



U.S. Department
of Transportation

**Pipeline and
Hazardous Materials Safety
Administration**

901 Locust Street, Suite 462
Kansas City, MO 64106-2641

**NOTICE OF PROBABLE VIOLATION
PROPOSED CIVIL PENALTY
and
PROPOSED COMPLIANCE ORDER**

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

February 8, 2007

Mr. Rodney Reese
Vice President, Regional Operations
Valero L.P.
One Valero Way
Mail Stop C2G-140
San Antonio, TX 78249-1616

CPF 3-2007-5002

Dear Mr. Reese:

On May 15-17, June 12-14, June 19-22 and August 21-24, 2006, a representative of the Pipeline and Hazardous Materials Safety Administration (PHMSA) pursuant to Chapter 601 of 49 United States Code inspected your Kaneb Pipe Line Company (Kaneb) anhydrous ammonia pipeline facilities and records in Missouri, Illinois, Indiana, Iowa and Nebraska.

As a result of the inspection, it appears that you have committed probable violations of the Pipeline Safety Regulations, Title 49, Code of Federal Regulations. The items inspected and the probable violation(s) are:

- 1) **§195.402 Procedural manual for operations, maintenance, and emergencies.**
 - (a) **General. Each operator shall prepare and follow for each pipeline system a manual of written procedures for conducting normal operations and maintenance activities and handling abnormal operations and emergencies.**

(d) Abnormal operation. The manual required by paragraph (a) of this section must include procedures for the following to provide safety when operating design limits have been exceeded:

(5) Periodically reviewing the response of operator personnel to determine the effectiveness of the procedures controlling abnormal operation and taking corrective action where deficiencies are found.

Kaneb did not follow its operations and maintenance procedures and did not perform any reviews of operator personnel responses to abnormal operating conditions (AOC's) during the 2004 – 2006 time period inspected.

Kaneb has an appropriate AOC form (KPL-J-196) and used it to document the occurrence of AOC's. However, a review of these forms showed your personnel did not use the "EVALUATION" section of the form to periodically document any reviews of the effectiveness of the procedures used in controlling the abnormal operations situations.

2) §195.412 Inspection of rights-of-way and crossings under navigable waters.

(a) Each operator shall, at intervals not exceeding 3 weeks, but at least 26 times each calendar year, inspect the surface conditions on or adjacent to each pipeline right-of-way. Methods of inspection include walking, driving, flying or other appropriate means of traversing the right-of-way.

Kaneb did not adequately patrol numerous sections of the right-of-way on your anhydrous ammonia pipeline system in Missouri, Illinois and Nebraska.

Kaneb uses aerial patrolling to inspect the condition of the pipeline right-of-way. The right-of-way was found to be overgrown at several locations, making aerial patrolling an ineffective means of inspecting the condition of the pipeline right-of-way. Your personnel were aware of the poor right-of-way conditions and did not use any other means of patrol in these areas of dense cover. Some areas noted during the audit of the anhydrous ammonia pipeline system are as follows:

- 1) At 4 road crossings in an approximate 4 mile pipeline section from MP41.4 to MP45.4 near Mountain View, Missouri (approximately 150 feet along the pipeline in each direction from the road crossing, thence opening up into open cropland and being clear)
- 2) In an approximate 500 foot section of woods at a foreign line crossing with a Conoco-Phillips pipeline at MP 47.9 near Litchfield, Illinois
- 3) In an approximate 300 foot section of small woods on either side of a creek crossing at MP115.1 near Trilla, Illinois
- 4) In an approximate 200 foot section of small woods on the west side of the Elkhorn River crossing at MP33.0 near Arlington, Nebraska

Proposed Civil Penalty

Under 49 United States Code, § 60122, you are subject to a civil penalty not to exceed \$100,000 for each violation for each day the violation persists up to a maximum of \$1,000,000 for any related series of violations. The Compliance Officer has reviewed the circumstances and supporting documentation involved in the above probable violation(s) and has recommended that you be preliminarily assessed a civil penalty as follows:

<u>Item Number</u>	<u>PENALTY</u>
2	\$38,000

Warning Items

With respect to Item 1 we have reviewed the circumstances and supporting documents involved in this case and have decided not to conduct additional enforcement action or penalty assessment proceedings at this time. We advise you to promptly correct this item. Be advised that failure to do so may result in Kaneb being subject to additional enforcement action.

Proposed Compliance Order

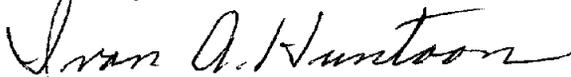
With respect to Item 2 pursuant to 49 United States Code § 60118, the Pipeline and Hazardous Materials Safety Administration proposes to issue a Compliance Order to Kaneb. Please refer to the *Proposed Compliance Order*, which is enclosed and made a part of this Notice.

Response to this Notice

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. 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.

In your correspondence on this matter, please refer to **CPF 3-2007-5002** and for each document you submit, please provide a copy in electronic format whenever possible.

Sincerely,



Ivan A. Huntoon
Director, Central Region
Pipeline and Hazardous Materials Safety Administration

Enclosures: *Proposed Compliance Order*
Response Options for Pipeline Operators in Compliance Proceedings

PROPOSED COMPLIANCE ORDER

Pursuant to 49 United States Code § 60118, the Pipeline and Hazardous Materials Safety Administration (PHMSA) proposes to issue to Kaneb a Compliance Order in regards to Item Number 2 of the Notice for its anhydrous ammonia pipeline system in the states of Missouri, Illinois, Indiana, Iowa and Nebraska incorporating the following remedial requirements to ensure the compliance of Kaneb with the pipeline safety regulations:

1. Pertaining to inspection of the surface conditions on or adjacent to the pipeline right-of-way, provide to Ivan A. Huntoon, Director, Central Region, Pipeline and Hazardous Materials Safety Administration, 901 Locust Street, Room 462, Kansas City, MO 64106 a plan and schedule of action for clearing the right-of-way where aerial patrolling will be utilized.
2. The plan must identify sections of pipeline right-of-way throughout the system that are overgrown and will remain overgrown for a period of time while awaiting clearing. For these sections, Kaneb must provide an alternate means to aerial patrolling in order to comply with inspection of the surface conditions on or adjacent to the pipeline right-of-way as required by §195.412.
3. Provide the plan and action schedule within 30 days from the date of receipt of the Final Order.
4. Implement the plan and schedule required by items 1 and 2, above, within 60 days from the date of receipt of the Final Order.
5. Kaneb shall maintain documentation of the safety improvement costs associated with fulfilling this Compliance Order and submit the total to Ivan A. Huntoon, Director, Central Region, Pipeline and Hazardous Materials Safety Administration, 901 Locust Street, Room 462, Kansas City, MO 64106. Costs shall be reported in two categories: 1) total cost associated with preparation/revision of plans, procedures, studies and analyses, and 2) total costs associated with replacements, additions and other changes to pipeline infrastructure.