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HOUSE COMMITTEE ON ENERGY AND COMMERCE  
SUBCOMMITTEE ON ENERGY AND POWER  
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Good morning. 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 once again today on behalf of TransCanada, the developer of the Keystone XL Pipeline Project and the operator of the Keystone Pipeline System. As I have previously testified, 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. Our network of wholly owned natural gas pipelines extends more than 40,000 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 406 billion cubic feet of storage capacity. Moreover, TransCanada owns, or has interests in, over 11,000 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 \$14 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 improving North American energy security. While we expect North America to significantly reduce its reliance on oil over the coming decades, it would be unrealistic and irresponsible to ignore the reality that the United States will remain dependent on imported oil for decades. 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 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 in 2008, authorizing the international boundary crossing for the initial phases of the Keystone Pipeline System, after a thorough and complete 23-month review.

Subsequently, TransCanada constructed the Keystone Cushing Extension of the Keystone Pipeline System from Steele City, Nebraska to Cushing, Oklahoma. The Cushing Extension went into service in February 2011. Cushing is a major crude oil marketing and pipeline hub serving numerous Midwest

refineries. Together, these first two phases of the Keystone Pipeline System have the capacity to deliver almost 600,000 barrels of crude oil to U.S. refineries and the Cushing hub every day. To date, the Keystone system has safely delivered over 400 million barrels of oil to those refineries, meeting a vital market need.

On September 19, 2008 TransCanada filed its Presidential Permit border-crossing application with the State Department for the proposed Keystone XL Pipeline. As originally proposed, Keystone XL was an approximate 1,700-mile, 36-inch crude oil pipeline designed to begin at Hardisty, Alberta and extend southeast through Saskatchewan, Montana, South Dakota and Nebraska. It incorporated the Keystone Pipeline Cushing Extension through Nebraska and Kansas to serve markets at Cushing, Oklahoma before continuing through Oklahoma and Texas to terminate in the Texas Gulf Coast refining centers. When fully constructed, Keystone XL will have a nominal capacity to transport up to 830,000 barrels of oil per day of Canadian and U.S. crude oil production.

Following our 2008 application, the State Department conducted a comprehensive, multi-agency environmental review over the next three-plus years. This review included numerous public meetings, hundreds of thousands of public and agency comments, and publication of a Draft Environmental Impact Statement, a Supplemental Draft EIS, and a Final EIS. The August 2011 Final EIS concluded that the project would have no significant impacts to most resources along the proposed Project corridor. (FEIS at p. 3.15-1). It also concluded, in consultation with the Pipeline and Hazardous Materials Safety

Administration (PHMSA), that the project would be safer than any other typically constructed domestic oil pipeline system. (Id.) Further, the Final EIS concluded that construction and operation of the pipeline would not constitute a substantive contribution to U.S. or global carbon emissions. (Id. at p. 3.14-44).

Subsequent to issuance of the Final EIS, the State Department commenced a National Interest review of the Project, which included a series of public meetings along the pipeline route and here in Washington. Just as the 90-day National Interest period was approaching its close last January, the Administration announced that it was denying the Presidential Permit application solely because it could not complete its review by the deadline imposed by Congress in the 2011 payroll tax legislation.

In February 2012, TransCanada responded by informing the State Department that what had been the 485-mile Cushing to U.S. Gulf Coast portion of the Keystone XL Project had its own independent value to the marketplace and would be constructed as the stand-alone Gulf Coast Project, rather than as part of the Presidential Permit process. As the President recognized when he visited TransCanada's Cushing pipe yard last spring, the Gulf Coast Project is a critically important addition to the U.S. pipeline infrastructure, which helps to relieve the significant bottleneck of crude oil at Cushing and the related pricing dislocations, caused by existing pipeline capacity limitations. The Gulf Coast Project represents an opportunity to reduce U.S. dependence on foreign offshore oil supplies by increasing the availability of domestic production to Gulf Coast refineries. The market need for the Gulf Coast Project is demonstrated by

binding shipper contracts to transport crude oil from Cushing to Nederland and Houston.

After receipt of the necessary permits and approvals last summer, TransCanada began construction of the Gulf Coast Project in August 2012. Notwithstanding several unfortunate episodes of civil and criminal disobedience spearheaded by anti-oil activists, construction of the Gulf Coast Project is approximately 60 percent complete and the project remains on schedule to be placed in service by the end of this year.

