



November 16, 2007

SENT TO COMPLIANCE REGISTRY

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Via Facsimile and Regular Mail

Chris Hoidal, Director, Western Region
United States Department of Transportation
Pipeline and Hazardous Materials Safety Administration
12300 W. Dakota Ave., Suite 110
Lakewood, CO 80228

RE: CPF 5-2007-5037 – Response to NOPV

Dear Mr. Hoidal,

This letter is intended as a response to the Notice of Probable Violation (NOPV) issued to Shore Terminals, LLC (“Shore”) by the Pipeline and Hazardous Materials Safety Administration (PHMSA) on October 19, 2007. The NOPV concerned the results of the March 26, 2007 inspection of the Shore breakout facility in Portland, Oregon. The NOPV alleged a violation of §195.432 (“Inspection of in-service breakout tanks”), 195.565 (“How do I install cathodic protection on breakout tanks?”), 195.573 (“What must I do to monitor external corrosion control?”), and 195.581 (“Which pipelines must I protect against atmospheric corrosion and coating and what coating material may I use?”). Additionally, PHMSA issued a compliance order for each item and requested that Shore maintain and submit costs of the safety improvements associated with fulfilling the compliance order.

Shore appreciates the opportunity to provide PHMSA with information in response to the above allegations. The following section serves as an item-by-item response on the actions Shore has taken to comply with the proposed compliance order.

Proposed Compliance Order

Item Number 1 - §195.432(a)(2) – Inspection of in-service breakout tanks.

In the NOPV, PHMSA alleged that records were unavailable at the time of the inspection to substantiate what efforts have been undertaken to address atmospheric corrosion. In the proposed compliance order, PHMSA requires that Shore develop a record-keeping method to inspect atmospheric corrosion of in-service breakout tanks.

In response to the compliance order, Shore performed an extensive investigation of the API 653 inspection reports on file and notes that records are readily available to

substantiate that atmospheric corrosion inspections have been performed on a periodic basis. Furthermore, the findings confirm that atmospheric corrosion has not created an

unsafe condition under the present operating conditions. Shore does however agree that additional provisions are necessary to expand the current record keeping system to include an action plan as applicable following the receipt of an API 653 report. As a result, Shore has amended its O&M Manual to require that an *API 653 Closure Report Form* be completed by the Regional Engineer or designee following an inspection by an authorized individual. The portion of Shore's revised O&M Manual relevant to this issue along with the corresponding record keeping form is attached hereto as Exhibit A.

Furthermore, in advance of the March 2007 inspection, Shore instituted an inspection interval requirement for API 653 inspections onto the Company's plant maintenance and materials management system (SAP) to assist with prompting users to complete regulatory inspections through the use of a work order system. SAP is a web-based program which will allow users to log on, poll the system for required inspections, complete the inspection, and then close out the work order in the SAP system.

Additionally, Shore developed a tank inspection and painting program prior to 2007 which has unfolded throughout this year. In calendar year 2007, Shore has completed the painting of four tanks and has performed API 653 inspections on five tanks. By the end of the year, Shore plans to API 653 inspect an additional four tanks. Altogether, Shore expects to complete at least eleven tank inspections in 2007 through either direct inspection or similar service evaluation. For your reference, Shore has provided in Exhibit B before-and-after photographs demonstrating our commitment in addressing atmospheric corrosion and preserving tank integrity.

Item Number 2 - §195.565 – How do I install cathodic protection on breakout tanks?

In the NOPV, PHMSA alleged that the O&M Manual did not contain provisions as to why a corrosion control system is unnecessary. In the proposed compliance order, PHMSA requires that Shore install cathodic protection facilities within all its breakout tanks or present written evidence why a corrosion control system is unnecessary.

In response to the compliance order, Shore is in the process of securing the services of a contractor to assist in the installation of a cathodic protection system. Shore respectfully requests a thirty-day extension to provide an action plan response for this item.

Item Number 3 - §195.573 – What must I do to monitor external corrosion control?

In the NOPV, PHMSA alleged that the O&M Manual did not contain provisions as to why compliance with all or certain operation and maintenance provisions of API Recommended Practice 651 is not necessary for the safety of breakout tanks. In the proposed compliance order, PHMSA requires that Shore comply with the provisions of API Recommended Practice 651 or show why compliance is not necessary for the safety of breakout tanks.

