

## NOTICE OF AMENDMENT

### CERTIFIED MAIL - RETURN RECEIPT REQUESTED

January 14, 2019

Jim Musselman  
President and CEO  
Caelus Natural Resources Alaska, LLC  
3700 Centerpoint Drive  
Suite 500  
Anchorage, Alaska 99503

**CPF 5-2019-7001M**

Dear Mr. Musselman:

From April 9 through 13, 2018, a representative of the Pipeline and Hazardous Materials Safety Administration (PHMSA) pursuant to Chapter 601 of 49 United States Code inspected Caelus Natural Resources Alaska, LLC's (Caelus) procedures for pipeline operations, maintenance, corrosion control, and integrity management in Anchorage, Alaska. Currently, the Caelus procedures that we reviewed apply to your Oooguruk 2-inch diesel pipelines.

During the inspection, PHMSA identified apparent inadequacies within Caelus's plans or procedures, as described below:

1. **§ 195.402 Procedural manual for operations, maintenance, and emergencies.**
  - (a) . . . .
  - (c) ***Maintenance and normal operations.*** The manual required by paragraph (a) of this section must include procedures for the following to provide safety during maintenance and normal operations:
    - (3) **Operating, maintaining, and repairing the pipeline system in accordance with each of the requirements of this subpart and subpart H of this part.**

Caelus's Operations and Maintenance Manual (Rev. 2 March 2018) (the “O&M Manual”) lacks written processes for operating and maintaining the diesel pipeline consistent with subparts F and H of 49 C.F.R. Part 195. Specifically, the O&M Manual lacks:

- A procedure for repairing each type of defect, consistent with § 195.401(b), § 195.422, and § 195.585. The O&M Manual incorporates Caelus’s Construction and Repair Manual by reference. However, the repairs discussed in the Construction and Repair manual are specific to repairs during construction (for example, welding repairs) and do not discuss operations and maintenance repairs to the pipeline (for example, repair of corroded pipe).
- A procedure to maintain each valve needed to safely operate the pipeline, consistent with § 195.420(a). The O&M Manual incorrectly states that there are no valves on the pipeline, which is inconsistent with documents provided by Caelus to PHMSA during the inspection. For example, Caelus’s diesel transfer procedures (“OTP-0300-OP-0810REV.06” and “ODS-0300-OP-0810Rev.01”), base oil transfer procedures (“OTP-0300-OP-0910Rev.07” and “ODS-0300-OP-0910Rev.01”) and piping and instrumentation diagrams (P&IDs) all identify valves which are needed to safely operate the pipeline. Caelus must identify valves needed to safely operate the pipeline, and must prepare a written maintenance program for those valves that is adequate to ensure that the valves are kept in good working order at all times.
- A procedure to inspect each mainline valve at intervals not exceeding 7½ months, but at least twice each calendar year, consistent with § 195.420(b). The O&M Manual incorrectly states that there are no valves on the pipeline. However, during the inspection PHMSA observed valves at the upstream and downstream ends of the pipeline. Caelus must identify each mainline valve (for example, isolation block valves on either end of the pipeline) and must establish for those valves a written inspection program consistent § 195.420(b).
- A procedure to inspect and test each pressure limiting device, relief device, pressure regulator, or other item of pressure control, consistent with § 195.428(a). The diesel pipeline uses various types of overpressure protection and pressure control equipment (for example, pressure safety valves and equipment associated with the high-pressure shutdown process for the transfer pumps). The O&M Manual does not include procedures to test and inspect the various overpressure protection and pressure control equipment.
- A procedure for inspecting the internal surface of the pipe for evidence or corrosion whenever pipe is removed from a pipeline, as required by 195.579(c). The O&M Manual incorporates the Caelus Corrosion Control Manual by reference. Neither the O&M Manual nor the Corrosion Control Manual have a process to inspect the internal surface of the removed pipe for evidence of corrosion.

2. § 195.452 Pipeline integrity management in high consequence areas.

(a) . . . .

**(f) *What are the elements of an integrity management program?* An integrity management program begins with the initial framework. An operator must continually change the program to reflect operating experience, conclusions drawn from results of the integrity assessments, and other maintenance and surveillance data, and evaluation of consequences of a failure on the high consequence area. An operator must include, at minimum, each of the following elements in its written integrity management program:**

**(4) Criteria for remedial actions to address integrity issues raised by the assessment methods and information analysis (see paragraph (h) of this section);**

Caelus's written Integrity Management Plan (Rev 0, 10/2017) (the "IMP") lacks written criteria for remedial actions to address integrity issues consistent with § 195.452(h). The IMP states that the diesel pipeline "would remain shut down until an integrity issue is addressed." However, Caelus failed to define in their IMP what is an "integrity issue" which would cause them to shut down the pipeline. The IMP must include a written process explaining how Caelus will "evaluate all anomalous conditions and remediate those that could reduce a pipeline's integrity," as required by § 195.452(h)(1). The IMP must include specific criteria for remedial action, including, at a minimum, the special requirements for scheduling remediation in § 195.452(h)(4).

