

DECEMBER 12, 2014

Mr. Mark Fischer
Chairman, Chief Executive Officer
Chaparral Energy, LLC
701 Cedar Lake Blvd.
Oklahoma City, OK 73114

Re: CPF No. 4-2013-5025

Dear Mr. Fischer:

Enclosed please find the Final Order issued in the above-referenced case. It makes findings of violation and assesses a civil penalty of \$47,900. It further finds that Chaparral Energy, LLC, has completed the actions specified in the Notice to comply with the pipeline safety regulations. Since the civil penalty was paid by wire transfer dated January 10, 2014, this enforcement action will be closed upon service of this Final Order. 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. R.M. Seeley, Director, Southwest Region, PHMSA, OPS
Mr. David Ketelsleger, SVP and General Counsel, Chaparral Energy, LLC

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

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

In the Matter of)	
)	
Chaparral Energy, LLC,)	CPF No. 4-2013-5025
)	
Respondent.)	
)	

FINAL ORDER

On multiple dates in 2012, pursuant to 49 U.S.C. § 60117, a representative of the Pipeline and Hazardous Materials Safety Administration (PHMSA), Office of Pipeline Safety (OPS), conducted an on-site pipeline safety inspection of the facilities and records of Chaparral Energy, LLC (Chaparral or Respondent), in Oklahoma, Kansas and Texas. Chaparral is a privately-owned oil and gas exploration/drilling company that operates approximately 230 miles of hazardous liquid pipelines in these three states.¹

As a result of the inspection, the Director, Southwest Region, OPS (Director), issued to Respondent, by letter dated October 31, 2013, 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 Chaparral had violated 49 C.F.R. §§ 195.111, 195.214, and 195.420 and assessing a civil penalty of \$47,900 for the alleged violations. The Notice also proposed ordering Respondent to take certain measures to correct the alleged violations. The warning item required no further action, but warned the operator to correct the probable violation or face possible enforcement action.

Chaparral responded to the Notice by letter dated January 9, 2014 (Response). The company did not contest the allegations of violation and paid the proposed civil penalty of \$47,900, as provided in 49 C.F.R. § 190.227. Payment of the penalty serves to close the case with prejudice to Respondent.

FINDINGS OF VIOLATION

In its Response, Chaparral did not contest the allegations in the Notice that it violated 49 C.F.R. Part 195, as follows:

¹ PHMSA Annual Report, Chaparral Energy, LLC. *See* https://primis.phmsa.dot.gov/comm/reports/operator/OperatorReport_opid_31672.html?nocache=6234.

Item 1: The Notice alleged that Respondent violated 49 C.F.R. § 195.111, which states:

§ 195.111 Fracture propagation.

A carbon dioxide pipeline system must be designed to mitigate the effects of fracture propagation.

The Notice alleged that Respondent violated 49 C.F.R. § 195.111 by failing to design its recently-constructed carbon dioxide pipeline system to mitigate the effects of fracture propagation. Specifically, the Notice alleged that despite multiple requests from PHMSA, Chaparral was unable to produce a fracture propagation analysis demonstrating that its carbon-dioxide Farnsworth Laterals had been designed to mitigate the effects of fracture propagation prior to, or subsequent to commissioning of the lines in 2011. Chaparral could not demonstrate it had performed a separate fracture propagation analysis for each of the Farnsworth Laterals, as follows:

- 4" east lateral, constructed Oct/Nov 2010
- 6" west lateral, constructed Jan/Mar 2011.

Respondent did not contest this allegation of violation. Accordingly, based upon a review of all of the evidence, I find that Respondent violated 49 C.F.R. § 195.111 by failing to design its recently-constructed carbon dioxide pipeline system to mitigate the effects of fracture propagation.

Item 2: The Notice alleged that Respondent violated 49 C.F.R. § 195.214, which states:

§ 195.214 Welding procedures.

(a) Welding must be performed by a qualified welder in accordance with welding procedures qualified under Section 5 of API 1104 or Section IX of the ASME Boiler and Pressure Vessel Code (incorporated by reference, *see* § 195.3). The quality of the test welds used to qualify the welding procedure shall be determined by destructive testing.

(b) Each welding procedure must be recorded in detail, including the results of the qualifying tests. This record must be retained and followed whenever the procedure is used.

The Notice alleged that Respondent violated 49 C.F.R. § 195.214 by using welding procedures on the Farnsworth Laterals, as described above, that had not been properly qualified in accordance with Section 5 of [American Petroleum Institute (API)] 1104 or Section IX of the ASME Boiler and Pressure Vessel Code. Specifically, the Notice alleged that PHMSA requested a copy of Chaparral's complete welding procedure, including both the welding procedure specification (WPS) as well as the procedure qualification record (PQR). According to the Notice, Respondent provided qualification records indicating its welders had been qualified to procedure "A100" (but with no procedure qualification documents), and the "A100" procedure was missing important elements that would qualify it as a complete welding procedure.

