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

12300 W. Dakota Ave., Suite 110
Lakewood, CO 80228

WARNING LETTER

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

April 20, 2012

Mr. John Traeger
President
Cenex Pipeline Company
803 Highway 212 South
P.O. Box 909
Laurel, MT 59044-0909

CPF 5-2012-5008W

Dear Mr. Traeger:

Between August 16 and October 29, 2010, representatives of the Pipeline and Hazardous Materials Safety Administration (PHMSA), pursuant to Chapter 601 of 49 United States Code, inspected Cenex Pipeline Company (Cenex) construction, operation and maintenance records in Laurel, Montana. The inspectors also conducted field inspections of various Cenex pipeline facilities in Montana and North Dakota.

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. **§195.204 Inspection – General**
Inspection must be provided to ensure the installation of pipe or pipeline systems in accordance with the requirements of this subpart. No person may be used to perform inspections unless that person has been trained and is qualified in the phase of construction to be inspected.

Cenex failed to ensure that four (4) construction inspectors who inspected the 2010 Hysham to Forsyth Pipe Replacement Project were trained and qualified in the phase of construction that they inspected. Furthermore, construction records available at the time of inspection lacked sufficient detail to show whether the four inspectors were trained and qualified to perform inspections in all phases of construction. Interviews with Cenex personnel revealed that inspectors used to inspect the 2010 Replacement Project had not received any formal, specific training in the aspects of the construction that they inspected. Instead, Cenex relied on the use of retired Cenex personnel with prior construction experience and one (1) contract employee from an inspection service company. Cenex assumed these personnel would be qualified in the phase of construction to be inspected, but did not have the documentation that they actually were. An operator is required to ensure that any person may be used to perform pipeline construction inspections is trained and qualified in the phase of construction to be inspected.

2. **§195.206 Material inspection**
No pipe or other component may be installed in a pipeline system unless it has been visually inspected at the site of installation to ensure that it is not damaged in a manner that could impair its strength or reduce its serviceability.

Cenex failed to verify that pipe and other components installed during the 2010 Hysham to Forsyth Pipe Replacement Project had been visually inspected to ensure they had not been damaged. Cenex did not have inspection guidance for their inspectors to ensure pipe or other components were not damaged in a manner that could impair strength or reduce serviceability during installation. They also did not have inspection records of pipe and fittings conditions prior to installation. As an alternative, Cenex relied on the use of retired Cenex personnel with construction experience and one (1) contract employee from an inspection service company, and Cenex assumed these personnel would inspect pipe and fittings to ensure they had not been damaged. An operator is required to visually inspect all pipe and other components during installation to ensure they are not damaged in a manner that could impair its strength or serviceability.

3. **§195.214 Welding procedures**
(a) Welding must be performed by a qualified welder in accordance with welding procedures qualified under Section 5 of API 1104 or Section IX of the ASME Boiler and Pressure Vessel Code (ibr, see § 195.3) . The quality of the test welds used to qualify the welding procedure shall be determined by destructive testing.

Cenex failed to ensure that welding procedures used for the 2010 Hysham to Forsyth Pipe Replacement Project had been qualified to either the 19th or 20th edition of API 1104. The 2010 Hysham to Forsyth Pipe Replacement Project specification's Section 6.0 General Welding Procedure did not specify which edition of API 1104 will be used for welding qualifications during this project. An operator is required to ensure its welding procedures being used have been qualified either under the edition(s) of API 1104 or Section IX of the ASME Boiler and Pressure Vessel Code which is incorporated by reference in Part 195.

4. **§195.226 Welding: Arc burns.**
(b) An arc burn may be repaired by completely removing the notch by grinding, if the grinding does not reduce the remaining wall thickness to less than the minimum thickness required by the tolerances in the specification to which the pipe is manufactured. If a notch is not repairable by grinding, a cylinder of the pipe containing the entire notch must be removed.

Cenex failed to ensure or verify that all arc burn notches had been adequately removed by grinding on the 2010 Hysham to Forsyth Pipe Replacement Project. The Project specification's Section 6.19 required arc burns to be removed but this procedure had no method for determining if the notch of an arc burn had been completely removed. The use of ammonium persulfate is often used to determine if arc burn notches have been completely removed by grinding. An operator must have a process for completely removing arc burn notches to include a method for determining that an arc burn notch has been completely removed. This process must be a part of the pipeline specifications as required by 49 C.F.R Part §195.202.

5. **§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.
(e) Emergencies. The manual required by paragraph (a) of this section must include procedures for the following to provide safety when an emergency condition occurs;
(9) Providing for a post accident review of employee activities to determine whether the procedures were effective in each emergency and taking corrective action where deficiencies are found.

