Expansion Project – known as Keystone XL -- is an approximate 1,700-mile, 36-inch crude oil pipeline that would begin at Hardisty, Alberta and extend southeast through Saskatchewan, Montana, South Dakota and Nebraska. It would incorporate a portion of the Keystone Pipeline (Phase II) through

Nebraska and Kansas to serve markets at Cushing, Oklahoma before continuing through Oklahoma and Texas to terminate in the Texas Gulf Coast refining center. Initially, Keystone XL will have the capacity to transport 700,000 barrels per day (bpd), which can be expanded to over 800,000 bpd with the installation of additional pumping capacity.

TransCanada is currently awaiting a national interest decision from the State Department on its pending application for a Presidential Permit authorizing the Keystone XL Project to cross the U.S./Canada border. In conjunction with the State Department's review of the Presidential Permit application, an extensive, multi-agency environmental review is continuing under the National Environmental Policy Act.

I would like to express TransCanada's appreciation for the sentiments behind the recently proposed North American-Made Energy Security Act, which would require a decision on the pending Presidential Permit application for the Keystone XL Project by a date certain. We believe the legislation contains a number of important findings that highlight and confirm the importance of the Project to the energy security and economic well-being of the United States. We particularly appreciate the Committee scheduling this hearing, which serves to call attention to the need for a timely decision on this application and which creates an environment for reasonable and thoughtful discussion of issues critical to the nation's economic and energy security.

I would like to briefly make a number of points that I believe highlight the need for the Keystone XL Project and for prompt action on the pending Presidential Permit application.

ENERGY SECURITY

The Keystone XL Project is fundamentally about meeting the needs of U.S. crude oil refiners – and hence U.S. consumers -- for a reliable and sustainable source of crude oil to either supplement or replace reliance on declining foreign supplies, without turning to greater reliance on Middle Eastern sources. There can be little dispute that this purpose enhances U.S. energy security at a critical juncture. Moreover, the need for prompt approval of the Keystone XL Project is particularly crucial today when U.S. consumers are struggling to cope with the high cost of gasoline.

The United States has consumed approximately 18 million bpd of petroleum products per year over the last 10 years according to the U.S. Energy Information Administration (EIA). Domestic U.S. crude oil production has averaged a little over 5 million bpd over that same time period and accounts for roughly 25% of U.S. demand. The shortfall of 13 million bpd is imported as either crude oil, 10 million bpd, or petroleum products, 3 million bpd. Canada has the third largest proven reserves of crude oil in the world – 175 billion barrels – behind only Saudi Arabia and Venezuela. By comparison, according to the EIA, the U.S. has about 19 billion barrels of reserves, although this figure may grow as newer production areas – such as the Bakken area in North Dakota and Montana – are further developed. The Canadian reserves represent the largest reserves in the world open to private development. Canada is the United States' largest trading partner and the largest supplier of crude oil to the United States at 1.9 million bpd. Canada shares the democratic principles of the United States and has long been a staunch ally of the U.S. in world affairs.

As the recent State Department Supplemental Draft Environmental Impact Statement (SDEIS) recognizes, the primary purpose of the Keystone XL Project is to provide the infrastructure necessary to transport heavy crude oil from Western Canada to delivery points in the Gulf Coast region in response to the market demand of Gulf Coast refiners for heavy crude oil. This market demand is reflected in the long-term, firm transportation contracts that currently underlie the commercial viability of the Project.

In its review of the Keystone XL Project, the State Department and the Department of Energy commissioned a study by a third party expert to evaluate different North American crude oil transport scenarios to assist the State Department in better understanding the potential impacts of the presence or absence of the Project on U.S. refining, petroleum imports, and international oil markets. The study found that the delivery of western Canadian crude oil to U.S. Gulf Coast refineries by the Keystone XL Project would fill a gap being created by declining supply from traditional heavy crude suppliers, notably Mexico and Venezuela. The study further projected that, absent the Project, this gap would be filled by increases from other foreign suppliers, primarily from the Middle East.

