NOTICE OF PROBABLE VIOLATION
PROPOSED CIVIL PENALTY
and
PROPOSED COMPLIANCE ORDER

CERTIFIED MAIL – RETURN RECEIPT REQUESTED

September 21, 2011

Mr. Pete M. Kirsch
Division Sr. VP Pipeline Ops & Engr.
Southeast Supply Header, L.L.C.
1111 Louisiana
Houston, TX 77002

CPF 2-2011-1007

Dear Mr. Kirsch:

On February 6, 2007, pursuant to 49 U.S.C. §60118(c), the Southeast Supply Header, LLC (SESH) filed a request with the Pipeline and Hazardous Materials Safety Administration (PHMSA), Office of Pipeline, to waive certain provisions in 49 CFR §§ 192.111, 192.201 and 192.619. Subsequent to this waiver request, PHMSA changed the name of a waiver to a "special permit" and promulgated a new regulation governing special permits.[1]

PHMSA issues special permits to pipeline operators if the agency determines that a waiver of a particular regulation or standard is not inconsistent with pipeline safety. On July 17, 2008, PHMSA issued an order granting SESH a special permit with certain conditions and limitations (Order).[2] Subsequent to the grant of the special permit, a representative of the PHMSA Southern Region, Office of Pipeline Safety, pursuant to Chapter 601 of 49 United States Code, initiated inspections and investigations to determine SESH's compliance with the Order. The representative inspected SESH's records and procedures in Shreveport, LA, from May 3-7, 2010, and inspected SESH's pipeline facilities from Delhi, LA, to Coden, AL, from August 2-5, 2010.

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[1] PHMSA promulgated the federal pipeline safety regulation *49 CFR §190.341 Special permits* on March 28, 2008. The regulation became effective April 28, 2008.

[2] See Docket # PHMSA-2007-27607 in the Federal Docket Management System (FDMS) located on the internet at Regulations.gov.

As a result of the investigations and inspections, it appears that SESH has committed probable violations of the Order. As stated in 49 CFR §190.203(f), when information obtained from an inspection indicates that further OPS action is warranted, OPS may initiate one or more enforcement proceedings prescribed in §§ 190.207 through 190.235.

The items inspected and the probable violations are:

1. **Condition 13**
   Temperature Control: The compressor station discharge temperature must be limited to 120° Fahrenheit. A temperature above this maximum temperature of 120° Fahrenheit may be approved if SESH technical coating operating tests show that the pipe coating will properly withstand the higher operating temperature for long term operations. If the temperature exceeds 120° Fahrenheit SESH must also institute a coating monitoring program in these areas using ongoing Direct Current Voltage Gradient (DCVG) surveys or Alternating Current Voltage Gradient (ACVG) surveys or other testing to demonstrate the integrity of the coating. This program and results must be provided to the regional offices of PHMSA where the pipe is in service.

   SESH failed to comply with Special Permit Condition 13 as set forth in the Special Permit Order of July 17, 2008, because SESH did not limit compressor station discharge temperatures to 120°F or less at five compressor stations. That is, the temperatures of the discharged natural gas at the Delhi, Gwinville, Collins, Petal, and Lucedale compressor stations exceeded 120°F on various occasions between the date the pipeline began operating under the Special Permit (November 8, 2008) and March 31, 2010.

   Also, while SESH provided PHMSA with coating disbondment laboratory test data from the pipe manufacturers, SESH did not provide technical coating operating test data to show that the pipe coating will properly withstand the higher operating temperature for long term operations. Moreover, SESH did not provide to the regional offices where the pipe is in service a coating monitoring program or the results from such a program using ongoing Direct Current Voltage Gradient (DCVG) surveys or Alternating Current Voltage Gradient (ACVG) surveys or other testing to demonstrate the integrity of the coating in those areas where the compressor station discharge temperature exceeded 120° F.

