

STATE OF MONTANA
DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
MINUTES OF THE
BOARD OF OIL AND GAS CONSERVATION MEETING AND PUBLIC HEARING
June 13 & 14, 2018

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, June 13, 2018, at its office at 2535 St. Johns Avenue in Billings, Montana. Board members present were Chairman Ron Efta, Paul Gatzemeier, Mac McDermott, Peggy Ames-Nerud, Dennis Trudell, and Corey Welter. Staff present was Jennifer Breton, John Gizicki, Jim Halvorson, George Hudak, Ben Jones, and Rob Stutz. Board member Steven Durrett was absent.

APPROVAL OF MINUTES

A motion was made by Mr. Welter, seconded by Mr. Trudell and unanimously passed, to approve the minutes of the April 18, 2018, business meeting.

PUBLIC COMMENT ON AGENDA AND NON-AGENDA ITEMS

Ms. Susann Beug, member of Northern Plains Resource Council (NPRC) and Carbon County Resource Council, requested that the Board include the following four recommendations in the hydraulic fracturing rule:

1. Amend ARM to require pre-fracturing disclosure of chemicals and chemical abstract service numbers.
2. Establish a minimum of 45 days pre-fracturing notice that is available online to the public.
3. Develop a form accompanied by guidelines for operators to use for trade secrets requests.
4. Set up a separate page on website for pre and post fracturing chemical disclosures.

RULEMAKING UPDATE

Mr. Gatzemeier provided the Board an overview on the subcommittee's hydraulic fracturing rulemaking process of Senate Bill 299. The subcommittee recommended the Board engage in formal rulemaking and the proposed rule and form changes are attached in Exhibit 1. Copies of this exhibit were provided to the Montana Petroleum Association and NPRC.

Mr. Jones reviewed the hydraulic fracturing rule changes and Mr. Halvorson reviewed all the form changes. All the changes were what the subcommittee agreed upon.

Motion: Mr. Gatzemeier made the motion to engage in the formal rulemaking process. Mr. Welter seconded and the motion passed unanimously.

DNRC requires a review of the proposed rule prior to publication with the Secretary of State. DNRC review timeframe is a month. If DNRC has any substantive rule changes, the Board will review the rule changes

at the next business meeting. If there are no changes, the rule will be published following department review, which could be before the August meeting. Once the proposed rule has been published, the Board has six months to adopt the rule. An update will be provided at the next meeting.

Kraken Operating, LLC (Kraken) invited the Board to tour a hydraulic fracturing operation near Sidney, MT. Ron Efta, Paul Gatzemeier, Dennis Trudell, Jim Halvorson, and Ben Jones attended the tour. The Board members appreciated the opportunity to gain firsthand knowledge of the hydraulic fracturing process.

The attendees all mentioned that Kraken was a great host. Everyone was impressed with the wellsite operations. Everything was clean, organized, efficient, and well-run.

Mr. Trudell also noted that numerous safety questions were asked regarding the steps of the hydraulic fracturing process. At any step, crews can stop the procedure and make corrections. It was clear, safety is a top priority.

FINANCIAL REPORT

Mrs. Breton discussed the financial statement, attached as Exhibit 2.

PLUGGING AND RECLAMATION PROGRAM UPDATE

Mr. Halvorson reviewed the plugging and reclamation orphan well list, attached as Exhibit 3. The first five wells on the sheet have been contracted and have either been plugged or waiting to be plugged. The following ten wells on the list are the next highest priority wells to be plugged. This is derived from wells with the greatest surface and well threat.

The number of wells the Board can plug will depend on the final cost of the Krone-Augusta 31-32 well. The plugging contract for this well is \$600,000.

Mr. Halvorson requested the approval of the well ranking criteria and the authority to spend damage mitigation funds to plug the next ten wells on the orphan well list, as funds become available.

Motion: Mr. McDermott made the motion to approve the recommendation made by staff. Mr. Trudell seconded and the motion passed unanimously.

BOND SUMMARY & INCIDENT REPORT

Mr. Halvorson presented the bond report and the incident report, attached as Exhibit 4 & 5.

DOCKET SUMMARY

Mr. Halvorson presented the docket summary, attached as Exhibit 6.

GAS FLARING EXCEPTIONS

Mr. Jones stated there are three wells flaring in excess of 100 MCFG/day with approved flaring exception requests. There are no new exceptions at this time.

