1.1 BACKGROUND

On September 19, 2008, TransCanada Keystone Pipeline, LP (Keystone) filed an application with the U.S. Department of State (Department) for a Presidential Permit authorizing the construction and operation of the previously proposed Keystone XL Pipeline Project at the U.S.-Canada border crossing in Montana. The previously proposed Keystone XL Project consisted of a crude oil pipeline and ancillary facilities for transport of Western Canadian Sedimentary Basin crude oil from an oil supply hub near Hardisty, Alberta, Canada, through two pipeline segments—the Steele City Segment through Montana, South Dakota, and Nebraska, connecting with the existing Keystone Cushing Extension pipeline, and then the proposed Gulf Coast Segment through Oklahoma and Texas. The U.S. portion of the pipeline began near Morgan, Montana, at the international border of the United States and extended to delivery points in Nederland and Moore Junction, Texas. There would also have been a delivery point at Cushing, Oklahoma. These three delivery points would have provided access to many other U.S. pipeline systems and terminals, including pipelines to refineries in the Gulf Coast area[1].

Upon receipt of the September 2008 application for the Presidential Permit, the Department led a comprehensive, 3-year review of the previous Keystone XL Project. A Final Environmental Impact Statement (Final EIS) prepared consistent with the National Environmental Policy Act, the National Historic Preservation Act of 1986, and the Endangered Species Act was completed for the previously proposed Project and published on August 26, 2011. On November 10, 2011, the Department determined that, in order to make the required National Interest Determination with respect to the Keystone XL Pipeline Project, it was necessary to obtain additional information regarding potential alternative routes that would avoid the environmentally sensitive Sand Hills Region in Nebraska as identified by the Nebraska Department of Environmental Quality (NDEQ).

Due to these concerns over the environmentally sensitive Sand Hills Region, Nebraska Governor David Heineman called the Nebraska Legislature into a special session in late Fall 2011 to address the siting of the proposed Project.. On November 22, 2011, the Nebraska Legislature passed Legislative Bill (LB) 1 and LB 4, which were both signed and approved by the Governor. LB 1 adopted the Major Oil Pipeline Siting Act, and LB 4 provided for state participation in a federal supplemental environmental impact statement review process for oil production.

In late December 2011, Congress adopted a provision of the Temporary Payroll Tax Cut Continuation Act that sought to require the President to make a decision on the Presidential Permit within 60 days. On January 18, 2012, the President determined, based upon the Department's recommendation, that the previous proposed Project as presented and analyzed at that time would not serve the national interest. On February 3, 2012, a notice was published in the Federal Register informing the public that the Department had denied the application.

On February 27, 2012, Keystone advised the Department that it considered the Gulf Coast portion of the previously proposed Project as having its own independent utility, as it did not depend on the northern Steele City segment. Therefore, Keystone indicated its intention to proceed with construction of that pipeline as a separate project, the Gulf Coast Project, as soon as

[1] The Gulf Coast area refers to the region from Houston, Texas, to Lake Charles, Louisiana. Gulf Coast area refineries include 12 refineries on the Gulf Coast in Texas and three refineries in Lake Charles, Louisiana.

the necessary permits were obtained. The Gulf Coast pipeline did not require a Presidential Permit, as it did not cross an international border. Construction of the Gulf Coast Project is underway at the time of printing. Keystone also indicated its intention to file a new Presidential Permit application for the former Steele City Segment through Montana, South Dakota, and Nebraska, and to supplement that application with an alternative route in Nebraska once determined. Meanwhile, the Nebraska Legislature passed LB 1161, which clarified its direction to NDEQ to evaluate a pipeline in Nebraska. This was signed by the Nebraska Governor on April 17, 2012.

