

NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

GARY E. JOHNSON

Governor

Betty Rivera

Cabinet Secretary

Lori Wrotenbery

Director

Oil Conservation Division

September 24, 2002

KC Resources, Inc.
P.O.Box 1118
Cardiff, CA 92007

✓ Frontier Insurance Company
9920 Pacific Heights Blvd
Suite 500
San Diego, CA 92121

Frontier Insurance Company
195 Lake Louise Marie Road
Rock Hill, NY 12775-8000

VIA CERTIFIED MAIL, RETURN RECEIPT REQUESTED

Re: Case No. 12948: Application of the New Mexico Oil Conservation Division for an Order Requiring KC Resources, Inc. to Properly Plug Four (4) Wells, Imposing Civil Penalties for Failure to Comply, Authorizing the Division to Plug Said Wells and Ordering a Forfeiture of Applicable Plugging Bond; Lea County, New Mexico

Ladies and Gentlemen:

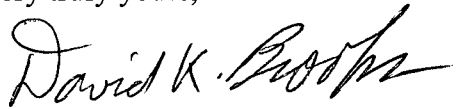
You are hereby notified that the New Mexico Oil Conservation Division has filed the referenced Application, a copy of which is enclosed herewith, seeking an Order requiring you to properly plug and abandon four (4) wells located in Lea County, New Mexico, specifically identified in said application.

A hearing on this application will take place before a Division hearing officer on Thursday, October 24, 2002, at 8:15 a.m., in the Division Hearing Room, First Floor, 1220 South St. Francis Drive in Santa Fe, New Mexico. At that hearing you will have an opportunity to show cause why an order should not be entered as requested in the Application.

Your posted blanket surety bond in the amount of \$50,000, No. 54664 issued by Frontier Insurance Company, will be forfeited if an order is entered as requested in the attached application and you fail to comply therewith.

Inquiries concerning this application may be directed to the undersigned in the Santa Fe office of the Division at (505)-476-3450.

Very truly yours,

A handwritten signature in cursive script, reading "David K. Brooks". The signature is fluid and stylized, with a prominent initial "D" and a long, sweeping underline.

David K. Brooks
Assistant General Counsel

cc: Chris Williams, OCD Hobbs

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION,
THROUGH THE SUPERVISOR OF DISTRICT I, FOR AN ORDER REQUIRING
KC RESOURCES, INC. TO PROPERLY PLUG FOUR (4) WELLS IN LEA
COUNTY, NEW MEXICO, AUTHORIZING THE DIVISION TO PLUG SAID
WELLS AND ORDERING A FORFEITURE OF APPLICABLE SECURITY
DEPOSITS.**

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OIL CONSERVATION DIV.

CASE NO. 12948

APPLICATION FOR PLUGGING AND FORFEITURE OF BOND

1. KC Resources, Inc. ("Operator") is the operator of the following wells located in Lea County, New Mexico:

New Mexico BH State NCT-1 Well No. 1 (API No. 30-025-08007) located 660 feet from the North line and 1980 feet from the West line (Unit C) of Section 11, Township 12 South, Range 32 East, Lea County, New Mexico.

New Mexico BH State NCT-1 Well No. 2 (API No. 30-025-08008) located 1980 feet from the North and West lines (Unit F) of Section 11, Township 12 South, Range 32 East, Lea County, New Mexico.

New Mexico BH State NCT-1 Well No. 4 (API No. 30-025-00110) located 990 from the North and West lines (Unit D) of Section 11, Township 12 South, Range 32 East, Lea County, New Mexico.

New Mexico BB State NCT-1 Well No. 2 (API No. 30-025-08009) located 660 feet the South line and 1984 feet from the West line (Unit N) of Section 11, Township 12 South, Range 32 East, Lea County, New Mexico.

2. Operator has posted a blanket surety bond in the amount of \$50,000 to secure its obligation to properly plug and abandon its wells, in compliance with NMSA

1978, Sec. 70-2-14 and O.C.D. Rule 101. Frontier Insurance Company is the surety on said bond, which is number 54664.

