

SEPTEMBER 14, 2012

Mr. David H. Welch
President and CEO
Stone Energy Corporation
625 East Kaliste Saloom Road
Lafayette, LA 70508

Re: CPF No. 4-2011-7004

Dear Mr. Welch:

Enclosed please find the Final Order issued in the above-referenced case. It makes findings of violation, assesses a civil penalty of \$39,900, and specifies actions that need to be taken by Stone Energy Corporation to comply with the pipeline safety regulations. The penalty payment terms are set forth in the Final Order. When the civil penalty has been paid and the terms of the compliance order completed, as determined by the Director, Southwest Region, this enforcement action will be closed. Service of the Final Order by certified mail is deemed effective upon the date of mailing, or as otherwise provided under 49 C.F.R. § 190.5.

Thank you for your cooperation in this matter.

Sincerely,

Jeffrey D. Wiese
Associate Administrator
for Pipeline Safety

Enclosure

cc: Mr. Jerome F. Wenzel, Jr., Executive Vice President – Operations, Stone Energy Corporation
Mr. Rod M. Seeley, Director, Southwest Region, OPS
Mr. Alan Mayberry, Deputy Associate Administrator for Field Operations, OPS

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

**U.S. DEPARTMENT OF TRANSPORTATION
PIPELINE AND HAZARDOUS MATERIALS SAFETY ADMINISTRATION
OFFICE OF PIPELINE SAFETY
WASHINGTON, D.C. 20590**

_____)	
In the Matter of)	
)	
Stone Energy Corporation,)	CPF No. 4-2011-7004
)	
Respondent.)	
_____)	

FINAL ORDER

Between December 6-10, 2010, pursuant to 49 U.S.C. § 60117, a representative of the Pipeline and Hazardous Materials Safety Administration (PHMSA), Office of Pipeline Safety (OPS), conducted an on-site pipeline safety inspection of the integrity management program of Stone Energy Corporation (Stone Energy or Respondent) in Lafayette, Louisiana. Stone Energy operates a 30-mile crude oil system in the Gulf of Mexico.¹ The inspection included the East Cameron #46 pipeline and the West Cameron #45 pipeline located offshore of Louisiana.²

As a result of the inspection, the Director, Southwest Region, OPS (Director), issued to Respondent, by letter dated August 8, 2011, a Notice of Probable Violation, Proposed Civil Penalty, and Proposed Compliance Order (Notice). In accordance with 49 C.F.R. § 190.207, the Notice proposed finding that Stone Energy had committed various violations of 49 C.F.R. Part 195 and proposed assessing a civil penalty of \$39,900 for the alleged violations. The Notice also proposed ordering Respondent to take certain measures to correct the alleged violations.

Stone Energy responded to the Notice by letters dated September 6, 2011 and June 7, 2012 (collectively, Response). The company supplied additional information and requested that PHMSA reconsider the proposed civil penalty amount for certain alleged violations. Stone Energy did not request a hearing and therefore has waived its right to one.

FINDINGS OF VIOLATION

The Notice alleged that Respondent violated 49 C.F.R. Part 195, as follows:

¹ Pipeline Safety Violation Report (Violation Report), (August 9, 2011) (on file with PHMSA).

² *Id.*

Item 1: The Notice alleged that Respondent violated 49 C.F.R. § 195.49, which states:

§ 195.49 Annual report.

Beginning no later than June 15, 2005, each operator must annually complete and submit DOT form RSPA F 7000-1.1 for each type of hazardous liquid pipeline facility operated at the end of the previous year. A separate report is required for crude oil, HVL (including anhydrous ammonia), petroleum products, and carbon dioxide pipelines. Operators are encouraged, but not required, to file an annual report by June 15, 2004, for calendar year 2003.³

The Notice alleged that Respondent violated 49 C.F.R. § 195.49 by failing to complete and submit DOT form RSPQ F 7000-1.1 for each type of hazardous liquid pipeline operated at the end of the previous year. Specifically, the Notice alleged that although Stone Energy filed annual reports for calendar years 2005-2009, the reports included inaccurate or missing data. For example, the Notice alleged that Part J of the company's 2009 annual report stated it had conducted zero miles of integrity inspections, yet a review of its integrity assessment records showed that Stone Energy had assessed the East Cameron #46 pipeline on June 28, 2009. This particular inspection should have been reflected on Part J of the 2009 annual report.

