

STATE OF MONTANA
DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
MINUTES OF THE
BOARD OF OIL AND GAS CONSERVATION MEETING AND PUBLIC HEARING
October 25 & 26, 2017

CALL TO ORDER

The regular business meeting of the Montana Board of Oil and Gas Conservation was called to order by Chairman Ron Efta at 2:00 p.m., Wednesday, October 25, 2017, at its office at 2535 St. Johns Avenue in Billings, Montana. Board members present were Chairman Ron Efta, Steven Durrett, Paul Gatzemeier, Mac McDermott, Peggy Ames-Nerud, Dennis Trudell, and Corey Welter. Staff present was Jennifer Breton, Brea Frickle, John Gizicki, Jim Halvorson, George Hudak, Ben Jones, and Rob Stutz.

APPROVAL OF MINUTES

A motion was made by Mr. Durrett, seconded by Mr. Welter and unanimously passed, to approve the minutes of the August 9, 2017, business meeting.

PUBLIC COMMENT ON AGENDA AND NON-AGENDA ITEMS

Ms. Susann Beug, member of Northern Plains Resource Council and Carbon County Resource Council, stated that she is concerned about injection wells and the associated risk. Injection wells are a safe way to get rid of waste, but what is safe now may not be safe in the future. Ms. Beug wanted the Board to take into consideration future rulemaking to require that injection permits include baseline water testing.

Mr. Durrett noted that the UIC program is mandated by the federal government and this is not in the Board's jurisdiction.

Jay Gunderson with Montana Bureau of Mines and Geology MBMG attended the listening session the previous night and thought the MBMG groundwater and streams sampling fliers would be good background information for the Board to read before the Sidney listening session. The fliers are attached as Exhibit 1.

ELM COULEE STUDY

Mr. Leo Heath and Mr. Bert Todd, faculty of Montana Tech Petroleum Department (Tech) presented an update on its five-year study that was conducted to determine the feasibility of enhanced oil recovery (EOR) methods for the unconventional Bakken reservoir in Elm Coulee field in Richland County, Montana. A summary of the study is attached as Exhibit 2.

There is \$200,000 of the \$864,000 remaining on the contract that expires December 31, 2017. Mr. Todd requested the Board extend the contract to allow the study to continue. They propose to extend the project to the northeast corner of the Elm Coulee area where production characteristics differ from the rest of the field.

Mr. Halvorson recommended the extension of the project.

A motion was made by Mr. McDermott, seconded by Mr. Welter and unanimously passed, to approve the extension of the Elm Coulee EOR project.

LONGEVITY & SERVICE AWARDS

Chairman Efta presented a certificate and a longevity gift card to George Hudak for his 20 years of service to the state.

RULEMAKING UPDATE

The Board held its first hydraulic fracturing listening session in Billings on October 24th. The second listening session will take place in Sidney on November 1, 2017. The listening sessions are for land owners and others affected by hydraulic fracturing. Mr. Halvorson wanted the Board's thoughts on the third hydraulic fracturing listening session that was going to be held in the Shelby or Cut Bank. Due to the current state financial situation he recommended either postpone or cancel the meeting to save travel costs.

Mr. McDermott noted that hydraulic fracturing is not widely done in the area, so he approved of the cancellation.

Chairman Efta agreed.

Motion: Mr. McDermott made the motion to cancel the Shelby / Cut Bank area public listening session. Mr. Trudell seconded and the motion passed unanimously.

While the Board is in Sidney for the public listening session, Kraken Operating, LLC (Kraken) invited the Board on a field trip to its drilling rig. Kraken also invited the Board to come onto location to witness a well fracturing job in December or January.

Mr. Gatzemeier stated he interested in witnessing the fracturing job.

Another possible field trip when the Board is in Sidney would be to visit the Black Gold well site.

As required by law with the passing of SB299, Mr. Halvorson reviewed the modifications to the website for posting fracturing fluid disclosures and trade secrets, attached as Exhibit 3. As of date, no trade secret requests have been made.

FINANCIAL REPORT

Mrs. Breton discussed the financial statement, attached as Exhibit 4

PRIVILEGE & LICENSE TAX UPDATE

Mr. Halvorson provided the Board an update on the privilege and license tax, attached as Exhibit 5. Due to reduced expenditures during the previous biennium, the balance in the earmarked revenue account is expected to remain positive during the upcoming FY18-19 biennium under the current revenue forecast.

PLUGGING AND RECLAMATION PROGRAM UPDATE

Two orphan wells were recently plugged, the Beery 2 and the Beery 22-24 wells.

The Augusta well plugging contract in the amount of \$600,000 is set to be approved by the Director of the Department of Natural Resources Conservation. The well is anticipated to be plugged in the spring of 2018.

BOND SUMMARY & INCIDENT REPORT

Mr. Halvorson presented the bond report and the incident report, attached as Exhibit 6 & 7.

DOCKET SUMMARY

Mr. Halvorson presented the docket summary, attached as Exhibit 8.

