

STATE OF MONTANA
DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
MINUTES OF THE
BOARD OF OIL AND GAS CONSERVATION MEETING AND PUBLIC HEARING
April 1, 2009

BUSINESS 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, April 1, 2009, in the conference room of the Billings Petroleum Club in the Crowne Plaza in Billings, Montana. Board members present were Linda Nelson, Wayne Smith, Don Bradshaw, Ron Efta, Jay Gunderson, Jack King and Bret Smelser. Staff present were Tom Richmond, Jim Halvorson, Terri Perrigo, George Hudak, Steve Sasaki and attorney Clyde Peterson.

APPROVAL OF MINUTES

A motion was made by Mr. Smelser, seconded by Mr. King and unanimously passed, to approve the January 28, 2009 business meetings.

PUBLIC COMMENT

The Chairman, other Board members and staff welcomed new member Jay Gunderson to the Board.

Mr. King recognized Jerry Anderson of Helena, who recently passed away, for his sixty plus years of service to the state and the oil and gas industry.

ELECTION OF VICE-CHAIR

Mr. King nominated Mr. Smith as Vice-Chairman. Mr. Smelser seconded the motion and it passed unanimously.

BOND REPORT

Mr. Halvorson distributed the Bond Report, attached as Exhibit 1. The MSC Exploration LP bonds approved are for shallow gas wells in Roosevelt County. The RC Energy Montana Ltd. bonds are for gas wells in Phillips County.

FINANCIAL REPORT AND SCHEDULE FOR 2009

Ms. Perrigo distributed the financial report, attached as Exhibit 2.

DEFAULT DOCKET

Mr. Halvorson handed out the Docket Summary, attached as Exhibit 3. He does not believe anyone will show up for the Athena/Red Maple (Docket 21-2009) or Mountain Pacific General (Docket 52-2009) show-cause hearings tomorrow. Mr. Tim German of Athena is ill and Mr. Jeff Lyon of Mountain Pacific has a broken leg.

CHANGE OF OPERATOR REQUEST

Mr. Halvorson distributed Exhibit 4, a packet including the Change of Operator request to transfer the Lee 14-7 (API #25-101-24061) and Lerum 44-12 (API # 25-101-24065) wells from Athena Energy LLC to Carl Johnson Family, LLC to Phoenix Exploration Group.

Mr. Halvorson recommended the Change of Operator request be approved. There is a current operator and receiving operator that both agree to the transfer.

Attorney Steve Jennings was present representing Knox LLC, an interest owner in the Lee 14-7 well. He requested the Change of Operator request be denied.

Attorney Loren J. O'Toole, II was present representing Phoenix Energy Group. He said one operator has signed and asked the Board to approve the request. Carl Johnson does not own Athena, he sold it. Phoenix has asked the Board to transfer the wells and Athena has signed off. Phoenix is current on all its monthly reports.

Mr. Jennings suggested the Board do a double bond and get assurance that Phoenix will act differently than Athena did.

Mr. Peterson, the Board's attorney, said the Board does not have to get into ownership squabble. There are two things the Board needs to concern itself with. If it is satisfied that Phoenix has the ability to be the operator, and if the bond is sufficient.

Mr. Halvorson said the double bond situation happened when one operator could no longer operate a well and someone else had the right to operate the well so the Board put the new operator's bond on the well also.

Mr. King asked if Athena is in compliance today. Mr. Halvorson said yes. Other than the show-cause hearing tomorrow. Mr. Peterson said the decision could be delayed until tomorrow's show cause hearing.

Mr. Smelser made a motion that the Board withhold decision making on this matter until after the show-cause hearing tomorrow. The motion was withdrawn.

MOTION: Mr. Smith moved that the change of operator be approved. Mr. Bradshaw seconded the motion and it passed. Mr. Smelser opposed the motion.

STAFF REPORTS

Mr. Halvorson distributed Exhibit 5, a summary of what resulted in the Montana Land & Exploration, Inc. request for an order after-the-fact for Docket 446-2008. After the hearing, where testimony was given that the application only contained lands under the jurisdiction of the BLM, it was determined there was a 1.587 percent fee interest in the spacing unit and a Board order was necessary.

MOTION: Mr. Bradshaw made a motion, seconded by Mr. Efta and unanimously passed, to issue an order for Docket No. 446-2008.

Mr. Halvorson distributed Exhibit 6, a draft policy for compliance with Board Orders on production and injection reporting. Mr. Smelser questioned the \$10 per lease-month amount. Mr. Peterson said the impetus is to avoid delinquent reports. Mr. Halvorson said he is satisfied with the \$10 per lease-month amount.

