NOTICE OF PROBABLE VIOLATION
and
PROPOSED COMPLIANCE ORDER

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

June 21, 2013

Rick Peterson
General Manager
National Cooperative Refinery Association (NCRA)
2000 S. Main
McPherson, KS 67460

CPF 3-2013-5018

Dear Mr. Peterson:

On, April 12 – 16, April 19 – 23, and April 26 – 30, 2010 a representative of the Pipeline and Hazardous Materials Safety Administration (PHMSA) pursuant to Chapter 601 of 49 United States Code inspected your NCRA records and field facilities in Kansas, Iowa & Nebraska.

NCRA operates the following five lines in Kansas between the NCRA Refinery in McPherson and the Conway Storage Field:

- 6.5 miles of 4” Propane pipeline between McPherson and Conway
- 6.5 miles of 4” Butane pipeline between McPherson and Conway
- 6.5 miles of 8” Gasoline pipeline between McPherson and Conway
- 6.5 miles of 6” Pentane pipeline between McPherson and Conway
- 6.5 miles of 8” Natural Gasoline pipeline between McPherson and Conway

These systems also include approximately 1,000 feet of piping at the refinery and 11.5 miles of pipe at the Conway Storage facility. During this inspection, PHMSA identified these pipeline systems and facilities as regulated assets per 49 CFR Part 195.
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. §195.302 Pressure Testing – General Requirements

   (a) Except as otherwise provided in this section and in §195.305(b), no operator may operate a pipeline unless it has been pressure tested under this subpart without leakage.

   At the time of PHMSA’s inspection the McPherson to Conway pipeline system had not been pressure tested, nor had the maximum operating pressure been established as otherwise required in §195.302(b)(1).

2. §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. This manual shall be reviewed at intervals not exceeding 15 months, but at least once each calendar year, and appropriate changes made as necessary to insure that the manual is effective. This manual shall be prepared before initial operations of a pipeline system commence, and appropriate parts shall be kept at locations where operations and maintenance activities are conducted.

   At the time of PHMSA’s inspection of the McPherson to Conway pipeline system NCRA had not prepared, nor incorporated into the existing O&M manual, written procedures that included all the specific requirements described in §195.402(c), (d), and (e).

3. §195.404 Maps and Records

   (c) Each operator shall maintain the following records for the periods specified:

   (3) A record of each inspection and test required by this subpart shall be maintained for at least 2 years or until the next inspection or test is performed, whichever is longer.

   At the time of PHMSA’s inspection of the McPherson to Conway pipeline system NCRA was not maintaining all records of inspections and tests required by 49 CFR Part 195, Subpart F – Operations and Maintenance.
Proposed Compliance Order

With respect to item numbers 1 through 3 pursuant to 49 United States Code § 60118, the Pipeline and Hazardous Materials Safety Administration proposes to issue a Compliance Order to NCRA. 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. 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.

In your correspondence on this matter, please refer to CPF 3-2013-5018 and for each document you submit, please provide a copy in electronic format whenever possible.

Sincerely,

[Signature]

David Barrett
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 NCRA a Compliance Order incorporating the following remedial requirements to ensure the compliance of NCRA with the pipeline safety regulations:

1. In regard to Item 1 of the Notice pertaining to NCRA not scheduling pressure testing or establishing the maximum operating pressure as otherwise provided in §195.302, NCRA shall submit copies of pressure test records consistent with §195.310 for the McPherson to Conway pipeline system. Also submit a listing of the established maximum operating pressure(s) for the McPherson to Conway pipeline system.

2. In regard to Item 2 of the Notice pertaining to NCRA not preparing a manual of written procedures, NCRA shall submit a manual of written procedures for conducting normal operations and maintenance and handling abnormal operations and emergencies.

3. In regard to Item 3 of the Notice pertaining to NCRA not maintaining records, NCRA shall submit the latest record of all required inspections and tests, including but not limited to:
   a. Inspections of rights-of-way
   b. Valve maintenance
   c. Pipeline repairs or modifications completed in 2012
   d. Inspections of overpressure safety devices and overfill protection systems
   e. Inspections of firefighting equipment
   f. Inspections of breakout tanks
   g. Inspections, surveys, or tests of the corrosion control system

4. All documentation required to be submitted in this proposed compliance order shall be sent to David Barrett, Director – Central Region, within 30 days of receipt of the Final Order and in electronic format whenever possible.

5. It is requested that NCRA maintain documentation of the safety improvement costs associated with fulfilling this Compliance Order and submit the total to David Barrett, Director – Central Region, Pipeline and Hazardous Materials Safety Administration. 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.
Response Options for Pipeline Operators in Compliance Proceedings

The requirements of 49 C.F.R. Part 190, Subpart B (§§ 190.201–190.237) govern response to Notices issued by a Regional Director, Pipeline and Hazardous Materials Safety Administration (PHMSA).

Be advised that all material submitted by a respondent in response to an 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).