The Notice further alleged that Stone Energy also entered zero on Part K of the 2009 annual report for the number of pipeline miles for which it had completed baseline assessments, yet the OPS inspection confirmed that the company had actually examined both the West Cameron #45 and East Cameron #46 pipelines in 2005 and 2009. The 2009 annual report should have included the appropriate mileage entry for these assessments.

In its Response, Stone Energy did not contest this allegation of violation. Accordingly, after considering all of the evidence, I find that Stone Energy violated 49 C.F.R. § 195.49 by failing to file complete annual reports for calendar years 2005-2009.

Item 2: The Notice alleged that Respondent violated 49 C.F.R. § 195.452(d)(1), which states:

§ 195.452 Pipeline integrity management in high consequence areas.

(a) . . .

(d) *When must operators complete baseline assessments?*

Operators must complete baseline assessments as follows:

(1) *Time periods.* Complete assessments before the following deadlines:

If the pipeline is:	Then complete baseline assessments not later than the following date according to a schedule that prioritizes assessments:	And assess at least 50 percent of the line pipe on an expedited basis, beginning with the highest risk pipe, not later than:
Category 1.....	March 31, 2008	September 30, 2004
Category 2.....	February 17, 2009	August 16, 2005
Category 3.....	Date pipeline begins operation	Not applicable.

³ Section 195.49 was subsequently amended, effective November 26, 2010.

The Notice alleged that Respondent violated 49 C.F.R. § 195.452(d)(1) by failing to complete baseline assessments for its pipeline segments that were located in or could affect High Consequence Areas (HCAs),⁴ prior to the deadline of February 17, 2009. In addition, it alleged that Stone Energy also failed to assess at least 50% of the highest-risk pipeline segments prior to the August 16, 2005 deadline.

Stone Energy operates approximately 32 miles of pipeline and performed its HCA identification process in 2005. During the OPS inspection, the agency determined that Stone Energy had completed baseline assessments through the use of hydrostatic testing for the West Cameron #45 pipeline and the East Cameron #46 pipeline on August 20, 2005 and June 28, 2009, respectively. Both of these assessments occurred after the deadlines and no other assessments were performed for the rest of Respondent's facilities.

In its Response, Stone Energy stated that it had discovered an additional pressure test on the East Cameron #46 Pipeline, which was conducted on February 5, 2006. Therefore, it requested that PHMSA reconsider this probable violation and the associated civil penalty. However, after a meeting with OPS on May 15, 2012, Stone Energy acknowledged this 2006 hydrotest was a spike test and could not be used as a baseline. Accordingly, I find that Respondent violated 49 C.F.R. § 195.452(d)(1) by failing to complete all baseline assessments prior to the February 2009 deadline and failing to assess 50% of its highest-risk segments prior to the August 2005 deadline.

Item 3: The Notice alleged that Respondent violated 49 C.F.R. § 195.452(f)(3), which states:

§ 195.452 Pipeline integrity management in high consequence areas.

(a) . . .

(f) *What are the elements of an integrity management program?* An integrity management program begins with the initial framework. An operator must continually change the program to reflect operating experience, conclusions drawn from results of the integrity assessments, and other maintenance and surveillance data, and evaluation of consequences of a failure on the high consequence area. An operator must include, at minimum, each of the following elements in its written integrity management program: . . .

(3) An analysis that integrates all available information about the integrity of the entire pipeline and the consequences of a failure (see paragraph (g) of this section); . . .

(g) *What is an information analysis?* In periodically evaluating the integrity of each pipeline segment (paragraph (j) of this section), an operator must analyze all available information about the integrity of the entire pipeline and the consequences of a failure. This information includes:

(1) Information critical to determining the potential for, and preventing, damage due to excavation, including current and planned

⁴ High Consequence Areas are defined as commercially navigable waterways, high population areas, other populated areas, and unusually sensitive areas. See 49 C.F.R. § 195.450.

damage prevention activities, and development or planned development along the pipeline segment;

(2) Data gathered through the integrity assessment required under this section;

(3) Data gathered in conjunction with other inspections, tests, surveillance and patrols required by this Part, including, corrosion control monitoring and cathodic protection surveys; and

(4) Information about how a failure would affect the high consequence area, such as location of the water intake.