In response to the compliance order, Shore is in the process of securing the services of a contractor to assist in the installation of a cathodic protection system. Shore respectfully requests a thirty-day extension to provide an action plan response for this item.

Item Number 4 - §195.581 – Which pipelines must I protect against atmospheric corrosion and what coating material may I use?

In the NOPV, PHMSA alleged that at the time of the inspection, atmospheric corrosion was advanced and widespread throughout tank farms 1-4. In the proposed compliance order, PHMSA requires that Shore mitigate the atmospheric corrosion conditions on each pipeline or portion of the pipeline within each of the four tank farms exposed to the atmosphere, except pipelines under paragraph (c) of §195.581.

In response to the compliance order, Shore is in the process of developing a schedule to carry out the atmospheric corrosion inspection requirements as outlined in Section 13 of the NuStar Corrosion Control Procedure Manual (formerly Valero LP). The portion of the Corrosion Control Procedure Manual relevant to this issue is attached hereto as Exhibit C. The procedure provides personnel with the appropriate guidelines necessary to carry out the requirements specified by §195.581, §195.583, and the compliance order. Shore respectfully requests a thirty-day extension to provide a detailed action plan response for this item.

Item Number 5 – Safety Improvement Costs

The proposed compliance order requires Shore to maintain documentation of the safety improvement costs associated with fulfilling this requirement and to submit those costs 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. To date, Shore estimates to have spent approximately eighty-thousand dollars on tank painting and API inspections as noted in item one above. Shore will continue gathering cost data responsive to this request and respectfully requests a thirty-day extension to provide this information.

Conclusion

Shore hopes that the proposed responses to the allegations and the proactive measures that Shore has taken will be viewed favorably by PHMSA. As noted in the item-by-item responses above, Shore intends to submit a follow up letter in thirty days outlining a detailed plan of action for items two through five. If you have any questions in this matter, please contact me at (209) 373-4227. Thank you very much for your time and attention to this response to the NOPV.

By: Mike Poirier, HSE Director – West Region

A handwritten signature in cursive script that reads "Michael Poirier". The signature is written in black ink and is positioned centrally below the typed name.

cc: John Roller
Bill Dungan
Hector Gonzalez
Mark Arguelles
Rebecca Fink

Exhibit A

O&M Manual Revisions



API 653 Breakout Tank Closure Reporting

1. PURPOSE

This procedure outlines the record keeping provisions necessary in bringing closure to integrity items listed on API 653 reports.

2. REFERENCES

49 CFR 195.432, Inspection of In-service Breakout Tanks
Operations & Maintenance Manual Core Section

3. PROCEDURES

Company Personnel will secure the services of an authorized inspector as appropriate for inspections required by 49 CFR Part 195.432. Refer to the core O&M Sections for detailed procedures on breakout tank inspections.

The Regional Engineer or designee carries out the following actions upon receipt of an API 653 breakout inspection report:

- 1) Review and evaluate the API 653 inspection report.
- 2) Develop and document an action plan on the *API 653 Closure Report Form* or similar based on the API 653 inspection results.
- 3) Items affecting the integrity of the tank will be resolved immediately or the tank will be evacuated and blinded off until the appropriate repairs can be made.
- 4) Review items of recommendation identified by the authorized inspector and present these to Management for implementation as appropriate.

4. DOCUMENTATION AND RECORD RETENTION

Utilize the *API 653 Closure Report Form* or similar. Maintain form in accordance with the minimum record keeping requirements for API 653 inspections (i.e. 5 year external, 10 year internal, etc.).



API 653 Closure Report Form

Instructions & Purpose:

The Regional Engineer will utilize this form to identify the course of action for each tank integrity item identified on the API 653 Inspection report in order to track the completion status. The Regional Engineer will also evaluate the recommendation items identified by the authorized inspector and present these to Management as appropriate.

Specification/Location			
Location:		Service:	
Tank No.:		Year Erected:	
Diameter:		BBLS Capacity:	
Company Performing the Inspection:		Inspection Date:	

Item # / Action	
1)	Completion Date:
2)	Completion Date:
3)	Completion Date:
4)	Completion Date:
5)	Completion Date:
Note: Use additional pages as necessary.	

Recommendation Item / Conclusion
Note: Use additional pages as necessary.

