

NOTICE OF PROBABLE VIOLATION
PROPOSED CIVIL PENALTY
and
PROPOSED COMPLIANCE ORDER

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

February 11, 2010

Ms. Mary Mujica
President
Shell Pipeline Co., L.P.
777 Walker, Suite 1500, (Two Shell Plaza)
Houston, TX 77252

CPF 4-2010-5006

Ms. Mujica:

On August 6 and September 2, 2009, representatives of the Pipeline and Hazardous Materials Safety Administration (PHMSA) pursuant to Chapter 601 of 49 United States Code investigated an accident that occurred on July 25, 2009 on Shell Pipeline Co., L.P.'s (Shell) 20-inch crude oil transmission pipeline (MMS segment #4006) in the Eugene Island pipeline system in the Gulf of Mexico in Ship Shoal Area Block 142.

As a result of the accident investigation, 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. §195.52 Telephonic notice of certain accidents**
 - (a) At the earliest practicable moment following discovery of a release of the hazardous liquid or carbon dioxide transported resulting in an event described in §195.50, the operator of the system shall give notice, in accordance with paragraph (b) of this section, of any failure that:**

- (1) Caused a death or a personal injury requiring hospitalization;**
 - (2) Resulted in either a fire or explosion not intentionally set by the operator;**
 - (3) Caused estimated property damage, including cost of cleanup and recovery, value of lost product, and damage to the property of the operator or others, or both, exceeding \$50,000;**
 - (4) Resulted in pollution of any stream, river, lake, reservoir, or other similar body of water that violated applicable water quality standards, caused a discoloration of the surface of the water or adjoining shoreline, or deposited a sludge or emulsion beneath the surface of the water or upon adjoining shorelines; or**
 - (5) In the judgment of the operator was significant even though it did not meet the criteria of any other paragraph of this section.**
- (b) Reports made under paragraph (a) of this section are made by telephone to 800-424-8802 (in Washington, DC 20590-0001 (202) 372-2428) and must include the following information:**
- (1) Name and address of the operator.**
 - (2) Name and telephone number of the reporter.**
 - (3) The location of the failure.**
 - (4) The time of the failure.**
 - (5) The fatalities and personal injuries, if any.**
 - (6) All other significant facts known by the operator that are relevant to the cause of the failure or extent of the damages.**

Shell failed to provide a telephonic notice to the National Response Center (NRC) (NRC # 912739) that included the most accurate release volume estimate available at the time of the notification. On July 25, 2009 at 8:09 PM CDT, Shell telephonically notified the NRC of the release of crude oil from their Eugene Island pipeline system following confirmation of the release by a flyover of the release site. NRC # 912739 details that the quantity released was reported as "0 unknown amount". This flyover on July 25, 2009 provided information on the coloration and size of the oil sheen on the water from which an estimate of the amount of product released could have been calculated from available industry applications, and an accurate estimate should have been reported.

Shell failed to provide prompt follow-up reports during the emergency phase of the response when a revised estimate of the product release amount identified that the release was significantly greater than the original amount reported. A subsequent fly-over of the release site on July 26, 2009 provided additional information from which Shell could have estimated the volume released and provided updated information to the NRC. Also, information readily available to Shell from pipeline specifications and SCADA data provide for making estimates of release volumes using available industry applications. On July 29, 2009, Shell provided telephonic notification to the NRC for report # 913179 (update to NRC # 912739) with the estimated quantity released being 1500 bbls.

2. §195.54 Accident reports.

(a) Each operator that experiences an accident that is required to be reported under §195.50 shall as soon as practicable, but not later than 30 days after discovery of the accident, prepare and file an accident report on DOT Form 7000-1, or a facsimile.

(b) Whenever an operator receives any changes in the information reported or additions to the original report on DOT Form 7000-1, it shall file a supplemental report within 30 days.

Shell failed to file a supplemental report for the Eugene Island pipeline system accident that occurred on July 25, 2009 within 30 days after the metallurgical failure report was obtained that provided information on the probable cause of failure. On July 25, 2009, at approximately 5:54 p.m. CST, a 20-inch crude oil transmission pipeline (MMS segment #4006) in the Eugene Island pipeline system, owned and operated by Shell Pipeline Company LP (Shell), ruptured in the Gulf of Mexico in Ship Shoal Area Block (SS) 142. A metallurgical failure analysis was performed by Stork Testing & Metallurgical Consulting, Inc. (Stork), in Houston, TX. The probable cause of the rupture was determined to be abrasion and gouging of the pipe, followed by fatigue cracking. The Stork Metallurgical Failure Report # 0608-09-19272 was provided by Stork to the operator on or about October 27, 2009. As of February 4, 2010, a supplemental PHMSA 7000-1 report has not been filed, updating the original report with the final metallurgical failure report information as to the cause of the accident.

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 \$18,800 as follows:

<u>Item number</u>	<u>PENALTY</u>
2	\$ 18,800

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 these item(s). Be advised that failure to do so may result in Shell being subject to additional enforcement action.

Proposed Compliance Order

With respect to item number 2 pursuant to 49 United States Code § 60118, the Pipeline and Hazardous Materials Safety Administration proposes to issue a Compliance Order to Shell Pipeline Co., L.P. 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 4-2010-5006** 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

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 Shell Pipeline Co., L.P. a Compliance Order incorporating the following remedial requirements to ensure the compliance of Shell Pipeline Co., L.P. with the pipeline safety regulations:

1. In regard to Item Number 2 of the Notice pertaining to failure to comply with the requirements of §195.54, Shell must immediately file a supplemental DOT Form 7000-1 report for number 20090235 specifying the cause of failure of the Eugene Island pipeline accident and updating any other information obtained since the accident. If all of the information about the accident is known, this information must be included and the accident report filed as a final report.
2. Shell shall maintain documentation of the safety improvement costs associated with fulfilling this Compliance Order and submit the total to R.M. Seeley, Director, 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.