

STATE OF MONTANA  
DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION  
MINUTES OF THE  
BOARD OF OIL AND GAS CONSERVATION MEETING

CALL TO ORDER

The regular business meeting of the Montana Board of Oil and Gas Conservation was called to order by Chairman Linda Nelson at 2:00 p.m., Wednesday, February 14, 2007, in the conference room of the Petroleum Club on the 22<sup>nd</sup> floor of the Crowne Plaza Billings in Billings, Montana. Board members present were Chairman Linda Nelson, Vice-Chairman Denzil Young, Don Bradshaw, Jack King, Elaine Mitchell, Wayne Smith and Joan Stahl. Staff present were Jim Halvorson, Ed Hayes, George Hudak, Rich Jacobson, Terri Perrigo, Tom Richmond and Steve Sasaki.

APPROVAL OF MINUTES

MOTION: Ms. Stahl made a motion to approve the minutes of the February 14, 2007 business meeting. The motion was seconded by Mr. King and passed unanimously.

OPPORTUNITY FOR PUBLIC COMMENT

*Kevin-Sunburst Field Concerns*

Mr. Charles Jansky of Somont Oil Co., Inc. (Somont) was present to make a general complaint about the Board allowing commercially viable well bores to be plugged back in 2000 – 2001. He requested Board policy be changed to preclude this from happening again. He then addressed the following concerns that residents of the Kevin-Sunburst area have raised about Somont at the last two business meetings:

1. That Somont's operations are damaging the reservoir in the Kevin-Sunburst Field due to excessive fluid production.
2. That Somont is wasting water by disposing of produced water associated with its oil and gas production into evaporation pits.
3. That one of Somont's wells has a sour gas odor that can be smelled by residents of a house in the middle of the oil field.
4. That Somont is violating the rights of a split estate surface owner.

Ms. Mitchell said she attended court sessions between C-W and Somont shortly after she was appointed to the Board because Mr. Jansky asked her to be an arbitrator. After discussions with the Board's attorney about conflict of interest she informed Mr. Jansky she would not be able to serve as an arbitrator.

Mr. Richmond said he and Mr. Hayes met with Don Vidrine, the Air Resources Bureau Chief of the Department of Environmental Quality (DEQ) regarding the Enneberg H2S concern. DEQ intends to close the case because they found no violation of air quality law. He provided a copy of their letter, attached as Exhibit 1, which the Chairman read aloud.

*Proposed Bond Rule Changes*

Mr. Tom Ruffato was present to discuss proposed changes to Board's rules regarding plugging and restoration bonds. Plugging costs have increased since bond amounts were reviewed nine years ago and he thinks the bonds should be increased.

The Chairman asked Mr. Jacobson to respond to Mr. Ruffato's comments about bond amount. Mr. Jacobson said the Board has had very few problems with the bond amounts. Chief Field Inspector Sasaki also said there have been very few problems. The Board has damage mitigation and grant funds to plug wells if necessary. Mr. Richmond said between the damage mitigation account and grant funds, the Board has about \$800,000 per biennium for well plugging, clean-ups or emergencies.

Mr. Bradshaw said the Interstate Oil and Gas Compact Commission (IOGCC) is going to lobby Congress for federal funds to plug orphan wells. Mr. Richmond said Montana is fortunate to have an established plugging account.

Mr. Curt Dahlgaard of Somont said things have changed since the bond rules were reviewed last. Operators are more strongly encouraged to plug wells that are liabilities. The real penalty for a producer that doesn't plug its wells is that the Board can shut in their wells. The potential bond forfeiture is not the penalty--going out of business because your wells are shut-in is the penalty.

Mr. Smith asked if plugging and abandon money applies on federal leases. Mr. Richmond said no. The Bureau of Land Management (BLM) has responsibility to plug wells on federal leases. When BLM has wells to plug they go to Congress for a specific appropriation to plug wells.

Chairman Nelson appreciates Mr. Ruffato's comment, but said it appears current bonding amounts are adequate.

#### Marathon Oil Company

Terry Kovacevich, operations manager for Marathon Oil Company (Marathon) in Dickinson ND, introduced himself and other Marathon employees to the BOGC. Marathon just drilled its first Bakken well in Montana in Richland County. They recently opened an office in Dickinson with 25 employees. They have an ambitious drilling program planned for 2007, including 5 rigs active in the Bakken Formation.

