NOTICE OF AMENDMENT

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

June 20, 2008

Mr. Jeryl Mohn
Sr. VP Operations and Engineering
Panhandle Energy
5444 Westheimer Road
Houston, TX 77056-5306

Dear Mr. Mohn:


As a result of the inspection, it appears that your written procedures are inadequate to assure safe operation of the pipeline as follows:

1. §192.905(a) General. To determine which segments of an operator's transmission pipeline system are covered by this subpart, an operator must identify the high consequence areas. An operator must use method (1) or (2) from the definition in §192.903 to identify a high consequence area. An operator may apply one method for its entire pipeline system, or an operator may apply one method to individual portions of the pipeline system. An operator must describe in its integrity management program which method it is applying to each portion of the operator's pipeline system. The description must include the potential impact radius when utilized to establish a high consequence area. (See appendix E.I. for guidance on identifying high consequence areas.)
Panhandle Energy must amend SOP J-01 and SOP J-02 processes and procedures as they relate to the HCA identification process to ensure that it will specifically address integrity management for facilities. Additionally, Panhandle Energy must amend its HCA identification process to ensure that the HCA process utilizes information from routine operation and maintenance activities and input from public officials.

2. §192.917 (e)(4) ERW pipe. If a covered pipeline segment contains low frequency electric resistance welded pipe (ERW), lap welded pipe or other pipe that satisfies the conditions specified in ASME/ANSI B31.8 S, Appendices A4.3 and A4.4, and any covered or non covered segment in the pipeline system with such pipe has experienced seam failure, or operating pressure on the covered segment has increased over the maximum operating pressure experienced during the preceding five years, an operator must select an assessment technology or technologies with a proven application capable of assessing seam integrity and seam corrosion anomalies. The operator must prioritize the covered segment as a high risk segment for the baseline assessment or a subsequent reassessment.

Panhandle Energy must amend White Paper B2.c and SOP J-09 processes and procedures as they relate to the Facilities Risk Assessment processes (including its algorithms and risk ranking) to ensure that covered segments containing LF-ERW pipe not previously hydrostatically pressure tested, which experienced operating pressure increases above the maximum operating pressure during the preceding five years are prioritized as high-risk segments.

3. §192.905(c) Newly-identified areas. When an operator has information that the area around a pipeline segment not previously identified as a high consequence area could satisfy any of the definitions in §192.903, the operator must complete the evaluation using method (1) or (2). If the segment is determined to meet the definition as a high consequence area, it must be incorporated into the operator's baseline assessment plan as a high consequence area within one year from the date the area is identified.

Panhandle Energy must amend White Paper B4a and any relevant SOP process and procedures as they specifically relate to Newly-identified areas to ensure that they adequately describe how to identify newly identified areas as possible high consequence areas. The procedures need to adequately describe the requirements to obtain information concerning changing conditions along the pipeline that may require HCA updating.

4. §192.917 (a) Threat identification. An operator must identify and evaluate all potential threats to each covered pipeline segment. Potential threats that an
operator must consider include, but are not limited to, the threats listed in ASME/ANSI B31.8S (ibr, see §192.7), section 2, which are as follows:

1) Time dependent threats such as internal corrosion, external corrosion, and stress corrosion cracking;
2) Static or resident threats, such as fabrication or construction defects;
3) Time independent threats such as third party damage and outside force damage; and
4) Human error.

Panhandle Energy must amend White Papers C1a, C1c and any relevant SOP process and procedures involving the Threat Identification process and procedures to ensure that there is consideration of interactive threats for each covered pipeline segment as required by ASME B31.8S, Section 2.2. The process shall ensure that near neutral pH stress corrosion cracking is addressed. Additionally, the basis for excluding external corrosion for pipelines less than 10 years must be justified and the basis for considering the threat of manufacturing-related defects as stable must adequately address the 5 year pressure history limitation per 49CFR 192.917(e)(3).

5. §192.917 How does an operator identify potential threats to pipeline integrity and use the threat identification in its integrity program?

