

October 6th, 2014

47200 KGH OPERATING COMPANY
ATTN: Thomas Hauptman
P.O. Box 2235, Billings, MT 59103-2235

RE: Wells Out of Compliance

This Warning Letter is to inform you that the oil and gas facility or the oil and gas operations listed below may be in violation of the rules and regulations of the Colorado Oil and Conservation Commission ("COGCC") and correction action is required.

103- 09255 HELLS HOLE FEDERAL #2

NWNW 12 2S 104W

There is reasonable cause to believe that a violation of the Oil and Gas Conservation Act, or of any rule, regulation, or order of the Commission, or of any permit issued by the Commission, has occurred. The Operator's compliance with this Warning Letter is required to resolve these alleged violations. This document requires the Operator to timely respond to the COGCC and to comply with directives as listed by the **Corrective Action Deadline Date**. Failure to do so will result in the issuance of a Notice of Alleged Violation and initiation of enforcement proceedings in which COGCC will seek monetary penalties for the alleged violations pursuant to § 34-60-121, C.R.S. and Rule 523, COGCC Rules of Practice and Procedure, 2 CCR 404-1.

The COGCC requires KGH OPERATING COMPANY (Operator) to implement corrective action(s) for the conditions identified below. The listed well(s) are out of compliance with COGCC Rules 319.b.1, and 319.b.3 and 326.b.1 for Temporary Abandonment (TA) Wells and/or Rules 316B and 326.b.1 for Mechanical Integrity Tests (MIT) of Shut-In (SI) Wells.



TA Wells. Rules 319.b.1 and 319.b.3 require operators to request from the Director continued TA status and to either plug and abandon the well within six months of the well becoming temporarily abandoned or receive approval for the well to remain temporarily abandoned for longer than six months. Rule 326.b.1 requires that TA wells pass an MIT within thirty (30) days of becoming temporarily abandoned and then at five (5) year intervals after an initial successful MIT. Rule 316B requires results of mechanical integrity tests of injection wells or shut-in wells shall be submitted on Form 21, within thirty (30) days after the test. A pressure chart shall accompany this report. COGCC Rule 100 defines a well as temporarily abandoned if the well becomes incapable of production (e.g., through the removal of necessary production equipment).

Please note that any well, incapable of production should have a well status of TA. If the status of any TA well is incorrect, per COGCC records, you must update the well status within thirty (30) days of the date of this letter by filing a corrected Form 7 for each well. Temporarily Abandoned wells also require an annual Form 4 - Sundry Notices, requesting Continued Temporarily Abandoned Status. These Sundries must contain the last successful MIT date, a brief statement of future plans for the well and a declaration of how the well is closed to the atmosphere. You must request continued TA status for the listed well(s), where appropriate, within thirty (30) days of the date of this letter. Failure to file corrected Form 7s and/or failure to file a Form 4, as required, will result in the issuance of a separate NOAV.

SI Wells. Rule 326.b.1 requires that SI wells pass an MIT within two (2) years of the initial shut-in date and then at five (5) year intervals after an initial successful MIT.

The above listed well(s) is/are out of compliance, as of October 6th, 2014, for one or more of the following reasons:

TA status over 30 days without report of/or passing an initial MIT.

SI status over two years without report of/or passing an MIT.

TA/SI status has continued in excess of Five (5) years, after initial MIT, without report of a passing, follow up MIT.

Failure to submit an annual Sundry Notice requesting continued TA status.

Failure to submit, update and/or correct production records.

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How to Comply with this Warning Letter:

Your options for returning the well to compliance are to: pass an MIT, or plug and abandon the well. To comply with Rules 316B/319/326: submit a COGCC Form 42 followed by a Form 21; or file a Form 6 - Well Abandonment Report as a Notice of Intent to Abandon for approval prior to performing the work and a second Form 6 - Well Abandonment Report as a Subsequent Report of Abandonment upon completion. For additional information and guidance please see the COGCC's MIT Policy, available at:

http://cogcc.state.co.us/RR_Docs_new/Policies/COGCC_MIT_Guidance_7-6-2014.pdf

Additionally, you may be required to submit an annual Sundry Notice requesting continued TA status and submit, update and/or correct production records.

Corrective Action Deadline Date: **January 7th, 2015**

Failure to Comply with Warning Letter:

If Operator fails to perform required corrective actions, COGCC will issue a Notice of Alleged Violation and seek penalties pursuant to § 34-60-121, C.R.S. and Rule 523, COGCC Rules of Practice and Procedure, 2 CCR 404-1. (Please note that the COGCC's penalty authority was recently increased to a maximum of \$15,000 per day and penalties are no longer capped at a maximum of \$10,000 per violation.)

If you have any questions about this Warning Letter, please contact the COGCC representative below.

Sincerely,

Andrew Stone

Engineering Technician



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