

## **2.0 Facility Costs**

### **2.1 Estimated Cost of Facilities (ARM 17.20.811)**

Estimates of capital costs for the facility are:

- Inside Montana – \$1,059,226,000;
- Outside Montana – \$5,991,025,000; and
- Total Project – \$7,050,251,000.

These capital costs reflect the facilities required to operate the system at a nominal capacity of 900,000 bpd. The detailed breakout of the costs required by ARM 17.20.811 has been provided in a non-public confidential version to Montana DEQ pursuant to a request for confidentiality under ARM 17.20.301.

The estimate was prepared using the methods and level of accuracy defined by the Association for the Advancement of Cost Engineering (AACE) as being appropriate for study estimates (AACE International Recommended Practice No. 18R-97). The link to the AACE website where this document can be viewed is <http://www.aacei.org/technical/rps/18r-97.pdf>.

This estimate is equivalent to a Class 4 cost estimate as defined in the referenced AACE document. The capital cost estimate was prepared from preliminary engineering designs for the facilities.

Cost components were estimated as follows:

- Quantities of pipe, pump, and motor equipment were estimated and confidential budgetary quotes were obtained from potential suppliers;
- All other materials were estimated as a factored cost of pipe and major equipment;
- Construction costs for both pipeline and facilities were estimated factoring actual costs for current similar construction being executed for TransCanada;
- Land costs were estimated on a state-by-state basis by land management contractors working on the Project; recent local cost information was used for this estimate;
- Engineering and owners' management costs were estimated as a factor of other direct costs; and
- Mitigation costs were estimated by factoring actual costs from recent executed Projects in both Canada and the US.

The capital costs for facilities in Montana were allocated as follows:

- Pipeline construction and materials costs were prorated as the percentage of the length of US pipeline in Montana;
- Facilities (pump stations and valve sites) construction and materials costs were estimated by extrapolating the unit pricing for these times the actual number in Montana; and
- All other costs were prorated as the percentage of the length of US pipeline in Montana.

## ***Keystone XL Project – Montana Major Facility Siting Act Application***

### **2.2 Linear Facilities, Estimated Annual Cost (ARM 17.20.815)**

The estimated annual costs of the facilities (escalated dollars) and the estimated annual costs (constant dollars) required by ARM 17.20.811 have been provided in a non-public confidential version to Montana DEQ pursuant to a request for confidentiality under ARM 17.20.301.

While Project financing has yet to be finalized, it is anticipated to be financed through a combination of contributions from the owners, bank financing, and access to capital markets.

### **2.3 Pricing Policy (ARM 17.20.817)**

The rates for crude oil transportation through the US portion of the Project will be subject to regulation by the Federal Energy Regulatory Commission (FERC). Keystone anticipates there will be two categories of service offered:

Committed or term service – Keystone is proposing long-term contracts with discounted rates and a fixed/variable rate design. The rates vary with contract term, with lower rates offered for longer terms. The fixed portion of the rate is based on levelized 10-, 15-, or 20-year contracts and will not change over the term of the shipper's contract. The fixed portion of the rate is designed to recover the capital invested and is designed on a postage stamp basis. The variable portion of the rate is a flow-through of the actual operating costs, adjusted annually.

Uncommitted or spot service – Keystone will offer service to non-contract shippers on a month-to-month basis as a posted spot rate. The spot rate will be subject to indexing, as permitted by FERC.

### **2.4 Evaluation of Economic Costs and Benefits (ARM 17.20.818)**

Internal costs are addressed above in Sections 2.1 and 2.2 and external costs are addressed in Chapter 4.0, Section 4.4.