NOTICE OF AMENDMENT

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

January 6, 2009

Mr. Michael McCann
Vice President of Pipeline and Terminals
Tesoro Refining and Marketing Company
300 Concord Plaza Drive
San Antonio, TX 78216-6999

CPF 5-2009-0001M

Dear Mr. McCann:

On September 9-11, 2008, a representative of the Pipeline and Hazardous Materials Safety Administration (PHMSA), pursuant to Chapter 601 of 49 United States Code, inspected Tesoro Refining and Marketing Company’s (TRMC) procedures for Operations and Maintenance Procedural Manuals in Wilmington, California.

On the basis of the inspection, PHMSA has identified the apparent inadequacies found within TRMC’s plans or procedures, as described below:

1. §192.227 Welders: Qualification of welders.

   (a) Except as provided in paragraph (b) of this section, each welder must be qualified in accordance with section 6 of API 1104 (incorporated by reference, see § 192.7) or section IX of the ASME Boiler and Pressure Vessel Code (incorporated by reference, see § 192.7). However, a welder qualified under an earlier edition than listed in § 192.7 of this part may weld but may not requalify under that earlier edition.
Tesoro Refining and Marketing Company does not specify in its Operation and Maintenance (O&M) manuals what section and edition of API 1104 need to be used to qualify its Welder. TRMC's Operations and Maintenance Manuals only require its welders to be qualified according to API 1104. TRMC's O&M manual do not explicitly reference the appropriate industry standard to be used to qualify its welders.

2. §192.241 Inspection and test of welds
   
   (c) The acceptability of a weld that is nondestructively tested or visually inspected is determined according to the standards in Section 9 of API Standard 1104 (incorporated by reference, see §192.7). However, if a girth weld is unacceptable under those standards for a reason other than a crack, and if Appendix A to API 1104 applies to the weld, the acceptability of the weld may be further determined under that appendix.

Tesoro Refining and Marketing Company does not specify in its O&M manuals what section and edition of API 1104 need to be used to inspect its welds. TRMC's Operations and Maintenance states, “NDT testing shall conform to API 1104.” TRMC’s O&M manual do not explicitly reference the industry standard to be used to inspect and accept their welds.

3. §192.243 Nondestructive testing
   
   (a) Nondestructive testing of welds must be performed by any process, other than trepanning, that will clearly indicate defects that may affect the integrity of the weld.
   (b) Nondestructive testing of welds must be performed:
       (1) In accordance with written procedures; and
       (2) By persons who have been trained and qualified in the established procedures and with the equipment employed in testing.
   (c) Procedures must be established for the proper interpretation of each nondestructive test of a weld to ensure the acceptability of the weld under §192.241(c).
   (d) When nondestructive testing is required under §192.241(b), the following percentages of each day's field butt welds, selected at random by the operator, must be nondestructively tested over their entire circumference;
       (1) In Class 1 locations, except offshore, at least 10 percent.
       (2) In Class 2 locations, at least 15 percent.
       (3) In Class 3 and Class 4 locations, at crossings of major or navigable rivers, offshore, and within railroad or public highway rights-of-way, including tunnels, bridges, and overhead road crossings, 100 percent unless impracticable, in which case at least 90 percent. Nondestructive testing must be impracticable for each girth weld not tested.
       (4) At pipeline tie-ins, including tie-ins of replacement sections, 100 percent.
(e) Except for a welder whose work is isolated from the principal welding activity, a sample of each welder's work for each day must be nondestructively tested, when nondestructive testing is required under §192.241(b).

(f) When nondestructive testing is required under §192.241(b), each operator must retain, for the life of the pipeline, a record showing by milepost, engineering station, or by geographic feature, the number of girth welds made, the number nondestructively tested, the number rejected, and the disposition of the rejects.

Tesoro Refining and Marketing Company does not have adequate O&M procedures for nondestructive testing. If TRMC has a separate welding manual, and if that manual addresses nondestructive testing, then it should be included or referenced in its O&M manuals.

4. 192.609 Change in class location: Required study.
Whenever an increase in population density indicates a change in class location for a segment of an existing steel pipeline operating at a hoop stress that is more than 40 percent of SMYS, or indicates that the hoop stress corresponding to the established maximum allowable operating pressure for a segment of existing pipeline is not commensurate with the present class location, the operator shall immediately make a study to determine;
(a) The present class location for the segment involved.
(b) The design, construction, and testing procedures followed in the original construction, and a comparison of these procedures with those required for the present class location by the applicable provisions of this part.
(c) The physical condition of the segment to the extent it can be ascertained from available records;
(d) The operating and maintenance history of the segment;
(e) The maximum actual operating pressure and the corresponding operating hoop stress, taking pressure gradient into account, for the segment of pipeline involved; and,
(f) The actual area affected by the population density increase, and physical barriers or other factors which may limit further expansion of the more densely populated area.

Tesoro Refining and Marketing Company does not have adequate procedures to periodically determine changes in class location. TRMC previously identified its pipeline to be in class 1 location. A recent class location study conducted by an outside contractor identified the pipeline to be located in a class 2 & 3, however, procedures to determine future class changes are not in the TRMC O&M manual.

5. 192.611 Change in class location: Confirmation or revision of maximum allowable operating pressure.
(a) If the hoop stress corresponding to the established maximum allowable
operating pressure of a segment of pipeline is not commensurate with the present class location, and the segment is in satisfactory physical condition, the maximum allowable operating pressure of that segment of pipeline must be confirmed or revised according to one of the following requirements:

(1) If the segment involved has been previously tested in place for a period of not less than 8 hours, the maximum allowable operating pressure is 0.8 times the test pressure in Class 2 locations, 0.667 times the test pressure in Class 3 locations, or 0.555 times the test pressure in Class 4 locations. The corresponding hoop stress may not exceed 72 percent of the SMYS of the pipe in Class 2 locations, 60 percent of SMYS in Class 3 locations, or 50 percent of SMYS in Class 4 locations.

