

ACTION: Consider State of Wyoming Oil and Gas Lease Term Extension

AUTHORITY: W.S. § 36-6-101; Board of Land Commissioners’ Rules and Regulations, Chapter 18, Section 6 and Section 8(b),

ALTERNATIVES:

- Approve Wyoming Oil and Gas Lease Term Extension
- Deny Wyoming Oil and Gas Lease Term Extension

ANALYSIS:

Devon Energy Production Company, LP (Devon) has requested a one year lease term extension for a State of Wyoming Oil and Gas Lease (see formal request attached). This is the first lease term extension request for State of Wyoming Oil and Gas Lease 12-00404. If approved, this extension will hold the Lease until August 1, 2018 should production not occur.

Lease 12-00404 adjoins a block of federal minerals managed by the Bureau of Land Management (BLM). Specifically, Section 9 to the north of lease 12-00404 is unleased federal minerals. In an effort to effectively develop the area, Devon has attempted to nominate the Section 9 minerals for auction by the BLM, and has pending 1280 acre Drilling and Spacing Unit applications to be approved by the Wyoming Oil and Gas Conservation Commission. Availability to lease the adjoining Section 9 has been delayed due to ongoing managerial issues between the BLM (managing agency) and the United States Forest Service (USFS) (mineral estate owner). The BLM is deferring leasing on Section 9, T37N, R70W until the USFS acts on its existing backlog of preleasing analyses and consents. This leaves the parcel with an unexpected timeline of leasing availability. Devon is requesting extension of Lease 12-00404 to allow time for the federal processes to occur so that the adjoining Section 9 may come available for leasing and lease acquisition, proper drilling and spacing permits be approved, and development of the Lease.

Pursuant to the Board of Land Commissioners’ (Board) Rules and Regulations, Chapter 18, Sections 6 and 8, Devon will submit the required \$2.00 per acre rental payments, and will submit a \$10,000.00 cash bond with the Office of State Lands and Investments (OSLI) to secure any future liquidated damages, refundable upon the lessee’s fulfillment of lease drilling requirements.

In accordance with OSLI’s existing coordination process with the Wyoming Game and Fish Department and the Wyoming State Historic Preservation Office, it is recommended that the following Standard Stipulations be applied to the described lease.

<u>Lease</u>	<u>Description</u>	<u>County</u>	<u>Request</u>	<u>Stips</u>
12-00404	T39N R70W Sec. 16 All	Converse	1st	1, 117, 136

Wyoming State Historic Preservation Office

#1: Standard Stipulation relating to discovery of historical, archeological, or paleontological deposits within the leased area.

Wyoming Game and Fish Department

#117: Standard Stipulation relating to exploration and development activities within certain distances of streams and lakes.

#136: Standard Stipulation relating to development and production within an area of concern for the spread of aquatic invasive species.

The specific language of all Standard Stipulations can be found at:

<http://slf-web.state.wy.us/MLease/auctions/stipulations.pdf>

DIRECTOR'S RECOMMENDATIONS:

The Director recommends approval of a one year lease term extension for State of Wyoming Oil and Gas Lease 12-00404 to expire August 1, 2018, if not then held by production or ongoing drilling operations. It is also recommended that the extension be granted on the condition that the lessee agrees to pay liquidated damages in the amount described above if it does not commence drilling operations to completion of a well within the extended term, and with the above described Standard Stipulations. The lease will be subject to an annual rental rate of \$2.00 per acre.

BOARD ACTION: Board Approved



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ST. LAND & INVESTMENTS
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June 16, 2017

Ms. Bridget Hill
Director
Office of State Lands & Investments
Herschler Building, 3 West
122 West 25th Street
Cheyenne, WY 82001-3004

Re: Request for One-Year Extension, State of Wyoming Oil and Gas Lease Serial No. 12-00404

Dear Bridget:

As you know, I represent Devon Energy Production Company, L.P. I have had the privilege of doing much of Devon's nuts and bolts oil and gas work in Wyoming since 1994.

