# APPENDIX H

## Valero Benicia Refinery Statement re: Preemption

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VALERO

Richard J. Walsh
Senior Vice President
and Deputy General Counsel
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November 25, 2014

COPY

***Via Federal Express No. 7719-7932-3694***

Heather McLaughlin, City Attorney
City of Benicia
250 East L Street
Benicia, CA 94510

**Re: Valero Objection to Federally Preempted CEQA Review of Rail Operations**

Dear Ms. McLaughlin:

I am writing on behalf of Valero Refining Company – California ("Valero), the applicant for a use permit for construction and operation of a crude-by-rail unloading facility at Valero's Benicia, California refinery.

Valero recently was informed that the City is considering re-circulating the DEIR because of alleged concerns regarding NOx emissions in communities uprail of Roseville that are solely attributable to locomotive emissions. We understand that this review will add six to seven months to an already lengthy process at a projected cost of approximately half a million dollars. Valero strongly disagrees that this proposal is a necessary, prudent, or even a legally permissible approach. The City already has gone far above and beyond what the law requires for review of rail operations impacts, even exceeding what the law permits. CEQA review of such impacts is preempted by federal law, as discussed more fully below, and therefore the City cannot continue to delay presentation of this project to the Planning Commission in order to conduct additional review of potential impacts that are beyond the City's authority to mitigate or even to consider.

Valero submitted its application for the permit in December of 2012. On May 31, 2013, the City issued a Notice of Intent to Adopt an Initial Study/Mitigated Negative Declaration for the Project. Following a public meeting of July 11, 2013, the City decided to prepare an EIR and committed to issue that report in the fall of 2013. However, the DEIR was not circulated for review until June of this year. As you know, probably close to 90% of the comments made at the three Planning Commission hearings on the DEIR were devoted to the claimed impacts of rail operations, even though CEQA review of rail operations is preempted by federal law.

Although we have consistently pointed out that federal preemption precludes CEQA analysis of rail operations, Valero has cooperated fully in the CEQA review process. As the City also knows, Valero has consistently and repeatedly stated its intent to fully comply with its obligations under federal law concerning the rail transport of crude oil. The safety of our employees, and of every member of the public, is of Valero's utmost concern, just as it is of yours. However, federal regulatory agencies are solely responsible for the operations of the railroads; neither Valero, nor the City may regulate the railroad, under CEQA or otherwise.

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As demonstrated below and in the enclosed materials, CEQA review of the impacts of rail operations is not merely constrained, as it was in *Communities for a Better Environment v. Southern California Air Quality Management Dist.* (2010) 48 Cal.4th 310, 325; it is preempted, as affirmed by the First District Court of Appeal in *Friends of the Eel River v. North Coast Railroad* Authority (2014) 230 Cal.App.4th 85, and in the numerous cases relied upon by the Court of Appeal in its decision. The City has no legal authority to conduct any review of the environmental impacts of rail operations because such review is preempted by federal law. For that reason, the City also cannot lawfully request of Valero that it bear the expense of any such further review. In addition, given the lack of any lawful authority to conduct such review, the City cannot lawfully suspend the processing of Valero's permit application on the grounds that Valero will not cooperate in such review, or bear the expense thereof.

To elaborate on the positions stated above, Union Pacific Railroad ("UPRR") transport and delivery of the crude oil constitutes transportation by rail carrier, and state regulation of such transportation and delivery is preempted by the Interstate Commerce Commission Termination Act of 1995 ("ICCTA"). Thus, and as demonstrated below, there can be no denial or delay in the issuance of, or any conditions on, the Permit related to rail operations (including delivery of crude oil to the facility).

As stated, in June of this year, the City circulated the DEIR. Interested parties have submitted comments on the DEIR. At least one commenter advocates denial of the Permit based on claimed rail transportation impacts; numerous commenters demand recirculation of the DEIR to evaluate air quality and safety claims related to railroad transportation, which would significantly delay a decision by the City on the Permit. Numerous commenters seek conditions on the Permit related to rail transportation. While the City has conceded the lack of legal authority to impose conditions of approval intended to mitigate for impacts of rail operations, the City nevertheless signaled a willingness to re-circulate the DEIR so as to address emissions associated with locomotives on federally regulated rail systems uprail of Roseville. CEQA review of the impacts of rail operations is preempted. CEQA re-circulation is improper and likewise preempted.

> Pursuant to the ICCTA, the STB's jurisdiction over
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> (1) transportation by rail carriers, and the remedies provided in this part with respect to... facilities of such carriers; and
>
> (2) the ... operation ... of ... industrial ... tracks, or facilities...
>
> is exclusive. Except as otherwise provided in this part, the remedies provided under this part with respect to regulation of rail transportation are exclusive and preempt the remedies provided under Federal or State law.
>
> 49 U.S.C. § 10501(b).
>
> For purposes of the ICCTA, "[t]ransportation is expansively defined." *Green Mt. R.R. Corp. v. Vermont*, 404 F.3d 638, 642 (2nd Cir. 2005). Transportation includes:

> (A) a locomotive, car, vehicle, vessel, warehouse, wharf, pier, dock, yard, property, facility, instrumentality, or equipment of any kind related to the movement of passengers or property, or both, by rail, regardless of ownership or an agreement concerning use; and (B) services related to that movement, including receipt, delivery, elevation, transfer in transit, refrigeration, icing, ventilation, storage, handling, and interchange of passengers and property.

49 U.S.C. 10102(9).

Federal preemption under the ICCTA is extremely broad. As one Court explained, with regard to the ICCTA, "[i]t is difficult to imagine a broader statement of Congress's intent to preempt state regulatory authority over railroad operations." *CSX Transp. Inc. v. Georgia Pub. Serv. Comm'n*, 944 F.Supp. 1573, 1581 (N.D. Ga. 1996). In the enactment of the ICCTA, Congress sought to provide uniformity in the national regulation of railroads. See e.g. *Friberg v. Kan. City S. Ry. Co.*, 267 F.3d 439, 443 (5th Cir. 2001) ("The regulation of railroad operations has long been a traditionally federal endeavor, to better establish uniformity in such operations and expediency in commerce, and it appears manifest that Congress intended the ICCTA to further that exclusively federal effort, at least in the economic realm.").

