

**NOTICE OF PROBABLE VIOLATION
and
PROPOSED COMPLIANCE ORDER**

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

January 15, 2009

Mr. Gerald Wunch
Executive Vice-President
SemStream, LP
6120 South Yale – Suite 700
Tulsa, Oklahoma 74136-4216

CPF 5-2009-5001

Dear Mr. Wunch:

On July 27 to July 31, 2008, a representative of the Pipeline and Hazardous Materials Safety Administration (PHMSA) pursuant to Chapter 601 of 49 United States Code inspected your recently activated pipeline system in Sidney, 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. **§195.214 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.**

SemStream used a welding procedure whose qualification tests failed to meet the requirements under Standard API 1104 Section 5.6.2.3 for the construction of their Sidney HVL Pipeline System.

Weld procedure ML-01 was used for making butt welds during the construction of SemStream's Sidney HVL Pipeline System. Weld procedure ML-01, however, was not qualified using destructive testing. Instead ML-01 was derived from Diamond Shamrock Refining and Marketing Company Weld Procedure No. DS-01. The tensile strength used to qualify Weld Procedure No. DS-01 did not meet the requirements of Standard API 1104, Section 5.6.2.3.

2. **§195.230 Welds: Repair or removal of defects.**
 - (a) **Each weld that is unacceptable under §195.228 must be removed or repaired. Except for welds on an offshore pipeline being installed from a pipe lay vessel, a weld must be removed if it has a crack that is more than 8 percent of the weld length.**

SemStream failed to repair weld numbers 999 and 960 during construction of their Sidney HVL Pipeline System when these welds were found to be unacceptable.

SemStream construction records for their HVL Pipeline System reveal that two (2) butt welds (numbers 999 and 960) were rejected because of low caps. SemStream had no record of the repair of these two welds.

3. **§195.577 What must I do to alleviate interference currents?**
 - (a) **For pipelines exposed to stray currents, you must have a program to identify, test for, and minimize the detrimental effects of such currents.**

SemStream appears to have stray current on their HVL Pipeline System.

SemStream performed a native CP survey shortly after construction of their Sidney HVL pipeline. Data for that survey shows native potentials for all but the facilities to be around -700mV. These levels appear to be artificially high and may indicate interference.

Proposed Compliance Order

With respect to item 1 pursuant to 49 United States Code § 60118, the Pipeline and Hazardous Materials Safety Administration proposes to issue a Compliance Order to SemStream, LP. Please refer to the *Proposed Compliance Order*, which is enclosed and made a part of this Notice.

Warning Items

With respect to items 2 and 3 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 SemStream, 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 5-2009-5001** 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 G. Davis (#121877)

PROPOSED COMPLIANCE ORDER

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

1. In regard to Item Number 1 of the Notice pertaining to inadequate welding procedure qualifications, SemStream shall qualify (per Standard API 1104, Section 5.6.2.3) the ML-01 procedure used to construct the butt welds on the Sidney HVL pipeline.
2. The welding procedures must be qualified within 30 days of receipt of the Final Order to ensure the tensile strengths are adequate.
3. SemStream, LP will notify PHMSA immediately if their welding qualification tests do not meet API 1104 standards.
4. SemStream, LP 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.