NOTICE OF AMENDMENT

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

November 27, 2012

Mr. Gary Loop
VP & Chief Operating Officer
Dakota Gasification Company
1600 East Interstate Avenue
Bismarck, ND 58503

CPF #3-2012-5025M

Dear Mr. Loop:

On October 31 through November 3, 2011, representatives of the Pipeline and Hazardous Materials Safety Administration (PHMSA) pursuant to Chapter 601 of 49 United States Code, inspected Dakota Gasification Company's (DGC) procedures and supporting implementation records for their Integrity Management Program (IMP) in Beulah, North Dakota.

On the basis of the inspection, PHMSA has identified the apparent inadequacies found within DGC's plans or procedures, as described below:

1. §195.452 Pipeline integrity management in high consequence areas

(f) What are the elements of an integrity management program? An integrity management program begins with the initial framework. An operator must continually change the program to reflect operating experience, conclusions drawn from results of the integrity assessments, and other maintenance and surveillance data, and evaluation of consequences of a failure on the high consequence area. An operator must include, at minimum, each of the following elements in its written integrity management program:

(1) A process for identifying which pipeline segments could affect a high consequence area;

- The DGC IMP did not adequately describe the requirements of §195.452(d)(3)(i) for newly-identified areas.
- The DGC IMP did not adequately define the start and end point of each HCA segment.
- The DGC IMP did not include a documented and adequate technical justification to identify segments that intersect a buffer zone but are declared to not affect the HCA.
- The DGC IMP did not include the identification of pipeline facilities other than line pipe that could affect HCAs.
- DGC identified a buffer zone of two miles but did not adequately define the justification of the two mile buffer zone.
- The DGC IMP did not adequately describe the current state of its risk model.
- The DGC IMP did not identify a schedule for re-assessment.

2. §195.452 Pipeline integrity management in high consequence areas

(f) What are the elements of an integrity management program? An integrity management program begins with the initial framework. An operator must continually change the program to reflect operating experience, conclusions drawn from results of the integrity assessments, and other maintenance and surveillance data, and evaluation of consequences of a failure on the high consequence area. An operator must include, at minimum, each of the following elements in its written integrity management program:

(2) A baseline assessment plan meeting the requirements of paragraph (c) of this section;

- The DGC IMP did not describe the assessment methods selected for each segment that are effective and appropriate for identifying anomalies associated with specific risk factors identified for each segment.
- The DGC IMP included assessments methods that are not consistent with 195.452(c)(1)(i).

- The DGC IMP did not reference the requirements for pressure testing as described in the DGC O&M Plan.

- The DGC IMP included ECDA as an acceptable assessment method but, at the time of the inspection, DGC did not have a written ECDA Plan.

- The DGC IMP did not describe the applicability of the following: Beginning with the highest risk pipe, at least 50% of the line pipe that can affect HCAs are scheduled to be assessed prior to the segments compliance deadline (September 30, 2004 for Category 1 and August 16, 2005 for Category 2). All baseline assessments of the line pipe that can affect HCAs are scheduled to be completed prior to the compliance deadline (March 31, 2008 for Category 1 pipe, February 17, 2009 for Category 2 pipe). Category 3 pipe must have a completed assessment prior to beginning operation.

3. §195.452 Pipeline integrity management in high consequence areas

(f) What are the elements of an integrity management program? An integrity management program begins with the initial framework. An operator must continually change the program to reflect operating experience, conclusions drawn from results of the integrity assessments, and other maintenance and surveillance data, and evaluation of consequences of a failure on the high consequence area. An operator must include, at minimum, each of the following elements in its written integrity management program:

(3) An analysis that integrates all available information about the integrity of the entire pipeline and the consequences of a failure (see paragraph (g) of this section);

The DGC IMP did not include a documented process by which data is collected and disseminated to persons evaluating assessment results or a process that integrates the following types of information, as appropriate:

- Previous assessment results;
- Surveillance, testing, and other monitoring data (e.g., internal corrosion coupon monitoring);
- Historical maintenance and repair information;
- Uncertainty of assessment results including tool tolerances;
- Any other information related to pipeline integrity; and
- Information about how a failure would affect the high consequence area.