- (e) Actions to address particular threats. If an operator identifies any of the following threats, the operator must take the following actions to address the threat.
  - (e)(1) Third party damage. An operator must utilize the data integration required in paragraph (b) of this section and ASME/ANSI B31.8S, Appendix A7 to determine the susceptibility of each covered segment to the threat of third party damage. If an operator identifies the threat of third party damage, the operator must implement comprehensive additional preventive measures in accordance with §192.935 and monitor the effectiveness of the preventive measures. If, in conducting a baseline assessment under §192.921, or a reassessment under §192.937, an operator uses an internal inspection tool or external corrosion direct assessment, the operator must integrate data from these assessments with data related to any encroachment or foreign line crossing on the covered segment, to define where potential indications of third party damage may exist in the covered segment. An operator must also have procedures in its integrity management program addressing actions it will take to respond to findings from this data integration.

Panhandle Energy must amend the SOP's "Encroachment Surveillance and Buried Pipe Inspections" process and procedures to ensure that that Data gathering and integration procedures require the integration of encroachment and foreign line crossing location data with ILI or ECDA results to locate areas of potential third party damage.
6. §192.933(a) General requirements. An operator must take prompt action to address all anomalous conditions that the operator discovers through the integrity assessment. In addressing all conditions, an operator must evaluate all anomalous conditions and remediate those that could reduce a pipeline's integrity. An operator must be able to demonstrate that the remediation of the condition will ensure that the condition is unlikely to pose a threat to the integrity of the pipeline until the next reassessment of the covered segment. If an operator is unable to respond within the time limits for certain conditions specified in this section, the operator must temporarily reduce the operating pressure of the pipeline or take other action that ensures the safety of the covered segment. If pressure is reduced, an operator must determine the temporary reduction in operating pressure using ASME/ANSI B31G or RSTRENG or reduce the operating pressure to a level not exceeding 80% of the level at the time the condition was discovered. (See Appendix A to this part 192 for information on availability of incorporation by reference information). A reduction in operating pressure cannot exceed 365 days without an operator providing a technical justification that the continued pressure restriction will not jeopardize the integrity of the pipeline.

Panhandle Energy must amend White Paper E.0-2.a and SOP J-14 processes and procedures to ensure that immediate conditions shall be examined within five days after determination of the condition and that prompt pressure reduction shall be taken once an immediate repair condition is discovered. Additionally, the amended process and procedures must clearly define how the requirements for evaluation of monitored conditions for changes in conditions at future assessments will be carried out.

7. §192.933(b) Discovery of condition. Discovery of a condition occurs when an operator has adequate information about a condition to determine that the condition presents a potential threat to the integrity of the pipeline. A condition that presents a potential threat includes, but is not limited to, those conditions that require remediation or monitoring listed under paragraphs (d)(1) through (d)(3) of this section. An operator must promptly, but no later than 180 days after conducting an integrity assessment, obtain sufficient information about a condition to make that determination, unless the operator demonstrates that the 180-day period is impracticable.

Panhandle Energy must amend White Paper E1a and any relevant SOP process and procedures involving the requirements for discovery, evaluation and remediation of preliminary information from ILI vendors regarding potential immediate conditions to ensure that if preliminary data from an ILI vendor is received it will be handled appropriately and expeditiously to determine what action if any is required, including immediate excavation, examination and pressure reduction.
8. §192.933(c) Schedule for evaluation and remediation. An operator must complete remediation of a condition according to a schedule that prioritizes the conditions for evaluation and remediation. Unless a special requirement for remediating certain conditions applies, as provided in paragraph (d) of this section, an operator must follow the schedule in ASME/ANSI B31.8S (ibr, see §192.7), section 7, Figure 4. If an operator cannot meet the schedule for any condition, the operator must justify the reasons why it cannot meet the schedule and that the changed schedule will not jeopardize public safety. An operator must notify OPS in accordance with §192.949 if it cannot meet the schedule and cannot provide safety through a temporary reduction in operating pressure or other action. An operator must also notify a State or local pipeline safety authority when either a covered segment is located in a State where OPS has an interstate agent agreement, or an intrastate covered segment is regulated by that State.

