

STATE OF MONTANA
DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
MINUTES OF THE
BOARD OF OIL AND GAS CONSERVATION MEETING AND PUBLIC HEARING
August 26, 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, August 26, 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, Bret Smelser and Wayne Smith. 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. Smelser, seconded by Mr. King and unanimously passed, to approve the July 8, 2009 business meeting minutes.

PUBLIC COMMENT

There was no public comment.

BOND REPORT

Mr. Halvorson distributed the Bond Report, attached as Exhibit 1.

FINANCIAL REPORT

Ms. Perrigo distributed the financial report, attached as Exhibit 2. She also handed out the historical privilege and license tax receipts summary attached as Exhibit 3.

RULE REVISION PROPOSAL

Ms. Perrigo distributed the draft proposed rule changes which are attached as Exhibit 4.

MOTION: A motion was made by Mr. Smelser, seconded by Mr. Efta and unanimously passed, to approve the proposed rule changes and to schedule a hearing on the proposed changes for the October 15, 2009 public hearing.

DEFAULT DOCKET

Mr. Halvorson handed out the Docket Summary attached as Exhibit 5.

REVISIONS TO CBM WATER MONITORING GUIDELINES

Mr. Russ Levens of the DNRC Water Resources Division was present to discuss modifications to the Groundwater Monitoring and Reporting Guidelines prepared by the CBM Technical Advisory Committee for CBM producers operating in Montana. He will provide a copy of the modified guidelines; the Board's secretary will send it to Board members prior to the next hearing so the proposed changes can be discussed at the October business meeting.

BURLINGTON RESOURCES OIL & GAS COMPANY LP REQUEST FOR RE-HEARING ON
DOCKET 80-2009

The Board's attorney, Clyde Peterson, presided when the Board took up the matter of the Burlington Resources Oil & Gas Company LP (Burlington) request to re-hear Docket 80-2009. Attorney Tom Throne was present representing Burlington. Attorney Don Lee was present representing Continental Resources, Inc. (Continental) who filed an objection to Burlington's request for rehearing.

Mr. Throne said the Board's decision in Docket 80-2009, which awarded permits to drill two wells to each company, sets a bad precedent by allowing a minority owner to prevent a majority owner an opportunity to drill wells.

Mr. Smelser said he wants to see all four Richland County wells drilled, and his decision to give two wells to each was partially made because no decision-makers from Burlington were at the hearing. Mr. Throne said a hearing to reconsider the 80-2009 decision will increase the likelihood that the wells will be drilled.

Mr. King said Burlington did not have the representation they needed at the hearing on Docket 80-2009. If the Board decides to re-hear a docket it cannot be because a company did not represent itself well at the first hearing.

Mr. Throne said Burlington is adversely affected by the original decision. They will be paying the majority of the cost of all four wells, will have the most at stake and will be the most at-risk. It is also more cost effective to drill all four wells at once instead of each company drilling two at separate times.

Mr. Lee said he once again objects to being here regarding this matter. Continental and Burlington both filed notices of intent to drill the same four wells on the same day. Continental filed a protest to Burlington's applications for permit to drill but Burlington did not file a protest to Continental's applications. Mr. Lee said all four permits should have been given to Continental anyway because Burlington failed to protest.

Mr. Lee said there is not that much difference here between majority and minority: Burlington is a 51 percent interest owner and Continental is a 49 percent interest owner. If the Board sets a precedent that majority rules all the time it will cause all sorts of mischief in the oil field. A petition for re-hearing should include new and persuasive evidence. There is nothing new here. Mr. Lee thinks the Board should avoid giving veto power to the majority owner.

Mr. Throne said the issue is not that the majority owner will veto the minority owner. The decision made in Docket 80-2009 should be reconsidered because it allows a minority owner keep the party paying the most money from having a right to say who drills the wells and will cause gridlock.

Mr. Lee said this is the slippery slope. A majority owner can sit on permits forever, and the minority and other working and/or interest owners' correlative rights are not protected.

Mr. Richmond is not aware of any precedent as to who "should" be operator. Mr. Peterson, the Board's attorney, said there is nothing in rule or statute that addresses this. Mr. Richmond said the only policy the Board has had with competing drilling permits is that the first in the door that is "approvable" is what gets approved. But not all permits that come in the door are ready for approval. Under ordinary circumstances, permits that come in approvable will be approved in the order they are received. When there is a "tie" (permit applications for the same well(s) on the same day) those applications are referred to the Board because there is no criteria on how to decide.

Mr. Peterson said under the law, there is no appeal and review of BOGC decisions. If a party is aggrieved they can go to district court and file an injunction for de novo action, then everything starts all over again in district court. Mr. Peterson said the Board needs a motion to either grant or deny the petition of Burlington to rehear Docket 80-2009. If no motion is made then the petition will be deemed denied. There was no motion made for a rehearing. There will be no rehearing on Docket 80-2009.

