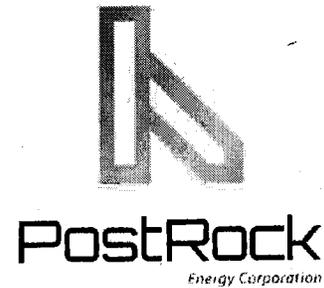


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December 1, 2011

VIA EXPRESS MAIL

David Barrett
Director, Central Region
Pipeline and Hazardous Materials Safety Administration
U.S. Department of Transportation
901 Locust Street, Suite 462
Kansas City, MO 64106-2641

RE: CPF 3-2011-1014, Response of PostRock KPC Pipeline, LLC

Dear Mr. Barrett:

This correspondence constitutes the Response of PostRock KPC Pipeline, LLC ("PostRock") to the subject Notice of Probable Violation, Proposed Civil Penalty and Proposed Compliance Order dated August 23, 2011 (the "Notice").

Introductory Statement

The Notice lists five probable violations of the Pipeline Safety Regulations (49 CFR Part 192). Items 1, 3, 4 and 5 are the subject of a proposed Compliance Order. In addition, a Civil Penalty is proposed regarding Items 1, 3 and 4, totaling \$65,000. And, lastly, a warning is proposed regarding Item 2.

In response, PostRock does not seek to contest any of the violations alleged in the Notice. We do, however, submit herein explanations, information and other materials which we respectfully urge warrant reduction of the proposed Civil Penalty. We also respectfully request two amendments to the Proposed Compliance Order.

Substantive Comments

Item 1. §192.465 External corrosion control: Monitoring.

The first probable violation identified in the Notice concerns a failure to take "prompt remedial action" to correct deficiencies associated with 12 test station locations on PostRock's 8-

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inch P-80 pipeline that at some time in the past were either broken or exhibited low rectifier readings.

It should be noted, however, that seven of the 12 cited deficiencies relate to a period of time *before* PostRock owned or operated the P-80 line. In late 2007, PostRock acquired the P-80 line as well as several others from Enbridge Midcoast Energy, L.P. ("Enbridge"). In that transaction, PostRock acquired all ownership interest in two entities which owned the subject pipeline assets. Therefore, while PostRock does not dispute its legal responsibility for the failures of the previous owner/operator, it should, nevertheless, be noted that those deficiencies did not occur on PostRock's watch.

The P-80 line was originally owned by Phillips Petroleum (now ConocoPhillips) and Conoco Phillips still owns two lines in the same right of way. Because of this, PostRock contracts with ConocoPhillips to perform corrosion control monitoring since it is already doing such for its own lines. Hence, again, while PostRock is ultimately responsible for the compliance deficiency, the failure was not *directly* PostRock's; although, admittedly, we failed in our oversight of ConocoPhillips' performance of said monitoring agreement.

At the time of PHMSA's subject inspection, only four of the 12 deficiencies identified remained uncorrected. *Each* of those conditions has been remedied as of the date hereof. A copy of PostRock's annual inspection for 2011 is enclosed for your information, marked as "Exhibit 1".

Item 2. §192.476(c) Internal corrosion control: Design and construction of transmission line.

Concerning this probable violation, the Notice states that in connection with the reconfiguration of its pipelines in September, 2010, PostRock failed to perform an evaluation of the impact of the change on internal corrosion risk "prior to placing the pipelines into service for bidirectional flow."

Respectfully, PostRock submits that the subject regulation does not require that the required evaluation be performed *prior* to placing the reconfigured lines into service. Indeed, even if reconfiguration increased the risk of internal corrosion, any failure that might occur would not be immediate, but would occur over time. At the time of PHMSA's inspection, the reconfiguration had just recently been accomplished.

In any event, following PHMSA's inspection, PostRock performed the requisite evaluation. As stated in PostRock's letter of August 17, 2011, based upon that evaluation, we determined that no internal corrosion risk was created due to the reconfiguration and that adequate and appropriate measures are in place for removal of any liquids and for internal corrosion monitoring. A copy of the August 17 letter is enclosed, marked as "Exhibit 2". Installation of the two corrosion monitoring stations mentioned in that letter was completed in September. In addition, PostRock engaged a third party, Shafer, Kline & Warren, Inc. ("SKW"), to perform an independent corrosion risk analysis. SKW likewise concluded that the reconfiguration would not result in production of liquids and posed no risk for internal corrosion.

