

STATE OF MONTANA
DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
MINUTES OF THE
BOARD OF OIL AND GAS CONSERVATION MEETING AND PUBLIC HEARING
August 8 & 9, 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, August 8, 2018, at its office at 2535 St. Johns Avenue in Billings, Montana. Board members present were Chairman Ron Efta, Steve Durrett, Paul Gatzemeier, Mac McDermott, Peggy Ames-Nerud, Dennis Trudell, and Corey Welter. Staff present was Brea Frickle, John Gizicki, Jim Halvorson, George Hudak, Ben Jones, Erin Ricci and Rob Stutz.

APPROVAL OF MINUTES

A motion was made by Mr. Trudell, seconded by Mr. Gatzemeier and unanimously passed, to approve the minutes of the June 13, 2018, business meeting.

PUBLIC COMMENT ON AGENDA AND NON-AGENDA ITEMS

Stillwater County Commissioner, Mark Crago, appeared before the Board and discussed a recent court case that was filed against Stillwater County involving zoning for oil and gas development. Commissioner Crago asked the Board for help educating the County and public on the purpose of the Board and its rules and regulations for oil and gas development. Commissioner Crago presented a memo to the Board, attached as Exhibit 1.

RULEMAKING UPDATE

Mr. Halvorson reported the proposed rules had been reviewed by DNRC and can now be filed with the Secretary of the State's Office.

FINANCIAL REPORT

Ms. Ricci and Mr. Halvorson discussed the financial statement, attached as Exhibit 2.

PLUGGING AND RECLAMATION PROGRAM UPDATE

Mr. Halvorson reported the Krone-Augusta well was recently plugged and is currently being reclaimed. Up to this point, the project has been under budget. Staff will move forward with the Board's approved plugging list of 12 wells.

BOND SUMMARY & INCIDENT REPORT

Mr. Halvorson presented the bond report and the incident report, attached as Exhibit 3 & 4.

DOCKET SUMMARY

Mr. Halvorson presented the docket summary, attached as Exhibit 5.

GAS FLARING EXCEPTIONS

Mr. Jones discussed the gas flaring report, attached as Exhibit 6. There are four wells flaring in excess of 100 MCF/day. Three of the wells have approved flaring exceptions.

Continental Resources, Inc. is asking for an exception request for its Tower 1-4H well. The well has been flaring while waiting on a gas meter to be replaced. Mr. Jones recommended a six-month exception for this well.

Motion: Mr. McDermott made the motion to approve the recommendation. Mr. Gatzemeier seconded, and the motion passed.

STAFF REPORTS

George Hudak

Mr. Hudak reported that Pronghorn Petroleum Joint Venture (Pronghorn) had not paid the annual injection fee of \$200, the \$100 late fine that was assessed at the April 18, 2018, business meeting, or the \$1,000 fine assessed at the June 13th, 2018, business meeting.

Mr. Hudak recommended Pronghorn be docketed at the October 4, 2018, public hearing for why its authorization to inject should not be revoked for the Halmans-Federal 1-26 and why the well should not be plugged.

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

John Gizicki

Mr. Gizicki reported that Wind River Hydrocarbons, Inc.'s (Wind River) Cornwell 1-14H well is leaking fresh water. Mr. Gizicki received a letter from Wind River stating the company is defunct with no resources to deal with the issues related to the well.

Mr. Gizicki recommended this matter be docketed for bond forfeiture at the October 4, 2018, public hearing.

Motion: Ms. Ames-Nerud made the motion to approve the recommendation. Mr. Durrett seconded, and the motion passed unanimously.

Mr. Gizicki reported that Shadwell Resources Group, LLC's (Shadwell) Velma SWD 1-10H well is out of compliance with numerous field violations. The initial deadline to achieve compliance was April 1, 2018. Mr. Gizicki had email corresponded with Kevin Leland of Shadwell in June 2018. As of this meeting, the

issues have not been resolved.

Motion: Mr. Gizicki recommended docketing this matter for the October 4, 2018, public hearing.

Rob Stutz

Mr. Stutz reported the pending lawsuit with the MEIC remains stayed.

Jim Halvorson:

Mr. Halvorson stated the Board of Oil and Gas Conservation website was redesigned at the request of state IT managers. The website now includes informational tabs for current or new operators and for mineral and surface owners.

Mr. Halvorson presented the proposed 2019 Meeting Schedule, attached as Exhibit 7. No changes were made to the proposed schedule.

Motion: Mrs. Ames-Nerud made a motion to approve the 2019 Meeting Schedule. The motion was seconded by Mr. Trudell and the motion passed unanimously.