1. **Procedures for Responding to a NOTICE OF PROBABLE VIOLATION:**

   Within 30 days of receipt of a Notice of Probable Violation, the respondent shall respond to the Regional Director who issued the Notice in the following way:

   a. **When the Notice contains a proposed CIVIL PENALTY** --

      1. If you are not contesting any violations alleged in the Notice, pay the proposed civil penalty and advise the Regional Director of the payment. This authorizes PHMSA to issue an order making findings of violation and upon confirmation that the payment has been received PHMSA will close the case with prejudice to the respondent. Payment terms are outlined below;

      2. If you are not contesting any violations alleged in the Notice but wish to submit written explanations, information, or other materials you believe warrant mitigation of the civil penalty, you may submit such materials. This authorizes PHMSA to make findings and to issue a Final Order assessing a penalty amount up to the amount proposed in the Notice. Under 49 United States Code, § 60122, you are subject to a civil penalty not to exceed $200,000 per violation per day the violation persists up to a maximum of $2,000,000 for a related series of violations. For violations occurring prior to January 4, 2012, the maximum civil penalty may not exceed $100,000 per violation per day, with a maximum penalty not to exceed $1,000,000 for a related series of violations. Refer to 49 C.F.R. § 190.225 for assessment considerations upon which civil penalties are based;
3. If you are contesting one or more of the items in the Notice but are not requesting an oral hearing, submit a written response to the allegations and/or seek elimination or mitigation of the proposed civil penalty; or

4. Request a hearing as described below to contest the allegations and/or proposed assessment of a civil penalty.

b. **When the Notice contains a proposed COMPLIANCE ORDER** --

1. If you are not contesting the compliance order, notify the Regional Director that you intend to take the steps in the proposed compliance order;

2. If you are not contesting the compliance order but wish to submit written explanations, information, or other materials you believe warrant modification of the proposed compliance order in whole or in part, or you seek clarification of the terms of the proposed compliance order, you may submit such materials. This authorizes PHMSA to make findings and issue a compliance order;

3. If you are contesting the proposed compliance order but are not requesting an oral hearing, submit written explanations, information, or other materials in answer to the allegations in the Notice and stating your reasons for objecting to the proposed compliance order items in whole or in part; or

4. Request a hearing as described below to contest the allegations and/or proposed compliance order items.

c. **When the Notice contains a WARNING ITEM** --

No written response is required. The respondent is warned that if it does not take appropriate action to correct these items, enforcement action will be taken if a subsequent inspection reveals a violation.

* Failure of the respondent to respond to the Notice within 30 days of receipt constitutes a waiver of the right to contest the allegations in the Notice and authorizes the Associate Administrator for Pipeline Safety to find facts as alleged in the Notice without further notice to the respondent and to issue a Final Order.
II. Procedures for Responding to a NOTICE OF AMENDMENT*

Within 30 days of receipt of a Notice of Amendment, the respondent shall respond to the Regional Director who issued the Notice in the following way:

a. If you are not contesting the Notice, notify the Regional Director of your plans to address the inadequacies identified in the Notice;

b. If you are not contesting the Notice but wish to submit written explanations, information, or other materials you believe warrant modification of the Notice of Amendment in whole or in part, or you seek clarification of the terms of the Notice of Amendment, you may submit such materials. This authorizes PHMSA to make findings and issue an Order Directing Amendment;

c. If you are contesting the Notice of Amendment but are not requesting an oral hearing, submit written explanations, information, or other materials in answer to the allegations in the Notice and stating your reasons for objecting to the Notice of Amendment items in whole or in part; or

d. Request a hearing as described below to contest the allegations in the Notice.

* Failure of the respondent to respond to the Notice within 30 days of receipt constitutes a waiver of the right to contest the allegations in the Notice and authorizes the Associate Administrator for Pipeline Safety to find facts as alleged in the Notice without further notice to the respondent and to issue a Final Order.

III. Procedure for Requesting a Hearing

A request for a hearing must be in writing and accompanied by a statement of the issues that the respondent intends to raise at the hearing. The issues may relate to the allegations, new information, or to the proposed compliance order or proposed civil penalty amount. Refer to 49 C.F.R. § 190.225 for assessment considerations upon which civil penalties are based. A respondent's failure to specify an issue may result in waiver of the right to raise that issue at the hearing. The respondent's request must also indicate whether or not respondent will be represented by counsel at the hearing. Failure to request a hearing in writing within 30 days of receipt of a Notice waives the right to a hearing. In addition, if the amount of the proposed civil penalty or the proposed corrective action is less than $10,000, the hearing will be held by telephone, unless the respondent submits a written request for an in-person hearing. Complete hearing procedures can be found at 49 C.F.R. § 190.211.

IV. Extensions of Time

An extension of time to prepare an appropriate response to a Notice may be granted, at the agency's discretion, following submittal of a written request to the Regional Director. The request must indicate the amount of time needed and the reasons for the extension. The request must be submitted within 30 days of receipt of the Notice.
V. Freedom of Information Act
Any material provided to PHMSA by the respondent, and materials prepared by PHMSA including the Notice and any order issued in this case, may be considered public information and subject to disclosure under the Freedom of Information Act (FOIA). If you believe the information you are providing is security sensitive, privileged, confidential or may cause your company competitive disadvantages, please clearly identify the material and provide justification why the documents, or portions of a document, should not be released under FOIA. If we receive a request for your material, we will notify you if PHMSA, after reviewing the materials and your provided justification, determines that withholding the materials does not meet any exemption provided under the FOIA. You may appeal the agency's decision to release material under the FOIA at that time. Your appeal will stay the release of those materials until a final decision is made.

