U.S. Department
of Transportation
**Pipeline and
Hazardous Materials Safety
Administration**

8701 South Gessner, Suite 1110
Houston, TX 77074

**NOTICE OF PROBABLE VIOLATION
PROPOSED CIVIL PENALTY
and
PROPOSED COMPLIANCE ORDER**

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

December 20, 2007

Mr. Rick A. Olson
Vice President of Pipeline Operations
Magellan Pipeline Company, L.P.
One Williams Center
Tulsa, OK 84121-2186

CPF 4-2007-5050

Dear Mr. Olson:

On August 8 – 11, August 14 – 18, October 24 – 26, 2006, representatives of the Pipeline and Hazardous Materials Safety Administration (PHMSA) pursuant to Chapter 601 of 49 United States Code inspected the Longhorn Partners Pipeline system located in the State of Texas and the Magellan Operations Control Center located in Tulsa, Oklahoma.

As a result of the inspection, 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. 195.410 Line Markers.

(a) Except as provided in paragraph (b) of this section, each operator shall place and maintain line markers over each buried pipeline in accordance with the following:
(1) Markers must be located at each public road crossing, at each railroad crossing, and in sufficient number along the remainder of each buried line so that its location is accurately known.

The marker spacing on some areas of the Longhorn right-of-way is not sufficient so that the location of the pipeline is accurately known. In addition, the Longhorn Mitigation Plan (LMP), which is considered part of the Operations and Maintenance Procedures for this pipeline under §195.402, specify more stringent marking requirements under Item 39, 3.5.4 Damage Prevention Program, paragraph 2, Pipeline Markers than required by §195.410.

Observations during the field inspection as well as photographic evidence indicate that the marker spacing does not appear to meet the regulatory or procedural requirements. Locations in west Houston, TX that had been primarily used for agriculture are now being developed, but the operator had not acted to improve the pipeline marker spacing in this area. At the time of the inspection, other areas on the pipeline right-of-way also did not appear to have an adequate number of markers. Magellan has made some post inspection improvements, but needs to ensure that the company is in full compliance with the regulatory requirements of §195.410 and procedural requirements contained in the LMP pertaining to pipeline markers.

2. 195.420 Valve Maintenance.

(b) Each operator shall, at intervals not exceeding 7 ½ months, but at least twice each calendar year, inspect each mainline valve to determine that it is functioning properly.

The operator exceeded the valve inspection interval for two mainline valves.

The valve inspection records as well as acknowledgement by operations personnel indicate that the valve inspection interval was exceeded. The interval was exceeded by only a few days and the field inspection verified the valves were able to be operated. However, the operator should ensure that all valve inspections are performed in a timely manner.

3. 195.420 Valve Maintenance.

(c) Each operator shall provide protection for each valve from unauthorized operation and from vandalism.

Some of the Longhorn Pipeline valves do not have protection from vandalism at the sites. The valves were chained and locked to prevent unauthorized use and were surrounded with a pipe barrier, but these locations did not provide adequate deterrence against vandalism. The operator has not demonstrated adequate protection from unauthorized operation and vandalism for all valve installations.

During the inspections it was noted that Longhorn's primary method of complying with 195.420(c) is to install locked chain link fencing around the valves. This was evident in the two Longhorn units that were inspected, where the majority of above ground valves were located inside locked fences. In addition, the operator installed some additional security fences around above-ground mainline valves subsequent to the inspection, but stated during the inspection that partially buried valves will not be fenced. The operator needs to demonstrate that all valves are adequately protected from unauthorized operation and vandalism.

4. **195.432 Inspection of in-service breakout tanks.**

(b) Each operator shall inspect the physical integrity of in-service atmospheric and low pressure steel aboveground breakout tanks according to section 4 of API 653. However if structural conditions prevent access to the tank bottom, the bottom integrity may be assessed according to a plan included in the operations and maintenance manual under §195.402(c)(3).

The operator has not demonstrated that cracks in the ringwall foundation of the breakout tanks located at the El Paso Terminal have been addressed according to the provision of API 653, section 4.5.1.2 e and 4.5.2.2.

Observation as well as photographs taken during the inspection shows a significant number of cracks in the tank foundations. The operator provided PHMSA a document authored by an employee stating that the cracks did not pose a structural threat. However, API 653 states that measures should be taken to prevent minor foundation cracks from becoming a future structural problem. The operator should take measures consistent with the requirements of API 653 to prevent further foundation damage.

5. **195.573 What must I do to monitor external corrosion?**

(d) *Breakout tanks.* You must inspect each cathodic protection system used to control corrosion on the bottom of an aboveground breakout tank to ensure that operation and maintenance of the system are in accordance with API Recommended Practice 651. However this inspection is not required if you note in the corrosion control procedures established under §195.402(c)(3) why compliance with all or certain operation and maintenance provisions of API Recommended Practice 651 is not necessary for the safety of the tank.

The operator's pipe-to-soil readings for the bottom of some of the breakout tanks located at the El Paso Terminal did not meet the -850mV criterion as specified in API 651.

Pipe-to-soils readings below the -850 mV criterion were shown by the operator's inspection records as well as readings taken during the field inspection. In addition, the operator was not able to provide studies that demonstrate the 100 mV depolarization criterion could be met. The operator needs to ensure that at least one of the required cathodic protection criteria can be met.

6. 195.402 Procedural manual for operations, maintenance, and emergencies.

(a) *General.* Each operator shall prepare and follow for each pipeline system a manual of written procedures for conducting normal operations and maintenance activities and handling abnormal operations and emergencies. This manual shall be reviewed at intervals not exceeding 15 months, but at least once each calendar year, and appropriate changes made as necessary to insure that the manual is effective. This manual shall be prepared before initial operations of a pipeline system commence, and appropriate parts shall be kept at locations where operations and maintenance activities are conducted.