According to the EIA, crude oil imports to the U.S. from Mexico have declined from 1.7 million bpd in 2006 to approximately 1.3 million bpd currently, and are projected to significantly decline further. Over the same time period, Venezuelan imports to the U.S. have declined from 1.4 million bpd to approximately 1.0 million bpd. Although Venezuela has large reserves, their conventional production has been declining while their unconventional production, similar to Canadian oil sands, is growing at a far slower rate according to the EIA International Energy Outlook 2010. Overall growth in

Venezuelan production has likely been slowed by a lack of foreign investment and Venezuela has also been actively trying to diversify their market away from the United States. According to EIA, China is one of the fastest growing importers of Venezuelan crude oil.

In addition to this vitally important role in U.S. energy security, the Keystone XL Project would transport domestic crude oil. The proposed Bakken Marketlink project will provide receipt facilities to transport up to 100,000 bpd of crude oil from the Williston Basin producing region in North Dakota and Montana, to Cushing, Oklahoma and the U.S. Gulf Coast using facilities that make up part of the Keystone XL Project. Further, the Cushing Marketlink project will provide receipt facilities to transport up to 150,000 bpd of locally produced crude oil from Cushing, Oklahoma to the U.S. Gulf Coast, also using facilities that make up part of the Keystone XL Project. If the Keystone XL Project is timely approved, these projects are expected to be in service in 2013.

Furthermore, by transporting crude from growing, secure North American basins in Canada, Montana, North Dakota, Oklahoma, and West Texas to the U.S. refining market, Keystone XL could serve as part of the solution to higher U.S. energy prices by increasing crude oil supply to the United States and improving the perception of future U.S. supply availability. The price of gasoline for much of the U.S. is heavily affected by the refining economics of Gulf Coast refiners because they supply a significant proportion of U.S. gasoline demand. In addition to serving the Gulf Coast states, Gulf Coast refiners provided 18% of the gasoline requirements of the Midwest and 50% of the East Coast states in 2008, according to the State Department's SDEIS.

Specifically the Keystone XL Project could play a role in moderating high gasoline prices by: (i) providing capacity for North American production that is comparable in volume to nearly half of U.S. Persian Gulf imports; (ii) creating new crude oil supply access to Gulf Coast refiners who are vulnerable to OPEC supply disruptions; (iii) providing supply diversity that is comparable in size to recent supply disruption events; (iv) signalling domestic producers to continue to grow production by reducing the risk of constrained market access; (v) sending a powerful message to Canadian producers to continue to bring crude to the United States instead of to foreign countries; and (vi) reducing the risk of future United States supply uncertainty, which reduces the trading activity that puts upwards pressure on crude oil prices.

ECONOMIC IMPACT

Construction and operation of the Keystone XL Project would provide significant economic benefits, with no government subsidy or expenditures. The Project is privately funded and financed and is shovel-ready, waiting only for the pending Presidential Permit decision.

An independent study by the Perryman Group found that the \$7 billion Keystone XL Project is expected to directly create more than 20,000 high-wage manufacturing jobs and construction jobs in 2011-2013 across the U.S. and 118,000 person-years of employment, stimulating significant additional economic activity. Today, despite the Federal Recovery Act and the private sector creating hundreds of thousands of jobs in the United States, nearly one in five construction workers are still unemployed and need a job. During the construction of the Keystone XL Pipeline project, workers on the pipeline will be covered by a Project Labor agreement which TransCanada has forged in

collaboration with four international unions that represent a total of 2.6 million working men and women. The Keystone XL Project Labor Agreement is signed by the Pipe Line Contractors Association, United Association of Journeymen and Apprentices of the Plumbing and Pipefitting Industry of the U.S. & Canada General President William P. Hite; International Union of Operating Engineers General President Vincent J. Giblin; Laborers' International Union of North America General President Terence M. O'Sullivan; and International Brotherhood of Teamsters General President James P. Hoffa. The agreement will provide TransCanada with a capable, well-trained and ready workforce in the U.S.