#### Pit Permit Procedures

Mr. Richmond asked if there the Board was interested in making surface owner notification part of the pit permit process. The Board does not require surface owners be notified when a water impoundment facility (for production pits, not drilling pits) is going to be constructed. The assumption is that a pit permit application would not be submitted unless the operator already had surface owner permission.

Ms. Mitchell feels communication between the surface owner and the operator is critical. If the Board required some certification that the surface owner had been contacted, it would eliminate a lot of the problems the Board has been hearing about at the last two business meetings. She originally asked her Senator to introduce legislation to require this, but Mr. Richmond said it could be done administratively instead.

Mr. Richmond suggested a statement be added to the pit permit form that certifies the surface owner has been notified. The Board requires similar certification for coal bed methane permits. The applicant has to certify they have offered the surface owner a water management plan.

Mr. King asked if the HB 790 interim committee discussed this. Mr. Richmond said it dealt with notice of oil and gas operations, but the committee focused on drilling operations. They did talk about this, however, in context of notice for other things besides drilling; and the concern was about notice of on-going operations. No specific proposal ever came out of those discussions. The pamphlet that came out of that committee doesn't address this issue either. Mr. Richmond said it is within the Board's authority to adopt a procedure for pit permitting and change the permit form to incorporate that procedure.

Mr. Smith asked how big a pit can be and at what size does the Board decide not to permit it. Mr. Richmond said the measurement is "how reasonable" the proposed pit is in comparison to other operations in a similar area. It would be unreasonable if an operator applied for a pit that covered a surface owner completely.

MOTION: Ms. Mitchell made a motion, seconded by Mr. Smith and unanimously passed, to do rulemaking to change the pit permit form to include certification of surface owner notification.

#### BOND REPORT

Mr. Jacobson presented the bond report attached as Exhibit 2. The Board received over \$65,000 from the forfeiture of Nerdlihc Company's (Nerdlihc) bonds. The Plentywood bank forfeited \$25,000 and First Bank Helena sent \$40,194.75. The amount over \$25,000 from First Bank Helena is interest. An operator can take interest from its bond, which Mr. Jacobson thinks was the case with the Plentywood bank. Interest wasn't taken from First Bank Helena, and when the bond was forfeited the interest was sent to the Board as well.

Stockman Bank in Conrad is not going to renew Hawley Oil Company's Letter of Credit which expires May 31, 2007. Mr. Jacobson will write a letter to Kim Hawley of Hawley Oil Company and the bank stating if another bond isn't in place by the next hearing date, the Board will order forfeiture of the Letter of Credit.

MOTION: Mr. Smith made a motion, seconded by Mr. Young and unanimously passed, to schedule a Show-Cause hearing for Hawley Oil Company for the April 2007 public hearing to forfeit its bond if a replacement bond for the expiring Letter of Credit with Stockman Bank is not obtained.

#### FINANCIAL REPORT

Ms. Perrigo presented the financial report attached as Exhibit 3. Mr. Bradshaw asked about the RIT accounts. Ms. Perrigo will send him information.

The Petroleum Club decided not to use the Board's regular meeting room for storage. The Board will continue to meet in the same place.

#### DEFAULT DOCKET

Mr. Halvorson presented the Default Docket attached as Exhibit 4.

#### STAFF REPORTS

Mr. Sasaki Presented grant report attached as Exhibit 5. Seven Southeast Cut Bank wells have recently been plugged using 2005 Northern grant funds. Contractors will be going back to work on both the Northern and Eastern projects as soon as weather allows.

Mr. Sasaki said Devon Energy had a gas blow out on a drilling rig in Hill County. There were no fatalities and the rig didn't burn up.

Mr. Hudak said the annual injection well fee of \$200 per well was due January 31, 2007. He sent out reminder letters to those that hadn't paid. Only one company, Fulco, hasn't paid yet. He requests approval to assess a late fee of \$100 per well as the Board has done in the past.

MOTION: Mr. Young made a motion, seconded by Mr. King and unanimously passed, to assess Fulco a \$100 late fee for its delinquent annual injection well fee.

