

Montana Board of Oil and Gas Conservation Summary of Bond Activity

9/5/2007 Through 10/24/2007

Approved

Northern Producing LLC Shelby MT	544 M1	Approved Amount: Purpose:	9/11/2007 \$50,000.00 Multiple Well Bond
Certificate of Deposit	\$50,000.00	FIRST STATE BANK OF SHELBY	
Targe Energy Exploration and Production, LLC Denver CO	541 G9	Approved Amount: Purpose:	10/4/2007 \$1,500.00 Single Well Bond
Certificate of Deposit	\$1,500.00	FIRST STATE BANK OF SHELBY	
Targe Energy Exploration and Production, LLC Denver CO	541 G10	Approved Amount: Purpose:	10/4/2007 \$1,500.00 Single Well Bond
Certificate of Deposit	\$1,500.00	FIRST STATE BANK OF SHELBY	

Bond Increase

Continental Resources Inc Enid OK	1550 U1	Bond Increase Amount: Purpose:	10/15/2007 \$80,000.00 UIC Limited Bond
Surety Bond	\$80,000.00	RLI INSURANCE COMPANY	

Forfeited

Dezert, Wesley Miller dba Wolf Point MT	291 G1	Forfeited Amount: Purpose:	10/9/2007 \$10,000.00 Single Well Bond
Surety Bond	\$10,000.00	Contractors Bonding & Insurance Co.	

Released

Houston Exploration Company, The Houston TX	389 M1	Released Amount: Purpose:	9/10/2007 \$50,000.00 Multiple Well Bond
Surety Bond	\$50,000.00	TRAVELERS CASUALTY & SURETY CO. OF AMERICA	
Sagebrush Operating, LLC Denver CO	317 L1	Released Amount: Purpose:	10/17/2007 \$20,500.00 Limited Bond
Surety Bond	\$20,500.00	FIDELITY & DEPOSIT CO. OF MD	
Sagebrush Operating, LLC Denver CO	317 G2	Released Amount: Purpose:	10/17/2007 \$1,500.00 Single Well Bond
Certificate of Deposit	\$1,500.00	1ST INTERSTATE BANK WEST	
Sagebrush Operating, LLC Denver CO	317 G1	Released Amount: Purpose:	10/17/2007 \$1,500.00 Single Well Bond
Certificate of Deposit	\$1,500.00	1ST INTERSTATE WEST BILLINGS	

Exhibit 2

FINANCIAL STATEMENT
As of 9/30/07

OIL AND GAS DIVISION
FY 2008 Budget vs. Expenditures

FTE Obj		2008 Regulatory			2008 UIC			2008 Educ & Outreach			2008 NAPE			2008 Pub Acc Data			2008 Temp Relocate			TOTAL BUDGET	TOTAL EXPENDS	Expend % of Budget
		Budget	Expend	% of Budget	Budget	Expend	% of Budget	Budget*	Expend	% of Budget	Budget*	Expend	% of Budget	Budget	Expend	% of Budget	Budget	Expend	% of Budget			
		16.0			3.5									1.0						20.5		
1000	Pay Plan	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1100	Salaries	774,042	131,072	0.17	196,903	30,610	0.16							37,669	582	0.02				1,008,614	162,264	0.16
1300	Other Comp	6,890	1,684	0.24	1,510	167	0.11							-	-	-				8,400	1,850	0.22
1400	Benefits/Ins	230,789	42,214	0.18	55,798	9,102	0.16							-	-	-				286,587	51,316	0.18
1600	Vacancy Svcs	(37,910)	-	0.00	(9,287)	-	-							-	-	-				(47,197)	-	0.00
2100	Contracted Svcs	487,330	56,118	0.12	79,331	1,488	0.02	57,500	-	-				175,000	2,699	-	2,500			801,661	60,305	0.08
2200	Supplies	49,547	9,606	0.19	8,920	1,456	0.16				-	-	-	-	-	-				58,467	11,063	0.19
2300	Communications	45,607	8,138	0.18	8,148	1,750	0.21				-	-	-	-	-	-				53,755	9,887	0.18
2400	Travel	40,824	8,244	0.20	5,776	608	0.11				4,000	-	-	-	-	-				50,600	8,851	0.17
2500	Rent	28,908	4,654	0.16	3,137	561	0.18				1,000	-	-	-	-	-	30,000			63,045	5,216	0.08
2600	Utilities	12,841	2,530	0.20	2,838	514	0.18				-	-	-	-	-	-				15,679	3,044	0.19
2700	Repair/Maint	19,462	3,600	0.18	4,460	733	0.16				-	-	-	-	-	-				23,922	4,332	0.18
2800	Other Svcs	19,138	11,405	0.60	7,801	2	0.00				2,500	-	-	-	-	-				29,439	11,407	0.39
3000	Equipment	53,345	-	0.00	-	-	-				-	-	-	-	-	-				53,345	-	0.00
6000	Grants	-	-	-	-	-	-	5,000	-	-	-	-	-	-	-	-				5,000	-	-
Total		1,730,813	279,266	0.16	365,335	46,990	0.13	62,500	-	-	7,500	-	-	212,669	3,281	0.02	32,500.0			2,411,317	329,536	0.14
FUNDING																						
State Special		1,730,813	279,266		365,335	46,990		62,500	-		7,500	-		212,669	3,281		32,500			2,411,317	329,536	
Federal																						
Total Funds		1,730,813	279,266		365,335	46,990		62,500	-		7,500	-		212,669	3,281		32,500			2,411,317	329,536	