The courts and the STB have held that "any form of state or local permitting or preclearance that, by its nature, could be used to deny a railroad the ability to conduct some part of its operations" is categorically preempted regardless of the context of the action. *Adrian and Blissfield R.R. Co.*, 550 F.3d 533, 540 (6th Cir. 2008) (citations omitted). Here, UPRR will provide rail service to Valero's Benicia refinery. Thus, UPRR will engage in the delivery of property—an activity falling squarely within the ICCTA's definition of "transportation" by rail carrier. See 49 U.S.C. 10102(9)(B). Because UPRR's rail service to Benicia is "transportation by rail carrier" and the "operation of industrial tracks or facilities," it falls within the Board's exclusive jurisdiction as set forth in the ICCTA. See *DesertXpress*, STB Finance Docket 34914, at 4. In this case, any denial or delay in issuance of the Permit related to rail operations, including re-circulation of the DEIR to evaluate air quality and safety claims related to such operations, is preempted.

The preemption under the ICCTA is extremely broad; even if the City attempted to control railroad activity by controlling the Valero facility, such effort would be preempted. In *Norfolk Southern Railway Corporation v. City of Alexandria*, 608 F.3d 150 (4th Cir. 2010) ("*City of Alexandria*"), the Fourth Circuit reviewed an ordinance enacted by the City of Alexandria which was aimed at regulating the operations of an ethanol transloading facility owned by Norfolk Southern Railroad. *Id.* The ordinance placed limits on what products could be hauled through the City and over which routes the traffic could move, and it placed restrictions on the days and times for hauling ethanol from the transloading facility. *Id.* at 155 n.3. The City argued that the ordinance was not preempted because it only regulated the trucks leaving the facility, rather than the rail operations or transloading. *Id.* at 159. However, the Fourth Circuit found that the ordinance directly affected the railroad's ability to move goods shipped by rail as the backlog resulting from the permitting would, as stated by the Norfolk Southern trainmaster, adversely impact "the continuous movement of freight through our yards." *Id.* The Fourth Circuit recognized that local permitting requirements are preempted when they "directly impact"

the railroad's "ability to move goods shipped by rail." *Id.* at 159. The Court wrote: "[s]everal courts have recognized that requiring a rail carrier to obtain a locally issued permit before conducting rail operations – generally referred to as 'permitting' or 'preclearance' requirements – will impose an unreasonable burden on rail transportation." *Id.* at 160.

Recently, the California Court of Appeal held that the ICCTA preempted California Environmental Quality Act ("CEQA") claims asserted by environmental groups against the North Coast Railroad Authority related to a project to repair and upgrade a segment of track in California. *Friends of the Eel River v. North Coast Railroad Authority*, 230 Cal.App. 4th 85 (2014). The railroad entered into an agreement with the California Department of Transportation in order to obtain funding for the rehabilitation of the track. The agreement conditioned the funding on the production of an Environmental Impact Report ("EIR") mandated by CEQA, and environmental groups subsequently brought a petition for writ of mandate challenging the railroad's EIR. The Court of Appeal found that, despite the existence of the agreement, the petitioner's challenge to the railroad's certification of its EIR based on CEQA was preempted. The Court cited a number of federal decisions finding preemption of local regulations, and explained: "[T]he authorities cited [] conclude a state statute requiring environmental review as a condition to railroad operations is preempted by the ICCTA, and we have been directed to no federal appellate or STB decision reaching a contrary conclusion." The same precedent applies in this case. Approval of Valero's crude-by-rail project may not be conditioned upon CEQA review of railroad operations.

The STB has previously held that the ICCTA preempts CEQA with respect to the construction of a rail line subject to STB jurisdiction. In *DesertXpress*, the petitioner asked the Board for a declaratory order regarding whether construction of a passenger rail line that would be subject to STB jurisdiction was subject to CEQA. *DesertXpress*, slip op. at 2. In the resulting Declaratory Order, the Board found that it had exclusive jurisdiction over "the planned new track, facilities and operations," and that CEQA was per se preempted. *Id.* at 4. The rail transportation to the Benicia refinery is akin to the rail transportation in the *DesertXpress* case and is likewise governed by federal law exclusively, pursuant to the ICCTA.

In 2002, the STB reviewed a petition from the North San Diego County Transit Development Board ("NCTD") seeking a declaration that the City of Encinitas, California was prohibited from requiring NCTD to obtain a permit or other prior approval to construct a passing track on the mainline. *North San Diego County Transit Dev. Bd.—Petition for Declaratory Order*, STB Finance Docket No. 34111, slip op. at 1 (STB served Aug. 19, 2002). The City argued that there was no preemption of State regulation because the passing track "would have little or no impact on, or benefit to, state freight operations." *Id.* at 5. The City also argued that its regulations were "a legitimate use of its police powers, that NCTD has voluntarily participated in the past in the state environmental permit process, and that [NCTD]'s actions [] are a clear violation of its legislative charter." *Id.* at 5. The Board disagreed. *Id.* at 6. Because the City's permit requirements "could deny NCTD the right to proceed with its construction project, thus frustrating NCTD's proposal to construct a passing track that would benefit not only it and Amtrak but interstate freight carrier BNSF," the STB found they were preempted. *Id.* at 9.

Railroad operations are at the core of ICCTA preemption and the impacts of those operations cannot be subject to state and local laws. Just as it was in *North San Diego County Transit Development Board* and *North Coast Railroad*, the application of CEQA to the rail

transportation at Benicia is preempted. As it already has, CEQA would establish a "legal process that could frustrate or defeat railroad operations because they would, of necessity, impinge upon the federal regulation of interstate commerce." See *North San Diego County Transit Development Board*, at 7. CEQA review of UPRR's rail transportation is preempted by federal law. Therefore, re-circulation of the DEIR to address the impacts of locomotive emissions is clearly also preempted.

The City and Valero have worked tirelessly to address the objections of the opposition to this permit, but this process has gone much too far and has gone on for way too long. If the City elects to re-circulate, it will be doing so improperly. Valero will have no choice but to consider all of its legal options. The City may not lawfully re-circulate the DEIR in order to address the impacts of railroad operations. Valero therefore requests of the City that it refrain from any re-circulation, and complete the CEQA review process as soon as possible without further regard to UPRR's operations.

Very Truly Yours,

Richard J. Walsh

Enclosures

cc: Bradley R. Hogin, Esq.

