June 27, 2019

Ms. Kimberly Allen Dang  
President  
Kinder Morgan, Inc.  
1001 Louisiana Street, Suite 1000  
Houston, Texas 77002

Re: CPF No. 1-2018-5004

Dear Ms. Dang:

Enclosed please find the Final Order issued in the above-referenced case to your subsidiary, Kinder Morgan Liquid Terminals, LLC. It makes findings of violation, assesses a civil penalty of $208,600, and specifies actions that need to be taken by Kinder Morgan to comply with the pipeline safety regulations. The penalty payment terms are set forth in the Final Order. When the civil penalty has been paid and the terms of the modified compliance order completed, as determined by the Director, Eastern Region, this enforcement action will be closed. Service of the Final Order is effective as provided under 49 C.F.R. § 190.5.

Thank you for your cooperation in this matter.

Sincerely,

Alan K. Mayberry  
Associate Administrator  
for Pipeline Safety

Enclosure

cc: Mr. Robert Burrough, Director, Eastern Region, Office of Pipeline Safety, PHMSA  
Mr. Steven Kean, Chief Executive Officer, Kinder Morgan, Inc.  
Mr. Joshua Etzel, Vice President – Operations, Northeast Region, Kinder Morgan Liquid Terminals, LLC, 78 Lafayette Street, Carteret, New Jersey 07008

CERTIFIED MAIL - RETURN RECEIPT REQUESTED
In the Matter of

Kinder Morgan Liquid Terminals, LLC, a subsidiary of Kinder Morgan, Inc., Respondent.

CPF No. 1-2018-5004

FINAL ORDER

From July 27 through 31, 2015, pursuant to 49 U.S.C. § 60117, a representative of the Pipeline and Hazardous Materials Safety Administration (PHMSA), Office of Pipeline Safety (OPS), conducted an on-site pipeline safety inspection of the facilities and records of Kinder Morgan Liquid Terminals, LLC (KMLT or Respondent), a subsidiary of Kinder Morgan, Inc., in Perth Amboy, New Jersey. The Perth Amboy Terminal includes 113 tanks, with a total storage capacity of more than 3.5 million barrels.¹

As a result of the inspection, the Director, Eastern Region, OPS (Director), issued to Respondent, by letter dated January 18, 2018, a Notice of Probable Violation, Proposed Civil Penalty, and Proposed Compliance Order (Notice). In accordance with 49 C.F.R. § 190.207, the Notice proposed finding that KMLT had committed five violations of 49 C.F.R. Part 195 and proposed assessing a civil penalty of $208,600 for the alleged violations. The Notice also proposed ordering Respondent to take certain measures to correct one of the alleged violations.

After requesting and receiving an extension of time, KMLT responded to the Notice by letter dated February 28, 2018 (Response). The company contested one of the allegations, requested that two items be changed to warning items, that it be granted additional time to complete the proposed compliance order, and that the proposed civil penalty be reduced. Respondent did not request a hearing and therefore has waived its right to one.

FINDINGS OF VIOLATION

The Notice alleged that Respondent violated 49 C.F.R. Part 195, as follows:

**Item 1:** The Notice alleged that Respondent violated 49 C.F.R. § 195.310(a), which states:

¹ https://www.kindermorgan.com/content/docs/terminalbrochures/ne_PerthAmboy.pdf (last accessed September 27, 2018).
§ 195.310 Records.
(a) A record must be made of each pressure test required by this subpart, and the record of the latest test must be retained as long as the facility tested is in use.

The Notice alleged that Respondent violated 49 C.F.R. § 195.310(a) by failing to make a record of each pressure test required by Subpart E of Part 195 and to retain such records as long as the facility tested is in use. Specifically, the Notice alleged that KMLT failed to retain pressure-test records for nine breakout tanks located at KMLT’s Perth Amboy facility.

