

**FIRE MOUNTAIN CANAL & RESERVOIR CO.**

**P.O. BOX 414**

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January 4, 2012

Bureau of Land Management  
August 2012 Lease Sale  
Uncompahgre Field Office  
2465 South Townsend Ave  
Montrose, CO 81401

Dear Sir or Madam,

The Board of Directors of the Fire Mountain Canal & Reservoir Company is writing this letter as a response to your proposed August 2012 lease sale nominations.

The Fire Mountain Canal (FMC) is located in Gunnison and Delta Counties. By contractual agreement with the North Fork Water Conservation District, via the United States Bureau of Reclamation, the FMC operates and maintains the 18,150 acre foot Paonia Reservoir, the FMC diversion structure on the North Fork of the Gunnison River, and the 34.7 mile Fire Mountain Canal. The FMC does not own the reservoir or dam structures but the FMC shareholders would certainly bear financial burden if drilling or construction activity caused environmental or structural damage to the Paonia Project facilities in the area of parcels 6206, 6215, and 6216.

The FMC board is requesting total withdrawal of the following parcels from the August 2012 lease sale: parcels 6195, 6196, 6206, 6207, 6215, and 6216.

Parcels 6206, 6216, and 6215 are in close proximity to the Paonia Reservoir and/or the Paonia Reservoir Dam structure. The FMC board is concerned that drilling and construction activity in these parcels could compromise reservoir or dam structural integrity.

Parcels 6195, 6196, and 6207 border and/or contain the actual 34.7 mile canal, siphon structures, and Leroux Creek diversion structure. The canal does not currently have adequate bridge crossings to handle the heavy equipment and vehicle/truck traffic used in gas drilling and related

construction activity; the FMC Board is concerned that heavy equipment traffic over the canal or beside the canal could cause canal failure.

In addition, many miles of the canal was constructed through hillsides, along hillsides, and through hillsides containing Mancos Shale deposits. Drilling activity, as well as construction activity, in the vicinity of the canal, above the canal, or below the canal could cause the ground or Mancos Shale to shift and result in a breach or failure of the canal, siphons, or diversion structures. Any breach or failure of the canal or related structures would result in severe financial burden to the FMC shareholders.

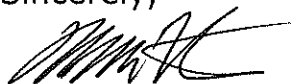
The FMC Board is also concerned with water quality issues related to natural gas drilling and fracking fluids. The spilling of these fluids into our watershed or canal would impact water users negatively. During the last several years our watershed, and the area the canal traverses, has been subject to several torrential downpours. The FMC Board is concerned that the structural integrity of drilling settling/storage ponds would be comprised during such a storm event and the chemicals would enter our water distribution system negatively affecting our water users.

In addition to water quality issues related to fracking, the FMC Board is also concerned about construction and drilling activity altering the flow of runoff in the area of the canal. The FMC canal is 34.7 miles long and has multiple undershots and overshots that prevent runoff water from eroding the canal bank. Any construction or drilling activity would have to be done in a manner consistent with preventing canal bank erosion.

Due to proximity to the Paonia Project reservoir, dam, diversion structures, siphons, canal crossings, and the 34.7 mile canal itself, the FMC Board requests the total withdrawal of parcels 6195, 6196, 6206, 6207, 6215, and 6216.

The FMC Board will continue to work with the Bureau of Reclamation (Reclamation) on all matters requiring specialized information related to oil and gas leases on Reclamation land and BLM land in areas adjoining Paonia Reservoir and the Fire Mountain Canal. An initial review of the proposed parcels resulted in Reclamation's request to the BLM that parcels 6195, 6196, 6206, and 6207 be removed from the August 2012 sale pending a revised Resource Management Plan and planned Environmental Impact Statement. The FMC Board is also asking for withdrawal of parcels 6215 and 6216 due to proximity to the reservoir and dam. The FMC Board will continue to monitor this action; we will review the pending updates to the Resource Management Plan and proposed EIS or NEPA. We may suggest additional stipulations to proposed leases.

Sincerely,



Randall W. Fisher  
Secretary-Treasurer  
For the FMC Board of Directors

Cc: Bureau of Reclamation  
2764 Compass Drive  
Grand Junction, CO 81506

Cc: North Fork Water Conservancy District  
PO Box 217  
Hotchkiss, CO 81419