True Oil had one well flaring over the 100 MCFG/day limit without an exception. According to the policy, True Oil was assessed a \$250 delinquent flaring penalty.

STAFF REPORTS

George Hudak

Mr. Hudak reported that Pronghorn Petroleum Joint Venture (Pronghorn) had not paid the annual injection fee of \$200 and the \$100 late fine that was assessed at the April 18, 2018, business meeting for failure to submit its injection well payment prior to the deadline. Several attempts have been made to contact the operator.

Mr. Hudak recommended the Board assess Pronghorn a \$1,000 fine for failure to pay the injection fee and late fine.

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

Rob Stutz

There is a proposed class action settlement against BP that involves 72 Montana claimants who own gas rights in Oklahoma.

EXEMPT STAFF PERFORMANCE EVALUATIONS

Exempt staff performance evaluations were done in a closed session meeting.

OTHER BUSINESS

No other business discussed.

PUBLIC HEARING

The Board reconvened on Thursday, June 14, 2018, at 9:00 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 20-2018 – A motion was made by Mr. Welter, seconded by Mr. McDermott and unanimously passed, to approve the application of Rimrock Resources, Inc. as set forth in Board Order 22-2018.

Docket 21-2018 – The application of Montana Land & Exploration, Inc. was continued to the August 2018 hearing.

Docket 22-2018 – A motion was made by Mr. Gatzemeier, seconded by Mr. McDermott and unanimously passed, to approve the application of Denbury Onshore, LLC as set forth in Board Order 23-2018.

Docket 23-2018 – A motion was made by Mr. Gatzemeier, seconded by Mr. McDermott and unanimously passed, to approve the application of Denbury Onshore, LLC as set forth in Board Order 24-2018.

Docket 24-2018 – A motion was made by Mr. Welter, seconded by Mr. Gatzemeier and unanimously passed, to approve the application of Denbury Onshore, LLC as set forth in Board Order 25-2018.

Docket 25-2018 – A motion was made by Mr. Welter, seconded by Mr. Trudell and unanimously passed, to approve the application of Denbury Onshore, LLC as set forth in Board Order 26-2018.

Docket 26-2018 – A motion was made by Mr. Welter, seconded by Mr. Gatzemeier and unanimously passed, to approve the application of Denbury Onshore, LLC as set forth in Board Order 27-2018.

Docket 27-2018 – A motion was made by Mr. Welter, seconded by Mr. Gatzemeier and unanimously passed, to approve the application of Denbury Onshore, LLC as set forth in Board Order 28-2018.

Docket 28-2018 – A motion was made by Mr. Welter, seconded by Mr. Gatzemeier and unanimously passed, to approve the application of Denbury Onshore, LLC as set forth in Board Order 29-2018.

Docket 29-2018 – The application of Denbury Onshore, LLC was withdrawn.

Docket 30-2018 – Board staff placed this application on the Default Docket for approval without hearing if no protests or requests for hearing were received by 10:00 a.m. on the day of the hearing. None were received. The application of Mountain View Energy, Inc. was approved as set forth in Board Order 30-2018.

Docket 31-2018 – The show-cause hearing of Drawings, LLC was dismissed.

Docket 32-2018 – The show-cause hearing of Pinnacle Energy Group, LLC was dismissed.

Docket 33-2018 – A motion was made by Mr. Gatzemeier, seconded by Mr. Trudell and unanimously passed, that Bensun Energy, LLC must submit two written plans of action from a contractor by noon on June 18, 2018. The first plan will detail its current cleanup activity and the second plan will detail how any additional contamination found at the wellsite will be handled. Bensun is subject to a \$250 fine for each day after July 5, 2018, that the violations remain unresolved. The fine will remain in effect until compliance is confirmed by inspection. The Board will review any cleanup progress that occurred after the July 5, 2018, deadline at the August 9, 2018, public hearing.

Docket 60-2017 – An update was provided for Black Gold Energy Resources Development, LLC. No Board action took place.

Docket 77-2017 – The show-cause hearing of Hinto Energy, LLC was continued to the August 2018 hearing.

NEXT MEETINGS

The next business meeting of the Board will be Wednesday, August 8, 2018, 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, August 9, 2018, beginning at 9:00 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 August 9th public hearing is July 5, 2018.

BOARD OF OIL AND GAS CONSERVATION OF THE STATE OF MONTANA

Ronald S. Efta, 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