

**VIA EMAIL & CERTIFIED MAIL - RETURN RECEIPT REQUESTED**

January 22, 2016

Mr. Steve Rusch  
Vice President of EH&S and Government Affairs  
Freeport McMoRan Oil and Gas  
5640 South Fairfax Avenue  
Los Angeles, CA 92256

**CPF 5-2016-7001S**

Dear Mr. Rusch:

Enclosed is a Notice of Proposed Safety Order (Notice) issued in the above-referenced case. The Notice proposes that Freeport-McMoRan Oil & Gas take certain measures with respect to the 20-inch crude oil pipeline from Platform Irene to the Lompoc Oil & Gas Plant facility near Lompoc, CA. Your options for responding are set forth in the Notice. Your receipt of the Notice constitutes service of that document under 49 C.F.R. § 190.5.

We look forward to a successful resolution to ensure pipeline safety. Please direct any questions on this matter to me at 720-963-3160.

Sincerely,

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

Enclosure: Notice of Proposed Safety Order  
49 C.F.R. § 190.239

cc: Mr. Huy Nguyen, Operations Supervisor, Western Region, OPS  
Mr. Terrence Larson, Operations Supervisor, Western Region, OPS

**DEPARTMENT OF TRANSPORTATION  
PIPELINE AND HAZARDOUS MATERIALS SAFETY ADMINISTRATION  
OFFICE OF PIPELINE SAFETY**

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<b>In the Matter of</b>	)	
	)	
<b>Freeport-McMoRan Oil &amp; Gas,</b>	)	<b>CPF No. 5-2016-7001S</b>
	)	
<b>Respondent</b>	)	
	)	

**NOTICE OF PROPOSED SAFETY ORDER**

**Background and Purpose**

Pursuant to Chapter 601 of title 49, United States Code, the Pipeline and Hazardous Materials Safety Administration (PHMSA) has initiated an investigation of the safe operation of the 20-inch crude oil pipeline from Platform Irene to the Lompoc Oil & Gas Plant facility near Lompoc, CA. This facility is operated by Freeport-McMoRan Oil & Gas (Freeport), a wholly-owned subsidiary of Freeport-McMoRan, Inc.,<sup>1</sup> and is used to transport crude oil from Platform Irene to the LOGP.

As a result of the investigation, it appears conditions exist at this facility posing a pipeline integrity risk to public safety, property, or the environment. Pursuant to 49 U.S.C. § 60117(l), PHMSA issues this Notice, notifying you of the preliminary findings of the investigation, and proposing that you take measures to ensure that the public, property, and the environment are protected from the potential risk.

**Preliminary Findings**

- Freeport’s crude oil pipeline from Platform Irene to the Lompoc Oil & Gas Plant (LOGP) near Lompoc, California, was constructed between 1986 and 1987. The pipeline is approximately twenty-two miles long and consists of steel Electric Resistance Welded pipe manufactured after 1970 (post-70 ERW pipe). The pipeline is a 20-inch diameter pipe with 0.625 to 0.688-inch wall thickness, consisting of API Grade X-46, X-52, X-56, and X-60 pipe. The pipeline is coated with polyurethane and fusion bonded epoxy coatings, and then covered in cement.

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<sup>1</sup> Freeport-McMoRan Oil & Gas, <https://www.fmoil-gasjobs.com/> (last visited on November 19, 2015); *see also* Freeport-McMoRan, Inc., <http://www.fcx.com/> (last visited on November 19, 2015).

