

**Keystone Pipeline
South Dakota PUC
Liaison Annual Report
2012**

January 01, through December 31, 2012

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1. General Liaison Activity

Construction of the Keystone Pipeline in eastern South Dakota was completed in 2009. The following years have been dedicated to the completion of clean up, reclamation and transition to operations and maintenance activities. Over the course of 2012 transition from the construction phase of the project to the ongoing operational phase was completed. The majority of clean up and reclamation of haul routes, pipe yards and the pipeline right-of-way (ROW) were completed in 2010. Some reclamation issues continued into 2011 and throughout 2012, in upcoming years reclamation and monitoring activities will continue along the ROW. Oversight of maintenance activities has been fully transitioned from Keystones construction group to Keystone Operations personnel. Keystone Pipeline operations has offices in Brookings, SD and Omaha, NE. Oversight of reclamation activities has been fully transitioned to the Post Construction Reclamation and Monitoring Program (PCRM) with key team members located in Calgary, Omaha and Houston as well as various contract personnel located near to the ongoing work sites. They are available to assist landowners and stakeholders along the route as operation and maintenance activities are conducted.

Remaining reclamation not addressed in 2011, due to environmental conditions over the course of the project, were the primary focus of 2012 reclamation efforts. Flooding and heavy precipitation events over the course of the project, postponed reclamation in many locations. Dry conditions late in 2011 allowed for crews to finally access sites and soils had dried to a point where reclamation became effective. However, winter conditions forced crews to leave some work for the 2012 season, these locations were addressed as environmental conditions allowed throughout 2012.

The majority of new issues reported were isolated reclamation locations where primary reclamation had been completed and new settlement or contour issues were encountered as farming practices took place. These issues were addressed as crews became available. Ongoing issues were related to areas that were highly saturated during construction of the pipeline. There are several locations where reclamation efforts were halted due to environmental conditions in 2009, spot work was resumed as conditions allowed in 2010, many areas became accessible late in 2011, and full reclamation of saturated soil locations began in 2012. There are still a few areas on the Keystone punch-list where reclamation began this summer but was halted due to high soil moisture and risk of compaction and soil mixing. Additional work is scheduled for the 2013 construction season and monitoring of the ROW conditions will continue in perpetuity. New issues were discovered as dryer environment conditions allowed land to settle and to be returned to pre-construction condition and uses. Several locations have been monitored since full reclamation took place and will continue to be monitored for drainage, native grass establishment and other aspects. All issues reported to the liaison were sent to Keystone personnel and added to a reclamation tracking list and are not removed until the work is addressed by Keystone and is agreed to be completed/settled by the landowners, Keystone or other affected parties.

Environmental conditions were dryer this year and reclamation activities commenced in areas that were inaccessible in previous years. Dryer conditions allowed crews to access much of the remaining reclamation work. However, a few locations in Marshall Co., were again halted due

to saturated sub-soils and winter conditions impeding. Open issues will continue to be tracked by PCRMM personnel and reclamation and maintenance work will resume as environmental conditions allow in 2013. The entire ROW will continue to be monitored for weeds, grassland re-establishment, erosion issues, proper drainage, etc., by the company as part of their ongoing monitoring program required by federal regulations. The remaining reclamation and open issues are typical of post construction disturbance and areas such as native grassland and erosive locations, will be monitored for several years following disturbance. Continued settlement may also take place in areas where soils were extremely saturated.

The majority of new issues reported this year were concentrated in locations where the precipitation was highest during construction. Concerns reported have primarily been related to elevation contours across the ROW or "transition line" which is where settlement at the trench line occurs or where the topsoil storage berms that need to be better distributed across the ROW creating a ridge at the ROW edge and a lower area at the center line. Several locations that had become highly saturated during construction were finally addressed this year. Rough clean-up, sub-soil decompaction "ripping" and discing and redistribution of topsoil took place in these where saturated soil had previously halted reclamation. Additional topsoil was also located, tested and incorporated in areas where there had been soil loss or soil mixing. A few areas where full reclamation was not completed due to lingering moisture in the sub-soils will be addressed in 2013 and will be tracked by the project until completed. Continued monitoring will also take place to control weeds and identify areas where reseeding or erosion control will be required. The majority of the issues reported to the liaison were typical of construction disturbance and are expected as the ground settles and is returned to its previous use. Keystone has committed to continue to address these areas as they are identified by aerial surveys, operations personnel or landowners and tenants.