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Refer To File #: 290396-0017

**VIA E-MAIL AND U.S. MAIL**

September 15, 2014

Amy Million, Principal Planner
Community Development Department
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amillion@ci.benicia.ca.us

**Re: Comments on Draft Environmental Impact Report for the Valero Benicia Crude by Rail Project (SCH #2013052074)**

Dear Ms. Million:

## 1. INTRODUCTION.

On behalf of Valero Refining Co. - California ("Valero"), we submit the following comments on the draft environmental impact report ("DEIR") circulated for public comment by the City of Benicia ("City") regarding the Valero Benicia Crude-by-Rail Project (SCH #2013052074) ("Project"). The Project involves the installation of rail spur tracks, a tank car unloading rack, pumps, connecting pipelines, and related infrastructure. The Project would enable the Benicia refinery to receive up to 70,000 barrels per day of crude oil by tank car. A fuller description of the Project is set forth in the DEIR itself.

We would like to note at the outset that, despite the scope of federal preemption as discussed below, we have cooperated fully in the City's use permit process, and related CEQA review, because of the City's interest, an interest shared by Valero, in providing a vehicle for public disclosure and discussion of our Project and the effects of our Project. Nevertheless, we do so with the reservation of our rights to invoke the full scope of federal preemption. Precisely because of the scope of preemption, we can state with confidence that the City's draft EIR goes far above and beyond what the law requires for review of the Project.

Before we comment further, a few additional introductory thoughts on preemption are in order. First, federal preemption of rail operations has been unfortunately depicted by some as a merely negative reality, when in fact federal preemption has an entirely positive purpose, one that benefits all of us, regardless of where we live and do business. As we have stated in other contexts, we decided as a nation a long time ago that the movement of people and goods from place to place in the United States was so important that it could not be subject to a patchwork of laws that change from state to state, county to county, or city to city. In that obvious respect, railroads have been binding us together for many decades, and only because of federal preemption have we been able to achieve the goals for which the laws were intended.

Neither is it the case, contrary to what some others have also implied, that federal preemption means that a kind of regulatory vacuum has been created, as if railroads can operate without accountability. Of course, nothing could be further from the truth: The federal government has led the way in the regulation of rail safety, and continues to do so even now, as the DEIR itself reveals.

Having established the affirmative and beneficial purposes of federal preemption, we would like in this letter to also discuss in brief the scope of federal preemption, combined with a request that its scope be unqualifiedly acknowledged for all impacts of rail operations pertaining to the development and operation of the Project, for both direct and indirect effects.

As noted in an excellent letter recently submitted by Union Pacific Railroad ("UPRR"), specifically by Melissa B. Hagan, to the Sacramento Area Council of Governments ("SACOG"), Union Pacific is dedicated to rail safety, a dedication proven not only by its encouraging words, but by actions, programs, and significant investment. (A copy of UPRR's letter to SACOG is enclosed herewith.) The letter also does an excellent job of describing recent federal regulatory action concerning the rail transport of hazardous materials, including crude oil.

## 2. FEDERAL PREEMPTION OF STATE AND LOCAL RAILROAD REGULATIONS.

### A. Interstate Commerce Commission Termination Act of 1995.

Under the United States Constitution, Congress has the power to regulate interstate commerce. U.S. Const. art. I, § 8, cl. 3. Pursuant to this power, Congress passed the Interstate Commerce Commission Termination Act of 1995, 49 U.S.C. § 701 et seq. ("ICCTA"). The ICCTA created the Surface Transportation Board ("STB"), which oversees the operation of railroads in the United States. The STB has broad authority to regulate railroad operations, including exclusive jurisdiction over "(1) transportation by rail carriers...and (2) the construction, acquisition, operation, abandonment, or discontinuation of...tracks, or facilities, even if the tracks are located or intended to be located, entirely in one State." 49 U.S.C. § 10501(b). The ICCTA contains an express preemption clause,[1] indicating Congress' intent to preempt all state and local regulation of railroad operations.

Referring to the scope of the federal preemption, one court has stated: "It is difficult to imagine a broader statement of Congress's intent to preempt state regulatory authority over railroad operations." *CSX Transp., Inc. v. Georgia Public Serv. Com'n* (N.D.Ga. 1996) 944 F.Supp. 1573, 1581 (CSX). The ICCTA also reflects congressional intent to continue the historical federal regulation of railroads. (*Fayard v. Northeast Vehicle Services, LLC* (1st Cir. 2008) 533 F.3d 42, 46; see *Chicago & N.W. Tr. Co. v. Kalo Brick & Tile* (1981) 450 U.S. 311, 318 ("The Interstate Commerce Act is among the most pervasive and comprehensive of federal regulatory schemes.").

Congress has stated that federal preemption of railroad regulation "is intended to address and encompass all such regulation and to be completely exclusive. Any other construction would undermine the uniformity standards and risk the balkanization and

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[1] 49 U.S.C. § 10501(b) states that "the remedies provided under this part with respect to regulation of rail transportation are exclusive and preempt the remedies provided under Federal or State law."

subversion of the Federal scheme of minimal regulation for this intrinsically interstate form of transportation." H.R. Rep. No 104-311, 104th Cong., 1st Sess., at 96 (1995).

As discussed further below, Congress has accordingly established federal preemption of rail operations by means of "diverse sources of statutory authority . . . with which to address rail safety issues," and therefore "preemption had to apply to regulations issued" under any of those sources, for "otherwise, the desired uniformity could not be attained." Brief for United States as Amicus Curiae at 6, *Public Util. Comm'n of Ohio v. CSX Transp., Inc.*, 498 U.S. 1066 (1991) (No. 90-95), *available at* http://www.justice.gov/osg/briefs/1990/sg900560.txt; *see also* H.R. Rep. No. 1194, 91st Cong., 2d Sess. 19 (1970) ("[S]uch a vital part of our interstate commerce as railroads should not be subject to [a] multiplicity of enforcement by various certifying States as well as the Federal Government.")