In the meantime, TransCanada re-filed its application with the State Department almost one year ago for a Presidential Permit to allow construction of the northern leg of the Keystone XL Pipeline, extending approximately 875-miles from a point on the international boundary near Morgan, Montana to Steele City, Nebraska. The re-filed application maintained the previously-studied project route in Montana and South Dakota. Those two States have already granted their respective state approvals of the Project, pursuant to their legislated formal state review processes. In Nebraska, Keystone committed to re-route the pipeline to move out of the controversial “Sandhills” region, following the state environmental agency’s public review process as established by the Nebraska Legislature.

In April 2012, TransCanada proposed a new route across a portion of Nebraska to avoid the Sandhills region. We participated in the Nebraska review process throughout 2012, as did Nebraska agencies, the State Department, and

hundreds of Nebraska citizens. In January of this year, following release of a favorable Final Evaluation Report by the Nebraska Department of Environmental Quality, Governor Heineman approved the new route and transmitted his approval to the State Department. TransCanada has formally incorporated that re-route into its pending State Department application.

Upon receipt of TransCanada's May 2012 Presidential Permit application, the State Department announced its intent to prepare a Supplemental Environmental Impact Statement (SEIS). While changes to the previously studied Project were largely limited to the proposed reroute in Nebraska, the State Department conducted another comprehensive, multi-agency review and issued a 4-volume Draft Supplemental EIS last month, which covers a multitude of topics. Currently, the State Department is conducting a public comment period on the Draft SEIS, which continues through April 22, and which includes yet another public meeting scheduled to be held next week in Nebraska.

As we understand the State Department review process, a number of steps are expected to follow upon completion of the current public comment period. First, the Department will review and address the comments on the Draft SEIS. Based on prior comment periods, it is expected that there will be hundreds of thousands of comments submitted. Then, the Department will issue a final Supplemental EIS. At that point, the Department is expected to re-initiate the National Interest review with an as-yet undefined time frame. That is followed by the issuance of a Record of Decision and a National Interest Determination. At that point, a number of agencies (many of whom have been participants in the

ongoing reviews since 2008) will have the opportunity to comment on the issuance of a Presidential Permit. If no agency objects within 15 days, the State Department is free to issue a Permit. If there is an objection, it is addressed through interagency consultation. If that consultation fails, the entire matter is referred back to the President for a decision. Accordingly, it appears that a decision on the pending Presidential Permit application is many more months down the road.

I would like to express TransCanada's appreciation for the sentiments behind the recently proposed Northern Route Approval Act, which would remove the requirement for a Presidential Permit for KXL and grant the additional federal approvals and authorizations needed for construction. 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 prompt 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.

As the recent State Department Draft SEIS recognizes, the primary purpose of the Keystone XL project is to provide the infrastructure necessary to transport heavy crude oil from Western Canada to the interconnect with the existing Keystone system at Steele City, Nebraska for onward delivery to Cushing, Oklahoma and the Gulf Coast refineries. Equally important, the proposed Keystone XL project would provide needed transportation capacity for domestically produced Bakken and Midcontinent crude oils that could access the pipeline, respectively, at Baker, Montana and at Cushing.

The recent Draft SEIS confirms that there is existing demand by Gulf Coast area refiners for stable sources of crude oil. As the Draft SEIS recognizes, currently, refiners in the Gulf Coast area obtain heavy crude oil primarily via waterborne foreign imports, but the reliability of those supplies is uncertain because of declining production and political uncertainty associated with the major traditional suppliers, notably Mexico and Venezuela. Moreover, the additional supply of light crude from formations like the Bakken is expected to



enable domestic refiners to reduce their imports of more expensive light and possibly medium gravity sweet imported waterborne crude oil.

The need for the project is clearly demonstrated by the existing firm, long-term contracts for approximately more than 500,000 barrels per day of Western Canadian crude oil to be transported through the Keystone XL Pipeline and the Gulf Coast Project to Texas refineries. An additional 155,000 barrels per day that is currently delivered to Cushing on the existing Keystone Pipeline would be transferred to Keystone XL, freeing up capacity on the Keystone Mainline to deliver more barrels to Midwest refineries. Keystone has also made available up to 100,000 barrels per day of capacity on the proposed project for domestic U.S. crude oil produced in the Bakken area of Montana and North Dakota and has signed, long-term contracts to transport 65,000 barrels per day of Bakken production. These existing contracts not only demonstrate the demand for the project but also underlie its financial viability.

I should also point out that by transporting crude oil 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.

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.