REVENUE INTO STATE SPECIAL REVENUE ACCOUNT as of 9/30/07

	FY 08	Total FY 07	Percentage FY08:FY07
Oil Production Tax	395,539	3,148,244	0.13
Gas Production Tax	138,973	976,842	0.14
Penalty & Interest		-	
Drilling Permit Fees	17,375	78,305	0.22
UIC Permit Fees		185,300	0.00
Enhanced Recovery Filing Fee		-	
Interest on Investments	116,841	522,666	0.22
Copies of Documents	2,838	13,030	0.22
Miscellaneous Reimbursemts		6,981	0.00
TOTALS	671,566	\$4,931,368	0.14

REVENUE INTO DAMAGE MITIGATION ACCOUNT as of 9/30/07

	FY07
Transfer in from Orphan Share	25,000
Bond Forfeitures	0
Interest on Investments	<u>2,125</u>
TOTAL	27,125

REVENUE INTO GENERAL FUND FROM FINES as of 9/30/07

	FY 08
Brandon Oil Company	100
Yellowstone Petroleums	1400
Constitution Petroleum Company	2500
TOTAL	<u>4000</u>

INVESTMENT ACCOUNT BALANCES as of 9/30/07

Damage Mitigation	235,376
Regulatory	13,202,191

BOND FORFEITURES as of 9/30/07

--	--

GRANT BALANCES - 9/30/07

<u>Name</u>	<u>Authorized Amt</u>	<u>Expended</u>	<u>Balance</u>
EPA Exchange Network Grant	750,000	466,235	283,765
2005 Northern	300,000	162,546	137,455
2005 Eastern	<u>300,000</u>	<u>91,626</u>	<u>208,374</u>
TOTALS	\$1,350,000	\$720,407	\$629,593

CONTRACT BALANCES - 9/30/07

HydroSolutions - Tongue River Info Project	250,000	-	250,000
HydroSolutions - Tongue River Exigency	30,000	21,103	8,897
GWPC - Mgmt - Exchange Node	131,450	53,803	77,647
ALL Consulting - IT - Exchange Node	577,825	386,651	191,174
DNRC Centralized Services Indirect - EPA	40,725	25,781	14,944
COR Enterprises - Janitorial	17,700	1,653	16,047
Agency Legal Services - Legal*	50,000	4,391	45,609
Harvey Ost Oilfield Services	15,000	12,500	2,500
Liquid Gold - 05 Northern	210,000	189,558	20,443
C-Brewer - 05 Eastern (og-cb-120)	110,000	0	110,000
C-Brewer - 05 Eastern (og-cb-119)	250,000	129,879	120,121
TOTALS	1,682,700	825,319	857,381

Agency Legal Services Expenditures to Date in FY08

Case	Amt Spent	Last Svc Date
Hugh Gwynn	126	9/07
Diamond Cross 2	42	9/07
MEIC	109	7/07
BOGC Duties	4,114	9/07
Total	4,391	

