NOTICE OF PROBABLE VIOLATION
and
PROPOSED COMPLIANCE ORDER

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

April 5, 2011

Mr. Ron McClain
Vice President, Operation & Engineering
SFPP, L.P.
500 Dallas Street, Suite 1000
Houston, TX 77002

CPF 5-2011-5012

Dear Mr. McClain:

On September 27-30, 2010 and October 15 and 19, 2010, a representative of the California State Fire Marshal (CSFM) acting as an agent for the Western Region, Pipeline and Hazardous Materials Safety Administration (PHMSA), pursuant to Section 60106(a) of Title 49, United States Code, inspected line sections (LS) 8, 69, 75, 76, 99, and 104 of the Santa Fe Pacific Pipeline (SFPP) system. An operator and maintenance record review was conducted at the Pacific Northern Region office in Fairfield, the Richmond Station, and the Concord Station in the state of California. Field reviews of each line section were also conducted.

As a result of the investigation, it appears that you have committed probable violations of the Pipeline Safety Regulations, Title 49, Code of Federal Regulations, and Part 195. The items inspected and the probable violations are:

1. §195.406 Maximum operating pressure.

(b) No operator may permit the pressure in a pipeline during surges or other variations from normal operations to exceed 110 percent of the operating pressure limit established under paragraph (a) of this section. Each operator must provide adequate controls and protective equipment to control the pressure within this limit.

Kinder Morgan records reveal that the company exceeded 110 percent of its maximum operating pressure on three different occasions. Kinder Morgan did take immediate actions to prevent future recurrences. Over-pressure events and conditions leading up to each event are detailed below:

(1) On September 12, 2010 at 08:28 PST, the LS104 pipeline exceeded 110 percent of its maximum operating pressure when it was pressured to 318 psi. This was 115.6 percent of its maximum operating pressure. This was during a shipment to the Kinder Morgan Oakland Tank from the Chevron Richmond Refinery. The maximum operating pressure of LS104 is 275 psi. A valve opening at the Kinder Morgan Oakland Tank caused a flow rate surge alarm resulting in the Kinder Morgan Richmond Station pumps being automatically shut down because of the low suction. The Kinder Morgan SCADA was not programmed to shutoff the Chevron Richmond Refinery pumps if the Kinder Morgan Richmond Station pumps automatically shutdown. No leaks occurred due to this overpressure event. On September 13, Kinder Morgan took remedial actions by increasing the flow rate allowance on LS104 to 2500 bph to prevent another low suction pump shutdown at Richmond thereby avoiding another similar overpressure event.

(2) On September 20, 2010 at 22:48 PST, the pressure of LS99 exceeded 110 percent of its maximum operating pressure. The pressure reached 315 psi which was 114.5 percent of its maximum operating pressure. The maximum operating pressure of LS99 is 275 psi. A communication error occurred shutting down the Kinder Morgan Brisbane Station. The SCADA system was not programmed to shutdown the Chevron Richmond Refinery pumps. When a Brisbane valve was closed the operator at the Kinder Morgan Richmond Station shut down the pump within 2 milliseconds. No leaks occurred due to this overpressure. The SCADA logic was reprogrammed on September 21, 2010 to shutdown the Richmond pumps if Brisbane is shutdown thereby avoiding another similar O.P. event.

(3) While researching pressure trends for upcoming hydrostatic tests, Kinder Morgan noticed the LS69, LS99, and LS104 pipelines all experienced transient overpressure events that exceeded 110 percent of their maximum operating pressure on August 23, 2010. LS69 was pressured to 370 psi (135.5% of MOP) at 14:20 PST and 332 psi (121.6% of MOP) at 14:48 PST. LS99 was pressured to 500 psi (181.8% of MOP) at 10:08 PST, 362.9 (131.6% of MOP) psi at 10:43 PST, 352 psi (128.0% of MOP) at 11:52 PST, and 328psi (119.3% of MOP) psi at 18:30 PST. LS104 was pressured to 320 psi (116.3% of MOP) at 07:51 PST, 340 psi (123.6% of MOP) at 09:28 PST, and 352 psi (128.0% of MOP) at 18:30 PST. Each of these over-pressure events lasted less than one

second. These events did not trigger an alarm because at that time, the Richmond SCADA only scanned the pressures once every six seconds. The surges originated from the Chevron Richmond Refinery when operators were switching product flow between tanks. It appears that Kinder Morgan has taken appropriate measures to prevent an excursion above 110% MOP from reoccurring.

