

STATE OF MONTANA
DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
MINUTES OF THE
BOARD OF OIL AND GAS CONSERVATION MEETING AND PUBLIC HEARING
July 8, 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, July 8, 2009, in the conference room of the Billings Petroleum Club in the Crowne Plaza in Billings, Montana. Board members present were Linda Nelson, Ron Efta, Jay Gunderson, Jack King and Bret Smelser. Staff present were Tom Richmond, Jim Halvorson, Gary Klotz, Terri Perrigo, George Hudak, Steve Sasaki and attorney Clyde Peterson.

APPROVAL OF MINUTES

A motion was made by Mr. King, seconded by Mr. Smelser and unanimously passed, to approve the May 27, 2009 business meeting minutes.

PUBLIC COMMENT

There was no public comment.

BOND REPORT

Mr. Halvorson distributed the Bond Report, attached as Exhibit 1. Staff has started reviewing unbonded pre-regulatory wells.

FINANCIAL REPORT

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

DOCKET SUMMARY

Mr. Halvorson handed out the Docket Summary, attached as Exhibit 3. Ms. Perrigo said, after discussions with Mr. Richmond, it was determined that Docket 98-2009 (Show-Cause hearing for Hawley Hydrocarbons) would be continued because the Conrad Independent Observer failed to publish the Notice of Public Hearing by June 28, as requested and required by law. Mr. Sasaki said Hawley Hydrocarbons had been notified of the continuance by field staff.

STAFF REPORTS

Mr. Sasaki distributed Exhibit 4, a summary of 2005, 2007 and 2009 well plugging grant projects.

Hawley Hydrocarbons - Mr. Sasaki said Hawley Hydrocarbons had the Copley-Haber lease oil/water spill cleaned up June 22, 2009. (This is the matter scheduled for Show-Cause in Docket 98-2009.) The total fine now due is \$2000: \$1000 initial fine for illegal discharge and another \$1000 for the 10-days past deadline (at \$100 per day) it took to get the lease cleaned up. Mr. Hawley would like the fine reduced or to be able to pay it in installments.

Somont Oil Co., Inc. – Mr. Sasaki said there had been a pit permit violation by Somont. Field staff received a complaint and investigated. Mr. Sasaki distributed Exhibit 5, a summary of the issue regarding the Smoke evaporation pit. Attorney Don Lee was present representing Somont. He pled non-guilty and wanted to know the specific violation. He does not see anything in the pit permit saying outside water cannot be brought in.

Mr. Sasaki said the pit permit lists what can be put into the evaporation pit (produced water from the Mississippian Madison Formation from 12 wells on the Smoke lease in Section 27, T35N-R2W, Toole County, Montana). Somont allowed Anschutz Exploration Corporation (Anschutz) to put frac flowback water from a drill pit, frac tank water, and snowmelt from two drill pits into the Smoke evaporation pit. The Anschutz fluid was from two of its wells in Glacier County, Montana (the Two Medicine 1-11H well and the Willow Creek 1-14H well). Mr. Sasaki said the action violated A.R.M. 36.22.1207 and 1227. Mr. Sasaki said Energy Laboratories of Billings is currently doing an analysis of the water that went into the pit. He recommended a \$500 fine for violation of pit permit rules and that Somont be ordered to remove the fluids from the Smoke evaporation pit and dispose of them in a Class II injection well.

Mr. Lee is uncertain if A.R.M. 36.22.1227 applies because Somont thinks it may have been fresh water that was emptied into the Smoke evaporation pit. He is still unclear of what the violation is and thinks staff should have waited for samples to come back from testing before bringing this matter before the Board. Mr. Curt Dahlgaard of Somont also thinks the action was premature and does not think it is proper for the Board to be levying fines.

The Board's attorney, Clyde Peterson, said A.R.M. 36.22.1207 and 1227 do apply and the pit permit is clear about what is to go into the pit. Mr. Peterson said it may be appropriate to wait to take action until the fluid analysis is complete. He does think, however, that the pit permit is clear as to what can be put into the pit and he does not think the Board's action is premature. Chairman Nelson said it makes sense to wait until the fluid analysis comes back before taking any further action.

The consensus of the Board was that no enforcement action be taken on this matter. When the test results come back staff will review them and work with the Board's attorney to determine if modifications to pit rules should be made.

Mr. Hudak reported on that the Continental CO2 injection well has not produced much oil and has not turned out like they hoped.

Mr. Richmond said 31 teachers attended the 2009 Teachers workshop.

Mr. Richmond said 38 sets of plans were given to contractors interested in bidding on the remodel and the architect had a walk through tour of the building with potential contractors. There are not enough parking spots on the Board property to get the building permit, so Darrel Kreitzberg will lease the Board 20 parking spots at his central avenue mall parking lot for Board hearing and business meeting days for \$400 per year.

OTHER BUSINESS

There was no other business and the Board adjourned its business meeting at 3:45 p.m.

PUBLIC HEARING

The Board reconvened at 8:00 a.m. Thursday, July 9, 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. 76-2009 – A motion was made by Mr. Smelser, seconded by Mr. Efta and unanimously passed, to approve the application of XTO Energy Inc. as set forth in Board Order 72-2009.

Docket No. 77-2009 – A motion was made by Mr. Smelser, seconded by Mr. Gunderson and unanimously passed, to approve the application of XTO Energy Inc as set forth in Board Order 73-2009.

Docket No. 78-2009 – A motion was made by Mr. Efta, seconded by Mr. King and unanimously passed, to approve the application of Zenergy, Inc. as set forth in Board Order 74-2009.