EXEMPT STAFF PERFORMANCE REVIEWS

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

OTHER BUSINESS

No other business discussed.

PUBLIC HEARING

The Board reconvened on Thursday, August 9, 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 34-2018 – A motion was made by Mr. Welter, seconded by Mr. Durrett and unanimously passed, to approve the application of Kraken Oil & Gas LLC as set forth in Board Order 32-2018.

Docket 35-2018 – A motion was made by Mr. Welter, seconded by Mr. Durrett and unanimously passed, to approve the application of Kraken Oil & Gas LLC as set forth in Board Order 33-2018.

Docket 36-2018 – 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 34-2018.

Docket 37-2018 – 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 35-2018.

Docket 38-2018 – A motion was made by Mr. Trudell, seconded by Mr. Gatzemeier and unanimously passed, to approve the application of Kraken Oil & Gas LLC as set forth in Board Order 36-2018.

Docket 39-2018 – A motion was made by Mr. Trudell, seconded by Mr. Gatzemeier and unanimously passed, to approve the application of Kraken Oil & Gas LLC as set forth in Board Order 37-2018.

Docket 40-2018 – A motion was made by Mr. Gatzemeier, seconded by Mr. Welter and unanimously passed, to approve the application of Kraken Oil & Gas LLC as set forth in Board Order 38-2018.

Docket 41-2018 – A motion was made by Mr. Gatzemeier, seconded by Mr. Welter and unanimously passed, to approve the application of Kraken Oil & Gas LLC as set forth in Board Order 39-2018.

Docket 42-2018 – The application of Kraken Oil & Gas LLC was continued to the October 2018 hearing.

Docket 43-2018 – The application of Kraken Oil & Gas LLC was continued to the October 2018 hearing.

Docket 44-2018 – A motion was made by Mr. Trudell, seconded by Mrs. Ames-Nerud and unanimously passed, to approve the application of Kraken Oil & Gas LLC as set forth in Board Order 40-2018.

Docket 45-2018 – A motion was made by Mr. Trudell, seconded by Mrs. Ames-Nerud and unanimously passed, to approve the application of Kraken Oil & Gas LLC as set forth in Board Order 41-2018.

Docket 46-2018 – The application of Denbury Onshore LLC was withdrawn.

Docket 47-2018 – A motion was made by Mr. Welter, seconded by Mrs. Ames-Nerud and unanimously passed, to approve the application of Denbury Onshore LLC as set forth in Board Order 42-2018.

Docket 48-2018 – 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 43-2018.

Docket 49-2018 – A motion was made by Mr. Welter, seconded by Mr. Durrett and unanimously passed, to approve the application of Denbury Onshore LLC as set forth in Board Order 44-2018.

Docket 50-2018 – 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 45-2018.

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

Docket 51-2018 – The show-cause hearing of Ballantyne Ventures LLC was dismissed.

Docket 52-2018 – A motion was made by Mr. Welter, seconded by Mrs. Ames-Nerud and unanimously passed, to continue Bensun Energy, LLC (Bensun) \$250 per day fine until the Loucks 33-27 well is in confirmed compliance by a Board field inspector. Bensun must submit all previous and future contractor's and subcontractor's reports related to the cleanup at the Loucks wellsite to Board staff. The Board will review any cleanup at the Loucks 33-27 wellsite as well as any other outstanding field violations at the October 4, 2018, public hearing and discuss whether additional penalties are necessary, which could include a plugging and reclamation bond increase. As set forth in Board Order 46-2018.

Docket 53-2018 – The show-cause hearing of Hawley Oil Company was dismissed.

Docket 54-2018 – The show-cause hearing of Nine Point Energy, LLC was dismissed.

Docket 55-2018 – The show-cause hearing of Scout Energy Management LLC was dismissed.

Docket 56-2018 – The show-cause hearing of White Rock Oil & Gas, LLC was dismissed.

Docket 60-2017 – A motion was made by Mr. Welter, seconded by Mrs. Ames-Nerud and unanimously passed, to order Black Gold Energy Resource Development, LLC to submit updated weekly cleanup progress reports of the Indian Mound 1 SWD well and to continue this docket until the October 4, 2018, public hearing. As set forth in Board Order 47-2018.

Docket 77-2017 – The application of Hinto Energy, LLC was continued to the October 2018 hearing.

NEXT MEETINGS

The next business meeting of the Board will be Wednesday, October 3, 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, October 4, 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 October 4th public hearing is August 30, 2018.

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:

Erin Ricci, Administrative Assistant