The operator has not demonstrated that the operational and procedural requirements contained in the Longhorn Mitigation Plan (LMP) are being met. The LMP is a document that was authored and agreed to by Longhorn Pipeline Partners, L.P. to obtain agreement from regulatory agencies and citizens groups to allow this pipeline to operate. It is considered by PHMSA to be a component of the operations and maintenance manual according to §195.402. Among the requirements contained in the LMP, the operator is required to meet some very demanding and specific leak detection criteria for response time and sensitivity, to use video cameras to visually monitor all pump stations from the Tulsa Control Center 24 hours per day, and to remove and keep the right-of-way clear of encroachments.

The leak response time specified is for the upstream pumps to be stopped and motor operated valves (MOV's) to be closed within five (5) minutes of a probable leak indication. However, when the Computation Pipeline Monitoring system alarms a probable leak, the operator assigns a Tulsa Control Center employee the responsibility of evaluating if this appears to be a false alarm. According to Tulsa Control Center personnel, approximately ten (10) minutes is allowed for this process. The operator should adhere to the requirements of the LMP or request changes to formally document the procedures that are being followed.

In addition, the LMP requires a specific sensitivity for leak detection which is dependent on if the leak is in a Tier I, II, III, or the Edwards Aquifer Recharge Zone. The operator has performed studies to confirm that the leak detection sensitivity requirements are being met, but has not provided this documentation to PHMSA. The operator needs to demonstrate that the leak sensitivity requirements contained in the LMP are being met.

The LMP also requires the operator to visually monitor all pump stations using color video cameras equipped with pan and zoom capability. During the inspection, the Tulsa Control Center personnel had difficulty accessing the camera images, and once accessed, the cameras were not pointed at the pumping equipment. The cameras are not equipped with the required features as specified by the LMP, and the images were not of adequate quality to meet the intent of the requirement. It is clear that the cameras are not being used for the intended monitoring purposes. The operator should make equipment and procedural modifications to comply with the requirements of the LMP.

The LMP commits the operator to maintaining the right-of-way to be in excellent condition, to remove encroachments, and maintain the right-of-way to be free of encroachments. During the inspection, areas of the right-of-way were overgrown and markers and signs obscured. In addition the pipeline passes very close to houses and structures that were erected since the pipeline was built, and landowners had cultivated gardens and landscaping on the right-of-way.

There was at least one location where the pipeline crossed under a lot used to park heavy trucks, and another area where the pipeline crosses through the front yards of homes where hedge rows obscure the view. The operator has performed some right-of-way maintenance since the inspection, but needs to take actions to reduce the right-of-way encroachments.

7. 195.436 Security of facilities.

Each operator shall provide protection for each pumping station and breakout tank area and other exposed facility (such as scraper traps) from vandalism and unauthorized entry.

The operator has not demonstrated that adequate security has been provided for at the El Paso Terminal facility. This terminal facility has a security fence and electrically operated gates, but PHMSA inspectors observed personnel entering the facility without positive identification. The El Paso Terminal facility has 18 breakout tanks with capacities ranging from 5,000 barrels to 45,700 barrels that are used to receive refined products. In addition, this facility is relatively close to the international border between the United States and Mexico. The operator should implement procedures to ensure that no unauthorized personnel can enter the El Paso Terminal facility.

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 $66,000 as follows:

Item number	PENALTY
1	$25,000
6	$41,000

Warning Items

With respect to items 2, 3, and 7 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 these items. Be advised that failure to do so may result in Magellan Pipeline Company being subject to additional enforcement action.

Proposed Compliance Order

With respect to items 1, 4, 5, and 6 pursuant to 49 United States Code § 60118, the Pipeline and Hazardous Materials Safety Administration proposes to issue a Compliance Order to Magellan Pipeline 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 4-2007-5050** and for each document you submit, please provide a copy in electronic format whenever possible.

Sincerely,

R.M. Seeley
Director, Southwest Region
Pipeline and Hazardous
Materials Safety Administration

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 Magellan Pipeline Company, L.P. a Compliance Order incorporating the following remedial requirements to ensure the compliance of Magellan Pipeline Company, L.P. with the pipeline safety regulations:

1. In regard to Item Number 1 of the Notice pertaining to Line Markers, Magellan Pipeline Company, L.P., must demonstrate that it has adequate pipeline markers along the route of the Longhorn Pipeline to comply with the requirements of §195.410 and the Longhorn Mitigation Plan.

2. In regard to Item Number 4 of the Notice pertaining to inspection of in-service breakout tanks, Magellan Pipeline Company, L.P., must demonstrate that cracks in the ringwall foundations of the breakout tanks located at the El Paso terminal facility have been addressed according to the requirements of API 653.

3. In regard to Item Number 5 of the Notice pertaining to monitoring external corrosion, Magellan Pipeline Company, L.P., must demonstrate that one of the cathodic protection criteria can be met as required by §195.573(d) and API 651 for the breakout tanks on the Longhorn Pipeline system.

4. In regard to Item Number 6 of the Notice pertaining to preparing and following a manual of written procedures, Magellan Pipeline Company, L.P., must demonstrate that all issues identified in this item have been addressed according to the requirements of the Longhorn Mitigation Plan.

5. Magellan Pipeline Company, L.P., must submit the documentation required to demonstrate compliance for items above to R. M. Seeley, Director, Southwest Region, Pipeline and Hazardous Materials Safety Administration within 30 days after receipt of the final order.

6. Magellan Pipeline Company, L.P., shall maintain documentation of the safety improvement costs associated with fulfilling this Compliance Order and submit the total to R. M. Seeley, Director, Southwest Region, Pipeline and Hazardous Materials Safety Administration. Costs shall 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.