PIPELINE & TERMINAL MANAGEMENT CORP.

July 31, 2013

VIA UPS

Mr. Wayne T. Lemoi
Director, Office of Pipeline Safety
PHMSA Southern Region
U.S. Department of Transportation
233 Peachtree Street NE, Suite 600
Atlanta, GA 30303

Re: McCain Pipeline Company
Response to Notice of Probable Violation and Proposed Compliance Order (June 5, 2013)
CPF 2-2013-6004

Dear Mr. Lemoi:

Pipeline and Terminal Management Company ("PTMC") is the managing agent for McCain Pipeline Company ("MPC"). MPC received the referenced Notice of Probable Violation and Proposed Compliance Order ("Notice") issued by the Pipeline and Hazardous Materials Safety Administration ("PHMSA"), dated June 5, 2013, on June 6, 2013. The Notice followed an inspection of the MPC pipeline facility performed by PHMSA on January 23, 2013. PHMSA's identification of items inspected and the probable violations are set forth in bold below. MPC's responses to each of the items follows.

1. §195.410 Line Markers.

At the time of the inspection, there were not a sufficient number of line markers along MPC's buried pipeline so that its location was accurately known. The PHMSA inspectors observed and photographed several pipeline segments system wide where right-of-way (ROW) markers were missing or inadequate. For example, there were not sufficient line markers to accurately locate the pipeline upstream of the Mississippi State Route 45 crossing or downstream of the Old Route 45 crossing where the MPC line parallels the road.

MPC Response: Immediately following the January 23, 2013 PHMSA inspection, MPC terminal manager, Johnny Coker, placed additional line markers along MPC's buried pipeline so that its location is accurately known. There are now sufficient line markers to accurately locate the pipeline upstream of the US Highway 45 crossing and downstream of the Old Route 45 crossing where the MPC line parallels

4635 Southwest Freeway, Suite 910, Houston, TX 77027 *Phone: (713) 627-1700*
P. O. Box 270415, Houston, TX 77277-0415 *Fax: (713) 621-9292*

the road. MPC utilized a "line of sight" as the basis for the spacing between line markers along the buried line.

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

MPC's *Standard Operating Procedures and Maintenance Manual* (i.e. O&M manual) did not include procedures for the safe operation and maintenance of the regulated breakout tank located at the MPC Bulk Fuel Storage Facility.

The MPC system receives jet fuel from Plantation Pipeline at the MPC Bulk Fuel Storage Facility. The fuel passes through MPC operated piping and filters before being delivered into a tank. Product is drawn out of the tank and pressurized by booster pumps for delivery by pipeline to MPC's sole customer.

PHMSA has confirmed the tank to be a regulated breakout tank. That said, prior to PHMSA's inspection of the MPC system, MPC did not identify the tank as a regulated breakout tank, and did not include any procedures detailing the tank's maintenance and operations in the above-referenced O&M manual.

MPC Response: MPC has revised its Standard Operating Procedures and Maintenance Manual ("O&M Manual") to include procedures for the safe operation and maintenance of the 80,000 barrel ("bbl") bulk fuel storage tank at the MPC Lockhart terminal as a regulated breakout tank. Revised schematics of the regulated portions of the MPC Bulk Fuel Storage Facility, including the 80,000 bbl bulk fuel tank, have been generated, written start-up/shut down procedures for receipt of fuel from Plantation Pipeline and delivery of fuel to Meridian Naval Air Station ("MNAS") have been prepared, and appropriate inspection checklists have been created.

3. §195.406 Maximum Operating Pressure (MOP)

MPC did not properly establish the maximum operating pressure (MOP) for the pipeline segment upstream of the breakout tank at the Bulk Fuel Storage Facility because the MOP established and recorded by MPC exceeded the design pressure of installed pipeline components.

MPC established an MOP of 225 psig for its entire pipeline system, including the Bulk Fuel Storage Facility where it receives product from Plantation Pipeline. Two of the four filters at the facility were designed with a pressure rating of only 150 psig.

According to MPC's procedure, the two 150 psig pressure rated filters are in service only during operations before pressurization by the MPC booster pumps, however, these filters were installed in a portion of the system which could be subject to

operational pressures both before and after the increases provided by the MPC booster pumps. That is, these filters could be subject to pressures up to 225 psig.

MPC Response: MPC has four pressure rated filter vessels in operation at its Lockhart Bulk Fuel Storage Facility. Two of the four filter vessels (1 and 2) are pressure rated at 250 psig. The other two filter vessels (3 and 4) are pressure rated at 150 psig. All four of the filter vessels are used, periodically, for receipt of fuel from the Plantation Pipeline. Only two of the filter vessels (1 and 2) are used for delivery of fuel to MNAS. The lower rated filter vessels (3 and 4) are used only for receipt of fuel from the Plantation Pipeline; valves serving each have always been kept in the closed position during fuel delivery operations to MNAS. Because of MPC's internal operating procedures for receipt and transfer of fuel, the lower rated filter vessels were never used for delivery operations and could not have been subject to pressures up to 225 psig.

