U.S. Department
of Transportation

**Pipeline and
Hazardous Materials Safety
Administration**

12300 W Dakota Ave , Suite 110
Lakewood, CO 80228

NOTICE OF PROBABLE VIOLATION
and
PROPOSED COMPLIANCE ORDER

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

April 4, 2007

SENT TO COMPLIANCE REGISTRY
Hardcopy__ Electronically ✓
# of Copies 1 / Date 4/4/07

Mr. Dan Knepper
VP Energy Operations
CHS Inc.
803 Highway 212 South
Laurel, MT 59044

CPF 5-2007-5015

Dear Mr. Knepper:

On August 28 through 31, 2006 a representative of the Pipeline and Hazardous Materials Safety Administration (PHMSA) pursuant to Chapter 601 of 49 United States Code inspected your integrity management program in Laurel, Montana.

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. **§195.452 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);

- **Item 1.A: §195.452(i)(1)**

CHS stated at the time of this inspection that they had not completed any preventive and mitigative analysis on their pipeline system.

- **Item 1.B: §195.452(i)(3)**

CHS stated at the time of this inspection that they had not completed an evaluation of leak detection capability of their pipeline system. CHS stated that a leak detection capability evaluation is ongoing and should be completed in 2007.

- **Item 1.C: §195.452(i)(4)**

CHS stated at the time of this inspection that they had not completed an evaluation to determine if there is a need for additional EFRDs.

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:

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

- **Item 2.A: §195.452(j)(2)**

Though CHS's IM program Article 7.1 calls for an annual evaluation of its pipeline segments to assure pipeline integrity CHS stated at the time of this inspection that they had not completed any such evaluations.

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:

(7) Methods to measure the program's effectiveness (see paragraph (k) of this section);

- **Item 3.A: §195.452(k)**

  Though CHS's IM program Article 9.1 calls for an annual evaluation of its IM program's effectiveness CHS stated at the time of this inspection that they had not performed any program evaluations.

Proposed Compliance Order

Pursuant to 49 United States Code § 60118, the Pipeline and Hazardous Materials Safety Administration proposes to issue a Compliance Order to CHS. Please refer to the *Proposed Compliance Order* that 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 5-2007-5015** and for each document you submit, please provide a copy in electronic format whenever possible.

Sincerely,

Chris Hoidal
Director, Western Region
Pipeline and Hazardous Materials Safety Administration

cc: PHP-60 Compliance Registry
PHP-500 G. Davis (#117712)

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

1. In regard to Item Number 1.A. of the Notice pertaining to preventative and mitigative measures, CHS must perform a preventative and mitigative analysis using their risk analysis of their pipeline segments to identify additional actions to enhance public safety or environmental protection. Such actions may include, but are not limited to, implementing damage prevention best practices, better monitoring of cathodic protection where corrosion is a concern, establishing shorter inspection intervals, installing EFRDs on the pipeline segment, modifying the systems that monitor pressure and detect leaks, providing additional training to personnel on response procedures, conducting drills with local emergency responders and adopting other management controls.

2. In regard to Item Number 1.B. of the Notice pertaining to evaluation of leak detection capabilities, CHS must evaluate the capability of its leak detection means and modify, as necessary, to protect the high consequence area. This evaluation must, at least, consider the following factors: the length and size of the pipeline, the type of product transported, the proximity of the pipeline to high consequence areas, the swiftness of leak detection, the location of nearest response personnel, the pipeline leak history, and the pipeline risk assessment results.

3. In regard to Item Number 1.C. of the Notice pertaining to evaluation EFRDs CHS must make an evaluation of EFRDs and this evaluation must at least, consider the following factors: the swiftness of leak detection and pipeline shutdown capabilities, the type of commodity carried, the rate of potential leakage, the volume that can be released, the topography or pipeline profile, the potential for ignition, the pipeline proximity to power sources, the location of nearest response personnel, the specific terrain between the pipeline segment and the high consequence area, and the benefits expected by reducing the spill size. If CHS determines that an EFRD is needed on any pipeline segment to protect a high consequence area in the event of a hazardous liquid pipeline release, CHS must install the EFRD.

4. In regard to Item Number 2.A. of the Notice pertaining to periodic evaluations of integrity information, CHS must conduct a periodic evaluation to assure pipeline integrity. This evaluation must consider the results of the baseline and periodic integrity assessments, information analysis as required under §195.452(g), and decisions about remediation, and preventive and mitigative actions as required under §195.452(h) and (i). This analysis must also include the basis for for the determination for the frequency of future evaluations and this frequency must be based on the evaluation on risk factors specific to its pipeline, including the factors specified in paragraph §195.452(e).

5. In regard to Item Number 3.A. of the Notice pertaining to periodic evaluations of the effectiveness of an IM program, CHS evaluate the must evaluate the effectiveness of their IM program in assessing and evaluating the integrity of each pipeline segment and in protecting the high consequence areas.

3. Within 30 days of receipt of the Final Order CHS must complete the items listed and submit appropriate documentation showing completion of the above items.

4. CHS shall maintain documentation of the safety improvement costs associated with fulfilling this Compliance Order and submit the total to Chris Hoidal, Director, Western 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.