**B. Federal Railroad Safety Act.**

As already briefed by UPRR to SACOG, Congress directed in the Federal Railroad Safety Act ("FRSA") that "[l]aws, regulations, and orders related to railroad safety and laws, regulations, and orders related to railroad security shall be nationally uniform to the extent practicable." 49 U.S.C. § 20106(a)(1). To accomplish that objective, Congress provided that a State may no longer "adopt or continue in force a law, regulation, or order related to railroad safety" once the "Secretary of Transportation . . . prescribes a regulation or issues an order covering the subject matter of the State requirement." *Id.* at § 20106(a)(2). State or local hazardous material railroad transportation requirements may be preempted under the FRSA regardless of whether such state and local requirements might be consistent under the Federal hazmat law. *CSX Transportation, Inc. v. City of Tullahoma*, 705 F. Supp. 385 (E.D. Tenn. 1988); *CSX Transportation, Inc. v. Public Utilities Comm'n of Ohio*, 701 F. Supp. 608 (D. Ohio 1988), affirmed, 901 F.2d 497 (6th Cir. 1990), cert. denied 111 S.Ct. 781 (1991).

Section 20106(a)(2) compels the conclusion that DOT regulations and orders preempt state and local regulations relating to the same subject matter. Section 20106 states clearly that its terms govern the preemptive scope of all DOT regulations and orders relating to rail safety. DOT has acknowledged that "[t]hrough [the Federal Railroad Administration] and [the Pipeline and Hazardous Materials Safety Administration], DOT comprehensively and intentionally regulates the subject matter of the transportation of hazardous materials by rail . . . . These regulations leave no room for State . . . standards established by any means . . . dealing with the subject matter covered by the DOT regulations." 74 Fed. Reg. 1790 (Jan. 13, 2009).

**C. Pipeline Safety Improvement Act.**

The Pipeline Safety Improvement Act, which created the Pipeline and Hazardous Materials Safety Administration ("PHMSA), expressly preempts any state or local agency purporting to regulate "the designing, manufacturing, fabricating, inspecting, marking, maintaining, reconditioning, repairing, or testing a package, container, or packaging component that is represented, marked, certified, or sold as qualified for use in transporting hazardous material in commerce." 49 U.S.C. §5125. Accordingly, any project mitigation measure or condition of approval attempting to restrict or specify the type of equipment to be used in transporting crude-by-rail is expressly preempted.

**E. Federal Preemption of Rail Operations Applies to State and Local Environmental, Land Use and Tort Laws.**

The breadth of federal preemption under the ICCTA encompasses environmental laws such as CEQA. *City of Auburn v. United States*, 154 F.3d 1025 (9th Cir. 1998); *People v. Burlington N. Santa Fe R.R.*, 209 Cal.App.4th 1513, 1528 (Cal. Ct. App. 2012). In *City of Auburn*, the Burlington Northern and Santa Fe Railway (BNSF) sought to reacquire a segment of a rail line, make repairs and improvements, and reinstitute service. The Ninth Circuit held that BNSF's proposed project could not be subjected to environmental review pursuant to a Washington state statute that is similar to CEQA because the ICCTA precludes such review. *City of Auburn v. United States*, 154 F.3d at 1030.

Many other courts, and the STB itself, have added to the articulation of federal rail preemption. *See Norfolk S. R.R. Co. v. City of Austell*, 1997 WL 1113647, *6 (N.D. Ga. 1997) ("ICCTA expresses Congress' unambiguous and clear intent to preempt [the local jurisdiction's] authority to regulate and govern the construction, development, and operation of the plaintiff's intermodal facility."); *Soo Line R.R. v. City of Minneapolis*, 38 F.Supp.2d 1096, 1101 (D. Minn. 1998) ("The Court concludes that the City's demolition permitting process upon which Defendant has relied to prevent [the railroad] from demolishing five buildings...that are related to the movement of property by rail is expressly preempted by [the ICCTA]"); *Village of Ridgefield Park v. N.Y., Susquehanna & W. R.R. Corp.*, 750 A.2d 57 (N.J. 2000) (complaints about rail operations under local nuisance law preempted); *Village of Big Lake v. BNSF*, 382 SW 3rd 125 (2012) (claim that BNSF's build-up of its railway bed violated floodplain management ordinance preempted by ICCTA); *City of Cace v. Norfolk Southern Ry. Co.*, 391 SC 395 (2011) (claim that Norfolk Southern Railway was allowing a public nuisance because of rust and graffiti on bridge preempted by ICCTA); *Ass'n of Am. R.Rs. v. S. Coast Air Quality Mgmt. Dist.*, 622 F.3d 1094, 1096 (9th Cir. 2010) (holding that ICCTA preempted South Coast Air Quality Management District rule requiring railroads to report emissions from idling trains); *Waubay Lake Farmers Ass'n v. BNSF Ry. Co.*, No. 12-4179-RAL, 2014 WL 4287086 (D.S.D. Aug. 28, 2014) (state-based tort claim preempted).

The STB itself has found that, for the proposed construction of a high-speed rail line, "state permitting and land use requirements that would apply to non-rail projects, such as [CEQA], will be preempted." *DesertXpress Enterprises, LLC – Petition for Declaratory Order* (STB, June 27, 2007, No. FD 34914) 20007 STB Lexis 343, p.11.

A recent CEQA decision by a California appellate court confirms the breadth of the ICCTA's preemption. *See Town of Atherton v. California High-Speed Rail Authority*, No. C070877, 2014 Cal. App. Lexis 670 (July 24, 2014). In *Town of Atherton*, the Court recognized two broad categories of state and local regulations that are categorically preempted by the ICCTA, regardless of the context in which the state seeks to apply the regulation: ***(1) any form of state or local permitting or preclearance that, by its nature, could be used to deny a railroad the ability to conduct some part of its operations or to proceed with activities that the [STB] has authorized***; and (2) state or local regulation of matter directly regulated by the [STB] – such as the construction, operation, and abandonment of rail lines; railroad mergers, line acquisitions, and other forms of consolidation; and railroad rates and service." *Id.* at 20 (emphasis added). Thus, it is clear that CEQA preclearance and environment permitting requirements are preempted by federal law and do not apply to railroad operations.

The ICCTA does allow states to regulate railroads pursuant to their traditional police powers, but this constitutes a very narrow and restricted exception to the ICCTA's preemptive effect. This is because states may regulate railroads only when the state regulations "are settled and defined, can be obeyed with reasonable certainty, entail no extended or open-ended delays, and can be approved (or rejected) without the exercise of discretion on subjective questions." *Green Mountain R.R. Corp. v. State of Vermont*, 404 F3d 643, 643 (2nd Cir. 2005). Environmental permitting and pre-clearances do not meet this test when "the railroad is restrained from development until a permit is issued; the requirements for the permit are not set forth in any schedule or regulation that the railroad can consult in order to assure compliance; and the issuance of the permit awaits and depends upon the discretionary ruling of a state or local agency." *Id.* Because CEQA by definition only applies when an agency is making a discretionary decision over whether to approve or disapprove a project, it does not meet this test, and it is federally preempted by the ICCTA. Cal.Code.Regs. tit. 14, §§ 15002(i)(2), 15357, 15378.

