

KEY PIPELINES

355 Ashland Loop Rd., Ashland, OR 97520
Ph. 541/488-2920 Fax 541/482-8075

November 30, 2007

Chris Hoidal
Director, Western Region, PHMSA
12300 West Dakota Avenue, Suite 110
Lakewood, Colorado 80228

SENT TO COMPLIANCE REGISTRY
Hardcopy Electronically
of Copies 1 / Date 12/19/07

RE: CPF 5-2007-5039

Dear Mr. Hoidal,

On November 15, we received the Notice of Probable Violation, Proposed Civil Penalty and Proposed Compliance Order issued on November 5, 2007 and received by Key Pipeline on November 15, 2007 in the above-referenced case.

This letter serves as a response to the notice, the compliance order and penalty.

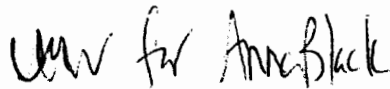
Key Pipelines remains fully committed to our responsibility as a safe, fair and compliant very small pipeline operator. We have spent considerable time and resource affecting our safe and compliant operation and trust that you will agree with our efforts when you review the work that we have done and consider this fully upon your review.

The enclosure contains the following:

- a matrix of the items identified as probable violations referenced to proposed compliance orders
- Our response to the civil penalty and financial analysis

Thank you for your consideration in this matter. Should you have any questions, please do not hesitate to contact me at 541.488.2920.

Respectfully,



Anna Black
Owner
Key Pipeline, Ltd.

Letter to Chris Hoidal
CPF 5-2007-5039

Proposed Civil Penalty

A proposed civil penalty of \$15,000 has been recommended regarding item 5 in the notice of probable violations.

As our response indicates, the established procedures for monitoring movements from Dwyer to Guernsey do not require the use of the non-functioning pressure recorder. As explained in item 3, the entire movement is monitored on a continuous basis by Key personnel. This includes the monitoring of pipeline pressures and flow rates to confirm that they are within expected ranges. The operating data is manually recorded on forms that are a part of the facility records. The Dwyer operator records the pipeline discharge pressure and volume pumped on an hourly basis throughout the delivery. The operator does not leave the facility (as mistakenly reported in the NOPV) but remains at the location for the sole purpose of monitoring the movement and recording the required data. The pressure recorder is not a necessary part of this operation is its inoperability must not be viewed as a violation of the regulations.

Given this and your consideration of the nature, circumstances, and gravity of the violation, degree of our culpability, history of our prior offenses, our ability of pay the penalty, our good faith in attempting to achieve compliance and our ability to continue in business, I respectfully request the elimination of the penalty due to the following issues.

While you are considering our request regarding the assessment of penalties, we have aggressively undertaken a set of actions to comply with the pipeline safety regulations.

Warning Item

The warning item noted in item 2 regarding procedural manual review, we have put practice in place to ensure compliance.

**KEY PIPELINE LTD.. - PHMSA NOTICE OF PROBABLE VIOLATION, PROPOSED CIVIL PENALTY,
and PROPOSED COMPLIANCE ORDER - CPF 5-2007-5039**

RESPONSE TO NOPV, PENALTY AND PROPOSED COMPLIANCE ORDER			PROPOSED COMPLIANCE ORDER ITEM #
NOPV ITEM #	ORDER	RESPONSE	
1	Adequate relief protection of the 8" line...	Key is expediting a project to provide adequate relief protection for the 8" pipeline from the Kaneb (now Plains) pipeline system to the Dwyer storage tank.	1
2	Procedural manual for operations, maintenance, and emergencies. Review...	The procedural manual was reviewed by Key personnel as recently as October, 2006. Documentation confirming that review was not completed. The need for documentation of such reviews as been reiterated to Key personnel. Subsequent reviews will be performed at annual intervals not exceeding fifteen months and will be documented.	NA
3	Procedural manual for operations, maintenance, and emergencies. (7) Starting up and shutting down any part of the pipeline system in a manner designed to assure operations...	In the continuing absence of a communication link between Dwyer and Guernsey, Key personnel have been following (and will continue to follow) an alternative procedure to assure the integrity of product deliveries. The procedure calls for personnel to be stationed at both Dwyer and Guernsey at startup and during the entire periodic shipment, monitoring the movement in and out of the pipeline and communicating by phone as needed to verify operations. The person at Guernsey opens the system and monitors receipts to confirm that they are consistent with deliveries as reported by the person at Dwyer. It is our position that this procedure is an acceptable means of confirming system integrity, and it will be strictly followed as long as there are communications links between the two locations.	2
4	Procedural manual for operations, maintenance, and emergencies. (9) In the case of facilities not equipped to fail safe that are identified under paragraph 195.402(c)(4)...	Key prepares for receipts from Kaneb (now Plains) by aligning the Dwyer manifold to receive the delivery and communicates with Plains to initiate the movement. Plains monitors and records the pressure on, and the flow rates in and out of, the Key system from their pipeline control center. Key does not have a need for knowing that information during the shipment. The Key operator records the hourly receipts into the tank and maintains contact as needed with the Plains controller. The relief system referenced in item 1 above is assurance that the system is not over-pressured.	3