The Perryman study further concluded that, once the pipeline is operational, the states along the pipeline route are expected to receive an additional \$5.2 billion in property taxes during the estimated operating life of the pipeline. Finally, the Perryman study found that construction of the Project should provide significant, positive contributions to U.S. energy security and the U.S. economy valued at over \$20 billion. In addition to the benefits cited in the Perryman report, the independent Energy Policy Research Foundation has estimated that the Keystone expansion would provide net economic benefits from improved efficiencies in both the transportation and processing of crude oil of \$100-\$ 600 million annually, in addition to an immediate boost in construction employment.

SAFETY

The Keystone Pipeline system is subject to comprehensive pipeline safety regulation under the jurisdiction of the U.S. Department of Transportation, Pipeline and Hazardous Materials Safety Administration (PHMSA). As the SDEIS recognizes,

PHMSA is responsible for protecting the American public and the environment by ensuring the safe and secure movement of hazardous materials to industry and consumers by all transportation modes, including pipelines. To protect the public and environmental resources, Keystone is required to construct, operate, maintain, inspect, and monitor the pipeline in compliance with the PHMSA regulations at 49 CFR Part 195, as well as relevant industry standards and codes. These regulations specify pipeline material and qualification standards, minimum design requirements, required measures to protect the pipeline from internal, external corrosion, and many other aspects of safe operation.

Above and beyond the PHMSA regulations, Keystone has agreed to comply with 57 additional Special Conditions developed by PHMSA for the Keystone XL Project. Keystone has agreed to incorporate these conditions into its design and construction, and its manual for operations, maintenance, and emergencies required by 49 CFR 195.402. These 57 Special Conditions are attached as Appendix C to the SDEIS. They address issues including (i) steel properties; (ii) pipe manufacturing standards and quality control and assurance; (iii) pipe welding standards; (iv) puncture resistance; (v) pipe testing; (vi) corrosion resistant coating; (vii) construction practices; (viii) depth of cover for the pipeline; (ix) computerized monitoring of the pipeline in operation; (x) internal inspection of the pipeline by special tools (“pigs”); (xi) special corrosion avoidance measures and monitoring; (xii) pipeline marking and patrolling; (xiii) pipeline assessment during its in-service life; and (xiv) special PHMSA reporting and recordkeeping requirements. PHMSA has the authority to inspect and enforce any items contained in the pipeline operator’s manual; making the 57 Special Conditions legally enforceable by PHMSA.

PHMSA and the State Department took these 57 Special Conditions into account in the SDEIS. It is significant to note the finding in the SDEIS with respect to these conditions (SDEIS p. 2-9):

Incorporation of those conditions would result in a Project that would have a degree of safety over any other typically constructed domestic oil pipeline system under current code and a degree of safety along the entire length of the pipeline system similar to that which is required in High Consequence Areas (HCAs) as defined in 49 CFR 195.450.

In the event of a disruption, Keystone has a sophisticated series of overlapping computerized leak detection systems that can quickly detect loss of pressure in the pipeline. The pipeline can be quickly shut down remotely from the Operational Control Center and emergency response personnel, pre-staged along the length of the pipeline route, can be quickly deployed with all necessary response assets. As required by the PHMSA regulations, Keystone must prepare a comprehensive emergency response plan and submit it to PHMSA for approval prior to commencing operations. As part of the State Department's review of the project, Keystone was required to present its approach to oil spill response under specific hypothetical spill scenarios to DOS and PHMSA. Based on review of Keystone's response to those scenarios, the SDEIS finds that Keystone's spill response planning "is appropriate and consistent with accepted industry practice" (SDEIS p. 3-122).

COMPREHENSIVE REVIEW PROCESS/LIMITED ADVERSE ENVIRONMENTAL IMPACTS

Finally, I want to emphasize that the Keystone XL Project has undergone a thorough and comprehensive review process – with multiple opportunities for public input -- as is appropriate for a project of this magnitude. Keystone submitted its Presidential Permit application some 33 months ago. Since 2008, Keystone has held over

90 open houses and public meetings along the pipeline route, given hundreds of hours of testimony to local, state, and federal officials, and submitted thousands of pages of information to government agencies in response to questions. In addition, the State Department held 20 public scoping meetings in 2009 in the vicinity of the proposed Project to gather public input on the relevant issues to be considered in its NEPA review.