### F. California Recognizes That Federal Law Preempts the Regulation of Railroads.

The State of California has long accepted that federal law preempts the application of state environmental regulations to rail carriers and rail operations. For example, instead of attempting to enforce California law, the California Air Resources Board has negotiated with the railroads for voluntary reductions in locomotive emissions and in emissions from rail yard activities. *See* Memorandum of Mutual Understandings and Agreements, South Coast Locomotive Fleet Average Emissions Program, July 2, 1998; ARB/Railroad Statewide Agreement, Particulate Emissions Reduction Program at California Rail Yards, June 2005, *available at* http://www.arb.ca.gov/railyard/ryagreement/ryagreement.htm. The 2005 agreement summarizes federal preemption as follows:

> It has been widely recognized that railroads need consistent and uniform regulation and treatment to operate effectively. A typical line-haul locomotive is not confined to a single air basin and travels throughout California and into different states. The U.S. Congress has recognized the importance of interstate rail transportation for many years. The Federal Clean Air Act, the Federal Railroad Safety Act, the Federal Interstate Commerce Commission Act and many other laws establish a uniform federal system of equipment and operational requirements. The parties recognize that the courts have determined that a relatively broad federal preemption exists to ensure consistent and uniform regulation. Federal agencies have adopted major, broad railroad and locomotive regulatory programs under controlling federal legislation.

2005 ARB/Railroad Statewide Agreement, p. 25.

In the *Town of Atherton v. California High Speed Rail Authority* case referred to above, the California Attorney General asserted that the ICCTA preempts CEQA as applied to the California High-Speed Rail train system. The Attorney General stated:

> Courts and the STB uniformly hold that the ICCTA preempts state environmental pre-clearance requirements, such as those in the California Environmental Quality Act (CEQA). The ICCTA preempts these requirements because they can be used to prevent or delay construction of new portions of the interstate rail network, which is exactly the sort of piecemeal regulation Congress intended to eliminate.

Supplemental Letter Brief filed August 9, 2013, in the matter of *Town of Atherton v. California High Speed Rail Authority*, Court of Appeal of the State of California, Third Appellate District, No. C070877, at p. 3.

**G. Federal Law Preempts Local Permitting Authority for Rail Car Unloading Facilities.**

As stated above, Valero shares fully in the City's interest in providing a procedural vehicle for disclosure and discussion related to Valero's crude-by-rail Project, and Valero has participated fully in the City's effort to provide such a vehicle, including cooperating in the City's permitting and CEQA review process. The benefits of the process cannot be denied. Nevertheless, the scope of federal preemption precludes not only City authority over mainline rail operations, but also over the unloading facilities to be located on the refinery property. Our participation in this process, it must be understood, is subject to a full reservation of rights under federal law.

Section 10102(9) of the ICCTA defines "transportation" broadly, so as to include not only a "locomotive, car, [or] vehicle," but a "property, facility, instrumentality, or equipment of any kind related to the movement of passengers or property, or both, by rail."

Accordingly, preemption also applies to local approval authority over facilities such as Valero's crude-by-rail Project, which receive goods moved by rail. In *Norfolk Southern Railroad Company v. City of Alexandria*, 608 F.3d 150 (2010), the City of Alexandria, in an attempt to regulate an ethanol transloading facility, the purpose of which was to transfer bulk shipments of ethanol from rail cars onto surface tanker trucks for local distribution and delivery, adopted an ordinance purporting to regulate the transportation of bulk materials, including ethanol, within the city. The city also unilaterally issued a permit to Norfolk Southern that purported to limit the materials that could be hauled, the routes, times of day, etc. The city argued that preemption should not apply because the ordinance and permit related to distribution of the cargo by trucks, rather than to the trains or the transloading operation.

The court rejected the city's argument, holding that the ordinance and permit were preempted because they "directly impact Norfolk Southern's ability to move goods shipped by rail." Because a limit on the number of trucks exiting the facility directly affected the number of rail cars that could be unloaded, which in turn could affect the movement of trains in Norfolk's yard, and throughout its rail system, the Fourth Circuit concluded that the conditions restricting ethanol distribution by truck "necessarily regulate the transloading operations." 608 F.3d at 159. The court further found that the ordinance and permit imposed an unreasonable burden on rail transportation because "the city has the power to halt or significantly diminish the transloading operations by declining to issue haul permits or by increasing the restrictions specified therein." *Id.* at 160.

### H. CEQA Does Not Apply to Rail Operations Because of the Federal Preemption.

CEQA applies only to discretionary approvals. *San Diego Navy Broadway Complex Coalition v. City of San Diego*, 185 Cal.App.4th 924, 933-934 (2010); *Friends of Westwood, Inc. v. City of Los Angeles*, 191 Cal.App.3d 259, 266-267 (1987); *Mountain Lion Foundation v. Fish and Game Commission*, 16 Cal.4th 105, 117 (1997). Because of federal preemption, the City's discretion does not reach either mainline rail operations, or the unloading operations at the refinery site itself.

## 3. COMMENTS RE DEIR ALTERNATIVES ANALYSIS.

**Concerning Section 6.4.2.2**, Alternative 2: First, the alternative relates to impacts of train crossings at Park Road, a potential effect that is subject to federal preemption. Second, a condition restricting deliveries and departures to nighttime hours, because of the nature of the offloading procedure, the time consumed for both unloading and return of the rail cars, and the compressed time frame for two trains to arrive, offload and return, could have more significant effects on train crossings at Park Road than delivery of the rail cars without such nighttime restriction.

## 4. CONCLUSION.

The DEIR, as we have stated elsewhere, is one of which the City can be proud, going far above and beyond what the law requires, and even permits. We commend the City's efforts to promote disclosure and discussion related to the Project, and we have participated vigorously and openly in that process. Nevertheless, as stated above, we do so while reserving all rights under federal law.

Thank you very much for your consideration of our comments.