Remarks

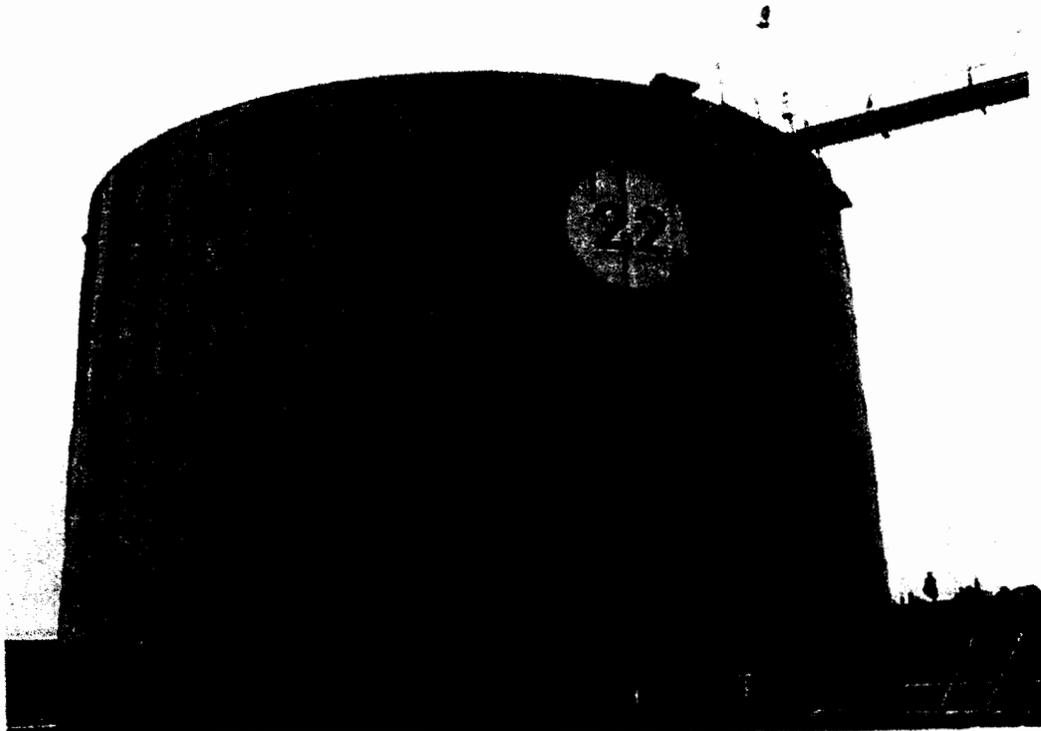
Person Completing Report: _____ Date: _____

* Items affecting the integrity of the tank will be resolved immediately or the tank will be evacuated and blinded off until the appropriate repairs can be made.

