

**NOTICE OF PROBABLE VIOLATION
PROPOSED CIVIL PENALTY
and
PROPOSED COMPLIANCE ORDER**

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

May 11, 2012

Mr. Robert Haugen
Executive VP of Refining Operations
Coffeyville Resources LLC
2277 Plaza Drive, Suite 500, Building B
Sugar Land, Texas 77479

CPF 3-2012-5010

Dear Mr. Haugen:

On April 25-29, 2011, a representative of the Pipeline and Hazardous Materials Safety Administration (PHMSA) pursuant to Chapter 601 of 49 United States Code inspected your Integrity Management Program in Bartlesville, Oklahoma.

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. §195.452 Pipeline integrity management in high consequence areas.

(f) What are the elements of an integrity management program? An integrity management program begins with the initial framework. An operator must continually change the program to reflect operating experience, conclusions

drawn from results of the integrity assessments, and other maintenance and surveillance data, and evaluation of consequences of a failure on the high consequence area. An operator must include, at minimum, each of the following elements in its written integrity management program:

(4) Criteria for remedial actions to address integrity issues raised by the assessment methods and information analysis (see paragraph [h] of this section);

Coffeyville Resources LLC (Coffeyville) has not established adequate criteria to determine the remedial actions required to address inline inspection (ILI) findings. Coffeyville did not perform sufficient verification and/or calibrations activities for each of the nineteen ILI runs performed on their pipelines. Procedure 6.02 ADM-011 requires that calibration digs be performed. While there was no evidence indicating that the lack of calibration digs contributed to pipeline accidents, two failures have occurred on pipe that had been previously assessed.

2. §195.452 Pipeline integrity management in high consequence areas.

(f) What are the elements of an integrity management program? An integrity management program begins with the initial framework. An operator must continually change the program to reflect operating experience, conclusions drawn from results of the integrity assessments, and other maintenance and surveillance data, and evaluation of consequences of a failure on the high consequence area. An operator must include, at minimum, each of the following elements in its written integrity management program:

(8) A process for review of integrity assessment results and information analysis by a person qualified to evaluate the results and information (see paragraph (h)(2) of this section).

Coffeyville did not have a review of integrity assessment results and information analysis by a person qualified to evaluate the results and information. Table 4.1 of Coffeyville's integrity management plan (IMP) identified ten company employees who are to be qualified. The IMP also identifies eight integrity management (IM) related tasks that are to be completed by those qualified employees. One of those IM tasks addressed the qualification of individuals who review integrity assessments and information analysis. Coffeyville did not demonstrate that any training or qualifications existed for any of the identified employees who reviewed integrity results. No documentation was provided that the individuals had the necessary knowledge, skills and abilities to make recommendations on remedial actions.

3. §195.452 Pipeline integrity management in high consequence areas.

(h) What actions must an operator take to address integrity issues?

(4) Special requirements for scheduling remediation

(i) Immediate repair conditions. An operator's evaluation and remediation schedule must provide for immediate repair conditions. To maintain safety, an operator must temporarily reduce the operating pressure or shut down the pipeline until the operator completes the repair of these conditions. An operator must calculate the temporary reduction in operating pressure using the formula in section 451.7 of ASME/ANSI B31.4 (incorporated by reference, see § 195.3), if applicable. If the formula is not applicable to the type of anomaly or would produce a higher operating pressure, an operator must use an alternative acceptable method to calculate a reduced operating pressure.

(C) A dent located on the top of the pipeline (above the 4 and 8 o'clock positions) that has any indication of metal loss, cracking or a stress riser.

Coffeyville did not schedule and repair three dents identified during review of ILI results from the September 8, 2008, ILI assessment of the 4" Bartlesville to Caney River Trap segment. These dents were determined to be immediate repair conditions by Coffeyville personnel and had not been repaired at the time of the PHMSA inspection.

4. §195.452 Pipeline integrity management in high consequence areas.