Mr. Richmond gave an update on legislation. The budget subcommittee reduced the Oil and Gas Division budget in HB2 by over \$113,000 per year in the regulatory program and \$71,000 per year in the UIC program. Mr. Richmond will try to get those reduction amounts reinstated in the Senate, particularly the UIC reduction to at least the same proportionate level as the regulatory program reduction.

The Board requested \$750,000 in HB 5 to remodel the Billings office building. The Board's well plugging grants are included in HB7.

HB 116, which revises the way the RIT is divided up, also impacts the Board the way it is currently written. The interim committee studying RIT recommended the Board's \$50,000 statutory allocation of RIT interest be eliminated, but what happened instead was the Board's statutory appropriation to spend damage mitigation funds was eliminated. Mr. Richmond thinks that will be fixed by the end of the session.

SB 19 also affects the Board. It is the HB 790 committee bill.

SB 241 could affect the Board. It would take all the Board's reclamation authority that exists in rule and put it in statute with hard rock mining language. The Board has always required reclamation, and in a more timely fashion than this bill would require. The proposed legislation would require that dry holes be reclaimed within two years. The Board currently requires dry holes be reclaimed within a year. The bill would require that a reclamation plan be submitted with each permit application. To review 1300 reclamation plans a year would burden the permitting process.

Mr. Richmond has also been testifying and following two carbon sequestration bills: HB 242, which provides for eminent domain and puts co2 storage projects in the Board's statutes, and SB 219 which sets standards for co2 sequestration.

There are also tax bills that would affect industry. HB 598 proposes to eliminate half the tax holiday for new wells and two-thirds of the holiday on horizontal wells. It also changes the way taxes are distributed so that the western part of the state gets some benefit from the Bakken oil in Richland County.

With no further business, the Board adjourned at 4:35 p.m.

#### PUBLIC HEARING

The Board reconvened at 8:00 a.m. Thursday, February 15, 2007, in the conference room of the Billings Petroleum Club on the 22<sup>nd</sup> floor of the Crowne Plaza Billings, to hear the matters docketed for public hearing. As a result of the discussion, testimony and technical data placed before the Board, the following action was taken in each matter.

Docket No. 1-2007 – A hearing on the proposed amendments to A.R.M. 36.22.1308 and 1408 was held. There were no proponents or opponents. Comments will be accepted until February 22, 2007, after which time the amendments will be adopted.

Docket No. 2-2007 – The application of Headington Oil, Limited Partnership was continued to the April hearing.

Docket No. 3-2007 – A motion was made by Mr. Bradshaw, seconded by Mr. Young and unanimously passed, to approve the application of Headington Oil, Limited Partnership as set forth in Board Order 1-2007.

Docket No. 4-2007 – A motion was made by Ms. Mitchell, seconded by Mr. King and unanimously passed, to approve the application of Headington Oil, Limited Partnership as set forth in Board Order 2-2007.

Docket No. 5-2007 – A motion was made by Ms. Mitchell, seconded by Mr. King and unanimously passed, to approve the application of Headington Oil, Limited Partnership as set forth in Board Order 3-2007.

Docket No. 6-2007 – A motion was made by Ms., seconded by Mr. and unanimously passed, to approve the application of Headington Oil, Limited Partnership as set forth in Board Order 4-2007.

Docket No. 7-2007 – A motion was made by Mr. Young, seconded by Mr. King and unanimously passed, to approve the application of Headington Oil, Limited Partnership as set forth in Board Order 5-2007.

Docket No. 8-2007 – A motion was made by Mr. Bradshaw, seconded by Mr. Smith and unanimously passed, to approve the application of Enerplus Resources (USA) Corporation as set forth in Board Order 6-2007.

Docket No. 9-2007 – A motion was made by Mr. Bradshaw, seconded by Mr. Smith and unanimously passed, to approve the application of Enerplus Resources (USA) Corporation as set forth in Board Order 7-2007.

Docket No. 10-2007 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 11:30 a.m. on the day of the hearing. No protests were received. The application of Enerplus Resources (USA) Corporation was approved as set forth in Board Order 8-2007.

Docket No. 11-2007 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 11:30 a.m. on the day of the hearing. No protests were received. The application of Enerplus Resources (USA) Corporation was approved as set forth in Board Order 9-2007.