   The temperature data SESH provided the PHMSA inspector for the Delhi, Gwinville, Collins, Petal, and Lucedale compressor stations indicated temperatures exceeding 120°F at the following locations:

   - Delhi Compressor Station: The data provided was identified as *Discharge Temp High* for (ea) *Delhi Unit 1* and *Delhi Unit 2*.
   - Gwinville Compressor Station: The data provided was identified as *Gwinville Unit 1 Discharge Temp High.*
   - Collins Booster Station: The data provided was identified as *Discharge Temp High* for (ea) *Collins Unit 1* and *Collins Unit 2.*
   - Petal Booster Station: The data provided was identified as *Petal Unit 1 Discharge Temp High.*

- Lucedale Compressor Station: The data provided was identified as Lucedale *Unit 1 Discharge Temp High.*

2. **Condition 36**
   Pipeline Markers: SESH must employ line-of-sight markings on the pipeline in the *special permit area* except in agricultural areas or large water crossings such as lakes where line-of-sight markers are not practical. The marking of pipelines is also subject to Federal Energy Regulatory Commission orders or environmental permits and local restrictions.

   SESH failed to comply with Special Permit Condition 36 as set forth in the Special Permit Order of July 17, 2008, because SESH did not employ line-of-sight markings on the pipeline in the *special permit area*[3]. The PHMSA inspector could not see pipeline markers on August 5, 2010, looking downstream along Line 100 from the Hi-Fields tap location at station 13408+54 to the fence-line at station 13417+14. Vegetation obstructed the view of the line marker at the fence-line. While there was an agricultural field between these markers, the agricultural exception in Condition 36 did not apply because the fence-line and adjacent road were at the edge of the field - not in the agricultural field itself.

3. **Condition 43**
   Anomaly Evaluation and Repair: Anomaly evaluations and repairs in the *special permit area*, regardless of HCA status, must be performed based upon the following:
   . . . d) Anomaly Assessment Methods
   . . . Dents in the pipe in the *special permit area* must be evaluated and repaired per 49 CFR § 192.309(b) for the baseline geometry tool run and per 49 CFR § 192.933(d) for future ILI. Pipe must be evaluated for out-of-roundness on the baseline geometry tool run and all indications in the pipeline above 6% out-of-roundness must be remediated.

   SESH failed to comply with Special Permit Condition 43 as set forth in the Special Permit Order of July 17, 2008, because SESH did not adequately evaluate and repair a dent in the Line 100 pipe per §192.309(b) that was discovered with a baseline geometry tool run.

   SESH ran a baseline geometry in-line inspection (ILI) tool on Line 100 and received a final report from the ILI vendor dated August 21, 2008. The ILI final report showed a 5.3% dent (Feature No. 218) that SESH did not evaluate and repair. Condition 43 required SESH to evaluate and repair a dent that exceeded "*more than 2% of the nominal pipe diameter*" per §192.309(b)(3)(ii).

   In April 2010 (20 months later), SESH discovered and removed a "buckle" at this same location during an unrelated excavation. This unplanned discovery and removal of the buckle (and thus the 5.3% dent) did not meet the intent of Condition 43 because it allowed the dent to remain in this Special Permit pipeline from about August 2008

[3] The *"special permit area"* means the area consisting of the entire pipeline right-of-way for those segments of the pipeline that will operate above 72% SMYS in Class 1 locations (see page 2 of the Special Permit).

until April 2010. This pipeline was approved to operate above 72% of the specified minimum yield strength (SMYS) in Class 1 locations and began operating under this approval on November 8, 2008.

SESH also did not adequately evaluate the data from the baseline geometry ILI tool run on Line 100 for indications of out-of-roundness. In May 2010 (21 months after the final ILI report), SESH received another report from its contract auditor that stated that Features No. 127 and 134 (as shown in the ILI vendor's August 3, 2008, final report) exceeded 6% out-of-roundness: 6.17% and 6.98%, respectively. While SESH subsequently excavated and assessed the pipe at these locations and determined that no further action was required, this did not meet the intent of Condition 43 because it allowed the out-of-roundness features to remain in this Special Permit pipeline that was approved to operate above 72% of SMYS in Class 1 locations from about November 2008 until October 2010.

Proposed Civil Penalty

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. The Compliance Officer has reviewed the circumstances and supporting documentation involved in the above probable violations and has recommended that you be preliminarily assessed a civil penalty of $26,800 as follows:

Item number	PENALTY
1	$13,700
3	$13,100

Warning Items

With respect to item 2 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 Southeast Supply Header, L.L.C. being subject to a show cause letter modifying, revoking, or suspending the Order issued under Docket # PHMSA-2007-27607.

Proposed Compliance Order

With respect to item 1 pursuant to 49 United States Code § 60118(b), the Pipeline and Hazardous Materials Safety Administration proposes to issue a Compliance Order to Southeast Supply Header, L.L.C. Please refer to the *Proposed Compliance Order,* which is enclosed and made a part of this Notice.

