

October 28, 2010

**VIA HAND DELIVERY**

Mr. Darrell Nitschke  
Executive Secretary  
North Dakota Public Service Commission  
600 E. Boulevard, Dept. 408  
Bismarck, ND 58505-0480

**RECEIVED**

OCT 28 2010

**PUBLIC SERVICE COMMISSION**

**RE: HILAND OPERATING, LLC  
TEN YEAR PLAN: 2010-2020**

Dear Mr. Nitschke:

Hiland Operating, LLC, respectfully submits herewith an original and ten (10) copies of the following documents in connection with the above-referenced matter:

Ten Year Plan: 2010-2020  
Hiland Operating, LLC  
July 2010

If you have questions regarding this request or need additional information, please advise.

Sincerely,

  
LAWRENCE BENDER

LB/sal  
Enclosures  
cc: Michael Higgins

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**TEN YEAR PLAN: 2010-2020**

**Hiland Operating, LLC**

**July 2010**

In accordance with Section 49-22-04 of the North Dakota Century Code and Chapter 69-06-02 of the North Dakota Administrative Code, Hiland Operating, LLC (Hiland Operating), submits the following Ten Year Plan for years 2010 through 2020.

- (1) A description of the general location, size, and type of all facilities to be owned or operated by the utility during the ensuing ten years, as well as those facilities to be removed from service during the ten-year period.

Hiland Operating currently owns and operates a 25 million standard cubic feet per day (mmscfd) natural gas processing plant located in Divide County, North Dakota, that gathers and processes natural gas from Williams, Divide and Burke Counties in North Dakota. From this natural gas processing plant, the processed liquids (Y-Grade) are trucked to Hiland Operating's liquids fractionation plant near Sidney, Montana, and the residue gas is delivered via pipeline to a Williston Basin Interstate Pipeline Company (WBI) transmission pipeline.

Hiland Operating also currently owns and operates a 40 mmscfd natural gas processing and nitrogen rejection plant located near Rhame, North Dakota. The plant removes the nitrogen (which constitutes approximately seventy percent) from the gas stream, and the remaining approximately thirty percent of the gas stream is processed and fractionated into natural gas liquids (NGLs), which are either sold locally or transported via truck to Hiland Operating's Sidney, Montana, processing plant for additional processing.

Hiland Operating is currently constructing a 50 mmscfd natural gas processing plant approximately four miles north and eight miles east Cartwright, North Dakota, which, following construction, will be owned and operated by Hiland Operating. The plant will produce pipeline quality natural gas, propane and butane mixture (*i.e.*, Liquefied Petroleum Gas (LPG)), and NGLs. The pipeline quality natural gas will be primarily methane with some ethane and trace amounts of heavier petroleum compounds.

Within the next few months, Hiland Operating plans to construct, own and operate an approximately 5.1-mile-long, 8-inch natural gas main and lateral pipeline project to be located in McKenzie County, North Dakota. The approximately 5.1-mile-long main line will originate at the Hiland Operating plant near Cartwright, North Dakota, and will terminate at and interconnect to Northern Border Pipeline Company's (Northern Border) transmission pipeline at the Hiland Partners-Northern Border Tap Site, approximately five miles north of Cartwright, North Dakota. The approximately 1,500-foot-long lateral line will extend off of the project main line and interconnect to a WBI transmission pipeline at a point approximately one-half mile from the project main line's point of termination at the Northern Border transmission pipeline.

Over the next ten years, Hiland Operating plans to aggressively pursue the expansion of its North Dakota Bakken facilities with the connection of new wells from dedicated and undedicated producers. However, other than the Cartwright, North Dakota processing plant and the proposed pipeline facilities, specific expansion plans have not yet been developed.

Hiland Operating does not own or operate any facilities that it plans to remove from service during the next ten years.

- (2) An identification of the location of the tentative preferred site for all energy conversion facilities and the tentative location of all transmission facilities on which construction is intended to be commenced within the ensuing five years and such other information as may be required by the commission. The site and corridor identification shall be made in compliance with the criteria published by the commission pursuant to section 49-22-05.1.

As noted above, Hiland Operating proposes to construct, own and operate an approximately 5.1-mile-long, 8-inch natural gas main and lateral pipeline project to be located in McKenzie County, North Dakota. The approximately 5.1-mile-long main line will originate at the Hiland Operating plant near Cartwright, North Dakota, and will terminate at and interconnect to Northern Border's transmission pipeline at the Hiland Partners-Northern Border Tap Site, approximately five miles north of Cartwright, North Dakota. The approximately 1,500-foot-long lateral line will extend off of the Project main line and interconnect to a WBI transmission pipeline at a point approximately one-half mile from the project main line's point of termination at the Northern Border transmission pipeline. A map showing the general location of the proposed pipeline project is attached hereto as **Exhibit A**.

