

**JUNE 14, 2012**

Mr. Gary Luquette  
President  
Chevron USA Inc.  
1500 Louisiana Street  
Houston, TX 77002

**Re: CPF No. 4-2011-9001**

Dear Mr. Luquette:

Enclosed please find the Final Order issued in the above-referenced case. It makes findings of violation, assesses a civil penalty of \$93,600, and specifies actions that need to be taken by Chevron USA Inc., to comply with the pipeline safety regulations. The penalty payment terms are set forth in the Final Order. When the civil penalty has been paid and the terms of the compliance order completed, as determined by the Director, Southwest Region, this enforcement action will be closed. Service of the Final Order by certified mail is deemed effective upon the date of mailing, or as otherwise provided under 49 C.F.R. § 190.5.

Thank you for your cooperation in this matter.

Sincerely,

Jeffrey D. Wiese  
Associate Administrator  
for Pipeline Safety

Enclosure

cc: Mr. Warner Williams, Vice-President, Gulf of Mexico, Chevron USA Inc.  
100 Northpark Boulevard, Covington, LA 70433  
Mr. Alan Mayberry, Deputy Associate Administrator for Field Operations, OPS  
Mr. Rod M. Seeley, Director, Southwest Region, OPS

**CERTIFIED MAIL - RETURN RECEIPT REQUESTED**

**U.S. DEPARTMENT OF TRANSPORTATION  
PIPELINE AND HAZARDOUS MATERIALS SAFETY ADMINISTRATION  
OFFICE OF PIPELINE SAFETY  
WASHINGTON, D.C. 20590**

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<b>In the Matter of</b> )	
)	
<b>Chevron USA Inc.,</b> )	<b>CPF No. 4-2011-9001</b>
)	
<b>Respondent.</b> )	
_____ )	

**FINAL ORDER**

Between March 2010 and December 2010, pursuant to 49 U.S.C. § 60117, a representative of the Pipeline and Hazardous Materials Safety Administration (PHMSA), Office of Pipeline Safety (OPS), inspected Chevron USA Inc.'s (Chevron or Respondent) records and facilities in Covington, Lafayette, Cameron, and LaFourche Parishes, Louisiana. OPS also inspected the company's Gulf of Mexico offshore facilities in West Cameron, Bay Marchand, and Grand Isle. Chevron operates 35 miles of jurisdictional natural gas and crude oil pipelines from its offshore production facilities.<sup>1</sup>

As a result of these inspections, the Director, Southwest Region, OPS (Director), issued to Respondent, by letter dated August 9, 2011, a Notice of Probable Violation, Proposed Civil Penalty, and Proposed Compliance Order (Notice), which also included a warning pursuant to 49 C.F.R. § 190.205. In accordance with 49 C.F.R. § 190.207, the Notice proposed finding that Chevron had committed various violations of 49 C.F.R. Part 192 and 195 and assessing a civil penalty of \$93,600 for the alleged violations. The warning items required no further action but warned the operator to correct the probable violations or face future potential enforcement action.

Upon requesting and receiving an extension of time to respond, Chevron responded to the Notice by letter dated September 6, 2011 (Response). The company did not contest the probable violations but requested a modification of the proposed compliance order. Respondent did not request a hearing and therefore has waived its right to one.

**FINDINGS OF VIOLATION**

In its Response, Chevron did not contest the allegation in the Notice that it violated 49 C.F.R. § Parts 192 and 195, as follows:

<sup>1</sup> OPS Pipeline Safety Violation Report (August 8, 2011), at 1.

**Item 1:** The Notice alleged that Respondent violated 49 C.F.R. §§ 192.10 and 195.9, which state, in relevant part:

**§ 192.10 Outer continental shelf pipelines.**

Operators of transportation pipelines on the Outer Continental Shelf (as defined in the Outer Continental Shelf Lands Act; 43 U.S.C. 1331) must identify on all their respective pipelines the specific points at which operating responsibility transfers to a producing operator....

**§ 195.9 Outer continental shelf pipelines.**

Operators of transportation pipelines on the Outer Continental Shelf must identify on all their respective pipelines the specific points at which operating responsibility transfers to a producing operator. For those instances in which the transfer points are not identifiable by a durable marking, each operator will have until September 15, 1998 to identify the transfer points. If it is not practicable to durably mark a transfer point and the transfer point is located above water, the operator must depict the transfer point on a schematic maintained near the transfer point. If a transfer point is located subsea, the operator must identify the transfer point on a schematic which must be maintained at the nearest upstream facility and provided to PHMSA upon request. For those cases in which adjoining operators have not agreed on a transfer point by September 15, 1998 the Regional Director and the MMS Regional Supervisor will make a joint determination of the transfer point.

