

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

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

April 17, 2012

Mr. Ralph Grimmer
VP, Logistics
Tesoro Hawaii Corporation
19100 Ridgewood Parkway
(TX1-023 / 1-2C050)
San Antonio, TX 78259

CPF 5-2012-6008

Dear Mr. Grimmer:

On March 30 through April 2, 2011, a representative of the Pipeline and Hazardous Materials Safety Administration (PHMSA), pursuant to Chapter 601 of 49 United States Code, inspected your Tesoro Hawaii (Tesoro) Honolulu pipeline system in Honolulu, Hawaii.

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. **§195.214 Welding procedures**
 - (a) **Welding must be performed by a qualified welder in accordance with welding procedures qualified under Section 5 of API 1104 or Section IX of the ASME Boiler and Pressure Vessel Code (ibr, see § 195.3) . The quality of the test welds used to qualify the welding procedure shall be determined by destructive testing.**

(b) Each welding procedure must be recorded in detail, including the results of the qualifying tests. This record must be retained and followed whenever the procedure is used.

Tesoro failed to demonstrate that qualifying tests of their in-service welding procedure had been performed. Specifically Tesoro had no record of qualifying test results for PLM-A2, the weld procedure used for the installation of a 65" sleeve repair on 6/19/ 2009. An operator's welding procedures must be qualified under API 1104 or Section IX of ASME Boiler and Pressure Vessel Code. The quality of the test weld must be determined by destructive testing. The operator must retain and follow those weld procedures and the qualifying test records whenever that weld procedure is used.

2. §195.402 Procedural manual for operations, maintenance, and emergencies

(c) Maintenance and normal operations. The manual required by paragraph (a) of this section must include procedures for the following to provide safety during maintenance and normal operations:

(12) Establishing and maintaining liaison with fire, police, and other appropriate public officials to learn the responsibility and resources of each government organization that may respond to a hazardous liquid or carbon dioxide pipeline emergency and acquaint the officials with the operator's ability in responding to a hazardous liquid or carbon dioxide pipeline emergency and means of communication.

Tesoro failed to maintain liaison with various local fire departments responsible for responding to Tesoro Honolulu pipeline emergencies. Interviews with Tesoro personnel revealed that it had been about three years since the last fire department review of Tesoro's Honolulu pipeline facilities. An operator is required to maintain liaison with government organizations who may respond to an operator's pipeline emergencies. These liaison activities must include each participating pipeline and emergency responder group learning of the other's capabilities, responsibilities, and resources to respond to pipeline emergencies. Liaison activities must also include some preliminary emergency response planning between the operator and the local emergency responders.

3. § 195.402 Procedural manual for operations, maintenance, and emergencies.

(a) General. Each operator shall prepare and follow for each pipeline system a manual of written procedures for conducting normal operations and maintenance activities and handling abnormal operations and emergencies....

(c) Maintenance and normal operations. The manual required by paragraph (a) of this section must include procedures for the following to provide safety during maintenance and normal operations:

(13) Periodically reviewing the work done by operator to determine the effectiveness of the procedures used in normal operation and maintenance and taking corrective action where deficiencies are found.

Tesoro failed to follow its procedures for effectiveness reviews. Tesoro failed to demonstrate that they 1) had completed periodic reviews of work done by its employees and contractors to determine the effectiveness of their O&M procedures and 2) had taken corrective action to remedy deficient procedures when found. Tesoro had a procedure for doing effectiveness reviews but they had no records to demonstrate that these reviews or any corrective actions had been taken on account of the reviews. An operator is required to periodically review the work done by its employees and contractors to determine the effectiveness of procedures used to complete that work and if any deficiencies are found in the procedures they are required to take corrective action to remedy those deficiencies.

4. **§ 195.452 Pipeline integrity management in high consequence areas**
(k) What methods to measure program effectiveness must be used? An operator's program must include methods to measure whether the program is effective in assessing and evaluating the integrity of each pipeline segment and in protecting the high consequence areas. See Appendix C of this part for guidance on methods that can be used to evaluate a program's effectiveness.

Tesoro failed to perform a causal factor analysis of two (2) third-party strikes to their Honolulu pipeline in 2009. One of these strikes was by HECO and another by an archaeological contractor doing work for the “Kam” Highway. Both of these third party strikes occurred even though each third party had made a One-Call. Tesoro had not determined the root cause of these strikes so that preventative actions could be taken to prevent such occurrences in the future. An operator is required to implement a program that will monitor the performance of the Integrity Management program including risk-assessment and mitigation methods with the intent of reducing the likelihood and consequences of a product release. Root cause analysis is a key element in the Program Evaluation process in order to effectively diagnose problems and develop corrective actions.

5. **§ 195.573 What must I do to monitor external corrosion control?**
(a) Protected pipelines. You must do the following to determine whether cathodic protection required by this subpart complies with Sec. 195.571:
(2) Identify not more than 2 years after cathodic protection is installed, the circumstances in which a close-interval survey or comparable technology is practicable and necessary to accomplish the objectives of paragraph 10.1.1.3 of NACE SP 0169 (incorporated by reference, see § 195.3).

