



450 - 1st 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

September 19, 2008

Mr. J. Brian Duggan
Energy Officer, Room 4843
Bureau of Economic, Energy and Business Affairs
United States Department of State
2201 C Street, NW
EB/SC/IEC
Room 7525
Washington, DC 20520

Dear Mr. Duggan:

Re: TransCanada Keystone Pipeline, L.P.
Application for Presidential Permit

Enclosed for filing are the original and four electronic copies of the Application of TransCanada Keystone Pipeline, L.P. for a Presidential Permit Authorizing the Construction, Operation, and Maintenance of Pipeline Facilities for the Importation of Crude Oil to be Located at the United States-Canada Border. Authorization to construct, operate, and maintain the border crossing facilities is being requested in connection with Keystone's proposed international pipeline project (the "Keystone XL Project"), which is designed to transport crude oil production from the Western Canadian Sedimentary Basin to existing markets in the Texas Gulf Coast area. Keystone submits that its proposed pipeline will serve the national interests of the United States by providing a secure and reliable source of Canadian crude oil to meet the growing demand by refineries and markets in the United States.

Enclosed with Keystone's Presidential Permit application is a preliminary Environmental Report, which is intended to provide the Department of State with sufficient environmental information to appreciate the nature and scope of the proposed project and its potential environmental impacts. This information is intended to permit the Department of State and other affected federal agencies to determine the lead federal agency for the environmental review required under the National Environmental Policy Act ("NEPA"). Keystone has conducted, and

continues to conduct, extensive environmental and cultural field surveys in 2008 and intends to supplement the instant application and preliminary Environmental Report with more complete environmental and cultural studies, data, and analyses in supplemental Environmental Reports to be filed in November 2008, and in June 2009.

The application is further accompanied by Appendices A and B, as follows:

- Appendix A -- Pipeline Route Maps
- Appendix B -- Transmission Supply Routemaps

In addition to the original and four copies, Keystone is providing eight electronic copies for distribution to the Departments shown below, in accordance with Executive Order 13337. If you have questions regarding the Keystone application or require additional copies, please call Jim White at (703) 680-7774.

Yours truly,



Kristine L. Delkus
Deputy General Counsel
Pipelines & Regulatory Affairs

cc: Department of Defense
Department of Justice
Department of Interior
Department of Commerce
Department of Transportation
Department of Energy
Department of Homeland Security
Environmental Protection Agency

Presidential Permit Application

**UNITED STATES OF AMERICA
DEPARTMENT OF STATE**

TRANSCANADA KEYSTONE PIPELINE, L.P.) **No.** _____

**APPLICATION OF TRANSCANADA KEYSTONE PIPELINE, L.P.
FOR A PRESIDENTIAL PERMIT AUTHORIZING THE
CONSTRUCTION, OPERATION, AND MAINTENANCE
OF PIPELINE FACILITIES FOR THE IMPORTATION OF
CRUDE OIL TO BE LOCATED AT THE UNITED STATES-CANADA BORDER**

Pursuant to Executive Order 11423, 33 Fed. Reg. 11714 (Aug. 16, 1968), as amended, and Executive Order 13337, 69 Fed. Reg. 25229 (Apr. 30, 2004), TransCanada Keystone Pipeline, L.P. (“Keystone”) hereby submits its application to the United States Department of State (“Department of State”) for a Presidential Permit authorizing the construction, operation, and maintenance of certain pipeline facilities for the importation of crude oil, to be located at the international border between the United States and Canada, at Phillips County, Montana (the “border crossing facilities”), as more fully described herein. Authorization to construct, operate, and maintain the border crossing facilities is being requested in connection with Keystone’s proposed international pipeline project – the Keystone XL Project (“Project”) -- which is designed to transport crude oil production from the Western Canadian Sedimentary Basin (“WCSB”) to existing markets in the Texas Gulf Coast area. Keystone submits that its proposed pipeline will serve the national interests of the United States by providing a secure and reliable supply of Canadian crude oil to meet the growing demand by refineries and markets in the US.