VI. The Rights of Small Entities To Enforcement Fairness and Policy Against Retaliation
The Department of Transportation has a policy regarding the rights of small entities to regulatory enforcement fairness and an explicit policy against retaliation for exercising these rights. Our objective is to ensure a fair regulatory enforcement environment. If you feel you have been treated unfairly or unprofessionally, you may contact the PHMSA Office of Chief Counsel. You also have the right to contact the Small Business Administration’s National Ombudsman at 1-888-REGFAIR or www.sba.gov/ombudsman regarding the fairness of the compliance and enforcement activities of this agency.

The Department of Transportation strictly forbids retaliatory acts by its employees. As such, you should feel confident that you will not be penalized for expressing your concerns about compliance and enforcement activities.

VII. Small Business Regulatory Enforcement Fairness Act Information
The Small Business and Agricultural Regulatory Enforcement Ombudsman and 10 Regional Fairness Boards were established to receive comments from small businesses about federal agency enforcement actions. The Ombudsman will annually evaluate the enforcement activities and rate each agency's responsiveness to small business. If you wish to comment on the enforcement actions of the Pipeline and Hazardous Materials Safety Administration, call 1-888-REG-FAIR (1-888-734-3247) or go to http://www.sba.gov/ombudsman/dsp_faq.html.

VIII. Payment Instructions

Civil Penalty Payments of Less Than $10,000
Payment of a civil penalty of less than $10,000 proposed or assessed, under Subpart B of Part 190 of the Pipeline Safety Regulations can be made by certified check, money order or wire transfer. Payment by certified check or money order (containing the CPF Number
for this case) should be made payable to the "Department of Transportation" and should be sent to:

Federal Aviation Administration
Mike Monroney Aeronautical Center
Financial Operations Division (AMZ-341) P.O. Box 269039
Oklahoma City, OK 73125-4915

Wire transfer payments of less than $10,000 may be made through the Federal Reserve Communications System (Fedwire) to the account of the U.S. Treasury. Detailed instructions are provided below. Questions concerning wire transfer should be directed to the Financial Operations Division at (405) 954-8893, or at the above address.

Civil Penalty Payments of $10,000 or more

Payment of a civil penalty of $10,000 or more proposed or assessed under Subpart B of Part 190 of the Pipeline Safety Regulations must be made wire transfer (49 C.F.R. § 89.21 (b)(3)), through the Federal Reserve Communications System (Fedwire) to the account of the U.S. Treasury. Detailed instructions are provided below. Questions concerning wire transfers should be directed to the Financial Operations Division at (405) 954-8893, or at the above address.
INSTRUCTIONS FOR ELECTRONIC FUND TRANSFERS

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<tr>
<th>(1) RECEIVER ABA NO.</th>
<th>(2) TYPE/SUB-TYPE</th>
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<td>021030004</td>
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<th>(3) SENDING BANK ABA NO.</th>
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<th>(5) AMOUNT</th>
<th>(6) SENDING BANK NAME</th>
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<th>(7) RECEIVER NAME</th>
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<td>TREAS NYC</td>
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<th>(9) BENEFICIAL (BNF) = AGENCY LOCATION CODE</th>
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<th>(10) REASONS FOR PAYMENT</th>
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<td>Example: PHMSA - CPF # / Ticket Number/Pipeline Assessment number</td>
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**INSTRUCTIONS:** You, as sender of the wire transfer, must provide the sending bank with the information for blocks (1), (5), (7), (9), and (10). The information provided in Blocks (1), (7), and (9) are constant and remain the same for all wire transfers to the Pipeline and Hazardous Materials Safety Administration, Department of Transportation.

**Block #1** - RECEIVER ABA NO. - "021030004". Ensure the sending bank enters this 9-digit identification number; it represents the routing symbol for the U.S. Treasury at the Federal Reserve Bank in New York.

**Block #5** - AMOUNT - You as the sender provide the amount of the transfer. Please be sure the transfer amount is punctuated with commas and a decimal point. **EXAMPLE: $10,000.00**

**Block #7** - RECEIVER NAME - "TREAS NYC". Ensure the sending bank enters this abbreviation. It must be used for all wire transfers to the Treasury Department.

**Block #9** - BENEFICIAL - AGENCY LOCATION CODE - "69140001". Ensure the sending bank enters this information. This is the Agency Location Code for the Pipeline and Hazardous Materials Safety Administration, Department of Transportation.

**Block #10** - REASON FOR PAYMENT - "AC-payment for PHMSA Case # / To ensure your wire transfer is credited properly, enter the case number/ticket number or Pipeline Assessment number, and country."

**NOTE:** A wire transfer must comply with the format and instructions or the Department cannot accept the wire transfer. You as the sender can assist this process by notifying the Financial Operations Division (405) 954-8893 at the time you send the wire transfer.

February 7, 2013