

**NOTICE OF PROBABLE VIOLATION
PROPOSED CIVIL PENALTY**

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

August 10, 2016

Mr. Earl Reynolds
President
Chaparral Energy, LLC
701 Cedar Lake Blvd.
Oklahoma City, OK 73114

CPF 4-2016-5029

Dear Mr. Reynolds:

On March 2, 2015 through December 15, 2015, representatives of the Pipeline and Hazardous Materials Safety Administration (PHMSA), Office of Pipeline Safety (OPS), pursuant to Chapter 601 of 49 United States Code inspected procedures and records for Chaparral's CO2 pipeline systems in Oklahoma, Texas, and Kansas.

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 violations 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.

Chaparral failed to follow its O&M manual (Monitoring for Atmospheric Corrosion section Revised: 09-13-14) to fill out the required Maintenance Record/Atmospheric Corrosion Inspection form following the atmospheric corrosion inspections on the exposed portions of the TXOK, Borger, and Farnsworth pipeline systems for calendar year 2014.

Chaparral's written O&M Manual (Monitoring for Atmospheric Corrosion Revised: 09-13-14) states that "*Each pipeline or portion of pipeline that is exposed to the atmosphere*

must be inspected for evidence of atmospheric corrosion at least once every 3 calendar years, but with intervals not exceeding 39 months.” and “The inspection shall be documented using the Maintenance Record/Atmospheric Corrosion Inspection.”

In e-mail correspondence dated December 31, 2015, Chaparral informed PHMSA that although the Atmospheric Corrosion inspections were completed on all of the aboveground pipeline locations as required, the records of the inspection were limited to pictures of each valve site. The Atmospheric Corrosion Report forms required by their procedure for each of these inspections were not completed.

2. 195.571 What criteria must I use to determine the adequacy of cathodic protection?

Cathodic protection required by this Subpart must comply with one or more of the applicable criteria and other considerations for cathodic protection contained in paragraphs 6.2 and 6.3 of NACE SP 0169.

Chaparral failed to maintain an adequate level of Cathodic Protection (CP) at two test stations on the TXOK 8-inch line as required by NACE SP 0169 (version 2007) and Chaparral O&M manual (Revised: 09-13-14).

Chaparral’s O&M manual under Determination of Adequacy of Cathodic Protection states that *“Chaparral Energy shall ensure that each subject component of an existing or new steel pipeline system or relocation and/or repair of an existing steel pipeline system is provided with protection against external corrosion. Chaparral shall comply with NACE SP0169, version incorporated by reference in Part 195.”*

Chaparral’s CP annual survey reports indicated that one test station has not met criteria since their 2015 survey and the second since their 2013 survey.

3. 195.507 Recordkeeping.

Each operator shall maintain records that demonstrate compliance with this subpart.

(a) Qualification records shall include:

(2) Identification of the covered tasks the individual is qualified to perform;

Chaparral failed to maintain sufficient records to adequately demonstrate compliance with the OQ regulations after a significant change in its Operator Qualification covered task list.

Chaparral failed to maintain records to document the requalification of all its employees and contractors after a significant change in Operator Qualification covered task list as required by its written Operator Qualification Program. Chaparral revised its plan (revised 1/15/2014) to expand their Covered Task list from 19 covered tasks to 49 covered tasks.

During the inspection PHMSA discussed this issue with Chaparral and on 12/31/2015 Chaparral Sr. Pipeline Compliance Specialist replied that they have since qualified all covered employees under the new task list.

4. 195.52 Immediate notice of certain accidents.

a) Notice requirements. 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 must give notice, in accordance with paragraph (b) of this section, of any failure that:

(5) In the judgment of the operator was significant even though it did not meet the criteria of any other paragraph of this section.

Chaparral failed to provide notice of a CO2 release meeting immediate notification requirements at the “earliest practicable moment following discovery.”