3. § 195.452 Pipeline integrity management in high consequence areas.

(a) . . . .

**(f) *What are the elements of an integrity management program?* An integrity management program begins with the initial framework. An operator must continually change the program to reflect operating experience, conclusions drawn from results of the integrity assessments, and other maintenance and surveillance data, and evaluation of consequences of a failure on the high consequence area. An operator must include, at minimum, each of the following elements in its written integrity management program:**

**(5) A continual process of assessment and evaluation to maintain a pipeline's integrity (see paragraph (j) of this section);**

Caelus's IMP lacks a process of continual assessment and evaluation to maintain the pipeline's integrity consistent with § 195.452(j). Specifically:

- Caelus failed include a process in their IMP to conduct continuing evaluations of the pipeline's integrity consistent with § 195.452(j)(2). The operator stated that their corrosion control contractor conducts quarterly mechanical integrity evaluations of their facilities and pipelines and prepares a summary report. However, this process has not been incorporated into Caelus's written IMP. The IMP must include a written process for determining how frequently evaluations will be conducted based on risk factors specific to the pipeline (including, at a minimum, the factors specified in § 195.452(e)). The IMP also must describe the contents of the evaluations. At a minimum, the evaluation must

consider the results of the baseline and periodic integrity assessments, information analysis (§ 195.452(g)) and decisions about remediation, and preventive and mitigative actions (§ 195.452(h) and § 195.452(i)).

- The IMP lacks a process to establish an assessment interval based on all factors, consistent with § 195.452(j)(3). The IMP has no process to establish reassessment intervals, based on the risk factors § 195.452(e). The IMP also lacks a process to notify PHMSA for variance from the 5-year maximum integrity assessment interval (for example, engineering basis or unavailable technology), consistent with § 195.452(j)(4) and § 195.452(m).
- The IMP lacks a process to implement the integrity assessments using the allowable methods in § 195.452(j)(5) and in accordance with industry standards consistent with § 195.425(b)(6). The IMP states that “[a] one-hour leak integrity test is performed monthly in lieu of performing a hydrostatic test every 5 years.” This is not one of the allowable assessment methods in § 195.452(j)(5).
- The IMP lacks a process to review the integrity assessment results analysis by a person qualified to evaluate the results consistent with § 195.452(f)(8). The IMP has no process for reviewing integrity assessment results.

#### 4. § 195.505 Qualification program.

**Each operator shall have and follow a written qualification program. The program shall include provisions to:**

**(a) Identify covered tasks;**

Caelus failed to identify all covered tasks consistent with § 195.501(b). In Caelus’s Operator Qualification Manual (Rev. 0 July 2016) and associated Task Analysis Sheets (November 2016), Caelus identified covered tasks associated with maintaining the mainline pipe (for example, “Conduct Close Interval Survey”) but failed to identify tasks associated with operating any equipment, facility, or building used in the transportation of hazardous liquids. For example, starting up and shutting down the pipeline and valve operation and maintenance are not identified as covered tasks.

#### Response to this Notice

This Notice is provided pursuant to 49 U.S.C. § 60108(a) and 49 C.F.R. § 190.206. 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).

Following the receipt of this Notice, you have 30 days to submit written comments, revised procedures, or a request for a hearing under §190.211. 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 an Order Directing Amendment. If your plans or procedures are found inadequate as alleged in this Notice, you may be ordered to amend your plans or procedures to correct the inadequacies (49 C.F.R. § 190.206). If you are not contesting this Notice, we propose that you submit your amended procedures to my office within 90 days of receipt of this Notice. This period may be extended by written request for good cause. Once the inadequacies identified herein have been addressed in your amended procedures, this enforcement action will be closed.

It is requested (not mandated) that Caelus Natural Resources Alaska, LLC maintain documentation of the safety improvement costs associated with fulfilling this Notice of Amendment (preparation/revision of plans, procedures) and submit the total to Chris Hoidal, Acting Director, Western Region, Pipeline and Hazardous Materials Safety Administration. In correspondence concerning this matter, please refer to **CPF 5-2019-7001M** and, for each document you submit, please provide a copy in electronic format whenever possible.

Sincerely,

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

cc: PHP-60 Compliance Registry  
PHP-500 J. Gano (#158101)

Enclosure: *Response Options for Pipeline Operators in Compliance Proceedings*