(h) What actions must an operator take to address integrity issues?

(4) Special requirements for scheduling remediation

(iii) 180-day conditions. Except for conditions listed in paragraph (h)(4)(i) or (ii) of this section, an operator must schedule evaluation and remediation of the following within 180 days of discovery of the condition:

(E) An area of general corrosion with a predicted metal loss greater than 50% of nominal wall.

Coffeyville did not schedule and remediate three metal loss anomalies identified during review of ILI results from the September 8, 2008, ILI assessment of the 4" Bartlesville to Caney River Trap segment. These metal loss anomalies were determined to be 180-day repair conditions by Coffeyville personnel and had not been remediated at the time of the PHMSA inspection.

Proposed Civil Penalty

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. The Compliance Officer has reviewed the circumstances and supporting documentation involved in the above probable violation(s) and has recommended that you be preliminarily assessed a civil penalty of \$84,700 as follows:

<u>Item number</u>	<u>PENALTY</u>
1	\$ 22,100
2	\$ 22,100
3	\$ 22,100
4	\$ 18,400

Proposed Compliance Order

With respect to items 1 and 2, pursuant to 49 United States Code § 60118, the Pipeline and Hazardous Materials Safety Administration proposes to issue a Compliance Order to Coffeyville. Please refer to the *Proposed Compliance Order*, which is enclosed and made a part of this Notice.

Response to this Notice

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.

In your correspondence on this matter, please refer to **CPF 3-2012-5010** and for each document you submit, please provide a copy in electronic format whenever possible.

Sincerely,

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

Enclosures: *Proposed Compliance Order*
Response Options for Pipeline Operators in Compliance Proceedings

PROPOSED COMPLIANCE ORDER

Pursuant to 49 United States Code § 60118, the Pipeline and Hazardous Materials Safety Administration (PHMSA) proposes to issue to Coffeyville Resources LLC (Coffeyville) a Compliance Order incorporating the following remedial requirements to ensure the compliance of Coffeyville with the pipeline safety regulations:

1. In regard to Item Number 1 of the Notice pertaining to inadequate criteria for remedial actions to address integrity issues, Coffeyville shall develop criteria to determine remedial actions to address integrity issues raised by assessments and information analysis, and reevaluate the most current assessment reports for all pipelines. A plan and schedule will be submitted to this office that shows how the findings of the reevaluation will be verified. A statistically established number of verification and/or calibration activities shall be included. These compliance requirements will be completed within 90 days of the Final Order.
2. In regard to Item Number 1 of the Notice pertaining to inadequate criteria for remedial actions to address integrity issues, Coffeyville shall excavate any condition that meets the criteria for immediate conditions on all pipelines. Once exposed, each anomaly will be cleaned to sound metal and appropriate measurements will be documented. In the event the anomalies exceed the predicted dimensions, the report shall be re-evaluated appropriately. Any corrective measures will need to be performed immediately. These compliance requirements will be completed within 150 days of the Final Order.
3. In regard to Item Number 2 of the Notice pertaining to having qualified personnel review of integrity assessment results and information analysis, Coffeyville shall have all personnel reviewing integrity assessment results and information analysis trained and qualified in accordance with the requirements of the Coffeyville integrity management plan. A plan will be submitted to this office that describes training and qualifications required and a schedule of the proposed training. These compliance requirements will be completed within 60 days of the Final Order.
4. Coffeyville shall submit documentation of the completed compliance actions above within 30 days after their completion.
5. It is requested that Coffeyville maintain documentation of the safety improvement costs associated with fulfilling this Compliance Order and submit the total to David Barrett, Director, Central Region, Pipeline and Hazardous Materials Safety Administration. It is requested that these costs be reported in two categories: 1) total cost associated with preparation/revision of plans, procedures, studies and analyses, and 2) total cost associated with replacements, additions and other changes to pipeline infrastructure.