Respondent did not contest this allegation of violation. Accordingly, based upon a review of all of the evidence, I find that Respondent violated 49 C.F.R. § 195.214 by using welding procedures on the Farnsworth Laterals that were not qualified in accordance with Section 5 of API 1104 or Section IX of the ASME Boiler and Pressure Vessel Code.

Item 4: The Notice alleged that Respondent violated 49 C.F.R. § 195.420, which states, in relevant part:

§ 195.420 Valve maintenance.

(a) Each operator shall maintain each valve that is necessary for the safe operation of its pipeline systems in good working order at all times.

(b) Each operator shall, at intervals not exceeding 7½ months, but at least twice each calendar year, inspect each mainline valve to determine that it is functioning properly. . . .

The Notice alleged that Respondent violated 49 C.F.R. § 195.420 by failing to perform valve inspections at proper intervals, and by failing to perform complete inspections in order to determine that each valve functioned properly. Specifically, the Notice alleged that Chaparral could not produce valve maintenance records on the Borger mainline block valves (MLVs) 3 and 6 showing they had been inspected in April 2011. Instead, the company's valve maintenance records allegedly indicated that MLVs 3 and 6 had been inspected in November 2010 and December 2010, but did not show that inspections had been conducted in April 2011, when inspections had been conducted for the other MLVs.

In addition, the Notice alleged that Chaparral failed to perform proper inspections for all of the valves inspected in November 2010 and December 2011. Specifically, the Notice alleged that the company's maintenance records indicated the valves "could not operate due to operating conditions." Chaparral's Operation and Management (O&M) procedures implementing § 195.420(b) required valves to be operated "to the fullest extent practical and then returned to [their] position," but there was no follow-up documentation indicating Respondent had returned to perform maintenance on the valves when conditions were more favorable.

Respondent did not contest these allegations of violation. Accordingly, based upon a review of all of the evidence, I find that Respondent violated 49 C.F.R. § 195.420 by failing to perform valve inspections at proper intervals and by failing to perform complete inspections in order to determine that each valve functioned properly.

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 \$200,000 per violation for each day of the violation, up to a maximum of \$2,000,000 for any

related series of violations.² 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; 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 \$47,900 for the violations cited above.

Item 1: The Notice proposed a civil penalty of \$19,000 for Respondent's violation of 49 C.F.R. § 195.111, for failing to design its recently-constructed carbon dioxide pipeline system to mitigate the effects of fracture propagation. Chaparral paid the proposed penalty in full, which serves to close the case with prejudice to Respondent. Accordingly, having reviewed the record and considered the assessment criteria, I assess Respondent a civil penalty of \$19,000 for the violation cited above.

Item 4: The Notice proposed a civil penalty of \$28,900 for Respondent's violation of 49 C.F.R. § 195.420, for failing to perform valve inspections at the proper intervals and to determine that all valves were functioning properly. Chaparral paid the proposed penalty in full, which serves to close the case with prejudice to Respondent. Accordingly, having reviewed the record and considered the assessment criteria, I assess Respondent a civil penalty of \$28,900 for the violation cited above.

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 **\$47,900**, which amount has already been paid by Respondent.

COMPLIANCE ORDER

The Notice proposed a compliance order with respect to Items 1 and 2 in the Notice for violations of 49 C.F.R. §§ 195.111 and 195.214, respectively. Under 49 U.S.C. § 60118(a), each person who engages in the transportation of 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:

1. With respect to the violation of § 195.111 (**Item 1**), Respondent submitted recently-completed fracture propagation analyses for the Farnsworth Laterals to the Director on January 9, 2014.
2. With respect to the violation of § 195.214 (**Item 2**), Respondent provided

² The Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011, Pub. L. No. 112-90, § 2(a)(1), 125 Stat. 1904, January 3, 2012, increased the civil penalty liability for violating a pipeline safety standard to \$200,000 per violation for each day of the violation, up to a maximum of \$2,000,000 for any related series of violations.

qualification paperwork for the weld procedure (A101) that was actually used on the Farnsworth Laterals. Respondent also provided confirmation that the weld procedure used on the lines had been properly qualified and documented.

The Region Director has reviewed Respondent's submissions under Items 1 and 2 and has found them to be satisfactory. Therefore, the compliance terms proposed in the Notice are not included in this Order.

WARNING ITEM

With respect to Item 3, the Notice alleged a probable violation of Part 195 but did not propose a civil penalty or compliance order for this item. Therefore, this is considered to be a warning item. The warning is for:

49 C.F.R. § 195.403 (**Item 3**) — Respondent's alleged failure to adequately document its emergency response training program.

Chaparral presented information in its Response showing it had taken certain actions to address this item. If OPS finds a violation of this provision in a subsequent inspection, Respondent may be subject to future enforcement action.

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

Jeffrey D. Wiese
Associate Administrator
for Pipeline Safety

Date Issued