NOTICE OF AMENDMENT

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

December 4, 2007

Mr. Fred Martin
Vice President, Supply and Transportation
United Refining Company
Kiantone Pipeline Company
15 Bradley Street
P.O. Box 780
Warren, PA 16365

CPF 1-2007-5003M

Dear Mr. Martin:

On August 7-9, 2007, representatives of the Pipeline and Hazardous Materials Safety Administration (PHMSA) and the State of New York as interstate agent, pursuant to Chapter 601 of 49 United States Code inspected Kiantone's (KPL) procedures for integrity management in Buffalo, New York.

On the basis of the inspection, PHMSA has identified the apparent inadequacies found within Kiantone's plans or procedures, as described below:

1. IM Plan Development in Framework Stage

§195. 452(b) What program and practices must operators use to manage pipeline integrity? (S) Implement and follow the program;
§195.452(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.

The Risk Analysis, Preventive & Mitigative Measures (including leak detection and EFRD evaluations), Continual Evaluation and Assessment, and Program Evaluation portions of the KPL IMP remain in the initial framework/implementation phase. In addition, portions of the KPL IMP were written at a descriptive level versus a working level.

For example, Kiantone's IMP Section 3.8 states “There will be a review of the risk analysis and threat identification for all hazardous liquid pipelines operated by Kiantone under CFR part 195 annually. KPL and (URC) [United Refinery Company] personnel will jointly conduct the yearly review. The review will include any assessment data gathered in the previous year, as well as any changes to the pipeline system, or the environment surrounding it.” This statement provides no specific direction for performance and documentation of the annual review to assure consistent and quality implementation of this activity. PHMSA encourages KPL to provide or reference additional working level detail in the IMP.

2. ILI Tool Tolerances/Uncertainty

§195. 452 (f) 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).

§195. 452 (h) (2) Discovery of a condition. Discovery of a condition occurs when an operator has adequate information about the condition to determine that the condition presents a potential threat to the integrity of the pipeline. An operator must promptly, but no later than 180 days after an integrity assessment, obtain sufficient information about a condition to make that determination, unless the operator can demonstrate that the 180-day period is impracticable.

KPL does not directly apply tool uncertainty to ILI results when comparing to IM rule part H repair requirements during the discovery phase of assessment review. As indicated in FAQ 7.19, PHMSA does not specify a particular approach to tool uncertainty, but expects reasonable consideration of tool capabilities when comparing results to rule criteria.

KPL initially indicated that the vendor report already incorporates tool tolerance, so there is no need to adjust. In response to inspection team follow up to this statement, KPL could not find a basis for this statement in the vendor report, which only contained the vendor tool performance criteria (provided to the inspection team).
Further follow up indicated that the ILI vendor anomaly reporting is as-called by the tool and does not include tool tolerance consideration. At the time of inspection, KPL did not include tool tolerance when evaluating ILI assessment data.

3. Weighting of Risk Factors

§195.452(f) An operator must include, at minimum, each of the following elements in its written integrity management program: (3) An analysis that integrates all available information about the integrity of the entire pipeline and the consequences of a failure (see paragraph (g) of this section);

§452(g) What is an information analysis? In periodically evaluating the integrity of each pipeline segment (paragraph (j) of this section), an operator must analyze all available information about the integrity of the entire pipeline and the consequences of a failure. This information includes...(4) Information about how a failure would affect the high consequence area, such as location of the water intake; §195.450 High consequence area means: (1) A commercially navigable waterway...(2) A high population area...(3) An other populated area...(4) An unusually sensitive area...

Although risk analysis results were not yet final at the time of inspection, KPL indicated that estimated risk of failure (ROF) values will include significant contribution from “Impact on Business” consequence factors. This is problematic when evaluating the risk to rule-defined high consequence areas.

The application of Impact on Business consequence factors that result in significant “risk” estimations is problematic when evaluating the risk to rule-defined high consequence areas. As indicated in FAQ 8.18 “If consequences considered in the risk analysis are expanded to include consequences related to operator business performance, then the operator must provide assurance that this approach does not skew decisions away from protection of HCAs. For example, consideration of operator business performance consequences should not result in pipeline segments with high risk to HCAs being given lower priority for integrity assessments than segments with low risks to HCAs but higher business consequences.”

4. Classification of Anomalies

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

The KPL process to classify anomalies and identify if in HCA-affecting pipeline segments was not adequately defined and documented in the IMP. During the inspection, several anomalies from a 2006 ILI assessment were initially identified to the inspection team as “180-day conditions.” Upon further investigation by the inspection team, these were determined to be in non HCA-affecting segments and
would have been "60-day" conditions (dent with metal loss on bottom of pipe) if they
had been in HCA-affecting portions of the pipeline.

IMP Section 4.03, Company Compliance (3.05.4), stated "- Anomalies are identified
with an integrity assessment (The integrity assessment of the Kiantone Pipeline will
be accomplished by running instrument internal inspection tools on a five-year
interval).
The data will be reviewed by URC Inspection and Engineering Department personnel
along with Kiantone management as soon as possible upon receipt from the vendor.
Vendors are required to submit reports to KPL not later than 180 days from the pig
run. Anomalies will be prioritized per Appendix A as immediate, 60-day, 180-day, or
other with the repair response to fall within given specifics."

IMP Section 4.4, Discovery of a Condition, stated "Discovery of a condition occurs
when Kiantone has adequate information about the condition to determine that the
condition presents a potential threat to the integrity of the pipeline. Kiantone will
promptly, but no later than 180 days after an integrity assessment, obtain sufficient
information about a condition to make that determination, unless Kiantone can
demonstrate that the 180-day period is impracticable. This determination will be
made by the KPL manager or appropriate designee (e.g. URC Inspection Dept., URC
Engineering Dept., etc.)"

Response to this Notice

This Notice is provided pursuant to 49 U.S.C. § 60108(a) and 49 C.F.R. § 190.237. 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.
If, after opportunity for a hearing, your plans or procedures are found inadequate as alleged in this Notice, you may be ordered to amend your plans or procedures to correct the inadequacies (49 C.F.R. § 190.237). If you are not contesting this Notice, we propose that you submit your amended procedures to my office within one hundred twenty (120) days of receipt of this Notice. This period may be extended by written request for good cause. Once the inadequacies identified herein have been addressed in your amended procedures, this enforcement action will be closed.

In correspondence concerning this matter, please refer to CPF 1-2007-5003M and, for each document you submit, please provide a copy in electronic format whenever possible.

Sincerely,

[Signature]
Byron E. Coy, PE
Director, Eastern Region
Pipeline and Hazardous Materials Safety Administration

Enclosure: Response Options for Pipeline Operators in Compliance Proceedings