Cenex failed to perform post accident reviews for three (3) releases which were reported on DOT Form 7000-1 since 2007. Interviews with Cenex personnel revealed that Cenex had never reviewed responses to these accidents to determine if emergency response procedures were effective. Cenex's Emergency Response Procedures Section F Post-Accident Review and Actions procedure explicitly stated to the contrary with a particular procedure, "Any leak or accident which is reported on DOT Form 7000-1 shall have a post-accident review." An operator is required to complete a post accident review of employee activities to determine whether the emergency response procedures were effective in each emergency and taking corrective action where deficiencies are found as required by 49 C.F.R Part §195.402(e)(9).

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.

Cenex failed to review its Minot Terminal Facility Emergency Response Plan at intervals not exceeding 15 months, but at least once each calendar year. During the review of records for the Minot Terminal Facility, the last review of Emergency Response Plan was performed in December 2007. No evidence of a review in 2008 or 2009 could be provided. An operator is required to review it written procedures for handling emergencies at intervals not exceeding 15 months, but at least once each calendar year as required by 49 C.F.R Part §195.402(a).

7. **§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.
(c) Maintenance and normal operations. The manual required by paragraph (a) of this section must include procedures for the following to provide safety during maintenance and normal operations:
(13) Periodically reviewing the work done by operator to determine the effectiveness of the procedures used in normal operation and maintenance and taking corrective action where deficiencies are found.

Cenex failed to perform adequate periodic reviews of the work done by its employees to determine the effectiveness of the procedures used in normal operation and maintenance. During the review of records, it appears that Cenex had not completed sufficient periodic reviews of work done to ensure the effectiveness of procedures. Cenex's review of procedures section states, "The Maintenance Supervisor, Instrumentation and Electrical Supervisor, Manager of Oil Movements, and Manager, Pipelines and Terminals shall perform an annual review of the work done on five normal operations, abnormal operations, and/or maintenance procedures to determine the applicability and use of the procedures in this manual." An operator is required to periodically review the work done by operator to determine the effectiveness of the procedures used in normal operation and maintenance and the operator must take corrective action when deficiencies are found, i.e. this includes employees or contractors.

8. **§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.
(d) Abnormal operation. The manual required by paragraph (a) of this section must include procedures for the following to provide safety when operating design limits have been exceeded;
(5) Periodically reviewing the response of operator personnel to determine the effectiveness of the procedures controlling abnormal operation and taking corrective action where deficiencies are found.

Cenex failed to review the response to an abnormal operation that occurred at the Glendive Station on December 21, 2008 to determine the effectiveness of the procedures. Cenex's records of the abnormal operation event did not include the operator's response to the abnormal operation. As a result, it is not feasible to review the response of operator personnel in responding to the abnormal operation event at your Glendive station. An operator is required to periodically review the response of operator personnel to determine the effectiveness of procedures for controlling abnormal operations. An operator must document operator personnel's response to those abnormal operations and the records should be made available for review.

9. **§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.

Cenex did not install and maintain pipeline markers in sufficient numbers along some of its pipeline right-of-way in North Dakota. During a field inspection of the Cenex pipeline, PHMSA personnel identified insufficient numbers of pipeline markers along the east side of Lake Ashtabula. An operator is required to have sufficient pipeline markers along its right-of-way so that its location is accurately identified.

10. **§195.420 Valve maintenance.**
(a) Each operator shall maintain each valve that is necessary for the safe operation of its pipeline systems in good working order at all times.

Cenex did not maintain two (2) valves necessary for the safe operation of its pipeline system. The valves must be maintained in good working condition at all times. During the 2010 field inspection, PHMSA discovered that the upstream launcher valve at the Billings pump station had a broken valve position indicator and that the M.P. 191 downstream launcher valve was seeping a small amount of product. An operator is required to maintain each of its valves necessary for safe operation of its pipeline system in good working condition at all times as required by 49 C.F.R Part §195.420(a).

11. **§195.420 Valve maintenance**
(c) Each operator shall provide protection for each valve from unauthorized operation and from vandalism.

Cenex did not provide protection for three (3) valves from unauthorized operation and from vandalism. During field inspections in North Dakota, PHMSA identified two (2) small diameter side valves attached to the mainline block valve at M.P. 250 (West Fargo) had blind flanges and they had no locks to prevent the side valves themselves from being opened. During field inspections in Montana, it was found that the Glendive Tank 7's relief line valve was not locked to protect from unauthorized operation and from vandalism. In addition, it is critical that this valve should be remained open at all times to relieve pipeline surges safely. An operator must provide protection for each valve from unauthorized operation and from vandalism as required by 49 C.F.R Part §195.420(c).