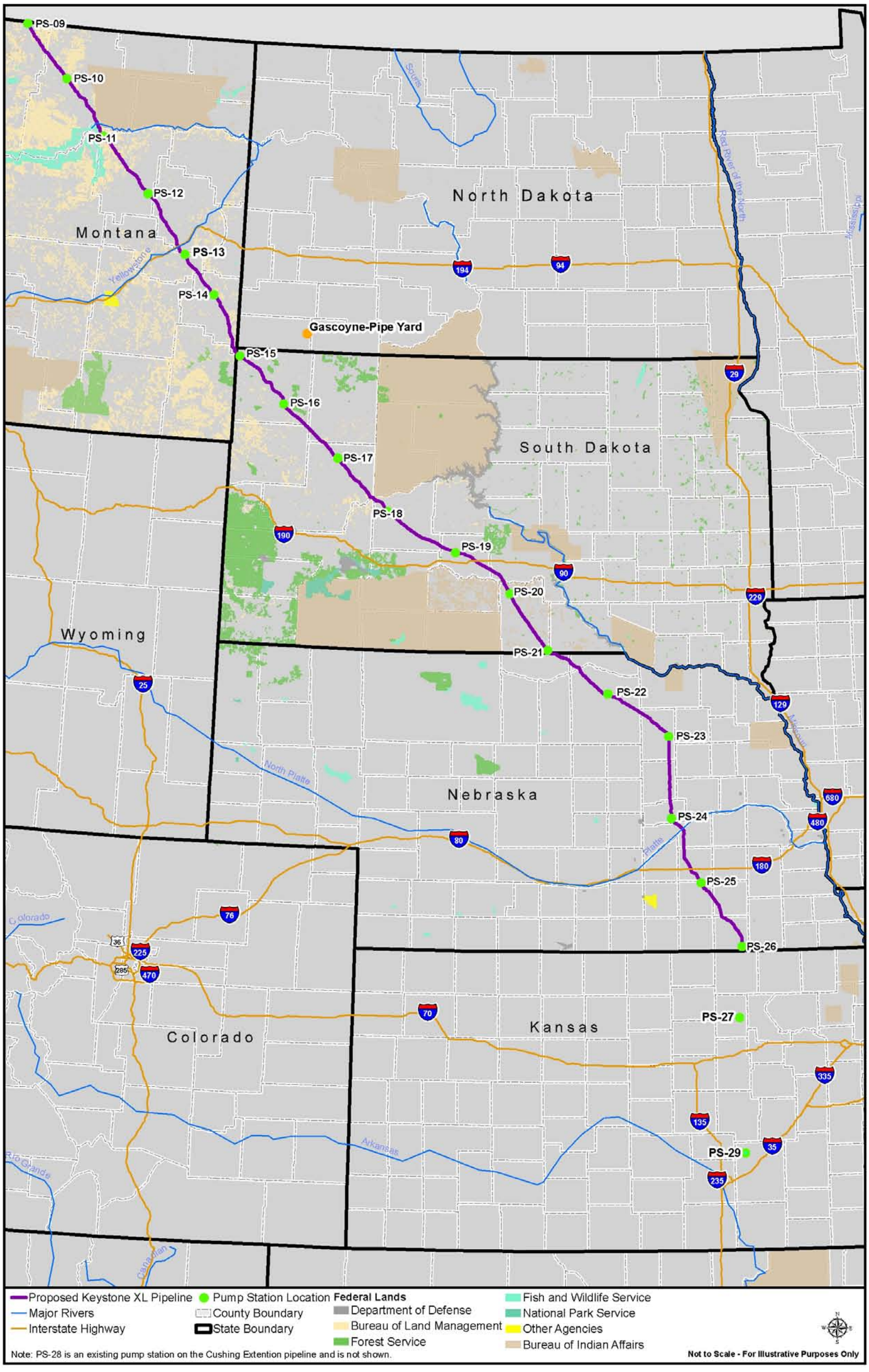
On May 4, 2012, Keystone filed a new application for a Presidential Permit for authorization to construct, connect, operate, and maintain the border crossing facility requested in connection with a modified, more limited Keystone XL Project (i.e., a modified Steele City Segment, the currently proposed Project) (see Figure 1.1-1). On May 24, 2012, the NDEQ entered into a Memorandum of Understanding with the Department to provide a framework for a timely collaborative environmental analysis of alternative routes within Nebraska consistent with the National Environmental Policy Act and all other relevant laws and regulations. In September 2012, Keystone submitted an Environmental Report in support of its Presidential Permit application that provided additional information about the proposed Project.