Panhandle Energy must amend White Paper E.0-3.c and SOP-J.06 (External Communication with PHMSA and State Agencies) processes and procedures to ensure that they require documentation justifying why an extended remediation schedule will not jeopardize public safety if PE cannot meet the originally specified remediation schedule. Additionally, the amended process must contain notification provisions when it cannot meet the remediation schedule and cannot provide a temporary reduction in operating pressure or other action.

9. §192.937(b) Evaluation. An operator must conduct a periodic evaluation as frequently as needed to assure the integrity of each covered segment. The periodic evaluation must be based on a data integration and risk assessment of the entire pipeline as specified in §192.917. For plastic transmission pipelines, the periodic evaluation is based on the threat analysis specified in 192.917(d). For all other transmission pipelines, the evaluation must consider the past and present integrity assessment results, data integration and risk assessment information (§192.917), and decisions about remediation (§192.933) and additional preventive and mitigative actions (§192.935). An operator must use the results from this evaluation to identify the threats specific to each covered segment and the risk represented by these threats.

Panhandle Energy must amend White Papers F 01.a, & b and any relevant SOP process and procedures to specifically describe how periodic evaluations are focused on periodic evaluations rather than re-assessments. The amended procedures must describe evaluation process specifics concerning its threat and risk analyses assessment, assessment methods review, and P&M reviews. Additionally, PE amended processes and procedures need to clearly show that they will be carried out on a periodic basis.

10. §192.935(a) General Requirements. An operator must take additional measures beyond those already required by Part 192 to prevent a pipeline
failure and to mitigate the consequences of a pipeline failure in a high consequence area. An operator must base the additional measures on the threats the operator has identified to each pipeline segment. (See §192.917.) An operator must conduct, in accordance with one of the risk assessment approaches in ASME/ANSI B31.8S, Section 5, a risk analysis of its pipeline to identify additional measures to protect the high consequence area and enhance public safety. Such additional measures include, but are not limited to, installing Automatic Shut-off Valves or Remote Control Valves, installing computerized monitoring and leak detection systems, replacing pipe segments with pipe of heavier wall thickness, providing additional training to personnel on response procedures, conducting drills with local emergency responders and implementing additional inspection and maintenance programs.

Panhandle Energy must amend White Papers H1a, H8a & H8c and any relevant SOP process and procedures to ensure the development of preventive and mitigative measures process beyond a basic framework. The measures must specify how these evaluations will be consistently implemented involving input from relevant parts of the organization.

11. §192.935(b)(1) Third party damage. An operator must enhance its damage prevention program, as required under §192.614 of this part, with respect to a covered segment to prevent and minimize the consequences of a release due to third party damage. Enhanced measures to an existing damage prevention program include, at a minimum-

   i. Using qualified personnel (see §192.915) for work an operator is conducting that could adversely affect the integrity of a covered segment, such as marking, locating, and direct supervision of known excavation work.

   ii. Collecting in a central database information that is location specific on excavation damage that occurs in covered and non covered segments in the transmission system and the root cause analysis to support identification of targeted additional preventative and mitigative measures in the high consequence areas. This information must include recognized damage that is not required to be reported as an incident under Part 191.

   iii. Participating in one-call systems in locations where covered segments are present.

   iv. Monitoring of excavations conducted on covered pipeline segments by pipeline personnel. If an operator finds physical evidence of encroachment involving excavation that the operator did not monitor near a covered segment, an operator must either excavate the area near the encroachment or conduct an above ground survey using methods defined in NACE RP-0502-2002 (ibr, see §192.7). An operator must excavate, and remediate, in accordance with ANSI/ASME B318.S and §192.933 any indication of coating holidays or discontinuity warranting direct examination.
Panhandle Energy must amend White Papers H2a, H2b and any relevant SOP process and procedures to ensure the requirement of excavation or the performance of an above ground survey using methods defined in NACE RP0502-2002 when there is physical evidence of encroachment involving unmonitored excavation near a covered segment. Additionally, the amended preventive and mitigative measures program must have provisions to apply additional preventive and mitigative measures if the threat of third party damage is identified by the results of the data integration process.

12. §192.935(b)(2) Outside force damage. If an operator determines that outside force (e.g., earth movement, floods, unstable suspension bridge) is a threat to the integrity of a covered segment, the operator must take measures to minimize the consequences to the covered segment from outside force damage. These measures include, but are not limited to, increasing the frequency of aerial, foot or other methods of patrols, adding external protection, reducing external stress, and relocating the line.

