

1.3 PURPOSE AND NEED

1.3.1 Project Purpose and Need

According to Keystone's May 4, 2012, application, the primary purpose of the proposed Project is to provide the infrastructure to transport Western Canadian Sedimentary Basin (WCSB) crude oil from the border with Canada to existing pipeline facilities near Steele City, Nebraska, for onward delivery to Cushing, Oklahoma, and the Texas Gulf Coast area. Most of the crude oil would be subsequently delivered to refineries in the Gulf Coast area.¹ The proposed Project would also provide transport capacity for domestically produced crude oils, notably Bakken and Midcontinent crude oils that would be on-loaded, respectively, in Montana and at Cushing.

The WCSB and the Bakken are both projected to have significant increases in production. In the WCSB, most of this increase is projected to come from the oil sands (also known as *tar sands*). Most of the long-term additional crude oil production in the WCSB is projected to come to the market as heavy crude oil, in the form of diluted bitumen. In the Bakken, the increased production is part of a broader development in the United States of increasing crude oil production from *tight oil* areas², which produce a light crude oil. The exact mix and volumes of crude oil types that would be transported by the proposed Project (as well as the final destination of those crude oils) would be determined by market forces.

Keystone has firm, long-term contracts to transport approximately 555,000 barrels per day (bpd) of WCSB crude oil on the proposed Project to existing Gulf Coast area delivery points and 155,000 bpd of WCSB crude oil to Cushing, Oklahoma. This 155,000 bpd is currently transported to Cushing, Oklahoma, via the existing Keystone Oil Pipeline Project, which includes the Keystone Mainline and the Keystone Cushing Extension (as shown by solid lines in Figure 1.2-2). If the proposed Project were approved and implemented, Keystone would transfer shipment of crude oil under those contracts to the proposed Project. The existing Keystone Pipeline system would transport crude oil to and from the Midwest refineries (see Section 1.4, Market Analysis).³

Keystone has made available up to 100,000 bpd of capacity on the proposed Project for crude oil from the Bakken, and has signed long-term contracts to transport 65,000 bpd from the Bakken Shale supply from the Williston Basin in Montana and North Dakota.

As explained in detail in Section 1.4, Market Analysis, there is existing demand by Gulf Coast area refiners for stable sources of crude oil. Refiners in the Gulf Coast area process crude oil with a wide range of qualities, from light sweet (low sulfur content) to heavy sour (higher sulfur content). Those refiners generally have access to a wide variety of crude oils through an extensive pipeline network for delivering domestic crude oils as well as waterborne imports from

¹ Unless otherwise specified, in this Final Supplemental Environmental Impact Statement the Gulf Coast area includes coastal refineries from Corpus Christi, Texas, through the New Orleans, Louisiana, region. See Section 1.4, Market Analysis, for a description of refinery regions.

² Tight oil refers to oil found in low-permeability and low-porosity reservoirs, typically shale. Bakken crude is considered tight oil. The technology of extracting crude oil from tight rock formations has only recently been exploited, but produces and supplies large quantities of crude oil into the domestic market. Shale oil extraction is a completely different process than oil sands development.

³ Transferring the 155,000 bpd from the existing Keystone Pipeline system to the proposed Project would make that amount of capacity available for additional shipments to the Midwest.

countries around the world. 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. The additional supply of light crude oil 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 proposed Project would provide one potential transportation option for crude oils sourced from the WCSB and Bakken that would compete with other transportation options, both pipeline and rail, for those sources of crude oil. Those WCSB and Bakken crude oils would also compete in the market with other domestic and foreign sources of crude oil available to the Gulf Coast area refiners.

1.3.2 Department of State Purpose and Need

As discussed above, facilities that cross the international borders of the United States require a Presidential Permit. The Secretary of State has the authority to approve or deny such applications for Presidential Permits, and to issue such permits on terms and conditions that the Secretary determines are appropriate, pursuant to Presidential authority under Executive Order 13337 of April 30, 2004 (69 Federal Register 25299), as amended. To support a Presidential Permit approval, the U.S. Department of State (the Department) must find that the border crossing and the resulting conditions associated with that crossing would serve the national interest.

The primary focus of the Department is related to the conduct of foreign affairs. In considering the national interest for purposes of applications for Presidential Permits, the Department takes into account many factors, including impacts associated with issuance of a permit, such as environmental, cultural, and economic considerations. Consistent with National Environmental Policy Act, National Historic Preservation Act, the Endangered Species Act, and other relevant laws, the Department evaluates the potential impacts that may result from approval of the Presidential Permit. The Department's purpose, therefore, is to consider Keystone's application in terms of how the proposed Project would serve the national interest, taking into account the proposed Project's potential environmental, cultural, economic, and other impacts.

Consistent with the President's broad discretion in the conduct of foreign affairs, the Department has significant discretion in the factors it examines in making a National Interest Determination (NID). The factors examined and the approaches to their examination are not necessarily the same from project to project. However, previous NID processes can provide insights into the factors the Department is likely to consider in evaluating the present application. Some of the key factors considered in past decisions include the following:

- Environmental impacts of the proposed Project;
- Impacts of the proposed Project on the diversity of supply and security of transport pathways for crude oil imported to the United States;
- Impact of a cross-border facility on the relations with the country to which it connects;
- Stability of various foreign suppliers of crude oil and the ability of the United States to work with those countries to meet overall environmental and energy security goals;

- Impact of proposed projects on broader foreign policy objectives, including a comprehensive strategy to address climate change, bilateral relations with neighboring countries; and energy security;
- Economic benefits to the United States of constructing and operating the proposed Project; and
- Relationships between the proposed Project and goals to reduce reliance on fossil fuels and to increase use of alternative and renewable energy sources.

This list is not exhaustive, and the Department may consider additional factors in the NID process.

1.3.3 Department of Interior—Bureau of Land Management Purpose and Need

The proposed Project would cross lands managed by the Bureau of Land Management (BLM). The BLM has agreed to be a cooperating agency pursuant to National Environmental Policy Act for this Supplemental Environmental Impact Statement and will use this document as a basis for issuing their Record of Decision. The BLM's purpose and need for the proposed Project is to respond to the Keystone application under Section 28 of the Mineral Leasing Act, as amended, for a right-of-way (ROW) grant to construct, operate, maintain, and decommission a crude oil pipeline and related facilities on federal lands in compliance with the Mineral Leasing Act, BLM ROW regulations, and other applicable federal laws. The BLM will decide whether to approve, approve with modification, or deny issuance of a ROW grant to Keystone for the proposed Project, and if so, under what terms and conditions.

1.3.4 Western Area Power Administration Purpose and Need

The U.S. Department of Energy, Western Area Power Administration has agreed to be a cooperating agency for this Supplemental Environmental Impact Statement and intends to use this document as a basis for issuing a Record of Decision. Western's purpose and need is to consider interconnection requests, which are from entities that would provide new electricity loads at new delivery points associated with the proposed Project in Montana and South Dakota. Western evaluates the interconnection requests and whether they meet the reasonable needs of the entity requesting the interconnection to Western's system.

-Page Intentionally Left Blank-