Very truly yours,

John J. Flynn III
of Nossaman LLP

JJF:rg

Enclosure

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Re: Union Pacific – Valero Refinery Project

Dear Mr. McKeever:

Union Pacific Railroad Company (UP) appreciates this opportunity to comment on the draft Comment Letter on Valero Crude by Rail Project Environmental Impact Report, Item #14-8-4, which we understand will be considered by the Sacramento Area Council of Governments (SACOG) on August 21, 2014.

UP understands the concern about the risks associated with crude-by-rail and we take our responsibility to ship crude oil, as mandated by federal law, very seriously. UP follows the strictest safety practices and in many cases, exceed federal safety regulations. UP's goal is to have zero derailments and it works closely with the federal Department of Transportation (DOT), the Federal Railroad Administration (FRA), the Pipeline and Hazardous Materials Safety Administration (PHMSA), the Association of American Railroads (AAR) and our customers to ensure it operates the safest railroad possible.

Safety is UP's top priority. The only effective way to ensure safety is through comprehensive federal regulation. A state-by-state, or town-by-town approach in which different rules apply to the beginning, middle, and end of a single rail journey, would not be effective. Congress agrees. Federal regulations completely preempt the application of the California Environmental Quality Act (CEQA) and the mitigation measures proposed in the comment letter drafted by SACOG staff. We encourage SACOG and its member agencies to participate in this rulemaking process.

**I. Union Pacific is working closely with other stakeholders to ensure the safety of crude transportation.**

Union Pacific is working diligently with federal, state and local authorities to prevent derailments or other accidents. UP spent more than $21.6 billion in capital investments from 2007-2013 continuing to strengthen our infrastructure. By doing so, it is continuously improving safety for our employees, our communities and our customers.

UP has decreased derailments 23% over the last 10 years, due in large part to our robust derailment prevention and risk reduction process. This process includes, among others, the following measures:

- Union Pacific uses lasers and ultrasound to identify rail imperfections.
- UP forecasts potential failures before they happen by tracking the acoustic vibration on wheels.
- UP performs a real-time analysis of every rail car moving on our system each time it passes a trackside sensor, equaling 20 million car evaluations per day.
- UP employees participate in rigorous safety training programs on a regular basis and are trained to identify and prevent potential derailments.

Union Pacific also reaches out to fire departments as well as other emergency responders along our lines to offer comprehensive training to hazmat first-responders in communities where we operate. Union Pacific annually trains approximately 2,500 local, state and federal first-responders on ways to minimize the impact of a derailment in their communities. UP has trained nearly 38,000 public responders and almost 7,500 private responders (shippers & contractors) since 2003. This includes classroom and hands-on training.

These efforts have paid off. The overall safety record of rail transportation, as measured by the FRA has been trending in the right direction for decades. In fact, based on the three most common rail safety measures, recent years have been the safest in rail history: the train accident rate in 2013 was down 79 percent from 1980 and down 42 percent from 2000; the employee injury rate was down 84 percent from 1980 and down 47 percent from 2000; and the grade crossing collision rate was down 81 percent from 1980 and down 42 percent from 2000.

**II. The Federal Government is imposing more stringent requirements for safe transportation of crude oil.**

As federal rail authorities recently explained, DOT, through the FRA and PHMSA, "continue[s] to pursue a *comprehensive, all-of-the-above approach* in minimizing risk and ensuring the safe transport of crude oil by rail." Department of Transportation, *Federal Railroad Administration's Action Plan for Hazardous Materials Safety* at 1 (May 20, 2014), available at http://www.fra.dot.gov/eLib/details/L04721. These efforts include not only scores of regulations governing the safe transportation of hazardous materials, including oil products, found in 49 C.F.R. Parts 171 to 180, but also a host of equipment and operating rules promulgated by FRA, as well as voluntary agreements and Emergency Orders issued over the past year in response to oil spills.

Voluntary Agreement

On February 21, 2014, the nation's major freight railroads and the DOT agreed to a rail operations safety initiative that established new operating practices for moving crude oil by rail. Under the industry's voluntary efforts, railroads are:

- Increasing the frequency of track inspections using high-tech track geometry readers.
- Equipping crude trains with either distributed power or two-way telemetry end-of-train devices. These technologies allow train crews to apply emergency brakes from both ends of the train in order to stop the train faster.
- Using new rail traffic routing technology (the Rail Corridor Risk Management System (RCRMS)) to aid in the determination of the safest and most secure rail routes for trains with 20 or more cars of crude oil.
- Lowering speeds to no more than 40 miles-per-hour in the 46 federally-designated high-threat-urban areas and no more than 50 miles per hour in other areas.
- Working with communities to address location-specific concerns that communities may have.
- Increasing trackside safety technology by installing additional wayside wheel bearing detectors if they are not already in place every 40 miles along tracks with trains carrying 20 or more crude oil cars, as other safety factors allow.
- Increasing emergency response training and tuition assistance.
- Enhancing emergency response capability planning.

These voluntary actions are already being implemented.

Emergency Orders

In a February 25, 2014 Emergency Order, the DOT ordered certain changes in the way petroleum crude oil is classified and labeled during shipment, emphasizing that "with regard to emergency responders, sufficient knowledge about the hazards of the materials being transported [is needed] so that if an accident occurs, they can respond appropriately." February 25, 2014 Emergency Order at 13. And in its May 7, 2014 Emergency Order, the DOT ordered railroads transporting large quantities of crude oil to notify state authorities of the estimated number of trains traveling through each county of the State, provide certain emergency response information required by federal regulations (49 C.F.R. Part 172, subpart G) and identify the route over which the oil will be transported.

Proposed Regulations

On July 23, 2014, the PHMSA proposed enhanced tank car standards, a classification and testing program for crude oil and new operational requirements for trains transporting such crude that include braking controls and speed restrictions. PHMSA proposes the phase out of older DOT 111 tank cars for the shipment flammable liquids, including most Bakken crude oil, unless the tank cars are retrofitted to comply with new tank car design standards. We encourage SACOG to participate in this rulemaking process.

The federal proposal includes:

- Better classification and characterization of mined gases and liquids
- Rail routing risk assessment
- Notification to State Emergency Response Commissions
- Reduced operating speeds
- Enhanced braking
- Enhanced standards for both new and existing tank cars

As the federal government's existing regulations, recent emergency orders, the voluntary agreements and the new regulatory proposals make abundantly clear, regulation of crude transportation is extremely detailed and complex. Union Pacific is actively participating in the efforts to finalize the new regulations and encourages SACOG and its member agencies to do the same. By jointly working to enhance safety we can ensure that the most effective regulations are adopted.

