GKB 2/3/17

EASTERN SHORE
NATURAL GAS

February 2, 2017

Mr. Robert Burrough, Acting Director
Pipeline and Hazardous Materials Safety Administration - Eastern Region
820 Bear Tavern Road, Suite 103
West Trenton, NJ 08628

Re: **CPF 1-2017-1002** (Notice of Probable Violation and Proposed Civil Penalty)
Response of Eastern Shore Natural Gas Company Declining to Contest NOPV and Offering Explanations and Information in Mitigation of the Proposed Civil Penalty

Dear Mr. Burrough:

On January 17, 2017, you issued a Notice of Probable Violation (NOPV) and Proposed Civil Penalty to Eastern Shore Natural Gas Company (Eastern Shore) in regard to an alleged probable violation found and documented by PHMSA Staff as a result of inspections of Eastern Shore's natural gas transmission system during the weeks of December 1, 2014 and December 19, 2014.

In your letter, the following item was inspected and an alleged probable violation was noted:

1. Valve Maintenance – Transmission lines (49 CFR §192.745): That Eastern Shore failed to partially operate each transmission line valve that might be required during an emergency at intervals not exceeding 15 months, but at least once each calendar year in accordance with the requirements of 49 CFR §192.745. That Eastern Shore failed to operate three (3) valves in seven (7) instances that might be used in an emergency over the time period 2012, 2013, and 2014. PHMSA has proposed a civil penalty of $37,300 for this alleged violation.

In response to the Notice of Probable Violation, Eastern Shore has elected not to contest the alleged violation contained in the Notice but to offer certain supplemental explanation, information, and other materials which we believe may warrant mitigation of the Proposed Civil Penalty. We respectfully offer this further explanation for your consideration.

In regard to Item Number 1:

Eastern Shore, a subsidiary of Chesapeake Utilities Corporation headquartered in Dover, Delaware, has been transporting natural gas on the Delmarva Peninsula since 1959. Eastern Shore serves 6 Local Distribution Companies (LDCs), approximately 12 commercial/industrial customers, and 4 electric generation customers in the states of Delaware, Maryland and Pennsylvania. Eastern Shore currently owns and operates approximately 448 miles of pipeline and 3 compressor stations with a combined total of 12,420 horsepower. The current peak day maximum daily transportation quantity is just over 235,000 dekatherms.

Eastern Shore has maintained a respectable PHMSA compliance and safety record in the fifty-eight (58) year operating history of the pipeline. We are proud of our strong track record of being a good neighbor

EASTERN SHORE NATURAL GAS

to the communities we serve and for being a dependable company with a passionate commitment to safety. As just one example from our proud list of accomplishments, Eastern Shore has been nationally recognized by the American Gas Association for our safe practices. Since its inception, Eastern Shore has strived to operate and maintain its pipeline facilities in accordance with the highest applicable industry and regulatory standards.

In order to provide a more complete record of the actions that Eastern Shore has already taken to address and mitigate the alleged violation, Eastern Shore offers the following:

PHMSA Staff conducted an inspection of Eastern Shore's natural gas transmission system during the weeks of December 1, 2014 and December 19, 2014. During the inspection, PHMSA Staff identified three (3) valves that had been reported as inoperable on more than one occasion over the time period 2012, 2013, and 2014. These valves were identified as Valve P140, Valve P290, and Valve C050.

Eastern Shore provided additional information in an email to PHSMA dated January 7, 2015, of which an excerpt is included below:

> "ESNG response and explanation regarding valve inspections: We have inspected and attempted operation of the mainline block valves identified as P290, C050 and P140 each year. As mainline block valves, our procedures state that they are critical valves and must be inspected and operated each year. However, Eastern Shore has identified alternate block valves (upstream and downstream) that can be used in the event the pipeline must be isolated or shut down. These alternate valves are fully operational and can be used until valve repairs can be completed.
>
> Based on our records, we inspected but were not able to operate P290 and C050 in 2013 and 2014. P140 was inspected but not able to operate for 2012, 2013 and 2014. Eastern Shore recently developed a maintenance tracking system so that valve maintenance, for example, can be more effectively tracked. Eastern Shore is currently planning to perform maintenance in Spring 2015 so that these valves can be operated on a timely basis to be in compliance. I have updated and attached the repair work orders as documentation of the planned work, as well as indicating the assignment of alternate valves.
>
> P140 - 6" Walker Road Block Valve: The nearest upstream valve is P130 which is 4.7 miles away. The nearest downstream valve is P150 which is 1.3 miles away. The total distance between valves P130 and P140 is about 6 miles. Both P130 and P150 are fully operable and are designated alternates for P140, until repaired or redesignated as non-critical. Further, the highest Class Location identified on the ESNG system in this area does not exceed Class 3. Class 3 block valve spacing (192.179) allows up to 8 miles between mainline block valves.
>
> P290 - 6" Route 50 North Block Valve: The nearest upstream valve is P280 which is 2.4 miles away. The nearest downstream valve is P300 which is 0.02 miles away. The total distance between valves P280 and P300 is about 2.4 miles. Both P280 and 300 are fully operable and are designated alternates for P290, until repaired or redesignated as non-critical. Further, the

EASTERN SHORE NATURAL GAS

highest Class Location identified on the ESNG system in this area does not exceed Class 3. Class 3 block valve spacing (192.179) allows up to 8 miles between mainline block valves.

