



October 2, 2018

VIA FORM 4 SUNDRY NOTICE

Director Murphy
Colorado Oil and Gas Conservation Commission
1120 Lincoln Street, Suite 801
Denver, Colorado 80203

Re: Confluence DJ, LLC's Rule 502.b.(1) Variance Request to Rule 805.b.(3), Rule 912.a, and Request to Flare Pursuant to Rule 912.b

Dear Director Murphy:

Confluence DJ, LLC ("Confluence"), by its attorneys Jost Energy Law, P.C., hereby submits this variance request pursuant to Rule 502.b.(1), to request administrative approval of a variance from the green completion requirements of Rule 805.b.(3), the prohibition of flaring pursuant to Rule 912.a., and a request to combust/flare pursuant to Rule 912.b for the Pickaroon 7-14-2L well (API No. 05-123-48022) ("Pickaroon Well") associated with the Form 2A for the Pickaroon Pad (Document No. 457632) ("Pickaroon Pad") and the Condition of Approval and Best Management Practices in the Form 2A and Form 2 requiring emissions mitigation.

Background Information

Confluence is the operator of record for the Pickaroon Well. See Form 2A (Document No. 457632) and Form 2 (API No. 05-123-48022). The approved Form 2A for the Pickaroon Pad (which is subject to an approved drilling and spacing unit for Section 7, Township 7 North, Range 64 West and Section 12, Township 7 North, Range 65 West (Order No.407-2513) contains a Condition of Approval that Confluence "plans to work with a midstream gatherer to have a salable gas pipeline in place prior to any wells producing salable gas." See Form 2A, COA No. 2.

By way of background, Confluence is a privately-owned oil and gas company with its primary focus on development and operation of the DJ Basin. Confluence has been steadily obtaining numerous approved drilling and spacing units from this Commission over the past year as well as building an inventory of Form 2A's and Form 2's in the DJ Basin to carry out its comprehensive development program for its leasehold and mineral assets. Confluence is currently executing on this development program. Confluence is drilling eight (8) horizontal wells for the remainder of 2018 and has secured drilling rig contract with Xtreme Drilling Corp., which was recently acquired by AKITA Drilling Ltd., for the drilling of such wells. In addition, Confluence is contracted with Halliburton to complete such wells.

After an extensive review and internal analysis, including the recent acquisition of a large acreage position within and adjacent to the drilling and spacing unit for the Pickaroon Well, on September 27, 2018, the Confluence Board determined that it would drill a ninth well in 2018 and that such well would be the Pickaroon Well. Confluence representatives and the Board discussed the critical importance of production testing the Pickaroon Well as soon as possible in light of 2019

lease expirations and the certainty of a rig contracted now versus the uncertainty of timing and availability of a rig in 2019.

Accordingly, Confluence's Board decided to move forward with the Pickaroon Well drilling due to the above critical issues and its high confidence in contracting with either Outrigger Energy LLC (Outrigger) or Rimrock Energy Partners, LLC (Rimrock) to provide a low-pressure gathering system to Confluence's Pickaroon Pad, with service beginning between March 1st and May 1st 2019. However, with gas production likely in December 2018 and the system readiness between March 1st and May 1st 2019, this creates the need for Confluence to request a Rule 502.b variance for the Pickaroon Well due to the green completions techniques it intends to utilize for the Pickaroon Well. It is noted that DCP Midstream has a gathering line in close proximity to the Pickaroon well, but a connection to DCP would undermine Confluence's ability to get an adequate production test of the well due to DCP's pressure constraints and curtailments. Further, a connection to DCP's gathering line would be a detriment to Confluence's ability to secure a greatly preferable low-pressure service from Outrigger or Rimrock that enhances the long term development of the resources under Confluence's leasehold in this area.

Rule 502.b. Variance Request

In light of the above, Confluence is seeking a 6-month variance from the date of completion for the Pickaroon Well pursuant to COGCC Rule 502.b.(1). Confluence's Rule 502.b variance is specific to the Pickaroon Pad Form 2A Condition of Approval requiring that Confluence plan "to work with a midstream gatherer to have a salable gas pipeline in place prior to any wells producing salable gas", the green completion requirements of Rule 805.b.(3), and the prohibition of flaring/venting pursuant to Rule 912.a. Furthermore, Confluence hereby provides notice of its intent to combust/flare pursuant to Rule 912.b. for the Pickaroon Well. Confluence can confirm that the gas does not contain more than one (1) ppm of hydrogen sulfide.

Confluence has a drilling rig contract in place for the drilling of nine (9) wells, including the Pickaroon Well. In order to avoid losing the drilling rig upon completion of the drilling operations of the first eight (8) wells, Confluence is planning to commence drilling operations on the Pickaroon Well on or around October 18, 2018 and completions operations for the Pickaroon Well on or around November 17, 2018. Confluence anticipates the completions operations will be complete on or around December 2, 2018. With the likely gap between first saleable gas production and the Outrigger or Rimrock connection, Confluence cannot initiate drilling operations on the Pickaroon Well, until it obtains the requested variance approval from this Commission. Confluence also intends to combust the gas during the gap in timing and will not have a flare. As such, Confluence respectfully requests expedited review of this variance request and a meeting with the appropriate Commission Staff at their earliest convenience.

