

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, December 5, 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 Wayne Smith, Don Bradshaw, Ronald S. Efta, Jack King, Bret Smelser and Joan Stahl. Staff present were Jim Halvorson, George Hudak, Terri Perrigo, Norman Clyde Peterson, Tom Richmond and Steve Sasaki.

APPROVAL OF MINUTES

Mr. Bradshaw would like his statement regarding the death of John O. Brown, Sr. put into the October minutes. Right now they just say "Mr. Bradshaw read a statement." Ms. Perrigo will make the correction.

MOTION: Mr. King made a motion to approve the minutes of the October 24, 2007 business meeting as corrected. The motion was seconded by Mr. Bradshaw and unanimously passed, and unanimously passed.

OPPORTUNITY FOR PUBLIC COMMENT

There was no public comment.

BOND REPORT

Mr. Halvorson presented the Bond Report attached as Exhibit 1.

FINANCIAL REPORT

Ms. Perrigo handed out the financial report attached as Exhibit 2. She also distributed the final schedule for 2008.

ROCKY MOUNTAIN GAS, INC.

Rocky Mountain Gas, Inc. still has not paid its \$1480 fine: \$480 for delinquent production reports which was assessed in June 07 and \$1000 assessed for failure to appear at the July 2007 Show-Cause hearing. They told Mr. Halvorson yesterday they are sending it. The plugging plan they were ordered to provide has already been submitted. If the check is not received within 15 days, the matter will be scheduled for the January 2008 hearing.

DEFAULT DOCKET

Mr. Halvorson presented the docket status sheet attached as Exhibit 3.

STAFF REPORTS

Mr. Halvorson reported that Carrell Oil Company paid its fine and submitted all delinquent production and injection reports.

Mr. Sasaki said Newfield Production Company (Newfield) purchased Stone Energy Corporation's (Stone) eastern Montana properties. They have taken over operations, but the Change of Operator transaction is not finalized. Mr. Sasaki informed Newfield the Change of Operator will not be approved until existing reserve pits are closed at approximately ten locations.

Mr. Sasaki distributed Exhibit 4 and presented a follow up report on Board Order 402-2006, which required Faith Drilling, Inc. (Faith) to plug and abandon the Holstein 31-5 well in Pondera County by November 2, 2007. The well has not been plugged. Mr. Doug Bruner of Faith was present earlier but did not stay for the meeting. He told Mr. Sasaki he still has plans for the well and wants approval to set a temporary plug instead of plugging and abandoning the well. An initial motion to allow Faith to temporarily abandon the well and perform an annual pressure test on the casing annulus failed on a roll call vote with two members voting yes and five members voting no.

MOTION: . A motion was made by Mr. Smith, seconded by Mr. Efta and passed, to give Faith Drilling, Inc. until July 31, 2008 to plug and abandon the Holstein 31-5 well in Section 5, T28N-R7W, Pondera County, Montana; and if the well is not plugged and abandoned by that date to schedule a show-cause hearing for bond forfeiture. Mr. Smelser opposed the motion.

Mr. Hudak said both Carrell Oil Company and Hawley Oil Company paid their fines for failure to submit injection reports (\$3000 and \$200 respectively). Bills for annual injection well fees were mailed out last week.

Mr. Halvorson said there is an increased demand for production information, and about two dozen operators are consistently delinquent. Starting in December 2007, there will be increased enforcement of production reporting requirements. Delinquent operators will be notified immediately. Fines and referrals to the Board will happen within six months if the delinquent reports are not submitted.

Mr. Richmond said the architects have been in the Billings office the past two days doing fact-finding for the new addition. The new hearing room will have teleconferencing and streaming audio capacity. This will allow the Board to consider accepting video testimony. The teleconferencing facilities could also be used by others.

Mr. Richmond said the Energy and Telecommunication Interim Committee is studying both terrestrial and geologic carbon sequestration. IOGCC recommends the state oil and gas regulatory entities regulate carbon sequestration because of their expertise in injection and gas storage. EPA is doing rulemaking for co2 injection and plans to be done next summer. States will need to determine ownership of storage space and what to do about long term liability, carbon credits, tax credits and day-to-day regulation.