Among the many properties Devon acquired in its recent acquisition of hundreds of thousands of acres of oil and gas leasehold of RKI Exploration & Production and Khody Land & Minerals in the State of Wyoming is State of Wyoming Oil and Gas Lease Serial No. 12-00404, covering the following described lands in Converse County, Wyoming:

Township 39 North, Range 70 West, 6th P.M.
Section 16: All
containing 640.00 acres

State Lease 12-00404 was issued August 2, 2012 for a primary term of five (5) years, expiring on August 2, 2017.

The governmental section immediately north of the lands in the subject State of Wyoming oil and gas lease, Section 9, T39N, R70W, is a full section of unleased federal minerals. Devon and its predecessors in title have been trying to get the BLM to lease Section 9, T39N, R70W for several years. Devon and its predecessors in title have nominated Section 9 as well as adjacent unleased federal minerals a number of times. However, as will be explained below, due to circumstances beyond Devon or any other party's control, Section 9, T39N, R70 remains unleased and has not been offered for lease by the BLM.

As you also know, Devon and many other operators in the Powder River Basin of Wyoming have arrived at a reasonably consistent view and approach that horizontal wells should be drilled on the basis of the longer laterals afforded by two-section, standup approximate 1280-acre drilling and spacing units. Superior economics and other considerations, including fewer surface disturbances, are the bases for this preference.

In fact, Devon has a pending application before the Wyoming Oil and Gas Conservation Commission to establish, Sections 9 and 16, T39N, R70W as an approximate 1280-acre drilling and spacing unit for the Turner/Frontier Formation in Docket No. 965-2017, set for hearing at the July, 2017 hearing date of the Commission.

However, as noted above, Section 9, T39N, R70W remains unleased due to the action or inaction of a federal lands managing agency. The surface estate of Section 9, T39N, R70W is under the jurisdiction of the United States Forest Service (USFS). Under the 1987 Reform Act, the USFS must consent to the leasing of lands under its jurisdiction. Each agency, the BLM and USFS, has an independent duty to conduct a pre-leasing analysis under the National Environmental Policy Act (NEPA) prior to a federal lease sale, although, as a practical matter, they may rely on the same jointly prepared analysis. The USFS has, without any justification, failed to complete its required pre-leasing analysis and has failed to consent to the leasing of these lands by the BLM.

Due to the failure of the USFS to conduct its analysis, BLM has deferred leasing of Section 9, T37N, R70W, among other parcels nominated for federal lease sales. Devon's outside federal regulatory/environmental counsel has recently confirmed that the BLM is no longer sending requests to the USFS until that agency acts on its existing backlog of pre-leasing analyses and consents. Unfortunately, therefore, for Devon and for the State of Wyoming, leasing of Section 9, T37N, R70W will be deferred from leasing until the USFS completes its required lease sale analysis under NEPA.

Given the foregoing circumstances in which the USFS has declined to do its duty under the 1987 Reform Act and the BLM is, therefore, unable to offer the unleased lands in Section 9 for lease, thereby preventing Devon from permitting or drilling the well which would be the authorized well under Docket No. 965-2017 and given the imminent expiration of State Lease No. 12-004044, on behalf of Devon, I write to request a one-year extension of State of Wyoming Oil and Gas Lease No. 12-00404 from August 2, 2017 to August 2, 2018, under Chapter 18, Section 8(b) of the Land Board's Rules and Regulations.

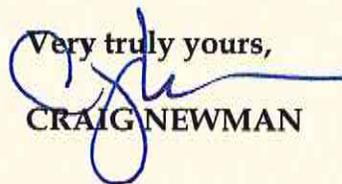
Ms. Bridget Hill
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Devon's cashier's check or certified check in the amount of \$10,000, the required cash bond under Chapter 18, Section 8(b)(ii) will be sent to you under separate cover directly from Devon's Oklahoma City office.

It is my understanding that this request for extension could be considered and, if favorably received, granted by the Land Board at its August, 2017 meeting, effective before the August 2, 2017 expiration date of State Lease 12-00404.

As always, it has been a pleasure speaking with you about this matter over the past several weeks.

Please let me know if you have any questions.

Very truly yours,

CRAIG NEWMAN

cc: Brian Carlson
Devon Energy Production Company, L.P.