Based on the information included in support of this variance request, Confluence maintains that it has made "a good faith effort to comply, or is unable to comply with the specific requirements contained in the rules, regulations, or orders, from which it seeks a variance, including, without limitation, securing a waiver or an exception, if any, and that the requested variance will not violate the basic intent of the Oil and Gas Conservation Act." See Rule 502.b.(1). Confluence will agree to work with the Commission Staff to determine the appropriate BMPs within the Form 2A for the Pickaroon Pad to reduce emissions during combustion/flaring.

Applicable Commission Rules and COA

COGCC Rule 502.b.(1) provides that variances to any Commission rules, regulations, or orders may be granted in writing by the Director without a hearing upon written request by an operator to the Director, or by the Commission after hearing upon application. The operator or the applicant requesting the variance shall make a showing that it has made a good faith effort to comply, or is unable to comply with the specific requirements contained in the rules, regulations, or orders, from which it seeks a variance, including, without limitation, securing a waiver or an exception, if any, and that the requested variance will not violate the basic intent of the Oil and Gas Conservation Act.

COGCC Rule 805.b.(3).A. provides that green completion practices are required on oil and gas wells where reservoir pressure, formation productivity, and wellbore conditions are likely to enable the well to be capable of naturally flowing hydrocarbon gas in flammable or greater concentrations at a stabilized rate in excess of five hundred (500) MCFD to the surface against an induced surface backpressure of five hundred (500) psig or sales line pressure, whichever is greater. Green completion practices are not required for exploratory wells, where the wells are not sufficiently proximate to sales lines, or where green completion practices are otherwise not technically and economically feasible.

Rule 805.b.(3).B.(iv) provides that all salable quality gas shall be directed to the sales line as soon as practicable or shut in and conserved. Temporary flaring or venting shall be permitted as a safety measure during upset conditions and in accordance with all other applicable laws, rules, and regulations.

COGCC Rule 805.b.(3).C. provides that an operator may request a variance from the Director if it believes that using green completion practices is infeasible due to well or field conditions, or would endanger the safety of wellsite personnel or the public.

COGCC Rule 805.b.(3).D. provides that in instances where green completion practices are not technically feasible, operators shall employ Best Management Practices (BMPs) to reduce emissions. Such BMPs shall consider safety and shall include measures or actions to minimize the time period during which gases are emitted directly to the atmosphere, and monitoring and recording the volume and time period of such emissions.

COGCC Rule 912.a. provides that the unnecessary or excessive venting or flaring of natural gas produced from a well is prohibited. COGCC Rule 912.b. provides that except for gas flared or vented during an upset condition, well maintenance, well stimulation flowback, purging operations, or a productivity test, gas from a well shall be flared or vented only after notice has been given and approval obtained from the Director on a Sundry Notice, Form 4, stating the estimated volume and content of the gas. The notice shall indicate whether the gas contains more than one (1) ppm of hydrogen sulfide. If necessary to protect the public health, safety or welfare, the Director may require the flaring of gas. COGCC Rule 912.d. provides that flared gas that is subject to Sundry Notice, Form 4, shall be directed to a controlled flare in accordance with Rule 903.b.(2) or other combustion device operated as efficiently as possible to provide maximum reduction of air contaminants where practicable and without endangering the safety of the well site personnel and the public.

The applicable COA on the Pickaroon Pad states that Confluence “plans to work with a midstream gatherer to have a salable gas pipeline in place prior to any wells producing salable gas.”

Supporting Information – Pickaroon Pad/Pickaroon Well Variance Request

Combustion/Flaring Operations:

Confluence continually uses the term “combustion/flaring” throughout this variance request due to the operations proposed for the production of the Pickaroon Well. Based on the location of Pickaroon Well and completion techniques to be utilized, the typical green completion practices would be technically or economically infeasible at this point in time. In order to ensure that the Pickaroon Well can produce the appropriate volumes of hydrocarbons to conduct Confluence’s appraisal analysis, Confluence will utilize the equipment and will conduct its operations as follows:

- Confluence will utilize sealed oil tanks and combust the flash associated with the oil production and will use high capacity Emission Control Devices (ECDs) to combust the gas production while testing the Pickaroon Well.
- Additionally, Confluence is evaluating the economics of leasing a portable compression/refrigeration unit to treat the produced gas upstream of the ECDs to drop out the NGLs (C3+).
- This configuration would allow Confluence to test the Pickaroon Well while waiting on the new gas sales connection and to have an emission control identical to the permanent facility.
- This configuration is currently being used by another DJ Basin operator with great success.

Confluence maintains that completing and testing the Pickaroon Well with the above-described techniques is critical to understanding the potential of improved completions and development in this area as well plan for development in light of lease expiration timing. Additionally, as further described below, testing this area is critical to further understanding the potential development of this area as well as gaining the confidence required for investment by a third-party gathering system.