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A copy of SKW's report dated November 13, 2011 is enclosed, marked as "Exhibit 3" (the backup data for the SKW report is available at our offices should you wish to review the same.

Item 3. §192.481 Atmospheric corrosion control: Monitoring

As noted in Item 1 above, while acknowledging legal responsibility for the pre-2008 deficiencies, PostRock was not the owner/operator during those years. Regarding the failure to inspect exposed portions of pipeline during the past three years, however, the blame falls squarely on our operations. Unfortunately, during said period, a former employee falsely reported internally that the subject inspections were being performed. In any event, regarding this Item, we acknowledge our failing and commit to improvement and compliance going forward. Toward this end, we are in the process of acquiring a new software program (SmartPipe from The Compliance Group). This software will automatically notify our personnel of needed surveys, provide a repository for inspection reports and simplify the monitoring process, all of which will help us ensure on-going regulatory compliance. We expect to have the new system up and running in the second quarter of 2012. The initial cost for the software and setup is approximately \$30,000, with an annual licensing fee of \$25,000 thereafter.

Item 4. §192.479(a) Atmospheric corrosion control: General.

The four locations identified in the Notice have been inspected, cleaned and coated. PostRock reported such to PHMSA in mid-September. A copy of the materials previously submitted to PHMSA is enclosed, marked as "Exhibit 4".

Item 5. §192.605(c)(4) Procedural manual for operations, maintenance and emergencies.

Our internal investigation of this probable violation determined that our operations manual and, in particular, a decision-matrix contained in the manual were deficient. This resulted in a misunderstanding of the regulation among our staff. The operations manual and the referenced matrix were in use when PostRock acquired the pipelines from Enbridge in 2007 and their use simply continued after the acquisition. A copy of the pertinent portion of the subject manual and of the matrix is enclosed, marked as "Exhibit 5".

In response to Item 5, we have revised the manual and the matrix to reflect the correct application of the regulation. A copy of the new portion of the manual and of the matrix is enclosed, marked as "Exhibit 6". In addition, we have conducted additional training for all operations and gas control personnel concerning the new matrix and the correct interpretation and application of §192.605(c).

Proposed Civil Penalty

In the Notice, PHMSA proposes to impose civil penalties totaling \$65,000 in connection with Items 1 (\$28,900), 2 (\$22,700) and 4 (\$13,400).

The regulations provide the following penalty assessment considerations at § 190.225.

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In determining the amount of a civil penalty under this part,

(a) The Associate Administrator, OPS shall consider:

(1) The nature, circumstances and gravity of the violation, including adverse impact on the environment;

(2) The degree of the respondent's culpability;

(3) The respondent's history of prior offenses;

(4) The respondent's ability to pay;

(5) Any good faith by the respondent in attempting to achieve compliance;

(6) The effect on the respondent's ability to continue in business; and

(b) The Associate Administrator, OPS may consider:

(1) The economic benefit gained from violation, if readily ascertainable, without any reduction because of subsequent damages; and

(2) Such other matters as justice may require.

Based upon the facts recited above and under the subject assessment considerations, we respectfully request that the proposed civil penalty be reconsidered.

First and foremost, none of the probable violations resulted in any adverse impact on the environment. Moreover, while every violation must be taken seriously, in general, the Items at issue concern long-term corrosion monitoring and prevention rather than acute conditions which pose more immediate hazard. Second, at least in some instances, the cited deficiency was attributable to a time period prior to PostRock's acquisition of the pipelines. Third, PostRock is not a repeat offender—this is the first Notice of Probable Violation and the first Proposed Civil Penalty that we have received since acquiring these pipelines in 2007. Fourth, as shown above, we have demonstrated good faith in attempting to achieve compliance by addressing each of the five Items raised in the Notice since receiving the same in mid-September. Fifth, there was no economic benefit derived from the probable violations. The subject Items arose from omission, not commission. We believe that our actions in response to the probable violations demonstrate our commitment to compliance and that the deficiencies identified were not by design and were not motivated by profit. In summary, we respectfully submit that the §190.225 factors militate in favor of elimination of the proposed penalty or, at a minimum, a substantial reduction.

