

July 23, 2019

Mr. Jim Musselman
President and Chief Executive Officer
Caelus Natural Resources Alaska, LLC
3700 Centerpoint Drive, Suite 500
Anchorage, Alaska 99503

Re: CPF No. 5-2019-7002

Dear Mr. Musselman:

Enclosed please find the Final Order issued in the above-referenced case. It makes findings of violation and specifies actions that need to be taken by Caelus Natural Resources Alaska, LLC, to comply with the pipeline safety regulations. When the terms of the compliance order have been completed, as determined by the Director, Western Region, this enforcement action will be closed. Service of the Final Order by certified mail is effective upon the date of mailing, as provided under 49 C.F.R. § 190.5.

Thank you for your cooperation in this matter.

Sincerely,

Alan K. Mayberry
Associate Administrator
for Pipeline Safety

Enclosure

cc: Mr. Dustin Hubbard, Director, Western Region, Office of Pipeline Safety, PHMSA
Ms. Erin D. Renfro, Operations Engineering Supervisor, Caelus Natural Resources
Alaska, LLC

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

**U.S. DEPARTMENT OF TRANSPORTATION
PIPELINE AND HAZARDOUS MATERIALS SAFETY ADMINISTRATION
OFFICE OF PIPELINE SAFETY
WASHINGTON, D.C. 20590**

In the Matter of)	
)	
Caelus Natural Resources Alaska, LLC,)	CPF No. 5-2019-7002
)	
Respondent.)	
)	

FINAL ORDER

From April 9 through April 20, 2018, pursuant to 49 U.S.C. § 60117, representatives of the Pipeline and Hazardous Materials Safety Administration (PHMSA), Office of Pipeline Safety (OPS), conducted an on-site pipeline safety inspection of the facilities and records of Caelus Natural Resources Alaska, LLC's (Caelus or Respondent) 2-inch diesel and base oil pipeline (the "diesel pipeline") that services the Oooguruk oil field located on the Alaska North Slope. The associated pipeline operations and maintenance procedures and records were reviewed in Anchorage, Alaska.

As a result of the inspection, the Director, Western Region, OPS (Director), issued to Respondent, by letter dated January 21, 2019, a Notice of Probable Violation and Proposed Compliance Order (Notice), which also included warnings pursuant to 49 C.F.R. § 190.205. In accordance with 49 C.F.R. § 190.207, the Notice proposed finding that Caelus had committed eight violations of 49 C.F.R. Part 195 and proposed ordering Respondent to take certain measures to correct the alleged violations. The warning items required no further action, but warned Caelus to correct the probable violations or face possible future enforcement action.

Caelus responded to the Notice by letter dated February 20, 2019 (Response). The company did not contest the allegations of violation and agreed to complete the proposed compliance actions. Respondent requested additional time to submit one element of a proposed compliance action. Respondent did not request a hearing and therefore has waived its right to one.

FINDINGS OF VIOLATION

In its Response, Caelus did not contest the allegations in the Notice that it violated 49 C.F.R. Part 195, as follows:

Item 1: The Notice alleged that Respondent violated 49 C.F.R. § 195.260(e), which states:

§ 195.260 Valves: Location.

A valve must be installed at each of the following locations:

- (a)
- (e) On each side of a water crossing that is more than 100 feet (30 meters) wide from high-water mark to high-water mark unless the Administrator finds in a particular case that valves are not justified.

The Notice alleged that Respondent violated 49 C.F.R. § 195.260(e) by failing to install a valve on each side of a water crossing greater than 100 feet wide. Specifically, the Notice alleged that the underwater portion of the diesel pipeline that traverses the Beaufort Sea between the mainland and an offshore artificial drilling island is approximately 5.7 miles. Although there are shutoff valves located at the artificial drilling island side of the water crossing, the pipeline does not have the required shutoff valve at the mainland side of the water crossing. The nearest valve to the mainland side of the water crossing is at the pumping and pigging module at the upstream end of the diesel pipeline, which is approximately 2.3 miles from the water.

Respondent did not contest this allegation of violation. Accordingly, based upon a review of all of the evidence, I find that Respondent violated 49 C.F.R. § 195.260(e) by failing to install a valve on each side of a water crossing greater than 100 feet wide.

Item 7: The Notice alleged that Respondent violated 49 C.F.R. § 195.452(j)(1), which states:

§ 195.452 Pipeline integrity management in high consequence areas.

- (a)
- (j) *What is a continual process of evaluation and assessment to maintain a pipeline's integrity?*
 - (1) *General.* After completing the baseline integrity assessment, an operator must continue to assess the line pipe at specified intervals and periodically evaluate the integrity of each pipeline segment that could affect a high consequence area.

The Notice alleged that Respondent violated 49 C.F.R. § 195.452(j)(1) by failing to continue to assess its line pipe at specified intervals and periodically evaluate the integrity of each pipeline segment that could affect a high consequence area after completing the baseline integrity assessment. Specifically, the Notice alleged that the diesel pipeline's baseline assessment was conducted in 2007, and that Caelus had not completed an integrity reassessment of the line pipe since that time. Under 49 C.F.R. § 195.452(j)(3), the assessment interval must not exceed 5 years or 68 months. Caelus was also utilizing a leak detection test that was not an allowable integrity assessment method.