All roads and haul route issues were settled in 2011 and previous years, with the exception of one county that settled on a small claim regarding a repair near the shoulder of a road in January of 2012, and two townships that reported claims to and settled with a land agent. There was no road major group activity related to Keystone Ph1 during the year. The majority of issues were addressed in 2010 and the remaining in 2011 and 2012 as documented in Table 1. In May of 2012 the Public Utility Commission released the road bond to Keystone that was held during construction and reclamation.

During 2012, the reclamation along the ROW in South Dakota continued, tracts that had been saturated were investigated and new areas in need of reclamation were identified. The remaining open issues are being tracked by Keystone personnel. Monitoring and isolated work will continue along the pipeline into the future, as needed. Land agents and other Keystone personnel remain in the state and will continue to work with landowners as operations and reclamation activities take place. They also handled claims for damage compensation due to losses to crops, roads, etc., that may be caused during reclamation and operations activities. Keystone personnel and the liaison worked together to keep a current list of issues in order to track the status of reclamation on each tract where problems are reported. These issues continue to be tracked as they are addressed. Issues are not removed from the reclamation log until they are cleared by the inspectors and landowners. As this is the final Annual Liaison Report on Keystone Pipeline (Ph1), the liaison officer will ensure that all open issues are included in this report and are documented with the PUC and Keystone Management personnel.

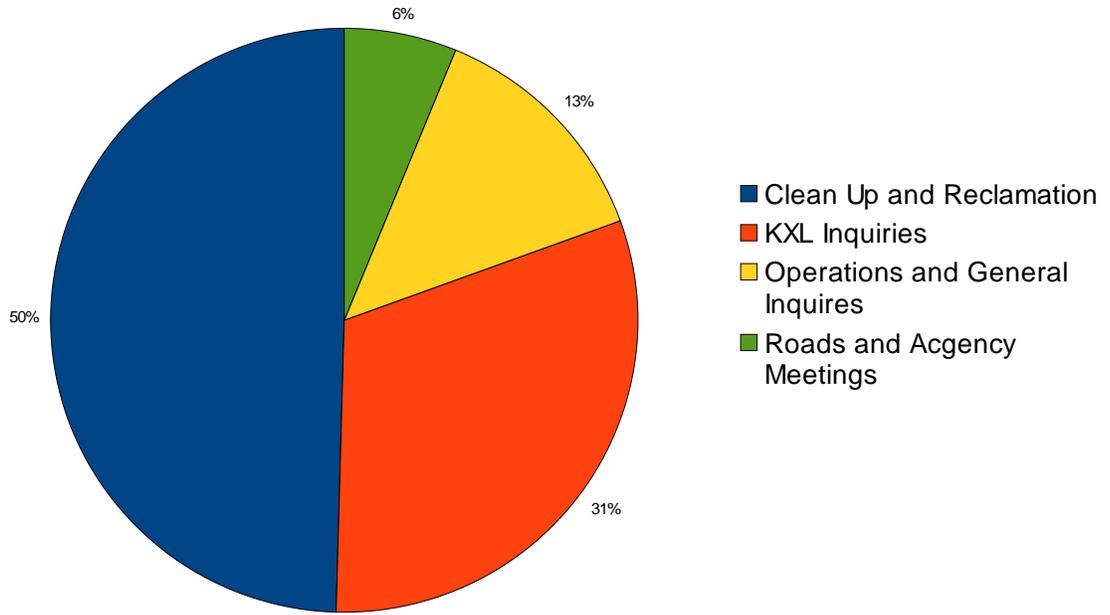
Keystone operations also have several employees in the state to maintain and operate the pipeline and pump stations. They have personnel available if there are any concerns via 811 one call or the 800 numbers located on signs posted along the ROW, regional office numbers are also listed in area phone books.

