



United States Department of the Interior

BUREAU OF LAND MANAGEMENT

Tres Rios Field Office
Lands and Minerals
15 Burnett Court
Durango, Colorado 81301

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3160 (CO-LLCOS01000)
COC 022687

Certified Mail: 7011 1150 0000 7455 9738

JUL 17 2014

Mr. John M. Tanner
Fairfield and Woods P. C.
1801 California Street Suite 2600
Denver, CO 80202

Re: AR Davis No. 1 and No. 2 Wells, Montezuma County, Colorado
Fairfield and Woods Letter dated May 2, 2014

Dear Mr. Tanner

In response to the reference letter the Bureau of Land Management (BLM) provides the following.

Prior to the abandonment of the AR Davis wells extensive communications had taken place between BLM and KC Resources. These communications were in the form of telephonic calls, emails, hard copy written letters, Incidences of Non-Compliance (INC's) and Civil Penalties. At no time during this process did KC Resource notify BLM that it was no longer the operator of lease (COC-022687) or the wells on the lease. Since the lease is a Federal lease, over which BLM exercises authority, notification to the Colorado Oil and Gas Commission (COGCC) does not constitute official notification to BLM. The same can be said for all post abandonment communication.

Additionally, throughout the course of events leading up to the abandonment of the AR Davis wells, it was discovered that KC Resources had no bond in place, as required by 43 CFR 3160, to be operator of the wells and lease. KC Resources posted a \$10,000 lease bond on December 14, 2010, COB000292, after the abandonment of the AR Davis well. This bond was later increased to \$50,000 on February 14, 2011 made effective November 29, 2010. The bond was increased to cover the plugging and abandonment cost associated with the Mail Trail F23-26G well, which KC Resources was returning to production and located on lease COC-022687). The initial lease bond and the subsequent rider, all were posted under KC Resources, once again affirming that KC Resources considered itself the operator of the lease and wells associated with it.

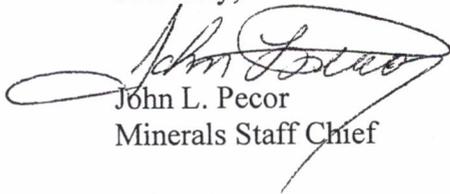
Under normal circumstances when an operator does not comply with the orders of the authorized officer, one of the enforcement actions that can be taken is the attachment of the lease bond, 43CFR 3163.1(a)(5), which then can be used to execute compliance. Since there was no lease

bond in place prior to abandonment of the AR Davis wells, BLM contacted the lessee of record, who is ultimately responsible for the lease. As the majority lessee of record BP America (formerly Amoco Production Company) accepted its lease rights responsibilities and plugged the AR Davis wells according to approved BLM procedures.

Therefore, BLM still considers KCR the operator of record and the responsible party for the reclamation of the sites. K.C. Resources has 60 days from receipt of this letter to finalize reclamation on the A. R. Davis 1, A. R. Davis 2 and CDP sites. Failure to reclaim the sites in the requested time frame will result in the initiation of enforcement actions beginning with the issuance of an Incidence of Non-Compliance (INC) and possible attachment of lease bond, COB000292, to accomplish and finalize reclamation.

If you wish to contest this decision, you have the right to a State Director Review. This request must be filed, in writing, within 20 business days of receipt of this decision, with the Deputy State Director, Resource Services, Colorado State Office, 2850 Youngfield Street, Lakewood, Colorado, 80215 (See 43 CFR 3165.3). An appeal of the State Director Review may be taken with the Interior Board of Land Appeals (See 43 CFR 3165.4 and 43 CFR, part 4).

Sincerely,



John L. Pecor
Minerals Staff Chief

Cc: Danielle Dimauro, SOL
Jerry Strahan, BLM-CSO
Atlantic Richfield Company/BP America, 1701 Summit Ave, Suite #2, Plano, TX 75074
Pioneer Natural Resources USA Inc., 1402 17th St., Suite 1200, Denver, CO 80202

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Fairfield and Woods P. C.
Attn: John M. Tanner
1801 California Street Suite 2600
Denver, CO 80202

2. Article Number
 (Transfer from service label)

COC-022687 AR DAVIS John

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PS Form 3811, February 2004

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