On Saturday, November 23, 2013, at 08:45 a.m., Chaparral Energy employee received a call from a third party person notifying him of a possible release in the Beaver, OK area. Chaparral Energy Pipeline confirmed the release at 10:07 am and notice was not made to the NRC until 12:52 pm, 2 hours and 45 minutes after confirmation.

Chaparral’s O&M manual under Telephonic Notice of Certain Accidents states that “*At the earliest practicable moment, but no later than one hour, following discovery of a release of the hazardous liquid or carbon dioxide transported resulting in an event described in Part 195.50, Chaparral Energy shall give notice*”.

5. §195.589 what corrosion control information do I have to maintain?

(c) You must maintain a record of each analysis, check, demonstration, examination, inspection, investigation, review, survey, and test required by this subpart in sufficient detail to demonstrate the adequacy of corrosion control measures or that corrosion requiring control measures does not exist. You must retain these records for at least 5 years, except that records related to Secs. 195.569, 195.573(a) and (b), and 195.579(b) (3) and (c) must be retained for as long as the pipeline remains in service.

Chaparral could not provide maintenance records to document actions taken to correct identified deficiencies in four different instances on their TXOK pipeline. Chaparral identified three deficiencies on their rectifier system and a low test station in 2014 and could not provide a record of remedial actions that were performed on the system, although they indicated the work was completed.

On April 14, 2014, Chaparral conducted a Close Interval Potential Survey on TXOK pipeline system and identified three areas that required remediation. In e-mail

correspondence to PHMSA dated December 31, 2015, Chaparral stated that the remediation efforts were completed in 2015; however, Chaparral failed to provide maintenance records to show actions taken to correct any identified deficiencies in corrosion control.

The fourth area involved CP readings on the TXOK line that did not meet acceptable levels of cathodic protection in the 2014 CP survey, but did meet criteria in 2015. Chaparral could not provide maintenance records to document what type of maintenance was performed.

6. §195.571 what criteria must I use to determine the adequacy of cathodic protection? Cathodic protection required by this Subpart must comply with one or more of the applicable criteria and other considerations for cathodic protection contained in paragraphs 6.2 and 6.3 of NACE SP 0169

Chaparral did not consider voltage drops (IR drop) in determining the adequacy of cathodic protection for their Borger, TXOK, and Coffeyville lines during their annual survey. Chaparral did not obtain IR free readings for the Borger and TXOK line in 2013 and the Coffeyville line in 2015.

Records review of the Borger line and TXOK line indicated that during annual CP survey in 2014 and 2015 IR drop was considered, but was not considered in 2013. For the Coffeyville line, IR was measured during annual CP survey in 2014, but was not considered in 2015.

**7. 195.577 What must I do to alleviate interference currents?
(a) For pipelines exposed to stray currents, you must have a program to identify, test for, and minimize the detrimental effects of such currents**

Chaparral did not perform an evaluation of their pipeline system to determine the effects of any stray current interference from other adjacent metallic structures or determine if interference bonds are needed for pipeline crossings on the Coffeyville line. Chaparral's failure to perform the stray current analysis resulted in two reportable accidents on their Coffeyville CO2 pipeline, May 4, 2015 and again on August 25, 2015. Both failures were attributed to stray current corrosion unidentified by Chaparral.

Chaparral could not provide documentation of any evaluation for potential stray current interference effects all pipeline crossings and if interference bonds (critical/non critical) are needed for these locations as a method of mitigating stray current.

Proposed Civil Penalty

Under 49 United States Code, § 60122, you are subject to a civil penalty not to exceed \$200,000 per violation per day the violation persists up to a maximum of \$2,000,000 for a related series of violations. For violations occurring prior to January 4, 2012, the maximum penalty may not

exceed \$100,000 per violation per day, with a maximum penalty not to exceed \$1,000,000 for a 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 **\$158,400** for item 7:

<u>Item number</u>	<u>PENALTY</u>
7	\$158,400

Warning Items

With respect to items 1 through 6, 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). Failure to do so may result in 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. All material you submit in response to this enforcement action may be 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 4-2016-5029** 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: *Response Options for Pipeline Operators in Compliance Proceedings*