(2) The maximum allowable operating pressure of the segment involved must be reduced so that the corresponding hoop stress is not more than that allowed by this part for new segments of pipelines in the existing class location.

(3) The segment involved must be tested in accordance with the applicable requirements of Subpart J of this part, and its maximum allowable operating pressure must then be established according to the following criteria:

(i) The maximum allowable operating pressure after the requalification test is 0.8 times the test pressure for Class 2 locations, 0.667 times the test pressure for Class 3 locations, and 0.555 times the test pressure for Class 4 locations.

(ii) The corresponding hoop stress may not exceed 72 percent of the SMYS of the pipe in Class 2 locations, 60 percent of SMYS in Class 3 locations, or 50 percent of SMYS in Class 4 locations.

(b) The maximum allowable operating pressure confirmed or revised in accordance with this section, may not exceed the maximum allowable operating pressure established before the confirmation or revision.

(c) Confirmation or revision of the maximum allowable operating pressure of a segment of pipeline in accordance with this section does not preclude the application of §§192.553 and 192.555.

(d) Confirmation or revision of the maximum allowable operating pressure that is required as a result of a study under §192.609 must be completed within 24 months of the change in class location. Pressure reduction under paragraph (a) (1) or (2) of this section within the 24-month period does not preclude establishing a maximum allowable operating pressure under paragraph (a)(3) of this section at a later date.

Tesoro Refining and Marketing Company does not have adequate procedures to establish MAOP limits that are commensurate with changes in class location. TRMC changed its pipeline location from class 1 to class 2 & 3 without confirming if the existing MAOP meets the new class locations.

6. §192.705 Transmission lines: Patrolling

(a) Each operator shall have a patrol program to observe surface conditions on and adjacent to the transmission line right-of-way for indications of leaks, construction activity, and other factors affecting safety and operation.

(b) The frequency of patrols is determined by the size of the line, the operating
pressures, the class location, terrain, weather, and other relevant factors, but intervals between patrols may not be longer than prescribed in the following table:

<table>
<thead>
<tr>
<th>Class location of line</th>
<th>Maximum interval between patrols</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>At highway and railroad crossings</td>
</tr>
<tr>
<td>1,2</td>
<td>7 1/2 months; but at least twice each calendar year</td>
</tr>
<tr>
<td>3</td>
<td>4 1/2 months; but at least four times each calendar year</td>
</tr>
<tr>
<td>4</td>
<td>4 1/2 months; but at least four times each calendar year</td>
</tr>
</tbody>
</table>

Tesoro Refining and Marketing Company's new class location study identified its pipeline to be located in both class 2 and 3 areas. TRMC's O&M manuals still require once-a-year ROW patrolling as if the pipeline were in a class 1 or 2 area. The O&M manuals need to be revised to meet the requirements of §192.705(b).

7. **§192.706 Transmission lines: Leakage surveys**

Leakage surveys of a transmission line must be conducted at intervals not exceeding 15 months, but at least once each calendar year. However, in the case of a transmission line which transports gas in conformity with §192.625 without an odor or odorant, leakage surveys using leak detector equipment must be conducted:

(a) In Class 3 locations, at intervals not exceeding 7 1/2 months, but at least twice each calendar year; and

(b) In Class 4 locations, at intervals not exceeding 4 1/2 months, but at least four times each calendar year.

Tesoro Refining and Marketing Company's new class location study identified its pipeline to be in a class 2 and 3 area. TRMC, in its O&M manuals, still require once per year leakage survey. The O&M manuals need to be revised to meet the periodic survey requirements of §192.706.
Response to this Notice

This Notice is provided pursuant to 49 U.S.C. § 60108(a) and 49 C.F.R. § 190.237. Enclosed as part of this Notice is a document entitled Response Options for Pipeline Operators in Compliance Proceedings. Please refer to this document and note the response options. Be advised that all material you submit in response to this enforcement action is subject to being made publicly available. If you believe that any portion of your responsive material qualifies for confidential treatment under 5 U.S.C. 552(b), along with the complete original document you must provide a second copy of the document with the portions you believe qualify for confidential treatment redacted and an explanation of why you believe the redacted information qualifies for confidential treatment under 5 U.S.C. 552(b). If you do not respond within 30 days of receipt of this Notice, this constitutes a waiver of your right to contest the allegations in this Notice and authorizes the Associate Administrator for Pipeline Safety to find facts as alleged in this Notice without further notice to you and to issue a Final Order.

If, after opportunity for a hearing, your plans or procedures are found inadequate as alleged in this Notice, you may be ordered to amend your plans or procedures to correct the inadequacies (49 C.F.R. § 190.237). If you are not contesting this Notice, we propose that you submit your amended procedures to my office within 60 days of receipt of this Notice. This period may be extended by written request for good cause. Once the inadequacies identified herein have been addressed in your amended procedures, this enforcement action will be closed.

In correspondence concerning this matter, please refer to CPF 5-2009-0001M and, for each document you submit, please provide a copy in electronic format whenever possible.

Sincerely,

Chris Hoidal
Director, Western Region
Pipeline and Hazardous Materials Safety Administration

cc: PHP-60 Compliance Registry
PHP-500, H. Monfared (#120751)

Enclosure: Response Options for Pipeline Operators in Compliance Proceedings