NOTICE OF PROBABLE VIOLATION
and
PROPOSED COMPLIANCE ORDER

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

October 23, 2012

Mr. James Pitts
Vice President, Storage and Peaking Operations
AGL Resources
1200 Smith Street, Suite 900
Houston, TX 77002

CPF 2-2012-3003

Dear Mr. Pitts:

From July 30, 2012, to August 01, 2012, a representative of the Pipeline and Hazardous Materials Safety Administration (PHMSA), Southern Region, Office of Pipeline Safety, pursuant to Chapter 601 of 49 United States Code, inspected your Chattanooga Gas Company (CGC) liquefied natural gas (LNG) facility in Chattanooga, Tennessee.

As a result of the inspection, it appears that CGC has committed probable violations of the Pipeline Safety Regulations, Title 49, Code of Federal Regulations. The items inspected and the probable violations are as follows:

1. **§ 193.2625 Corrosion protection.**
   . . . (a) Each operator shall determine which metallic components could, unless corrosion is controlled, have their integrity or reliability adversely affected by external, internal, or atmospheric corrosion during their intended service life.

   CGC did not determine which metallic components could, unless corrosion is controlled, have their integrity or reliability adversely affected by external, internal, or atmospheric corrosion during their intended service life.
   CGC did not determine that the 1.5-inch galvanized foam line, designed to retard vaporization of spilled LNG in the event of an LNG leak in the LNG pump area, could

have its integrity or reliability adversely affected by corrosion. Records indicated that CGC discovered a corrosion leak at the soil-air interface of the referenced line during an August 23, 2010, foam delivery/generation system test. Although the pipe at the soil-air interface was replaced after the leak was discovered, CGC provided no information to the PHMSA inspector to show that it had made any determination, either prior to or after the leak was discovered, as to whether or not the referenced line could be adversely affected by external, atmospheric, or internal corrosion.

2. **§ 193.2625 Corrosion protection.**
. . . (b) Components whose integrity or reliability could be adversely affected by corrosion must be either—
(1) Protected from corrosion in accordance with §§193.2627 through 193.2635, as applicable; or
(2) Inspected and replaced under a program of scheduled maintenance in accordance with procedures established under §193.2605.

CGC did not protect a component whose integrity or reliability could be adversely affected by corrosion from corrosion in accordance with §§193.2627 through 193.2635, or, inspect and replace the component under a program of scheduled maintenance in accordance with procedures established under §193.2605.

CGC discovered a corrosion leak at the soil-air interface of the 1.5-inch galvanized foam line, designed to retard vaporization of spilled LNG in the event of an LNG leak in the LNG pump area during an August 23, 2010, foam delivery/generation system test. Although CGC replaced the corroded pipe joint at the soil-air interface subsequent to discovery of the leak, as of the last day of the PHMSA inspection CGC had not inspected and repaired if required, the non-replaced segments of the referenced line including a similar soil-air interface pipe joint, for evidence of corrosion, and it had not protected the line from any potential effects of external, internal, or atmospheric corrosion.

Subsequent to the inspection, CGC conveyed that it "*. . . has decided to replace the underground Foam Piping entirely as a result of the leak and repair that was performed last year. This new line will be either PVC or Stainless (non-corrosive) and will be replaced and back in service prior to vaporization activity.*"

Proposed Compliance Order

With respect to items 1 and 2 pursuant to 49 United States Code § 60118, the Pipeline and Hazardous Materials Safety Administration proposes to issue a Compliance Order to Chattanooga Gas Company. 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 2-2012-3003** and for each document you submit, please provide a copy in electronic format whenever possible.

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 Chattanooga Gas Company a Compliance Order incorporating the following remedial requirements to ensure the compliance of Chattanooga Gas Company with the pipeline safety regulations:

1. In regard to Item 1 of the Notice pertaining to Chattanooga Gas Company's failure to determine which metallic components could have their integrity or reliability adversely affected by external, internal, or atmospheric corrosion during their intended service life, CGC must conduct an analysis of all metallic components within the LNG Plant and identify which metallic components could, unless corrosion is controlled, have their integrity or reliability adversely affected by external, internal, or atmospheric corrosion during their intended service life. Include in the analysis consideration of potential internal or atmospheric corrosion threats for components that are not normally in service, such as the 1.5-inch galvanized foam line referred to in Item 1 of the Notice.

2. In regard to Item 2 of the Notice pertaining to Chattanooga Gas Company's failure to protect a component from corrosion in accordance with §§193.2627 through 193.2635, or, to inspect and replace the component under a program of scheduled maintenance in accordance with procedures established under §193.2605, CGC must

   A. Inspect and, if required, replace the components identified as a result of the analysis required by Item 1 above, and,

   B. Include in its manual(s) of written procedures measures to be taken to protect the components from corrosion in accordance with §§193.2627 through 193.2635, as applicable.

3. Complete Items 1 and 2 above within 60 days of the date of issuance of the Final Order.

4. Chattanooga Gas Company must provide written documentation to the Director, PHMSA Southern Region, within 75 days following the date of issuance of the Final Order that Compliance Order Items 1and 2 have been completed.

5. It is requested (not mandated) that Chattanooga Gas Company maintain documentation of the safety improvement costs associated with fulfilling this Compliance Order and submit the total to Wayne T. Lemoi, Director, Southern Region, Pipeline and Hazardous Materials Safety Administration. 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.