

WARNING LETTER

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

April 30, 2010

Mr. John Traeger
Manager of Pipelines and Terminals
CHS, Inc.
803 Highway 212 South
Laurel, MT 59044

CPF 5-2010-5015W

Dear Mr. Traeger:

On September 21-25, 2009, a representative of the Pipeline and Hazardous Materials Safety Administration (PHMSA), pursuant to Chapter 601 of 49 United States Code, inspected your CHS Products Pipeline from Laurel, Montana to the Montana/North Dakota Border.

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. §195.412 Inspection of rights-of-way and crossings under navigable waters.**
 - (a) Each operator shall, at intervals not exceeding 3 weeks, but at least 26 times each calendar year, inspect the surface conditions on or adjacent to each pipeline right-of-way. Methods of inspection include walking, driving, flying or other appropriate mean of traversing the right-of-way.**

CHS did not ensure that the surface conditions on or adjacent to CHS's Products Pipeline right-of-way are unobstructed and are readily accessible and visible. During the field inspection, it was noted that the right-of-way surface conditions of your CHS Products Pipeline were obstructed as follows:

- An equipment yard just east of the Yellowstone River near Sidney, Montana where tanks, equipment, and vehicles appear to be stored above the buried pipeline.
- A shed just east of the Rosebud Station.
- A mobile home just west of the Ponderosa School and just south of King Avenue East in Billings.
- A shed near King Avenue East and Washington Street in Billings.
- A Montana Dakota Utilities (MDU) equipment yard just south of King Avenue East in Billings where large amounts of plastic pipe and equipment are stored over the buried pipeline.
- A Bureau of Land Management equipment yard just south of King Avenue East in Billings where equipment is stored over the buried pipeline.

2. §195.401 General Requirements.

(b) Whenever an operator discovers any condition that could adversely affect the safe operation of its pipeline system, it shall correct it within a reasonable time. However, if the condition is of such a nature that it presents an immediate hazard to persons or property, the operator may not operate the affected part of the system until it has corrected the unsafe condition.

During the field inspection of the Glendive Pump Station, it appeared that the pressure gauge installed on the discharge of Pump Unit #2 was not working.

3. §195.404 Maps and Records.

(a) Each operator shall maintain current maps and records of its pipeline systems that include at least the following information:

(1) Location and identification of the following pipeline facilities:

(i) Breakout Tanks

(ii) Pump Stations

(iii) Scraper and sphere facilities

(iv) Pipeline valves

(v) Facilities to which §195.402(c)(9) applies;

(vi) Rights-of-way; and

(vii) Safety devices to which §195.428 applies.

(2) All crossings of public roads, railroads, rivers, buried utilities, and foreign pipelines.

(3) The maximum operating pressure of each pipeline.

(4) The diameter, grade, type, and nominal wall thickness of all pipe.

The Glendive Pump Station drawings reviewed during the inspection did not accurately reflect the current configuration of the pipeline. CHS did not ensure that the drawings (maps and records) accurately reflected the actual pipeline components. Inaccuracies noted include:

- The rupture pin pressure indicated on the drawing did not match the rupture pressure record of the actual pin installed at the station.
- There is a note on the drawing that reads “Relief line to be installed in 2000” when a relief line is currently installed.
- PSV numbers on the drawing did not match the PSV numbers on the PSV inspection records.

In addition, among other various deficiencies during a review of several alignment sheets found that many of the drawings did not reflect the actual pipeline installations, i.e. the drawings did not show the locations where the pipeline has been repaired. Furthermore, it was indicated during the inspection that the drawings are in the process of being updated. However, it appears that CHS did not dedicate sufficient resources to update the drawings.

4. §195.410 Line Markers.

(a) Except as provided in paragraph (b) of this section, each operator shall place and maintain line markers over each buried pipeline in accordance with the following:

(1) Markers must be located at each public road crossing, at each railroad crossing, and in sufficient number along the remainder of each buried line so that its location is accurately known.

(2) The marker must state at least the following on a background of sharply contrasting color:

(i) The word “Warning,” “Caution,” or “Danger” followed by the words “Petroleum (or the name of the hazardous liquid transported) Pipeline”, or “Carbon Dioxide Pipeline,” all of which, except for markers in heavily developed urban areas, must be in letters at least 1 inch (25 millimeters) high with an approximate stroke of 1/4 inch (6.4 millimeters).

(ii) The name of the operator and a telephone number (including area code) where the operator can be reached at all times.

CHS did not comply with Part 195.410 pertaining to the placement of pipeline markers, and inclusion of a current phone number. During the field inspection, it was noted that the pipeline marker was not located where it crosses Jupiter Avenue in Glendive, MT. In addition, the marker at the road crossing north of Jupiter Avenue did not include a current phone number where the operator can be reached at all times.

5. §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.