MPC receives fuel from the Plantation Pipeline at a delivery point located on property leased by Plantation Pipeline and located immediately adjacent to the MPC Lockhart Bulk Fuel Storage Facility. MPC's terminal manager, Johnny Coker, reports that the pressure recorded on Plantation Pipeline's pressure gauge on its side of the delivery point during receipt of fuel by MPC ranges from 20-45 psig. By email dated June 10, 2013, Plantation advised MPC that Plantation's control valve set point to the Lockhart Bulk Fuel Storage Facility is 125 psig, with a relief pressure set point of 175 psig. Pressure recorded on MPC's pressure gauge on MPC's side of the delivery point during receipt of fuel from the Plantation Pipeline ranges from 5-20 psig.

MPC has revised its O&M Manual to establish two MOPs for its operations. The MOP for receipt of fuel from the Plantation Pipeline is now established to be 150 psig, which does not exceed the design pressure rating of any one of the four filter vessels. On May 19, 2013, the delivery pipeline was pressure tested in accordance with the procedures set forth in 49 CFR § 195.304. Specifically, a test pressure equal to 312.5 psig (125% of 250) was maintained for at least four continuous hours and a test pressure equal to 275 psig (110% of 250) was maintained for an additional 4 hours. Recording charts made at the time of the May 19, 2013 pressure test are maintained at the MPC office at the MPC Lockhart Bulk Fuel Storage Facility. The MOP for the delivery pipeline is now set at 250 psig. The set point for the mercoid switch for the delivery pipeline is set at 250 psig. New inspection forms have been created to document actual set point observed readings during required inspections of the mercoid switch.

4. §195.406 Maximum Operating Pressure (MOP)

MPC did not provide adequate controls and protective equipment to control the pressure within 110 percent of the operating pressure limit established under paragraph (a) of this section (i.e. MOP).

The MPC pipeline system receives jet fuel from Plantation Pipeline at the MPC Bulk Fuel Storage Facility. There is no over-pressure protection device installed on the MPC side of the custody transfer nor did MPC monitor or record delivery pressures. Moreover, while the MPC system relies solely on Plantation's delivery

pressures to ensure its facilities upstream of the storage tank are not over-pressured, MPC did not provide any records or other documentation to demonstrate that Plantation is aware of the over-pressurization potential or that Plantation would provide over-pressure protection for the MPC piping.

MPC Response: As noted in the response to Item 3 above, MPC now has documentation to demonstrate that Plantation Pipeline does not deliver fuel to MPC in a manner that creates an over-pressurization potential. MPC personnel monitor and record receipt pressures on an hourly basis to ensure that the MOP is not exceeded for receipt of fuel from the Plantation Pipeline. MPC monitors the Plantation Pipeline pressure gauge at the point of delivery and the MPC pressure gauge located just downstream of the point of delivery. Written records are maintained of the hourly readings. MPC's O&M Manual now requires that receipt of fuel be shut down and an investigation into the cause of the increased pressure be conducted if the pressure recorded during receipt ever exceeds 125 psig. Receipt will not be restarted until MPC determines that receipt can be accomplished at a pressure less than 125 psig.

5. **§195.406 Maximum Operating Pressure (MOP)**

MPC established an MOP of 225 psig for its entire pipeline system, yet at the time of the inspection, the high-pressure Mercoid switch downstream of the booster pumps was set to 250 psig, which could allow system pressures to potentially reach 111% of the established MOP.

MPC Response: As noted above in response to Item 3, MPC has set its MOP for the delivery of fuel to MNAS at 250. The MPC mercoid switch on the delivery pipeline is set at 250 psig. The MOP is based on the results of actual pressure testing of the delivery pipeline. Since the mercoid switch on the delivery pipeline is set at the MOP, system pressures may not potentially reach greater than 100% of the established MOP.

6. **§195.404 Maps and Records**

MPC maps and records did not properly identify the limits of its facilities which are subject to regulation under Part 195.

The MPC pipeline delivers jet fuel to the Meridian Naval Air Station (MNAS). There is a change of operational control inside the MNAS facility at a valve setting downstream of the MPC filter. This is the final point at which MPC has operational control, making it the limit of PHMSA's regulatory authority on the MPC system. Prior to the PHMSA inspection, MPC had incorrectly identified the limit of PHMSA's regulatory authority as the valves just upstream of the MPC filter at the MNAS delivery facility.

MPC Response: As noted in the response to Item 2 above, revised schematics of the receipt and delivery operations of the MPC operations that are subject to regulation under Part 195 are now maintained at MPC's offices at the Lockhart Bulk Fuel Storage Facility. For the MNAS facility, the revised schematic shows the limit of PHMSA's regulatory authority under 49 CFR Part 195 to be the valve (M5) at the change of operational control inside the MNAS facility.

Summary

MPC has taken all appropriate actions to response to each of the items set forth in PHMSA's Notice. All actions described above were completed within sixty (60) days of the date of the issuance of the Final Order, as described in the Notice. Records documenting compliance are maintained at MPC's offices at the Lockhart Bulk Fuel Storage Facility. The safety improvement costs associated with fulfilling MPC's obligations under the Compliance order are as follows: 1) total cost associated with preparation/revision of plans, procedures, studies and analyses—approximately $ 10,000.00; and 2) total cost associated with replacements, additions and other changes to pipeline infrastructure--$0.00.

Please let me know if you have any questions following your review of this response.

Sincerely yours,

Mark Rauch
President
Pipeline & Terminal Management Corp.

cc: Johnny Coker
James Urisko (via email: james.urisko@dot.gov)
William L. Pence, Esq.