12. **§195.452 Pipeline integrity management in high consequence areas.**
(b) What program and practices must operators use to manage pipeline integrity? Each operator of a pipeline covered by this section must:
(5) Implement and follow the program.

Cenex did not implement and follow the CHS integrity management program used to comply with Federal pipeline safety integrity management rules. Cenex's compilation of verification and repair digs show that only three (3) anomalies were chosen to validate the accuracy of 2008 in-line inspection (ILI) tool assessment between Glendive, MT and Minot, ND. Meanwhile, the CHS Integrity Management Plan Appendix I Section 7.1.1 - Verification and Remediation Procedure states, "CHS shall select six (6) anomalies to field verify. Two each shall be selected from the Maximum, Minimum, and Mid Range. " In addition, Cenex selected three (3) validation anomalies within seven (7) feet of each other. Therefore, Cenex failed to validate the tool accuracy for the entire pipeline segment and for the range of potential anomalies. An operator is required to implement and follow its written integrity management program in high consequence areas.

13. **§195.452 Pipeline integrity management in high consequence areas.**
(b) What program and practices must operators use to manage pipeline integrity? Each operator of a pipeline covered by this section must:
(5) Implement and follow the program.

Cenex did not implement and follow the CHS integrity management program which Cenex uses to comply with Federal pipeline safety integrity management rules. CHS Integrity Management Plan Article 7.9 described a process for performing evaluations/analyses that integrate all available integrity information about a pipeline as required by 49 C.F.R Part 195.452(f) (3). Cenex had no records to indicate that they had performed an evaluation/analysis of all available pipeline integrity information, i.e. the integration of the results from the 2008 ILI assessment with all other available information about the integrity of your pipeline such as annual CP surveys, close-interval surveys, one-call tickets, and patrol reports. An operator is required to implement and follow its written integrity management program in high consequence areas.

14. **§195.561 When must I inspect pipe coating used for external corrosion control?**
(a) You must inspect all external pipe coating required by Sec. 195.557 just prior to lowering the pipe into the ditch or submerging the pipe.
(b) You must repair any coating damage discovered.

Cenex failed to inspect all pipe coating just prior to lowering the pipe into the ditch during the 2010 Hysham to Forsyth Pipeline Replacement project. Cenex's construction records indicated there had been minimal inspection of line pipe coating and of the coating at the weld areas for the 2010 Hysham to Forsyth Pipeline Replacement project. As a result, Cenex's construction inspection records cannot be verified that the pipe and weld area coating were inspected prior to lowering the pipe into the ditch. An operator is required to inspect all external pipe coating just prior to lowering the pipe into the ditch and any coating damage found must be repaired.

15. **§195.571 What criteria must I use to determine the adequacy of cathodic protection? Cathodic protection required by this Subpart must comply with one or more of the applicable criteria and other considerations for cathodic protection contained in paragraphs 6.2 and 6.3 of NACE SP 0169 (incorporated by reference, see § 195.3).**

Cenex did not comply with paragraphs 6.2 and 6.3 of NACE SP 0169 for determining the adequacy of their cathodic protection (CP) in 2009. During the 2009 CP surveys, Cenex found approximately 70 test stations had polarized potentials more negative than negative1200 mV. NACE SP 0169 paragraph 6.2.2.3.3 states, "The use of excessive polarized potentials on externally coated pipelines should be avoided to minimize cathodic disbondment of the coating." CP polarized potentials more negative than negative1200 mV may also indicate that stray current is interfering with a pipeline's CP system as specified in NACE SP0169 paragraph 6.3.4. Furthermore, there is another possibility that all rectifiers supplying protective current to the pipeline at the test station location have not been interrupted which means that the potentials being read are not polarized potentials. Specifically, the locations of the polarized potentials that were more negative than -1200 mV are Johnson Lane in Billings to M.P. 60, M.P. 90 to M.P. 111, M.P. 175 to M.P. 180, Minot to Fargo segment's M.P. 138 to M.P. 140, and Minot to Fargo segment's M.P.154 to M.P.166. An operator must comply with applicable criteria and other considerations within NACE SP 0169 paragraphs 6.2 and 6.3 to determine the adequacy of cathodic protection.

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. 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 correct the item identified in this letter. Failure to do so will result in Cenex Pipeline Company being subject to additional enforcement action.

No reply to this letter is required. If you choose to reply, in your correspondence please refer to **CPF 5-2012-5008W**. 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).

Sincerely,

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

cc: PHP-60 Compliance Registry
PHP-500 G. Davis (#129363, 129364, 129365)