C050 - 6" Federalsburg West Block Valve: The nearest upstream valve is C040 which is 2.7 miles away. The nearest downstream valve is C060 which is 4.7 miles away. The total distance between valves C040 and C060 is about 7.4 miles. Both C040 and C050 are fully operable and are designated alternates for C050, until repaired or redesignated as non-critical. Further, the highest Class Location identified on the ESNG system in this area does not exceed Class 3. Class 3 block valve spacing (192.179) allows up to 8 miles between mainline block valves."

As noted in this email response at that time, Eastern Shore had identified alternate valves that would be suitable for operation in the event of an emergency. The inoperable block valves were therefore no longer "critical valves"; *i.e.*, valves that "might be required during any emergency" under 192.745. Eastern Shore's procedures, at the time of the inspection, were unclear as to the criteria and process for designating critical valves, or alternate valves. The procedural deficiencies noted at the time made it impossible to clearly demonstrate that suitable alternative valves were present on the system. Therefore, even though the valves in question had reasonable alternate valves in place, Eastern Shore's staff could not defend this position from a procedural context. *Eastern Shore is responding separately to such procedural deficiencies as noted in PHMSA's Notice of Amendment dated January 6, 2017.*

Eastern Shore provided additional information in an email to PHSMA dated March 4, 2015, of which an excerpt is included below:

"Update: We completed the last block valve repair (P290 Block Valve - Salisbury) this afternoon. So all three valves noted from your Dec 2014 inspection have now been maintained and operated successfully.

C-050 Federalsburg - Completed repair 2-11-15. Valve located in a vault. Company personnel injected flush and lubricant. Able to turn and operate the valve.

P-240 Walker Road/Dover - Completed repair 2-12-15. Buried valve and bypass assembly. Contractor excavated to top of valve assembly. Company personnel injected flush and lubricant. Able to turn and operate valve.

P-290 Rt 50 Salisbury - Completed repair 3-4-15. Buried valve. Company personnel injected flush and lubricant. Able to turn and operate the valve."

As noted in this email response at that time, Eastern Shore's efforts to improve maintenance tracking resulted in all three (3) valves being repaired and made suitable for operation in the event of an emergency within ninety (90) days. Eastern Shore's prompt remedial action is in keeping with our strong commitment to high standards in safety and regulatory compliance. In addition, Eastern Shore's updated procedures now include provisions that require prompt remedial action within twelve (12)

EASTERN SHORE
NATURAL GAS

months to repair and make operable all critical valves found to be inoperable during their annual inspections, or to formally designate suitable alternative valves. *Eastern Shore is responding separately to such procedural deficiencies as noted in PHMSA's Notice of Amendment dated January 6, 2017.*

Eastern Shore respectfully submits that given the narrow scope of the alleged violation PHMSA has identified during the December 2014 inspection, the corrective actions the company took immediately to repair the valves, the passage of time with no further issues, the absence of any effect on the system or services provided, and that the underlying procedural deficiency that made it impossible for Eastern Shore to demonstrate that suitable alternate valves were present on the system, it would be appropriate for PHMSA to eliminate the proposed civil penalty.

While Eastern Shore acknowledges that critical valve maintenance and inspection is a serious matter, it notes that it has always conducted the necessary annual inspections, that it has attempted in good faith to comply with the relevant valve operations requirements, and that its procedures for valve maintenance and inspection require update. There was no incident, abnormal operation, or impact to the community as a result of the three (3) inoperable valves. The company did not gain financially from the alleged deficiency. As a review of PHMSA's "Enforcement Information for Specific Operators" web page[1] confirms, during the period from 2002 to 2016, Eastern Shore has had no Corrective Action Orders, a single (1) Notice of Probable Violation and only two (2) Notices of Amendment cases closed during the previous 15 years. Eastern Shore has and continues to hold safety and compliance as top organizational priorities.

The Company has taken proactive steps to remedy the alleged deficiency related to valve operation, and reaffirms its commitment to full compliance with PHMSA regulatory requirements. For these reasons, and having regard for the assessment factors set forth in 49 CFR §190.225, Eastern Shore asks that PHMSA consider eliminating the Proposed Civil Penalty. If you have any questions or would like to discuss our responses further, please contact me at any time. Thank you.

Sincerely,
Eastern Shore Natural Gas Company

Eric M. Pearson
Senior Manager, Operations Compliance & Engineering

[1] http://phmsa.dot.gov/pipeline/enforcement