

# McQueen & Tresch

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May 4, 2007

Mr. R. M. Seeley  
Director, Southwest Region  
Pipeline and Hazardous Materials Safety Administration  
U.S. Department of Transportation  
8701 South Gessner, Suite 1110  
Houston, TX 77074

McQueen, Rains  
& Tresch, LLP

RE: CITGO Pipeline Company  
CPF 4-2007-5010  
CITGO Matter No. A23331

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Dear Mr. Seeley:

Please consider this to be CITGO Petroleum Corporation's official request for a hearing in the above-referenced matter. CITGO intends to raise the following issues in the hearing:

**1. § 195.128 Station Piping**

In Probable Violation 1, § 195.128 Station Piping, the DOT alleges that is section requires the use of steel pipe to connect DRA units to the pipeline.

CITGO does not agree with the DOT's interpretation of this regulation. CITGO agrees that all piping in the pipeline system is to be of steel construction, but does not agree that the cited connections from the DRA tanks to the pipeline are part of the pipeline system, and consequently are not required to be of steel construction. The DRA units are part of the pipeline facility, but they are not part of the pipeline system as no hazardous liquid is transported through the braided, rubber covered hoses cited by the DOT. The subject hoses connect the DRA storage tank to a pipe nipple and check valve on the pipeline system. The connection to the pipeline and the check valve are of steel construction as required by regulation as they are in contact with the transported hazardous liquid and subject to pipeline system pressure. All these hoses exceed the maximum pressure requirements of the pipeline system.

Based on the foregoing, CITGO intends to request at hearing and hereby requests that this probable violation, the related proposed penalty and compliance order be retracted.

**2. Section 195.406(b) Maximum Operating Pressure**

In Probable Violation 2, § 195.406(b) Maximum Operating Pressure, the DOT alleges that CITGO is unable to provide documentation showing that CITGO considered surge pressure when establishing its maximum operating pressure, or that the pipeline is adequately protected from surges.

CITGO does not agree that surge studies are the only way in which to demonstrate compliance with this requirement. CITGO's systems are equipped with shutdown devices and safety interlocks to prevent surges. Historical operating records can be utilized to demonstrate that surges have not been an issue. While CITGO does not agree that the regulations require a demonstration that the theoretical surge pressure would not exceed 110% of the MOP, CITGO will agree to undertake surge studies of its pipeline systems.

**3. Section 195.410(a)(1) Line Markers**

In Probable Violation 3, § 195.410 Line Markers, the DOT alleges that CITGO does not have sufficient line markers along its pipelines in some areas.

The primary issue cited is that while standing at a given location, the next line marker could not be seen. CITGO does not agree that this is the singular or even the best test for compliance with the requirement for "sufficient number." CITGO strives to place and maintain its line markers through right-of-way inspection and maintenance, close interval surveys, inline inspection device runs, aerial patrol and line locates. CITGO is willing to review its programs to assure they are effective, but CITGO is not willing to agree that line of sight inspection is the only the best criteria for compliance, nor that line of sight inspection is required by regulation.

A secondary issue of ARCO markers (the former owner of the pipeline) at the Northgate Golf Course is being addressed. CITGO markers were also along this line segment at the time of the inspection, but they were not adjacent to the ARCO markers. CITGO agrees that the ARCO markers should have been removed.

**4. Section 195.412(a) Inspection of Right of Way**

In Probable Violation 4, § 195.412(a) Inspection of Right of Way the DOT alleges that CITGO has not sufficiently maintained its right-of-way for aerial surveillance.

The issue cited is that large trees overhanging the right-of-way obscure it from aerial surveillance. CITGO agrees that this is an important issue and will undertake a focused inspection of its rights-of-way from the air to identify any areas that actually obscure the right-of-way from aerial surveillance. This inspection must be made from the air as inspections from ground level will not accurately identify problem areas.

Additionally, there is no need to address isolated trees as the regulatory requirement is to inspect "on or adjacent to each pipeline right-of-way." As additional information, one of the areas surveyed during the inspection contained post hurricane debris which has since been removed.

**5. Section 195.420 Valve Maintenance**

In Probable Violation 5, §195.420 Valve Maintenance, the DOT alleges that a number of the CITGO Pipeline valves do not have protection from vandalism. Section 195.420(c) provides that "each operator shall provide protection for each valve from unauthorized operation and vandalism."

The inspector appeared to have no issue with CITGO's methods for protecting against unauthorized operation. The primary issue appears to be that not all above-ground valves were surrounded with chain link fence, which was cited as CITGO's preferred method of compliance. CITGO utilizes other methods to protect valves, such as valve vaults, but does typically employ chain link fence where needed. CITGO does agree that fencing is required for above-ground valves. The risk of vandalism and its potential for actually damaging the system and endangering the general public or the environment must be considered, as well as the deterrent value of a fence. The risk of vandalism in isolated rural areas is less than in urban areas, and the risk of injury to the general public is lower. CITGO is willing to revise its procedures to better articulate a risk-based program for aboveground valve site protection, but is not willing to agree to fence all of its aboveground valve sites.

