

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

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

April 17, 2012

Mr. Michael C. Pearson
Senior VP, Technical Services
Magellan Pipeline Company, LP
1 Williams Center
Tulsa, OK 74172

CPF 4-2012-5014

Dear Mr. Pearson:

In May 2011, representatives of the Pipeline and Hazardous Materials Safety Administration (PHMSA) pursuant to Chapter 601 of 49 United States Code were onsite and inspected the records and facilities associated with your 18 inch and 12 inch products and 24/26 inch crude oil pipeline in and between Pasadena and Texas City, TX. In June 2011, additional records were inspected in Tulsa, OK.

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. **§195.402 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 commence, and appropriate parts shall be kept at locations where operations and maintenance activities are conducted.

Magellan did not follow their procedures for valve inspection. In not doing so, they did not maintain proper security, protection from vandalism nor inhibit unauthorized operation of their valve.

Magellan's procedure for valve inspection 7.13-ADM-1035 section 3.2.2 states:

“Verify that the valve security is in check (as applicable-chained and locked, fenced and locked, guard rails, signs and markers, etc.).

NOTE: It is the responsibility of area personnel to provide protection for each mainline valve from unauthorized operation or vandalism. Report evidence of vandalism to the Supervisor of Pipeline Integrity Engineering. All valves or valve boxes shall at a minimum be secured with a lock or a combination of a chain and lock.”

Section 3.3 goes on to state “Document inspection of valve(s) within the Compliance Management System (CMS) and on the Mainline Valve Inspection Report.”

During the field portion of the inspection it was observed at valve 54 at MP14.72 (North Clear Creek) that the security chain was corroded completely through. There was no fence or locked gate. This valve site was unsecured in a populated commercial area.

These field observations contradict the records. The last valve inspection before the (PHMSA) inspection was performed on December 6, 2010, with no notation of these observed conditions according to the records provided by Magellan. The severity of the conditions would have had to exist at the time of the last inspection thus it appears that Magellan personnel did not follow their procedures.

2. §195.428 Overpressure safety devices and overfill protection systems.

(d) After October 2, 2000, the requirements of paragraphs (a) and (b) of this section for inspection and testing of pressure control equipment apply to the inspection and testing of overfill protection systems.

Magellan could not demonstrate that they performed the required inspections and tests required by the regulations. Magellan uses tanks owned by others at the Kinder Morgan Pasadena Terminal and the Texas City Refinery to relieve surges from the Magellan pipelines. Thus these are breakout tanks in service to Magellan and as such they are required to perform the necessary inspections and tests. When asked during the inspection Magellan could not demonstrate nor provide records of inspections or tests of overfill protection systems of these in-service atmospheric and low-pressure steel aboveground breakout tanks.

The evidence demonstrates that the operator violated § 195.428(d) by failing to inspect and test these devices at the required interval. In the event that such inspections were, in fact, performed, the evidence demonstrates the operator violated §195.404(c)(3) by failing to maintain a record of each inspection and test required by this subpart for at least 2 years or until the next inspection or test is performed, whichever is longer.

3. §195.432 Breakout tanks.

(b) Each operator shall inspect the physical integrity of in-service atmospheric and low-pressure steel aboveground breakout tanks according to section 4 of API Standard 653. However, if structural conditions prevent access to the tank bottom, the bottom integrity may be assessed according to a plan included in the operations and maintenance manual under §195.402(c)(3).

Magellan could not demonstrate that they performed the required inspections of the physical integrity of in-service atmospheric and low-pressure steel aboveground breakout tanks according to section 4 of API Standard 653. Magellan uses tanks owned by others at the Kinder Morgan Pasadena Terminal and the Texas City Refinery to relieve surges from the Magellan pipelines. Thus these are breakout tanks in service to Magellan and as such they are required to perform the necessary inspections and tests. When asked during the inspection Magellan could not demonstrate nor provide records of inspections or tests of the breakout tanks associated with Magellan pipelines and owned and operated by others at the Kinder Morgan Pasadena Terminal and the Texas City Refinery.