Docket Summary

10/25/2007 Hearing

348-2007	Pinnacle Gas Resources, Inc.	Class II injection permit to convert the Visborg 11SA-22-0841 (API #003-22690) to a Anderson (Dietz 1) disposal well, 8S-41E-22: 1999' FSL/ 2272' FWL (NE/4SW/4). (Administratively continued, 10/9/2007)	Continued
349-2007	Great Plains Operating, LLC	Class II injection permit to convert the Grebe Federal 1-22R (API #087-21451) to a Tyler enhanced recovery injection well, 11N-32E-22: 266' FSL/ 1029' FEL (SE/4SE/4).	Default
350-2007	Western Natural Gas Company	Permanent spacing unit, surface to top of the Rierdon, 37N-1E-8: N/2, one well to be located 802' FNL/582' FEL. [36.22.607] [Continued to December, fax rec'd 10/23/2007.]	Continued
351-2007	Western Natural Gas Company	Permanent spacing unit, surface to top of the Rierdon, 37N-1E-10: N/2, one well to be located 896' FNL/1728' FEL. [36.22.607]	Continued
352-2007	Targe Energy Exploration and Production, LLC	Permanent spacing unit, Bow Island Formation, 34N-1E-18: Lots 3, 4, E/2SW/4, SE/4 (S/2), one well to be located 1600' FSL/2400' FEL. [36.22.607] [Continued to December, ltr rec'd 10/19/2007.]	Continued
353-2007	Cline Production Company	Class II injection permit to convert the Harris 5-1 (API #087-05191) to a Tyler enhanced recovery injection well, 11N-32E-24: 1980' FSL/1980' FWL (NE/4SW/4).	Default
354-2007	Cline Production Company	Class II injection permit to convert the BN 12-23 (API #033-21095) to a Tyler saltwater disposal well, 13N-33E-23: 1985' FNL/642' FWL (SW/4NW/4).	Default
355-2007	Devon Energy Production Co., LP	Exception to statewide to drill additional Eagle Formation well located in TSU comprised of 25N-17E-25, 990' setback (Brewer 25-06-25-17).	Default
356-2007	Klabzuba Oil & Gas, Inc.	Temporary spacing unit, all zones to base of Second White Specks, 35N-17E-7: N/2, one well located 700' FNL/2320' FWL, 75' topographic tolerance (Bessette 7-3-35-17). Apply for permanent spacing within 90 days of successful completion. [Undrilled section.] [Withdrawn by fax rec'd 10/18/2007 - location error.]	Withdrawn
357-2007	Klabzuba Oil & Gas, Inc.	Temporary spacing unit, all zones to base of Second White Specks, 35N-17E-20: S/2, one well located 1290' FSL/1240' FEL, 75' topographic tolerance (East End 20-16-35-17B). Apply for permanent spacing within 90 days of successful completion. [Existing PSU, S/2 20, N/2 29 and also N/2 20.]	Default
358-2007	Klabzuba Oil & Gas, Inc.	Temporary spacing unit, all zones to base of Second White Specks, 35N-17E-29: all, one well located 2150' FSL/1400' FEL, 75' topographic tolerance (East End 29-10-35-17B). Apply for permanent spacing within 90 days of successful completion. [Existing PSU, S/2 20, N/2 29; see previous docket.]	Default

