

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

**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 4-2011-7004**

Dear Mr. Wenzel:

On December 6-10, 2010, 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.

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**

**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.**

Stone Energy (Stone) did not submit accurate annual reports. Stone submitted PHMSA Form 7000-1.1 for years 2005 through 2009 but the data included in the report was not accurate. For example, data from the 2009 annual report Part J (Integrity Inspections Conducted and Actions Taken Based on Inspection) shows an entry of 0 miles. During the inspection, integrity assessments were reviewed that indicate IM assessments were performed through a hydrostatic test. The East Cameron 46 pipeline was assessed on June 28, 2009.

Additionally, Data in Part K (Mileage of Baseline Assessments Completed) from the 2009 report shows an entry of 0 miles for all dates. This does not appear to be accurate considering that assessment records for both the West Cameron 45 pipeline and the East Cameron 46 pipeline were examined at the inspection. There should have been mileage entries for assessments made in 2005 and 2009. In reviewing older annual reports they too, do not indicate the data accurately in Part K.

**2. §195.452 Pipeline integrity management in high consequence areas.**

**(d) When must operators complete baseline assessments? Operators must complete baseline assessments as follows:**

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

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

Stone did not assess at least 50% of their highest risk segments prior to the August 2005 deadline and failed to complete all baseline assessments prior to the February 2009 deadline. Stone operates approximately 32 miles of pipeline and performed their HCA identification in 2005. The team reviewed the baseline assessment records. Specifically, the West Cameron 45 pipeline and the East Cameron 46 pipeline hydro-test records, which indicated that these two assessments were completed on August 20, 2005 and June 28, 2009 respectively. Both of these were after the deadlines and no other assessments were performed.

3. **§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:**

**(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 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.**

Stone did not perform the necessary data analysis or data integration. Stone's IM program Section 3 briefly talks about integration of information, but it focuses on ILI assessments. There is no process identified that addresses how Stone will document their integration of data from hydro-test assessments. During the inspection, PHMSA asked Stone to demonstrate compliance with the regulation. Stone was unable to demonstrate that they had integrated the information from their hydro-test assessments. There was no documentation of the overall results of integrated data analysis and conclusions regarding the integrity of the segment, including the nature of the integrity threats identified. The 2005 and the 2009 West Cameron 45 pipeline hydro-tests experienced leaks. These events should have initiated some review and action by Stone which should be documented per the IM requirements.

4. **§195.452(f) (See Above)**

**(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 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.**

**(j) What is a continual process of evaluation and assessment to maintain a pipeline's integrity?**

**(2) Evaluation. An operator must conduct a periodic evaluation as frequently as needed to assure pipeline integrity. An operator must base the frequency of evaluation on risk factors specific to its pipeline, including the factors specified in paragraph (e) of this section. The evaluation must consider the results of the baseline and periodic integrity assessments, information analysis (paragraph (g) of this section), and decisions about remediation, and preventive and mitigative actions (paragraphs (h) and (i) of this section).**

Stone did not follow their procedures in performing their Risk Analysis. Stone Energy IMP section 5.04 states that they did not segment the existing pipelines but goes on to say: “Newly constructed or acquired pipelines will be evaluated to determine whether or not segment subdividing would prove advantageous to the risk analysis process.”

The team reviewed the available documentation for Stone’s Risk Analysis. West Cameron 45 pipeline consists of two different vintages of 8 inch pipeline, 1987 and 2009. PHMSA asked Stone to provide the evaluation of the newly constructed line to see if segmentation would be warranted. Stone could not demonstrate that the evaluation was performed.

Stone’s section 5.08 states that the frequency of the evaluation “will be at least annually.” Appendix I “Risk Analysis” indicates some reviews were performed in 2005 and 2006. The last entry states that EC45 risk analysis was “tabled.” No further indications are made regarding Stone’s risk analysis. Stone’s Recordkeeping Manual Section 9 “Pipeline Integrity Management Risk Analysis Reviews” did list some dates that imply a review was conducted but did not contain content of the Risk Analysis Review Meeting such as factors considered or results. Neither of these “records” contains the required content to demonstrate that an adequate risk analysis review was conducted.

**5. §195.452(f) (See Above)**

**(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);**

Following the April 2005 IM audit, Stone was notified that they needed to document the process(es) used and determinations made in determining whether facilities could or could not effect HCAs (See CPF # 4-2005-5036M and 4-2005-5039). During this inspection, PHMSA followed-up on this issue and Stone could not demonstrate that it had completed the evaluations and it is still unknown if this facility could affect an HCA. Subsequently, no assessment or other IM required actions have been taken in regards to the Holly Beach Tank Battery, a jurisdictional facility.