MOTION: Mr. Bradshaw made a motion to approve the Policy for Compliance with Board Orders on Production and Injection Reporting. Mr. Efta seconded the motion and it passed unanimously.

Mr. Hudak said North American Technical Trading Company is delinquent on its \$200 annual injection well fee for two wells in Daniels County. He recommended they be assessed an additional \$100 per well penalty for being delinquent. Operators are given until the end of January each year to pay their fees. Reminder letters were sent out on February 19 and April 3, and to this date no payment has been received.

MOTION: Mr. Smelser made a motion, seconded by Mr. Efta and unanimously passed, to assess North American Technical Trading Company a \$100 per well penalty for being delinquent on payment of two annual injection well fees.

Mr. Smelser asked for an update on Iofina Natural Gas, Inc. Mr. Hudak said they had a lot of trouble with their rig people and finally contracted with Ellenburg to drill for them. They are going full speed ahead and on track. The EPA said subjecting water to iodine extraction process does not change the status of a Class II well fluid. Mr. Hudak said since the Board approved a gas well they fine as long as they produce gas.

Mr. Sasaki reported on the orphaned well grant plugging program.

TOI OPERATING/BLACKHAWK RESOURCES/PAR INVESTMENTS LLC

Mr. Sasaki distributed Exhibit 7, a copy of a February 10, 2009 letter from Clarence Keith Carver of TOI Operating (TOI) addressing its non-producing wells and his plan for plugging them or putting them back into production. A copy of the letter was sent to all Board members to assess the plan's adequacy as per Board Order 27-2009 issued at the Board's January 2009 public hearing. Not all Board members feel the plan is adequate – particularly the timeline which extends to October 2010. Mr. Smith did not want the plan to extend past 2009.

Mr. Carver said everything that has been done to TOI's wells since 2004 has come out of his own pocket. What he has proposed in the February 10 letter and plan is very aggressive in 09 and 10. He is trying to put together a realistic plugging program – one he can actually stick to. But his accounts receivable have slowed up, and he is not sure how much he can do.

Mr. Carver said he has spoken with Tom Hohn about doing the permits on the BN 11-11 and 12-11 wells to turn them into commercial disposal wells. Mr. Smelser asked how much disposal goes on in the Monarch field. The Board's field inspector Darrel Hystad said the major operators there are Chapparel, Encore and Burlington. They all have their own disposal wells. Citation is another major operator, but does not have disposal wells. There are two commercial disposal sites within 10 miles, both operated by the same company.

Mr. Mike Gleason said the Board in the past wanted realistic plans, and has been satisfied if TOI did one or two wells per year. Now some members want everything done in 2009. That is a heavy burden

Mr. Sasaki recommended either TOI's bond be increased or that TOI be fined for failure to honor its original October 26, 2005 plugging plan.

Mr. King said the Board has been dealing with this for a long time. He suggested the Board tell TOI its bond will be forfeited on a specific date. That way TOI could get its priorities taken care of before then. Mr. Smith also thinks TOI should be given some time to take care of business before its bond is forfeited. He suggests October 1, 2009.

Mr. Smelser asked about the discussions with Newfield Exploration regarding the Watts 34-15 and Dore #1 wells. Mr. Gleason is getting no response from Newfield.

Mr. Richmond said if the TOI bond is forfeited, the wells go on the orphaned well list and can be taken over if someone proves they have the right to operate them.

Mr. Halvorson said he was under the impression that when TOI's wells go back on production they are going to Par. Mr. Gleason said no, Par's wells are on the Blackhawk bond. If the Board orders the TOI bond forfeited, Mr. Gleason said he would submit a change of operator for the wells currently on that bond but owned by Par.

MOTION: Mr. Smith moved that a hearing to forfeit the TOI Operating bond be scheduled for the Board's October 15, 2009 hearing. October 1, 2009 is the ending date for this matter. There will be no more "plan" after that. TOI should do what they determine is most economic between now and then. Mr. Efta seconded the motion. It passed. Mr. Smelser voted nay. He thinks the timeline is unreasonable and a burden to both the operator and the state.

Mr. Peterson said, based on this action, the Show-Cause hearing (Docket 22-2009) scheduled for tomorrow should be vacated. The Board agreed.

Mr. Richmond said the two agency bills the Board submitted (lower unit participation requirement and spacing language revision) are progressing through committees with no opposition. House Bill 5 has the building addition supplemental included. There is a bill going through to create an oil and gas lien for interest owners.

Protesting DD with Auto Continuance policy

Mr. Peterson distributed Exhibit 8, a memo he wrote to the Board's regarding the Default Docket with Automatic Continuance policy; and a copy of a DRAFT POLICY regarding Protesting Matters placed on the Default Docket with Automatic Continuance.