359-2007	Headington Oil LP	Pool, Bakken Formation, 22N-58E-13: all and 24: all (O'Brien 11X-18). (Not requesting risk penalties).	Default
360-2007	Fidelity Exploration & Production Co.	Exception to drill, coalbed methane wells, 9S-40E-21: 1034' FSL/ 2433' FWL (MT Royalty Fed 24D1/D2/D3/M/C-2190) and 9S-41E-17: 183' FSL/ 1837' FWL (Rancholme Fed. 24D1/D2/D3/M/C-1791). [Federal minerals, federal offsetting.]	Default w/ Cont.
361-2007	Nadel and Gussman Rockies, LLC	Temporary spacing unit, Red River Formation, 2N-61E-34: S/2, 660' setback. Apply for permanent spacing within 90 days of successful completion. [Between 6000 and 11,000 feet; currently statewide.]	Default
362-2007	Nadel and Gussman Rockies, LLC	Permanent spacing unit, Red River Formation, 1S-62E-4: Lots 1-3, 6-8, 9-11, 14-16 (Hat Creek Federal 1).	Protested
363-2007	Nadel and Gussman Rockies, LLC	Pool, Red River Formation, 1S-62E-4: Lots 1-3, 6-8, 9-11, 14-16, non-consent penalties (Hat Creek Federal 1).	Protested
364-2007	Bill Barrett Corporation	Temporary spacing unit, all zones to a depth below 12,000', 4N-8E-6: Lots 1-12, 660' setback. Apply for permanent spacing within 90 days of successful completion. [Default requested; will hear.]	
365-2007	Bill Barrett Corporation	Temporary spacing unit, all zones to a depth below 12,000', 4N-8E-6: Lots 13-18, E/2SW/4 and SE/4; 660' setback. Apply for permanent spacing within 90 days of successful completion. [Default requested; will hear.]	
366-2007	Enerplus Resources USA Corporation	Pool, Bakken Formation, 24N-57E-15: all, non-consent penalties (Peanut Danielson 15-14H).	
367-2007	Enerplus Resources USA Corporation	Pool, Bakken Formation, 24N-57E-15: all, non-consent penalties (Peanut Benton 15-14HID).	
368-2007	Enerplus Resources USA Corporation	Pool, Bakken Formation, 24N-57E-14: all, non-consent penalties (Peanut East Kilen 14-2H).	
369-2007	Enerplus Resources USA Corporation	Pool, Bakken Formation, 24N-57E-14: all, non-consent penalties (Peanut East Elliott 14-14HID).	
370-2007	Enerplus Resources USA Corporation	Pool, Bakken Formation, 24N-57E-5: Lots 1-4 (all) and 8: all, non-consent penalties (Brutus Rachael 8-14H).	
371-2007	Enerplus Resources USA Corporation	Pool, Bakken Formation, 24N-57E-3: Lots 1-4 (all) and 10: all, non-consent penalties (Brutus East Lewis 3-4H).	
372-2007 1-2008 F	Nance Petroleum Corporation	Temporary spacing unit, Red River Formation, 27N-57E-8: SE/4 and 9: SW/4, one directional well located in Sec. 9: 537' FSL/ 565' FWL. Apply for permanent spacing within 90 days of successful completion.	Default

373-2007	Nance Petroleum Corporation	Permanent spacing unit, Ratcliffe Formation, 27N-59E-6: all (Nelson Ranch 1-6HR). [Continued to December by ltr rec'd 10/5/2007.]	Continued
374-2007	Nance Petroleum Corporation	Permanent spacing unit, Nisku Formation, 28N-58E-14: NW/4 and 15: NE/4 (Granley Unit 1-15). Request to commingle with existing Red River production.	Protested
375-2007	Nance Petroleum Corporation	Exception to drill additional Red River Formation well in the spacing unit comprised of 34N-58E-35: NE/4 and 36: NW/4, 660' setback.	Default
376-2007	Continental Resources Inc	Vacate Board Order 112-2006 which established a temporary spacing unit for the Bakken Formation comprised of 26N-55E-17: all and 20: all.	Default
377-2007	Continental Resources Inc	Vacate Board Order 115-2006 which established a temporary spacing unit for the Bakken Formation comprised of 26N-54E-25: all and 26: all. (NOTE: Finnium 1-25H permit approved 8-13-07; holding until after 10/07 hearing.)	Default
378-2007	Continental Resources Inc	Vacate Board Order 117-2006 which established a temporary spacing unit for the Bakken Formation comprised of 26N-54E-13: all and 24: all.	Default
379-2007	Continental Resources Inc	Vacate Board Order 121-2006 which established a temporary spacing unit for the Bakken Formation comprised of 23N-55E-20: all and 29: all.	Default
380-2007	Continental Resources Inc	Vacate Board Order 150-2005 which established a temporary spacing unit for the Bakken Formation comprised of 26N-54E-14: all and 23: all.	Default
381-2007	Continental Resources Inc	Vacate Board Order 327-2005 which established a temporary spacing unit for the Bakken Formation comprised of 26N-55E-24: all and 25: all.	Default
382-2007	Continental Resources Inc	Vacate Board Order 328-2005 which established a temporary spacing unit for the Bakken Formation comprised of 26N-55E-21: all and 28: all.	Default
383-2007	Continental Resources Inc	Vacate Board Order 430-2005 which established a temporary spacing unit for the Bakken Formation comprised of 26N-54E-30: all and 31: all.	Default
384-2007	Continental Resources Inc	Vacate Board Order 514-2005 which established a temporary spacing unit for the Bakken Formation comprised of 26N-53E-23: all and 26: all.	Default
385-2007	Continental Resources Inc	Permanent spacing unit, Bakken Formation, 25N-54E-10: all (Bidegaray 1-10H).	
386-2007	Continental Resources Inc	Permanent spacing unit, Red River Formation, 25N-55E-8: NE/4 and 9: NW/4 (Irigoin 1-9).	

