

NOTICE OF AMENDMENT

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

August 8, 2011

Stone Energy
Mr. Jerry Wenzel
Vice President, Production and Drilling
625 East Kaliste Saloom Road
Lafayette, LA 70508

CPF 4-2011-7002M

Dear Mr. Wenzel:

On December 6-10, 2011, a representative of the Pipeline and Hazardous Materials Safety Administration (PHMSA) pursuant to Chapter 601 of 49 United States Code inspected Stone Energy procedures for Integrity Management in Lafayette, Louisiana.

On the basis of the inspection, PHMSA has identified the apparent inadequacies found within Stone Energy's plans or procedures, as described below:

1. §195.452 Pipeline integrity management in high consequence areas.

(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;

The team reviewed the process used to identify High Consequence Areas. Stone Energy appears to consider all navigable waterways to not be HCA's due to reroute capabilities. Under PHMSA FAQ # 3.19 "What types of considerations would PHMSA Pipeline Safety consider reasonable for determining whether pipelines can affect commercially navigable waterways in open water? Vessels that use commercially navigable waterways in open water, typically called fairways, can be rerouted. Pipeline spills in such areas may therefore have a limited impact on commerce. This is not the case for specific routes that provide sole access to a port (e.g., where water depth may limit ships to a specific approach), or where for other reasons vessels cannot be diverted."

Stone Energy needs to determine that no navigable waterways are the sole access HCA's. If they are sole access HCA's, then Stone Energy needs to determine which, if any, pipeline segments could affect the HCA.

The team reviewed the process used to identify potential release locations. Stone Energy appears to select release points at one mile intervals up to 5 miles. The pipeline is 5.7 miles. Open water such as the Gulf of Mexico may result in spill release characteristics that are different than where terrain features could cause closely spaced releases to move differently. However, release location spacing should be technically justified and support end point identification at locations less than a mile apart.

The team reviewed the process used to identify segments that could indirectly affect an HCA. Stone Energy appears to select release points at one mile intervals, and identify corresponding segments. Stone Energy should identify HCA's by specific endpoints and show where the specific point on the pipeline where the change from could affect to could not affect occurs.

2. §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:

(3) Include in the program a plan to carry out baseline assessments of line pipe as required by paragraph (c) of this section.

(c) What must be in the baseline assessment plan? (1) An operator must include each of the following elements in its written baseline assessment plan:

(i) The methods selected to assess the integrity of the line pipe. An operator must assess the integrity of the line pipe by any of the following methods. The methods an operator selects to assess low frequency electric resistance welded pipe or lap welded pipe susceptible to longitudinal seam failure must be capable of assessing seam integrity and of detecting corrosion and deformation anomalies.

(A) Internal inspection tool or tools capable of detecting corrosion and deformation anomalies including dents, gouges and grooves;

(B) Pressure test conducted in accordance with subpart E of this part;

(C) External corrosion direct assessment in accordance with §195.588; or

(D) Other technology that the operator demonstrates can provide an equivalent

understanding of the condition of the line pipe. An operator choosing this option must notify the Office of Pipeline Safety (OPS) 90 days before conducting the assessment, by sending a notice to the address or facsimile number specified in paragraph (m) of this section.;

The team reviewed the assessment methods shown in the baseline assessment plan in Stone Energy's IMP. The process (i.e. Figure 2.2) directs Stone Energy to use an ILI tool, even though Stone has chosen to use hydro-test for assessments. Stone Energy should correct the process in their IMP to correspond to the actual process being used to select an assessment method.

3. §195.452 Pipeline integrity management in high consequence areas.

(h) What actions must an operator take to address integrity issues?

(1) *General requirements.* An operator must take prompt action to address all anomalous conditions that the operator discovers through integrity assessment or information analysis ... evaluate all anomalous conditions and remediate those that could reduce a pipeline's integrity ... demonstrate that the remediation of the condition will ensure the condition is unlikely to pose a threat to the long-term integrity of the pipeline. A reduction in operating pressure cannot exceed 365 days without an operator taking further remedial action to ensure the safety of the pipeline. An operator must comply with § 195.422 when making a repair.

(i) *Temporary pressure reduction.* An operator must notify PHMSA, in accordance with paragraph (m) of this section, if the operator cannot meet the schedule for evaluation and remediation required under paragraph (h) (3) of this section and cannot provide safety through a temporary reduction in operating pressure.

(ii) *Long-term pressure reduction.* When a pressure reduction exceeds 365 days, the operator must notify PHMSA in accordance with paragraph (m) of this section and explain the reasons for the delay. An operator must also take further remedial action to ensure the safety of the pipeline.

Stone Energy should add language to the IMP that if a temporary pressure reduction exceeds 365 days the operator must notify PHMSA and explain the reasons for the delay.

4. §195.452 Pipeline integrity management in high consequence areas.

(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:

(6) Identification of preventive and mitigative measures to protect the high

consequence area (see paragraph (i) of this section);

(i) What preventive and mitigative measures must an operator take to protect the high consequence area?

(2) Risk analysis criteria. In identifying the need for additional preventive and mitigative measures, an operator must evaluate the likelihood of a pipeline release occurring and how a release could affect the high consequence area. This determination must consider all relevant risk factors, including, but not limited to:

(i) Terrain surrounding the pipeline segment, including drainage systems such as small streams and other smaller waterways that could act as a conduit to the high consequence area;

(ii) Elevation profile;

(iii) Characteristics of the product transported;

(iv) Amount of product that could be released;

(v) Possibility of a spillage in a farm field following the drain tile into a waterway;

(vi) Ditches along side a roadway the pipeline crosses;

(vii) Physical support of the pipeline segment such as by a cable suspension bridge;

(viii) Exposure of the pipeline to operating pressure exceeding established maximum operating pressure.

The team reviewed the Risk Analysis Process. Stone Energy Integrity Management Plan section 5.03 appears to contain some risk input information that would not be relevant to your offshore pipelines while omitting other risk input information that would seem to be appropriate for offshore pipelines. (i.e. fishing, drilling, shipping navigation)

Response to this Notice

This Notice is provided pursuant to 49 U.S.C. § 60108(a) and 49 C.F.R. § 190.237. 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.

If, after opportunity for a hearing, your plans or procedures are found inadequate as alleged in this Notice, you may be ordered to amend your plans or procedures to correct the inadequacies (49 C.F.R. § 190.237). If you are not contesting this Notice, we propose that you submit your amended procedures to my office within 30 days of receipt of this Notice. This period may be extended by written request for good cause. Once the inadequacies identified herein have been addressed in your amended procedures, this enforcement action will be closed.

It is requested (not mandated) that Stone Energy maintain documentation of the safety improvement costs associated with fulfilling this Notice of Amendment (preparation/revision of plans, procedures) and submit the total to R. M. Seeley, Director, Southwest Region, Pipeline and Hazardous Materials Safety Administration. In correspondence concerning this matter, please refer to **CPF 4-2011-7002M** 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

Enclosure: *Response Options for Pipeline Operators in Compliance Proceedings*