In its Response, KMLT stated that Item 1 should be withdrawn because the hydrostatic tank-testing documentation provided to PHMSA met the testing and recordkeeping requirements in place at the time the tanks were constructed in 2007. KMLT stated that certain “Settlement Elevation Plan and Graph” documents provided to PHMSA during the inspection show that KMLT complied with the requirements in the 10th edition of [American Petroleum Institute (API)] Standard 650, which KMLT correctly noted is the applicable edition of the API Standard in this case since the 10th edition was incorporated into the pipeline safety regulations at the time the tanks were constructed. KMLT also contended that the documents provided to PHMSA during the inspection showed that the company had completed hydrostatic testing requirements pursuant to Part 195, Subpart E, and § 195.307. Finally, KMLT stated that additional documentation associated with the construction and hydrostatic testing of these tanks had been lost due to the destruction caused by Hurricane Sandy in 2012.

Section 195.310(a) requires operators to make a record of all pressure tests required by Subpart E and to retain such records as long as the facility tested is in use. Section 195.307(c) in Subpart E contains the requirements for hydrostatic testing of aboveground breakout tanks. During the PHMSA inspection, KMLT provided certain “Settlement Elevation Plan and Graph” documents for each breakout tank to show compliance with the recordkeeping requirement of § 195.310; however, a review of these documents shows that they do not reflect information supporting the performance of hydrostatic tests conducted in accordance with § 195.307. On the contrary, the documents provide only certain measurements of elevation and tank settlement. Further, KMLT did not provide new or relevant records with its Response supporting the performance of hydrostatic tests on the nine subject tanks, as required by § 195.307(c).

It is clear that KMLT was unable to provide records of the pressure tests required by Subpart E or at least to retain them as long as the Perth Amboy facility is in use, as required by § 195.310(a). Respondent’s contention that the documentation was lost due to Hurricane Sandy does not abrogate or eliminate the violation, but is relevant to the terms of the proposed compliance order. Therefore, this issue is addressed more fully in the “Compliance Order” section below.

Accordingly, after considering all of the evidence and the issues presented, I find that Respondent violated 49 C.F.R. § 195.310(a) by failing to make a record of each pressure test required by Subpart E of Part 195 and to retain such records as long as the facility tested is in use.

Item 2: The Notice alleged that Respondent violated 49 C.F.R. § 195.420(b), which states:
§ 195.420 Valve maintenance.
  (a) . . . 
  (b) Each operator shall, at intervals not exceeding 7½ months, but at least twice each calendar year, inspect each mainline valve to determine that it is functioning properly.

The Notice alleged that Respondent violated 49 C.F.R. § 195.420(b) by failing to inspect, at intervals not exceeding 7½ months but at least twice each calendar year, each mainline valve to determine that it is functioning properly. Specifically, the Notice alleged that KMLT performed mainline-valve inspections on its “Mainline Valve 001 – MOV” at Motiva and its “Mainline Valve 002 – MOV” at Buckeye on February 21, 2014, September 26, 2014, and July 23, 2015. According to the Notice, the interval between the September 26, 2014 and July 23, 2015 inspections exceeded the maximum allowable inspection interval by 73 days.

In its Response, KMLT did not contest this allegation of violation, but requested that the Item be converted to a warning item. KMLT admitted that the valve inspections were not performed on a timely basis, but stated that the inspections revealed the valves were in working order and that there were no unsafe conditions. Because § 195.420(b) specifically requires mainline valve inspections to occur at least twice a year but not exceeding 7½ months, and because the evidence demonstrates that the valve inspections were not performed according to that schedule, I find this Item should remain a violation and not converted to a warning item. Since KMLT’s argument for this Item also pertains to potential mitigation of the proposed penalty, this argument is addressed specifically in the section below, “Assessment of Penalty.”

Accordingly, based upon a review of all of the evidence, I find that Respondent violated 49 C.F.R. § 195.420(b) by failing to inspect, at intervals not exceeding 7½ months but at least twice each calendar year, each mainline valve to determine that it is functioning properly.

Item 3: The Notice alleged that Respondent violated 49 C.F.R. § 195.573(a)(1), which states:

§ 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 § 195.571:
    (1) Conduct tests on the protected pipeline at least once each calendar year, but with intervals not exceeding 15 months. However, if tests at those intervals are impractical for separately protected short sections of bare or ineffectively coated pipelines, testing may be done at least once every 3 calendar years, but with intervals not exceeding 39 months.