The Notice alleged that Respondent violated 49 C.F.R. § 195.452(f)(3) by failing to develop and implement a written integrity management program (IMP) that included an analysis that integrated all available information about the integrity of its entire pipeline and the consequences of a potential failure. Specifically, it alleged that Stone Energy failed to conduct a proper information analysis that considered data gathered through the integrity assessment process, as detailed in § 195.452(g).

PHMSA alleged that during the OPS inspection, Stone Energy had been unable to demonstrate that it had integrated data from its hydrotest assessments. There was no documentation of the overall results of an integrated data analysis or any conclusions the company had reached regarding the integrity of each pipeline segment, including the nature of the integrity threats identified. Stone Energy had allegedly experienced leaks when it conducted the 2005 and the 2009 hydrotests on the West Cameron #45 pipeline. PHMSA alleged that these events should have initiated some sort of review and action by Stone Energy, including an information analysis per the integrity management requirements.

In its September 2011 Response, Stone Energy did not contest the alleged violation. However, the company stated in its June 2012 Response that it had confirmed that the West Cameron #45 pipeline did not have a leak and therefore this item had been cleared. The alleged violation, however, is for the failure to have a process that properly integrated and analyzed data from various integrity assessments. Regardless of whether or not the West Cameron #45 line experienced a leak during a particular hydrotest, Stone Energy still could not produce documentation that it had conducted a proper information analysis. Accordingly, I find that Respondent violated 49 C.F.R. § 195.452(f)(3) by failing to conduct an information analysis as part of its IMP.

Item 4: The Notice alleged that Respondent violated 49 C.F.R. § 195.452(f)(3), as quoted above, by failing to develop and implement an IMP that included an analysis integrating all available information about the integrity of its entire pipeline and the consequences of a potential pipeline failure. Specifically, the Notice alleged that Section 5.04 of Stone Energy's IMP required the company to evaluate "newly constructed or acquired pipelines....to determine whether or not segment subdividing would prove advantageous to the risk analysis process." During the inspection, OPS requested documentation of such an evaluation for the West Cameron #45 pipeline, since it consisted of two different vintages of 8-inch pipe. Stone Energy could not demonstrate that this type of evaluation had been performed. Further, Section 5.08 of the company's IMP stated that periodic evaluations conducted pursuant to § 195.452(j)(2) would

occur “at least annually,” but PHMSA alleged that documentation for such reviews only existed for years 2005 and 2006.

In its Response, Stone Energy did not contest the allegations but stated that it would perform another risk analysis for the 2009 pipeline addition to evaluate whether segmentation was warranted. The company also agreed to keep each analysis for the life of the pipe and to include the date of the analysis in the documentation. Accordingly, I find that Respondent violated 49 C.F.R. § 195.452(f)(3) by failing to follow its own IMP procedures for risk analysis and periodic evaluations.

Item 5: The Notice alleged that Respondent violated 49 C.F.R. § 195.452(f)(1), which states:

§ 195.452 Pipeline integrity management in high consequence areas.

(a) . . .

(f) *What are the elements of an integrity management program?* An integrity management program begins with the initial framework. An operator must continually change the program to reflect operating experience, conclusions drawn from results of the integrity assessments, and other maintenance and surveillance data, and evaluation of consequences of a failure on the high consequence area. An operator must include, at minimum, each of the following elements in its written integrity management program: . . .

(1) A process for identifying which pipeline segments could affect a high consequence area; . . .

(3) An analysis that integrates all available information about the integrity of the entire pipeline and the consequences of a failure (see paragraph (g) of this section); . . .

(6) Identification of preventive and mitigative measures to protect the high consequence area (see paragraph (i) of this section);

The Notice alleged that Respondent violated 49 C.F.R. § 195.452(f)(1) by failing to develop and implement an IMP that included a process for identifying which pipeline segments could affect an HCA. Specifically, it alleged that after an April 2005 integrity management audit, OPS notified Stone Energy that it needed to document the processes used to determine whether its facilities could affect an HCA.⁵ During the current inspection, OPS allegedly requested this documentation but Stone Energy still could not provide it. Therefore, it was still unknown whether the company’s Holly Beach Tank Battery could affect an HCA.