2. Issue Tracking

There were approximately 678 calls to the liaison office over the course of the year that related to the Keystone Pipeline. There were 44 meetings held, primarily with landowners, reclamation contractors, and KXL stakeholders. There were no formal meetings with county and road groups this year. However, the liaison did attend the Annual County Commissioners conference in Pierre, SD. There were no letters mailed to the liaison officer this year and there were only 11 direct emails regarding pipeline issues from landowners and interested parties. Contacts made with 11 individual landowners, 1 tenant and 3 agencies. Many contacts came from interested parties who had general project inquiries and were seeking information on construction, operations or the status of the KXL permit process. Several calls again pertained to comparison of construction on the first Keystone line as it related to the proposed Keystone KXL project. There were 7 issues reported to the liaison through the PUC staff related to the KXL project and 9 issues related the existing Keystone line. All other issues were reported directly to the liaison office. Many meetings and contacts occurred with the same land owners over the course of the year, as reclamation plans developed. Also land continues to settle along the line which brought new issues to the land user and Keystone's attention. Issues and inquiries were referred to Keystone land or operations departments as appropriate and there was often no need for a meeting with the liaison.

The types of issues encountered during the year of 2012 can be broken into the following four categories:

- a) Clean Up and Reclamation 50%
- b) KXL Inquires 31%
- c) Operations and General Inquires 13%
- d) Roads and Agency Communication 6%



3. Clean Up and Reclamation

The need for cleanup and reclamation along the Keystone Pipeline were again the primary issues reported to the liaison office in 2012. Areas where clean up and reclamation efforts were hindered by heavy precipitation and environmental conditions in 2009, 2010 and early 2011, were finally accessible in 2012. Keystone personnel continued to keep an active tracking list to monitor the status of various issues along the route. This list is continually updated as issues are addressed and resolved, new issues are also added as Keystone personnel, landowners and tenants reported concerns along the route. Aerial surveys of the pipeline route continue as required by regulators and the company will continue to identify areas that require additional reclamation attention, as part of their general operations procedures. Transition from the Keystone construction team was completed in 2012 and Keystone Pipeline Operations and the PCRM Program have taken on overview of the issue tracking list and reclamation efforts as well as pipeline operations and maintenance activities.

Many reclamation issues encountered were typical of post construction land disturbance and consisted of soil settlement at excavation sites, isolated pockets of colonizing weeds in disturbed soil, ROW contour adjustments among other issues. Again, this year most of the ongoing issues were related to the heavy precipitation events during construction, that lead to highly saturated soils and standing water conditions. In 2012 these areas were accessible to reclamation crews and evaluations were made of all tracts. Many of these locations are in Marshall and Day Counties and could not be decompacted and recontoured until dry conditions occurred in late summer 2011 and over the course of 2012. Other issues addressed where weed control on grassland areas to augment native grass re-establishment. Areas with low establishment from previous seeding or a poor composition compared with adjacent grassland habitat were treated for weeds, disced/mowed and over-seeded with a landowner approved

mixture. At few areas that were previously inaccessible required extensive reclamation efforts, soil was deep tilled “ripped” to remove debris from construction and relieve compaction. Tilling also aided in decompaction of high traffic areas and helped to restore original contour lines along the ROW. Disc work followed re-contouring and in some areas topsoil was imported to restore elevation or augment soils where sub-soil mixing had occurred. Sub-soil ripping had not been fully completed in previous seasons due to highly saturated soil conditions and risk of increased compaction and soil mixing. Following these topsoil efforts the area was recontoured, disced and planted back to match the previous land use.

Keystone representatives continued to meet with landowners and tenants to identify problems and compensate for losses due to the delay of reclamation. Again, scheduling of contractors and coordination with access to crop fields proved difficult and caused some delay in the reclamation efforts. Contractor and equipment availability, as well as, waiting for the proper environmental conditions were also again factors in the reclamation progress. In many areas reclamation could not be conducted until late summer when soil moisture was low enough for effective reclamation to take place without risk of soil mixing or causing compaction issues. Several locations in Marshall Co., reclamation efforts were halted because sub-soil moisture was still high late in the 2012 construction season.

Keystone still has land agents and personnel in the state who will continue to meet with landowners and tenants to identify locations that require additional work and address any outstanding issues that might exist. Operations personnel in the state will conduct routine maintenance along the pipeline and its axillary features such as valve sites and pump stations. The operations and PCRM personnel are also available to assist landowners and tenants with construction, farming or other activities in the vicinity of the pipeline. Affected parties can contact them by calling 811 for a utility locate, contacting the local regional Keystone offices listed in area phone books or the by the 800 number listed on all the Keystone pipeline marker signs along the route. Some landowners have preferred to repair minor reclamation issues directly in the course of their farming practices and Keystone has compensated them for any extraneous time and materials related to the pipeline construction and operations. Currently, all landowners and tenants in South Dakota have been compensated for losses that occurred during construction and reclamation to date. Land agents remain in state to inform landowners, monitor concerns and address any issues that may become apparent as operations continue along the line.