Based on the foregoing information, Confluence can confirm that:

- It does not anticipate actually “flaring” any hydrocarbons into the atmosphere but, due to the fact that the salable quality of the gas produced will not be immediately placed into a gas line and that Confluence is seeking to use differing green completion techniques, Confluence believes that a variance to Rule 805 and 912 is required from the Commission.
- The “flared” gas that is subject to Sundry Notice, Form 4, shall be directed to a combustion device operated as efficiently as possible to provide maximum reduction of air contaminants where practicable and without endangering the safety of the well site personnel and the public. See Rule 912.d.
- Six months from the date of production represents the minimum timeframe that would allow for well performance data to be gathered to allow for a reasonable estimate of well performance as well as provide time for either Outrigger or Rimrock to connect their low-pressure system.

For the reasons outlined herein, the green completion techniques to be utilized on the Pickaroon Well differ than those contemplated in Rule 805.b.(3) and Confluence requests a variance such rule and the prohibitions in Rule 912.

Lack of Appropriate Gas Line:

Due to the location of the Pickaroon Well and associated Pickaroon Pad, there is no proximate gas sales line with the pressures available to accommodate Confluence's adequate testing of its appraisal well. In an attempt to comply with the COA set forth on the Pickaroon Pad, Confluence is currently negotiating new gas pipeline infrastructure with two companies to accommodate its development from the Pickaroon Pad in addition to its ongoing development within the DJ Basin and has obtained commitment letters from each. See attached letters.

The Pickaroon Well is a critical appraisal well for Confluence to prove that the area will result in economic development and that the volumes needed to justify new low pressure midstream infrastructure with midstream companies other than DCP. While DCP has a gas line in close proximity to the Pickaroon Well, Confluence cannot tie into the DCP line due to its high pressures and curtailments having negative impacts on productivity tests for the Pickaroon Well and the negative impact on securing a low pressure gathering option for its development from Outrigger or Rimrock.

In the short term, allowing combustion/flaring from the Pickaroon Well for 6-months from the date of completion will not result in economic or physical waste. Allowing combustion/flaring from the Pickaroon Well will ultimately reduce waste by increasing competition amongst gathering and processing companies which will result in more value being captured from the gas products stream. If no combustion/flaring or only a severely limited time combustion/flaring were allowed, it would force Confluence to make connections to the existing DCP system which would be to the long-term detriment of Confluence, its partners, royalty owners, and taxpayers. It would also reduce the incentive for new entrants to provide competition in the area surrounding the Pickaroon Well which benefits all interested parties. For the reasons outlined herein, a connection to the DCP system is not a technically or economically feasible option at this time, and Confluence requests a variance to Rule 805.b.(3) and the prohibitions in Rule 912.

Conclusion

Confluence is highly sensitive to the combustion/flaring allowances requested herein and has scheduled its development plan and drilling schedule for the Pickaroon Well to minimize the need to combust/flare gas for an extended period of time. As this Commission understands, Confluence also have an economic incentive to capture the value from the gas products stream. Following completions operations, Confluence will have approximately 13 million dollars invested in the development and operation of the Pickaroon Pad and Pickaroon Well. Confluence and its analysts have analyzed the area and the need for the appraisal well, and ultimately determined, like many operators, that the longer-term benefits of demonstrating economic development potential in this area and attracting the interest of multiple potential low pressure gathering and processing companies (i.e. Outrigger or Rimrock) outweighs any short-term negatives of combustion/flaring gas from the one appraisal well.

Based on the foregoing, Confluence respectfully requests approval of a minimum 6-month combustion/flaring variance from the date of completion of the Pickaroon Well and the opportunity to review the status of viable pipeline infrastructure with COGCC staff prior to the expiration of the 6-month variance. Confluence anticipates that in 6-months it will be able to provide a detailed

plan to the Commission Staff for the gathering and processing that will accommodate the Pickaroon Well, as well as other wells Confluence anticipates drilling in the area. Progress in this area would not be possible without demonstrating the economic viability of the resource to multiple potential gathering and processing companies which requires limited combustion/flaring from this appraisal well. Confluence would greatly appreciate your cooperation in our efforts to improve the economic terms of gas gathering and processing in this area which will ultimately reduce waste, increase production and benefit all interested parties.

Confluence welcomes further discussion with you and the COGCC Staff to discuss this 6-month variance request to COGCC Rules 805.b.(3), Rule 912.a., and the Condition of Approval on the Pickaroon Pad. Please do not hesitate to contact me at 303-226-9517 or 970-590-6049 with any questions or comments regarding this request. We greatly appreciate your expedited review of this request in light of the imminent October 18, 2018 drilling date and look forward to hearing from you.

Sincerely,

A handwritten signature in blue ink, appearing to read "Michael Dickinson", with a stylized flourish extending to the right.

Michael Dickinson
Senior Vice President Operations

cc: Jost Energy Law, P.C. – Jamie Jost & Kelsey Wasylenky