The Notice alleged that Respondent violated 49 C.F.R. § 195.573(a)(1) by failing to conduct tests on a protected pipeline at least once each calendar year, but with intervals not exceeding 15 months. Specifically, the Notice alleged that KMLT conducted tests on certain pipe at the Perth Amboy facility that was not bare or ineffectively coated, at intervals exceeding 15 months by up to 22 days on 24 separate occasions. The Notice also alleged that KMLT did not perform any pipe-to-soil readings from 2013 to 2015 on seven separate occasions.
In its Response, KMLT did not contest this allegation of violation. Accordingly, based upon a review of all of the evidence, I find that Respondent violated 49 C.F.R. § 195.573(a)(1) by failing to conduct tests on a protected pipeline at least once each calendar year, but with intervals not exceeding 15 months. PHMSA alleged that its inspector had asked KMLT why there were missing test records and KMLT was unable to provide a reason.

Item 4: The Notice alleged that Respondent violated 49 C.F.R. § 195.575(c), which states:

§ 195.575 Which facilities must I electrically isolate and what inspections, tests, and safeguards are required?
(a) . . .
(c) You must inspect and electrically test each electrical isolation to assure the isolation is adequate.

The Notice alleged that Respondent violated 49 C.F.R. § 195.575(c) by failing to inspect and electrically test each electrical isolation to assure the isolation is adequate. Specifically, the Notice alleged that KMLT could not produce records of 14 casing pipe-to-soil test readings that should have occurred in 2013 and 2014 at the Perth Amboy facility to ensure electrical isolations were adequate.

In its Response, KMLT did not contest this allegation of violation. Accordingly, based upon a review of all of the evidence, I find that Respondent violated 49 C.F.R. § 195.575(c) by failing to inspect and electrically test each electrical isolation to assure the isolation is adequate.

Item 5: The Notice alleged that Respondent violated 49 C.F.R. § 195.589(c), which states:

§ 195.589 What corrosion control information do I have to maintain?
(a) . . .
(c) You must maintain a record of each analysis, check, demonstration, examination, inspection, investigation, review, survey, and test required by this subpart in sufficient detail to demonstrate the adequacy of corrosion control measures or that corrosion requiring control measures does not exist. You must retain these records for at least 5 years, except that records related to §§ 195.569, 195.573(a) and (b), and 195.579(b)(3) and (c) must be retained for as long as the pipeline remains in service.

The Notice alleged that Respondent violated 49 C.F.R. § 195.589(c) by failing to maintain a record of each analysis, check, demonstration, examination, inspection, investigation, review, survey, and test required by Subpart H in sufficient detail to demonstrate the adequacy of corrosion-control measures or that corrosion requiring control measures does not exist. Specifically, the Notice alleged that KMLT did not maintain records of inspections required by § 195.573(d), under Subpart H, for at least five years. Section 195.573(d) states: “You must inspect each cathodic protection system used to control corrosion on the bottom of an aboveground breakout tank to ensure that operation and maintenance of the system are in accordance with API RP 651.” The Notice alleged KMLT did not maintain 2013 inspection records of the cathodic-protection system used to control corrosion on the bottom of eight
aboveground breakout tanks.

In its Response, KMLT did not contest this allegation of violation, but requested that the Item be reduced to a warning item. KMLT argued that pipeline safety was minimally affected by the violation, that new corrosion control personnel had been hired since the time of the violation, and that new training was being implemented to train employees on achieving compliance. Respondent also stated that it now utilizes a new electronic document-management system to better maintain documents. Since these arguments relate to the severity of the violation and potential mitigation of the proposed penalty, they will be addressed in the section below, “Assessment of Penalty.”

Accordingly, based upon a review of all of the evidence, I find that Respondent violated 49 C.F.R. § 195.589(c) by failing to maintain a record of each analysis, check, demonstration, examination, inspection, investigation, review, survey, and test required by Subpart H in sufficient detail to demonstrate the adequacy of corrosion-control measures or that corrosion requiring control measures does not exist.

These findings of violation will be considered prior offenses in any subsequent enforcement action taken against Respondent.

