

3.0 Purpose and Explanation of Need (ARM 17.20.928)

The purpose of the Project is to transport crude oil production from the Western Canadian Sedimentary Basin (WCSB) to meet growing demand by refineries and markets in the US. The Project will transport crude oil from the oil supply hub near Hardisty, Alberta, Canada and deliver it to existing oil storage terminal facilities near Nederland and Houston, Texas. Construction of the Project will provide US refineries and markets with access to a substantial 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 crude oil demand in the US;
- Decreasing domestic crude supply in the US;
- Increasing WCSB crude oil supply;
- An opportunity to reduce US dependence on foreign offshore oil supply through further supply diversification to stable, secure Canadian crude supplies; and
- Binding shipper commitments in the Project.

3.1 Increasing Crude Oil Demand in the US

According to the Energy Information Administration (EIA), US demand for petroleum products has increased by over 11 percent or 2 million bpd over the past 10 years and is expected to increase further (EIA, Annual Energy Review 2007). 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.

The Project's key delivery area, PADD III or the US Gulf Coast, represents the largest and most complex refining district in the US with 56 refineries comprising approximately 8.4 million bpd of total refining capacity.

3.2 Decreasing Domestic Crude Oil Supply

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 2 percent per year (EIA Annual Energy Review 2007).

3.3 Increasing WCSB Crude Oil Supply

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 northern Alberta. The Alberta Energy and Utilities Board 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 bpd by 2017, from current production of about 2.4 million bpd (CAPP, June 2008).

Keystone XL Project – Montana Major Facility Siting Act Application

3.4 Further Supply Diversification to Canadian Crude Oil

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 US, supplying over 2.4 million bpd in 2007 and representing over 11 percent of total US petroleum product consumption (EIA Annual Energy Review 2007).

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 (EIA Annual Energy Review 2007).

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 access to secure and growing Canadian crude supplies. Access to incremental Canadian crude supply also would provide an opportunity for the US to supplement annual declines in domestic crude production and more significantly, decrease its dependence on offshore foreign crude supplies, namely from Mexico and Venezuela, the top two heavy crude oil importers into the US Gulf Coast.

3.5 Binding Shipper Commitments

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. Potential shippers have already committed to long-term binding contracts, which will enable Keystone to proceed with regulatory applications and, pending successful regulatory and environmental approvals, with construction of the pipeline. These long-term 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.

3.6 Interconnection Agreements (ARM 17.20.929)

There are no interconnects in Montana.