- The pipeline was hydrostatically tested in November 1997 at 2014 psi for its offshore segment and 1791 psi for its onshore segment. The pipeline has a maximum operating pressure (MOP) of 1194 psi. The normal operating pressure for the pipeline ranges from 404 to 573 psi.
- Ten miles of the pipeline are offshore and twelve miles are onshore. The offshore portion of the pipeline crosses coastal areas of the Pacific Ocean and can affect shipping lanes. The onshore portion crosses streams, minor waterways, Vanderberg Air Force Base, other populated areas (OPAs) as defined in § 195.450, and a beach where the Western Snowy Plover will nest between March and October every year. The Western Snowy Plover is federally listed under the Endangered Species Act of 1973 as “threatened.”
- Freeport made six repairs to anomalies on the onshore segment of the Affected Pipeline between 2013 and 2014 using Type B steel pressure retaining reinforcement sleeves.
- An in-line inspection (ILI) has been performed on the pipeline every year since 1997. Preliminary results for the 2015 ILI show an anomaly of 62% wall loss located 51,653 feet from Platform Irene (Anomaly). This Anomaly is located near the shoreline in twelve feet of water, and is covered by seven feet of soil. The 2014, 2013, and 2012 ILIs showed this anomaly to have 63%, 57%, and 58% wall loss, respectively.
- The 2014 ILI was performed in August 2014. On April 21, 2015, the ILI vendor completed its report of these assessments. Freeport received this report on May 1, 2015, more than 8 months after the ILI was performed. On May 8, 2015, Freeport submitted a Safety Related Condition Report (SRCR #20150057) to PHMSA describing the anomaly, and stated that Freeport would take corrective action by reducing the MOP to 1,027 psig until the condition is inspected, repaired, or replaced, and that it was in the process of evaluating options to mitigate the anomaly.
- On May 20, 2015 Freeport submitted an Integrity Management Program (IMP) Notification (IMP Notification #532) restating the findings from SRCR #20150057. The IMP notification was required because Freeport was not able to remediate the anomaly within 180 days of discovery as required by 49 C.F.R. § 195.452(h). Freeport noted that it was finalizing engineering designs to bypass the anomaly, and that these repairs, as well as the procedure for their implementation, would be submitted to applicable agencies for review and approval.
- On June 5, 2015 PHMSA sent a letter to Freeport stating that, when the deadline for repair or remediation cannot be met, pipeline operators must ensure an additional safety margin until the condition can be repaired, and that this is typically done by a 20% pressure reduction below the highest pressure experienced at the location of the anomaly during the two months prior to the ILI. PHMSA asked Freeport to provide technical justification as to why such a 20% reduction on the Affected Pipeline was not needed, and how it planned to correct the 180-day condition.

- Freeport responded to PHMSA's letter on June 8, 2015, stating that the operating pressure on the pipeline could not feasibly be lowered by 20% and still maintain flow in the pipeline. Freeport noted that hydrostatic head needs to be overcome in order for flow to occur in the pipeline, and that there are no booster pumps on the line or other effective ways to allow the company to reduce the operating pressure below the current levels. Freeport also provided a technical justification of how it would ensure pipeline integrity and an engineering justification of why a 20% pressure reduction was not needed. Additional safety factors included using an additional 10% loss of wall thickness in all pressure calculations for the Affected Pipeline, running the Affected Pipeline at 40-50% of its MOP (pressure safety high set at 658 psi), holding the receiving pressure at the LOGP to 115 psi to 130 psi, and running a test to determine if the inlet pressure at LOGP can be lowered approximately 15 psi while maintaining safe operations. Freeport noted that it has performed confirmation digs and repairs along the onshore segment of the Affected Line which verify its ILI results.

### **Proposed Issuance of Safety Order**

Section 60117(l) of Title 49, United States Code, provides for the issuance of a safety order, after reasonable notice and the opportunity for a hearing, requiring corrective measures, which may include physical inspection, testing, repair, or other action, as appropriate. The basis for making the determination that a pipeline facility has a condition or conditions that pose a pipeline integrity risk to public safety, property, or the environment is set forth both in the above-referenced statute and 49 C.F.R. § 190.239, a copy of which is enclosed.