The March 2013 Draft SEIS recognizes a wide range of socioeconomic benefits that would be derived from construction and operation of the KXL project. The DSEIS found that construction of the proposed project would generate temporary, positive socioeconomic impacts as a result of local employment, taxes, spending by construction workers, and spending on construction goods and services. The following are some examples of the benefits found in the State Department's review:

- Construction of the proposed Project would contribute approximately \$3.4 billion to U.S. GDP if implemented.
- Construction contracts, materials, and support purchased in the US would total approximately \$3.1 billion.
- Approximately 10,000 construction workers engaged for 4- to 8-month seasonal construction periods (approx. 5000-6000 per construction period) would be required to complete the proposed Project. (When expressed as average annual employment, this equates to approximately 3900 jobs).
- A total of 42,100 jobs throughout the United States would be supported by construction of the proposed Project. 12,000 would be in the Project area states. 1000 more jobs would be associated with construction of the related Bakken Marketlink Project.
- Total earnings supported by the proposed Project would be approximately \$2.053 billion. An additional \$59.4 million would be associated with the Bakken Marketlink Project.
- Effects on minority and low-income populations would generally be small and short term. Risks associated with potential releases would not be disproportionately borne by minority or low-income populations.
- Total estimated property taxes from the proposed Project in the first full year of operation would be about \$34.5 million, spread across 31 counties in three states. Other sales, use, and fuel taxes would accrue during two years of construction:
  - South Dakota - \$45.6 million
  - Nebraska - \$ 16.5 million
  - Kansas - \$2.7 million
  - Montana – some additional tax revenue will accrue.
- Construction camps could generate a total of about \$2 million in tax revenues.

## **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). 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 and 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 that go beyond the existing PHMSA regulations that have been developed by PHMSA for the Keystone XL Project. Keystone has agreed to incorporate these special conditions into its design and construction, and its manual for operations, maintenance, and emergencies required by 49 CFR 195.402. These 57 Special Conditions 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.

The State Department took these 57 Special Conditions into account in the Draft SEIS. The Draft SEIS specifically recognizes that “[t]hese measures provide for an additional safety factor on the proposed Project that exceeds those typically applied to domestic oil pipeline projects.” (DSEIS at p. 4.13-64). The additional design standards represented by the 57 special conditions enable the entire length of the pipeline system to have a degree of safety similar to that which is required in a High Consequence Area (HCA) as defined in 49 CFR Part 195.450. Based on its comprehensive review of the Project, the State Department’s Draft SEIS further concludes that “[s]pills associated with the proposed Project that enter the environment are expected to be rare and relatively small.” (DSEIS at p. 4.16-5).

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.

#### **COMPREHENSIVE REVIEW PROCESS/LIMITED ADVERSE ENVIRONMENTAL IMPACTS**

Finally, I want to reiterate that the Keystone XL Project has undergone a thorough and comprehensive environmental review over the past four-plus years. This multi-agency review has now included thousands of pages of information

submittals, hundreds of thousands of public comments, numerous public meetings, and no less than four draft, supplemental, and final environmental impact statements. After all of this review, the March 2013 Draft Supplemental EIS yet again concludes that “[t]he analyses of potential impacts associated with construction and normal operation of the proposed Project suggest that there would be no significant impacts to most resources along the proposed Project route . . . .”

With respect to carbon emissions, the Draft SEIS found that Western Canadian crude oils, as would likely be transported through the proposed Project, are on average somewhat more GHG-intensive than the crudes they would displace in the U.S. refineries. However, the DSEIS further found that it is unlikely that the proposed Project construction would have a substantial impact on the rate of Western Canadian oil sands development. Even when considering the incremental cost of non-pipeline transport options, should the proposed Project be denied, a 0.4 to 0.6 percent reduction in WCSB production could occur by 2030, and should both the proposed Project and all other proposed pipeline projects not be built, a 2 to 4 percent decrease in WCSB oil sands production could occur by 2030. Further, the DSEIS found that if the project were approved there would likely be no substantial change in WCSB imports to PADD 3 with or without the proposed Project in the medium to long-term and, most significantly, there would be no substantive change in global GHG emissions .

Based on this record, I would suggest that it is time to bring this process to a close and proceed expeditiously to a final approval of the Keystone XL Pipeline. The project will reduce the United States' reliance on higher-priced foreign oil and replace it with stable, secure supplies from both Canada and the U.S. It will create high paying American jobs, inject billions of dollars into the U.S. economy, and pay millions in taxes for decades to come. This project is needed – the benefits are clear – and time is of the essence to move forward.

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