The Notice alleged that Respondent violated 49 C.F.R. §§ 192.10 and 195.9 by failing to identify the demarcation point between production and transportation pipeline facilities in certain areas. Specifically, Chevron did not identify where piping changed from production to transportation for the Grand Isle Block Number 27 platform R, the Bay Marchand Block Number 2 platform C&I, and the Bay Marchand Block Number 3 platform K&N. The demarcation points for these facilities could neither be visibly located nor could Chevron provide the required schematic drawings depicting the transfer points.

In its Response, Chevron stated that its Piping and Instrumentation Diagrams (P&IDs) were available for review during the OPS inspection but did not contest the allegation of violation. Chevron stated that it had nevertheless re-marked the demarcation points, provided pictures of the new markings in its Response, and submitted the P&IDs for PHMSA's review. On account of the evidence provided in the Response, Chevron requested that PHMSA remove Item #1 from the proposed compliance order.

I find that Chevron was not in compliance with the pipeline safety regulations at the time of the inspection since the demarcation points were not visible and the OPS inspector was not given a copy of the relevant schematic drawings. Therefore, based upon a review of all of the evidence, I find that Respondent violated 49 C.F.R. §§ 192.10 and 195.9 by failing to identify the transfer point from production to transportation on the listed facilities. The terms of the Compliance Order will be addressed in that section of the Final Order below.

**Item 2:** The Notice alleged that Respondent violated 49 C.F.R. §§ 192.13 and 195.5, which state, in relevant part:

**§ 192.13 What general requirements apply to pipelines regulated under this part?**

(a) No person may operate a segment of pipeline listed in the first column that is readied for service after the date in the second column, unless:

(1) The pipeline has been designed, installed, constructed, initially inspected, and initially tested in accordance with this part; or

(2) The pipeline qualifies for use under this part according to the requirements in § 192.14. . . .

**§ 195.5 Conversion to service subject to this part.**

(a) A steel pipeline previously used in service not subject to this part qualifies for use under this part if the operator prepares and follows a written procedure to accomplish the following:

(1) The design, construction, operation, and maintenance history of the pipeline must be reviewed and, where sufficient historical records are not available, appropriate tests must be performed to determine if the pipeline is in satisfactory condition for safe operation. If one or more of the variables are necessary to verify the design pressure under § 195.106 or to perform the testing under paragraph (a)(4) of this section is unknown, the design pressure may be verified and the maximum operating pressure determined by-

(i) Testing the pipeline in accordance with ASME B31.8, Appendix N, to produce a stress equal to the yield strength; and

(ii) Applying, to not more than 80 percent of the first pressure that produces a yielding, the design factor F in § 195.106(a) and the appropriate factors in § 195.106(e).

(2) The pipeline right-of-way, all aboveground segments of the pipeline, and appropriately selected underground segments must be visually inspected for physical defects and operating conditions which reasonably could be expected to impair the strength or tightness of the pipeline.

(3) All known unsafe defects and conditions must be corrected in accordance with this part.

(4) The pipeline must be tested in accordance with subpart E of this part to substantiate the maximum operating pressure permitted by § 195.406.

(b) A pipeline that qualifies for use under this section need not comply with the corrosion control requirements of subpart H of this part until 12 months after it is placed into service, notwithstanding any previous deadlines for compliance.

(c) Each operator must keep for the life of the pipeline a record of the investigations, tests, repairs, replacements, and alterations made under the requirements of paragraph (a) of this section.

The Notice alleged that Respondent violated 49 C.F.R. §§ 192.13 and 195.5 by failing to prepare and follow written conversion-to-service procedures and to maintain records demonstrating that the applicable conversion-to-service requirements were implemented for certain pipelines now operated as ones regulated by U.S. Department of Transportation (DOT). It further alleged that Chevron's own procedures required that a written plan and records regarding the conversion to service be developed and maintained. Specifically, there were no records available of a conversion-to-service plan for the six-inch gas line between Grand Isle 37R and Bay Marchand Block Number 3 C&I. Chevron began using this line on December 19, 2008, and it was still in service at the time of the OPS inspection when Chevron was unable to produce the records.