**KEY PIPELINE LTD.. - PHMSA NOTICE OF PROBABLE VIOLATION, PROPOSED CIVIL PENALTY,
and PROPOSED COMPLIANCE ORDER - CPF 5-2007-5039 - continued**

RESPONSE TO NOPV, PENALTY AND PROPOSED COMPLIANCE ORDER			
NOPV ITEM #	ORDER	RESPONSE	PROPOSED COMPLIANCE ORDER ITEM #
5	<p>Maps and records. Each operator shall maintain for at least 3 years daily operating records that indicate (1) The discharge pressure at each pump station.</p>	<p>The established procedures for monitoring movements from Dwyer to Guernsey do not require the use of the non-functioning pressure recorder. As explained in item 3 above, the entire movement is monitored on a continuous basis by Key personnel. This includes the monitoring of pipeline pressures and flow rates to confirm that they are within expected ranges. The operating data is manually recorded on forms that are a part of the facility records. The Dwyer operator records the pipeline discharge pressure and volume pumped on an hourly basis throughout the delivery. The operator does not leave the facility (as mistakenly reported in the NOPV) but remains at the location for the sole purpose of monitoring the movement and recording the required data. The pressure recorder is not a necessary part of this operation is its inoperability must not be viewed as a violation of the regulations.</p>	4
6	<p>Communications Each operator must have a communication system to provide for the transmission of information needed for the safe operation of its pipeline system.</p>	<p>The current procedure for managing the pumping operation from Dwyer to Guernsey (as explained in item 3 above) and monitoring the receipt of product from Plains (as explained in item 4 above) are satisfactory and in compliance with the regulations. The communications links that may have been in place previously are not necessary to assure operational integrity.</p>	5
7	<p>Overpressure safety devices and overflow protection systems.</p>	<p>The Gould centrifugal pumps installed on the Dwyer to Guernsey pipeline have a maximum shutoff head of 480 feet (approximate 205 psi). They are manifolded in parallel such that they could not cause the line pressure to exceed 205 psi, well below the MAOP of the pipeline system. Pump curves (not available at the time of inspection) have been obtained and are now on file at the facility to confirm this information.</p>	6
8	<p>Inspection of in-service breakout tanks.</p>	<p>An API 653 inspection has been completed on the tank, and repairs called for in the inspection are in the process of being evaluated and completed.</p>	7
9	<p>Which pipelines must I protect against atmospheric corrosion and what coating material may I use?</p>	<p>The atmospheric corrosion noted on the valve on the tank inlet has been properly mitigated.</p>	8



Reid, Hanna & Company LLP
Certified Public Accountants

Partners

Thomas T Reid CPA
Marilyn J Hanna CPA
Susan M Bahr CPA
Kay L Krug CPA
Marlin J Peterson CPA

October 22, 2007

Ms. Anna Black
Key Pipeline Services, Inc.
355 Ashland Loop Road
Ashland, Oregon 97520-2803

We have compiled the accompanying statements of assets, liabilities and equity – income tax basis of Key Pipeline Services, Inc. as of September 30, 2007 and 2006, the related statements of revenue and expenses – income tax basis for the nine months then ended, and the accompanying supplementary information which is presented only for analysis purposes, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The financial statements have been prepared on the accounting basis used by the Company for income tax purposes, which is a comprehensive basis of accounting other than generally accepted accounting principles.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and supplementary information and, accordingly, do not express an opinion or any other form of assurance on them.