GAS FLARING EXCEPTIONS

Mr. Jones discussed the gas flaring report, attached as Exhibit 9. There are five wells flaring in excess of 100 MCFG/day and four flaring exception requests at this time. Of the four exception requests, three requests are from Petro-Hunt, LLC and it is due to insufficient pipeline infrastructure in the area. Mr. Jones recommended a year flaring exception for these three wells. The remaining well, Kraken Operating, LLC, is having trouble selling gas due to high sales line pressure. Mr. Jones recommended a six month exception for this well.

Mr. Trudell wondered when the Board will stop taking recommendations for gas flaring exceptions and require the operator to hook up to a pipeline.

Mr. Jones responded that the first place to look at unconnected wells would be wells that have the infrastructure.

Wells that are miles from gas gathering system are uneconomical for operators to hook the wells up to a gathering line. There are gathering systems that have told operators that it does not have the capacity, even though the well maybe close to the pipeline. The Board has the option to start requesting that the flaring exceptions be docketed and no longer have the exceptions as an administrative decision.

Motion: Mr. Gatzemeier made the motion to approve the recommendations. Mr. Welter seconded and the motion passed unanimously.

STAFF REPORTS

George Hudak

Bensun Energy, LLC (Bensun) is the bonded operator of the BN 12-11 injection well, located in SW NW of Section 11, T9N-R58E, Fallon County, Montana. On May 15, 2017, a change of operator request to transfer the well from Bensun to D&A Water Disposal LLC (D&A) was received, but no bond was ever received from D&A. ARM 36.22.1308 requires that an owner or operator of a well or wells provide a plugging and reclamation bond.

Mr. Hudak recommended issuing a shut-in order until D&A provides a plugging and reclamation bond and receives approval from staff prior to operating the well.

Motion: Mr. Durrett made the motion to approve the recommendation. Mr. Gatzemeier seconded and the motion passed unanimously.

Rob Stutz

Mr. Stutz gave a litigation update. In the MEIC / Earthjustice lawsuit against the Board, the case is continued and the Board has a status report due in November. The Board will be able to provide an update on the hydraulic fracturing listening sessions.

In the Malsam case, the Board is no longer involved as a party in the lawsuit, but a Board employee is required to testify as a witness.

Jim Halvorson

Mr. Halvorson reviewed Somont Oil Company, Inc.'s change of operator request for 27 orphan wells formerly operated by Cavalier Petroleum. He also reviewed Moccasin trail, Inc.'s (Moccasin) request to take over one orphan well formerly operated by Mountain Pacific General, Inc. Moccasin is the land owner and wants to take over the well for domestic use.

Both operators demonstrated the legal right to produce the land and met the bonding requirements. The change of operators will be approved.

The landowners who bought eight wells in a sheriff sale still need to post a plugging and reclamation bond.

Mr. Efta wanted to know how the Board determined leases. Mr. Halvorson stated the operator certifies that the lands are under a current lease.

OTHER BUSINESS

No other business discussed.

PUBLIC HEARING

The Board reconvened on Thursday, October 26, 2017, at 8:00 a.m. at the Board's hearing room at its office at 2535 St. Johns Avenue in Billings, Montana, to hear the matters docketed for public hearing. As a result of the discussion, testimony, technical data, and other evidence placed before the Board, the following action was taken in each matter.

Docket 47-2017 – The application of True Oil LLC was withdrawn.

Docket 48-2017 – A motion was made by Mr. Trudell, seconded by Mr. Gatzemeier and unanimously passed, to approve the application of True Oil LLC as set forth in Board Order 49-2017.

Docket 49-2017 – A motion was made by Mr. Welter, seconded by Mr. Trudell and unanimously passed, to approve the application of Kraken Oil & Gas LLC as set forth in Board Order 50-2017.

Docket 50-2017 – A motion was made by Mr. Durrett, seconded by Mr. Gatzemeier and unanimously passed, to approve the application of Kraken Oil & Gas LLC as set forth in Board Order 51-2017.

Docket 51-2017 – A motion was made by Mr. Gatzemeier, seconded by Mr. Welter and unanimously passed, to approve the application of Denbury Onshore, LLC as set forth in Board Order 52-2017.

Docket 52-2017 – A motion was made by Mr. Gatzemeier, seconded by Mr. Welter and unanimously passed, to approve the application of Denbury Onshore, LLC as set forth in Board Order 53-2017.

Docket 53-2017 – A motion was made by Mr. Gatzemeier, seconded by Mr. Welter and unanimously passed, to approve the application of Denbury Onshore, LLC as set forth in Board Order 54-2017.

Docket 54-2017 / 2-2010 FED, Amendment No. 1 – A motion was made by Mr. Durrett, seconded by Mr. Gatzemeier and passed, to approve the application of St. Croix Operating, Inc. as set forth in Board Order 55-2017. Mr. Welter recused himself and took no part in this matter.