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 2-2011-1007** and for each document you submit, please provide a copy in electronic format whenever possible.

Right to Modify, Suspend, or Revoke a Special Permit

Issuance of this enforcement action does not preclude PHMSA's authority to seek modification, suspension or revocation of the special permit issued under Docket # PHMSA-2007-27607 at any time, as provided in 49 C.F.R. § 190.341(h)(1)(v). If such action is taken, PHMSA will provide Southeast Supply Header, L.L.C. with the opportunity to show cause why the proposed action should not be taken.

Sincerely,

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

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

PROPOSED COMPLIANCE ORDER

Pursuant to 49 United States Code § 60118, the Pipeline and Hazardous Materials Safety Administration (PHMSA) proposes to issue to the Southeast Supply Header, L.L.C. (SESH) a Compliance Order incorporating the following remedial requirements to ensure SESH complies with the Special Permit Order issued on July 17, 2008.

1. In regard to Item Number 1 of the Notice pertaining to the failure of SESH to limit the compressor station discharge temperatures to 120°F at the Delhi, Gwinville, Collins, Petal, and Lucedale compressor stations, SESH must

    a. modify its compressor station operations, procedures, and/or facilities to ensure that the discharge temperature at each of the five compressor stations on Line 100 does not exceed 120°F as required by Special Permit Condition # 13

    OR

    b. notify the Director, Office of Pipeline Safety, PHMSA Southern Region in writing of its intent to operate Line 100 at discharge temperatures above 120°F. To do so, SESH must provide PHMSA with technical coating operating tests to show that the pipe coating can properly withstand the higher operating temperatures for long term operations and SESH must institute and provide to PHMSA a coating monitoring program as described in Special Permit Condition # 13.

    SESH must complete either Item 1a) or 1b) above within 60 days of receipt of the Final Order or PHMSA may issue a show cause letter modifying, revoking, or suspending the Order issued under PHMSA-2007-27607.

2. In regard to Item Number 1 of the Notice pertaining to the failure of SESH to limit the compressor station discharge temperatures to 120°F at five compressor stations, and notwithstanding Compliance Order Item 1 above, SESH must develop and implement a coating assessment program downstream of the five compressor stations on Line 100 to ensure the coating has not been damaged or compromised. This assessment must be completed using

    - Direct Current Voltage Gradient (DCVG) surveys,
    - Alternating Current Voltage Gradient (ACVG) surveys; or,
    - other testing to demonstrate the integrity of the coating.

    In the coating assessment program, SESH must address

    a. The coating on the pipe at least 5 miles downstream of each of the five compressor stations or to a point on each pipeline where the actual or predicted temperature consistently dropped below 120°F, whichever is further downstream.
    b. A technical analyses to determine or predict the highest temperature that Line 100 experienced, or was projected to experience, immediately downstream of each of the five compressor stations, and to determine a point on each pipeline where the actual or predicted temperature consistently dropped below 120°F.
    c. Technical coating operating tests to show the pipe coating could properly withstand the operating temperatures determined or predicted.
    d. If using DCVG and/or ACVG, define threshold survey indication values (% IR for

DCVG and dBμV for ACVG). The values should represent the mid-range of the "Moderate" category in the severity classification used to characterize survey indications.

e. Excavation and remediation of all indications found above the threshold values.
f. A calibration dig on at least one anomaly classified as "Minor" to ensure findings that are not all indications found above the threshold values in the remediation plan are not detrimental to the pipeline.
g. Perform holiday voltage tests (jeep) and coating adhesion tests at all excavations.
h. Disbonded, blistered or coating with cracking and/or other damage that could compromise cathodic protection found during excavations must be removed and new coating applied.
i. The coating assessment must be completed no later than 6 months after the date of this Compliance Order.
j. Submit the results of the coating assessment to the Director, Office of Pipeline Safety, PHMSA Southern Region for review and approval no later than 90 days after the coating assessment is complete but not later than 9 months after the date of this Compliance Order.

SESH must complete Item 2 above within 90 days of receipt of the Final Order or PHMSA may issue a show cause letter modifying, revoking, or suspending the Order issued under PHMSA-2007-27607.

3. It is requested (not mandated) that SESH maintain documentation of the safety improvement costs associated with fulfilling this Compliance Order and submit the total to the Director, Office of Pipeline Safety, PHMSA Southern Region. 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.