The instant filing contains the non-environmental information required to support a Presidential Permit application and a preliminary Environmental Report, which is

intended to provide the Department of State with sufficient environmental information to appreciate the nature and scope of the proposed Project and its potential environmental impacts. This information is intended to permit the Department of State and other affected agencies to determine the lead federal agency for the environmental review of the Project required under the National Environmental Policy Act (“NEPA”). 42 U.S.C. §§ 4321, *et seq.* Keystone has conducted, and continues to conduct, extensive environmental and cultural field surveys in 2008 and intends to supplement the instant application and preliminary Environmental Report with more complete environmental and cultural studies, data, and analyses in supplemental Environmental Reports to be filed on or about November 19, 2008, and in June 2009.

I. IDENTIFYING INFORMATION

Communications and correspondence with respect to this application should be directed to the following persons:

Kristine L. Delkus
TransCanada PipeLines Limited
Deputy General Counsel
Pipelines and Regulatory Affairs
450 1st Street, S.W.
Calgary, Alberta
Canada T2P 5H1
(403) 920-2161
kristine_delkus@transcanada.com

James P. White
TransCanada
Associate General Counsel
Pipelines and Regulatory Affairs
4547 Rincon Place
Montclair, VA 22025
(703) 680-7774
jim_p_white@transcanada.com

The identity of the applicant is TransCanada Keystone Pipeline, L.P., a limited partnership, organized under the laws of the State of Delaware, and owned equally by affiliates of TransCanada Corporation, a Canadian public company organized under the laws of Canada, and ConocoPhillips Company, a Delaware corporation. Keystone’s primary business address is 450 1st Street, S.W., Calgary, Alberta, Canada T2P 5H1.

TransCanada PipeLines Ltd. (“TransCanada”) will be the operator of the Project. TransCanada has more than 50 years experience in the responsible development and reliable and safe operation of North American energy infrastructure including natural gas pipelines, power generation, gas storage facilities, and projects related to oil pipelines and liquefied natural gas facilities. TransCanada owns and operates a natural gas pipeline network of more than 36,500 miles, which taps into virtually all major natural gas supply basins in North America. TransCanada transports the majority of western Canada’s natural gas production across the North American continent to markets in the United States and Canada. Further, TransCanada is in the execution phase of the \$5.2 billion Keystone Pipeline project, a major international crude oil pipeline project. The Mainline segment of the Keystone Pipeline project, which extends from the North Dakota-Canada border to Wood River and Patoka, Illinois; and the Keystone Cushing Extension, which extends from Steele City, Nebraska, to Cushing, Oklahoma, are on schedule for completion in 2009 and 2010, respectively.

TransCanada has total assets of approximately US \$30 billion. For the year ended December 31, 2007, TransCanada had a net income from continuing operations of approximately US \$1.2 billion and cash flow of approximately US \$2.84 billion. Attached as Exhibit A is a summary document demonstrating TransCanada’s fitness to develop, construct, and operate the Project as a major cross-border pipeline system.

TransCanada Keystone Pipeline, L.P. is 50 percent owned by ConocoPhillips Company. ConocoPhillips is the third-largest integrated energy company in the United States, based on market capitalization, as well as reserves of oil and natural gas. Worldwide, of non-government-controlled companies, ConocoPhillips is the sixth-largest

holder of proved reserves and the fifth-largest refiner. Headquartered in Houston, Texas, ConocoPhillips operates in nearly 40 countries and has approximately 33,100 employees worldwide. The company has assets of \$190 billion. ConocoPhillips stock is listed on the New York Stock Exchange under the symbol “COP”.

ConocoPhillips operates more than 11,000 miles of pipelines and more than 60 storage terminals in the United States. ConocoPhillips transports both raw and finished petroleum products, including crude oil, propane and refined products such as gasoline, diesel and jet fuel.

II. DESCRIPTION OF FACILITY

Keystone is requesting a Presidential Permit solely with respect to the limited border crossing segment of its international Project. The border crossing facilities are defined as a 1.2 mile segment of 36-inch diameter pipeline extending downstream from the United States border, in Phillips County, Montana to the first pipeline isolation valve, which is located at Mile Post 1.2 where the first pump station in the United States is proposed to be located.