Proposed Compliance Order

As demonstrated herein, PostRock has already effected compliance with much of the Proposed Compliance Order, and, therefore, has no objection to those portions of the order.

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Regarding a few proposed provisions, however, we request some modification as discussed below.

Paragraph 1. PostRock submits that it has as of the date hereof complied with this provision.

Paragraph 2. PostRock submits that it has as of the date hereof complied with the provisions of subpart (i). Regarding subpart (ii), we have proactively performed an inspection of creek crossings and spans, and have inspected the pipelines to locate and identify pipe exposed due to surface erosion. Through this effort, we have identified 204 locations which require attention (see spreadsheet enclosed, marked as "Exhibit 7"). We have thus far performed the required corrosion protection work at roughly one-fourth of those sites (the completed sites are indicated in red on Exhibit 7). We have prioritized the remaining sites based upon (a) proximity to high density population areas ("HCAs") and (b) flow volumes. The first priority sites are designated in yellow on Exhibit 7. In addition, any site which we determine on inspection needs immediate attention will be given top priority. Otherwise, following the sites near HCAs, the next priority will be the P-50, P-60 and P-70 lines between Thrall and Kansas City and the P-90 line. The third priority will be P-30, P-40, P-100 and P-110; the fourth priority will be P-10; and the fifth will be P-80.

We estimate that by utilizing our own personnel, we can perform the required work at all of the remaining identified sites at a cost of \$700,000 to \$1.2 million—a significant investment for our small company. However, in order to accomplish the task with our personnel, the work will need to be scheduled and performed over a time period in excess of the 12 month time frame contained in the proposed order. Compliance with the one-year time frame mandated in the proposed order will effectively preclude us from utilizing our own personnel to perform the work, as we simply do not have the manpower necessary. The net effect of this is that we will have to utilize a third party contractor, which we estimate will increase the cost of compliance by up to \$500,000. Again, this is a substantial sum for our size company.

In view of this, we respectfully request that paragraph 2(ii) of the proposed order be modified to allow us until January 31, 2014 to complete the work at all identified sites. KPC is primarily a winter-load pipeline. Our operations team utilizes the months of April thru October to perform non-emergency maintenance and repair projects. The extension of time requested will, in essence, give us two full seasons to perform the work. We will provide PHMSA with a report quarterly itemizing the work done and the amount spent in connection therewith. Given the fact that a majority of the identified sites are located in remote, rural areas and many are on lines which operate with low or no gas flow, we believe that any risk associated with an extended repair period is extremely small.

Paragraph 3. PostRock submits that as of the date hereof, it has complied with the provisions of subparts (i), (ii) and (v). A roster of the employees who have received the supplemental training referred to in Item 5 above is enclosed, marked "Exhibit 8". Regarding subparts (iii) and (iv), we acknowledge that due to the inadequacies of our operations manual and decision-matrix discussed in Item 5 above, there were undoubtedly occasions within the past 36 months when abnormal operations occurred that were not identified as such by our personnel.

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Because such events were not at the time identified as abnormal operating conditions, they were not documented. For this reason, it is not practicable for PostRock to perform the evaluation required under subpart (iii). As for subpart (iv), we have confirmed by review of the log referenced in subpart (ii) that since the supplemental training and revision of our operations manual, our personnel are correctly identifying abnormal operating conditions. Examples reflecting such are enclosed, marked as "Exhibit 9".

Paragraph 4. As this provision is a request only, no response is necessary.

Conclusion

We wish to assure PHMSA that PostRock takes its regulatory obligations very seriously and is committed to fostering a company culture that reflects such. We trust that our actions since PHMSA's inspection demonstrate our good faith commitment to compliance. We do not contest the five Items recited in the Notice. We do, however, request (a) reconsideration and either elimination or a substantial reduction of the proposed civil penalties, and (b) modification of the proposed order by (i) extending the deadline until January 31, 2014 for completion of repairs to crossings, spans and exposed pipe under paragraph 2(ii), and (ii) deleting subpart (iii) of paragraph 3 and delimiting the scope of subpart (iv) accordingly.

Thank you for your consideration. We look forward to meeting with you at 1:30 p.m. on December 6 to further discuss this matter.

Respectfully submitted,



Tom A. Saunders
Executive Vice President

Enclosures

c: Gabriel Hodill (via email)
Warren Miller (via email)