**6. §195.452(f) (see above.)**

**(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?*

**(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

**(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.

Stone did not perform the required evaluations as specified in their IM Plan.

Stone's IM Plan section 6.01 states that the Integrity Assessment Team must conduct an evaluation during the annual review meeting. During the inspection PHMSA asked to see the documentation where Stone reviewed and evaluated the required elements related to the Preventative and Mitigative Measures. None was provided. PHMSA also reviewed Stone's IMP Recordkeeping Manual Section 8 Preventative Measures Reviews. This section lists several measures that Stone will consider but lacks specific determination and implementation specifics. It does not indicate what preventative and mitigative measures were considered, adopted or not adopted.

Stone's IM Plan section 6.06 states that the Integrity Assessment Team must conduct an evaluation during the annual review meeting. During the inspection PHMSA asked to see the documentation where Stone reviewed and evaluated the required elements related to the Leak detection system. None was provided. PHMSA also reviewed Stone's IMP Recordkeeping Manual Section 10 EFRD/Leak Detection Assessment Review but it does not contain documentation of the application of a risk-based decision-making process for leak detection enhancements.

Stone did not perform the required evaluation to determine if EFRD's are required. There are currently no EFRD's installed on Stone's pipeline systems. During the inspection PHMSA asked to see the documentation where Stone evaluated and determined that EFRD's were not required. None was provided.

7. §195.452(f) (see above.)

**(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.***

Stone did not perform the required program effectiveness reviews. Stone's IM plan section 8 indicates that Stone will perform annual evaluations and will document these in an "Annual Evaluation Report" to be kept for the life of the pipeline. During the inspection PHMSA asked Stone to demonstrate compliance with this requirement and no documentation of periodic self assessments or management audits was produced.

Stone Energy IMP does not indicate the frequency at which program evaluation through performance measures will take place. Stone Energy IMP Recordkeeping Manual Section 13 Programs Effectiveness contains one document with no date or the individuals involved in this review.

Proposed Civil Penalty

Under 49 United States Code, § 60122, you are subject to a civil penalty not to exceed \$100,000 for each violation for each day the violation persists up to a maximum of \$1,000,000 for any related series of violations. The Compliance Officer has reviewed the circumstances and supporting documentation involved in the above probable violation(s) and has recommended that you be preliminarily assessed a civil penalty of \$39,900 as follows:

<u>Item number</u>	<u>PENALTY</u>
2	\$20,600
5	\$19,300

Proposed Compliance Order

With respect to items 1, 3, 4, 5, 6, and 7 pursuant to 49 United States Code § 60118, the Pipeline and Hazardous Materials Safety Administration proposes to issue a Compliance Order to Stone Energy. 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. 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 4-2011-7004** 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 Stone Energy a Compliance Order incorporating the following remedial requirements to ensure the compliance of Stone Energy with the pipeline safety regulations:

1. In regard to Item Number 1 of the Notice pertaining to Annual Reports. Stone Energy shall submit amended PHMSA F 7000-1.1 annual reports for years 2005 through 2009 showing actual mileage of baseline assessments completed and actual mileage of integrity inspections conducted and actions taken based on inspection.
2. In regard to Item Number 3 of the Notice Stone must review their IM Plan and develop the process they will utilize to analyze and integrate data from hydrotests. Stone must also perform the required data analysis and integration.
3. In regard to Item Number 4 of the Notice Stone must perform the required evaluation and determine if segmentation is necessary. Following the evaluation, Stone should perform the proper risk analysis.
4. In regard to Item Number 5 Stone must perform the appropriate “could affect” evaluation. If it is determined that the facility could affect an HCA then the integrity program should be modified appropriately to ensure compliance with all parts of the integrity management regulation requirements for this facility.
5. In regard to Item Number 6 of the Notice Stone should perform and fully document Preventative Measures Reviews and EFRD/Leak Detection Assessment Review at the appropriate intervals and documented to indicate what preventative and mitigative measures were considered, adopted or not adopted and documentation of the application of a risk-based decision-making process for leak detection enhancements.
6. In regard to Item Number 7 of the Notice Stone shall perform periodic self assessments and management audits of its IMP process and document the results. Stone Energy shall amend its IM Plan to indicate the frequency at which program evaluation through performance measures will take place.
7. Stone Energy should complete items 1 through 7 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.