Exhibit B attached hereto shows: (i) a pipeline route map reflecting the location of the border crossing facilities; (ii) an engineering drawing depicting the border crossing; and (iii) photos of the proposed construction site. In lieu of owning the construction site for the border crossing facilities, Keystone plans to acquire pipeline right-of-way easements from the landowners along the route of the border crossing facilities.¹ These

¹ With respect to the entire pipeline Project itself, Keystone will acquire easements granting it the right to construct and operate the pipeline. For certain above-ground facilities, such as pumping stations and valve sites, Keystone will acquire the sites in fee.

easement agreements will grant Keystone the rights to construct, operate, and maintain the border crossing facilities. The technical specifications of the line pipe to be utilized for the border crossing facilities, and the Project as a whole, are set forth in Exhibit C hereto.

The border crossing facilities are intended to transport crude oil as an integral part of the proposed Project, an international project, which is designed to transport crude production from the WCSB to markets in the United States. Specifically, Keystone proposes to construct and operate a crude oil pipeline and related facilities from Hardisty, Alberta, Canada to the Texas Gulf Coast area. The Project will be designed to transport up to approximately 900,000 barrels per day (bpd) of crude oil received from an oil supply hub near Hardisty, to existing terminals in the Nederland and Houston, Texas areas.

In the United States, the Project will consist of 1,375 miles of new 36-inch diameter pipeline, in three segments:

- The approximately 850-mile long “Steele City” segment from the US 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.

The Project is planned to be placed into service in phases. The Gulf Coast segment is planned to be in service by the second quarter of 2011 and the Steele City segment planned to be in service by the first quarter of 2012.

There will be 33 pump stations along the pipeline route in the US. The pipeline will connect with the Keystone Pipeline project at the northernmost point of the Keystone Cushing Extension at Steele City, Nebraska, and at the southernmost point of the Keystone Cushing Extension at its Cushing, Oklahoma terminus. Attached as Appendix A hereto are detailed route maps depicting the preferred route of the proposed Project.

In Canada, approximately 327 miles of new 36-inch pipeline will be constructed from Hardisty, Alberta to Monchy, Saskatchewan where it will cross into Phillips County, Montana. As discussed below at Section VII, review and approval of the proposed Canadian facilities will be subject to the jurisdiction of the Canadian National Energy Board (“NEB”) as well as various local, municipal, and provincial authorities.

III. NATIONAL INTEREST

As noted, the Project would commence at the crude oil supply hub near Hardisty, Alberta, Canada and terminate near existing crude oil storage terminal facilities near Nederland and Houston, Texas. The purpose of the Project is to transport crude oil production from the WCSB to meet growing demand by refineries and markets in the United States. Construction of the Project, including the proposed border crossing facilities, will serve the national interest of the United States by providing US refineries and markets with access to a substantial, secure, and reliable supply of Canadian crude oil to meet increasing US demand for petroleum products.

The need for the project is dictated by a number of factors including:

- Increasing WCSB crude oil supply;
- Increasing crude oil demand in the United States;

- Decreasing domestic crude supply in the United States;
- An opportunity to reduce US dependence on foreign offshore oil supply through further supply diversification to stable, secure Canadian crude supplies; and
- Demonstrated shipper interest in the Project.

Established crude oil reserves in the WCSB are estimated at 179 billion barrels (Canadian Association of Petroleum Producers (CAPP), January, 2008). The primary source of WCSB crude oil supply -- over 97 percent -- is comprised of Canada's vast oil sands reserves located in north-eastern Alberta. The Energy Resource Conservation Board of Alberta estimates there are 175 billion barrels of established reserves out of 315 billion barrels of bitumen ultimately recoverable in Canada's oil sands. Alberta has the second largest crude oil reserves in the world, second only to Saudi Arabia.

As a result of growing production from the oil sands, crude oil supplies from the WCSB are expected to increase by about 1.6 million barrels per day (bpd) by 2017, from current production of about 2.4 million bpd (CAPP, June, 2008). CAPP's high forecast estimates potential growth of over 1.9 million bpd over the same 10 year timeframe.