In its Response, Stone Energy requested that PHMSA reconsider this item. The company contended that it had submitted the required information after the 2005 Notice of Amendment and OPS did not request further information and that following a May 15, 2012 meeting with OPS, the parties concluded that no further action was required for this item.

I disagree. Stone Energy was charged with failing to have a process in place to identify which of

⁵ See CPF No. 4-2005-5036M and 4-2005-5039.

http://primis.phmsa.dot.gov/comm/reports/enforce/Actions_opid_0.html.

its pipeline segments could affect HCAs. Stone Energy could not produce any documentation or other proof that it had a proper process in place for identifying which of its facilities could affect an HCA, as of the date of the 2010 OPS inspection. Accordingly, I find that Respondent violated 49 C.F.R. § 195.452(f)(1).

Item 6: The Notice alleged that Respondent violated 49 C.F.R. § 195.452(f)(6), as quoted above, and § 195.452(i), which states, in relevant part:

§ 195.452 Pipeline integrity management in high consequence areas.

(a) . . .

(i) *What preventive and mitigative measures must an operator take to protect the high consequence area?*—(1) *General requirements.* An operator must take measures to prevent and mitigate the consequences of a pipeline failure that could affect a high consequence area. These measures include conducting a risk analysis of the pipeline segment to identify additional actions to enhance public safety or environmental protection. Such actions may include, but are not limited to, implementing damage prevention best practices, better monitoring of cathodic protection where corrosion is a concern, establishing shorter inspection intervals, installing EFRDs on the pipeline segment, modifying the systems that monitor pressure and detect leaks, providing additional training to personnel on response procedures, conducting drills with local emergency responders and adopting other management controls....

(3) *Leak detection.* An operator must have a means to detect leaks on its pipeline system. An operator must evaluate the capability of its leak detection means and modify, as necessary, to protect the high consequence area. An operator's evaluation must, at least, consider, the following factors—length and size of the pipeline, type of product carried, the pipeline's proximity to the high consequence area, the swiftness of leak detection, location of nearest response personnel, leak history, and risk assessment results.

(4) *Emergency Flow Restricting Devices (EFRD).* If an operator determines that an EFRD is needed on a pipeline segment to protect a high consequence area in the event of a hazardous liquid pipeline release, an operator must install the EFRD. In making this determination, an operator must, at least, consider the following factors—the swiftness of leak detection and pipeline shutdown capabilities, the type of commodity carried, the rate of potential leakage, the volume that can be released, topography or pipeline profile, the potential for ignition, proximity to power sources, location of nearest response personnel, specific terrain between the pipeline segment and the high consequence area, and benefits expected by reducing the spill size.

The Notice alleged that Respondent violated 49 C.F.R. § 195.452(f)(6) and (i) by failing to develop and implement an IMP that identified preventive and mitigative (P&M) measures to protect HCAs in the event of a pipeline failure. Specifically, it alleged that Section 6.01 of Stone Energy's IMP required the company's Integrity Assessment Team to conduct an evaluation

during its annual review meeting to determine what P&M measures were needed to enhance public safety or environmental protection. However, during the OPS inspection, Stone Energy could not produce documentation that this evaluation had occurred. The Notice further alleged that Stone Energy did not perform the required evaluations of its leak detection system and the need for emergency flow restricting devices (EFRDs).

In its Response, Stone Energy did not contest this allegation of violation. Accordingly, after considering all of the evidence, I find that Stone Energy violated 49 C.F.R. § 195.452(f)(6) and (i) by failing to develop and implement an IMP that identified preventive and mitigative (P&M) measures to protect HCAs in the event of a pipeline failure.

Item 7: The Notice alleged that Respondent violated 49 C.F.R. § 195.452(f)(7) and (k), which state:

§ 195.452 Pipeline integrity management in high consequence areas.

(a) . . .