Going into the construction season of 2012 there were 11 tracts in South Dakota, in need of some type of clean up or restoration work that the liaison was tracking, of these tracts 6 landowners were involved, 1 tenant. Again, the number of tracts, landowners and tenants on the tracking list changed as issues were identified and resolved. In all, over the course of 2012, between Keystone and the liaison, 69 issues along the ROW in SD were tracked and resolved through reclamation or agreed upon settlement for losses or reclamation conducted by the landowner. The major issues were again in Marshall and Day Co., where flooding and saturation of sub-soil was the most prevalent. Going into 2012, Keystone's reclamation crews along with the liaison conducted a survey of the entire line through South Dakota and discovered 31 additional tracts to be added to the issue tracking list, due to monitoring and/or reclamation efforts that will need to take place. These issues were primarily isolated locations that showed signs of settlement or other minor contour issues at the ROW transition. There

were also several new areas identified where grass species planted on the ROW did not match the adjacent species composition. Several tracts that remain on the tracking list have had work completed but continued monitoring is needed, so they are not removed from the tracking list. Some landowners have requested monitoring and in other locations it insures that erosion, drainage, re-vegetation, and weed control efforts were effective. Tracts that required major to moderate reclamation at the end of 2011 were all investigated and work took place in all locations where conditions allowed. Some work was halted due to the onset of winter conditions and will be continued when conditions allow in spring of 2013. Again, the majority of these areas are in Southern Marshall Co., and portions of Day Co where environmental conditions were the harshest during construction.

Areas south of State Highway 10 that were heavily affected by precipitation levels during construction were all addressed to some degree in 2012. Crews investigated areas they were unable to reclaim in previous years and began reclamation efforts only in a few tracts adjacent to the Crow Creek Drainage Ditch in Southern Marshall Co., have been suspended due to saturated conditions in 2009. Near the Crow Creek Drainage ditch the ROW was saturated through all of 2010 and the majority of 2011. Work was not started there until the fourth quarter of the year when freezing soils halted decompaction efforts. This area, along with several others in the vicinity, was re-addressed in 2012, those that were not completed will be addressed in 2013. Others that were completed in 2012 will require continued monitoring and some landowners have requested that additional topsoil be brought in. Other locations in the Marshall and Day Co., which were reclaimed in previous years, show the need for additional reclamation as dryer conditions have revealed new issues. Keystone will continue to monitor this area for settlement as well as the rest of the ROW and will address any issues that become apparent in 2013.

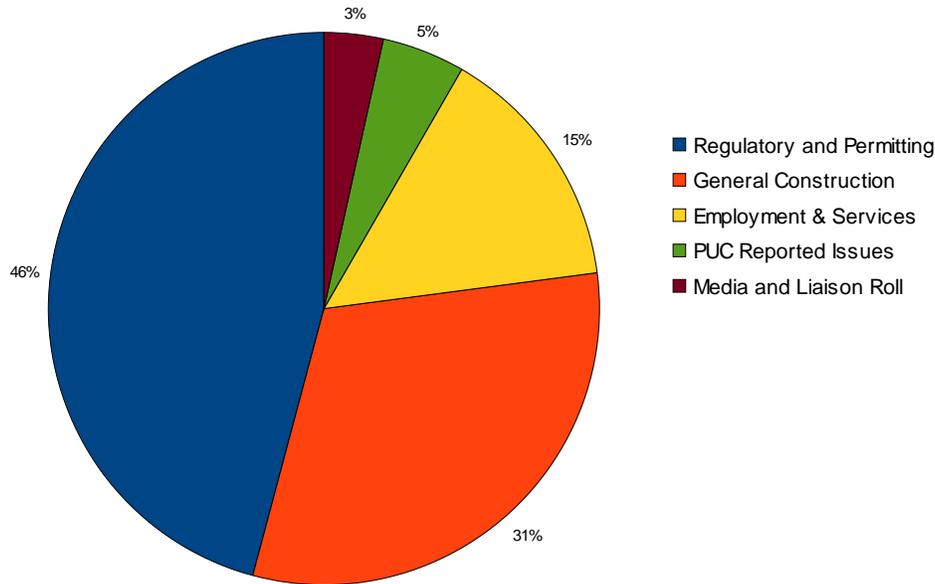
Several areas were listed for additional monitoring of native grassland re-establishment, it is anticipated that these locations will return to pre-construction conditions within the next several years, as some grass species are slower to establish. Several of these areas were over-seeded in 2012 and weed control took place in areas of concern as well. Keystone will continue to have operations personnel in the state to monitor and address any future concerns that landowners might have along the ROW.