According to the US Energy Information Administration (EIA), US demand for petroleum products has increased by over 11 percent or two million bpd over the past 10 years and is expected to increase further. The EIA estimates that total US petroleum consumption is projected to increase by approximately 1.0 million bpd over the next 10 years (EIA Annual Energy Outlook 2008), representing average demand growth of about 100,000 bpd per year. At the same time, domestic US crude supplies continue to decline. For example, over the past 10 years, domestic crude production in the US has declined at an average rate of about 135,000 bpd per year or two percent per year.

The US historically has compensated for decreases in domestic production through increased imports from Canada and foreign offshore sources. Canada is currently the largest supplier of imported crude oil and refined products to the United States, supplying over 2.2 million bpd in 2008 and representing over 11 percent of total US petroleum product consumption (DOE Petroleum Supply Monthly, April 2008).

US imports of foreign crude and refined products continue to increase as a result of decreasing domestic production and increasing demand. Crude and refined petroleum product imports into the US have increased by over 3.3 million bpd over the past 10 years. In 2007, the US imported over 13.4 million bpd of crude oil and petroleum products or over 60 percent of total US petroleum product consumption.

The Project's key delivery area, Petroleum Administration for Defense District (PADD) III, or the US Gulf Coast, represents the largest and most complex refining district in the United States with 49 refineries comprising approximately eight million bpd of total refining capacity. The Project would provide an opportunity for US refiners in PADD III to diversify supply away from traditional offshore foreign crude supply and to obtain direct pipeline access to secure and growing Canadian crude supplies. Access to Canadian crude supply would also provide an opportunity for the US to supplement annual declines in domestic crude production and, more significantly, decrease its dependence on foreign crude supplies, particularly from Mexico and Venezuela, the top two heavy crude oil importers into the US Gulf Coast.

Shippers – producers, marketers or refiners -- evaluate the merits of various pipeline proposals and ultimately decide which projects to support. Shippers have

expressed material interest in the Project and in securing additional crude oil pipeline capacity. Shippers have already committed to binding contracts totalling 300,000 bpd in support of the Project. These commitments are sufficient to enable Keystone to proceed with regulatory applications and, pending successful regulatory and environmental approvals, with construction of the proposed Project. These binding commitments demonstrate a material endorsement of support for the Project, its economics, proposed route, and target market, as well as the need for incremental pipeline capacity and access to Canadian crude supplies. Most recently, Keystone conducted a binding Open Season to provide shippers an opportunity to commit additional volumes to the Project. Keystone concluded its Open Season for the Project on September 4, 2008. Keystone currently is evaluating the results of that Open Season.

IV. SIMILAR FACILITIES

The nearest similar facilities to the proposed border crossing facilities are those of the Express Pipeline system. Those facilities cross the border approximately 100 miles west of the proposed Project. Because of the distance, the Express facilities are not shown on any maps of the proposed Project; however, the Express facilities may be identified on any commercial crude oil map.

V. CONSTRUCTION PLAN

Plans for construction of the Project are discussed generally in the preliminary Environmental Report attached hereto. In addition, Keystone is developing a detailed Construction Mitigation and Reclamation Plan (“CMR Plan”) for the Project, which will be submitted with the supplemental Environmental Report on November 19, 2008.

Permitting, approvals, and financing are discussed elsewhere in this application and the attached preliminary Environmental Report. Specific problems anticipated in the development and construction of the facility and an indication of how they might be resolved will be addressed in the supplemental Environmental Reports to be submitted in November 2008 and June 2009 and will be further addressed in the CMR Plan.

VI. FINANCING AND RATES

The capital cost of the US portion of the Project, from the U.S-Canada border to the Gulf Coast is estimated to be US \$5.443 billion. While project financing has yet to be finalized, the project is anticipated to be financed through a combination of contributions from the owners, bank financing, and access to capital markets.