STAFF REPORTS

Mr. Sasaki handed out Exhibit 6, a summary of an issue with operator Ron Sannes. He recommends Mr. Sannes be scheduled for a Show Cause hearing for October 15, 2009, with authority to dismiss it if Mr. Sannes complies by September 30, 2009.

MOTION: Mr. King made a motion to schedule a Show Cause hearing for Ron Sannes for the October 15, 2009 public hearing for the deficiencies noted on Exhibit 6, and to allow staff to dismiss the matter if Mr. Sannes complies by September 30, 2009.

Mr. Sasaki reported that TOI Operating has not accomplished much on its operations. He reminded the Board that TOI's bond is scheduled to be forfeited, based on a previous order of the Board, at the October 15, 2009 hearing. Mr. Sasaki has been trying to contact Mr. Gleason of PAR Investments regarding Blackhawk issues and has heard Keith Carver is no longer working for Mr. Gleason.

Mr. Richmond said the architect got the parking lot lease recorded today so the building permit will be issued tomorrow. Fischer Construction was the successful bidder and will start work next week. The state architecture and engineering division had estimated the addition/remodel would cost 1.9 million. The bid came in at 1.15 million.

OTHER BUSINESS

Mr. Curt Dahlgaard reported the test results of the water put in to Somont's pit by Anchutz came back at 1100 ppm/tds. Shelby's drinking water is 900 ppm/tds.

Mr. Smelser reported that the MonDak Energy Alliance held its third public meeting. There is going to be a topping facility built in North Dakota to produce mainly diesel and aviation fuel. Mr. Smelser would have liked to see it built in Montana, but it should affect the discount Montana producers get.

With no further business the Board adjourned at 4:20pm.

PUBLIC HEARING

The Board reconvened at 8:00 a.m. Thursday, August 27, 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. 99-2009 – Board staff placed this application on the Default Docket for approval without hearing if no protests or requests to hear were received by 10:00 a.m. on the day of the hearing. None were received. The application of Oasis Petroleum LLC was approved as set forth in Board Order 96-2009.

Docket No. 100-2009 – The application of Panther Energy Company, LLC was continued to the October 2009 Hearing.

Docket No. 101-2009 – The application of Zenergy Operating Company, LLC. was continued to the December 2009 hearing.

Docket No. 102-2009 – Board staff placed this application on the Default Docket for approval without hearing if no protests or requests to hear were received by 10:00 a.m. on the day of the hearing. None were received. The application of Zenergy Operating Company, LLC was approved as set forth in Board Order 97-2009.

Docket No. 103-2009 – Board staff placed this application on the Default Docket for approval without hearing if no protests or requests to hear were received by 10:00 a.m. on the day of the hearing. None were received. The application of NFR Bear Paw Basin LLC was approved as set forth in Board Order 98-2009.

Docket No. 104-2009 – A motion was made by Mr. King, seconded by Mr. Efta and unanimously passed, to approve the application of NFR Bear Paw Basin LLC as set forth in Board Order 99-2009.

Docket No. 105-2009 – A motion was made by Mr. King, seconded by Mr. Smelser and unanimously passed, to approve the application of NFR Bear Paw Basin LLC as set forth in Board Order 100-2009.

Docket No. 106-2009 – 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 101-2009.

Docket No. 107-2009 – A motion was made by Mr. Efta, seconded by Mr. Gunderson and unanimously passed, to approve the application of NFR Bear Paw Basin LLC as set forth in Board Order 102-2009.

Docket No. 108-2009– The application of XTO Energy Inc. was continued to the December 2009 hearing.

Docket No. 109-2009 – A motion was made by Mr. Gunderson, seconded by Mr. Smelser and unanimously passed, to approve the application of Cardinal Oil, LLC as set forth in Board Order 103-2009.

Docket No. 110-2009 – A motion was made by Mr. Gunderson, seconded by Mr. Smelser and unanimously passed, to approve the application of Cardinal Oil, LLC as set forth in Board Order 104-2009.

Docket No. 111-2009 – A motion was made by Mr. Gunderson, seconded by Mr. Smelser and unanimously passed, to approve the application of Cardinal Oil, LLC as set forth in Board Order 105-2009.

Docket No. 112-2009– The application of Continental Resources, Inc. was continued to the October 2009 hearing.

Docket No. 113-2009 – Board staff placed this application on the Default Docket for approval without hearing if no protests or requests to hear were received by 10:00 a.m. on the day of the hearing. None were received. The application of Continental Resources, Inc. was approved as set forth in Board Order 106-2009.

Docket No. 114-2009 – The application of Continental Resources, Inc. was withdrawn.

Docket No. 115-2009 – Board staff placed this application on the Default Docket for approval without hearing if no protests or requests to hear were received by 10:00 a.m. on the day of the hearing. None were received. The application of Continental Resources, Inc. was approved as set forth in Board Order 107-2009.