387-2007	Continental Resources Inc	Pool, Red River Formation, 25N-55E-8: NE/4 and 9: NW/4, non-joinder penalties (Irigoin 1-9).	
388-2007	Continental Resources Inc	Pool, Bakken Formation, 25N-55E-21: all and 28: all, non-joinder penalties (Barbara 2-28H).	
389-2007	Continental Resources Inc	Pool, Bakken Formation, 23N-56E-19: all and 30: all, non-joinder penalties (Rita 2-19H).	
390-2007	Continental Resources Inc	Confirm the Sonja 1-34H well is the authorized well for the Bakken permanent spacing unit comprised of 26N-54E-34:all. Bottomhole penetrated the Bakken Formation at a location 644' FNL/1186' FWL.	Default
391-2007	Continental Resources Inc	Designate the Staci 2-11H as the second authorized well for the Bakken permanent spacing unit comprised of 23N-55E-11: all and 14: all. Bottomhole located 23N-55E-11: 631' FNL/658' FEL. [Withdrawn; no encroachment - survey error.]	Withdrawn
392-2007	MCR, LLC	Exception to field rules to drill Sunburst Formation oil well, 36N-2E-2: 2182' FSL/ 1539' FEL (NW/4SE/4). [Statewide does not apply.]	
393-2007 2-2008 F	Ursa Major (Crow OG), LLC	Temporary spacing units 160-acre regular governmental quarter sections, all zones to base of Mowry, 1S-34E-8: NW/4, NE/4, SW/4, SE/4, 17: NW/4, NE/4, 27: NE/4, 2S-34E-16: SE/4, 19: NW/4, 29: NE/4, SE/4, 31: SW/4, SE/4, 34: NE/4, SE/4, 35: NW/4, SW/4, SE/4, 990' setback. Request for one gas well per temporary spacing unit. [Amended to exclude 2S-34E-29: NE & SE.]	Federal Only
394-2007 3-2008 F	Montana Land & Exploration, Inc.	Temporary spacing unit, surface to base of Ellis Group, 30N-23E-25: SE/4, 36: NE/4, 30N-24E-30: SW/4, 31: NW/4, one well to be located in Sec. 30: 618' FSL/138' FWL (Well 13-30), 990' setback. Request to commingle.	
395-2007 4-2008 F	Montana Land & Exploration, Inc.	Temporary spacing unit, Eagle Formation, 31N-23E-4: S/2, 9: N/2, one well to be located in Sec. 9: 429' FNL/1293' FEL (Well 1-9), 990' setback.	Federal Only
396-2007 5-2008 F	Montana Land & Exploration, Inc.	Temporary spacing unit, Eagle Formation, 31N-24E-19: SE/4, 20: SW/4, 29: NW/4, 30: NE/4, one well to be located in Sec. 30: 623' FNL/371' FEL (Stephens White Bear 1-30), 990' setback.	Federal Only
397-2007 6-2008 F	Montana Land & Exploration, Inc.	Exception to drill up to 4 wells, Eagle Formation, 30N-23E-12: all. If not granted, alternative request for 160 acre temporary spacing units, Eagle Formation.	Federal Only
250-2007	Stone Energy Corporation	Exception to drill additional Bakken Formation well in the temporary spacing unit comprised of 23N-58E-35: all and 36: all, 660' setback. [Continued to September, fax rec'd 7/12.] [Continued to October, ltr rec'd 8/18/2007.] [Withdrawn by letter rec'd 10/10/2007.]	Withdrawn