(f) *What are the elements of an integrity management program?* An integrity management program begins with the initial framework. An operator must continually change the program to reflect operating experience, conclusions drawn from results of the integrity assessments, and other maintenance and surveillance data, and evaluation of consequences of a failure on the high consequence area. An operator must include, at minimum, each of the following elements in its written integrity management program: . . .

(7) Methods to measure the program's effectiveness (see paragraph (k) of this section); . . .

(k) *What methods to measure program effectiveness must be used?* An operator's program must include methods to measure whether the program is effective in assessing and evaluating the integrity of each pipeline segment and in protecting the high consequence areas. See Appendix C of this part for guidance on methods that can be used to evaluate a program's effectiveness.

The Notice alleged that Respondent violated 49 C.F.R. § 195.452(f)(7) and (k) by failing to perform the required program effectiveness reviews. Section 8 of Stone Energy's IMP required that Stone Energy perform annual evaluations and document these audits in a report maintained for the life of the pipe. However, Stone Energy could not produce any documentation during the OPS inspection showing compliance with its own IMP.

In its Response, Stone Energy did not contest this allegation of violation. Accordingly, after considering all of the evidence, I find that Stone Energy violated 49 C.F.R. § 195.452(f)(7) and (k) by failing to follow its own procedures for measuring the effectiveness of its IMP.

These findings of violation will be considered prior offenses in any subsequent enforcement action taken against Respondent.

ASSESSMENT OF PENALTY

Under 49 U.S.C. § 60122, Respondent is subject to an administrative civil penalty not to exceed \$100,000 per violation for each day of the violation, up to a maximum of \$1,000,000 for any related series of violations. In determining the amount of a civil penalty under 49 U.S.C. § 60122 and 49 C.F.R. § 190.225, I must consider the following criteria: the nature, circumstances, and gravity of the violation, including adverse impact on the environment; the degree of Respondent's culpability; the history of Respondent's prior offenses; the Respondent's ability to pay the penalty and any effect that the penalty may have on its ability to continue doing business; and the good faith of Respondent in attempting to comply with the pipeline safety regulations. In addition, I may consider the economic benefit gained from the violation without any reduction because of subsequent damages, and such other matters as justice may require. The Notice proposed a total civil penalty of \$39,900 for the violations cited above.

Item 2: The Notice proposed a civil penalty of \$20,600 for Respondent's violation of 49 C.F.R. § 195.452(d)(1), for failing to assess at least 50% of its highest-risk pipeline segments prior to the August 2005 deadline and for failing to complete all baseline assessments prior to the February 2009 deadline. Stone Energy did not contest either the allegations of violation or the proposed penalty amount. Accordingly, having reviewed the record and considered the penalty assessment criteria, I assess Respondent a civil penalty of \$20,600 for violation of 49 C.F.R. § 195.452(d)(1).

Item 5: The Notice proposed a civil penalty of \$19,300 for Respondent's violation of 49 C.F.R. § 195.452(f)(1) for failing to develop and implement an IMP that included a process for identifying which pipeline segments could affect an HCA. As discussed above, I found that Stone Energy was actually notified of this requirement after the April 2005 audit but still could not demonstrate, as of the date of the 2010 inspection, that it had completed this identification process. The process used by an operator for identifying the portions of its pipeline and facilities that could potentially impact high-population and environmentally sensitive areas is a fundamental step in establishing an effective IMP. The failure to identify such areas means that such higher-risk areas may not be adequately protected. Accordingly, having reviewed the record and considered the penalty assessment criteria, I assess Respondent a civil penalty of \$19,300 for violation of 49 C.F.R. § 195.452(f)(1).

In summary, upon review of all the evidence and consideration of the assessment criteria for each of the Items cited above, I assess Respondent a total civil penalty of **\$39,900**.

Payment of the civil penalty must be made within 20 days of service. Federal regulations (49 C.F.R. § 89.21(b)(3)) require such payment to be made by wire transfer through the Federal Reserve Communications System (Fedwire), to the account of the U.S. Treasury. Detailed instructions are contained in the enclosure. Questions concerning wire transfers should be directed to: Financial Operations Division (AMZ-341), Federal Aviation Administration, Mike Monroney Aeronautical Center, P.O. Box 269039, Oklahoma City, Oklahoma 73125. The Financial Operations Division telephone number is (405) 954-8893.