Panhandle Energy must amend White Paper H5a and any relevant SOP process and procedures to ensure the implementation of a program that identifies additional preventive and mitigative measures required for covered segments susceptible to outside force damage.

13. §192.935(c) Automatic shut-off valves (ASV) or Remote control valves (RCV). If an operator determines, based on a risk analysis, that an ASV or RCV would be an efficient means of adding protection to a high consequence area in the event of a gas release, an operator must install the ASV or RCV. In making that determination, an operator must, at least, consider the following factors - swiftness of leak detection and pipe shutdown capabilities, the type of gas being transported, operating pressure, the rate of potential release, pipeline profile, the potential for ignition, and location of nearest response personnel.

Panhandle Energy must amend White Paper H7a and any relevant SOP process and procedures to provide sufficient detail to ensure the implementation of a consistent program, based on risk analysis, for evaluating the installation of additional Automatic Shutdown/Remote Control valves on a segment specific basis.

14. §192.945(a) General. An operator must include in its integrity management program methods to measure, on a semi-annual basis, whether the program is effective in assessing and evaluating the integrity of each covered pipeline segment and in protecting the high consequence areas. These measures must include the four overall performance measures specified in ASME/ANSI B31.8S (ibid, see §192.7), section 9.4, and the specific measures for each identified threat specified in ASME/ANSI B31.8S, Appendix A. An operator must submit the four overall performance measures, by electronic or other means, on a semi-annual frequency to OPS in accordance with §192.951. An operator must
submit its first report on overall performance measures by August 31, 2004. Thereafter, the performance measures must be complete through June 30 and December 31 of each year and must be submitted within 2 months after those dates.

Panhandle Energy must amend White Paper IIb and relevant SOP J.07 process and procedures to ensure documentation of the threat-specific metrics of ASME B31.8S, Appendix A in order to determine program effectiveness. The information must be collected and analyzed on a semi-annual basis as required by the IM rule §192.945(a).

15. §192.911 What are the elements of an integrity management program? An operator's initial integrity management program begins with a framework (see CFR: 192.907) and evolves into a more detailed and comprehensive integrity management program, as information is gained and incorporated into the program. An operator must make continual improvements to its program. The initial program framework and subsequent program must, at minimum, contain the following elements. (When indicated, refer to ASME/ANSI B31.8S for more detailed information on the listed element.)

k. A management of change process as outlined in ASME/ANSI B31.8S, Section 11.

A) Panhandle Energy must amend White Paper K2e and relevant SOP J.07 process and procedures to ensure the procedures provide for review and analysis of impacts on the IMP prior to implementation of pipeline or system changes.

B) Panhandle Energy must amend White Papers B6a, B6b and any relevant SOP process and procedures involving the ICAM element for the BAP to ensure the BAP is kept up-to-date with respect to newly arising information, applicable threats, and risks that may require changes to the segment prioritization or assessment method. The amended element must also include: key management of change elements for documenting the reason for changes, authority for approving changes, analysis of implications and communication of changes to affected parties.

16. §192.911 What are the elements of an integrity management program? An operator's initial integrity management program begins with a framework (see CFR: 192.907) and evolves into a more detailed and comprehensive integrity management program, as information is gained and incorporated into the program. An operator must make continual improvements to its program. The initial program framework and subsequent program must, at minimum, contain the following elements. (When indicated, refer to ASME/ANSI B31.8S for more detailed information on the listed element.)

I. A quality assurance process as outlined in ASME/ANSI B31.8S, Section 12.
Panhandle Energy must amend White Papers L01b and L01c along with any relevant SOP J.07 process and procedures to ensure the implementation of a quality assurance program that will be conducted and reviewed on a periodic basis.

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 30 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 your correspondence on this matter, please refer to CPF 4-2008-1012M and for each document you submit, please provide a copy in electronic format whenever possible.

Sincerely,

R.M. Seeley
Director, Southwest Region
Pipeline and Hazardous Materials Safety Administration

Enclosure: Response Options for Pipeline Operators in Compliance Proceedings