4. §195.452 Pipeline integrity management in high consequence areas

(f) What are the elements of an integrity management program? An integrity management program begins with the initial framework. An operator must

continually change the program to reflect operating experience, conclusions drawn from results of the integrity assessments, and other maintenance and surveillance data, and evaluation of consequences of a failure on the high consequence area. An operator must include, at minimum, each of the following elements in its written integrity management program:

(4) Criteria for remedial actions to address integrity issues raised by the assessment methods and information analysis (see paragraph (h) of this section);

- The DGC IMP ILI requirements do not include provisions for ILI tool tolerances.

- The DGC IMP does not adequately include a documented process to assure prompt remedial action to address all anomalous conditions that could reduce a pipeline's integrity that are discovered through the integrity assessment or information analysis. Specifically the process must include a requirement to develop a prioritized schedule for remediation of all identified repair conditions consistent with the repair criteria and time frames found in §195.452 (h) and a requirement to document justification for changes to the repair/remediation schedule including demonstration that such changes will not jeopardize public safety or environmental protection.

- The DGC IMP did not adequately describe the requirements to ensure that all anomalies are correctly categorized in accordance with the repair provisions of the rule ("immediate repair," 60-day, 180-day, and "other" conditions).

- The DGC IMP should include a reference to the DGC root cause analysis process.

5. §195.452 Pipeline integrity management in high consequence areas

(f) What are the elements of an integrity management program? An integrity management program begins with the initial framework. An operator must continually change the program to reflect operating experience, conclusions drawn from results of the integrity assessments, and other maintenance and surveillance data, and evaluation of consequences of a failure on the high consequence area. An operator must include, at minimum, each of the following elements in its written integrity management program:

(5) A continual process of assessment and evaluation to maintain a pipeline's integrity (see paragraph (j) of this section);

The DGC IMP did not adequately describe the use of "other technology" and it's expectation of a documented process to assure that the chosen technology will result in a level of understanding of a pipeline's condition, equivalent to that obtained through the

use of accepted ILI tools or a hydrostatic pressure test per the requirements of §195.452(j)(5).

6. §195.452 Pipeline integrity management in high consequence areas

(f) What are the elements of an integrity management program? An integrity management program begins with the initial framework. An operator must continually change the program to reflect operating experience, conclusions drawn from results of the integrity assessments, and other maintenance and surveillance data, and evaluation of consequences of a failure on the high consequence area. An operator must include, at minimum, each of the following elements in its written integrity management program:

(6) Identification of preventive and mitigative measures to protect the high consequence area (see paragraph (i) of this section)

The DGC IMP did not include a process that provides an adequate basis for deciding which candidate preventive and mitigative actions are implemented.

Response to this Notice

This Notice is provided pursuant to 49 U.S.C. § 60108(a) and 49 C.F.R. § 190.237. 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.

If, after opportunity for a hearing, your plans or procedures are found inadequate as alleged in this Notice, you may be ordered to amend your plans or procedures to correct the inadequacies (49 C.F.R. § 190.237). If you are not contesting this Notice, we propose that you submit your amended procedures to my office within 60 days of receipt of this Notice. This period may be extended by written request for good cause. Once the inadequacies identified herein have been addressed in your amended procedures, this enforcement action will be closed.

In correspondence concerning this matter, please refer to **CPF 3-2012-5025M** and, for each document you submit, please provide a copy in electronic format whenever possible.

Sincerely,

David Barrett
Director, Central Region
Pipeline and Hazardous Materials Safety Administration

Enclosure: *Response Options for Pipeline Operators in Compliance Proceedings*