Docket No. 116-2009 – Board staff placed this application on the Default Docket for approval without hearing if no protests or requests to hear were received by 10:00 a.m. on the day of the hearing. None were received. The application of Continental Resources, Inc. was approved as set forth in Board Order 108-2009.

Docket No. 117-2009 – Board staff placed this application on the Default Docket for approval without hearing if no protests or requests to hear were received by 11:30 a.m. on the day of the hearing. None were received. The application of Continental Resources, Inc. was approved as set forth in Board Order 109-2009.

Docket No. 118-2009 – Board staff placed this application on the Default Docket for approval without hearing if no protests or requests to hear were received by 10:00 a.m. on the day of the hearing. None were received. The application of Decker Operating Company, LLC was approved as set forth in Board Order 110-2009.

Docket No. 119-2009 & 21-2009 FED – A motion was made by Mr. Efta, seconded by Mr. Smelser and unanimously passed, to approve the application of Fort Worth Operating Company, LLC as set forth in Board Order 111-2009. There are federal and/or Indian lands included in this docket. The Bureau of Land Management of the United States Department of Interior will issue the order pertaining to those lands.

Docket No. 120-2009 – Board staff placed this application on the Default Docket for approval without hearing if no protests or requests to hear were received by 10:00 a.m. on the day of the hearing. None were received. The application of Iofina Natural Gas, Inc. was approved as set forth in Board Order 112-2009.

Docket No. 121-2009 – Board staff placed this application on the Default Docket for approval without hearing if no protests or requests to hear were received by 10:00 a.m. on the day of the hearing. None were received. The application of Iofina Natural Gas, Inc. was approved as set forth in Board Order 113-2009.

Docket No. 122-2009 – Board staff placed this application on the Default Docket for approval without hearing if no protests or requests to hear were received by 10:00 a.m. on the day of the hearing. None were received. The application of Iofina Natural Gas, Inc. was approved as set forth in Board Order 114-2009.

Docket No. 32-2009 – The application of Continental Resources, Inc. was withdrawn.

Docket No. 33-2009 – The application of Continental Resources, Inc. was withdrawn.

Docket No. 34-2009 – The application of Continental Resources, Inc. was withdrawn.

Docket No. 35-2009 – The application of Continental Resources, Inc. was withdrawn.

Docket No. 46-2008 – The application of NFR Bear Paw Basin LLC was continued to the December 2009 hearing.

Docket No. 55-2009 – Board staff placed this application on the Default Docket for approval without hearing if no protests or requests to hear were received by 10:00 a.m. on the day of the hearing. None were received. The application of Bayswater Exploration & Production, LLC was approved as set forth in Board Order 115-2009.

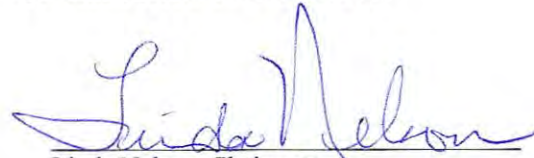
Docket No. 52-2009 – A motion was made by Mr. Efta, seconded by Mr. Smelser and unanimously passed, to: a) fine Mountain Pacific General Inc. \$1000 for failure to comply with the requirements of Board Order 71-2009; and b) order Mountain Pacific General Inc. to appear at the Board's October 15, 2009 public hearing where the Board will consider doubling the amount of its blanket bond, as set forth in Board Order 116-2009.

Docket No. 98-2009 – A motion was made by Mr. Smelser, seconded by Mr. Gunderson and passed, to reduce the fine levied against Hawley Hydrocarbons in Docket 98-2009 to \$1000, as set forth in Board Order 117-2009. Board member Jack King opposed the motion.

NEXT MEETING

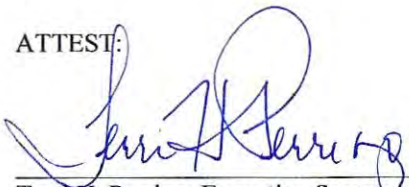
The next business meeting of the Board will be Wednesday, October 14, 2009 at 2:00 p.m. in the Billings Petroleum Club in the Crowne Plaza Billings in Billings, Montana. The next regular public hearing will be Thursday, October 15, 2009, beginning at 8:00 a.m. in the conference room of the Billings Petroleum Club in the Crowne Plaza Billings, in Billings, Montana. The filing deadline for the October 15, 2009 public hearing is September 17, 2009.

BOARD OF OIL AND GAS CONSERVATION
OF THE STATE OF MONTANA



Linda Nelson, Chairwoman
Wayne Smith, Vice-Chairman
Ronald S. Efta
Jay Gunderson
Jack King
Bret Smelser

ATTEST:



Terri H. Perrigo, Executive Secretary