Mr. King questioned the penalty and what happened if it did not get paid. He felt the Board could enforce it if it was a company, but if it were a mineral or surface owner it may not be possible.

Mr. Efta did not want the policy to send the wrong message to surface owners, etc who may want to protest or who don't know there are requirements for lodging protests.

Mr. Halvorson said the Default Docket with Automatic Continuance request has always had risk in it for applicants. He asked if the Board wanted to modify the policy to say that everything on the Default Docket is intended to be heard on the day of the hearing.

Mr. King said he thinks the Board is trying to deal with mischief that has taken place and he wants to think about it until the next meeting.

It was the consensus of the Board that members review the draft policy and further discussion will be put on the business meeting agenda for May 2009.

OTHER BUSINESS

Chairman Nelson distributed Exhibit 9, Proposed BOGC Travel Guidelines for Board Members.

Mr. Bradshaw reported on the IOGCC spring meeting he attended in Washington DC.

Mr. Smelser asked about holding a meeting in Baker. Mr. Efta said lodging could be a problem. Mr. Smelser will contact the City of Baker to see what they could offer.

Mr. Smelser said the Monday Energy Alliance has been formed. It is an eight-member board (half from Montana and half from North Dakota) whose goal is to enhance diversity and add value to oil produced, and it will support the goal on either side of the state line. It was spearheaded by the Mayors of Williston and Sidney.

With no further business, the meeting adjourned at 4:00 pm.

PUBLIC HEARING

The Board reconvened at 8:00 a.m. Thursday April 2, 2009, in the conference room of the Billings Petroleum Club on the 22nd 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. 23-2009 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 10:00 a.m. on the day of the hearing. No protests were received. The application of EOG Resources, Inc. was approved as set forth in Board Order 28-2009.

Docket No. 24-2009 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 10:00 a.m. on the day of the hearing. No protests were received. The application of EOG Resources, Inc. was approved as set forth in Board Order 29-2009.

Docket No. 25-2009 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 10:00 a.m. on the day of the hearing. No protests were received. The application of EOG Resources, Inc. was approved as set forth in Board Order 30-2009.

Docket No. 26-2009– The application of Chaparral Energy, LLC was continued to the July 2009 hearing.

Docket No. 27-2009– The application of Chaparral Energy, LLC was continued to the July 2009 hearing.

Docket No. 28-2009 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 10:00 a.m. on the day of the hearing. No protests were received. The application of XTO Energy Inc. was approved as set forth in Board Order 31-2009.

Docket No. 29-2009 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 10:00 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 32-2009.

Docket No. 30-2009 – A motion was made by Mr. Bradshaw, seconded by Mr. Smelser and unanimously passed, to approve the application of Omimex Canada, LTD as modified and set forth in Board Order 33-2009.

Docket No. 31-2009 – The application of Crusader Energy Group, LLC was continued to the May 2009 hearing.

Docket No. 32-2009 – The application of Continental Resources, Inc. was continued to the May 2009 hearing .

Docket No. 33-2009 – The application of Continental Resources, Inc. was continued to the May 2009 hearing .

Docket No. 34-2009 – The application of Continental Resources, Inc. was continued to the May 2009 hearing .

Docket No. 35-2009 – The application of Continental Resources, Inc. was continued to the May 2009 hearing .

Docket No. 36-2009 – The application of Continental Resources, Inc. was withdrawn.

Docket No. 37-2009 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 10:00 a.m. on the day of the hearing . No protests were received. The application of Zenergy, Inc. was approved as set forth in Board Order 34-2009.

Docket No. 38-2009 – The application of Zenergy, Inc. was continued to the May 2009 Hearing .

Docket No. 39-2009 – A motion was made by Mr. Smelser, seconded by Mr. Efta and unanimously passed, to approve the application of NFR Bear Paw Basin LLC as set forth in Board Order 35-2009.

Docket No. 40-2009 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 10:00 a.m. on the day of the hearing . No protests were received. The application of NFR Bear Paw Basin LLC was approved as set forth in Board Order 36-2009.

Docket No. 41-2009 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 10:00 a.m. on the day of the hearing . No protests were received. The application of NFR Bear Paw Basin LLC was approved as set forth in Board Order 37-2009.

Docket No. 42-2009 – A motion was made by Mr. Efta, seconded by Mr. King and unanimously passed, to approve the application of NFR Bear Paw Basin LLC as set forth in Board Order 38-2009.

Docket No. 43-2009 – A motion was made by Mr. Smelser, seconded by Mr. Bradshaw and unanimously passed, to approve the application of NFR Bear Paw Basin LLC as set forth in Board Order 39-2009.