**III. A uniform federal regulatory program is essential to ensure the safe transportation of crude oil.**

As the complex regulatory program described above illustrates, clear and uniform federal regulation is needed to ensure that crude oil continues to be transported safely. With respect to rail transportation, federal law preempts most state and local regulation of rail activities.

Uniform standards and rules for railroad operations allow the efficient movement of goods among the states. If each state or local community were allowed to impose its own regulations on railroad operations, rail transportation could grind to a halt, because train crews would need to apply different rules or perhaps use different equipment as they move from place to place.

As stated by the U.S. Congress:

> Subjecting rail carriers to regulatory requirements that vary among the States would greatly undermine the industry's ability to provide the "seamless" service that is essential to its shippers and would weaken the industry's efficiency and competitive viability.

The U.S. Congress went on to state that

> federal regulation of railroads is intended to address and encompass all such regulation and to be completely exclusive. Any other construction would undermine the uniformity of Federal standards and risk the balkanization and subversion of the Federal scheme of minimal regulation for this intrinsically interstate form of transportation.

Congress has therefore established federal preemption under several statutes governing rail transportation. As the U.S. Solicitor General has explained, Congress recognized that the federal government has "diverse sources of statutory authority . . . with which to address rail safety issues," and therefore "preemption had to apply to regulations issued" under any of those sources, for "otherwise, the desired uniformity could not be attained." Brief for United States as Amicus Curiae at 6, *Public Util. Comm'n of Ohio v. CSX Transp., Inc.*, 498 U.S. 1066 (1991) (No. 90-95), *available at* http://www.justice.gov/osg/briefs/1990/sg900560.txt; *see also* H.R. Rep. No. 1194, 91st Cong., 2d Sess. 19 (1970) ("[S]uch a vital part of our interstate commerce as railroads should not be subject to [a] multiplicity of enforcement by various certifying States as well as the Federal Government.")

Preemption under ICCTA

In 1996, Congress passed the Interstate Commerce Commission Termination Act (ICCTA), which broadened the preemptive effect of federal law and created the federal Surface Transportation Board ("STB"). The driving purpose behind ICCTA was to keep "bureaucracy and regulatory costs at the lowest possible level, consistent with affording remedies only where they are necessary and appropriate." H.R.Rep. No. 104-331, at 93, reprinted in 1995 U.S.C.C.A.N. 793, 805 (emphasis added).

Congress vested the STB with broad authority over railroad operations. Indeed, STB has "exclusive" jurisdiction over "(1) transportation by rail carriers . . . and (2) the construction, acquisition, operation, abandonment, or discontinuance of . . . tracks, or facilities." 49 U.S.C. § 10501(b).

"Transportation" by rail carriers broadly includes:

> (A) a locomotive, car, vehicle, vessel, warehouse, wharf, pier, dock, yard, property, facility, instrumentality, or equipment of any kind related to the movement of passengers or property, or both, by rail, regardless of ownership or an agreement concerning use; and

> (B) services related to that movement, including receipt, delivery, elevation, transfer in transit, refrigeration, icing, ventilation, storage, handling, and interchange of passengers and property. 49 U.S.C. § 10102(9)(emphasis added).

Further, ICCTA contains an express preemption clause: "the remedies provided under this part with respect to the regulation of rail transportation are exclusive and preempt the remedies provided under Federal and State law." 49 U.S.C. § 10501(b). "It is difficult to imagine a broader statement of Congress's intent to preempt state regulatory authority over railroad operations." (*CSX Transp., Inc. v. Georgia Public Serv. Com'n* (N.D.Ga. 1996) 944 F.Supp. 1573, 1581 (CSX).) This provision continues the historic extensive federal regulation of railroads. (*Fayard v. Northeast Vehicle Services, LLC* (1st Cir. 2008) 533 F.3d 42, 46; see *Chicago & N.W. Tr. Co. v. Kalo Brick & Tile* (1981) 450 U.S. 311, 318 ["The Interstate Commerce Act is among the most pervasive and comprehensive of federal regulatory schemes."].)

Over the years, many courts have addressed challenges by state and local authorities seeking to regulate some aspect of rail operations. The courts have consistently upheld Congress's intention that no such regulation can be allowed. As one court stated, "freeing the railroads from state and federal regulatory authority was the principal purpose of Congress" in adopting ICCTA. *Wisconsin Central Ltd. v. City of Marshfield*, 160 F.Supp.2d 1009, 1015 (W.D.Wis. 2000).

Preemption under the Federal Railroad Safety Act

Congress directed in the Federal Railroad Safety Act ("FRSA") that "[l]aws, regulations, and orders related to railroad safety and laws, regulations, and orders related to railroad security shall be nationally uniform to the extent practicable." 49 U.S.C. § 20106(a)(1). To accomplish that objective, Congress provided that a State may no longer "adopt or continue in force a law, regulation, or order related to railroad safety" once the "Secretary of Transportation . . . prescribes a regulation or issues an order covering the subject matter of the State requirement." *Id.* § 20106(a)(2). State or local hazardous material railroad transportation requirements may be preempted under the FRSA without consideration of whether they might be consistent under the Federal hazmat law. *CSX Transportation, Inc. v. City of Tallahoma*, No. 4-87-47 (E.D. Tenn. 1988); *CSX Transportation, Inc. v. Public Utilities Comm'n of Ohio*, 701 F. Supp. 608 (D. Ohio 1988), affirmed, 901 F.2d 497 (6th Cir. 1990), cert. denied 111 S.Ct. 781 (1991).

Under Section 20106(a)(2), these DOT regulations and orders preempt state and local regulations relating to the same subject matter. The text of § 20106 is unambiguous. It plainly states that the terms of § 20106 govern the preemptive force of all DOT regulations and orders related to rail safety. DOT has recognized that "[t]hrough [the Federal Railroad Administration] and [the Pipeline and Hazardous Materials Safety Administration], DOT comprehensively and intentionally regulates the subject matter of the transportation of hazardous materials by rail . . . .

These regulations leave no room for State . . . standards established by any means . . . dealing with the subject matter covered by the DOT regulations." 74 Fed. Reg. 1790 (Jan. 13, 2009).