269-2007	Chesapeake Operating Inc.	Permanent spacing unit, Ratcliffe/Mission Canyon Formation, 26N-59E-18: SE/4 (Hardy 1-18). [Continued to September by fax rec'd 7/10/2007] [Continued to October, ltr rec'd 8/10/2007.] [Continued to Dec; fax rec'd 10/11/2007.]	Continued
270-2007	Chesapeake Operating Inc.	Pool, Ratcliffe/Mission Canyon Formation, 26N-59E-18: SE/4, non-consent penalties (Hardy 1-18). [Continued to September by fax rec'd 7/10/2007] [Continued to October, ltr rec'd 8/10/2007.] [Continued to Dec; fax rec'd 10/11/2007.]	Continued
317-2007	Continental Resources Inc	Exception to 36.22.702 to drill a Red River Formation test well, 26N-55E-20: E/2, one well to be located 2430' FSL/ 370' FEL, 75' topographic tolerance. (Default requested) [Stipulated 75' would not be taken to the east.]	
331-2007	Samson Resources Company	Exception to produce and commingle an additional Ratcliffe and Mission Canyon Formation well in statewide temporary spacing unit comprised of 26N-59E-27: NE/4 (recomplete the Rasmussen 2-27 Bakken producer). [Continued to October hearing by ltr rec'd 8/16/2007.]	Default
334-2007	Petro-Hunt, LLC	Exception to produce, Red River Formation, permanent spacing unit of 24N-54E-33: E/2, CP 33D-3-1 which did not honor the 660' setback requirement (1134 FSL, 2141' FEL, Sec. 33 - 500' west of SU boundary). [Continue to October, email rec'd 8/29/2007.]	
346-2007	Presco, Inc.	Class II injection permit to convert the Daryle Syme 5-2 (API #091-21627) from a Lakota saltwater disposal well to a Muddy Formation saltwater disposal well, 37N-55E-5: 1380' FNL/ 1980' FEL (NW/4NE/4).	Default
398-2007	Rocky Mountain Gas, Inc.	Show cause, failure to pay fine imposed for not filing production reports in a timely fashion.	

*no default
due to shot offset from
SL boundary*

DEPARTMENT OF NATURAL RESOURCES
AND CONSERVATION
BOARD OF OIL AND GAS CONSERVATION

BRIAN SCHWEITZER, GOVERNOR

OIL AND GAS CONSERVATION DIVISION



STATE OF MONTANA

October 9, 2007

Hawley Oil Company
84 Conrad Dupuyer Road
Conrad, MT 59425-9802

Dear Operator:

Last June, the Montana Board of Oil and Gas Conservation sent Hawley Oil Co. a letter asking for all of the overdue injection reports (Form 5) for the three injection wells Hawley Oil operates in Montana. Hawley Oil Co. submitted only the second page of the reports, and they were not signed. These reports were of no use to us, because we send them to a company in California for coding and entry into a database, and the coding information is found on the (missing) front page.

I understand that our statistical technician sent you new copies of the forms, already properly filled-out, which needed only your signature. As of today, we have not received these forms back from Hawley Oil.

The next meeting of the Board is on October 24, 2007. If we have not received the correct reports by then, this situation will be brought to the Board's attention for enforcement action.

You can contact me, or Nancy Lausch, at 656-0040 if you have any questions.

Sincerely,

A handwritten signature in cursive script that reads "George Hudak".

George Hudak
UIC Director

DIVISION OFFICE
1625 ELEVENTH AVENUE
PO BOX 201601
HELENA, MONTANA 59620-1601
(406) 444-6675

TECHNICAL AND
SOUTHERN FIELD OFFICE
2335 ST. JOHNS AVENUE
BILLINGS, MONTANA 59102-4693
(406) 656-0040

NORTHERN FIELD OFFICE
201 MAIN STREET
PO BOX 690
SHELBY, MONTANA 59474-0690
(406) 434-2422

DEPARTMENT OF NATURAL RESOURCES
AND CONSERVATION

Exhibit 5

BOARD OF OIL AND GAS CONSERVATION

BRIAN SCHWEITZER, GOVERNOR

OIL AND GAS CONSERVATION DIVISION



STATE OF MONTANA

October 12, 2007

Lloyd Carrell
Carrell Oil Co.
3551 Masterson Circle
Billings, MT 59106

CEERTIFIED MAIL #7005 0390 0003 6703
RETURN RECEIPT REQUESTED

Dear Mr. Carrell:

The Govt. #4 injection well (API #25-033-05028) operated by Carrell Oil Co. failed a mechanical integrity test (MIT) on September 29, 2006. Since then, the Board has notified Carrell Oil Co. by letter two separate times reminding Carrell Oil of its responsibility to return this well to compliance.

Monthly injection reports filed by Carrell Oil show that this well was used for injection from October, 2006 through March, 2007 (i.e., after it failed the MIT, and before it had been repaired), and in addition, the injection pressures reported (1346 psi) exceed the maximum permitted injection pressure of 1035 psi for this well.

In a phone call from you yesterday, I was informed that this well had passed the MIT in July or August of 2007, and that it was back on injection. However, our inspector told me he was unaware the well had been repaired; Carrell Oil Co. had never informed him that an MIT was ready to be performed, and that he had not witnessed any MIT.

In addition, since Carrell Oil Co. had filed no paperwork regarding any work done on this well, the Board had no knowledge an MIT had been done, and the Board never told Carrell Oil the MIT was acceptable, nor that injection could resume.

DIVISION OFFICE
1625 ELEVENTH AVENUE
PO BOX 201601
HELENA, MONTANA 59620-1601
(406) 444-6675

TECHNICAL AND
SOUTHERN FIELD OFFICE
2535 ST. JOHNS AVENUE
BILLINGS, MONTANA 59102-4693
(406) 656-0040

NORTHERN FIELD OFFICE
201 MAIN STREET
PO BOX 690
SHELBY, MONTANA 59474-0690
(406) 434-2422

7005 0390 0003 6703 8887

U.S. Postal Service
CERTIFIED MAIL RECEIPT
(Domestic Mail Only; No Insurance Coverage Provided)

For delivery information visit our website at www.usps.com

CARRELL OIL CO

Postage	\$
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees	\$5.21

Postmark
Here

Sent To LLOYD CARRELL-CARRELL OIL CO

Street, Apt. No.,
or PO Box No. 3551 MASTERSON CIRCLE

City, State, ZIP+4
BILLINGS MT 59106

PS Form 3800, June 2002

See Reverse for Instructions

The next meeting of the Board is on October 24, 2007. At that meeting, these violations will be brought to the Board's attention for enforcement action.

You can contact me at 656-0040 if you have any questions.

Sincerely,

George Hudak

George Hudak
UIC Director

cc: Roundup Field Office

MCA Section 82-11-159 LEGAL ASSISTANCE

This Section specifies the following:

When requested by the board, the attorney general or the county attorneys within their respective counties shall perform legal services and conduct legal proceedings necessary to carry out the purposes of this chapter. The board may also employ legal counsel to enforce this chapter and to conduct proceedings under it.

This document proposes to set out a Civil Penalty Policy which meets these requirements and purposes as provided in the MCA for the Board's Class II Underground Injection Control (UIC) Program.

II. APPLICATION OF CIVIL PENALTY POLICY

The civil penalty policy described herein is intended to account for various factors in the assessment of an appropriate civil penalty for noncompliance with Board rules, orders, and permits. The Board imposes civil penalties with the intent to encourage voluntary compliance, to deter future violations, and to recover state costs for enforcement.

The enforcement staff implementing this policy should complete the attached **CIVIL PENALTY POLICY WORKSHEET** for each violation. Each section of the worksheet corresponds to a section of the policy as summarized in Section III below.

In certain situations, several violations may have been committed. Separate rule violations may be grouped for the purpose of applying this policy based on guidance determined by managers within each program area (e.g., permitting, enforcement, etc.). A separate worksheet should be completed for each violation (or group of violations). In general, each violation or group of violations should be considered as a separate violation for the purpose of calculating a civil penalty if they result from independent acts or compliance problems and are distinguishable from any other rule violation cited in the same complaint. The total civil penalty assessed in an enforcement case may include penalties for several violations or groups of violations, each calculated to be consistent with this policy and individual program area guidance.