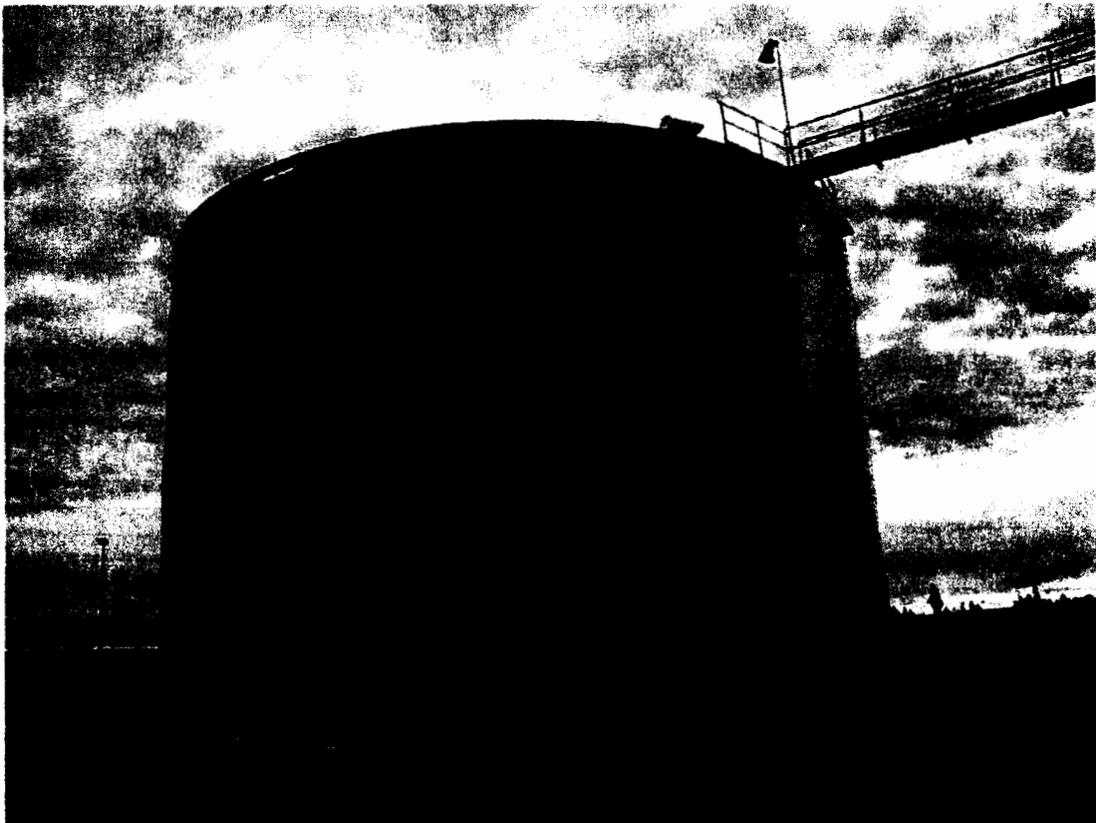
Exhibit B

Tank Farm Pictures

Tank 2022 – June 2006



Tank 2022 – November 2007



Tank 2022, 2021, 2020 – November 2007



Overview of Shore Tank Farm



Exhibit C

Corrosion Control Procedures

13. ATMOSPHERIC CORROSION (§CFR 195.581 and §CFR 195.583)

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Each buried or submerged pipeline or portion of a pipeline that is exposed to the atmosphere must be cleaned and coated. The coating material must be suitable for the prevention of atmospheric corrosion. Each pipeline or portion of a pipeline that is exposed to the air must be inspected for evidence of atmospheric corrosion.