**ASSESSMENT OF PENALTY**

Under 49 U.S.C. § 60122, Respondent is subject to an administrative civil penalty not to exceed $200,000 per violation for each day of the violation, up to a maximum of $2,000,000 for any related series of violations. In determining the amount of a civil penalty under 49 U.S.C. § 60122 and 49 C.F.R. § 190.225, I must consider the following criteria: the nature, circumstances, and gravity of the violation, including adverse impact on the environment; the degree of Respondent’s culpability; the history of Respondent’s prior offenses; any effect that the penalty may have on its ability to continue doing business; and the good faith of Respondent in attempting to comply with the pipeline safety regulations. In addition, I may consider the economic benefit gained from the violation without any reduction because of subsequent damages, and such other matters as justice may require. The Notice proposed a total civil penalty of $208,600 for the violations cited above.

**Item 2:** The Notice proposed a civil penalty of $33,300 for Respondent’s violation of 49 C.F.R. § 195.420(b), for failing to inspect each mainline valve at intervals not exceeding 7½ months, but at least twice each calendar year, to determine that it is functioning properly. Respondent argued that if this Item were not converted to a warning item, then the penalty should be withdrawn or reduced. Respondent admitted the valve inspections were not timely performed, but argued that when the inspections were eventually performed, the valves were in good working order and that there were no safety or integrity conditions present. Respondent also stated that the company subsequently re-trained company personnel on the proper inspection intervals.

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2 These amounts are adjusted annually for inflation. See, e.g., Pipeline Safety: Inflation Adjustment of Maximum Civil Penalties, 82 Fed. Reg. 19325 (April 27, 2017).
With respect to the nature, circumstances and gravity of the violation, the Violation Report alleged that PHMSA (and not KMLT) discovered the violation, that the violation concerned a failure to perform an activity, but that pipeline safety was “minimally affected.” KMLT argued that the valves were in good working order and there were no safety or integrity issues present. I have reviewed the Violation Report and find that it appropriately classified the gravity of the violation as minimally impacting safety and therefore the proposed penalty had already taken the account the lowest level of gravity. Accordingly, no reduction is warranted based on the information Respondent provided.

With respect to culpability, the Violation Report alleged that KMLT failed to take appropriate action to comply with a requirement that was clearly applicable. Respondent argued that it re-trained personnel on the inspection-interval requirements after the PHMSA inspection. KMLT’s post-inspection corrective actions are commendable and duly noted, but do not constitute grounds to reduce the penalty because they were taken after PHMSA had already identified the violation.

Accordingly, having reviewed the record and considered the assessment criteria, I assess Respondent a civil penalty of $33,300 for violation of 49 C.F.R. § 195.420(b).

Item 3: The Notice proposed a civil penalty of $74,700 for Respondent’s violation of 49 C.F.R. § 195.573(a)(1), for failing to conduct tests on a protected pipeline at least once each calendar year, but with intervals not exceeding 15 months. KMLT did not contest this violation, but argued that the penalty should be withdrawn or reduced because once its inspections were performed, no unsafe conditions were discovered and that the violation was “akin to a missing records violation.” Respondent also argued that the penalty should be reduced because the company had since hired a new cathodic-protection team lead who were fully versed in the regulatory requirements. Further, KMLT argued that the company had placed test sites more closely together than was required by its procedures. Finally, Respondent contended that three of the test stations had actually been removed from service prior to 2013, which explained why those readings were not included in the company’s records.

With respect to the nature, circumstances and gravity of the violation, the Violation Report alleged that PHMSA had discovered the violation, that the violation involved a failure to perform an activity, and that pipeline safety or integrity was compromised in a High Consequence Area (HCA), or in an HCA “could affect” segment. KMLT argued that the penalty should be withdrawn or reduced because once the inspections were performed, no unsafe conditions were

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3 Violation Report, at 14-16.
4 Id., at 17.
5 Response, at 7-8.
6 See 49 C.F.R. § 195.450 for a definition of “High Consequence Area.”
7 Violation Report, at 21-23.
discovered and that the violation was akin to a records violation.

I disagree. Monitoring of cathodic-protection systems is an important component of pipeline safety. Missed or delayed testing is not akin to a records violation. Rather, the company’s records show that various tests were conducted late or not at all, which is a failure to conduct activities necessary to ensure the integrity of a pipeline facility. With respect to gravity, the allegation that pipeline safety or integrity was compromised in an HCA is supported by the record. Respondent’s failure to test protected pipelines compromised safety because corrosion was not being monitored in environmentally sensitive HCAs, for periods up to two years.

