WARNING LETTER

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

November 6, 2018

Mr. Ronald C. Nutt
Chief Operating Officer
AIX Energy LLC
2441 High Timbers
Suite 120
The Woodlands, Texas 77380

CPF 5-2018-0010W

Dear Mr. Nutt:

On March 12 through 15, 2018, a representative of the Pipeline and Hazardous Materials Safety Administration (PHMSA), pursuant to Chapter 601 of 49 United States Code (U.S.C.), inspected AIX LLC's Kenai Loop Pipeline and associated operational records in Kenai, Alaska.

As a result of the inspection, it is alleged that you have committed probable violations of the Pipeline Safety Regulations, Title 49, Code of Federal Regulations (CFR). The items inspected and the probable violations are:

1. § 192.465 External corrosion control: Monitoring.
(b) Each cathodic protection rectifier or other impressed current power source must be inspected six times each calendar year, but with intervals not exceeding 2½ months, to insure that it is operating.

AIX failed to monitor their impressed current power source at the intervals required by § 192.465(b). The impressed current source is a direct bond to Enstar's pipeline system. The bond is located at the City Gate on the downstream end of the Kenai Loop Pipeline. Between 2012 and July 2015, AIX monitored the impressed current source only once per calendar year,

when AIX's corrosion contractor checked the impressed current source as part of the annual cathodic protection survey.

2. § 192.605 Procedural manual for operations, maintenance, and emergencies.

(a) *General.* Each operator shall prepare and follow for each pipeline, a manual of written procedures for conducting operations and maintenance activities and for emergency response. For transmission lines, the manual must also include procedures for handling abnormal operations. This manual must be reviewed and updated by the operator at intervals not exceeding 15 months, but at least once each calendar year. This manual must be prepared before operations of a pipeline system commence. Appropriate parts of the manual must be kept at locations where operations and maintenance activities are conducted.

AIX failed to follow their written procedures for emergency response. AIX lists equipment that must be available at the scene of an emergency on their equipment inventory in their Emergency Plan. Two explosive gas meters are listed on that inventory. However, both explosive gas meters were out-of-service at the time of the inspection and, according to the operator, had been so for about a month.

3. § 192.625 Odorization of gas.

(a) A combustible gas in a distribution line must contain a natural odorant or be odorized so that at a concentration in air of one-fifth of the lower explosive limit, the gas is readily detectable by a person with a normal sense of smell.

(b) After December 31, 1976, a combustible gas in a transmission line in a Class 3 or Class 4 location must comply with the requirements of paragraph (a) of this section unless:

(1) At least 50 percent of the length of the line downstream from that location is in a Class 1 or Class 2 location;

(2) The line transports gas to any of the following facilities which received gas without an odorant from that line before May 5, 1975;

(i) An underground storage field;

(ii) A gas processing plant;

(iii) A gas dehydration plant; or

(iv) An industrial plant using gas in a process where the presence of an odorant:

(A) Makes the end product unfit for the purpose for which it is intended;

(B) Reduces the activity of a catalyst; or

(C) Reduces the percentage completion of a chemical reaction;

(3) In the case of a lateral line which transports gas to a distribution center, at least 50 percent of the length of that line is in a Class 1 or Class 2 location; or

(4) The combustible gas is hydrogen intended for use as a feedstock in a manufacturing process.

AIX failed to odorize combustible gas in the Kenai Loop Pipeline, which transports natural gas through Class 3 locations, and the Kenai Loop Pipeline does not meet the potential exceptions to odorize listed in § 192.625(b)(1) through (b)(4). Notably, the exception in §

192.625(b)(2) does not apply because the Kenai Loop Pipeline did not exist before May 5, 1975.

4. §192.631 Control room management.

(a) *General*.

(2) The procedures required by this section must be integrated, as appropriate, with operating and emergency procedures required by §§ 192.605 and 192.615. An operator must develop the procedures no later than August 1, 2011, and must implement the procedures according to the following schedule. The procedures required by paragraphs (b), (c)(5), (d)(2) and (d)(3), (f) and (g) of this section must be implemented no later than October 1, 2011. The procedures required by paragraphs (c)(1) through (4), (d)(1), (d)(4), and (e) must be implemented no later than August 1, 2012. The training procedures required by paragraph (h) must be implemented no later than August 1, 2012, except that any training required by another paragraph of this section must be implemented no later than the deadline for that paragraph.

AIX failed to prepare written Control Room Management procedures prior to commencing pipeline operations in 2012. The Kenai Loop Pipeline operations are controlled by a SCADA system, the interface of which is located at the Kenai Loop pad at the upstream end of the pipeline. AIX's Control Room Management Procedures were initially released on June 1, 2016.

5. § 192.706 Transmission lines: Leakage surveys.

Leakage surveys of a transmission line must be conducted at intervals not exceeding 15 months, but at least once each calendar year. However, in the case of a transmission line which transports gas in conformity with § 192.625 without an odor or odorant, leakage surveys using leak detector equipment must be conducted—

(a) In Class 3 locations, at intervals not exceeding 7 ½ months, but at least twice each calendar year; and….

AIX failed to conduct leakage surveys at intervals not exceeding 7 ½ months in Class 3 locations on the Kenai Loop Pipeline. AIX conducted leakage surveys on June 13, 2013 and June 6, 2015, but did not conduct leak surveys between those dates. AIX has no records of leakage surveys, nor claimed to have conducted leakage surveys, during this 24-month period.

6. § 192.745 Valve maintenance: Transmission lines.

(a) Each transmission line valve that might be required during any emergency must be inspected and partially operated at intervals not exceeding 15 months, but at least once each calendar year.

AIX failed to inspect and partially operate each "transmission line valve that might be required during an emergency." AIX identified upstream valve PV-625 and downstream valve SDV-820 in the "Kenai Loop #1 Pipeline Segment Operating Procedure" as the first

valves closed during an emergency shutdown. AIX failed to inspect and partially operate these valves as part of their valve maintenance program. AIX provided the records of inspection and partial operation of valves for the most recent valve maintenance cycle (February 2018), which did not include PV-625 or SDV-820. The operator indicated that this was consistent with the historical practice and that prior records similarly do not include PV-625 and SDV-820.

7. § 192.905 How does an operator identify a high consequence area?
(b)(1) *Identified sites*. An operator must identify an identified site, for purposes of this subpart, from information the operator has obtained from routine operation and maintenance activities and from public officials with safety or emergency response or planning responsibilities who indicate to the operator that they know of locations that meet the identified site criteria. These public officials could include officials on a local emergency planning commission or relevant Native American tribal officials.

AIX failed to identify various identified sites. AIX's Integrity Management Plan states that there are Identified Sites within the pipeline's Potential Impact Radius (PIR), but AIX has not produced a list or could not otherwise state which sites within the PIR are identified sites.

Under 49 U.S.C. § 60122 and 49 CFR § 190.223, you are subject to a civil penalty not to exceed $209,002 per violation per day the violation persists, up to a maximum of $2,090,022 for a related series of violations. For violations occurring prior to November 2, 2015, the maximum penalty may not exceed $200,000 per violation per day, with a maximum penalty not to exceed $2,000,000 for a 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 items identified in this letter. Failure to do so will result in AIX 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 5-2018-0010W.** 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,

Kim West
Director, Western Region
Pipeline and Hazardous Materials Safety Administration

cc: PHP-60 Compliance Registry
PHP-500 J. Gano (#155861)