The rates for crude oil transportation through the US portion of the Project will be subject to regulation by the Federal Energy Regulatory Commission (“FERC”). Keystone anticipates there will be two categories of services offered:

- 1) Committed or term service – Keystone is proposing long-term contracts with discounted rates and a fixed/variable rate design. The rates vary with contract term, with lower rates offered for longer terms. The fixed portion of the rate is based on levelized 10, 15, or 20-year contracts and will not change over the term of the shipper’s contract. The fixed portion of the rate is designed to recover the capital invested and is designed on a postage stamp basis. The variable portion of the rate is a flow-through of the actual operating costs, adjusted annually.

- 2) Uncommitted or spot service – Keystone will offer service to non-contract shippers on a month-to-month basis at a posted spot rate. The spot rate will be subject to indexing, as permitted by FERC.

VII. CANADIAN APPROVALS

The Canadian portion of the Project will cross provincial and international boundaries and, accordingly, will be subject to the regulatory oversight of the NEB. The Project will require various NEB approvals related to the construction and operation of the proposed facilities. These authorizations include a Certificate of Public Convenience and Necessity (“CPCN”) under section 52 of the National Energy Board Act (“NEB Act”) and approval of tolls and other tariff and service matters under Part IV of the NEB Act. The section 52 application will be filed in the first quarter of 2009. A CPCN is anticipated by the end of 2009.

Various ancillary authorizations from local, municipal and provincial authorities for activities incidental to the construction and operation of the Project facilities will also be required. Filing for these authorizations will begin in the first quarter of 2009.

In preparation for filing the section 52 and ancillary applications, the Canadian Keystone entity has commenced various project activities. These activities include extensive landowner and public consultation, engineering and environmental fieldwork, supply and market assessments, and the acquisition of required land rights. A preliminary information package (“PIP”) for the Project was filed with the NEB on July 18, 2008. The PIP is not a required regulatory filing but rather a project description designed to allow the NEB and other government agencies with environmental assessment and

regulatory responsibilities to understand the project, identify their potential roles in the approval process, and initiate and facilitate early coordination and scoping of environmental assessment requirements. The PIP also provides the project information needed to enable the Crown to commence consultation with potentially affected Aboriginal Peoples.

It is not the practice of the NEB or other Canadian officials or agencies to state their views regarding potential facilities in advance of issuance of their formal decisions on such applications. There are no agreements or formal understandings regarding these matters at this time.

VIII. OTHER US APPROVALS

Table 7 of the preliminary Environmental Report provides a list of the federal and state permits, licenses, approvals, and consultation requirements applicable to the Project in the United States. Road crossing and road use permits are not included in the table because such permits will be a standard requirement in virtually all counties crossed by the Project. The instant application is being filed to request the required Presidential Permit from the Department of State. With respect to the other permits and approvals listed in the table, Keystone has begun agency consultation and plans to file all necessary applications in a timely manner so that it can receive all necessary authorizations prior to the anticipated start of construction in the third quarter of 2010. A summary of agency consultation is included in the attached Environmental Report.

IX. HISTORIC PRESERVATION

In compliance with federal laws enacted to protect cultural resources from damage resulting from federally funded or permitted activities, including the National Historic Preservation Act, cultural resource investigations are being conducted for each state crossed by the proposed Project. These investigations are being conducted in consultation with the State Historic Preservation Officers (“SHPOs”) for each state. A discussion of these investigations is set forth at Section 1.10 of the preliminary Environmental Report. Cultural resources field inventories have been conducted in 2008 and will continue into 2009, pursuant to SHPO-approved plans, to determine whether there are properties in the project area that are eligible or potentially eligible for inclusion in the National Register of Historic Places (“NRHP”). Upon completion of field surveys, lists of NRHP-eligible or potentially eligible properties will be submitted to the lead NEPA agency.

Keystone has engaged with a number of Native American tribes in the Project area in order to gain an understanding of the tribes’ concerns with respect to the proposed pipeline Project. Keystone recognizes the unique history, status, and rights of Native American tribes and believes that the early establishment of relationships with them is a positive step towards finding mutually beneficial solutions to concerns raised. As part of its tribal engagement, Keystone has invited interested tribes to participate in cultural resource survey activity. As of this date, Keystone is pursuing discussions with tribes regarding the logistics of their participation. Keystone has been careful to make clear to all tribes that it is not undertaking the government-to-government consultation that is the prerogative and responsibility of the appropriate federal agencies.