In April 2010, the State Department published for public comment a comprehensive, multi-volume Draft EIS (DEIS). The public comment period on the DEIS was extended to two and a half months. During that time, the State Department received and considered thousands of comments and held 20 additional public meetings along the pipeline route to take oral comments on the DEIS. The DEIS concluded that the proposed Keystone XL Project “*would result in limited adverse environmental impacts during both construction and operation,*” assuming that the Project would be constructed in compliance with all laws, regulations, and the environmental specifications and mitigation measures presented in the document.

A full year of additional study followed the release of the DEIS, with the State Department and the cooperating agencies taking into account many issues that were raised in comments on the DEIS. Subsequently, last month, the State Department published the SDEIS, which included new information that became available since the issuance of the DEIS, as well as a number of new studies commissioned specifically for this Project.

It is worth noting that the SDEIS includes consideration of a number of potential alternative routes that were developed and evaluated specifically in response to

comments on the DEIS raising concerns about the proposed route that crosses the Northern High Plains Aquifer system, which includes the Ogallala aquifer. The safety of this aquifer in Nebraska, as well as the Nebraska Sand Hills topographic area, have been issues of some controversy. The SDEIS concludes, however, that the alternative routes do not provide an environmental advantage over the proposed route.

This is not surprising. Keystone understands the importance of Nebraska's special resources, including the Sand Hills region and the Ogallala aquifer. These resources are not placed at risk by the Project and we will not jeopardize them. We will undertake specific construction, reclamation, and post-construction procedures included in the SDEIS to protect the Sand Hills. Moreover, the SDEIS sets forth 16 specific best management practices that will be incorporated into the Project design to reduce potential impacts to the region. As for the Ogallala aquifer, numerous pipelines can and do safely traverse the aquifer. It is instructive to note that 21,000 miles of pipelines currently cross Nebraska, including 3,000 miles of hazardous liquid pipelines. Many miles of these pipelines co-exist within the Ogallala aquifer. Further, 6,000 barrels of oil are produced daily in Nebraska and tens of thousands of barrels are produced in adjacent states through wells that penetrate the Ogallala aquifer. In Nebraska alone, 17 of 18 oil producing counties sit atop the aquifer.

The SDEIS finds that, although the State Department received thousands of comments on a wide variety of topics addressed in the DEIS, no new issues of substance emerged from the comments. Nonetheless, the State Department determined that submitting the sections of the DEIS that were revised to address new and additional information for public and agency comment would further the purposes of NEPA.

Significantly, the SDEIS concludes that the information provided in the SDEIS does not alter the conclusions reached in the DEIS regarding the need for the Project and the potential impacts of the proposed Project.

Contrary to those who have argued that the State Department has engaged in a rush to judgment on this Project, the review process has been extremely thorough and complete. Indeed, the process to date already has substantially exceeded the duration of the two most recent similar cross-border Presidential Permit applications. Keystone concurs with the finding in the proposed legislation that because of the extensive governmental studies already made with respect to the Keystone XL project and the national interest in early delivery of Canadian oil to United States markets, a decision with respect to a Presidential Permit for the Keystone XL pipeline should be promptly issued.

In conclusion, I want to emphasize that Keystone will reduce the United State's reliance on higher-priced foreign oil from Venezuela and the Middle East and replace it with stable, secure supplies from both Canada and the U.S. Keystone will create 20,000 high paying American jobs and 118,000 person-years of employment at a time when unemployment remains high. The Project will inject \$20 billion into the U.S. economy and pay billions in taxes for decades to come so communities can build schools and ball fields. This project is needed – the benefits are clear – but time is of the essence to receive the approvals we need to move forward.

Thank you and I would be pleased to address any questions that you may have.