In regards to the six-inch oil line running from Bay Marchand Block Number 3 platform E to Bay Marchand Block Number 3 platform C&I, Chevron also could not produce any conversion-to-service procedures or records for this line. Chevron began using the line on July 3, 2010, yet could not produce any conversion-to-service records for the line at the time of the OPS inspection.

In its Response, Chevron did not contest the allegation of violation and agreed to pay the civil penalty and comply with the proposed compliance order. Accordingly, based upon a review of all of the evidence, I find that Respondent violated 49 C.F.R. §§ 192.13 and 195.5 by failing to prepare and follow written conversion-to-service procedures and to maintain proper records demonstrating that the applicable conversion-to-service requirements were implemented for these lines.

**Item 4:** The Notice alleged that Respondent violated 49 C.F.R. §§ 192.805 and 195.505, which state, in relevant part:

**§ 192.805 Qualification program.**

Each operator shall have and follow a written qualification program. The program shall include provisions to:

- (a) Identify covered tasks;
- (b) Ensure through evaluation that individuals performing covered tasks are qualified;
- (c) Allow individuals that are not qualified pursuant to this subpart to perform a covered task if directed and observed by an individual that is qualified; ....

**§ 195.505 Qualification program.**

Each operator shall have and follow a written qualification program. The program shall include provisions to:

- (a) Identify covered tasks;
- (b) Ensure through evaluation that individuals performing covered tasks are qualified;
- (c) Allow individuals that are not qualified pursuant to this subpart to perform a covered task if directed and observed by an individual that is qualified; ....

The Notice alleged that Respondent violated 49 C.F.R. §§ 192.805 and 192.505 by failing to ensure, under its operator qualification (OQ) program, that a certain covered task was performed by a qualified individual. Specifically, the Notice alleged that according to Chevron's procedures, inspection of the Sabine Gas Plant rectifier was a covered task and therefore all inspections of the rectifier had to be conducted by a qualified individual. It alleged, however, that a qualified individual only inspected the Sabine Gas Plant rectifier once between April 1, 2008, and February 20, 2010. Non-qualified individuals carried out the other inspections conducted during this period.

In its Response, Chevron did not contest the allegation of violation and agreed to pay the civil penalty and comply with the proposed compliance order. Chevron also stated that it had taken steps to avoid noncompliance in the future. Accordingly, based upon a review of all of the evidence, I find that Respondent violated 49 C.F.R. §§ 192.805 and 195.505 by failing to ensure that the covered task of rectifier inspections was performed by a qualified individual.

**Item 6:** The Notice alleged that Respondent violated 49 C.F.R. §§ 192.465 and 195.573, which state, in relevant part:

**§ 192.465 External corrosion control: Monitoring.**

- (a) . . .
- (b) Each cathodic protection rectifier or other impressed current power source must be inspected six times each calendar year, but with intervals not exceeding 2½ months, to insure that it is operating.

**§ 195.573 What must I do to monitor external corrosion control?**

- (a) . . .
- (c) *Rectifiers and other devices.* You must electrically check for proper performance each device in the first column at the frequency stated in the second column.

Device	Check frequency
Rectifier ..... Reverse current switch. Diode. Interference bond whose failure Would jeopardize structural protection....	At least six times each calendar year, but with intervals not exceeding 2½ months.

The Notice alleged that Respondent violated 49 C.F.R. §§ 192.465 and 192.573 by failing to inspect certain rectifiers for proper performance within the required interval. The Sabine Gas Plant rectifier supplies cathodic protection current for both the six-inch oil line and the 18-inch gas line. This device is required by both Parts 192 and 195 to be inspected six times per year, at intervals not exceeding 2½ months. The Notice alleged that although Chevron had supplied documentation indicating that readings on the voltmeter and ammeter dials were taken, there was

no indication that the meters had ever been checked for accuracy. In addition, no documentation was provided for the time period from August 29, 2008, to February 14, 2009.

In its Response, Chevron did not contest the allegation of violation and agreed to pay the civil penalty. Chevron also stated that it had discovered this non-compliance and taken steps to address it prior to the inspection. This proactive conduct and the evidence supporting it will be reviewed in the Assessment of Penalty section below.

Accordingly, based upon a review of all of the evidence, I find that Respondent violated 49 C.F.R. §§ 192.465 and 195.573 by failing to perform proper rectifier inspections within the required interval.