Management has elected to omit substantially all of the disclosures ordinarily included in financial statements prepared on the income tax basis of accounting. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the Company's financial condition. Accordingly, these financial statements are not designed for those who are not informed about such matters.

We are not independent with respect to Key Pipeline Services, Inc.

Reid, Hanna & Company LLP

Reid, Hanna & Company LLP

Key Pipeline Services, Inc.
 Statements of Assets, Liabilities & Equity-Income Tax Basis
 September 30, 2007 and September 30, 2006

	<u>Sep 30, 07</u>	<u>Sep 30, 06</u>
ASSETS		
Current Assets		
Checking/Savings		
Wells Fargo - Checking	32,877	7,861
Wells Fargo - Savings	3,002	0
Total Checking/Savings	<u>35,879</u>	<u>7,861</u>
Other Current Assets		
Investment - Key Pipelines, Ltd	9,629	9,235
Stockholder Loan	10,510	3,620
Total Other Current Assets	<u>20,139</u>	<u>12,855</u>
Total Current Assets	56,018	20,717
Fixed Assets		
Office Equipment	3,221	3,221
Accumulated Depreciation	(3,221)	(3,221)
Total Fixed Assets	0	0
Other Assets		
Organizational Costs	5,024	5,024
Accumulated Amortization	(5,024)	(5,024)
Total Other Assets	<u>0</u>	<u>0</u>
TOTAL ASSETS	<u><u>56,018</u></u>	<u><u>20,717</u></u>
LIABILITIES & EQUITY		
Liabilities		
Current Liabilities		
Other Current Liabilities		
Wells Fargo Credit Line	37,422	0
Total Other Current Liabilities	<u>37,422</u>	<u>0</u>
Total Current Liabilities	37,422	0
Long Term Liabilities		
Note Payable - Black	23,958	83,000
Note Payable - Wold	10,282	27,000
Total Long Term Liabilities	<u>34,240</u>	<u>110,000</u>
Total Liabilities	71,662	110,000
Equity		
Common Stock	1,000	1,000
Retained Earnings	(62,742)	(74,979)
Net Income	46,098	(15,305)
Total Equity	<u>(15,643)</u>	<u>(89,283)</u>
TOTAL LIABILITIES & EQUITY	<u><u>56,018</u></u>	<u><u>20,717</u></u>

See accompanying accountants' report.

Key Pipeline Services, Inc.
 Statements of Revenue and Expenses - Income Tax Basis
 For the Nine Months Ended September 30, 2007 and 2006

	<u>Jan - Sep ...07</u>	<u>Jan - Sep ...06</u>
Ordinary Income/Expense		
Income		
Pipeline Income	293,719	177,445
Partnership Income - Key Ltd.	227	490
Total Income	293,947	177,935
Expense		
Accounting	5,064	635
Bank Service Charges	75	0
Consulting Fees	4,547	8,938
Contract Services - C. Miller	24,150	23,400
Contract Services - G. Miller	19,500	18,000
Contract Services - T. Miller	2,475	1,187
Insurance	57,577	22,963
Interest Expense	3,799	28,301
Legal Fees	3,525	563
Licenses & Permits	29,939	10,215
Meals & Entertainment	0	73
Office Expenses	7,122	4,017
Pipeline Maintenance	10,709	6,676
Pipeline Operation	50,365	18,373
Pipeline Inspection	10,543	21,846
Property Taxes	2,851	1,841
Telephone	5,108	4,131
Travel & Lodging	270	0
Utilities	14,799	22,082
Total Expense	252,417	193,239
Net Ordinary Income	41,530	(15,305)
Other Income/Expense		
Other Income		
Federal Tax Refund	4,566	0
Interest Income	2	0
Total Other Income	4,569	0
Net Other Income	4,569	0
Net Income	46,098	(15,305)

See accompanying accountants' report.