During the field inspection, it was noted that the following valves showed evidence that they were leaking minor amounts of product (fresh staining of the valve body):

- Mainline valve (MP53) on the east side of the Yellowstone River near Sidney, MT.
- Mainline valve near the Eagles RV Part (MP49).

6. §195.420 Valve Maintenance.

(c) Each operator shall provide protection for each valve from unauthorized operation and from vandalism.

During the field inspection, it was noted that the following valves were not protected from unauthorized operation and from vandalism:

- Mainline valve (MP53) on the east side of the Yellowstone River near Sidney, Montana.
- Mainline valve near the Eagles RV Part (MP49).

7. §195.428 Overpressure safety devices and overfill protection systems.

(a) Except as provided in paragraph (b) of this section, each operator shall, at intervals not exceeding 15 months, but at least once each calendar year, or in the case of pipelines used to carry highly volatile liquids, at intervals not to exceed 7 1/2 months, but at least twice each calendar year, inspect and test each pressure limiting device, relief valve, pressure regulator, or other item of pressure control equipment to determine that it is functioning properly, is in good mechanical condition, and is adequate from the standpoint of capacity and reliability of operation for the service in which it is used.

During the field inspection, the actual rupture pressure of the rupture pin installed at the Glendive Station was not accurately identified to ensure adequate from the standpoint of capacity and reliability of operation for the service in which it is used. There was no tag on the device that identified at what pressure it will break. Furthermore, CHS personnel at the Glendive Station were asked how it would be known whether or not the rupture pin was correctly installed and a definitive answer could not be provided. Meanwhile, a pressure record was provided by CHS personnel for the installed rupture pin indicated a relief valve of 1321 psig. The Glendive Station drawing however indicated that the rupture pressure of the pin is 1440 psig.

8. §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.

At the time of inspection, records were not available for the inspections of any of the tank overfill protection systems associated with the CHS Products Pipeline breakout tanks.

9. §195.432 Inspection of in-service 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).

CHS did not follow the requirement of Section 4 of API Standard 653 for your aboveground breakout tanks. At the Billings Tank Farm, Tank 280 was seeping oil at several of the riveted connections, seams and flanges. Meanwhile, the recent monthly tank inspection forms did not indicate which the tank seams/rivets/flanges were seeping oil. Based on field observations, it was noted that the seepage had been occurring for quite awhile.

Furthermore, the breakout tank inspection forms are not consistent between facilities and do not always allow for a description of problems with the tank. Generally, the tank inspector can only indicate if a particular item is G (good), F (Fair), or (P) poor but there is no documentation as to why a particular item is marked F or P. In addition, the forms do not include a line item to quantify the condition of the chime and a line item to check for accumulated material, paint chipping/disbonding, and corrosion on the chime.

10. §195.573 What must I do to monitor external corrosion control?

(a) *Protected pipelines.* You must do the following to determine whether cathodic protection required by this subpart complies with §195.571:

(2) Identify not more than 2 years after cathodic protection is installed, the circumstances in which a close-interval survey or comparable technology is practicable and necessary to accomplish the objectives of paragraph 10.1.1.3 of NACE Standard RP 0169 (incorporated by reference, *see* §195.3).

CHS neither conducted close intervals surveys on a periodic basis along the entire length of your CHS Products Pipeline nor had a technical justification as to why close interval surveys (CIS) are not necessary. A close interval survey was performed in 2006 on a portion of the pipeline between Laurel and Billings, but the need for CIS surveys in other areas or subsequent surveys was not determined.

11. §195.573 What must I do to monitor external corrosion control?

(e) Corrective action. You must correct any identified deficiency in corrosion control as required by Sec. 195.401(b). However, if the deficiency involves a pipeline in an integrity management program under Sec. 195.452, you must correct the deficiency as required by Sec. 195.452(h).

CHS did not correct all the deficiencies in corrosion control from your close interval survey that was performed in 2006 on a portion of the pipeline between Laurel and Billings. Several potential anomalies (areas of inadequate cathodic protection) were identified in that survey. CHS followed up on some of the potential anomalies but CHS did not follow up on others. It appears that the potential anomalies are located in HCAs. Meanwhile, CHS personnel could not provide a definitive plan defining when the potential anomalies will be investigated.

Under 49 United States Code, § 60122, you are subject to a civil penalty not to exceed \$100,000 for each violation for each day the violation persists up to a maximum of \$1,000,000 for any related series of violation. 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 correct the item identified in this letter. Failure to do so will result in CHS, Inc. being subject to additional enforcement action.

No reply to this letter is required. If you choose to reply, in your correspondence please refer to **CPF 5-2010-5015W**. 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).

Sincerely,

Chris Hoidal
Director, Western Region
Pipeline and Hazardous Materials Safety Administration

cc: PHP-60 Compliance Registry
PHP-500 M. Petronis (#123854)