Respondent did not contest this allegation of violation. Accordingly, based upon a review of all of the evidence, I find that Respondent violated 49 C.F.R. § 195.452(j)(1) by failing to continue to assess the line pipe at specified intervals and periodically evaluate the integrity of each pipeline segment that could affect a high consequence area after completing the baseline integrity assessment.

These findings of violation will be considered prior offenses in any subsequent enforcement action taken against Respondent.

WARNING ITEMS

With respect to Items 2, 3, 4, 5, 6, and 8, the Notice alleged probable violations of Part 195 but did not propose a civil penalty or compliance order for these items. Therefore, these are considered to be warning items. The warnings were for:

49 C.F.R. § 195.412(a) **(Item 2)** — Respondent's alleged failure to inspect the surface conditions on or adjacent to the diesel pipeline at intervals not exceeding 3 weeks, but at least 26 times each calendar year;

49 C.F.R. § 195.428(a) **(Item 3)** — Respondent's alleged failure to test each overpressure safety device on the diesel pipeline at least once each calendar year, with intervals not to exceed 15 months;

49 C.F.R. § 195.440(c) **(Item 4)** — Respondent's alleged failure to review its Public Awareness Plan on an annual basis consistent with API RP 1162;

49 C.F.R. § 195.452(b)(1) **(Item 5)** — Respondent's alleged failure to develop a written integrity management program that addresses the risks on each segment of pipeline within one year after the date the pipeline began operation;

49 C.F.R. § 195.452(b)(2) **(Item 6)** — Respondent's alleged failure to identify each pipeline or pipeline segment covered by § 195.452 within the required timeframe; and

49 C.F.R. § 195.483(a) **(Item 8)** — Respondent's alleged failure to conduct atmospheric corrosion inspections on the diesel pipeline at the required inspection intervals.

Caelus presented information in its Response showing that it will take certain actions to address the cited items. If OPS finds a violation of any of these items in a subsequent inspection, Respondent may be subject to future enforcement action.

COMPLIANCE ORDER

The Notice proposed a compliance order with respect to Items 1 and 7 in the Notice for violations of 49 C.F.R. §§ 195.260(e) and 195.452(j)(1), respectively. Under 49 U.S.C. § 60118(a), each person who engages in the transportation of hazardous liquids or who owns or operates a pipeline facility is required to comply with the applicable safety standards established under chapter 601. Pursuant to the authority of 49 U.S.C. § 60118(b) and 49 C.F.R. § 190.217, Respondent is ordered to take the following actions to ensure compliance with the pipeline safety

regulations applicable to its operations:

1. With respect to the violation of § 195.260(e) (**Item 1**), Respondent must install a shutdown valve on the main land side of the Beaufort Sea water crossing. The location of the valve must be as near as practicable to the shore. The valve selected must comply with § 195.116 and be consistent with Caelus's Excess Flow Restricting Device study required by § 195.452(i). Caelus must install the valve within 180 days after the receipt of the Final Order, and must provide documentation that this has been completed to the Director within 30 days of the installation.
2. With respect to the violation of § 195.452(j)(1) (**Item 7**), Respondent must:
 - a. Prepare a written plan for conducting an integrity assessment consistent with § 195.452(i)(1). If a pressure test is the selected assessment method, the written plan must be consistent with Subpart E of 49 C.F.R. Part 195. Caelus must submit its written integrity assessment plan to the Director within 90 days after the receipt of the Final Order.
 - b. Implement an integrity assessment in accordance with Item 2(a). Caelus must complete the integrity assessment under Item 2(b), and submit the results of the integrity assessment to the Director within one year of the receipt of the Final Order.

The Director may grant an extension of time to comply with any of the required items upon a written request timely submitted by the Respondent and demonstrating good cause for an extension.

It is requested (not mandated) that Respondent maintain documentation of the safety improvement costs associated with fulfilling this Compliance Order and submit the total to the Director. It is requested that these costs 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.

Failure to comply with this Order may result in the administrative assessment of civil penalties not to exceed \$200,000, as adjusted for inflation (49 C.F.R. § 190.223), for each violation for each day the violation continues or in referral to the Attorney General for appropriate relief in a district court of the United States.

Under 49 C.F.R. § 190.243, Respondent may submit a Petition for Reconsideration of this Final Order to the Associate Administrator, Office of Pipeline Safety, PHMSA, 1200 New Jersey Avenue, SE, East Building, 2nd Floor, Washington, DC 20590, with a copy sent to the Office of Chief Counsel, PHMSA, at the same address, no later than 20 days after receipt of service of this Final Order by Respondent. Any petition submitted must contain a statement of the issue(s) and meet all other requirements of 49 C.F.R. § 190.243. The terms of the order, including corrective action, remain in effect unless the Associate Administrator, upon request, grants a stay.

The terms and conditions of this Final Order are effective upon service in accordance with 49 C.F.R. § 190.5.

July 23, 2019

Alan K. Mayberry
Associate Administrator
for Pipeline Safety

Date Issued