

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

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

May 11, 2009

Mr. Robert Cornelius
Senior Vice President, Operations
Denbury Onshore, LLC
5100 Tennyson Parkway, Suite 3000
Plano, TX 75024

CPF 4-2009-5007

Dear Mr. Cornelius:

During March and April 2009, representatives of the Pipeline and Hazardous Materials Safety Administration (PHMSA), pursuant to Chapter 601 of 49 United States Code, inspected portions of the Denbury Onshore, LLC (Denbury), Green Pipeline construction documents and work being performed by U.S. Pipeline located near Baton Rouge, LA, and the Delta Pipeline in Mississippi and North Louisiana.

The Delta pipeline was constructed in 2008 and the early part of 2009. Construction was completed on the pipeline on or about March 25, 2009 and consists of approximately 80 miles of high pressure CO₂ pipeline and will operate at 2160 psig. The Green pipeline will similarly operate at 2160 psig of pressure and is currently under construction. There will be approximately 320 miles of high pressure CO₂ pipeline running from Donaldsonville, LA to Houston, TX.

As a result of those inspections, 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 violations are:

- 1. § 195.222 Welders: Qualification of welders. (a) Each welder must be qualified in accordance with section 6 of API 1104 (incorporated by reference, see §195.3) or section IX of the ASME Boiler and Pressure Vessel Code, (incorporated by reference, see §195.3) except that a welder qualified under an earlier edition than listed in §195.3 may weld but may not re-qualify under that earlier edition.**

The Welder Qualification Reports for several Denbury welders on the Green Pipeline were not compliant with the regulation such that Denbury could not demonstrate that the welders could weld within the limits of the defined parameters.

During the inspection it was noted that some welder qualification report documentation reflected the parameter limits for the process variables instead of the actual values each of the welders used while welding. For instance, the Root-Bead Travel IPM on the USPL-M-WPS-8 procedures indicates a range of from 6.3 – 11.2 IPM (inches per minute). The welder qualification report should indicate one value on the form for the IPM achieved by that welder during the Root-Bead. This is supposed to be one single value and not a range of acceptable values. These problems were noted on ten (10) welder qualification reports.

During the same inspection, there were many welder qualification reports reviewed that indicated the “as welded” values were within the prescribed limits. However, two (2) of the reports document that welders went outside the acceptable parameter limits defined by the welding procedure.

PHMSA regulations reference the industry standard API 1104 for welding procedures and welder qualifications. API 1104, 19th edition states in section 6.8 Records,

“A record shall be maintained of the tests given to each welder and of the detailed results of each test. A form similar to that shown in Figure 2 should be used. (This form should be developed to suit the needs of the individual company but must be sufficiently detailed to demonstrate that the qualification test met the requirements of this standard.) A list of qualified welders and the procedures for which they are qualified shall be maintained. A welder may be required to requalify if a question arises about his competence.”

The documents referenced related to this issue do not “demonstrate that the qualification test met the requirements of this standard.”

- 2. § 195.260 Valves: Location. A valve must be installed at each of the following locations: (e) On each side of a water crossing that is more than 100 feet (30 meters) wide from high-water mark to high-water mark unless the Administrator finds in a particular case that valves are not justified.**

Denbury did not install valves on both sides of all required water crossings greater than 100 feet in width on its Delta pipeline. Denbury provided a spreadsheet dated April 6, 2009 titled “Delta (Delhi) CO2 Pipeline Valve Spacings Water Crossings” which indicates that there are 13 water crossings over 100’ in width. The same spreadsheet also indicates the closest main line valve. Based on that spreadsheet and a field inspection that went to many of the sites, there may be as many as 25 locations where valves should have been installed and were not.

Similarly Denbury provided another spreadsheet for the Green pipeline dated April 3, 2009 and it indicates that there are 21 water crossings over 100’ in width. This spreadsheet also shows the distance to both the nearest upstream and downstream valve. Based on this spreadsheet there may be as many as 26 locations where valves will need to be installed but have not been planned as of this date.

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 of \$46,300 as follows:

<u>Item number</u>	<u>PENALTY</u>
2	\$ 46,300

Proposed Compliance Order

With respect to Items 1 and 2, pursuant to 49 United States Code § 60118, the Pipeline and Hazardous Materials Safety Administration proposes to issue a Compliance Order to Denbury Onshore, LLC. 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 4-2009-5007** 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

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 Denbury Onshore, LLC a Compliance Order incorporating the following remedial requirements to ensure the compliance of Denbury Onshore, LLC with the pipeline safety regulations:

1. In regard to Item Number 1 of the Notice, Denbury Onshore, LLC must demonstrate through proper documentation proper Welder Qualifications or retest the welders and properly document and provide the new Welder Qualifications.
2. In regard to Item Number 2 of the Notice, Denbury Onshore, LLC must submit a plan for coming into compliance with this regulation for both the Delta and Green pipelines.
3. Denbury Onshore, LLC must address the issues detailed in Items 1 and 2 above within 30 days after receipt of a Final Order and submit to R. M. Seeley, Director, Southwest Region, Pipeline and Hazardous Materials Safety Administration.
4. Denbury Onshore, LLC shall maintain documentation of the safety improvement costs associated with fulfilling this Compliance Order and submit the total to Mr. R.M. Seeley, Southwest Region, Pipeline and Hazardous Materials Safety Administration. Costs shall 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.