



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

April 5, 2013

Mr. Michael C. Pearson
Vice President – Technical Services.
Magellan Pipeline Holdings, LP
One William Center
Tulsa, OK 74172

CPF 4-2013-5009

Dear Mr. Pearson:

During the months of April and November of 2012, a representative of the Pipeline and Hazardous Materials Safety Administration (PHMSA), Office of Pipeline Safety (OPS), pursuant to Chapter 601 of 49 United States Code inspected the Magellan Pipeline Holdings, LP (Magellan) pipelines and facilities from Cushing to Drumright and from Drumright to Healdton all in the state of 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. §195.49 Annual Report.

Each operator must annually complete and submit DOT Form PHMSA F 7000-1.1 for each type of hazardous liquid pipeline facility operated at the end of the previous year. An operator must submit the annual report by June 15 each year, except that for the 2010 reporting year the report must be submitted by August 15, 2011. A separate report is required for crude oil, HVL (including anhydrous ammonia), petroleum products, carbon dioxide pipelines, and fuel grade ethanol pipelines. For each state a pipeline traverses, an operator must separately complete those sections on the form requiring information to be reported for each state.

Magellan failed to accurately complete the DOT Form PHMSA F 7000-1.1 for OPID 31579, Magellan Pipeline Holdings, L.P (Magellan). On September 1, 2010, Magellan purchased this asset from BP. As per Magellan's legal department, OPID 31579 (Magellan Pipeline Holding) is the owner of the Cushing to Drumright to Healdton Oklahoma pipelines. However, Magellan reported this asset under OPID 22610 during 2011. Magellan's compliance group was informed during the April 2012 inspection and was advised to correct this by June 15, 2012. On June 15, 2012, Magellan reported to PHMSA that there were no changes from last year's final report information for OPID 31579 and 22610.

2. §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.

Magellan failed to follow their written procedures on gathering pertinent data for evaluating and managing rights-of-way. Magellan procedure 7.05-ADM-003 for 'Right-of-way Maintenance Program', section 4.1.3 states "Annually, a company representative will accompany the aerial patrol pilot to identify areas where excavation activity or leak detection cannot be identified by air".

During the inspection, the PHMSA inspector reviewed the 'Aerial Patrol Annual R/W Inspection' record dated June 28, 2011 and based on latitudes and longitudes documented on this form; it appears that Magellan did not fly over their entire right-of-way of Healdton to Cushing system. Instead, Magellan flew over from the approximate intersection of Shell Road and Longview Road in Carter County to approximate intersection of W 201 Street South and E 770 Road in Creek/Lincoln County border. That means Magellan was short approximately 17 miles on the south side of the system (Healdton) and approximately 9 miles on the north side (Drumright). Magellan also did not fly over the entire right of way of Cushing to Drumright pipeline.

During the calendar year 2012, Magellan did fly over Drumright to Cushing on October 19, 2012 and had not performed fly over for the Drumright to Healdton right-of-way.

3. §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.

§195.430 Firefighting equipment.

(a) In proper operating condition at all times;

Magellan failed to follow their procedures for inspecting fire extinguishers at the Tribbey pump station. According to Magellan's Portable Fire Extinguishers Administrative Procedure, 5.05-ADM-076, "Employees shall: INSPECT monthly all portable fire extinguishers at each location per criteria listed on the Portable Fire Extinguisher Checklist". At the time of the inspection, Magellan did not provide records associated with the monthly inspection on five (5) portable fire extinguishers located at Tribbey Pump Station from September 2010 through February 2011. Magellan began inspecting these fire extinguishers from March 29, 2011 and onwards.

4. § 195.430 Firefighting equipment.

Each operator shall maintain adequate firefighting equipment at each pump station and breakout tank area. The equipment must be—

(a) In proper operating condition at all times;

(b) Plainly marked so that its identity as firefighting equipment is clear; and

(b) Located so that it is easily accessible during a fire.