4. KXL Project

Construction of the proposed Keystone KXL project is anticipated to begin in the second quarter of 2013, pending US Department of State approval of the project and issuance of the Presidential permit. The route includes approximately 311 miles of pipeline in South Dakota and 301 landowners. The route crosses Harding, Butte, Perkins, Meade, Pennington, Haakon, Jones, Lyman, and Tripp Counties. In addition, facilities in South Dakota include seven pump stations to be located in Harding, Meade, Haakon, Jones, and Tripp Counties. Construction is planned to commence following the completion of the regulatory process in 2013 and construction is expected to begin in the second quarter of 2013.

The South Dakota Public Utility Commission issued the Notice of Entry- Final Decision Order during the first quarter of the 2010. These construction conditions ordered Keystone to appoint a Liaison Officer for the KXL project. In 2010 the Commission approved Sarah Metcalf to be the Liaison Officer for the Keystone KXL Project. Over the course of the 2012 year there were approximately 210 contacts made to the liaison office regarding the KXL project but there were only five landowners and no tenants. The majority of contacts made were from parties interested in the project and/or the permitting process and how they could voice their opinion, these calls were referred accordingly. The number of contacts was low at the beginning of the year and began to pick up with survey and other activity along the line. Inquiries often coincided with news reports regarding political activity related to the project and the permitting process. Other contacts were made by parties interested in general information about the project or seeking employment opportunities. Some called offering services to the project and it's contractors. Many of the calls and emails were referred to KXL personnel working on project and/or to the TransCanada- KXL project website. The Landowner concerns directed to the liaison office were related to survey activity, construction methods, haul route agreements on private roads and damage compensation. Survey activities this year included civil and environmental survey, fly-over surveys for migratory birds and other sensitive species, Geo-technical core sampling of HDD and bore sites and other pre-construction investigation.

Other than concerns over dust control by a few South Dakota residents, public haul routes were not a concern that individuals, counties nor townships brought to the liaisons attention this year, as they did in 2011. Keystone representatives have continued to holding meetings with these various groups throughout the year, in order to share information and negotiate agreements on haul routes, mediation plans, road crossing permits and other issues that could affect communities along the route. The liaison has been in touch with the permit specialist but has not been needed at any meeting thus far. The lack of contact to the liaison office by road agencies is a good sign that communication between the company and the various county groups is going well. The liaison will continue to be available to road groups and will monitor the status of haul routes and agency communication throughout the project.



There were only a few media contacts this year and they were referred to TransCanada spokespersons for comment as they were not stories related to the Liaison role. The liaison continued to attend various meetings with landowners and stakeholders across the state. There were 9 meetings that the liaison attended. The majority of interested parties are waiting for the outcome of the final permitting process for the project.

Again there were calls from parties along the route interested in information on the economic boost the project could offer the state and local communities. Interest in the liaison role and duties increased toward the end of 2012 and questions came in on how such a role would be implemented in Nebraska and Montana. Several potential candidates for the MT Liaison role contacted the SD Liaison Officer to gain information regarding the role and the liaison provided information to Keystone representatives in NE as the state is considering a similar role as well.

Issues reported through the PUC to the liaison this year increased slightly and had to do primarily with damage compensation, survey flight notification and landowner concerned with construction procedures. Concerns over damage compensation were referred to the Keystones land group and they met with the landowner to reach an agreement. The liaison followed up with all landowners who had damage compensation concerns and as of the end of 2012 there were no outstanding issues that the liaison was aware of. The liaison met with landowners and land agents to review and explain construction procedures and will continue to be available to concerned landowners throughout the project, construction and reclamation phases. Notifications of flyover activities were given through the Keystone land department and there were no complaints in 2012 to the liaison regarding aerial flights and surveys. Two parties contacted the liaison concerned with potential private haul route agreements in 2011. These are still active concerns that relate to construction so the liaison officer will continue to monitor as

permitting is completed and construction plans are finalized and implemented. Going into 2012, there were no major issues outstanding in South Dakota, on the KXL project. There are still no major issues although meetings and monitoring of concerns will continue into and over the course of 2013. The liaison office anticipates that contacts from landowners and agencies will increase when the permitting process is finalized and construction activity commences.