Additional information regarding the corridor and route selected, including an analysis of proposed corridor and route utilizing the exclusion area, avoidance area, selection and policy criteria set forth in Section 69-06-08-02 of the North Dakota Administrative Code, is set forth in Hiland Operating's Consolidated Certificate of Corridor Compatibility and Route Permit Application, filed on October 13, 2010 in Case No. PU-10-555.

- (3) A description of the efforts by the utility to coordinate the plan with other utilities so as to provide a coordinated regional plan for meeting the utility needs of the region.

After thorough research of the Williston Basin Region, Hiland Operating determined that there was insufficient gathering and processing infrastructure to handle the current drilling plans in the basin. This conclusion led Hiland Operating to actively pursue producers with drilling plans in the region to dedicate their production to our proposed new facilities which guaranteed that their produced natural gas will be gathered, processed and delivered to market.

- (4) A description of the efforts to involve environmental protection and land-use planning agencies in the planning process, as well as other efforts to identify and minimize environmental problems at the earliest possible stage in the planning process.

Hiland Operating works diligently to protect the environment, home to its employees and customers. Protection of the environment is an integral element of Hiland Operating's operations, and environmental protection efforts span every phase of each of Hiland Operating's projects, from planning through construction, restoration, and into full operation. When planning projects, Hiland Operating also works closely with local and state land-use planning authorities to try to address land-use planning concerns.

For instance, with respect to Hiland Operating's proposed 8-inch main and lateral pipeline project, Hiland Operating employed a qualified environmental consulting firm to conduct a study of and identify avoidance and exclusion areas within the corridor and route selected, in accordance with Chapter 49-22 of the North Dakota Century Code and Section 69-06-08-02 of the North Dakota Administrative Code. In addition, the consultant has consulted with and will continue to consult with local, state and federal agencies and governmental units to discuss and seek input regarding the proposed pipeline project, and to obtain any permits or approvals that may be necessary. To date, no environmental or siting concerns have been identified that would preclude development of the proposed pipeline project. Additional information regarding the environmental analysis conducted as part of the corridor and route selection process for the proposed pipeline project is set forth in Hiland Operating's Consolidated Certificate of Corridor Compatibility and Route Permit Application, filed on October 13, 2010 in Case No. PU-10-555.

- (5) A statement of the projected demand for the service rendered by the utility for the ensuing ten years and the underlying assumptions for the projection, with that information being as geographically specific as possible, and a description of the manner and extent to which the utility will meet the projected demands.

In 2009, the North Dakota Industrial Commission reported that 30% of natural gas produced in North Dakota was flared as an unmarketable byproduct of oil production. The 26 billion cubic feet flared was about twice the annual natural gas consumption of the state.<sup>1</sup> While recent infrastructure improvements have reduced the amount of gas flared, with over 150 oil drilling rigs currently in operation, the state's natural gas production is expected to continue to climb and additional natural gas processing and associated transportation capacity is necessary.

Hiland Operating's existing natural gas processing facilities are an essential part of the infrastructure needed to ensure that a North Dakota natural resource is efficiently utilized. In addition, when completed, the Hiland Operating natural gas processing plant near Cartwright,

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<sup>1</sup> Bismarck Tribune newspaper article, *Company gets Funds for Flare Project*, January 27, 2010.

North Dakota, will provide an additional means of processing natural gas produced in northwestern North Dakota. Hiland Operating's proposed pipeline project, in turn, will connect the natural gas processing plant to existing natural gas transmission systems via the Northern Border and WBI transmission pipelines. The proposed pipeline project will enable transportation of natural gas produced in northwestern North Dakota to two markets: (1) local markets via WBI's Transmission System; and (2) markets in eastern Illinois and western Indiana via Northern Border's Transmission System. This market flexibility is critical to assure the best overall value is obtained for North Dakota's natural gas production. The Project will provide needed capacity to transport increased production of processed natural gas from the Bakken and Three Forks formations, and Hiland Operating's shippers support the proposed Project as an appropriate economical response to the need for additional mid-stream pipeline transport capacity in northwestern North Dakota.

In addition, to accommodate the ever-increasing Bakken development in northwestern North Dakota, the construction of even more processing and transmission infrastructure will be required, and Hiland Operating plans to develop additional facilities to address this need within the next ten years.

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Hiland Operating, LLC  
8-Inch Natural Gas Main & Lateral Pipeline Project  
McKenzie County, North Dakota