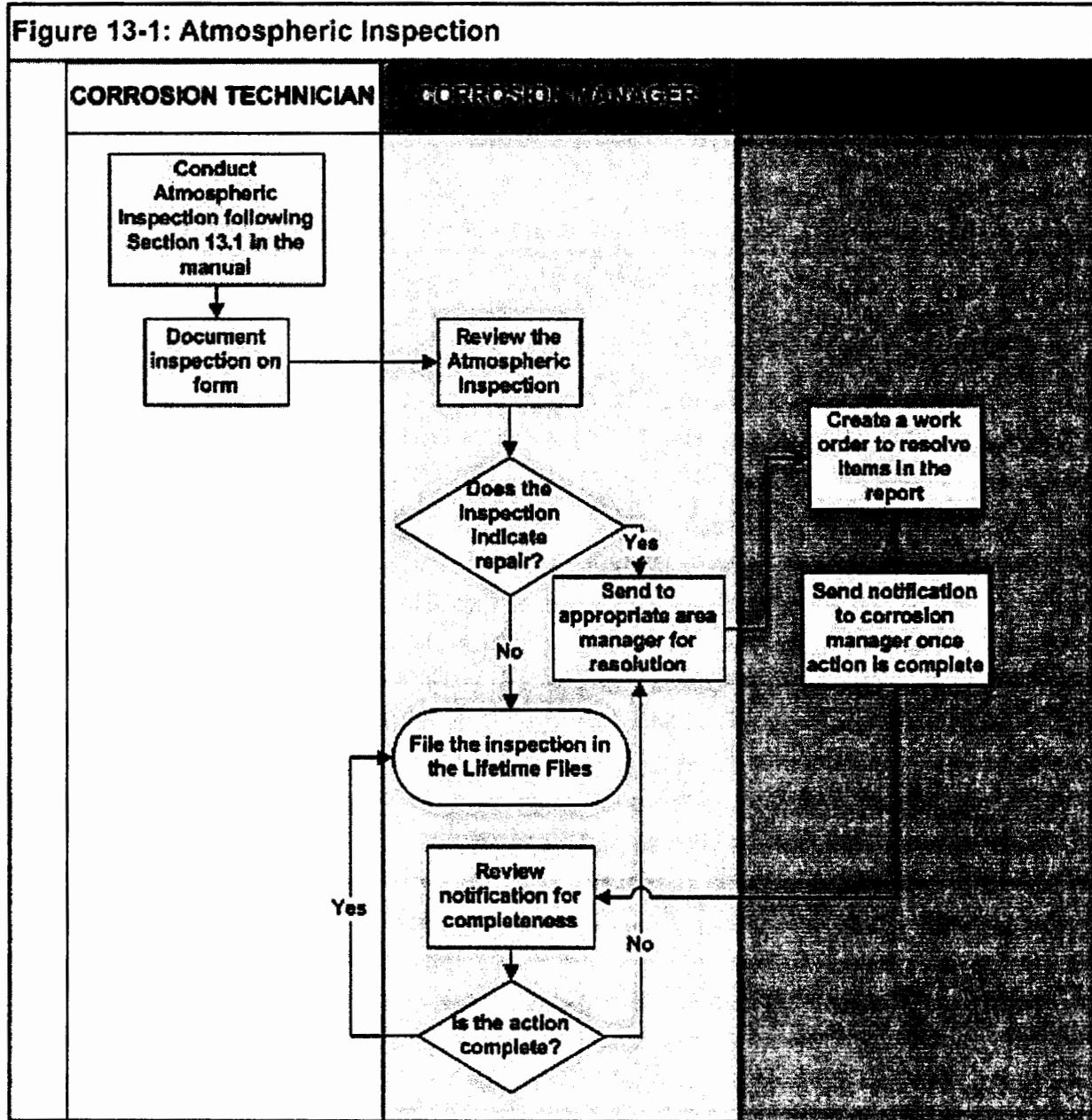
13.1. INSPECTION MAINTENANCE

OQ qualified corrosion personnel should follow procedure below to ensure all the steps involving atmospheric inspection have been met.

Step 31a		[Corrosion Technician] Conduct atmospheric inspection following the procedure defined in step 32 found below.
Step 31b		[Corrosion Technician] Document the inspection on form detailing the process and findings. Distribute the inspection form accordingly.
Step 31c		[Corrosion Manager] Review the inspection form and evaluate the information.
Step 31d	1	[Corrosion Manager] If the inspection does not indicate repair, files the inspection in the Lifetime Files.
	2	[Corrosion Manager] If the inspection indicates repair is necessary, the information is sent to the appropriate pipeline manager for resolution.
Step 31e		[Pipeline Manager] A work order is created to resolve the items specified in the report.
Step 31f		[Pipeline Manager] Once the work orders are complete, notify the corrosion manager of the completed action.
Step 31g		[Corrosion Manager] Review the notification for completeness.
	1	If the completed action addresses the repair requirements, the inspection is filed in the Lifetime Files.
	2	If the completed action does not address the repair requirements, repeat steps 31d-(2) until the action is concluded and the report can be filed in the Lifetime Files.

Refer to Figure 13-1 to illustrate the steps taken for atmospheric inspections.

FIGURE 13-1: ATMOSPHERIC INSPECTION



OQ qualified corrosion personnel complete all of the steps below for inspection maintenance unless stated otherwise.

Step 32a	1	Inspect aboveground facilities and transition areas for coating failure and metal loss; record this information on an <i>Atmospheric Corrosion Monitoring Form</i> (shown in Appendix G).
	2	During inspections pay special attention to the pipe at the following areas: <ul style="list-style-type: none"> ◆ Soil-to-air interfaces ◆ Under thermal insulation ◆ Under disbanded coatings ◆ At pipe supports ◆ In splash zones ◆ At deck penetrations ◆ In spans over water.
	3	Inspect the protective coating or paint every three calendar years at intervals not exceeding 39 months and complete an Atmospheric Corrosion Report.
Step 32b	For areas that need coating repair, apply protective coatings per manufacturer's recommendations (shown in Appendix E). <ul style="list-style-type: none"> ◆ For aboveground facilities, epoxy paint is recommended for exposure to the atmosphere. ◆ For transition areas, apply Royston Wet Set per manufacturer's recommendation (shown in Appendix E). 	
Step 32c	After coatings are applied, inspect coatings per manufacturer's recommendations (shown in Appendix E).	

NOTE: Inspection techniques and procedures are found in *NCCER Pipeline Corrosion Control Trainee Guide*:

Level One:

- ◆ Module 61104-02
- ◆ Module 61106-02, Pages 6.1 through 6.42

Level Two:

- ◆ Module 61206-02, Pages 6.1 through 6.26
- ◆ Module 61207-02
- ◆ Module 61208-02

1.2. Atmospheric Corrosion Monitoring Form

