



United States Department of the Interior

BUREAU OF LAND MANAGEMENT
Colorado River Valley Field Office
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In Reply Refer to:
(CON040)
COC58836
COC58837
COC58838
COC58839

January 22, 2015

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Return Receipt Requested

WillSource Enterprises LLC
Attn: Reed Williams
730 17th. Street, Suite 340
Denver, CO 80202

DECISION

Re: Suspension of Operations for Federal Oil and Gas Leases COC 58836, COC 58837, COC 58838 and COC 58839.

Dear Mr. Williams:

This letter is in response to the suspension request letter dated June 26, 2014. Leases COC 58836, COC 58837, COC 58838 and COC 58839 referred to hereafter as "Leases"; underlie national forest system lands managed by the U.S. Forest Service, White River National Forest (WRNF). The Bureau of Land Management's (BLM) Colorado River Valley Field Office (CRVFO) is responsible for managing the subject federal mineral estate. The Leases were issued with an effective date of September 1, 1996, with a ten-year primary term. Leases COC 58836, COC 58837 and COC 58838 are committed to the Willow Creek Unit. Lease COC 58836 contains a well capable of production (the Little Beaver 1-20) and leases COC 58837 and COC 58838 are held by allocation from the Little Beaver 1-20 well. Lease COC 58839 contains a well capable of production (the WillSource 1-13).

In the request letter, WillSource Enterprise, LLC (WillSource) requests a Suspension of Operation and Production (SOP) under section 39 of the Mineral Leasing Act, as amended, 30 U.S.C. § 209, and the regulations at 43 C.F.R. §§ 3103.4-4, 3165.1. WillSource first asserts that it has been denied the beneficial use of its Leases due to federal agency actions, was prevented from accessing its Leases due to a sudden change in policies by the United States Forest Service and would not be able to transport any heavy equipment across Forest Road 800 unless and until it paid for new modifications.

WillSource raised these arguments in previous requests for SOP of the subject Leases dated September 10, 2012. Those arguments were considered and rejected by the CRVFO in decisions dated December 17, 2012. On May 7 and 8, 2014, the BLM Colorado Deputy State Director (DSD) upheld the CRVFO's decisions rejecting those arguments. The DSD, among other matters, found that if approved, the SOP would allow for no beneficial use during the suspension period, and that the activities necessary to bring the Little Beaver #1-20 and WillSource #1-13 wells into production were in the interest of conservation, but could not be conducted under an SOP. The DSD concluded that granting the requested SOP would not be in the interest of conservation of natural resources.

WillSource did not appeal the DSD's May 7 and 8, 2014, decisions upholding the CRVFO's denial of the requests for SOP for the subject Leases. Those decisions are administratively final for the BLM and the Department. To the extent that WillSource's June 26, 2014 request reiterates or relies upon arguments concerning a denial of beneficial use of the lease that were or could have been raised in the December 2012 SOP requests and the January 2013 State Director Review (SDR) requests and associated oral presentation and submission, the CRVFO will not revisit the prior decisions of the CRVFO or DSD.

Insofar as the June 2014 presents any new information or argument related to a denial of beneficial use of the Leases, the CRVFO does not agree with WillSource's characterization of the situation. In fact, the CRVFO and the White WRNF have made numerous efforts to accommodate WillSource in being able to beneficially use its Leases. Since the drilling of the 2 wells in 2004 the BLM and WRNF have approved three separate sundries for pipeline connections (8/15/2005, 9/24/2008 & 8/31/2013). Production equipment has only partially been installed on the Little Beaver 1-20 and no production equipment has been installed on the WillSource 1-13. Those pipeline connections have to date not been completed to the point that the wells can be placed into production.

In March 2008, the WRNF sent letters to every operator on lands in the national forest, including WillSource, informing them of the requirement to have a road use permit. WillSource's contention that in 2012 it learned of this sudden change in policy does not match the record. WillSource had been aware of the policy for 4 years. In Exhibit 2 of the request for suspension, a summary of an onsite visit to discuss road work and the road use permit shows that WillSource was not prevented from accessing its Leases. In the paragraph titled "Workover for 1-20 and 1-13," WillSource's consultant states "It is anticipated that smaller truck-mounted rigs could be used for this work. Thus, some of the previously described road improvements may not be needed prior to the workover work." The need for improvements to the road access to the area was a result of the proposal to drill up to 3 wells from a single pad (i.e., 1 vertical well and 2 directional wells). This would have required a larger rig and more truck traffic in general that would have a greater impact on the roads than a smaller rig for only 1 vertical well.