These findings of violation will be considered prior offenses in any subsequent enforcement action taken against Respondent.

### **ASSESSMENT OF PENALTY**

Under 49 U.S.C. § 60122, Respondent is subject to an administrative civil penalty not to exceed \$100,000 per violation for each day of the violation, up to a maximum of \$1,000,000 for any related series of violations. In determining the amount of a civil penalty under 49 U.S.C. § 60122 and 49 C.F.R. § 190.225, I must consider the following criteria: the nature, circumstances, and gravity of the violation, including adverse impact on the environment; the degree of Respondent's culpability; the history of Respondent's prior offenses; the Respondent's ability to pay the penalty and any effect that the penalty may have on its ability to continue doing business; and the good faith of Respondent in attempting to comply with the pipeline safety regulations. In addition, I may consider the economic benefit gained from the violation without any reduction because of subsequent damages, and such other matters as justice may require. The Notice proposed a total civil penalty of \$93,600 for the violations cited above.

**Item 2:** The Notice proposed a civil penalty of \$27,200 for failing to follow written conversion-to-service procedures and to maintain records demonstrating that the applicable conversion-to-service requirements were implemented for certain pipelines now operated as DOT pipelines. In its Response, Chevron agreed to pay the proposed civil penalty.

The civil penalty amount for this Item is based on the civil penalty assessment factors listed in 49 C.F.R. § 190.225, including, but not limited to, culpability, gravity, duration of the violation, and prior enforcement history of the operator. As stated in the Violation Report, the non-compliance posed a significant threat to pipeline safety, even though no accident occurred. Chevron has not presented any evidence or arguments that would justify a reduction in the proposed penalty amount. Having reviewed the penalty factors and the facts of this case, I find that the proposed civil penalty of \$27,200 is justified. Accordingly, I assess Respondent a civil penalty of \$27,200.

**Item 4:** The Notice proposed a civil penalty of \$33,200 for failing to ensure that a certain covered task was performed by a qualified individual. In its Response, Chevron agreed to pay the proposed civil penalty.

The civil penalty amount for this Item is based on the civil penalty assessment factors listed in 49 C.F.R. § 190.225, including but not limited to, culpability, gravity, duration of the violation, and prior enforcement history of the operator. As stated in the Violation Report, the non-compliance posed a significant threat to pipeline safety, even though no accident occurred. Chevron has not presented any evidence or arguments that would justify a reduction in the proposed penalty amount. Having reviewed the penalty factors and the facts of this case, I find that the proposed civil penalty of \$33,200 is justified. Accordingly, I assess Respondent a civil penalty of \$33,200.

**Item 6:** The Notice proposed a civil penalty of \$33,200 for failing to fully perform certain required rectifier inspections within the required interval. In its Response, Chevron agreed to pay the civil penalty amount but noted that it had discovered the non-compliance and taken necessary steps to correct the violation before the OPS inspection.

The civil penalty amount for this Item is based on the civil penalty assessment factors listed in 49 C.F.R. § 190.225, including but not limited to, culpability, gravity, duration of the violation, and prior enforcement history of the operator. I would note that the proposed penalty for this Item was already reduced in light of the fact that Chevron discovered the violation prior to the OPS inspection and took action to address the problem. Accordingly, having reviewed the penalty factors and the facts of this case, I find that the proposed civil penalty of \$33,200 is justified. Accordingly, I assess Respondent a civil penalty of \$33,200.

In summary, having reviewed the record and considered the assessment criteria for each of the Items cited above, I assess Respondent a total civil penalty of **\$93,600**.

Payment of the civil penalty must be made within 20 days of service. Federal regulations (49 C.F.R. § 89.21(b)(3)) require such payment to be made by wire transfer through the Federal Reserve Communications System (Fedwire), to the account of the U.S. Treasury. Detailed instructions are contained in the enclosure. Questions concerning wire transfers should be directed to: Financial Operations Division (AMZ-341), Federal Aviation Administration, Mike Monroney Aeronautical Center, P.O. Box 269039, Oklahoma City, Oklahoma 73125. The Financial Operations Division telephone number is (405) 954-8893.

Failure to pay the \$93,600 civil penalty will result in accrual of interest at the current annual rate in accordance with 31 U.S.C. § 3717, 31 C.F.R. § 901.9 and 49 C.F.R. § 89.23. Pursuant to those same authorities, a late penalty charge of six percent (6%) per annum will be charged if payment is not made within 110 days of service. Furthermore, failure to pay the civil penalty may result in referral of the matter to the Attorney General for appropriate action in a district court of the United States.