Failure to pay the \$39,900 civil penalty will result in accrual of interest at the current annual rate in accordance with 31 U.S.C. § 3717, 31 C.F.R. § 901.9 and 49 C.F.R. § 89.23. Pursuant to

those same authorities, a late penalty charge of six percent (6%) per annum will be charged if payment is not made within 110 days of service. Furthermore, failure to pay the civil penalty may result in referral of the matter to the Attorney General for appropriate action in a district court of the United States.

COMPLIANCE ORDER

The Notice proposed a compliance order with respect to Items 1, 3, 4, 5, 6, and 7 in the Notice for various violations of 49 C.F.R. Part 195. Under 49 U.S.C. § 60118(a), each person who engages in the transportation of hazardous liquids or who owns or operates a pipeline facility is required to comply with the applicable safety standards established under chapter 601.

Pursuant to the authority of 49 U.S.C. § 60118(b) and 49 C.F.R. § 190.217, Respondent is ordered to take the following actions to ensure compliance with the pipeline safety regulations applicable to its operations:

1. With respect to the violation of § 195.49 (**Item 1**), Respondent must submit amended PHMSA F 7000-1.1 annual reports for years 2005 through 2009, showing the actual pipe mileage of baseline assessments completed, the actual mileage of integrity inspections conducted, and the actions taken by Stone Energy based on such inspections.
2. With respect to the violation of § 195.452(f)(3) (**Item 3**), Respondent must review its IMP and develop the process it will utilize to analyze and integrate data from hydrotests. Stone Energy must also perform the required data analysis and integration.
3. With respect to the violation of § 195.452(f)(3) (**Item 4**), Respondent must perform the required periodic evaluation and determine if segmentation is necessary. Following the evaluation, Stone Energy must perform the proper risk analysis.
4. With respect to the violation of § 195.452(f)(1) (**Item 5**), Respondent must perform the appropriate "could affect" evaluation. If it is determined that the facility could affect an HCA, then the integrity program must be modified appropriately to ensure compliance with all parts of the integrity management regulation requirements for this facility.
5. With respect to the violation of § 195.452(f)(6) and (i) (**Item 6**), Respondent must perform and fully document Preventative Measures Reviews and EFRD Leak Detection Assessment Review under its IMP at the appropriate intervals, indicate what P&M measures were considered and adopted or not adopted, and document the application of a risk-based decision-making process for leak detection enhancements.
6. With respect to the violation of § 195.452(f)(7) and (k) (**Item 7**), Respondent must perform periodic self-assessments and management audits of its IMP and document the results. Stone Energy must also amend its IMP to indicate the

frequency at which program evaluation through performance measures will take place.

7. Stone Energy must complete Compliance Items 1-6 above within 90 days of receipt of the Final Order.

8. It is requested (not mandated) that Stone Energy 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.

The Director may grant an extension of time to comply with any of the required items upon a written request timely submitted by the Respondent and demonstrating good cause for an extension.

Failure to comply with this Order may result in the administrative assessment of civil penalties not to exceed \$100,000 for each violation for each day the violation continues or in referral to the Attorney General for appropriate relief in a district court of the United States.

Under 49 C.F.R. § 190.215, Respondent has a right to submit a Petition for Reconsideration of this Final Order. The petition must be sent to: Associate Administrator, Office of Pipeline Safety, PHMSA, 1200 New Jersey Avenue, SE, East Building, 2nd Floor, Washington, DC 20590, with a copy sent to the Office of Chief Counsel, PHMSA, at the same address. PHMSA will accept petitions received no later than 20 days after receipt of service of this Final Order by the Respondent, provided they contain a brief statement of the issue(s) and meet all other requirements of 49 C.F.R. § 190.215. The filing of a petition automatically stays the payment of any civil penalty assessed. Unless the Associate Administrator, upon request, grants a stay, all other terms and conditions of this Final Order are effective upon service in accordance with 49 C.F.R. § 190.5.

The terms and conditions of this Final Order are effective upon receipt of service.

Jeffrey D. Wiese
Associate Administrator
for Pipeline Safety

Date Issued