



United States Department of the Interior

BUREAU OF LAND MANAGEMENT
Colorado River Valley Field Office
2300 River Frontage Road
Silt, Colorado 81652



IN REPLY REFER TO:

CON040

Well #: Federal 8-89-7 #1

Lease: COC 66693

October 26, 2012

CERTIFIED MAIL # 7011 1150 0000 8912 2071

RETURN RECEIPT REQUESTED

SG Interests I, Ltd
Attn: Eric Sanford
1485 Florida Road, Suite C202
Durango, CO 81301

Dear Mr. Sanford:

The Application for Permit to Drill (APD) for the above referenced well was received in this office on October 17, 2012. This letter provides written notification that the submitted Application for Permit to Drill (APD) is complete as submitted, or contains deficiencies that need to be corrected. Any retained APD which is deficient must be brought to an acceptable level of completion within 45 days of the date of this notice or the APD may be returned unapproved.

NOTICE OF COMPLETENESS OR DEFICIENCIES FOR AN APD:

 I. APD IS COMPLETE AS SUBMITTED.

X II. APD IS DEFICIENT IN THE FOLLOWING AREA(S):

 X A. Form 3160-3 is incomplete.

 X B. Well Plat.

X 1. Updated Geospatial data must be submitted

**X 2. Surveyor has not certified well as being staked on the ground as shown on
the plat**

 X C. Drilling Plan is deficient in the following areas:

 1. All geologic formation names and tops must be provided.

X 2. Estimated depths of anticipated water, oil, gas, or minerals.

The APD is lacking the estimated depths of anticipated water as required per Onshore Oil and Gas Order (OOGO) #1. III. D. 3. b.

In addition, the introductory sentence states that this well is to be drilled into the Mancos Shale formation, but point 2 in the nine point drilling plan does not mention the Mancos Shale formation. Please correct this inconsistency and submit the estimated depths of anticipated water.

X 3. Minimum specifications for pressure control.

There is a conflict between the schematic and point 3 in the nine point drilling program. It is required by OOGO #2. III. A. iv that the choke line be 3 inches. The schematic shows this value, but point 3 says the “line to choke manifold will be 2”.” Please correct this inconsistency. Per OOGO #1. III. D. 3. c, the APD must contain the minimum specifications for blowout prevention equipment including the testing procedure and frequency. Currently this information is not contained in point 3. Please submit the additional information required.

X 4. Proposed casing program.

Throughout the document there are inconsistencies related to the actual casing program. In point 3 of the nine point drilling plan, it is stated that there is both an intermediate and lower portion of the well and that the lower portion goes to a depth of 9,500', but in point 4, there is a surface and production casing and no intermediate casing. In addition, point 4 states that the production casing's total depth is 7,300'. In point 6, it is stated that the low solids non-dispersed gel system “will be used throughout the production hole (6,900' of 12 1/4" hole, set 5 1/2" casing to surface),” but in point 4, the hole size for the production casing is 8.5" and not 12.25". Finally point 8 also mentions both an intermediate and a production (long) string of casing. Please correct these inconsistencies.

Per OOGO #1. III. D. 3. d. Drilling plan, the APD “must include the minimum design criteria including casing loading assumptions and corresponding safety factors for burst, collapse, and tension.” The current nine point drilling program does not include these design criteria. Please submit the additional required information.

The surface casing is set too low. Per COGCC requirements, the surface casing must be at minimum 10% of the TD (730'). In addition the well is close to the Grand Hogback. The Grand Hogback and associated ranges are known to be recharge zones for numerous unconsolidated aquifers throughout the basin. Although there are no water wells within a mile radius, wells in the area can range from 100' to 500' feet below ground surface.

Finally, due to the highly fractured and folded nature of the geologic formations in the area, the chances for migration of gas and contaminated water into adjacent formations are increased. It is recommended that, at a minimum, the surface casing be 1,000 feet. Please submit the corrected surface casing design.

X 5. Estimated amount and types of cement.

The production cementing program appears to have two stages. Per OOGO #1. III. D. 3. e, please provide the “amount and type of cement, including additives, to be used for each stage.” In addition, the nine point drilling plan is also lacking the yield for the slurry. Please submit the additional information required.

- 6. Type and characteristics of the proposed circulation muds.
- 7. Testing, logging, and coring programs.

X 8. Anticipated bottom hole and abnormal pressure, temperature or hazards.

Per OOGO #1. III. D. 3. h, please provide the anticipated bottom hole pressure.

- 9. Other:

Please submit a new nine point drilling program to Peter Cowan, BLM Petroleum Engineer, at picowan@blm.gov to correct these deficiencies.

X D. Surface Use and Operations Plan is Deficient in the following areas:

X 1. Existing roads.

Directions to site are incorrect. Please submit corrections.

- 2. New or reconstructed access roads.
- 3. Location of existing wells.
- 4. Location of existing and/or proposed facilities.

X 5. Location and type of water supply.

Source and access route for water supply is not listed. Please submit corrections.

- 6. Source and character of construction materials.
- 7. Methods for handling waste.
- 8. Ancillary facilities.
- 9. Well site layout.

X 10. Plans for surface reclamation.

Final reclamation plans are not addressed. Interim reclamation plans are incomplete e.g., configuration of topography, drainage system, backfill requirements, pipelines, etc.

Please submit corrections.

- 11. Surface ownership.

- a. Name, address and telephone number of surface owner.

12. Other:

Please submit corrections by submitting a new Surface Use and Operations Plan (SUPO) or a new replacement page(s) to the SUPO to Laura Millard, Land Law Examiner, at lmillard@blm.gov, to correct these deficiencies.

X E. Evidence of bonding.

The bond number used on the APD form, B03278, is the Document ID number of the bond. Our files have been update using the BLM Bond number CO1003. Please reference this BLM bond number in any future correspondence.

F. Operator certification.

- 1. There is no certification of a SUPO being provided to the landowner
- 2. There is no operator certification on the 13-pt. plan
- 3. There is no certification pertaining to the surface use agreement

X G. Onsite Inspection

Onsite inspection will be required. The Forest Service Natural Resource Specialist, Jason Gross, will contact you by phone to schedule a potential date for the onsite.

III. Other information requested:

IV. APD is retained. Processing will start upon receipt of further information as noted above.

X V. APD is being processed. Final action is pending receipt of further information as noted.

For surface disturbance considerations, please contact Jason Gross, Natural Resource Specialist, at (970) 876-9046. For downhole considerations, please contact Peter Cowan, Petroleum Engineer, at (970) 876-9049. All adjudicative concerns should be address to Laura Millard, Land Law Examiner, at (970) 876-9060.

Steve Ficklin
Program Manager