Docket No. 12-2007 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 11:30 a.m. on the day of the hearing. No protests were received. The application of Enerplus Resources (USA) Corporation was approved as set forth in Board Order 10-2007.

Docket No. 13-2007 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 11:30 a.m. on the day of the hearing. No protests were received. The application of Enerplus Resources (USA) Corporation was approved as set forth in Board Order 11-2007.

Docket No. 14-2007 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 11:30 a.m. on the day of the hearing. No protests were received. The application of Enerplus Resources (USA) Corporation was approved as set forth in Board Order 12-2007.

Docket No. 15-2007 – A motion was made by Mr. Bradshaw, seconded by Mr. Young and unanimously passed, to approve the application of Noble Energy, Inc. as set forth in Board Order 13-2007.

Docket No. 16-2007 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 11:30 a.m. on the day of the hearing. No protests were received. The application of Continental Resources, Inc. was approved as set forth in Board Order 14-2007.

Docket No. 17-2007 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 11:30 a.m. on the day of the hearing. No protests were received. The application of Continental Resources, Inc. was approved as set forth in Board Order 15-2007.

Docket No. 18-2007 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 11:30 a.m. on the day of the hearing. No protests were received. The application of Continental Resources, Inc. was approved as set forth in Board Order 16-2007.

Docket No. 19-2007 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 11:30 a.m. on the day of the hearing. No protests were received. The application of Continental Resources, Inc. was approved as set forth in Board Order 17-2007.

Docket No. 20-2007 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 11:30 a.m. on the day of the hearing. No protests were received. The application of Continental Resources, Inc. was approved as set forth in Board Order 18-2007.

Docket No. 21-2007 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 11:30 a.m. on the day of the hearing. No protests were received. The application of Continental Resources, Inc. was approved as set forth in Board Order 19-2007.

Docket No. 22-2007 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 11:30 a.m. on the day of the hearing. No protests were received. The application of Continental Resources, Inc. was approved as set forth in Board Order 20-2007.

Docket No. 23-2007 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 11:30 a.m. on the day of the hearing. No protests were received. The application of Continental Resources, Inc. was approved as set forth in Board Order 21-2007.

Docket No. 24-2007 – A motion was made by Mr. Smith, seconded by Mr. Bradshaw and unanimously passed, to approve the application of Kirkwood Oil & Gas LLC as set forth in Board Order 22-2007.

Docket No. 25-2007 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 11:30 a.m. on the day of the hearing. No protests were received. The application of Town of Saco was approved as set forth in Board Order 23-2007.

Docket No. 26-2007 – A motion was made by Mr. Young, seconded by Ms. Mitchell and unanimously passed, to approve the application of Carl Johnson Family, LLC as set forth in Board Order 24-2007.

Docket No. 27-2007 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 11:30 a.m. on the day of the hearing. No protests were received. The application of Nance Petroleum Corporation was approved as set forth in Board Order 25-2007.

Docket No. 28-2007 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 11:30 a.m. on the day of the hearing. No protests were received. The application of Nance Petroleum Corporation was approved as set forth in Board Order 26-2007.

Docket No. 29-2007 – A motion was made by Mr. Young, seconded by Ms. Stahl and unanimously passed, to approve the application of Nance Petroleum Corporation as set forth in Board Order 27-2007.

Docket No. 30-2007 – A motion was made by Mr. Smith, seconded by Mr. King and unanimously passed, to approve the application of Nance Petroleum Corporation as set forth in Board Order 28-2007.

Docket No. 31-2007 – A motion was made by Ms. Stahl, seconded by Mr. King and unanimously passed, to approve the application of Nance Petroleum Corporation as set forth in Board Order 29-2007.

Docket No. 32-2007 – A motion was made by Mr. Bradshaw, seconded by Mr. King and unanimously passed, to approve the application of Nance Petroleum Corporation as set forth in Board Order 30-2007.

Docket No. 33-2007 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 11:30 a.m. on the day of the hearing. No protests were received. The application of Bill Barrett Corporation was approved as set forth in Board Order 31-2007.

Docket No. 34-2007 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 11:30 a.m. on the day of the hearing. No protests were received. The application of Bill Barrett Corporation was approved as set forth in Board Order 32-2007.