Emails dated August 29, 2013 and July 31, 2014 informed WillSource that it can bring in a workover rig to perform work on its wells as long as it does not occur during hunting season unless it is an emergency, in which case safety would be the primary concern. WillSource has also been informed that it can bring in other equipment necessary to maintain its lease without restrictions as long as it can safely be accomplished.

In light of the forgoing, and as BLM previously determined in decisions relating to the December 2012 SOP requests, WillSource was not prevented from accessing its Leases due to the actions of the CRVFO or the WRNF. Nor was WillSource prevented from conducting pipeline connection or other activities necessary to bring the Little Beaver #1-20 and WillSource #1-13 wells into production. As the DSD previously determined, an SOP would allow for no beneficial use during the suspension period. The Little Beaver #1-20 and WillSource #1-13 wells have been determined to be capable of production, but the activities necessary to bring them into actual production—in the interest of conservation—could not be conducted under an SOP. An SOP under Section 39 of the Mineral Leasing Act is therefore not in the interest of conservation of natural resources.

WillSource, however, also asserts that it has been denied beneficial use of the Leases due to the BLM's preparation of an Environmental Impact Statement (EIS) to address a National Environmental Policy Act (NEPA) deficiency associated with the decisions to issue a number of leases in the WRNF, including WillSource's Leases. In its request, WillSource asserted that it has requested clarification as to what activities will be allowed on its Leases in light of the additional NEPA analysis, and that it has not received any correspondence from the BLM regarding this. As noted above, the CRVFO sent emails to WillSource on August 29, 2013 and July 31, 2014 that clarified what activities it could perform on its Leases. WillSource had an approved Sundry for the tie-in connection and placing into production the WillSource 1-13 and the Little Beaver 1-20. The above referenced emails clarified that the approvals would have allowed WillSource to place all the wells into production. WillSource has also been told that work considered maintenance, such as workover activities, testing of the wells, and certain previously approved actions would be allowed. These previously approved actions include but are not limited to installing equipment on the well pads to place the wells into production, completing the tie-ins on the pipeline, performing testing of the wells, and any work necessary to insure the safety of the wells and associated equipment.

As explained above, preventing WillSource from completing activities to bring the Little Beaver #1-20 and WillSource #1-13 wells into production is not in the interest of conservation of natural resources. And, the BLM has clarified that WillSource is not precluded from undertaking those activities, described above, by the preparation of an EIS on previously issued leases in the WRNF.

Nevertheless, Section 17f of the Mineral Leasing Act provides the BLM the authority to grant a suspension of operations *only* or production *only*, on a lease with a well capable of production. 30 U.S.C. § 226(i). Such a suspension may be granted where the operator is prevented from operating or producing on the lease by reason of force majeure. 43 C.F.R. § 3103.4-4(a). The BLM has determined that because it is unlikely to authorize construction of new wells on the Leases at issue until completion of the EIS referenced above, if at all, a sufficient condition of force majeure exists in this case to justify a Suspension of Operations *only*.

This Suspension of Operations shall be effective November 1, 2014, the first day of the month in which Mechanical Integrity Tests on the WillSource 1-13 and the Little Beaver 1-20 wells were completed. The Suspensions of Operations for the Leases will be in effect until the EIS is complete and a Record of Decision has been signed regarding the status of the Leases, and/or the authorized officer determines that the suspension is no longer warranted.

Rental and/or minimum royalty payments must continue during the period of Suspension of Operations. WillSource Enterprises LLC may engage in production activities during the period of suspension. BLM will not authorize any additional ground-disturbing activities during the period of suspension except as needed to maintain and produce the existing wells.

In accordance with 43 C.F.R. 3165.3, any adversely affected party contesting this decision may request an administrative review of this decision, before the State Director, either with or without oral presentation. This request, including all supporting documentation, shall be filed in writing within 20 business days of the date this decision was received, or considered to have been received, and shall be sent to: Colorado State Director, 2850 Youngfield Street, Lakewood, Colorado 80215-7076. The decision of the State Director may then be appealed to the Interior Board of Land Appeals in accordance with 43 C.F.R. 3165.4.

Please contact Steve Ficklin, Program Manager, at (970) 876-9006 with any questions.

Sincerely,



Karl Mendonca
Acting Field Office Manager

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