

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

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

May 22, 2012

Mr. Edward O'Donnell
Senior V.P.
Venoco, Inc.
6267 Carpinteria Ave.
Carpinteria, CA 93013

CPF 5-2012-0014

Dear Mr. O'Donnell:

On July 12 to 14, 2011, representatives of the Pipeline and Hazardous Materials Safety Administration (PHMSA) pursuant to Chapter 601 of 49 United States Code inspected your integrity management program in Carpinteria, California.

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. §192.905, How does an operator identify a high consequence area?

(a) General. To determine which segments of an operator's transmission pipeline system are covered by this subpart, an operator must identify the high consequence areas. An operator must use method (1) or (2) from the definition in § 192.903 to identify a high consequence area. An operator may apply one method to its entire

pipeline system, or an operator may apply one method to individual portions of the pipeline system. An operator must describe in its integrity management program which method it is applying to each portion of the operator's pipeline system. The description must include the potential impact radius when utilized to establish a high consequence area.

Venoco failed to identify a segment of the Montalvo Sales Gas pipeline as an HCA and did not appropriately classify the pipeline segment. During a field inspection of the Montalvo Sales Gas pipeline in Oxnard, CA, PHMSA representatives found that the California Mushroom Farm at 4440 Olivas Park Drive, Oxnard, CA was located within the calculated PIR of 70 feet. The California Mushroom Farm is occupied by more than 20 employees working more than 50 days per year. Therefore, the Farm is an identified site. Venoco failed to identify this segment of the Montalvo Sales Gas pipeline as an HCA and did not appropriately classify the pipeline segment under this subpart.

2. §192.921, How is the baseline assessment to be conducted?

(a) Assessment methods. An operator must assess the integrity of the line pipe in each covered segment by applying one or more of the following methods depending on the threats to which the covered segment is susceptible. An operator must select the method or methods best suited to address the threats identified to the covered segment (See § 192.917).

(1) Internal inspection tool or tools capable of detecting corrosion, and any other threats to which the covered segment is susceptible. An operator must follow ASME/ANSI B31.8S (incorporated by reference, see § 192.7), section 6.2 in selecting the appropriate internal inspection tools for the covered segment.

Venoco uses In-Line-Inspection (ILI) tools as a method to assess/reassess its pipelines, but failed to specify an ILI tool or tools capable of detecting corrosion, and any other threats to which the covered segment is susceptible. Also, Venoco operates some pre-1970 ERW pipelines and claims these pipelines have no history of Stress Corrosion Cracking or seam failure. However, Stress Corrosion Cracking is a time dependent threat and the type of ILI tool or tools selected need to address this possible threat as well.

3. §192.937, What is a continual process of evaluation and assessment to maintain a pipeline's integrity?

(a) General. After completing the baseline integrity assessment of a covered segment, an operator must continue to assess the line pipe of that segment at the intervals specified in § 192.939 and periodically evaluate the integrity of each covered pipeline segment as provided in paragraph (b) of this section. An operator must reassess a covered segment on which a prior assessment is credited as a baseline under § 192.921(e) by no later than December 17, 2009. An operator must

reassess a covered segment on which a baseline assessment is conducted during the baseline period specified in § 192.921(d) by no later than seven years after the baseline assessment of that covered segment unless the evaluation under paragraph (b) of this section indicates earlier reassessment.

Venoco failed to reassess the Union Island pipeline before May 2010 in accordance with its assessment schedule. As the baseline assessment, Venoco credits an assessment by ILI inspection on Union Island pipeline conducted in May 2003 by ConocoPhillips, the previous owner/operator. Originally, the Union Island pipeline was scheduled for a 7 year reassessment interval. However, in a re-evaluation in 2006, the reassessment interval was changed to 5 years because of potential 3rd party damage. As a result, the revised reassessment date was May 2008. Venoco reassessed this pipeline in June 2011, 37 months late.

4. §192.945 What methods must an operator use to measure program effectiveness?

(a) General. An operator must include in its integrity management program methods to measure, on a semi-annual basis, whether the program is effective in assessing and evaluating the integrity of each covered pipeline segment and in protecting the high consequence areas. These measures must include the four overall performance measures specified in ASME/ANSI B31.8S (incorporated by reference, see §192.7), section 9.4, and the specific measures for each identified threat specified in ASME/ANSI B31.8S, Appendix A. An operator must submit the four overall performance measures, by electronic or other means, on a semi-annual frequency to OPS in accordance with §192.951. An operator must submit its first report on overall performance measures by August 31, 2004. Thereafter, the year and must be submitted within 2 months after those dates.

Venoco did not measure, on a semi-annual basis, whether its program is effective in assessing and evaluating the integrity of each covered pipeline segment and in protecting the high consequence areas. Also, Venoco failed to submit the four overall performance measures, by electronic or other means, on a semi-annual frequency to OPS in accordance with §192.951.

Performance measures were prepared and reported to OPS on March 25, 2008, April 21, 2009, and February 18, 2010. No performance measure reports were prepared or reported to OPS for 2010.

Proposed Compliance Order

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

Warning Items

With respect to item 3 and 4, 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 this item. Be advised that failure to do so may result in Venoco, Inc. 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 5-2012-0014** and for each document you submit, please provide a copy in electronic format whenever possible.

Sincerely,

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

Enclosures: *Proposed Compliance Order*
Response Options for Pipeline Operators in Compliance Proceedings

cc: PHP-60 Compliance Registry
PHP-500 Monfared (Activity No: 135289)

PROPOSED COMPLIANCE ORDER

Pursuant to 49 United States Code § 60118, the Pipeline and Hazardous Materials Safety Administration (PHMSA) proposes to issue to Venoco, Inc. a Compliance Order incorporating the following remedial requirements to ensure the compliance of Venoco with the pipeline safety regulations:

1. In regard to Item Number 1 of the Notice pertaining to failing to identify a HCA segment, Venoco must revise its IMP manuals to include Montalvo Sales Gas Line as a pipeline affecting an HCA at the California Mushroom Farm at 4440 Olivas Park Drive, Oxnard, CA.
2. In regard to Item Number 2 of the Notice pertaining to the selection of In-line-Inspection tools, Venoco must follow ASME/ANSI B31.8S, section 6.2 in selecting the appropriate internal inspection tools for the covered segment.
3. Venoco, Inc. shall maintain documentation of the safety improvement costs associated with fulfilling this Compliance Order and submit the total to Chris Hoidal, Director, Western Region, Pipeline and Hazardous Materials Safety Administration. Costs shall 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.