This summer the Board will have to tell the Governor about any legislation it may want to propose for the 2009 Legislature. These are three things Mr. Richmond thinks the Board should consider:

- 1) Lowering the percentage of royalty and working interest owners it takes to authorize a unit. There will probably be enhanced recovery in Elm Coulee Field soon. Right now it takes approval of 80 percent of royalty and working interest owners to authorize a unit.
- 2) Clean up the spacing statute so it is not so confusing and go back to what one well will drain.
- 3) Establish what percentage is necessary in order to do seismic exploration.

Mr. King said North Dakota has more language in its statute about making more of an effort before force pooling. He thinks that might be a good idea for Montana to consider also.

Mr. Bradshaw attended the Montana Land & Mineral Association annual meeting in Havre in November. They would like to Board to come back to Havre for a meeting again.

Mr. Bradshaw sent out the IOGCC report on storing co2 in geologic structures to various legislators.

Mr. Smelser talked to the Governor about adding value to Montana's oil a couple weeks ago. The Governor said he is committed to study building a new refinery in Montana. That would add value to Montana's oil, but Mr. Smelser feels the Governor and the Legislature need to take a hard look at the state tax structure and how it inhibits growth—particularly the business equipment tax. Chairman Nelson said without a sales tax the business equipment tax probably will not go away. Mr. Smelser wants the Board to write a letter to the Governor and Legislature stating the Board's support of the effort to build another oil refinery in Montana. Mr. Bradshaw agrees. Mr. Smelser will draft a letter and coordinate with the Chairman and staff to get it out.

With no further business, the meeting adjourned at 4:25 p.m.

#### PUBLIC HEARING

The Board reconvened at 8:00 a.m. Thursday December 6, 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. 399-2007 – A motion was made by Ms. Stahl, seconded by Mr. Smelser and unanimously passed, to approve the application of Citation Oil & Gas Corporation as set forth in Board Order 336-2007.

Docket No. 400-2007 – A motion was made by Mr. Bradshaw, seconded by Ms. Stahl and unanimously passed, to approve the application of Marathon Oil Company as set forth in Board Order 337-2007.

Docket No. 401-2007 – A motion was made by Mr. Efta, seconded by Mr. Smelser and unanimously passed, to approve the application of Marathon Oil Company as set forth in Board Order 338-2007.

Docket No. 403-2007 – A motion was made by Mr. Smelser, seconded by Mr. Smith and unanimously passed, to approve the application of Klabzuba Oil & Gas, Inc. as set forth in Board Order 339-2007.

Docket No. 404-2007 – A motion was made by Mr. Smelser, seconded by Mr. Bradshaw and unanimously passed, to approve the application of Enerplus Resources (USA) Corporation as set forth in Board Order 340-2007.

Docket No. 405-2007 – A motion was made by Mr. Bradshaw, seconded by Mr. Efta and unanimously passed, to approve the application of Enerplus Resources (USA) Corporation as set forth in Board Order 341-2007.

Docket No. 406-2007 – 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 342-2007.

Docket No. 407-2007 – 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 343-2007.

Docket No. 408-2007 – 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 344-2007.

Docket No. 409-2007 – 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 345-2007.

Docket No. 410-2007 – 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 346-2007.

Docket No. 411-2007 – 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 Thomas Operating Company, Inc. was approved as set forth in Board Order 347-2007.

Docket No. 412-2007 – A motion was made by Mr. Efta, seconded by Ms. Stahl and unanimously passed, to approve the application of Nance Petroleum Corporation as set forth in Board Order 348-2007.

Docket No. 413-2007 – 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 349-2007.

Docket No. 414-2007 – The application of Newfield Rocky Mountains was continued to the January 2008 hearing.

Docket No. 415-2007 – The application of Newfield Rocky Mountains was continued to the January 2008 hearing.

Docket No. 416-2007 – The application of Newfield Rocky Mountains was continued to the January 2008 hearing.

Docket No. 417-2007 – 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 Sinclair Oil & Gas Company was approved as set forth in Board Order 350-2007.

Docket No. 418-2007 – The application of Sinclair Oil & Gas Company was continued to the January 2008 hearing.

Docket No. 419-2007 – The application of Sinclair Oil & Gas Company was continued to the January 2008 hearing.

Docket No. 420-2007 – A motion was made by Mr. Smelser, seconded by Mr. Efta and unanimously passed, to approve the application of Continental Resources, Inc. as set forth in Board Order 351-2007.

