



Memorandum

**U.S. Department of
Transportation**

Office of the Secretary
of Transportation
Office of Inspector General

Subject: **INFORMATION:** Audit Announcement -
State Pipeline Safety Program
Pipeline and Hazardous Materials Safety
Administration
Project No. 12A3008A000

Date: April 12, 2012

From: Jeffrey B. Guzzetti
Assistant Inspector General
for Aviation and Special Program Audits

Reply to
Attn. of: JA-10

To: PHMSA Assistant Administrator
and Chief Safety Officer

The Pipeline and Hazardous Materials Safety Administration (PHMSA) is responsible for overseeing the safety of the Nation's pipeline system, an elaborate network of more than 2 million miles of pipeline that moves millions of gallons of hazardous liquids and more than 55 billion cubic feet of natural gas daily.¹ Pipeline incidents can have catastrophic consequences, such as the deadly gas pipeline explosion on September 9, 2010, in San Bruno, CA, that resulted in 8 fatalities, 66 injuries, and 34 homes destroyed.

The San Bruno pipeline is an intrastate natural gas transmission line operated by Pacific Gas and Electric Company and regulated by the California Public Utilities Commission (CPUC), a State agency responsible for overseeing and enforcing Federal pipeline safety regulations. PHMSA authorizes State agencies such as CPUC to conduct oversight and enforcement of pipeline operators through PHMSA's State Pipeline Safety Program.² This program also provides Federal grant funds to State agencies as an incentive to improve pipeline safety and State program performance.³ Funding for this program has increased significantly, from an average of about

¹ The pipeline system is composed of predominantly three segments: natural gas transmission pipelines, natural gas distribution pipelines, and hazardous liquid transmission pipelines. The system is comprised of about 2,200 natural gas pipeline operators and 220 hazardous liquid pipeline operators.

² Federal statutes provide for State assumption of all or part of the intrastate regulatory and enforcement responsibility of utility companies through annual certifications and agreements issued under this program.

³ PHMSA is authorized to reimburse a State agency up to 80 percent of the actual cost for carrying out the State's pipeline safety program, including the cost of personnel and equipment.

\$19.5 million per year for the period 2003 to 2008, to \$30.5 million in 2009 and \$36.5 million in 2010.

In its final report on the San Bruno incident,⁴ the National Transportation Safety Board (NTSB) cited longstanding weaknesses in PHMSA's monitoring of State pipeline safety oversight programs, including a lack of meaningful metrics to assess States' oversight performance. NTSB recommended that the Secretary of Transportation conduct an audit of PHMSA's certification program to assess and ensure State pipeline safety programs and Federal pipeline safety grants are used effectively to conduct oversight of intrastate pipeline operations, including an evaluation of State inspection and enforcement activities. In a February 3, 2012, letter to NTSB, the Secretary stated that our office would conduct the audit.

Accordingly, we plan to review PHMSA's management and oversight of the State Pipeline Safety Program. Specifically, we will assess the effectiveness of PHMSA's (1) policies and processes for executing the program and (2) program oversight for verifying States are executing their pipeline safety oversight and enforcement responsibilities. We will contact your audit liaison to schedule an entrance conference for the week of April 16, 2012. If you have any questions, please contact Scott Macey, Program Director, at (415) 744-0434 or Kim P. Tieu, Project Manager, at (415) 744-0441.

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cc: PHMSA Associate Administrator
for Pipeline Safety
Martin Gertel, M-1
George Delcambre, PHA-30

⁴ NTSB Pipeline Accident Report No. NTSB/PAR-11/01 PB2011-915601, "Pacific Gas and Electric Company natural Gas Transmission Pipeline Rupture and Fire San Bruno, California September 9, 2010."