Docket 55-2017 – Board staff placed this application on the Default Docket for approval without hearing if no protests or requests for hearing were received by 9:45 a.m. on the day of the hearing. None were received. The application of Synergy Offshore LLC was approved as set forth in Board Order 58-2017.

Docket 56-2017 – Board staff placed this application on the Default Docket for approval without hearing if no protests or requests for hearing were received by 9:45 a.m. on the day of the hearing. None were received. The application of Hydra MT LLC was approved as set forth in Board Order 59-2017.

Docket 57-2017 – Board staff placed this application on the Default Docket for approval without hearing if no protests or requests for hearing were received by 9:45 a.m. on the day of the hearing. None were received. The application of Vanguard Operating, LLC was approved as set forth in Board Order 60-2017.

Docket 58-2017 – A motion was made by Mr. Durrett, seconded by Mr. McDermott to approve the application of White Rock Oil and Gas, LLC and that White Rock Oil and Gas, LLC submit a satisfactory safety plan for board staff approval prior to injection.

The motion was amended by Mr. Welter, seconded by Mr. Gatzemeier and passed to include that any concerns or issues with the plan will be referred to the Board at its next public hearing. This is set forth in Board Order 56-2017.

Docket 59-2017 – Board staff placed this application on the Default Docket for approval without hearing if no protests or requests for hearing were received by 9:45 a.m. on the day of the hearing. None were received. The application of White Rock Oil and Gas, LLC was approved as set forth in Board Order 61-2017.

Docket 34-2017 – A motion was made by Mr. Trudell, seconded by Mr. Welter and unanimously passed, to approve the application of McCartney Family Mineral Trust as set forth in Board Order 57-2017.

Docket 44-2017 – Board staff placed this application on the Default Docket for approval without hearing if no protests or requests for hearing were received by 9:45 a.m. on the day of the hearing. None were received. The application of Cline Production Company was approved as set forth in Board Order 62-2017.

Docket 60-2017 – A motion was made by Mr. Durrett, seconded by Mr. Welter to continue Docket 60-2017, Black Gold Energy Resource Development, LLC, until the December 14, 2017, public hearing.

The motion was amended by Mr. Gatzemeier and seconded by Mr. Trudell and unanimously passed to include that Black Gold Energy Resource Development, LLC must submit a written plan of action to remedy the violations at the Indian Mound 1 well within one week of the order. If staff deems the plan acceptable, the daily fine will be suspended. This is set forth in Board Order 63-2017.

Docket 61-2017 – A motion was made by Ms. Ames Nerud, seconded by Mr. Trudell and unanimously passed to have Stealth Energy USA, Inc. appear at the December 14, 2017 public hearing and show-cause, if any it has, why it should not provide a plan and timeline for the plugging and abandonment of its wells, and why additional penalties should not be assessed for failure to pay the penalty assessed for delinquent reporting and to appear at the October 25, 2017, public hearing. This is set forth in Board Order 64-2017.

Docket 62-2017 – A motion was made by Mr. Trudell, seconded by Mr. Gatzemeier and unanimously passed to assess Bensun Energy, LLC a \$1,000 fine for failure to appear at the October 26, 2017, public hearing. Bensun Energy, LLC is to appear at the December 14, 2017, public hearing and show-cause, if any it has, why additional penalties should not be assessed for failure to file delinquent production reports, failure to pay the penalty assessed for delinquent reporting, and for failure to appear at the October 26, 2017, public hearing. Bensun Energy, LLC is to provide to the Board a progress update of its efforts to come into full compliance with field violations. This is set forth in Board Order 65-2017.

Docket 338-2014 – A motion was made by Mr. McDermott, seconded by Mr. Gatzemeier and unanimously passed, to forfeit K2 America Corporation plugging and reclamation bond. This is set forth in Board Order 66-2017.

Docket 49-2016 – A motion was made by Mr. Durrett, seconded by Mr. Gatzemeier and unanimously passed, to dismiss Docket 49-2016, Storm Cat Energy (USA) Operating Corporation. This is set forth in Board Order 67-2017.

NEXT MEETINGS

The next business meeting of the Board will be Wednesday, December 13, 2017, at 2:00 p.m. at the Board's hearing room at its office at 2535 St. Johns Avenue in Billings, Montana. The next regular public hearing will be Thursday, December 14, 2017, beginning at 8:00 a.m. at the Board's hearing room at its office at the 2535 St. Johns Avenue in Billings, Montana. The filing deadline for the December 14, public hearing is November 9, 2017.

BOARD OF OIL AND GAS CONSERVATION
OF THE STATE OF MONTANA

Ronald S. Efta, Chairman
Steven Durrett, Vice-Chairman
Paul Gatzemeier, Board Member
Mac McDermott, Board Member
Peggy Ames-Nerud, Board Member
Dennis Trudell, Board Member
Corey Welter, Board Member

ATTEST:

Jennifer Breton, Program Specialist