3. The New Mexico BH State NC-1 Well No. 1 has apparently never produced any hydrocarbon or carbon dioxide substance. The New Mexico BH State NCT-1 Well No. 2 has not produced any hydrocarbon or carbon dioxide substance since 1988. Operator has filed reports indicating current production of oil from the New Mexico BH State NCT-1 Well No. 4. However, inspections indicate that said well is not equipped to produce, and in fact, has not produced since prior to 1999. The New Mexico BB State NCT-1 Well No. 1 was at one time permitted as a salt water disposal well, but no substance has been injected through said well for considerably more than two years. Said wells have been abandoned and are no longer usable for beneficial purposes. No permit for temporary abandonment of any of the said wells has been requested by the Operator or approved by the Division.

4. By virtue of Operator's failure to use the subject wells for production or other beneficial purposes or to secure current temporary abandonment permits, the wells are required to be plugged.

5. Division Rule 201.B, issued pursuant to the authority of NMSA 1978, Secs. 70-2-12 and 70-2-14, requires that wells that are inactive for more than one year or are no longer usable for beneficial purposes be properly plugged.

6. Division Rule 101.M, issued pursuant to the same authority, authorizes the Division, after notice and hearing, to order the operator to plug and abandon any well or wells not in compliance with Rule 201, and to direct the Division to cause such well or

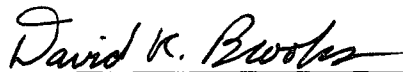
wells to be plugged in accordance with a Division approved plugging program if, after the time provided in such order, the operator and its surety, if any, have failed to do so.

WHEREFORE, the Supervisor of District I of the Division hereby applies to the Director to enter an order:

- A. Determining whether the subject wells should be plugged and abandoned.
- B. Upon a determination that the wells should be plugged, directing the Operator to plug the wells without delay, in accordance with a division-approved plugging program, and to cause the sites thereof to be remediated in accordance with Division Rule 202.B(3).
- C. Further ordering that if the Operator fails to plug and abandon the wells as ordered by the Director, the Division be authorized: (i) to plug the subject wells in accordance with a division-approved plugging program and to cause the sites to be remediated; (ii) to declare forfeit the security furnished by the Operator to the extent necessary to fully reimburse the Division for its expenses incurred in accomplishing the foregoing; and (iii) to take necessary and appropriate measures to recover from the Operator any costs of plugging the subject wells and of site remediation in excess of the amount of the security, if any.

D. For such other and further relief as the Division deems just and proper under the circumstances.

RESPECTFULLY SUBMITTED,



David K. Brooks
Assistant General Counsel
Energy, Minerals and Natural
Resources Department of the State of
New Mexico
1220 S. St. Francis Drive
Santa Fe, NM 87505
(505)-476-3450

Attorney for The New Mexico Oil
Conservation Division

U.S. Postal Service
CERTIFIED MAIL RECEIPT
 (Domestic Mail Only; No Insurance Coverage Provided)

SEP 24 2002 87505

Postage \$ 0.02
 Certified Fee \$ 0.02
 Return Receipt Fee (Endorsement Required)
 Restricted Delivery Fee (Endorsement Required)
 Total Postage & Fees \$ 0.04

Postmark Here

Recipient's Name (Please Print Clearly) (To be completed by mailer)
 KC Resources, Inc.
 Street, Apt. No., or PO Box No.
 P. O. Box 1118
 City, State, ZIP+4
 Cardiff, CA 92007
 PS Form 3800, February 2000 See Reverse for Instructions

ELT9 TLLE T200 0250 0007

SENDER: COMPLETE THIS SECTION

Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired. Print your name and address on the reverse so that we can return the card to you. Attach this card to the back of the mailpiece, or on the front if space permits.