Docket No. 44-2009 – A motion was made by Mr. Smelser, seconded by Mr. Bradshaw and unanimously passed, to approve the application of NFR Bear Paw Basin LLC as set forth in Board Order 40-2009.

Docket No. 45-2009 – A motion was made by Mr. Smith, seconded by Mr. Bradshaw and unanimously passed, to approve the application of NFR Bear Paw Basin LLC as set forth in Board Order 41-2009.

Docket No. 46-2009 – The application of NFR Bear Paw Basin LLC was continued to the August 2009 hearing .

Docket No. 47-2009 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 10:00 a.m. on the day of the hearing . No protests were received. The application of NFR Bear Paw Basin LLC was approved as set forth in Board Order 42-2009.

Docket No. 48-2009 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 10:00 a.m. on the day of the hearing . No protests were received. The application of NFR Bear Paw Basin LLC was approved as set forth in Board Order 43-2009.

Docket No. 49-2009 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 10:00 a.m. on the day of the hearing . No protests were received. The application of NFR Bear Paw Basin LLC was approved as set forth in Board Order 44-2009.

Docket No. 50-2009 – Board staff placed this application on the Default Docket for approval without hearing if no protests were received by 10:00 a.m. on the day of the hearing . No protests were received. The application of Taqa North USA, Inc. was approved as set forth in Board Order 45-2009.

Docket No. 51-2009 – A motion was made by Mr. King, seconded by Mr. Efta and unanimously passed, to approve the application of Wave USA, Inc. as set forth in Board Order 46-2009.

Docket No. 350-2008 – The application of Devon Energy Production Company, L.P. was continued to the May 2009 hearing .

Docket No. 390-2009 – The application of Burlington Resources Oil & Gas Company LP was continued to the May 2009 hearing .

Docket No. 391-2008 – The application of Burlington Resources Oil & Gas Company LP was continued to the May 2009 hearing .

Docket No. 392-2008 – The application of Burlington Resources Oil & Gas Company LP was continued to the May 2009 hearing .

Docket No. 393-2008 – The application of Burlington Resources Oil & Gas Company LP was continued to the May 2009 hearing .

Docket No. 394-2008 – The application of Burlington Resources Oil & Gas Company LP was continued to the May 2009 hearing .

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Docket No. 397-2008 – The application of Burlington Resources Oil & Gas Company LP was continued to the May 2009 hearing .

Docket No. 398-2008 – The application of Burlington Resources Oil & Gas Company LP was continued to the May 2009 hearing .

Docket No. 425-2008 – The application of Crusader Energy Group, LLC was continued to the May 2009 hearing .

Docket No. 437-2008 – A motion was made by Mr. Bradshaw, seconded by Mr. Smelser and unanimously passed, to approve the application of Chesapeake Operating, Inc. as set forth in Board Order 47-2009.

Docket No. 15-2008 & 17-2009 FED – The application of Montana Land & Exploration, Inc. was continued to the May 2009 Hearing .

Docket No. 16-2009 & 18-2009 FED – A motion was made by Mr. Smith, seconded by Mr. Smelser and unanimously passed, to approve the application of Montana Land Exploration, Inc. as set forth in Board Order 48-2009.

Docket No. 18-2009 – The application of NFR Energy LLC was withdrawn.

Docket No. 21-2009 – A motion was made by Mr. Smelser, seconded by Mr. Bradshaw and unanimously passed, to continue this matter until the Board's May 28, 2009 public hearing as set forth in Board Order 49-2009.

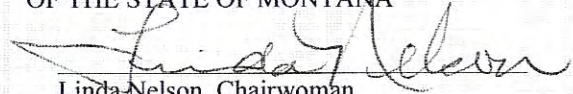
Docket No. 22-2009 – The Show-Cause hearing for TOI Operating, Blackhawk Resources LLC, and Par Investments, LLC was dismissed, as set forth in Board Order 50-2009.

Docket No. 52-2009 – The Show-Cause hearing for Mountain Pacific General was continued to the May 2009 hearing

NEXT MEETING

The next business meeting of the Board will be Wednesday, May 27, 2009 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, May 28, 2009, 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 May 28, 2009 public hearing is April 30, 2009.

BOARD OF OIL AND GAS CONSERVATION
OF THE STATE OF MONTANA



Linda Nelson, Chairwoman

Wayne Smith, Vice-Chairman

Don Bradshaw

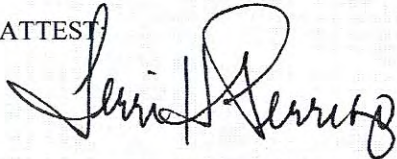
Ronald S. Efta

Jay Gunderson

Jack King

Bret Smelser

ATTEST



Terri H. Perrigo, Executive Secretary