2. §195.583 What must I do to monitor atmospheric corrosion control?

(a) You must inspect each pipeline or portion of pipeline that is exposed to the atmosphere for evidence of atmospheric corrosion, as follows:

If the pipeline is located:	**Then the frequency of inspection is:**
Onshore	**At least once every 3 calendar years, but with intervals not exceeding 39 months**

Kinder Morgan exceeded the maximum time period to monitor atmospheric corrosion control. Kinder Morgan hired T.C. Inspection, Inc. in September 2004 to conduct an atmospheric inspection on the above ground sections of LS69, LS99, and LS104. The next atmospheric inspection was conducted by the Blackstone Group Ltd. in July 2010. This is a 5-year 10-month interval between inspections.

3. §195.583 What must I do to monitor atmospheric corrosion control?

(c) If you find atmospheric corrosion during an inspection, you must provide protection against the corrosion as required by Sec. 195.581.

Kinder Morgan provided a 2004 API 570 Piping Inspection report as their record of an atmospheric corrosion inspection of the aboveground sections of LS69, LS99, and LS104 within the Chevron Richmond Refinery. The report showed portions of these three lines with severe coating failure and found portions partially covered in soil. Dents on LS99 were also noted in the 2004 inspection along with external corrosion on LS69. The inspection findings for LS69 and LS99 noted that ultrasonic testing (UT) measurements needed to be taken, and recommended the entire line be cleaned and coated. The 2010 Atmospheric Visual Inspection of these lines showed no progress was made to protect these lines from atmospheric corrosion since the 2004 inspection. The 2010 atmospheric inspection identified excessive corrosion on the LS69 pipeline, and general corrosion on the majority of LS99 and LS104. Mechanical damage was still noted on the LS99 and now on LS104 pipelines.

Kinder Morgan had knowledge of external corrosion on LS69, mechanical damage on LS99, and coating failure on LS 69, LS99, and LS104 since the 2004 atmospheric corrosion inspection but failed to investigate these findings or provide protection against atmospheric corrosion on these lines before the next scheduled inspection. This is a violation of Part 195.583(c).

Proposed Compliance Order

With respect to Item 3, pursuant to 49 United States Code § 60118, the Pipeline and Hazardous Materials Safety Administration proposes to issue a Compliance Order to SFPP, LP. Please refer to the *Proposed Compliance Order*, which is enclosed and made a part of this Notice.

Warning Items

With respect to Items 1 and 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 these items. Be advised that failure to do so may result in SFPP, LP being subject to additional enforcement action.

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 5-2011-5012** 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

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

cc: PHP-60 Compliance Registry
PHP-500 T. Finch (#128415)
Bob Gorham – CSFM
Linda Zigler - CSFM

PROPOSED COMPLIANCE ORDER

Pursuant to 49 United States Code § 60118, the Pipeline and Hazardous Materials Safety Administration (PHMSA) proposes to issue to SFPP, LP a Compliance Order incorporating the following remedial requirements to ensure the compliance of SFPP, LP with the pipeline safety regulations:

1. In regard to Item Number 3 of the Notice pertaining to an uncorrected atmospheric corrosion conditions and degraded coating on the aboveground sections of LS69, LS99 and LS104 within the Chevron Richmond Refinery SFFP, LP must complete the UT measurements that need to be taken and the entire length that is exposed to atmospheric corrosion shall be cleaned and coated as necessary. In addition, SFPP, LP must submit documentation of completed corrective training.

2. In regard to Item 3, evaluate the dents on LS99 and LS104 detected during the 2004 and 2010 atmospheric corrosion surveys, and determine the need for remedial actions.

3. SFPP, LP must complete the evaluation and necessary changes within 60-days after receipt of the Final Order.

4. It is requested (not mandated) that SFPP, LP 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. 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.