Preemption under the Pipeline Safety Improvement Act

The Pipeline Safety Improvement Act, which created the PHMSA, includes an express preemption provision prohibiting any state or local agency from regulating "the designing, manufacturing, fabricating, inspecting, marking, maintaining, reconditioning, repairing, or testing a package, container, or packaging component that is represented, marked, certified, or sold as qualified for use in transporting hazardous material in commerce." 49 U.S.C. §5125. Thus, any mitigation measure restricting or specifying the type of equipment to be used in transporting crude by rail is expressly preempted.

DOT has stated that "[t]hrough [the Federal Railroad Administration] and [the Pipeline and Hazardous Materials Safety Administration], DOT comprehensively and intentionally regulates the subject matter of the transportation of hazardous materials by rail . . . . These regulations leave no room for State . . . standards established by any means . . . dealing with the subject matter covered by the DOT regulations." 74 Fed. Reg. 1790 (Jan. 13, 2009).

**IV. Neither SACOG nor its member agencies has authority to impose the mitigation measures or conditions proposed in the draft Comment Letter on Valero Crude by Rail Project Environmental Impact Report.**

The courts have found that ICCTA preempts state and local environmental, land use and planning regulations. For example, in *City of Auburn*, the Ninth Circuit affirmed STB's ruling that local environmental review regulations could not be required for BNSF's proposal to reacquire and reactivate a rail line. 154 F.3d 1025, 1031 (9th Cir. 1998). The court found that the State of Washington's environmental review statute – a statute that is similar to CEQA – could not be applied to a rail project. Similarly, the Second Circuit found that ICCTA preempted a state requirement for a railroad to obtain a pre-construction environmental permit for a transloading facility because it would give the local governmental body the ability to deny or delay the right to build the facility. *Green Mountain Railroad Corporation v. State of Vermont*, 404 F.3d 638, 641-45 (2d Cir. 2005). In effect, the court found that if a permit allowed the state or local agency to exercise discretion over the rail project, that permit requirement would be preempted.

The California Court of Appeal laid out this same logic in its recent decision in *Town of Atherton v. California High Speed Rail Authority* (filed July 24, 2014), stating:

> [S]tate actions are 'categorically' or 'facially' preempted where they 'would directly conflict with exclusive federal regulation of railroads.' [Citations.] Courts and the STB have recognized 'two broad categories of state and local actions' that are categorically preempted regardless of the context of the action: (1) 'any form of state or local permitting or preclearance that, by its nature, could be used to deny a railroad the ability

> to conduct some part of its operations or to proceed with activities that the [STB] has authorized' and (2) 'state or local regulation of matters directly regulated by the [STB]—such as the construction, operation, and abandonment of rail lines; railroad mergers, line acquisitions, and other forms of consolidation; and railroad rates and service.' [Citations.] Because these categories of state regulation are 'per se unreasonable interference with interstate commerce,' 'the preemption analysis is addressed not to the reasonableness of the particular state or local action, but rather to the act of regulation itself.'

The California Attorney General endorsed this application of the law and specifically argued that "[c]ourts and the STB uniformly hold that the ICCTA preempts state environmental pre-clearance requirements such as those in the California Environmental Quality Act (CEQA)." Letter dated August 9, 2013 from Attorney General Kamala Harris to the Hon. Vance W. Raye, Presiding Justice, California Court of Appeal for the Third District at 3.

Additional cases and STB decisions that have struck down state and local environmental and land use regulations include: *Norfolk Southern Railway Company v. City of Austell*, 1997 WL 1113647, *6 (N.D.Ga. 1997) ("ICCTA expresses Congress's unambiguous and clear intent to preempt [city's] authority to regulate and govern the construction, development, and operation of the plaintiff's intermodal facility"); *Soo Line R.R. v. City of Minneapolis*, 38 F.Supp.2d 1096, 1101 (D. Minn. 1998) ("The Court concludes that the City's demolition permitting process upon which Defendants have relied to prevent [the railroad] from demolishing five buildings . . . that are related to the movement of property by rail is expressly preempted by [ICCTA]."); *Norfolk S. Ry. v. City of Austell*, 1997 WL 1113647 (N.D. Ga. 1997) (local zoning and land use regulations preempted); *Village of Ridgefield Park v. New York, Susquehanna & W. Ry.*, 750 A.2d 57 (N.J. 2000) (complaints about rail operations under local nuisance law preempted); *Burlington Northern and Santa Fe Ry. v. City of Houston*, S.W.3d, 2005 WL 1118121 (Tex. App. 2005) (interpretations of state condemnation law that would prevent condemnation of city land required for construction of rail line preempted).

The *Atherton* court noted that state and local agencies may exercise authority over the development of railroad property to the extent that such regulations:

> can be approved (or rejected) without the exercise of discretion on subjective questions. Electrical, plumbing and fire codes, direct environmental regulations enacted for the protection of the public health and safety, and other generally applicable, non-discriminatory regulations and permit requirements would seem to withstand preemption.

The limited exception for routine, non-discretionary permits to meet building and electrical codes is not relevant here. Instead, the cases have clearly established that state and local agencies have no authority to impose permitting or land use requirements that "would give the local governmental body the ability to deny or delay the right to build the facility."

## V. Conclusion

Like the transloading facility in the *Green Mountain* case and the intermodal facility in the *Norfolk Southern* case, the proposed loading rack and tracks at the Valero Refinery are essential components of rail transportation. As noted above, "transportation" includes a "yard, property, facility, instrumentality, or equipment of any kind related to the movement of passengers or property, or both, by rail, regardless of ownership. . ." as well as "receipt, delivery, elevation, transfer in transit, . . . storage, [and] handling" of goods. Valero's proposed project falls squarely within the scope of this definition and the Congress and the courts have made it abundantly clear that "no state or local governmental agency may delay or deny the right to build" such a facility.

As noted above, Union Pacific supports the federal regulatory efforts to ensure that crude transportation is carried out safely. We encourage SACOG and its member agencies to participate in the rulemaking process. Neither SACOG nor its member agencies can go it alone—federal law and common sense demand that a uniform national approach be adopted and applied to ensure safety.

Regards,

UNION PACIFIC RAILROAD COMPANY

Melissa Hagan

Melissa B. Hagan

cc: Ms. Amy Million, City of Benicia Planning Commission