X. ENVIRONMENTAL JUSTICE

To facilitate the Department of State's obligations under Executive Order 12898, environmental justice considerations, including information on minority and low-income populations likely to be affected by construction of the proposed Project, will be addressed in the supplemental Environmental Report to be submitted on November 19, 2008.

XI. COMPATIBILITY WITH NEC RECOMMENDATIONS

With respect to the recommendations contained in the August 8, 1994 National Economic Council White Paper, "Staff Recommendations on the Task Force on Border Infrastructure and Facilitation for Improved US Border Operations," Keystone states as follows:

- No specific support infrastructure or access roads are necessary or required by state or regional plans with respect to the border crossing facilities.
- No Canadian development plans or priorities have been identified as specifically applicable to the border crossing facilities. Keystone will comply with all permitting and other requirements applicable to the Canadian segment of the Project, to the border.
- Keystone will inspect the border crossing facilities in accordance with US Department of Transportation regulatory requirements set forth at 49 C.F.R. Parts 194 and 195, including aerial, foot and in-line mechanical inspections. The cost of these inspections will be covered by Keystone's normal operating budget. Keystone operational personnel will carry out all required inspections.

XII. ENVIRONMENTAL REVIEW

Issuance of the requested Presidential Permit will be a "major federal action" under NEPA. Accordingly, Keystone is submitting with its application a preliminary

Environmental Report, which is intended to provide the Department of State with sufficient environmental information to appreciate the nature and scope of the proposed Project and its potential environmental impacts. This information is intended to permit the State Department and other affected agencies to determine the lead federal agency to undertake the lead role in the NEPA review process. Keystone has conducted, and continues to conduct, extensive environmental and cultural field surveys in 2008 and will supplement the preliminary Environmental Report with more complete environmental and cultural studies, data, and analyses in the supplemental Environmental Reports to be submitted on November 19, 2008 and in June 2009.

Following submittal of the supplemental Environmental Report in November 2008, Keystone will continue environmental and cultural field surveys to further define features that will be affected by the Project and to evaluate areas affected by potential changes to the Project to avoid environmental and cultural resources, residences and other features. The results of these surveys will be provided in a further supplemental Environmental Report in June 2009.

Once these supplemental environmental reports are submitted, Keystone will have provided all required environmental information, including:

- i. Description of the site of the proposed facility showing the types of environment that will be affected by construction of the proposed facility and related facilities.
- ii. The probable impact of construction and operation of the proposed facilities on these environments, including positive and negative aspects of primary (construction and operation) and secondary (related to long-term growth stimulated by the facility) impacts.
- iii. Ways in which adverse impacts might be mitigated through construction techniques, site planning, and safety features, etc.

- iv. Any probable adverse impacts that cannot be avoided.
- v. Brief discussion of any trade offs between short-term environmental impacts and long-term environmental gains or vice versa.
- vi. Relationship of the proposed facility to other land use plans, policies, and controls in the affected area.
- vii. Description of the extent to which the construction of the proposed facility irreversibly curtails the range of the potential uses of the environment.
- viii. What alternatives to the proposed facility were considered and what are the relative environmental benefits and costs of the alternatives considered.

XIII. CONCLUSION

For the reasons set forth herein, Keystone submits that the construction, operation, and maintenance of the proposed border crossing facilities, in conjunction with the Project, are in the national interest of the United States. Accordingly, Keystone respectfully requests that the Department of State issue a Presidential Permit authorizing the construction, operation, and maintenance of the identified border crossing facilities for the importation of crude oil, to be located at the international border between the United States and Canada, at Phillips County, Montana, as more fully described herein.

Respectfully submitted,



Kristine L. Delkus
Deputy General Counsel
Pipelines and Regulatory Affairs
TransCanada Corporation
450 1st Street, S.W.
Calgary Alberta, Canada
T2P 5H1

James P. White
Associate General Counsel
Pipelines and Regulatory Affairs

TransCanada Corporation
4547 Rincon Place
Montclair, VA 22025

Dated: September 19, 2008