Docket No. 421-2007 – A motion was made by Mr. Smith, seconded by Mr. Bradshaw and unanimously passed, to approve the application of Continental Resources, Inc. as set forth in Board Order 352-2007.

Docket No. 422-2007 – A motion was made by Mr. Efta, seconded by Ms. Stahl and unanimously passed, to approve the application of Continental Resources, Inc. as set forth in Board Order 353-2007.

Docket No. 423-2007 – The application of Flying J Oil & Gas Inc. was continued at the hearing to the January 2008 hearing as set forth in Board Order 365-2007.

Docket No. 424-2007 – The application of Chesapeake Operating, Inc. was continued to the January 2008 hearing.

Docket No. 425-2007 – The application of Chesapeake Operating, Inc. was continued to the January 2008 hearing.

Docket No. 426-2007 – A motion was made by Mr. Efta, seconded by Mr. Bradshaw and unanimously passed, to approve the application of Devon Energy Production Company, L.P. as set forth in Board Order 354-2007.

Docket No. 427-2007 & 7-2008 FED – A motion was made by Mr. Smith, seconded by Mr. Bradshaw and unanimously passed, to approve the application of Devon Energy Production Company, L.P. as set forth in Board Order 355-2007. The Bureau of Land Management (BLM) of the United States Department of the Interior will issue the order pertaining to federal and/or Indian lands included in this application.

Docket No. 428-2007 – 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 356-2007.

Docket No. 429-2007 & 8-2008 FED – A motion was made by Mr. Efta, seconded by Mr. King and unanimously passed, to approve the application of Helis Oil & Gas Company, L.L.C. as set forth in Board Order 357-2007.

Docket No. 430-2007 – A motion was made by Mr. Smith, seconded by Mr. Smelser and unanimously passed, to approve the application of Keesun Corporation as set forth in Board Order 358-2007.

Docket No. 431-2007 – A motion was made by Mr. Bradshaw, seconded by Mr. Smelser and unanimously passed, to approve the application of Altamont Oil & Gas, Inc. as set forth in Board Order 359-2007.

Docket No. 48-2007 – The application of PT Energy, LLC was withdrawn.

Docket No. 269-2007 – The application of Chesapeake Operating Inc. was continued to the January 2008 hearing.

Docket No. 270-2007 – The application of Chesapeake Operating Inc. was continued to the January 2008 hearing.

Docket No. 344-2007 – A motion was made by Mr. Smith, seconded by Mr. Smelser and unanimously passed, to approve the application of Devon Energy Production Company, L.P. as set forth in Board Order 360-2007.

Docket No. 348-2007 – 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 Pinnacle Gas Resources, Inc. was approved as set forth in Board Order 361-2007.

Docket No. 350-2007 – The application of Western Natural Gas Company was continued to the January 2008 hearing.

Docket No. 351-2007 – The application of Western Natural Gas Company was continued to the January 2008 hearing.

Docket No. 352-2007 – A motion was made by Mr. Smelser, seconded by Mr. Bradshaw and unanimously passed, to approve the application of Targe Energy Exploration and Production, LLC as set forth in Board Order 362-2007.

Docket No. 362-2007 – A motion was made by Mr. King, seconded by Mr. Smelser and passed, to approve the application of Nadel & Gussman Rockies, LLC as set forth in Board Order 363-2007.

Docket No. 363-2007 – A motion was made by Mr. King, seconded by Mr. Smelser and unanimously passed, to approve the application of Nadel & Gussman Rockies, LLC as set forth in Board Order 364-2007.

Docket No. 373-2007 – The application of Nance Petroleum Corporation was continued to the January 2008 hearing.

NEXT MEETING

The next business meeting of the Board will be Wednesday, January 30, 2008 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, January 31, 2008, 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 January 31, 2008 public hearing is January 3, 2008.

BOARD OF OIL AND GAS CONSERVATION  
OF THE STATE OF MONTANA



Linda Nelson, Chairwoman

Wayne Smith, Vice-Chairman

Don Bradshaw

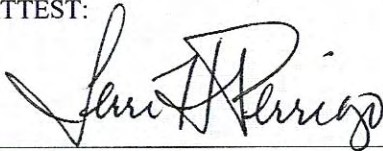
Ronald S. Efta

Jack King

Bret Smelser

Joan Stahl

ATTEST:



Terri H. Perrigo, Executive Secretary