The evidence demonstrates that the operator violated § 195.432 by failing to inspect the tanks as required. In the event that such inspections were, in fact, performed, the evidence demonstrates the operator violated §195.404(c)(3) by failing to maintain a record of each inspection and test required by this subpart for at least 2 years or until the next inspection or test is performed, whichever is longer.

4. §195.579 What must I do to mitigate internal corrosion?

(a) General. If you transport any hazardous liquid or carbon dioxide that would corrode the pipeline, you must investigate the corrosive effect of the hazardous liquid or carbon dioxide on the pipeline and take adequate steps to mitigate internal corrosion.

Magellan transports hazardous liquid that could corrode the pipeline, but could not demonstrate at the inspection that Magellan has investigated the potential corrosive effect of the hazardous liquid on the pipeline and taken adequate steps to mitigate internal corrosion. Magellan did not provide documentation of a corrosive effect investigation during the audit.

5. §195.581 Which pipelines must I protect against atmospheric corrosion and what coating material may I use?

(a) You must clean and coat each pipeline or portion of pipeline that is exposed to the atmosphere, except pipelines under paragraph (c) of this section.

(b) Coating material must be suitable for the prevention of atmospheric corrosion.

(c) Except portions of pipelines in offshore splash zones or soil-to-air interfaces, you need not protect against atmospheric corrosion any pipeline for which you demonstrate by test, investigation, or experience appropriate to the environment of the pipeline that corrosion will:

(1) Only be a light surface oxide; or

(2) Not affect the safe operation of the pipeline before the next scheduled inspection.

Magellan did not protect its pipelines against atmospheric corrosion. During the field portion of the inspection on May 5-6, 2011, it was noted that the piping at the 18" Texas City pump station and the 26" Span at Hwy 3 North of El Dorado Blvd had paint and coating failure and surface corrosion. The 12" Latham Lateral also had areas of significant atmospheric corrosion noted during the inspection.

Proposed Compliance Order

With respect to items 1, 2, 3, and 4 pursuant to 49 United States Code § 60118, the Pipeline and Hazardous Materials Safety Administration proposes to issue a Compliance Order to Magellan Pipeline Company, LP. Please refer to the *Proposed Compliance Order*, which is enclosed and made a part of this Notice.

Warning Items

With respect to items 5, 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 items. Be advised that failure to do so may result in Magellan Pipeline Company, LP being subject to additional enforcement action.

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 4-2012-5014** 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 Magellan Pipeline Company, LP a Compliance Order incorporating the following remedial requirements to ensure the compliance of Magellan Pipeline Company, LP with the pipeline safety regulations:

1. In regard to Item Number 1 of the Notice pertaining to providing protection from unauthorized operation and vandalism, Magellan Pipeline Company, LP should review applicable procedures and amend as necessary. Following this, Magellan should ensure all field personnel responsible for performing valve inspections are properly trained in the inspection procedures and are capable of completing the documentation accurately. In addition, Magellan should survey all main line block valves and ensure that all valves are secured by methods that ensure that the valves are protected.
2. In regard to Items Number 2 and 3 of the Notice pertaining to failure of Magellan to inspect or provide records of inspections of the physical integrity of certain in-service atmospheric and low-pressure steel aboveground breakout tanks according to section 4 of API Standard 653, and the testing of overfill protection systems. Magellan must implement a process to ensure that the required inspections are performed according to the regulations. This can be accomplished by Magellan performing the required inspections themselves or by obtaining from others the necessary documentation of such inspections and tests. In either case it is Magellan's responsibility to ensure to PHMSA that the necessary actions are taking place.
3. In regard to Item Number 4 of the Notice pertaining to a corrosive effect investigation of hazardous liquid that could corrode the pipeline, Magellan shall investigate the potential corrosive effect of the hazardous liquid on the pipeline and implement a program to monitor and mitigate internal corrosion accordingly.
4. Magellan Pipeline Company, LP should complete items 1 through 3 above within 90 days of receipt of a Final Order.
5. It is requested (not mandated) that Magellan Pipeline Company, LP should 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. 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.