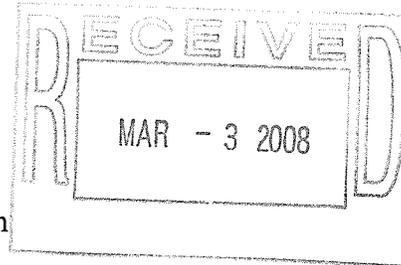


February 29, 2008

Via Facsimile (713-272-2831) and Overnight Mail

Mr. R.M. Seeley
Director, Southwest Region
Pipelines and Hazardous Materials Safety Administration
8701 South Gessner, Suite 1110
Houston, TX 77074



RE: CPF 4-2008-5003M

Dear Mr. Seeley:

On October 16-18, 2007, representatives of the Pipelines and Hazardous Materials Safety Administration ("PHMSA") inspected Valero Terminaling and Distribution Company's ("Valero") Operator Qualification Plan ("OQ Plan") at Valero's headquarters in San Antonio, TX. On January 28, 2008, PHMSA issued a Notice of Amendment (the "January 28 Notice") to Valero, and Valero received that notice on January 31, 2008. The January 28 Notice sets forth four separate issues that PHMSA alleges required amendment to Valero's OQ Plan, and Valero hereby timely submits its response to the four issues raised in the January 28 Notice.

1. §195.505 Qualification program

Each operator shall have and follow a written qualification program. The program shall include provisions to:

(a) Identify covered tasks;

Valero ... needs to finalize the development of the CBT modules for the following additional covered tasks: tubing, threaded pipe, and flanges.

Valero's Response:

Valero applied the 4-part test to tubing, threaded pipe and flanges and found that these functions do not meet the definition of a covered task. This finding is also fully consistent with the general industry position that tubing, threaded pipe and flanges are not covered tasks. For example, Valero is a member of the API OQ Committee and requested the Covered Task Workgroup review the issue. After its review, the Workgroup unanimously agreed that these three functions do not meet the 4-part test and therefore should not be considered covered tasks. Because tubing, threaded pipe

and flanges do not satisfy the requirements for being covered tasks, Valero was correct in not identifying these three tasks as covered tasks. Accordingly, this Notice of Amendment is in error and should be dismissed.

However, Valero recognizes that these three functions are important and prior to the audit, Valero had established several computer-based training (CBT) modules for these functions. Licensing for these CBT modules expired and the modules were not available at the time of the inspection. Valero is in the process of re-creating those CBT modules for this training, and if that it not possible, Valero will develop new CBT modules to train its internal employees who may perform these functions. Valero should have the CBT modules back in place by July 1, 2008. Subsequently, Valero will reassign those CBT modules to our internal employees who perform those functions and require completion of those CBT modules by December 31, 2008.

2. §195.505 Qualification program

Each operator shall have and follow a written qualification program. The program shall include provisions to:

(b) Ensure through evaluation that individuals performing covered tasks are qualified;

In Appendix B "Valero Covered Task List", Valero ... only requires knowledge or performance (not knowledge and performance) on all covered tasks – Operator is required to ensure that individuals can perform assigned covered tasks. This is important for all covered tasks but most important for those operator identified "critical covered tasks".

Valero's Response:

At the time of the audit, PHMSA correctly noted that Valero required either knowledge or performance testing (not knowledge and performance testing) for personnel performing all covered tasks, which Valero believes is in compliance with the regulation. However, during the audit and at the request of the PHMSA inspectors, Valero agreed to implement both knowledge and performance testing for all covered tasks and agreed to update its OQ Plan accordingly. Valero agreed to make this change because the change does not impose a significant new burden on the administration of Valero's OQ Plan and because Valero agreed with the inspectors that having employees using both knowledge and performance testing to be certified for their covered tasks could possibly enhance Valero's OQ Plan.