After evaluating the foregoing preliminary findings of fact and considering the hazardous nature of the product transported and the pressure required for transporting the product, the characteristics of the geographical areas where the pipeline facility is located, and the likelihood that the conditions could worsen or develop on other areas of the pipeline and potentially impact its serviceability, it appears that the continued operation of the affected pipeline facility without corrective measures would pose a pipeline integrity risk to public safety, property, or the environment.

Accordingly, PHMSA issues this Notice of Proposed Safety Order to notify Respondent of the proposed issuance of a safety order and to propose that Respondent take measures specified herein to address the potential risk.

### **Response to this Notice**

In accordance with § 190.239, you have 30 days following receipt of this Notice to submit a written response to the official who issued the Notice. If you do not respond within 30 days, this constitutes a waiver of your right to contest 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 Safety Order. In your response, you may notify that official that you

intend to comply with the terms of the Notice as proposed, or you may request that an informal consultation be scheduled. Informal consultation provides you with the opportunity to explain the circumstances associated with the risk conditions alleged in the notice and, as appropriate, to present a proposal for a work plan or other remedial measures, without prejudice to your position in any subsequent hearing.

If you and PHMSA agree within 30 days of informal consultation on a plan and schedule for you to address each identified risk condition, we may enter into a written consent agreement (PHMSA would then issue an administrative consent order incorporating the terms of the agreement). If a consent agreement is not reached, or if you have elected not to request informal consultation, you may request an administrative hearing in writing within 30 days following receipt of the Notice or within 10 days following the conclusion of an informal consultation that did not result in a consent agreement, as applicable. Following a hearing, if the Associate Administrator finds the facility to have a condition that poses a pipeline integrity risk to the public, property, or the environment in accordance with § 190.239, the Associate Administrator may issue a safety order.

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).

In your correspondence on this matter, please refer to CPF No. **5-2016-7001S** and for each document you submit, please provide a copy in electronic format whenever possible.

### **Proposed Corrective Measures**

Pursuant to 49 U.S.C. § 60117(l) and 49 C.F.R. § 190.239, PHMSA proposes to issue to Freeport a safety order incorporating the following remedial requirements with respect to the affected pipeline:

1. The Affected Segment of the pipeline is the segment from Platform Irene to main line valve #2. Freeport must maintain the operating pressure in the Affected Segment in accordance with the parameters set forth in its June 8, 2015 letter.
2. Within 15 days of the issuance of a Safety Order, Freeport must develop and submit to the Director, Western Region, OPS (Director) for approval a plan to purge and shut down the Affected Segment by March 1, 2016 (Work Plan). Upon approval by the Director, the Work Plan will be incorporated into this Safety Order.
3. Freeport must provide bi-weekly status reports to the Director until the Affected Segment has been purged and shut down, and must notify the Director within 5 days of its shutdown.

4. After shutdown, Freeport may restart the Affected Segment only with the Director's approval. The Director will only approve restart once repairs have been completed and the integrity of the pipeline has been confirmed by hydrotest and/or ILI assessment.
5. The Director may grant an extension of time for compliance with any of the terms of the Safety Order upon a written request timely submitted demonstrating good cause for an extension.
6. Respondent may appeal any decision of the Director to the Associate Administrator for Pipeline Safety. Decisions of the Associate Administrator shall be final.
7. PHMSA requests that Freeport maintain documentation of the safety improvement costs associated with fulfilling this Safety Order and submit the total to the Director. 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.

The actions proposed by this Notice of Proposed Safety Order are in addition to and do not waive any requirements that apply to Respondent's pipeline system under 49 C.F.R. Parts 190 through 199, under any other order issued to Respondent under authority of 49 U.S.C. § 60101 et seq., or under any other provision of Federal or state law.

After receiving and analyzing additional data in the course of this proceeding and implementation of the work plan, PHMSA may identify other safety measures that need to be taken. In that event, Respondent will be notified of any proposed additional measures and, if necessary, amendments to the work plan or safety order.

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

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Date issued