### **COMPLIANCE ORDER**

The Notice proposed a compliance order with respect to Items 1, 2, and 4 in the Notice for violations of 49 C.F.R. §§ 192.10, 195.9, 192.13, 195.5, 192.805, and 195.505, respectively. Under 49 U.S.C. § 60118(a), each person who engages in the transportation of gas or hazardous liquids or who owns or operates a pipeline facility is required to comply with the applicable



safety standards established under chapter 601. The Director indicates that Respondent has taken the following actions specified in the proposed compliance order:

With respect to the violations of § 49 C.F.R. §§ 192.10 and 195.9 (**Item 1**), Respondent has provided pictures of the demarcation points that were re-marked, demonstrating compliance with this item.

Accordingly, I find that compliance has been achieved with respect to these violations. Therefore, the compliance terms proposed in the Notice for Item 1 are not included in this Order.

Pursuant to the authority of 49 U.S.C. § 60118(b) and 49 C.F.R. § 190.217, Respondent is ordered to take the following actions to ensure compliance with the pipeline safety regulations applicable to its operations:

1. With respect to the violations of §§ 192.13 and 195.5 (**Item 2**), Respondent must develop a conversion-to-service plan and perform and document the necessary actions to ensure these lines are fit for the service intended for use. Chevron must provide PHMSA with the written plan, as well as the records demonstrating compliance with the plan.
2. With respect to the violations of §§ 192.805 and 195.505 (**Item 4**), Respondent must ensure that all covered tasks are performed by qualified individuals. If personnel are performing covered tasks but have not been qualified, then Chevron must take the necessary steps to qualify them or ensure that they only perform the tasks while observed by qualified individuals. Chevron must complete the rectifier inspections by qualified individuals.
3. Chevron must complete Compliance Items 1 and 2 within 90 days of receipt of the Final Order. Chevron must submit documentation verifying compliance with both items to the Director, Southwest Region, within 30 days of completing the actions.
4. It is requested (not mandated) that Chevron maintain documentation of the safety improvement costs associated with fulfilling this Compliance Order and submit the total to the Director.

The Director may grant an extension of time to comply with any of the required items upon a written request timely submitted by the Respondent and demonstrating good cause for an extension.

Failure to comply with this Order may result in the administrative assessment of civil penalties not to exceed \$100,000 for each violation for each day the violation continues or in referral to the Attorney General for appropriate relief in a district court of the United States.

### WARNING ITEMS

The Notice alleged probable violations of Parts 192 and 195 specifically considered to be warning items. The warning were for:

49 C.F.R. § 192.317 (**Item 3**) — Respondent's alleged failure to protect a portion of its system from hazards and potential damage. The OPS inspector discovered structural steel and cable debris on the pipeline risers at Bay Marchand Block Number 3 platform C&I. On September 16, 2010, Chevron indicated that it had removed the structural steel from the risers.

49 C.F.R. § 195.404 (**Item 5**) — Respondent's alleged failure to maintain current maps and records for its pipeline systems. During the inspection, Chevron personnel were observed using an old map that lacked the required attributes and detail. In its Response, Chevron stated that this map was for internal use and was not intended to demonstrate compliance with § 195.404.

If OPS finds a violation of these provisions in a subsequent inspection, Respondent may be subject to future enforcement action.

Under 49 C.F.R. § 190.215, Respondent has a right to submit a Petition for Reconsideration of this Final Order. The petition must be sent to: Associate Administrator, Office of Pipeline Safety, PHMSA, 1200 New Jersey Avenue, SE, East Building, 2<sup>nd</sup> Floor, Washington, DC 20590, with a copy sent to the Office of Chief Counsel, PHMSA, at the same address. PHMSA will accept petitions received no later than 20 days after receipt of service of this Final Order by the Respondent, provided they contain a brief statement of the issue(s) and meet all other requirements of 49 C.F.R. § 190.215. The filing of a petition automatically stays the payment of any civil penalty assessed. Unless the Associate Administrator, upon request, grants a stay, all other terms and conditions of this Final Order are effective upon service in accordance with 49 C.F.R. § 190.5.

The terms and conditions of this Final Order are effective upon service in accordance with 49 C.F.R. § 190.5.

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Jeffrey D. Wiese  
Associate Administrator  
for Pipeline Safety

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Date Issued