**6. § 195.432 Breakout Tanks**

In Probable Violation 5, § 195.432 Breakout Tanks, the DOT alleges that CITGO has not complied with external and internal inspection requirements on some breakout tanks at Sour Lake, Fauna and Arlington.

CITGO agrees that some breakout tanks had not had external inspections as required. Those tanks have since received external inspections. CITGO agrees to review and revise its procedures to assure that monthly tank inspections are diligently performed and items addressed.

The two tanks cited for lack of internal inspection were at Sour Lake based on the inspection report received subsequent to the NOPV. CITGO's interpretation of the internal inspection requirement with respect to all of the Sour Lake tanks was that they would be due by May 3, 2009. This was based on a 10 year inspection interval from the effective date of May 3, 1999. The rule requires an earlier inspection based on 10 years from any previous inspection if that deadline would be earlier than May 3, 2009. CITGO did not think that any of the Sour Lake tanks had received API 653 qualified inspections previous to that date. CITGO continues to investigate that issue, but it appears its interpretation may have been incorrect. CITGO has prioritized tank inspection at Sour Lake based on overall knowledge of the tank population and is attempting to reorder inspections based on this finding. CITGO requests that the penalty and corrective action order on this issue be held in abeyance until our evaluation is complete.

7. **§ 195.573 External Corrosion Control Monitoring**

In Probable Violation 7, § 195.573 What must I do to monitor external corrosion control, the DOT alleges that CITGO failed to maintain adequate external corrosion protection at its Sour Lake Tank Farm.

The NOPV alleges that because CITGO did not replace a ground bed that failed in October, 2003, the cathodic protection at Sour Lake was inadequate. This ground bed is one of four ground beds at the Sour Lake Tank Farm. CITGO maintains that it demonstrated at the time of the inspection that adequate cathodic protection was provided by the remaining three ground beds, which satisfies the requirement of the regulation. It was CITGO's intent to replace the ground bed when needed, and it has recently undertaken replacement of the ground bed.

It is CITGO's position that no violation of the regulations occurred and that the proposed penalty and compliance should be retracted.

8. **Section 195.579(a) Mitigation of Internal Corrosion**

In Probable Violation 8, § 195.597, What must I do to mitigate internal corrosion, the DOT alleges that CITGO has not taken adequate steps to mitigate internal corrosion.

CITGO has not experienced issues with internal corrosion. Most of CITGO's pipeline systems handle refined petroleum products. Experience has shown that internal corrosion is not a problem with these products. CITGO's 20" crude line handles imported crude that has been tanked several times before it enters the pipeline system, eliminating most of the entrained water. Inspections of removed pipe have no occurrence of internal corrosion problems. CITGO is agreeable to evaluating its internal corrosion monitoring efforts in light of current NACE requirements, and taking appropriate actions. CITGO is not agreeable to installation of corrosion coupons at the numerous points mentioned in the citation as CITGO does not believe installation of camera coupons at numerous points is necessary to regulate internal corrosion.

As to the mention of an incorrectly installed monitoring point, it appears this is in reference to a coupon installed on the top of the pipe. CITGO's corrosion advises that the installation is proper because the coupon extends through the diameter of the pipe to the bottom, the desired test point location.

With regard to the proposed civil penalty, CITGO will at hearing and does now propose the following:

- |    |          |   |
|----|----------|---|
| 1. | \$12,000 | Retract   |
| 2. | \$32,000 | Hold in abeyance pending CITGO's evaluation of its compliance |
| 3. | \$50,000 | Retract   |

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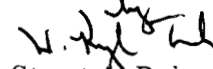
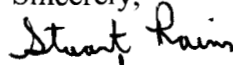
With regard to the proposed Compliance Order, CITGO will at hearing and does now propose the following:

1. Retract.
2. CITGO will agree to perform surge analysis; otherwise retract.
3. CITGO will agree to review its procedures as outlined in the Compliance Order; otherwise retract.
4. CITGO will agree to perform an aerial review of its rights-of-way to ensure visibility; otherwise retract.
5. CITGO will evaluate its tank inspection program; otherwise retract.
6. Retract.
7. CITGO will evaluate the corrosiveness of its products on the pipeline; otherwise retract.
8. CITGO will agree to maintain the required documents
9. It is anticipated that CITGO will need sixty days after a final compliance order is agreed to submit any surveys, assessments or plans.

CITGO will be represented by counsel at the hearing. Counsel may be in-house, or outside counsel retained for the purpose of this hearing.

CITGO thanks you for your consideration. If you have any questions regarding this matter, do not hesitate to contact me.

Sincerely,



Stuart A. Rains  
For the Firm

xc: Jim Sanders  
Ken Lloyd  
Mary Clair Lyons