With respect to culpability, the Violation Report alleged that KMLT failed to take appropriate action to comply with a requirement that was clearly applicable. While it is prudent to hire experienced personnel who are well-versed in the pipeline-safety regulations, such actions do not constitute grounds to reduce the penalty since they were taken after PHMSA had already identified the violation.

Further, the distance between test sites is not at issue in this case; rather, the frequency of the tests performed is the central requirement of § 195.573(a)(1). Even if there were test sites that went beyond those that were required, the record does not show that tests were run in additional locations on a schedule that would show corrosion was being monitored at the frequency required by the regulation. Additionally, Respondent has not provided evidence that any test-site locations were actually removed from service during the relevant inspection period. Therefore, I do not find there is any basis for withdrawing or reducing the penalty based on the gravity of the violation, KMLT’s culpability, prior offenses, or good faith in attempting to comply.

Accordingly, having reviewed the record and considered the assessment criteria, I assess Respondent a civil penalty of $74,700 for violation of 49 C.F.R. § 195.573(a)(1).

Item 4: The Notice proposed a civil penalty of $72,800 for Respondent’s violation of 49 C.F.R. § 195.575(c), for failing to inspect and electrically test each electrical isolation to assure the isolation is adequate. KMLT did not contest this violation, but argued that the penalty should be reduced because pipeline safety was minimally affected and because Respondent had subsequently hired new personnel and revised its procedures.

With respect to the nature, circumstances and gravity of the violation, the Violation Report alleged that PHMSA had discovered the violation, that the violation involved a failure to perform an activity, and that pipeline safety or integrity was compromised in an HCA or in an HCA “could affect” segment. KMLT argued that the penalty should be withdrawn or reduced because safety was minimally affected. I do not agree. Electrical isolation is an essential component of effective cathodic protection. Shorted casings can lead to pipeline failures, and the record shows that Respondent either conducted its testing late or not at all to ensure there were no shorted casings.

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8 Id., at 24.
9 Id., at 28-30.
KMLT’s post-inspection corrective actions are commendable and duly noted, but do not constitute grounds to reduce the penalty because they were taken after PHMSA had already identified the violation. While it was necessary and prudent for KMLT to amend its procedures to comply with the regulations and to hire and train employees fully versed in the pipeline safety regulations, such actions do not warrant a penalty reduction for a violation that occurred before such changes were implemented. Therefore, I do not find there is any basis for withdrawing or reducing the penalty based on the gravity of the violation, Respondent’s culpability, prior offenses, or good faith in attempting to comply.

Accordingly, having reviewed the record and considered the assessment criteria, I assess Respondent a civil penalty of $72,800 for violation of 49 C.F.R. § 195.575(c).

**Item 5:** The Notice proposed a civil penalty of $27,800 for Respondent’s violation of 49 C.F.R. § 195.589(c), for failing to maintain a record of each analysis, check, demonstration, examination, inspection, investigation, review, survey, and test required by Subpart H in sufficient detail to demonstrate the adequacy of corrosion-control measures or that corrosion requiring control measures does not exist. KMLT argued that if Item 5 were not reduced to a warning item, then the penalty for the Item should be reduced or withdrawn. Respondent did not contest the violation, but argued that pipeline safety was minimally affected. KMLT also stated that new corrosion-control personnel had been hired since the violation occurred and that new training was being implemented to train employees on achieving compliance going forward. Respondent also stated it now utilized a new electronic document-management system to better maintain its documents.

With respect to the nature, circumstances and gravity of the violation, the Violation Report alleged that PHMSA discovered the violation, that the violation concerned missing, inaccurate or incomplete records, but that pipeline safety had been “minimally affected.” Respondent argued for a reduction in the penalty because there were no safety or integrity issues present. I have reviewed the Violation Report and find that it appropriately classified the gravity of the violation as minimally impacting safety and therefore the proposed penalty had already taken the account the lowest possible level of gravity. Accordingly, no reduction is warranted based on the information KMLT provided.

Again, Respondent’s post-inspection corrective actions are commendable and duly noted, but do not constitute grounds to reduce the penalty because they were taken after PHMSA had already identified the violation. Therefore, I do not find there is any basis for withdrawing or reducing the penalty based on the gravity of the violation, KMLT’s culpability, prior offenses, or good faith in attempting to comply.

