



SG INTERESTS I, LTD.

August 24, 2016

Matt Lepore
Colorado Oil and Gas Conservation Commission
COGCC Director
1120 Lincoln St. Room 801
Denver, CO 80203
Office: EDO's Office
Matt.Lepore@state.co.us

Subject: **Rule 502.b Variance Request**

Dear Mr. Lepore,

- 1.) This letter fulfills the requirements outlined in the Operator Guidance Document: Rule 502.b. Variance Requirements, dated October 10, 2014.
- 2.) SG Interests I, LTD. (SG), requests a variance to conduct interim reclamation on three well pad locations: Falcon Seaboard 11-90-12-611S90W12SWNW, Pasco Spadafora #2, and Volk 12-89-21 #1. Two of these well locations are located in the Federal Bull Mountain Unit, and one (Volk 12-89-21 #1) is located in the Federal Dugout Creek Unit. Per SG's business plans, including the Bull Mountain Unit (BMU) Master Development Plan, additional wells are planned at each of these locations. The Bureau of Land Management (BLM), Uncompahgre Field Office (UFO) published the Final Environmental Impact Statement (FEIS) for development of our BMU in July, 2016, and is now waiting on the Record of Decision (ROD). Due to the pending ROD, Federal and State Applications for Permit to Drill (APD), or right-of-way (ROW) applications have not yet been submitted for additional wells/ROWS on these locations, because the BLM will not process, or approve such applications until the BMU FEIS ROD is issued. ROW applications and/or APD's for additional wells will be submitted upon approval/receipt of a signed ROD.
- 3.) The subject well locations, name, number, legal location, and inspection document number by which the variance will be approved is list in the table below.

Table 1. Subject Well Locations

Well Location ID	Location Name and Number	Legal Location	Document Number
311729	Falcon Seaboard 11-90-12-611S90W12SWNW	T11S, R90W, Sec 12	680600700
413893	Pasco Spadafora #2	T11S, R90W, Sec 27	680600780
418697	Volk 12-89-21 #1	T12S, R89W, Sec 21	680600762

- 4.) The applicable rule from which this variance is being requested is Rule 1003.b. Interim reclamation of areas no longer in use.

5.) The exact requirement of this rule, as proposed, that SG operations will not meet is, that “Interim reclamation shall occur no later than three (3) months on crop land or six (6) months on non-crop land after such operations unless the Director extends the time period because of conditions outside the control of the operator.” Operations on each of the well pads listed in Table 1 do not meet this requirement as interim reclamation has not commenced, and drilling operations are suspended at these locations until SG receives a signed ROD on the FEIS.

6.) Table 2 below describes how the operations do not meet the Rule 1003.b. requirement.

Table 2. Description of Not Meeting Requirement

Well Location ID	Location Name and Number	How operation does not meet requirement
311729	Falcon Seaboard 11-90-12-611S90W12SWNW	A portion of the existing well pad is needed for on-going and future field operations.
413893	Pasco Spadafora #2	Portion of well pad area is not reclaimed due to future drilling operations on well pad, pending decision of BMU FIES and ROD.
418697	Volk 12-89-21 #1	Well pad is not reclaimed due to future drilling operations on well pad, pending decision of BMU FIES and ROD which, to date, has prevented construction of a pipeline ROW to this location.

7.) The “good faith effort” made to conduct the operations in compliance with the Rule for which this variance is being requested is “areas reasonably needed for production operations for subsequent drilling operations to be commenced within twelve (12) months shall be compacted, covered, paved, or otherwise stabilized and maintained in such a way as to minimize dust and erosion to the extent practicable.” All three subject well locations have been compacted, graveled and stabilized.

8.) Compliance with Rule 1003.b. is not achievable due to the reasons listed in Table 3.

Table 3. Explanation of Why Compliance is Not Achievable.

Well Location	Location Name and Number	Explanation of why compliance is not achievable.
311729	Falcon Seaboard 11-90-12-N11S90W12SWNW	A portion of the existing well pad is needed for on-going and future field operations. SG proposes to stabilize this area with gravel and continue to utilize it as a stabilized surface needed for on-going operations.
413893	Pasco Spadafora #2	SG is waiting for a decision of the BMU FEIS and ROD to make plans for additional wells on this well pad, which was designed to accommodate up to 5 wells. Upon receipt of the ROD, SG intends submit permit applications to drill multiple additional wells from this location.
418697	Volk 12-89-21 #1	SG is waiting for a decision of the BMU FEIS and ROD to make plans with this well pad; which was designed to accommodate up to 5 wells. BLM will not process

	necessary ROWs through the BMU to reach this location, until the ROD is issued for the BMU FEIS.
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9.) This variance request will not violate the basic intent of the Oil and Gas Conservation Act, including, but not limited to the protection of public health, safety, welfare and environment. SG Interests has been recognized by the COGCC as an outstanding operator in responsible development for oil and gas natural resources. SG uses a site-stability model to locate projects to have the least amount impact possible. In addition, rather than having one well per pad, SG plans multiple-well sites to reduce impacts to the natural environment, public health, and safety. By achieving this variance to delay interim reclamation, SG will be able to use a previously disturbed area to build additional wells.

In SG’s experience, repeated reclamation, followed by additional repeated disturbance of the same area is not in the best interest of the surface owner, SG’s costs associated with the repeated construction, or exposed soils in respect to revegetation potential. These locations have nearly reached final stabilization as defined by CDPHE; in the interest of stormwater and erosion control, maintaining stabilized soils is a more responsible approach than repeated soil disturbance. This approach maintains soil health by reducing the possibility of repeated mixing of soil horizons, reducing susceptibility of soils to wind and water erosion, reducing potential contamination of soils to petroleum products, thereby reducing loss of topsoil productivity, and overall organism and bacteria health as it relates to soil nutrient cycling and development.

10.) Affected parties are listed below, in Table 4.

Table 4. Parties affected by This Variance Request

Well Location ID	Name and Number	Parties affected
311729	Falcon Seaboard 11-90-12-N11S90W12SWNW	Falcon Seaboard Ranch is the mineral and surface owner. Should the COGCC approve this requested variance, the Ranch would have less construction activities, including noise, dust, and overall disturbance on the property in conducting reclamation expansion/development of this well pad for each additional future well drilled on this pad. Each well pad is expected to accommodate up to 5 well heads.
413893	Pasco Spadafora #2	Should the COGCC approve this requested variance, the surface owner would have less construction activities, including noise, dust, and overall disturbance on the property in conducting reclamation expansion/development of this well pad for each additional future well drilled on this pad. Each well pad is expected to accommodate up to 5 well heads.
418697	Volk 12-89-21 #1	Should the COGCC approve this requested variance, the surface owner would have less construction activities, including noise, dust, and overall disturbance on the property in conducting reclamation expansion/development of this well pad for each additional future well drilled on this pad. Each well pad

	is expected to accommodate up to 5 well heads.
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11.) Best Management Practices (BMPs) implemented to mitigate and minimize negative effects of postponing interim reclamation include site specific stormwater erosion and sediment control BMPs, establishment of vegetative cover on exposed slopes, perimeter fence, and daily checks for spills, leaks, and other concerns.

12.) Waivers have not been obtained in support of this variance request.

13.) Waivers have not been obtained as they have not been required by COGCC to obtain. It is possible, however to obtain them; it would just delay the process.

SG would like to create less, and repeated surface disturbance by receiving a grant for this variance request. Please contact me if you have questions or would like to discuss this request.

Thank you,



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