Also at the request of the PHMSA inspectors, Valero identified a subset of covered tasks for which individuals would be promptly certified with both knowledge and performance testing. These appear to be the covered tasks referred to "critical

covered tasks” in the January 28 Notice. Valero did have individuals performing these types of covered tasks certified with both knowledge and performance testing by January 1, 2008, and Valero will have the individuals that perform the remainder of the covered tasks certified by both knowledge and performance testing by October 1, 2008. However, 49 CFR 195.050(a) only requires an operator to “identify covered tasks” and does not suggest that an operator should segregate covered tasks into subcategories, such as “critical covered tasks.” Accordingly, Valero does not plan segregate its covered tasks into sub-categories for compliance purposes, and Valero’s OQ Plan will not reflect any subcategories of covered tasks, such as “critical covered tasks.” Valero believes that all covered tasks should be treated as equally important for compliance purposes, as the regulation contemplates, and Valero will continue to do so in its OQ Plan.

3. §195.505 Qualification program

Each operator shall have and follow a written qualification program. The program shall include provisions to:

(g) Identify those covered tasks and the intervals at which evaluation of the individual’s qualifications is needed.

Valero[‘s] ... OQ plan needs requirements to verify that annual visual acuity tests for ASNT level II certifications are included in the documentation of qualifications. Valero ... corrected this requirement prior to our departure.

Valero’s Response:

Visual acuity is required as a required part of the ASNT Level II certification and as such, it is not necessary or reasonable to require visual acuity as a separate qualification method for these covered tasks. However, as requested by the PHMSA inspectors, Valero added the visual acuity tests to the task list for ASNT level II certifications, and as noted in the January 28 Notice, this issue was corrected during the audit. Since (i) the change was not required in the first place and (ii) there is no dispute the issue was satisfactorily addressed during the audit, the Notice of Amendment on this issue was in error and should be dismissed.

4. §195.507 Recordkeeping

Each operator shall maintain records that demonstrate compliance with this subpart.

a. Qualification records shall include:

1) Identification of qualified individual(s);

- 2) **Identification of the covered tasks the individual is qualified to perform;**
- 3) **Date(s) of current qualifications; and**
- 4) **Qualification method(s).**

Valero['s] ... internal qualification records are not tracked in ISNetwork and Valero ... does not have evaluation methods specified – evaluation methods should specifically be identified in the master listing. Valero completed the method specification prior to our departure.

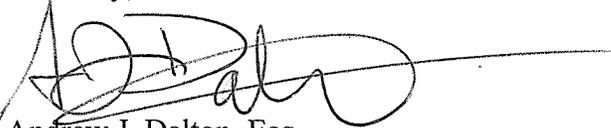
Valero's Response:

Valero added a notation on the Company's internal qualification records to identify whether the qualification method was P (Performance) or W (Written), and as noted in the January 28 Notice, this issue was satisfactorily addressed during the audit. Since there is no dispute the issue was satisfactorily addressed during the audit, the Notice of Amendment on this issue was in error and should be dismissed.

In conclusion, Valero respectfully submits that it has satisfactorily addressed the issues in Items 1 through 4, and that each item was issued in error and should be dismissed. 49 CFR §§ 190.209 (a)(2). To the extent that Valero and PHMSA cannot reach agreement on all the issues in the January 28 Notice, Valero requests a hearing pursuant to 49 CFR §190.211. The issues to be raised by Valero in that hearing, if necessary, are set forth above and will be addressed in greater detail at the hearing. See, 49 CFR § 190.211(a). The undersigned will represent Valero at such hearing, if necessary. 49 CFR §190.211(a).

Valero is committed to working with PHMSA to ensure compliance with all pipeline safety regulations, and Valero is willing to work with OPS to resolve these matters prior to a hearing. Additionally, Valero appreciates the professionalism of the inspectors involved in the inspection. Their comments and suggestions were valuable and may help strengthen Valero's OQ Plan. If you should need additional information, please do not hesitate to contact myself at (210) 345-5954 or Jim Stokes at (210) 345-4693.

Sincerely,



Andrew J. Dalton, Esq.
Counsel for Valero Terminating and Distribution Company

CC: Paul Brochu, Vice President
Jim Stokes, Senior Manager, Regulatory Compliance & Support