The Pipeline Liaison will be available throughout construction of the KXL Pipeline to landowners and other affected parties for a period of three years post-construction. The liaison can assist landowners, tenants, agencies and other interested parties with any questions, concerns or issues that might arise during or after project. Formal quarterly reporting on this project will begin when construction activities commence, which is currently anticipated to begin in the second quarter of 2013, pending final approval of the project.

5. Operations and General Project Inquiries

The Keystone Pipeline, has been in operation throughout the year. Calls that were not just people seeking general information on the pipeline system were referred to operations personnel. Some landowners called regarding construction projects or excavation near the line and were directed to call 811 for a line locate. There were no media calls related to the existing Keystone lines just the proposed project. One landowner on the proposed line visited the location of an active pump station to get a better understanding of size and noise levels. Many other inquiries were directed to the TransCanada website related to employment opportunities or vendor inquiries. Keystone has Operations Offices in Brookings SD and Omaha NE, there are also personnel who will remain available to assist landowners, tenants and other stakeholders along the pipeline corridor. The liaison has coordinated closely with land agents so that all issues and concerns reported have been transferred to Keystone Operations personnel. All landowner and tenant requests for damage compensation, reclamation or other issues should be directed to these offices. Land agents are still in South Dakota to assist affected parties and notify landowners of any Keystone maintenance and reclamation activity on their land.

6. Road Repair and Agency Communication

Roads were a major issue throughout the construction of the Keystone line. Due to the heavy precipitation that affected the project during and after construction, many roads had to be reclaimed following construction of the line. Table 1., (below), shows the counties and townships with road damage and dates that haul route agreements were released from damages. Keystone remained committed to working with road districts and although there were only a few issues reported in 2011 and 2012, these road were quickly addressed by the company. In 2012 the final road reported in 2011 was settled and two townships reported issues and were settled within weeks, see Table 1.

The liaison attended a hearing held by the South Dakota Public Utility Commission, via telephone on April 24th, 2012, prior to that hearing the liaison and Keystone representatives contacted road groups to verify that there were no outstanding issues. On May 3rd 2012, the

Commission issued an Order Granting Motion for Release of Construction Bonds, docket HP07-001.

Keystone will continue to work with road groups as operations tasks take place and will monitor road crossings, bore pits and other areas that could show settlement in the future. All public roadways and haul routes have been addressed and repaired. There are no open road issues that the liaison office is aware of going into 2013.

Below is a table that summarized the road districts along the Keystone route that made claims for road damage and the release of damages dates for each. There are several that show multiple release dates, these indicate locations where damages may have become apparent after the initial investigation or where reclamation/additional work may have created new repair locations. Not all counties and townships along the route requested funding or repairs to haul routes, this list includes only those that made claims to Keystone for haul route repairs.

South Dakota Haul Route Agreement Release				
Road District	2009 Release Date	2010 Release Date	2011 Release Date	2012 Release Date
Marshall Co. SD	-	05/12/10	-	-
Newport Twp, Marshall Co.	08/11/09	10/12/10	-	-
Dayton Twp, Marshall Co.	-	-	12/06/11	-
Stena Twp, Marshall Co.	07/30/09	09/29/10	-	-
Weston Twp, Marshall Co.	-	04/11/10	-	-
Lowell Twp, Marshall Co.	11/09/09	09/29/10	-	-
Brown Co. SD	09/04/09	-	-	-
Bates Township, Brown Co.	-	04/11/10	-	-
Day Co, SD	06/17/09 08/11/09 12/02/09	-	-	-
Farmington Twp, Day Co.	08/14/09	-	-	-
Andover Twp, Day Co. (North and South)	07/30/09	-	-	-
Oak Gulch Twp Day Co.	11/09/09	-	-	-
Clark Co. SD	11/16/09	05/04/10	-	-
Fordham Twp, Clark Co.	11/16/09	-	-	-
Raymond Twp, Clark Co.	10/20/09	03/08/10	-	-

