

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

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

February 26, 2010

Mr. Mark Cunningham
Vice President, Operations
Holly Energy Partners
100 Crescent Ct., Suite 1600
Dallas, Texas 75201

CPF 4-2010-5007

Dear Mr. Cunningham:

On November 3 – 7, 2008, a representative of the Pipeline and Hazardous Materials Safety Administration (PHMSA), pursuant to Chapter 601 of 49 United States Code inspected Holly Energy Partners (HEP) Rio Grande Pipeline Company's records and procedures in Artesia, New Mexico.

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 violations are:

- 1. §195.571 Cathodic protection required by this subpart must comply with one or more of the applicable criteria and other considerations for cathodic protection contained in paragraphs 6.2 and 6.3 of NACE Standard RP 0169 (incorporated by reference, see §195.3).**

During the records review of the Rio Grande Pipeline, the PHMSA inspector asked HEP for their corrosion control procedures and pipe-to-soil records. After reviewing the corrosion control procedures and pipe-to-soil records, the PHMSA inspector found several test points that did not meet the -0.850 V corrosion criteria early in 2008 (see Table I) and for two and four consecutive years between 2005 and 2008 (see Table II). HEP's procedure referred to in their O&M manual as 6.0 HEP-O&M-195.563 (Cathodic Protection) states that the following:

“Sufficient current must flow from soil to pipe to maintain a constant voltage difference at the soil-metal interface of 0.25 volt (approximately -0.85 volt between pipe and copper sulfate electrode in contact with soil) or more.”

HEP failed to demonstrate adequate cathodic protection levels were maintained for the locations identified in Tables I and II below by failing to meet the criteria specified in their corrosion control procedures.

Table I

850 mV Criteria - 2008 Low Pipe-to-Soil Data

Relative Milepost	Location Description	Pipe-to-Soil Reading (V) 2005	Pipe-to-Soil Reading (V) 2006	Pipe-to-Soil Reading (V) 2007	Pipe-to-Soil Reading (V) 2008
114.800	Test Lead Marker #172	- 0.894	- 0.970	- 1.202	- 0.770
121.600	Booster Sta. & Block Valve	- 0.850	- 0.900	- 0.895	-0.707
121.900	Kinder Morgan 20" Crossing	- 1.130	- 0.913	- 0.891	-0.751

2. §195.573(e) Corrective action. You must correct any identified deficiency in corrosion control as required by §195.401(b). However, if the deficiency involves a pipeline in an integrity management program under §195.452, you must correct the deficiency as required by §195.452(h).

During the records review of the Rio Grande Pipeline, the PHMSA inspector asked HEP for their corrosion control procedures and pipe-to-soil records. After reviewing the pipe-to-soil records, the PHMSA inspector found several test points that did not meet the -0.850 V corrosion criteria for two and four consecutive years (see Table II). Pipelines having inadequate test readings for two consecutive years or more of annual survey data cannot provide adequate levels of cathodic protection. The operator should have the evaluations and decisions made and action started within a few months (proportionately less where required monitoring is less than a year), and correction completed by the next scheduled monitoring. Additionally, HEP’s corrosion control procedures do not contain language that specifying the timing of corrective actions or the definition of “prompt action” or “reasonable time” as it pertains to the correction of pipe to soil readings that fail to meet the minimum criteria.

Table II

850 mV Criteria - Consecutive Low Pipe-to-Soil Data

Relative Milepost	Location Description	Pipe-to-Soil Reading (V) 2005	Pipe-to-Soil Reading (V) 2006	Pipe-to-Soil Reading (V) 2007	Pipe-to-Soil Reading (V) 2008
75.300	Test Lead Marker #132	- 0.622	- 0.594	- 0.771	- 0.667
96.000	Test Lead Marker #153	N/R	N/R	- 0.844	-0.683
96.400	Test Lead	N/R	N/R	- 0.661	-0.506
96.500	Test Lead	N/R	-0.827	- 0.620	-0.550
97.000	Test Lead Marker #154 KM#60	N/R	N/R	- 0.670	-0.515
100.000	Test Lead Marker #157 KM#57	- 0.712	- 0.735	- 0.724	-0.640
103.000	Test Lead Marker #160	- 0.754	- 0.719	N/R	N/R
107.900	Test Lead Marker #165	- 0.773	- 0.815	- 0.700	-0.704
112.900	Test Lead Marker #170	- 0.638	- 0.844	- 0.798	-0.552
113.800	Test Lead Marker #171 KM#43	- 0.680	- 0.800	- 0.832	-0.494

N/R - Not Relevant to establish the non-compliance.

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 violations and has recommended that you be preliminarily assessed a civil penalty of \$45,000 as follows:

<u>Item number</u>	<u>PENALTY</u>
1	\$22,500
2	\$22,500

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 Holly

Energy Partners. 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 4-2010-5007** and for each document you submit, please provide a copy in electronic format whenever possible

Sincerely,

R. M. Seeley
Director, Southwest 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 U.S.C. § 60118, the Office of Pipeline Safety proposes to issue to Holly Energy Partners a Compliance Order incorporating the following requirements to assure the compliance of Holly Energy Partners with the pipeline safety regulations applicable to its operations.

1. In regard to Items 1 and 2 of the Notice, Holly Energy must provide this office documentation that substantiates that the Rio Grande Pipeline system throughout West Texas is in compliance with 49 CFR §195.573. This demonstration must include those pipe-to-soil test points specifically noted on Tables I and II of this letter. Additionally, Holly Energy must provide this office its corrosion control procedure ensuring that it contains language that specifies the timing of corrective as it pertains to the correction of pipe to soil readings that fail to meet the minimum criteria.
2. Submit the results of the Proposed Compliance Order item above to the Region Director, Southwest Region, Office of Pipeline Safety, Pipeline and Hazardous Materials Safety Administration, 8701 South Gessner, Suite 1110, Houston, Texas 77074. This is to be accomplished within 30 days following receipt of the Final Order.
3. Holly Energy shall maintain documentation of the safety improvement costs associated with fulfilling this Compliance Order and submit the total to R. M. Seeley Director, Southwest Region, Pipeline and Hazardous Materials Safety Administration. Costs shall 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.