U.S. Department
of Transportation
**Pipeline and
Hazardous Materials Safety
Administration**

901 Locust Street, Suite 462
Kansas City, MO 64106-2641

WARNING LETTER

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

March 21, 2011

Mr. Vern Meier
Vice President, US Pipeline Operations
TransCanada
717 Texas Avenue
Houston, TX, 77002-2761

CPF 3-2011-1002W

Dear Mr. Meier:

During the second half of 2010, a representative of the Pipeline and Hazardous Materials Safety Administration (PHMSA) pursuant to Chapter 601 of 49 United States Code inspected your activities related to the TransCanada - Bison Project near Dickinson, North Dakota.

During the course of our construction inspections, the need for improvements in the quality assurance plan, including personnel qualification, were identified. While no construction activities affecting safety appeared to have gone uncorrected prior to placing the Bison pipeline in service, it was apparent that an improved quality management system, if properly implemented, would reduce the need for remedial work and improve overall quality during construction.

Therefore, as a result of the inspection, it appears that you have committed probable violations of the Pipeline Safety Regulations, Title 49, Code of Federal Regulations. The items inspected and the probable violation(s) are:

1. **§ 192.328 Additional construction requirements for steel pipe using alternative maximum allowable operating pressure. For a new or existing pipeline segment to be eligible for operation at the alternative maximum**

allowable operating pressure calculated under § 192.620, a segment must meet the following additional construction requirements. Records must be maintained, for the useful life of the pipeline, demonstrating compliance with these requirements:

(a)(1) Quality assurance. The construction of the pipeline segment must be done under a quality assurance plan addressing pipe inspection, hauling and stringing, field bending, welding, non-destructive examination of girth welds, applying and testing field applied coating, lowering of the pipeline into the ditch, padding and backfilling, and hydrostatic testing.

The document management procedures established for the project were not followed completely. Various inspection procedures were modified throughout the project, but not all construction inspectors received these documents. Assuring all personnel are working with the most current procedures is an important aspect of quality assurance to maintain consistency and repeatability.

The quality assurance plan in place for project was basically limited to inspection. In addition to inspection activities the plan should have included elements whereby "non-conformances", when identified, would be analyzed to understand the root causes so that improvements could be made to processes or procedures to prevent recurrence. Additionally, lessons learned from previous TransCanada construction projects should be considered when developing a quality assurance plan.

The quality assurance plan did not include specific numerical acceptance criteria for defect/repair rates. When unacceptable rates are noted this should initiate a re-evaluation of processes and procedures and necessary modifications to maintain consistent quality. In addition to acceptance criteria, the quality assurance plan should include controls to reduce the variations in working conditions on a larger scale construction project to maintain consistency and repeatability.

2. **§ 192.328 Additional construction requirements for steel pipe using alternative maximum allowable operating pressure.**

(a)(2) The quality assurance plan for applying and testing field applied coating to girth welds must be:

(i) Equivalent to that required under § 192.112(f)(3) for pipe; and

(ii) Performed by an individual with the knowledge, skills, and ability to assure effective coating application.

§ 192.112(f)(3) A quality assurance inspection and testing program for the coating must cover the surface quality of the bare pipe, surface cleanliness and chlorides, blast cleaning, application temperature control, adhesion, cathodic disbondment, moisture permeation, bending, coating thickness, holiday detection, and repair.

The construction project did not have an adequate quality inspection and testing procedure for holiday detection of coatings during field construction. PHMSA communicated expectations regarding holiday detection for Alternate Maximum Operating Pressure pipelines on the publicly accessible website, *"Standards for Implementing Alternative MAOP for Gas Transmission Pipelines"* at http://primis.phmsa.dot.gov/maop/index.htm. The website included holiday detection testing (revised June 11, 2010) to verify the quality of pipe coating. TransCanada was aware of these expectations, yet continued to perform holiday detection at lower than recommended voltages until September 9, 2010.

3. **§ 192.807 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 qualification; and
(4) Qualification method(s).requirements for steel pipe using alternative maximum allowable operating pressure.

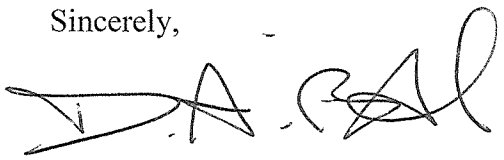
The quality and accuracy of qualification records for individuals performing covered tasks during the construction of an alternate MAOP pipeline were deficient. During the field operator qualification (OQ) inspection, performed by a PHMSA inspector on September 28, 2010, records of individuals provided by representatives of Price Gregory, Pegasus and TransCanada personnel were reviewed at the time of the inspection. During the review of OQ records, there were discrepancies between those individuals who may have performed covered tasks to those individuals qualified to perform covered tasks. A comprehensive program began September 29, 2010 to correct these deficiencies.

Under 49 United States Code, § 60122, you are subject to a civil penalty not to exceed $100,000 for each violation for each day the violation persists up to a maximum of $1,000,000 for any related series of violations. We have reviewed the circumstances and supporting documents involved in this case, and have decided not to conduct additional

enforcement action or penalty assessment proceedings at this time. We advise you to correct the item(s) identified in this letter. Failure to do so will result in TransCanada Bison Pipeline being subject to additional enforcement action.

No reply to this letter is required. If you choose to reply, in your correspondence please refer to **CPF 3-2011-1002W.** 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).

Sincerely,



David Barrett
Director, Central Region
Pipeline and Hazardous Materials Safety Administration