Richland Twp, Clark Co.	-	03/04/10	-	-
Logan Twp, Clark Co.	-	01/25/10	-	-
Warren Twp Clark Co.	10/06/09	-	-	-
Beadle Co. SD	09/23/09 10/30/09 11/20/09	-	-	-
Beadle Co. Township Roads.	11/20/09	-	-	-
Spink Co. SD	06/23/09 12/03/09	-	-	-
Olean Twp. Spink Co.	10/08/09	-	-	-
Kingsbury Co. SD	-	-	-	-
Iroquois Twp., Kingsbury Co.	--	01/25/10	-	-
Esmond Twp., Kingsbury Co.	-	04/09/10	-	-
Miner Co. SD	12/03/09	-	-	-
Roswell Twp, Miner Co	11/02/09	-	-	-
Green Valley Twp, Miner Co.	11/09/09	-	-	-
Rock Creek Twp, Miner Co.	-	06/09/10	-	-
Minor Twp, Miner Co.	-	-	-	03/29/12
Redstone Twp., Miner Co.	-	-	-	04/15/12
Hanson Co. SD	12/03/09	-	-	-
Edgerton Twp, Hanson Co.	12/03/09	-	-	-
Pleasant Twp Hanson Co.	-	01/25/10	-	-
Spring Lake Twp., Hanson Co.	12/03/09	-	-	-
McCook Co., SD	-	10/13/10	-	01/05/12
Bridgewater Twp., McCook Co.	-	07/26/10	-	-
Jefferson Twp., McCook Co.	-	05/17/10	-	-
Hutchinson Co. SD	12/17/09	12/03/10	-	-
Valley Twp, Hutchinson Co.	11/09/09	½ mile pending study	02/14/11	-
Pleasant Twp, Hutchinson Co.	12/21/09	-	-	-
Wolf Creek Twp, Hutchinson Co	-	01/25/10	-	-
Grandview Twp,	-	05/05/10	-	-

Hutchinson Co.				
Yankton Co. SD	-	-	-	-
Mission Hill North Twp., Yankton Co.	-	05/17/10	-	-

7. Open Issues

Going into 2012, the following issues, reported to the liaison were open. These are primarily in areas that had extreme weather conditions during the course of the project. Many of the open issues were fully addressed over the course of the year, however, there are still locations where soils had too high a moisture content to be reclaimed effectively. Keystone personnel will continue to track and work to resolve, all open issues and monitor the ROW, as disturbed soils settle and land is returned to its original uses.

Reclamation activities over the course of 2012 were as follows:

- a) In Marshall Co. there were three tracts where low spots were holding water throughout 2010, crews were unable to access them until the fourth quarter of 2011. Most of these areas were ripped or deep tilled, to decompact the soils and remove any remaining construction debris resulting from construction and saturated soils. These locations were also disced and topsoil was brought in to restore the original elevations and augment areas where sub-soils had mixed. Reclaimed areas were left bare or seeded to preexisting vegetation per landowner direction. Newly reclaimed areas will be monitored for weeds, re-vegetation, proper drainage and future settlement. Several of the landowners would like to see more topsoil brought in and elevations are to be checked in these locations in the spring of 2013, after soil settles from this year's effort. There are a few tracts in southern Marshall County where reclamation was halted in 2012 as well, due to high moisture content in sub-soils, these are on the tracking list kept by Keystone personnel and will be addressed in 2013. These locations were not being formally tracked by the liaison, as they were not reported to the liaison or the PUC, but they are areas that have been on Keystone's reclamation tracking list. The area that is being monitored by the Liaison officer has had reclamation work in past years and was farmed this season, it is in need of additional topsoil and grading to alleviate transition lines and a few additional low areas along the ROW. Land Agents have met with this landowner and the others affected several times and will continue to work with them as issues on the reclamation list are resolved.
- b) In Beadle Co., there was one tract on the liaison list that was outstanding at the beginning of 2011. The tract had been addressed by the company's reclamation crews repeatedly. The landowner is still concerned that drainage contours had not been restored to the field and fences had not been properly repaired. The landowners asked the company to wait until crops were harvested to begin reclamation. Following harvest a reclamation crew attempted to repair the fence and there was a confrontation between a crew member and the landowner, regarding the quality of the repair. Due to the situation and company safety policies, Keystone asked its contractor to estimate the cost of remaining reclamation and issued a check on December 20, 2012, to the landowner to have the repairs made by the

contractor of their choice.

