



October 24, 2013

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Alan Mayberry
Deputy Associate Administrator, Washington DC
Pipeline and Hazardous Material Safety Administration
1200 New Jersey Avenue, SE
East Building, 2nd Floor
Washington, DC 20590

Rodrick Seeley
Director Office of Pipeline Safety
PHMSA Pipeline Safety SW Region Office
8701 South Gessner Suite 1110
Houston, Texas 77074

RE: Warning Letter CPF 4-2013-5017W

Dear Messrs. Mayberry and Seeley,

On September 19, 2013, TC Oil Pipeline Operations Inc. received Warning Letter CPF 4-2013-5017W from the Pipeline and Hazardous Materials Safety Administration (PHMSA) Southwest region. As a result of its site inspections, PHMSA states that TransCanada was in possible violation of regulation §195.246, which requires that all pipe installed in a ditch must be installed in a manner that minimizes the introduction of secondary stresses and the possibility of damage to the pipe. In reference to §195.246, PHMSA states that “TransCanada did not assure that its (Gulf Coast) Pipeline was installed in the ditch in a manner that minimizes the possibility of damage to the pipe”. Additionally, PHMSA states that TransCanada was in possible violation of §195.202 that requires that each pipeline system must be constructed in accordance with comprehensive written specifications or standards that are consistent with the requirements of this part. PHMSA states that in certain circumstances, TransCanada did not follow its written specifications, specifically protecting existing coating from damage due to the welding process.

TransCanada did not anticipate receiving your letter, considering the numerous field audits conducted by PHMSA, with no indication of concern for observed field activities and corrective actions taken. On this basis we wish to address your findings by emphasizing the following matters:

1. TransCanada has constructed the Gulf Coast Pipeline to significantly higher standards and has conducted inspection and testing to standards that are not currently typical of the pipeline industry;

2. TransCanada has implemented quality management systems conforming to ISO 9001 Standards, resulting in the higher frequency of detection of the above mentioned issues;
3. The observations were made to “in progress work” and are not representative of the final conditions of the pipeline;
4. To date less than 10% of the investigations for anomalies have required remediation in accordance with current code requirements and;
5. TransCanada is taking steps to enhance its design, specifications and inspection practices, and the procedures of our contractors to minimize the number of inspection digs that are required after the pipeline has been backfilled on future projects.

TransCanada has constructed the Gulf Coast Pipeline to the same rigorous PHMSA Special Conditions that will apply to the Keystone XL pipeline project. These Special Conditions include the requirement and implementation of a performance based quality assurance (QA) program. The identification and reporting of non-conformances to construction specifications and procedures is a fundamental and crucial element of this QA program. The intent of the program is to ensure that all potentially injurious construction or manufacturing related defects have been identified and remediated prior to the pipeline being placed in service. In this regard, TransCanada’s QA program has been successful. TransCanada acknowledges that in the isolated circumstances that PHMSA refers to in its Warning Letter, its primary (ditch side) inspection processes did not detect the conditions that led to the defects that were subsequently identified by its secondary (post installation) quality assurance processes. Nevertheless, the coating damage and pipe body dents described in PHMSA’s letter were all identified and repaired *prior* to any oil product being introduced into the pipeline and at no time posed a threat to the safety of the pipeline or to the protection of the environment.

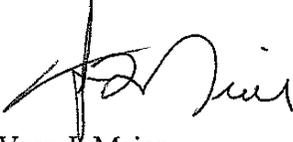
These quality non-conformances were voluntarily reported to the PHMSA Southwest Region on June 7, 2013. TransCanada acknowledges that it would be preferential, from a cost and efficiency perspective, to have identified and remediated these conditions during initial installation rather than after the pipe had been installed and backfilled, but I emphasize that our failure to do so has in no way compromised the safety or integrity of the Gulf Coast Pipeline Project. As a result of these occurrences, we are conducting a thorough review of our inspection practices, design, and construction specifications, and we will implement changes to try to reduce the number of inspection digs that are required after the pipeline has been backfilled going forward, including, but not limited to restricting the use of foam pillows, increased use of bedding material in rocky or hard pan conditions, and specifying the minimum size of weld splatter protection devices.

In this regard, TransCanada remains committed to its letter of July 18, 2013, certifying that the Gulf Coast Pipeline Project has been constructed in conformance with the Special Conditions and requirements of CFR 49 Part 195.

TransCanada has played a leading role in an industry wide (INGAA Foundation) initiative to develop a Construction Quality Management program for pipeline contractors in the United States, partners TransCanada views as vital to achieving a sustainable step change in construction quality practices, performance and workmanship culture within our industry. As the industry’s maturity and the regulator’s expectations evolve around the role that quality management systems play in improving operator’s construction practices, PHMSA may wish to consider how its current regulations and enforcement actions should change so as to avoid admonishing or otherwise disincentivizing Operators from proactively identifying, remediating and self-reporting construction quality related issues.

Should you have any questions, please don't hesitate to contact me at (832) 320-5505.

Sincerely,

A handwritten signature in black ink, appearing to read "Vern J. Meier". The signature is fluid and cursive, with a prominent vertical stroke at the beginning.

Vern J. Meier
Vice President, Pipeline Safety & Compliance

Cc: John Pepper, Supervisor – SW Region PHMSA
Jon Manning, Staff Engineer – SW Region PHMSA
Les Cherwenuk, Director – TransCanada Gulf Coast Project
Corey Goulet, Vice President – TransCanada Keystone Projects
Daniel Cerkoney, Manager – TransCanada Regulatory Compliance, Projects
Ken Crawl, Director – TransCanada Regulatory Compliance