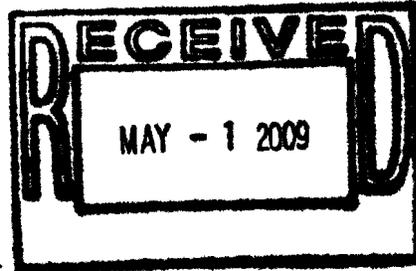




Paul Brochu
Vice President
Logistics Operations



May 1, 2009

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

RE: CPF 4-2009-5003M

Dear Mr. Seeley:

On October 20-24, 2008, representatives of the Pipelines and Hazardous Materials Safety Administration (“PHMSA”) inspected the Integrity Management (“IM”) procedures for Valero Terminating and Distribution Company (Valero Energy or “Valero”) at Valero’s headquarters in San Antonio, Texas. On February 27, 2009, PHMSA issued a Notice of Amendment (the “NOA”) to Valero, and Valero received the NOA on March 4, 2009. The NOA listed six separate issues that PHMSA alleges require amendments to Valero’s IM procedures. On March 31, Valero contacted your office to request a 30-day extension (until May 4) to respond to the NOA, and the request was granted. Valero now timely submits its response to the six issues raised in the NOA.

1. **§195.452(f). An operator must include, at a minimum, each of the following elements in its written integrity management program: (1) A process for identifying which pipeline segments could affect a high consequence area.**

The Inspection Team had concerns that written procedures for local knowledge acquisition, who initiates a periodic review, how it is updated, and other aspects related to HCA identification are vague as to how these practices are accomplished. For instance with regard to field review, an email is sent out requesting review but little documentation on the actual implementation was provided. Valero IM practices are at a very high level with few defined procedures or associated forms.

Valero’s response to NOA # 1:

Valero has revised the procedure IMP 102: Field HCA Identification and Review. A section defining “Frequency” and a section defining “Documentation and Record Retention” were added. (See Exhibit 1-A)

Also, a form (“Field HCA Identification and Review”) was added to the plan. The form provides guidance and instructions for completing the form and returning it to the Corporate IMP Team. (See Exhibit 1-B)

2. **§195.452(f). An operator must include, at a minimum, each of the following elements in its written integrity management program: (1) A process for identifying which pipeline segments could affect a high consequence area.**

The HCA “could affect” analysis did not adequately consider situations where a pipeline release due to a slow pipeline leak condition vs. the Valero analyzed full volume release assumptions. A basis for assumptions, the full guillotine release is greater than a potential slow release should be included as part of the IMP documentation.

Valero’s response to NOA # 2:

As noted, Valero’s Integrity Management Program does have a process for identifying which of its pipeline segments could affect an HCA. Valero’s process includes the rupture volume calculations presented in the HCA Summary Document, which are intended to model rupture volumes from a full guillotine break of a pipeline.

Valero has initiated an investigation and analysis to consider whether a small or slow leak scenario could result in a larger maximum release than a full guillotine rupture of a pipeline. Valero believes this analysis will either verify Valero’s existing process for identifying pipeline segments that could affect HCAs, or will identify the pipeline segments where the guillotine rupture volumes may not result in the maximum possible release. In cases where the release volume attributable to a small or slow leak exceeds the release volumes already calculated from a guillotine rupture, Valero will update its process and procedures for identifying the pipeline segments that could affect HCAs accordingly. The target date for completing this investigation, analysis and subsequent modifications, if any, is August 1, 2009. Given that approximately 70% of Valero’s pipeline mileage is currently either physically located within an HCA or part of the identified pipeline segments that could affect an HCA, Valero anticipates that this further analysis would not significantly alter the number of pipeline segments that could affect HCAs.

3. **§195.452(f). An operator must include, at a minimum, each of the following elements in its written integrity management program: (1) A process for identifying which pipeline segments could affect a high consequence area.**

Valero needs to define the accuracy of the location for each pipeline and buffer accordingly. Some pipelines were located using GPS while others were located by older less accurate methods. The accuracy for each method should be determined and if larger buffers are required for the flow models, they should be incorporated or justification provided as to why no changes are needed.

