



September 6, 2011

Mr. R.M. Seeley
Director, Southwest Region
Pipeline and Hazardous Materials Safety Administration
8701 South Gessner, Suite 1110
Houston, TX 77074



Reference: CPF 4-2011-7004
Dated: August 8, 2011

Dear Mr. Seeley,

We have received your letter dated August 8, 2011 following an inspection on December 6-10, 2010. The inspection included the East Cameron 46 pipeline and the West Cameron 45 pipeline located Offshore Louisiana.

Your letter listed probable violations of the Pipeline Safety Regulations, Title 49, Code of Federal Regulations. The following is a list of the identified probable violations and Stone Energy's responses:

1. 49 CFR 195.49 Annual report.

Stone Energy did not submit accurate annual reports. Stone Energy submitted PHMSA Form 700-1.1 for years 2005 through 2009 but the data included 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. 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.

Stone Energy Response: Stone Energy will review the assessment records from 2005 through 2010 and compare with the PHMSA Form 700-1.1 Forms filed for those years. Any discrepancies will be resolved by filing corrections for those years.

2. 49 CFR 195.452 Pipeline integrity management in high consequence areas.

Stone Energy 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. [This probable violation is assessed a civil penalty of \$20,600]

Stone Energy Response: After further investigation, Stone Energy has discovered an additional pressure test on the East Cameron 46 Pipeline that was conducted on February 5, 2006. We have included the pressure test as Attachment A. We are respectfully requesting DOT reconsider the civil penalty based on our findings.

3. 49 CFR 195.452 Pipeline integrity management in high consequence areas.

Stone Energy did not perform the necessary data analysis or data integration. Stone Energy'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 Energy will document their integration of data from hydro-test assessments. During the inspection, PHMSA asked Stone Energy to demonstrate compliance with the regulation. Stone Energy 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 2009 West Cameron 45 pipeline hydro-tests experienced leaks. These events should have initiated some review and action by Stone Energy which should be documented per the IM requirements.

Stone Energy Response: Stone Energy will evaluate previous pressure tests and determine how we to integrate the data from previous assessments.

4. 49 CFR 195.452(f) (See above)

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

Stone Energy'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 Energy's risk analysis. Stone Energy'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 was conducted.

Stone Energy Response: Stone Energy will perform another risk analysis for the 2009 pipeline addition to evaluate if segmentation would be warranted. The analysis will be added to Stone Energy's Recordkeeping Manual and will be kept for the life of the pipeline. Stone Energy will in all future Risk Analysis create static copies including the date of the analysis instead of updating one master report. Each annual analysis will be kept for the life of the pipeline in the Recordkeeping Manual.

5. 49 CFR 195.452(f) (See above)

Following the April 2005 IM audit, Stone Energy was notified that they needed to document the process(es) used and determinations made in determining whether facilities could or could not effect HCA's (See CPF # 4-2005-5036M and 4-2005-5039). During this inspection, PHMSA followed-up on this issue and Stone Energy 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. [This probable violation is assessed a civil penalty of \$19,300.]

Stone Energy Response: Stone Energy created Appendix A2 of the Integrity Management Program and submitted the information to the DOT as instructed on the April 2005 Notice of Amendment. Stone Energy had determined there were no HCA's that could be affected based on this flowchart and once submitted to DOT, there was no additional information requested from DOT based on our submittal. We are respectfully requesting you reconsider the violation based on our 2005 submittal and no objection from DOT.

6. 49 CFR 195.452(f) (See above)

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

Stone Energy'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 documentations where Stone Energy reviewed and evaluated the required elements related to the Preventative and Mitigative Measures. None was provided. PHMSA also reviewed Stone Energy's IMP Recordkeeping Manual Section 8 Preventative Measures Reviews. This section lists several measures that Stone Energy 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 Energy'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 Energy reviewed and evaluated the required elements related to the Leak detection system. None was provided. PHMSA also reviewed Stone Energy'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 Energy Response: Stone Energy has prepared a binder of recordkeeping documentation and all annual meeting minutes, action items and documentation (although not presented in an "annual report" is all contained in the recordkeeping documentation) from 2005 to 2011. The 2011 Integrity Management Team Annual review will better focus on a specific annual review and evaluation of all results contained in the Integrity Management Program.

7. 49 CFR 195.452(f) (See above)

Stone Energy did not perform the required program effectiveness reviews. Stone Energy's IM plan section 8 indicates that Stone Energy 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 were produced.

Stone Energy IMP does not indicate the frequency at which program evaluations 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.

Stone Energy Response: The Stone Energy Integrity Management Program outlines an annual review checklist which was presented in our 2005 audit and accepted by the DOT inspectors. Stone Energy will continue to conduct an annual review of the two pipelines in our Integrity Management Program and prepare more formal documentation of the program effectiveness reviews.

September 6, 2011

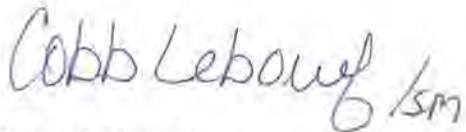
Mr. R.M. Seeley

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It is toward Stone Energy's continuing commitment to operate in a manner that not only complies with Federal regulations, but ensures the safety of all operating personnel and affected population that we appreciate this opportunity to address the items brought forth in your letter. Should specific items provided to evidence our compliance, or proposed time frame to achieve compliance be found not sufficient, please advise so that we may remedy the issue as soon as possible.

If you have any questions or require any additional information please feel free to contact me at (337) 521 0213.

Sincerely,

A handwritten signature in blue ink that reads "Cobb Lebouef" followed by a stylized "sm" or "lsm" monogram.

Cobb Lebouef
Stone Energy