Article Addressed to:

KC Resources, Inc.
 P. O. Box 1118
 Cardiff, CA 92007

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ON CONSERVATION

Article Number 7000 0520 0021 3771 6173
 (Transfer from service label)

S Form 3811, August 2001 Domestic Return Receipt

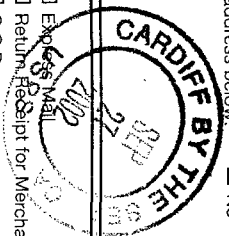
COMPLETE THIS SECTION ON DELIVERY

A. Signature ☒ Agent
 B. Received by (Printed Name) ☒ Addressee
 C. Date of Delivery 9/27/02

D. Is delivery address different from item 1? ☒ Yes
 If YES, enter delivery address below: ☐ No

3. Service Type
☒ Certified Mail
☐ Registered
☐ Insured Mail
☐ Express Mail
☐ Return Receipt for Merchandise
☐ C.O.D.

4. Restricted Delivery? (Extra Fee) ☐ Yes



U.S. Postal Service
CERTIFIED MAIL RECEIPT
 (Domestic Mail Only; No Insurance Coverage Provided)

SEP 24 2002 87505

Postage \$
 Certified Fee \$
 Return Receipt Fee (Endorsement Required)
 Restricted Delivery Fee (Endorsement Required)
 Total Postage & Fees \$

Postmark Here

Recipient's Name (Please Print Clearly) (To be completed by mailer)
 Frontier Insurance Company
 Street, Apt. No., or PO Box No.
 195 Lake Louise Marie Road
 City, State, ZIP+4
 Rock Hill, NY 12775-8000
 PS Form 3800, February 2000 See Reverse for Instructions

LT9 TLLE T200 0250 0007

SENDER: COMPLETE THIS SECTION

Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired. Print your name and address on the reverse so that we can return the card to you. Attach this card to the back of the mailpiece, or on the front if space permits.

Article Addressed to:

Frontier Insurance Company
 195 Lake Louise Marie Road
 Rock Hill, NY 12775-8000

A. Signature ☒ Agent
 B. Received by (Printed Name) ☒ Addressee
 C. Date of Delivery 9/27/02

D. Is delivery address different from item 1? ☒ Yes
 If YES, enter delivery address below: ☐ No

3. Service Type
☒ Certified Mail
☐ Registered
☐ Insured Mail
☐ Express Mail
☐ Return Receipt for Merchandise
☐ C.O.D.

4. Restricted Delivery? (Extra Fee) ☐ Yes

Article Number 7000 0520 0021 3771 6197
 (Transfer from service label)

PS Form 3811, August 2001 Domestic Return Receipt

102595-01-1

U.S. Postal Service
CERTIFIED MAIL RECEIPT
(Domestic Mail Only, No Insurance Coverage Provided)

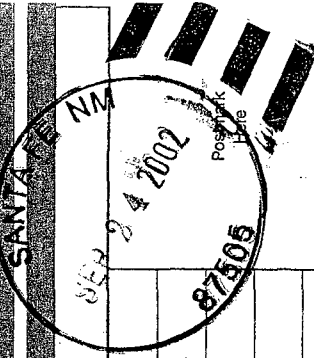
SAN DIEGO, CA 92101

Postage	\$
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees	\$

Recipient's Name (Please Print Clearly) (To be completed by mailer)
Frontier Insurance Company
9920 Pacific Heights Blvd.
Suite 500
San Diego, CA 92121

PS Form 3800, February 2000 See Reverse for Instructions

0879 722E 7200 0250 0002



SENDER: COMPLETE THIS SECTION

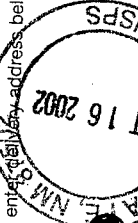
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1. Article Addressed to:

Frontier Insurance Company
9920 Pacific Heights Blvd.
Suite 500
San Diego, CA 92121

COMPLETE THIS SECTION ON DELIVERY

A. Signature Xm. Beal	<input type="checkbox"/> Agent <input type="checkbox"/> Addressee
B. Received by (Printed Name) M. Beal	C. Date of Delivery
D. Is delivery address different from item 1? If YES, enter delivery address below:	



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