Tesoro failed to demonstrate that they had identified the circumstances in which a close interval survey (CIS) or comparable technology was practical and necessary to accomplish the objectives of paragraph 10.1.1.3 of NACE RP0169 for their Honolulu pipeline. Specifically Tesoro’s procedure LO028 Corrosion Control stated “Every 5 years the pipeline or portion of the pipeline will be evaluated for the need of a Close Interval Survey (beginning 7/2004)” yet Tesoro had no records to demonstrate that they had identified circumstances in which a CIS

was practical and necessary. When practicable and determined necessary by sound engineering practice, an operator is required to perform a detailed CIS potential survey to (a) assess the effectiveness of the cathodic protection system; (b) provide base line operating data; (c) locate areas of inadequate protection levels; (d) identify locations likely to be adversely affected by construction, stray currents, or other unusual environmental conditions; or (e) select areas to be monitored periodically.

- 6. § 195.573 What must I do to monitor external corrosion control?**
(e) Corrective action. You must correct any identified deficiency in corrosion control as required by Sec. 195.401(b). However, if the deficiency involves a pipeline in an integrity management program under Sec. 195.452, you must correct the deficiency as required by Sec. 195.452(h).

Tesoro had no records to demonstrate if corrective actions had either been planned or taken to correct cathodic protection (CP) deficiencies found in 2010. Tesoro's CP contractor had issued approximately 12 recommendations to Tesoro to correct CP deficiencies which were found during the contractor's 2010 CP field activities. It appeared that Tesoro had implemented some of these recommendations but Tesoro had no records to show whether all of the recommendations had been accepted or if there were plans to follow those recommendations not yet taken. An operator is required to correct any identified deficiency in CP. Additionally an operator is required to maintain a record of those corrective actions for at least 5 years as per 195.589(c).

- 7. § 195.577 What must I do to alleviate interference currents?**
(a) For pipelines exposed to stray currents, you must have a program to identify, test for, and minimize the detrimental effects of such currents.

Tesoro had not developed a program for minimizing the detrimental effects of stray currents that could be associated with the new transit rail system (now under construction) which will closely parallel their Honolulu pipeline at locations. Rail transit systems are a known source of interference current and often have damaging effects on pipelines if not mitigated. An operator is required to have a program to identify, test for, and minimize the detrimental effects of stray currents.

Warning Items

With respect to item 3 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 promptly correct this item. Be advised that failure to do so may result in Tesoro being subject to additional enforcement action.

Proposed Compliance Order

With respect to items 1, 2, 4, 5, 6, and 7 pursuant to 49 United States Code § 60118, the Pipeline and Hazardous Materials Safety Administration proposes to issue a Compliance Order to Tesoro. 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 5-2012-6008** and for each document you submit, please provide a copy in electronic format whenever possible.

Sincerely,

Chris Hoidal
Director, Western Region
Pipeline and Hazardous Materials Safety Administration

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

cc: PHP-60 Compliance Registry
PHP-500 J. Davis (#133324)

PROPOSED COMPLIANCE ORDER

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

1. In regard to Item Number 1 of the Notice pertaining to qualification of weld PLM-A2, Tesoro must perform destructive testing of this weld in accordance with API 1104 or Section IX of ASME Boiler and Pressure Vessel Code. Tesoro must then retain the record of this weld's qualification and any records showing this weld's use. Tesoro must submit records demonstrating compliance with this item to the Director, Western Region.
2. In regard to Item Number 2 of the Notice pertaining to liaison activities with local fire fighting organizations responsible for responding to Tesoro Honolulu pipeline emergencies, Tesoro must perform liaison activities with the fire, police and other public officials who are responsible for responding to fire and other emergencies on Tesoro's Honolulu pipeline facilities. These liaison activities must include each participating emergency responder group and Tesoro learning of the other's capabilities, responsibilities, and resources to respond to pipeline emergencies. Liaison activities must also include some preliminary emergency response planning between Tesoro and the local emergency responders. Tesoro must submit records demonstrating compliance with this item to the Director, Western Region.
3. In regard to Item Number 4 of the Notice pertaining to failure of Tesoro to perform a root cause analysis of two third party strikes of their Honolulu pipeline, Tesoro must perform a causal factor analysis to determine why Tesoro's damage prevention program and locate program failed to prevent these strikes. Tesoro must correct any deficiencies they find from this analysis. Tesoro must submit records demonstrating compliance with this item to the Director, Western Region.
4. In regard to Item Number 5 of the Notice pertaining to close interval surveys (CIS), Tesoro must perform a CIS of their Honolulu pipeline to (a) assess the effectiveness of the cathodic protection system; (b) provide base line operating data; (c) locate areas of inadequate protection levels; (d) identify locations likely to be adversely affected by construction, stray currents, or other unusual environmental conditions; and (e) select areas to be monitored periodically. Tesoro must submit records demonstrating compliance with this item to the Director, Western Region.
5. In regard to Item Number 6 of the Notice pertaining to corrective actions to remediate CP deficiencies found in 2010, Tesoro must address each of the recommendations within the Cauffman Engineering 2010 CP report for Tesoro HI's Honolulu pipeline. Tesoro must document how they have addressed each of those recommendations. Tesoro must submit records demonstrating compliance with this item to the Director, Western Region.

6. In regard to Item Number 7 of the Notice pertaining to a nearby rail transit system being constructed that could create potential damaging stray currents on the Tesoro Honolulu pipeline, Tesoro must develop and implement a plan for mitigating potential stray currents from the new transit rail system within Honolulu. Tesoro must submit records demonstrating compliance with this item to the Director, Western Region.
7. Tesoro must submit records demonstrating compliance with the above items within 60 days after receipt of the Final Order.
8. It is requested (not mandated) that Tesoro maintain documentation of the safety improvement costs associated with fulfilling this Compliance Order and submit the total to Chris Hoidal, Director, Western 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.