Accordingly, having reviewed the record and considered the assessment criteria, I assess Respondent a civil penalty of $27,800 for violation of 49 C.F.R. § 195.589(c).

In summary, having reviewed the record and considered the assessment criteria for each of the Items cited above, I assess Respondent a total civil penalty of $208,600.

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10 *Id.*, at 35-37.
Payment of the civil penalty must be made within 20 days of service. Federal regulations (49 C.F.R. § 89.21(b)(3)) require such payment to be made by wire transfer through the Federal Reserve Communications System (Fedwire), to the account of the U.S. Treasury. Detailed instructions are contained in the enclosure. Questions concerning wire transfers should be directed to: Financial Operations Division (AMK-325), Federal Aviation Administration, Mike Monroney Aeronautical Center, 6500 S MacArthur Blvd, Oklahoma City, Oklahoma 79169. The Financial Operations Division telephone number is (405) 954-8845.

Failure to pay the $208,600 civil penalty will result in accrual of interest at the current annual rate in accordance with 31 U.S.C. § 3717, 31 C.F.R. § 901.9 and 49 C.F.R. § 89.23. Pursuant to those same authorities, a late penalty charge of six percent (6%) per annum will be charged if payment is not made within 110 days of service. Furthermore, failure to pay the civil penalty may result in referral of the matter to the Attorney General for appropriate action in a district court of the United States.

**COMPLIANCE ORDER**

The Notice proposed a compliance order with respect to Item 1 in the Notice for violation of 49 C.F.R. § 195.310(a). Under 49 U.S.C. § 60118(a), each person who engages in the transportation of hazardous liquids or who owns or operates a pipeline facility is required to comply with the applicable safety standards established under chapter 601.

With regard to the violation of § 195.310(a) (Item 1), KMLT requested that if Item 1 were not withdrawn, that the proposed compliance order should be revised to allow an additional 60 days (for a total of 120 days) to complete the actions. I find such revision to be appropriate. Accordingly, the terms of the compliance order are modified as set forth below.

Pursuant to the authority of 49 U.S.C. § 60118(b) and 49 C.F.R. § 190.217, KMLT is ordered to take the following actions to ensure compliance with the pipeline safety regulations applicable to its operations:

1. With respect to the violation of § 195.310(a) (Item 1), KMLT must:
   a. Assemble existing hydrostatic test records for breakout tanks numbered 52 through 60. The records must be held as surrogate records for missing hydrostatic test records. The surrogate records must include specific information about the hurricane event, impact to the site, and efforts to recover the damaged records.
   b. All documentation demonstrating compliance with this item must be submitted to the Director, Eastern Region, within 120 days of receipt of the Final Order.

The Director may grant an extension of time to comply with any of the required items upon a written request timely submitted by the Respondent and demonstrating good cause for an extension.
It is requested (not mandated) that KMLT maintain documentation of the safety improvement costs associated with fulfilling this Compliance Order and submit the total to the Director. It is further 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.

Failure to comply with this Order may result in the administrative assessment of civil penalties not to exceed $200,000, as adjusted for inflation (49 C.F.R. § 190.223), for each violation for each day the violation continues or in referral to the Attorney General for appropriate relief in a district court of the United States.

Under 49 C.F.R. § 190.243, Respondent may submit a Petition for Reconsideration of this Final Order to the Associate Administrator, Office of Pipeline Safety, PHMSA, 1200 New Jersey Avenue, SE, East Building, 2nd Floor, Washington, DC 20590, with a copy sent to the Office of Chief Counsel, PHMSA, at the same address, no later than 20 days after receipt of service of this Final Order by Respondent. Any petition submitted must contain a statement of the issue(s) and meet all other requirements of 49 C.F.R. § 190.243. The filing of a petition automatically stays the payment of any civil penalty assessed. The other terms of the order, including corrective action, remain in effect unless the Associate Administrator, upon request, grants a stay.

The terms and conditions of this Final Order are effective upon service in accordance with 49 C.F.R. § 190.5.

June 27, 2019

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Alan K. Mayberry
Associate Administrator
for Pipeline Safety