The Board, in conformance with the EPA Region VIII UIC Implementation Section Compliance Strategy, provides three specific categories of violations, including high priority, medium priority, and low priority. Definitions and examples of each violation category is as follows:

- (1) **High Priority Violations.** Includes a violation(s) of the Board's Class II UIC rules, orders, or provisions of Section 82-11, MCA and requires immediate enforcement action be taken by the Board. Informal enforcement actions required for this category of violation include immediately directing the operator, through a NOV

or other similar correspondence, to cease the violation and return the well to compliance. Following submittal of an information action, formal enforcement actions are to be initiated. The four violations categorized as HIGH are:

- *Unauthorized Injection*
- *Contamination of a USDW*
- *Falsification of Records*
- *24-Hour Reporting Deficiency*

(2) **Medium Priority.** Includes violation of Board rules, orders, or provisions of Section 82-11, MCA that are initially handled by informal enforcement such as phone calls, letters, or meetings. After reasonable compliance efforts have failed by the Board, these cases are considered for formal enforcement actions by the Board. Examples of MEDIUM category violations are:

- *Financial Responsibility*
- *Recording Related*
- *Failure to submit Monitoring Reports*

(3) **Low Priority.** Includes violation of Board rules, orders, or provisions of Section 82-11, MCA that is initially handled by informal meetings. These violations are usually considered trivial and do not pose a threat to the environment or health of persons. Low priority violations may also be handled through follow-up letters should a phone call be inadequate to resolve the violation. An example of a LOW priority category violation is:

- *Failure to properly date a monitoring report*

III. SUMMARY OF THE CIVIL PENALTY POLICY

The Board's civil penalty calculation system consists of (1) determining a base civil penalty dependent on the severity of the violation, (2) adjusting the penalty for special factors and circumstances, and (3) considering the economic benefit of noncompliance.

A. Base Civil Penalty. Two factors are considered in determining the base civil penalty: (1) potential for harm; and (2) extent of deviation from a statutory or regulatory requirement. These two factors constitute the seriousness of a violation and have been incorporated into the penalty matrix from which the base penalty will be chosen. This matrix is set out in Section IV.

B. Adjustment Factors. After determining the appropriate penalty based on severity of the violation, the penalty may be adjusted upward or downward to reflect particular circumstances surrounding the violation. The following factors, among others, that

Exempt Staff Salaries

	09/30/07 Salary	Percent Increase	09/30/06 Salary	Percent Increase	09/30/05 Salary	Percent Increase	09/30/04 Salary	Percent Increase	09/30/03 Salary	Percent Increase	09/30/02 Salary	Percent Increase	9/30/01 Salary	Percent Increase	9/30/00 Salary	Percent Increase	9/30/99 Salary	Percent Increase	9/30/98 Salary
Tom Richmond	98,907	5	94,198	5	89,712	5	85,440	6	80,604	5	76,766	5	73,110	5	69,629	4	66,950	3	65,000
Jim Halvorson	87,776	5	83,596	5	79,615	5	75,824	6	71,532	5	68,126	6	64,270	6	60,632	6	57,200	4	55,000
George Hudak	70,710	5	67,343	7.93	62,395	5	59,424	6	56,060	5	53,390	7	49,897	8	46,201	10	42,000	5	40,000

State Employees received a 3.3 percent pay increase effective October 1, 2007

Market Analysis per Personnel Bureau

	85%	Market	115%	
Tom Richmond	82,197	96,703	116,768	Petroleum Engineer/Manager
Jim Halvorson	63,109	74,246	85,383	Petroleum Geologist
George Hudak	63,109	74,246	85,383	Petroleum Geologist

SCENARIO: 5% Increase in Salary

	New Salary Amount	Increase Amount
Tom Richmond	103,852	4,945
Jim Halvorson	92,165	4,389
George Hudak	74,246	3,536

SCENARIO: 4% Increase in Salary

Tom Richmond	102,863	3,956
Jim Halvorson	91,287	3,511
George Hudak	73,538	2,828

SCENARIO: 3.3% Increase in Salary

Tom Richmond	102,171	3,264
Jim Halvorson	90,673	2,897
George Hudak	73,043	2,333