Valero's response to NOA # 3:

Per section 1.2.2, the Company identified the location of the pipelines through Global Positioning System (GPS) or digitization of existing alignment sheets. Valero has enhanced the process by defining in that section how field review is completed to verify pipeline location. (See Exhibit 2)

4. **§195.452 (f) An operator must include, at a minimum, each of the following elements in his written integrity management program: (8) A process for review of integrity assessment results and information analysis by a person qualified to evaluate the results and information (see paragraph (h)(2) of this section).**

Valero IM procedures do not adequately address qualification requirements of Valero personnel reviewing assessment results. Valero should update the IM procedures to better explain qualification requirements for personnel reviewing assessment results.

Valero's response to NOA # 4:

The Valero IM plan Section 3.4.1 Evaluating Assessment Results #3 lists extensive requirements for Company personnel reviewing assessment results. Further, 3.4.1 #5 lists requirements for Company personnel reviewing pressure testing assessments.

Although Valero believes these requirements are adequate, the Corporate IM Team will meet annually to review and discuss areas of interest where training and/or conferences may be offered and beneficial to the development of the IMP Team. Section 3.4.1 was revised to add verbiage regarding this review. (See Exhibit 3)

5. **§195.452 (f) An operator must include, at a minimum, each of the following elements in its written integrity management program: (8) A process for review of integrity assessment results and information analysis by a person qualified to evaluate the results and information (see paragraph (h)(2) of this section).**

§195.452 (h)(2) *Discovery of a condition.* Discovery of a condition occurs when an operator has adequate information about the condition to determine that the condition presents a potential threat to the integrity of the pipeline. An operator must promptly, but no later than 180 days after an integrity assessment, obtain sufficient information about a condition to make that determination, unless the operator can demonstrate that the 180-day period is impracticable.

Valero needs to develop better QA/QC procedures to ensure that anomaly dig locations are properly identified and excavated. Valero should update the IM procedures to ensure better QA/QC procedures regarding anomaly digs.

Valero's response to NOA # 5:

Valero has enhanced procedure IMP 302: In-Line Inspection Data Evaluation to include "Locating an Anomaly for Excavation". (See Exhibit 4)

6. **§195.452 (f) *What are the elements of an integrity management program? (6) Identification of preventive and mitigative measures to protect the high consequence area.***

§195.452 (i) *What preventive and mitigative measures must an operator take to protect the high consequence area? (1) General requirements. An operator must take measures to prevent and mitigate the consequences of a pipeline failure that could affect a high consequence area. These measures include conducting a risk analysis of the pipeline segment to identify additional actions to enhance public safety or environmental protection. Such actions may include, but are not limited to, implementing damage prevention best practices, better monitoring of cathodic protection where corrosion is a concern, establishing shorter inspection intervals, installing EFRDs on the pipeline segment, modifying the systems that monitor pressure and detect leaks, providing additional training to personnel on response procedures, conducting drills with local emergency responders and adopting management controls.*

Preventive and Mitigative measures consideration and implementation was not adequately documented by Valero. Valero needs to ensure that specific P&M measures are defined, implemented and documented for pipelines in HCAs. The new Valero IM program plan adequately addresses P&M measures consideration and implementation but the old program is lacking in documentation supporting the evidence of compliance with the regulations.

Valero's response to NOA # 6:

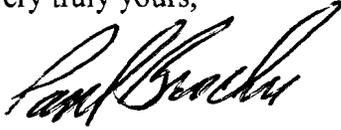
The new Valero IM program plan is managed by the Corporate IMP Team. This demands consistency in compliance with the plan. During initial P&M meetings under the new plan, the Corporate IMP Team will include interviews with Business Unit personnel to identify P&M measures implemented in the past two years and will document those measures on the initial meeting P&M Meeting Agenda and Checklist form. Additionally, the Corporate IMP Team will include past P&M measures in the evaluation to determine if additional measures are necessary to protect the pipelines.

Conclusion

In conclusion, Valero respectfully submits that it has satisfactorily addressed the issues set forth in Items 1 through 6. As a result, Valero believes the revised procedures, as attached and discussed above, clearly demonstrate that Valero's plan and procedures are adequate, and accordingly, the notice of amendment should be withdrawn. 49 CFR §§ 190.237(a).

Valero is committed to working with PHMSA to ensure compliance with all pipeline safety regulations, and Valero appreciates the professionalism of the inspectors involved in the inspection. Their comments and suggestions were valuable and may help strengthen Valero's IM Procedures. If you should need additional information, please do not hesitate to contact Jim Stokes at (210) 345-4693.

Very truly yours,

A handwritten signature in black ink, appearing to read "Paul Brochu". The signature is written in a cursive, flowing style with a large initial "P".

Paul Brochu

PRB/js
enclosures