Docket No. 79-2009 – A motion was made by Mr. King, seconded by Mr. Gunderson and unanimously passed, to approve the application of Zenergy as set forth in Board Order 75-2009

Docket No. 80-2009– A motion was made by Mr. Smelser, seconded by Mr. Gunderson and unanimously passed, to give applicant Burlington Resources Oil & Gas Company L.P. permits to drill two of the wells included in the application; and to give protestant Continental Resources, Inc. permits to drill the other two wells included in the application. This is set forth in Board Order 76-2009.

Docket No. 81-2009– The application of Petro-Hunt, L.L.C. was granted as applied for as set forth in Board Order 77-2009.

Docket No. 82-2009– The application of Petro-Hunt, L.L.C. was granted as applied for as set forth in Board Order 78-2009.

Docket No. 83-2009– The application of Enerplus Resources (USA) Corp. was granted as applied for as set forth in Board Order 79-2009

Docket No. 84-2009 – A motion was made by Mr. Smelser, seconded by Mr. King and unanimously passed, to approve the application of Montana Land & Exploration, Inc. as set forth in Board Order 80-2009

Docket No. 85-2009 – A motion was made by Mr. Smelser, seconded by Mr. King and unanimously passed, to approve the application of Montana Land & Exploration, Inc. as set forth in Board Order 81-2009.

Docket No. 86-2009 – A motion was made by Mr. Smelser, seconded by Mr. King and unanimously passed, to approve the application of Pinnacle Gas Resources, Inc. as set forth in Board Order 82-2009.

Docket No. 87-2009 – A motion was made by Mr. King, seconded by Mr. Gunderson and unanimously passed, to approve the application of Pinnacle Gas Resources, Inc. as set forth in Board Order 83-2009.

Docket No. 88-2009 – The application of Iofina Natural Gas, Inc. was continued to the October hearing.

Docket No. 89-2009 – The application of Iofina Natural Gas, Inc. was continued to the October hearing.

Docket No. 90-2009 – A motion was made by Mr. Smelser, seconded by Mr. Gunderson and unanimously passed, to approve the application of Iofina Natural Gas, Inc. as set forth in Board Order 84-2009.

Docket No. 90-2009 – A motion was made by Mr. Smelser, seconded by Mr. Gunderson and unanimously passed, to approve the application of Iofina Natural Gas, Inc. as set forth in Board Order 84-2009.

Docket No. 91-2009 – A motion was made by Mr. Smelser, seconded by Mr. Gunderson and unanimously passed, to approve the application of Iofina Natural Gas, Inc. as set forth in Board Order 85-2009.

Docket No. 92-2009 – A motion was made by Mr. Smelser, seconded by Mr. Gunderson and unanimously passed, to approve the application of Iofina Natural Gas, Inc. as set forth in Board Order 86-2009.

Docket No. 93-2009 – A motion was made by Mr. Smelser, seconded by Mr. Gunderson and unanimously passed, to approve the application of Iofina Natural Gas, Inc. as set forth in Board Order 87-2009.

Docket No. 94-2009 – A motion was made by Mr. Smelser, seconded by Mr. Gunderson and unanimously passed, to approve the application of Iofina Natural Gas, Inc. as set forth in Board Order 88-2009.

Docket No. 95-2009 – A motion was made by Mr. Smelser, seconded by Mr. Gunderson and unanimously passed, to approve the application of Iofina Natural Gas, Inc. as set forth in Board Order 89-2009.

Docket No. 96-2009 – A motion was made by Mr. Smelser, seconded by Mr. Gunderson and unanimously passed, to approve the application of Iofina Natural Gas, Inc. as set forth in Board Order 90-2009.

Docket No. 350-2008 – The application of Devon Energy Production Company, L.P. was withdrawn.

Docket No. 425-2008 – The application of Crusader Energy Group, LLC was continued indefinitely.

Docket No. 26-2009 – The application of Chaparral Energy, L.L.C. was granted as applied for as set forth in Board Order 91-2009.

Docket No. 27-2009 – The application of Chaparral Energy, L.L.C. was granted as applied for as set forth in Board Order 92-2009.

Docket No. 31-2009 – The application of Crusader Energy Group, LLC was continued indefinitely.

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

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

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

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

Docket No. 55-2009 – The application of Bayswater Exploration and Production, LLC was continued to the August hearing.

Docket No. 57-2009 – The application of Altamont Oil & Gas, Inc. was granted as applied for as set forth in Board Order 93-2009.

Docket No. 75-2009 – A motion was made by Mr. Smelser, seconded by Mr. King and unanimously approved, to approve the application of Iofina Natural Gas, Inc. as set forth in Board Order 94-2009.

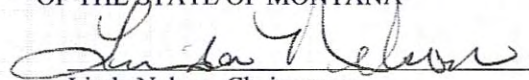
Docket No. 97-2009 – A motion was made by Mr. Smelser, seconded by Mr. Efta and unanimously passed, to continue the Show-Cause hearing of Native American Energy Group until the Board's October 2009 public hearing as set forth in Board Order 95-2009.

Docket No. 98-2009 – The Show-Cause hearing for Hawley Hydrocarbons was continued to the Board's August hearing.

NEXT MEETING

The next business meeting of the Board will be Wednesday, August 26, 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, August 27, 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 August 27, 2009 public hearing is July 30, 2009

BOARD OF OIL AND GAS CONSERVATION
OF THE STATE OF MONTANA



Linda Nelson, Chairwoman

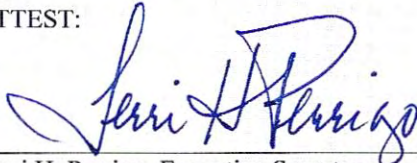
Ronald S. Efta

Jay Gunderson

Jack King

Bret Smelser

ATTEST:



Terri H. Perrigo, Executive Secretary