Docket No. 35-2007 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 11:30 a.m. on the day of the hearing. No protests were received. The application of Devon Energy Production Company, L.P. was approved as set forth in Board Order 33-2007.

Docket No. 36-2007 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 11:30 a.m. on the day of the hearing. No protests were received. The application of Devon Energy Production Company, L.P. was approved as set forth in Board Order 34-2007.

Docket No. 37-2007 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 11:30 a.m. on the day of the hearing. No protests were received. The application of Devon Energy Production Company, L.P. was approved as set forth in Board Order 35-2007.

Docket No. 38-2007 – The application of Devon Energy Production Company, L.P. was continued to the April 2007 hearing.

Docket No. 39-2007 – A motion was made by Mr. Young, seconded by Ms. Mitchell and unanimously passed, to approve the application of Helis Oil and Gas Company, LLC as set forth in Board Order 36-2007.

Docket No. 40-2007 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 11:30 a.m. on the day of the hearing. No protests were received. The application of Burlington Resources Oil & Gas Company LP was approved as set forth in Board Order 37-2007.

Docket No. 41-2007 – The application of Burlington Resources Oil & Gas Company LP was continued to the April 2007 hearing.

Docket No. 42-2007 – The application of Burlington Resources Oil & Gas Company LP was continued to the April 2007 hearing.

Docket No. 43-2007 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 11:30 a.m. on the day of the hearing. No protests were received. The application of Nadel and Gussman Rockies, LLC was approved as set forth in Board Order 38-2007.

Docket No. 44-2007 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 11:30 a.m. on the day of the hearing. No protests were received. The application of Klabzuba Oil & Gas, Inc. was approved as set forth in Board Order 39-2007.

Docket No. 45-2007 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 11:30 a.m. on the day of the hearing. No protests were received. The application of Montana Land & Exploration, Inc. was approved as set forth in Board Order 40-2007.

Docket No. 46-2007 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 11:30 a.m. on the day of the hearing. No protests were received. The application of Montana Land & Exploration, Inc. was approved as set forth in Board Order 41-2007.

Docket No. 47-2007 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 11:30 a.m. on the day of the hearing. No protests were received. The application of Petro-Hunt, LLC was approved as set forth in Board Order 42-2007.

Docket No. 392-2006 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 11:30 a.m. on the day of the hearing. No protests were received. The application of Sinclair Oil Corporation was approved as set forth in Board Order 43-2007.

Docket No. 468-2006 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 11:30 a.m. on the day of the hearing. No protests were received. The application of Marathon Oil Company was approved as set forth in Board Order 44-2007.

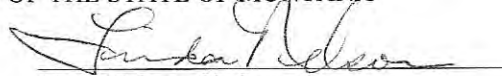
Docket No. 469-2006 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 11:30 a.m. on the day of the hearing. No protests were received. The application of Marathon Oil Company was approved as set forth in Board Order 45-2007.

Docket No. 492-2007 – A motion was made by Mr. Young, seconded by Mr. Smith and unanimously passed, to approve the application of Altamont Oil & Gas, Inc. as set forth in Board Order 46-2007.

#### NEXT MEETING

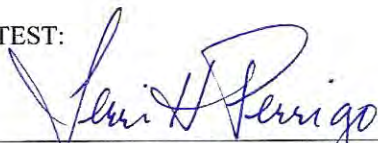
The next business meeting of the Board will be Wednesday, April 11, 2007 at 2:00 p.m. in the Billings Petroleum Club in the Crowne Plaza Billings in Billings, Montana. The next regular public hearing will be Thursday, April 12, 2007, beginning at 8:00 a.m. in the conference room of the Billings Petroleum Club in the Crowne Plaza Billings, in Billings, Montana. The filing deadline for the April 12, 2007 public hearing is March 15, 2007.

#### BOARD OF OIL AND GAS CONSERVATION OF THE STATE OF MONTANA



Linda Nelson, Chairwoman  
Denzil Young, Vice-Chairman  
Don Bradshaw  
Jack King  
Elaine Mitchell  
Wayne Smith  
Joan Stahl

ATTEST:



Terri H. Perrigo, Executive Secretary