- c) In Minor Co., there are two tracts that belong to the same landowner that the liaison has been tracking throughout the project. Major reclamation work took place following construction and in 2010 and 2011. In June a half mile section that had been holding water since construction and was surveyed and finally dry enough to reclaim properly. In early July several locations on these tracts were treated for weeds along the ROW. There were other locations in the state where weed control took place at this time as well. Again these areas were never reported to the liaison, but were on the companies tracking list. Following weed control, in September reclamation activities took place on the half mile section by debris removal and rough clean up followed by, ripping, discing, re-contouring, and re-seeding the ROW area. Several other locations on this property south of Roswell, SD, have had issues with native grass establishment. These areas were addressed by treating for weeds, mowing the established grasses and over seeding with the species that were lacking compared with the species composition in adjacent areas. Monitoring of these areas for weeds and grass establishment should continue, until the grasses are near pre-construction condition. The newly reclaimed area should also be monitored for settlement, drainage and grass re-establishment.

- d) A survey of the ROW corridor began in the December, 2011 and revealed to total of 32 additional tracts including the 2012 roads mentioned above. Over the course of the year Keystone representatives settled 69 issues, 23 were issues from previous years and 53 new issues that were added to the tracking list over the course of the year. Of the old issues, all but 7 are settled and all but 45 of the new issues are settled, for a total of 52 open items Keystone operations is monitoring going into 2013. Issues range from monitoring of completed reclamation, small isolated issues all the way to the tracts in Marshall Co., which will need soil work when moisture levels allow. Keystone agents continue to work with landowners on resolutions. Some issues are handled by the landowners in the course of farming and other land use activities and they are compensated by the company for that effort. While other issues that are being tracked require a specialized reclamation crew and proper timing to be completed. The issues can consist of contours along ROW, subsoil mixing, areas of minor subsidence, grassland establishment, etc. Each issue and the work that takes place related to that issue, is tracked by the company until it is completed. Reclamation work has restarted in southern states where conditions allow and will move toward South Dakota as the year progresses. Areas reclaimed in previous years will continue to be monitored for issues of concern by the company. The liaison has passed on all information related to tracts reported to the PUC or the liaison office, to Keystone Representatives so that all remaining concerns will be addressed by the company.

All reclamation will recommence in the spring of 2013 as conditions allow. Monitoring of the ROW by Keystone personnel will be on going and any additional reclamation not on this report, which may become apparent as land is utilized for its pre-construction uses, will be addressed as it is noted by operations staff or reported to Keystone by landowners and other parties.

9. Summary

Over the course of 2012 Keystone personnel have worked to identify locations of concern and complete reclamation of the pipeline corridor. The majority of post-construction reclamation has been completed, however there are locations throughout the state that will require additional reclamation work in 2013. Extreme weather events affected the construction of the pipeline and left areas of the ROW saturated and inaccessible to reclamation crews, since the construction was completed. Toward the end of 2011, dry conditions finally allowed crews to access many of the inaccessible areas and assess the work needed to reclaim these locations. Frost in the soil halted reclamation efforts late in 2011 and several areas remained to be restored in 2012. Most of these areas were addressed in 2012, however winter conditions and areas with saturated sub-soils hindered reclamation yet again. Provided that conditions remain dry, reclamation crews should be able to address all of these areas in 2013. Although, it is anticipated that more locations will be identified, as the previously saturated areas continue to settle and are returned to previous land use.

Roads and haul routes used by the company have all been addressed and any damages have been repaired. Affected road groups have been compensated for the cost and labor and materials associated with the repairs that resulted from pipeline activities. The SD-PUC released the road bond issued for Keystone Ph1 and no formal complaints were lodged against the company during the course of the project. Damage compensation has been paid to all landowners, tenants and affected parties and land agents remain in the state to work with landowners and tenants, as operations and reclamation activities are conducted in the state. Agents will also notify affect parties of activities and will handle any damages that might occur in the course of pipeline activities.

This is the third year and final Annual Report on post-construction monitoring by the South Dakota Liaison Officer for the Keystone Pipeline (Phase 1), as ordered by the South Dakota Public Utility Commission. Construction of the Keystone pipeline is completed, the majority of reclamation has taken place and the pipeline is in operation. Keystone remains committed to working with landowners and stakeholders along the route into the future. The liaison officer will continue to work in the State on the proposed Keystone KXL project for the duration of the commission's order. Any calls related to the existing pipeline will be accordingly referred to Keystone personnel. Quarterly Reports for the KXL project will begin with approval of the project and the onset of construction activities.