On January 3, 2013, NDEQ submitted the Final Evaluation Report on the proposed pipeline reroute for the Nebraska Governor's review. The Governor approved the proposed Project route under the Nebraska Major Oil Pipeline Siting Act on January 22, 2013, thus certifying the design, location, construction, operation, maintenance, and decommissioning of the Nebraska portion of the proposed Project (see Appendix A, Governor Approval of the Keystone XL Project in Nebraska; to view the report, go to http://deq.ne.gov.).

The proposed pipeline route in the United States that is the subject of this Supplemental Environmental Impact Statement (Supplemental EIS) is similar to part of the previous project evaluated in the August 2011 Final EIS (see Figure 1.1-2). The newly proposed route in Montana and South Dakota would be largely unchanged, except for minor modifications Keystone made to improve constructability and in response to comments, such as landowner requests to adjust the route across their property. The newly proposed route is 509 miles shorter than the previously proposed route; however, it would be approximately 21 miles longer in Nebraska to avoid sensitive areas including the NDEQ-identified Sand Hills Region. Thus, the newly proposed route is substantially different from the previous route analyzed in August 2011 in two significant ways: it avoids the NDEQ-identified Sand Hills Region and terminates at Steele City, Nebraska.

1.1.1 Overview and Structure of the Supplemental EIS

The Supplemental EIS includes descriptions of the affected environment, potential impacts, and alternatives of the proposed Project, including direct, indirect, and cumulative impacts. The objective of these descriptions is to provide a baseline against which proposed Project impacts could be estimated and against which actual proposed Project impacts can be measured in the future. The structure of this document has been developed consistent with the National Environmental Policy Act.



Sources: U.S. Census Bureau, Geography Division 2010; U.S. Geological Survey Gap Analysis Program 2011; ESRI Streets USA 2010; Exp Energy Services 2012.

Figure 1.1-1 Project Overview

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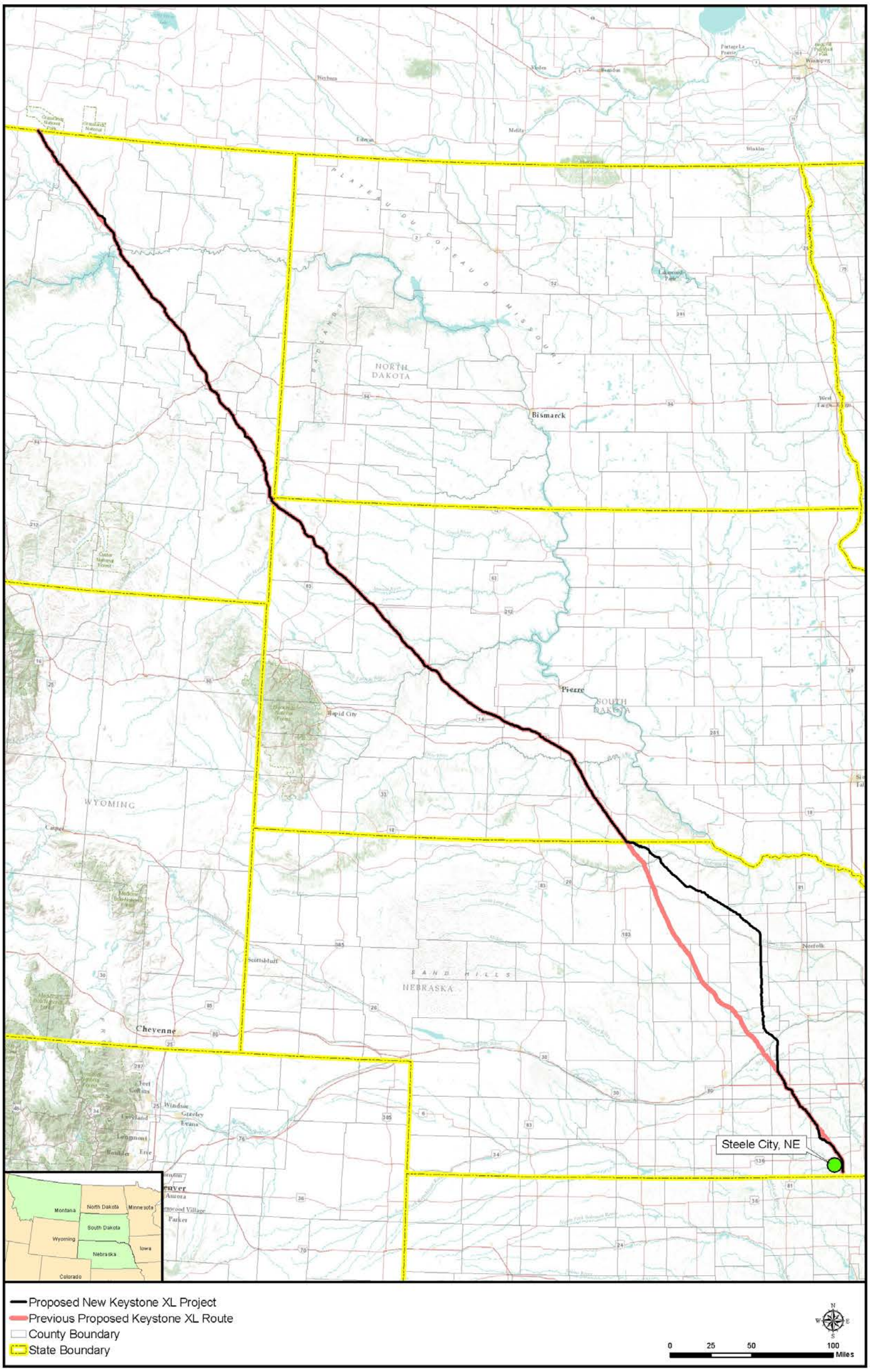

