WARNING LETTER

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

August 17, 2010

Jeryl Mohn
Sr. Vice President, Operations and Engineering
Panhandle Energy
5444 Westheimer Road
Houston, Texas 77056-5306

CPF 2-2010-1008W

Dear Mr. Mohn:

On April 12-16 and April 26-30, 2010, representatives of the Pipeline and Hazardous Materials Safety Administration (PHMSA) inspected Panhandle Energy's Gas Integrity Management Program (IMP) in Houston, Texas. On June 16, 2010, a PHMSA representative inspected pipeline facilities belonging to Panhandle Energy's subsidiary Trunkline Gas Company, LLC (Trunkline) in Victoria County, Texas. Both inspections were conducted pursuant to Chapter 601 of 49 United States Code.

As a result of the inspections, 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?
(c) Newly identified areas. When an operator has information that the area around a pipeline segment not previously identified as a high consequence area (HCA) could satisfy any of the definitions in § 192.903, the operator must complete the evaluation using method (1) or (2). If the segment is determined to meet the definition as a high consequence area, it must be incorporated into the operator's baseline assessment plan as a high consequence area within one year from the date the area is identified.

Panhandle Energy's subsidiary Trunkline failed to incorporate a new high consequence area (HCA) into its baseline assessment program within one year from the date the area was identified. A Best Western hotel was opened in 2006 along Trunkline's Beeville Discharge

Pipeline in Victoria County, Texas. This hotel required Trunkline to evaluate the area using either method (1) or (2) [see §192.903] to determine if the area met the definition of an HCA. Trunkline's HCA map (T-0410-Beeville-100 Line-19g-3762, dated 6/15/2010) shows that the new HCA was added in April 2009; more than two years past the required time limit.

2. §192.917 How does an operator identify potential threats to pipeline integrity and use the threat identification in its integrity program?

(a)Threat identification. An operator must identify and evaluate all potential threats to each covered pipeline segment. Potential threats that an operator must consider include, but are not limited to, the threats listed in ASME/ANSI B31.8S (incorporated by reference, see §192.7), section 2, which are grouped under the following four categories:

(1) Time dependent threats such as internal corrosion, external corrosion, and stress corrosion cracking;

(2) Static or resident threats, such as fabrication or construction defects;

(3) Time independent threats such as third party damage and outside force damage; and

(4) Human error.

Panhandle Energy's threat susceptibility algorithms failed to appropriately determine the susceptibility of its pipeline systems to manufacturing and construction related threats. Pipeline segments with manufacturing-related defects, weather-related damage and outside force damage were not assigned threat values in the risk analysis and were shown as no risk to pipeline integrity. This was confirmed at the time of the inspection by reviewing the Panhandle Energy Spreadsheet – *SUG: Threat Susceptibility for all Active HCAs.*

3. §192.933 What actions must be taken to address integrity issues?

(b) Discovery of condition. Discovery of a condition occurs when an operator has adequate information about a condition to determine that the condition presents a potential threat to the integrity of the pipeline. A condition that presents a potential threat includes, but is not limited to, those conditions that require remediation or monitoring listed under paragraphs (d)(1) through (d)(3) of this section. An operator must promptly, but no later than 180 days after conducting an integrity assessment, obtain sufficient information about a condition to make that determination, unless the operator demonstrates that the 180-day period is impracticable.

Panhandle Energy's IMP failed to properly define "discovery of a condition" [i.e. when an operator has obtained adequate information to identify a potential threat to the integrity of the pipeline] and failed to establish a timeframe and process for the prompt consideration of potential immediate repair conditions. Instead, Panhandle Energy's IMP defines discovery of a condition as the acceptance of vendor in-line inspection (ILI) data without consideration of establishing a timeframe and process for the prompt consideration immediate repair conditions.

4. §192.933 What actions must be taken to address integrity issues?

(d) Special requirements for scheduling remediation.-

(1) Immediate repair conditions. An operator's evaluation and remediation schedule must follow ASME/ANSI B31.8S, section 7 in providing for immediate repair conditions. To maintain safety, an operator must temporarily reduce operating pressure in accordance with paragraph (a) of this section or shut down the pipeline until the operator completes the repair of these conditions. An operator must treat the following conditions as immediate repair conditions:
(i) A calculation of the remaining strength of the pipe shows a predicted failure pressure less than or equal to 1.1 times the maximum allowable operating pressure at the location of the anomaly. Suitable remaining strength calculation methods include, ASME/ANSI B31G; RSTRENG; or an alternative equivalent method of remaining strength calculation. These documents are incorporated by reference and available at the addresses listed in appendix A to part 192.
(ii) A dent that has any indication of metal loss, cracking or a stress riser.
(iii) An indication or anomaly that in the judgment of the person designated by the operator to evaluate the assessment results requires immediate action.

Panhandle Energy's IMP did not require the examination of immediate repair conditions (in addition to pressure reductions) within 5 days of discovery as required by ASME B31.8S-2004, Section 7.2.1 (incorporated by reference). Panhandle Energy's IMP did not include or require a justification as to why examination cannot be completed within the 5 days nor does it explain how equivalent safety is assured. Refer to Panhandle Energy's Position Paper E.1.a dated 3/24/2010, *Program Requirements for Discovery, Evaluation and Remediation Scheduling*.

5. §192.911 What are the elements of an integrity management program?
(k) A management of change process as outlined in ASME/ANSI B31.8S, section 11.

Panhandle Energy's IMP Management of Change (MOC) process failed to provide for the review and analysis of the implications of pipeline or system changes to the IMP prior to implementation. This allowed Panhandle Energy's subsidiary Florida Gas Transmission Company (FGT) to install Supervisory Control and Data Acquisition (SCDA) system instrumentation on its pipeline system without an MOC analysis of IMP implications. Additionally, FGT replaced an 18-inch pipeline and a 24-inch pipeline in Valve Section 21-7 with a 36-inch diameter pipeline without an MOC review and analysis to determine the implications on the integrity of the pipeline systems, if any.

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 violations. 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 Panhandle Energy and Trunkline Gas Company 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 2-2010-1008W.** 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,

Wayne T. Lemoi
Director, Office of Pipeline Safety
PHMSA Southern Region