Magellan did not maintain adequate firefighting equipment at the Drumright pump station. During the field inspection on September 29, 2012, the PHMSA inspector noted that there were no fire extinguishers or any other firefighting equipment at Drumright pump station area.

The Magellan Portable Fire Extinguishers Administrative Procedure, 5.05-ADM-076 states "DOT JURISDICTIONAL PUMP STATIONS AND BREAKOUT TANK AREAS shall have adequate firefighting equipment. This equipment shall be adequate to extinguish fires that are in the early stages of development and in no case shall be expected to fight a fully engulfed fire".

When the PHMSA inspector questioned Magellan personnel, they stated that all employees carry a fire extinguisher in their truck. Magellan did not provide any documentation that fire protection devices were not required at this facility.

5. § 195.420 Valve maintenance

(b) Each operator shall, at intervals not exceeding 7 1/2 months, but at least twice each calendar year, inspect each mainline valve to determine that it is functioning properly.

At the time of the inspection, Magellan failed to provide a record indicating that a mainline valve was inspected during the fall of 2010. Magellan did not inspect a mainline valve (S/N # 7749) on # 2 – 16" Cushing to Drumright pipeline during the Fall of 2010. It was last inspected by BP on April 7, 2010 and it was not again inspected again until March 25, 2011. As a result, Magellan exceeded 7 ½ month timeframe. Magellan purchased this asset from BP on September 1, 2010.

6. § 195.589 What corrosion control information do I have to maintain?

(c) You must maintain a record of each analysis, check, demonstration, examination, inspection, investigation, review, survey, and test required by this subpart in sufficient detail to demonstrate the adequacy of corrosion control measures or that corrosion requiring control measures does not exist. You must retain these records for at least 5 years, except that records related to Secs. 195.569, 195.573(a) and (b), and 195.579(b)(3) and (c) must be retained for as long as the pipeline remains in service.

§195.573 What must I do to monitor external corrosion control?

(c) Rectifiers and other devices. You must electrically check for proper performance each device in the first column at the frequency stated in the second column.

Device	Check Frequency
Rectifier Reverse current switch Diode Interference bond whose failure would jeopardize structural protection	At least six times each calendar year, but with intervals not exceeding 2 ½ months
Other interference bond	At least once each calendar year, but with intervals not exceeding 15 months

Magellan did not monitor interference bonds whose failure would jeopardize the structural protection six times each calendar year, with intervals not exceeding 2 ½ months.

During the April 2012 field inspection, the PHMSA inspector noted a bond at several test stations on Cushing to Drumright pipeline. When inquired whether these bonds are critical or non-critical, Magellan personnel could not produce any documentation relating to the bond inspections conducted by Magellan since purchase of this asset from BP, nor did they provide any records of inspections. When the PHMSA inspector raised this issue during the inspection, Magellan advised that the company would investigate.

As a result of the April 2012 PHMSA inspection finding, Magellan surveyed the Cushing to Drumright pipeline on April 25 and 26 of 2012 and found four critical bonds that are protecting this pipeline. These bonds are located at CPU 251(MP 1.559, HCA), J Box 600' North at BP line (MP 7.510), CPU, Texaco Road South side (MP 9.650) and East side of Oak Grove Road – CPU 252 (MP 4.300).

Magellan purchased this asset from BP on September 1, 2010, which included three breakout tanks at Drumright, the Cushing to Drumright pipeline and the Drumright to Healdton pipeline (currently not in service). Magellan inspected the critical bond on Drumright to Healdton pipeline and only once at MP 4.300 on Cushing to Drumright pipeline.

Magellan should have determined and documented which bonds failure would jeopardize the structural protection, and monitor for proper performance at the required intervals. Magellan conducted the inspection only after PHMSA inspector brought it to their attention.

7. § 195.589 What corrosion control information do I have to maintain?