Source: Exp Energy Services 2012.

Figure 1.1-2 Comparison of Proposed Project and Previously Proposed Project in Montana, South Dakota, and Nebraska

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The main organization of the document is as follows:

- Chapter 1: Introduction;
- Chapter 2: Description of the Proposed Action and Alternatives;
- Chapter 3: Affected Environment, including descriptions of the portions of the environment that could be affected by the proposed Project;
- Chapter 4: Environmental Consequences, including descriptions of the potential environmental impacts of the proposed Project, mitigation measures that would avoid or minimize these impacts, and an assessment of cumulative effects of the proposed Project;
- Chapter 5: Alternatives, including descriptions and analyses related to No Action and Major Route Alternatives;
- Chapter 6: List of Preparers;
- Chapter 7: Distribution List; and
- Chapter 8: Index.

This Supplemental EIS describes potential impacts of the proposed Project and alternatives, including direct, indirect, and cumulative impacts. It builds on the work done in the 2011 Final EIS, including references to that document throughout the text where appropriate. The Supplemental EIS includes an analysis of the modified route in Nebraska, as well as analysis of any significant new circumstances or information that has become available since the August 2011 publication of the Final EIS for the previously proposed project. This Supplemental EIS also relies, where appropriate, on the data presented and the analyses done in the Final EIS for the previously proposed project, because much of the proposed pipeline route remains unchanged from its August 2011 publication. This Supplemental EIS also includes the latest available information on the proposed Project resulting from ongoing discussions with federal, state, and local agencies.

The remainder of this chapter addresses the following topics:

- An overview of the proposed Project (Section 1.2);
- The purpose and need for the proposed Project (Section 1.3);
- An overview of the crude oil market (Section 1.4);
- Description of agency participation (Section 1.5);
- An overview of tribal and State Historic Preservation consultation (Section 1.6);
- An environmental review of the Canadian portion of the proposed Project (Section 1.7);
- A description of the preparation for publication and review of the Supplemental EIS (Section 1.8); and
- A table identifying permits, approvals, and regulatory requirements (Section 1.9).

1.1.2 References

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