(a) You must maintain a record of each analysis, check, demonstration, examination, inspection, investigation, review, survey, and test required by this subpart in sufficient detail to demonstrate the adequacy of corrosion control measures or that corrosion requiring control measures does not exist. You must retain these records for at least 5 years, except that records related to Secs. 195.569, 195.573(a) and (b), and 195.579(b)(3) and (c) must be retained for as long as the pipeline remains in service.

§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.
Offshore	least once each calendar year, but with intervals not exceeding 15 months.

Magellan failed to maintain records of the Cushing to Drumright pipeline atmospheric corrosion inspection, as required by §195.583(a) in sufficient detail to demonstrate the adequacy of corrosion control measures.

During the April 2012 inspection, the PHMSA inspector requested that Magellan provide any and all atmospheric corrosion inspection records for the Cushing to Drumright pipeline. Magellan personnel could not produce any documentation relating to atmospheric corrosion inspection conducted by Magellan since the purchase of this asset from BP, nor did they provide any records of such inspection conducted by BP.

On April 18, 2012, the Magellan representative sent an e-mail stating. "It is our intention to conduct atmospheric of above ground assets in accordance with 7.04-ADM-002". Magellan surveyed this line on April 26, 2012 for evidence of atmospheric corrosion and found fourteen locations where the pipeline is exposed to the atmosphere. Of those fourteen locations, one location was noted as "1-G 50% rusted (MP 6.900), needs coating." Because Magellan could not provide any documentation of previous inspections, the PHMSA inspector was unable to determine how long this condition has existed. During the field inspection of this location, the PHMSA inspector observed that as of November 2012, Magellan failed to clean and coat portions of pipeline in question which is exposed to the atmosphere.

Magellan purchased this asset from BP on September 1, 2010, which included three breakout tanks at Drumright, the Cushing to Drumright pipeline and the Drumright to Healdton pipe (currently not in service). Magellan inspected Drumright to Healdton pipeline for atmospheric corrosion but did not inspect the Cushing to Drumright pipeline. Magellan conducted such inspection only after PHMSA inspector brought it to their attention.

Proposed Civil Penalty

Under 49 United States Code, § 60122, you are subject to a civil penalty not to exceed \$200,000 per violation per day the violation persists up to a maximum of \$2,000,000 for a related series of violations. For violations occurring prior to January 3, 2012, the maximum penalty may not exceed \$100,000 per violation per day, with a maximum penalty not to exceed \$1,000,000 for a 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 \$104,800 as follows:

<u>Item number</u>	<u>PENALTY</u>
6	\$63,900
7	\$40,900

Warning Items

With respect to items 1, 2, 3, and 5 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 Holdings, LP being subject to additional enforcement action.

Proposed Compliance Order

With respect to items 4 and 7 pursuant to 49 United States Code § 60118, the Pipeline and Hazardous Materials Safety Administration proposes to issue a Compliance Order to Magellan Pipeline Holdings, LP. 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. All material you submit in response to this enforcement action may be 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 4-2013-5009** 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 Holdings, LP (Magellan) a Compliance Order incorporating the following remedial requirements to ensure the compliance of Magellan with the pipeline safety regulations:

1. In regard to Item Number 4 of the Notice pertaining to failure to maintain adequate firefighting equipment at Drumright pump station area, Magellan must provide adequate firefighting equipment or provide documentation to indicate that firefighting equipment is not necessary at the Drumright pump station.
2. In regard to Item Number 7 of the Notice pertaining to the failure to document atmospheric corrosion inspection of the Cushing to Drumright pipeline, Magellan must provide documentation that at MP 6.900 has been re-evaluated and corrected as to indicate that the pipe integrity is suitable for the maximum allowable operating pressure of the pipeline system. The documentation should indicate the what action Magellan has taken to correct the deficiency, while utilizing 49 CFR Part 195 and Magellan procedures.
4. Within thirty (30) days after receipt of the Final Order related to this case Magellan must complete and submit all documentation listed in items 4 and 7 of this Proposed Compliance Order.
5. It is requested (not mandated) that Magellan 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. 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.