

STATE OF MONTANA
DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
MINUTES OF THE
BOARD OF OIL AND GAS CONSERVATION MEETING AND PUBLIC HEARING
December 12 & 13, 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, December 12, 2018, at its office at 2535 St. Johns Avenue in Billings, Montana. Board members present were Chairman Ron Efta, Steven Durrett, Paul Gatzemeier, Mac McDermott, Dennis Trudell, and Corey Welter. Staff present was Jennifer Breton, John Gizicki, Jim Halvorson, George Hudak, Ben Jones, Gary Klotz, Amanda Miller, Dave Popp, 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 8, 2018, and October 3, 2018, business meeting.

PUBLIC COMMENT ON AGENDA AND NON-AGENDA ITEMS

No comments were made.

LONGEVITY & SERVICE AWARDS

Chairman Efta presented certificates and a longevity pin or gift card to the following employees for their years of service to the state:

Nancy Heinaman, 5 years

Amanda Miller, 5 years

Dave Popp, 5 years

FINANCIAL REPORT

Mrs. Breton discussed the financial statement, attached as Exhibit 1.

Mr. Halvorson provided the Board an update on the privilege and license tax. Cities and Counties want the Board's privilege and license tax rate lowered. This is not possible, due to the current low oil prices. The Board is projecting that within the next six months it will be operating with reserve funds.

PLUGGING AND RECLAMATION PROGRAM UPDATE

There are two current damage mitigation contracts outstanding. The first contract is for the Beery 2 and the Beery 22-24 orphan wells that were plugged and now requires surface reclamation. The second contract is for the Dybvik KV 1 remediation that requires surface cleanup.

Staff is reviewing wells in the Sidney area that require plugging.

Staff does not plan on plugging the wells during the winter due to the higher plugging costs.

BOND SUMMARY & INCIDENT REPORT

Mr. Halvorson presented the bond report and the incident report, attached as Exhibit 2 & 3.

DOCKET SUMMARY

Mr. Halvorson presented the docket summary, attached as Exhibit 4.

GAS FLARING EXCEPTIONS

Mr. Jones discussed the gas flaring report, attached as Exhibit 5. There are nine wells flaring in excess of 100 MCFG/day and six exception requests at this time.

Kraken Operating, LLC (Kraken) is asking for exception requests for four wells that are connected to a gathering system, but due to the high line pressure Kraken has had limited success selling the gas.

Petro-Hunt LLC is asking for an exception request for one well due to a lack of infrastructure in the area.

Whiting Oil & Gas Corporation (Whiting) is asking for an exception request for one well due to insufficient compression capacity in the area.

Mr. Jones recommended a six-month exception for Kraken and Whiting and a one year exception for Petro-Hunt LLC.

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

STAFF REPORTS

John Gizicki

At the August 8, 2018, business meeting, staff reported that Shadwell Resources Group, LLC (Shadwell) was out of compliance with numerous field violations at its Velma SWD 1-10H well located in the NW $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 10, T23N, R58E, Richland County, Montana. The initial deadline to achieve compliance was April 1, 2018. In June 2018, staff corresponded with Shadwell's president, Kevin Leland, regarding the compliance issues. This matter was docketed for the October 4, 2018, public hearing.

At the October 4, 2018, public hearing, staff reported that an inspection performed on September 20, 2018, indicated that all field violation had been remedied. Shadwell failed to appear at this hearing and was assessed a \$1,000 fine.

As of today, Shadwell has not paid the outstanding \$1,000 fine.

Staff recommended Shadwell be docketed for the February 14, 2019, public hearing. Shadwell must appear and show cause, if any it has, why additional penalties should not be imposed for failure to appear at the October 4, 2018, public hearing and for failure to pay the \$1,000 fine.

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

Rob Stutz

Mr. Stutz informed the Board that MEIC / Earthjustice has voluntarily dismissed its lawsuit against the Board.

Jim Halvorson

Mr. Halvorson reviewed the South Wolf Springs Amsden Unit and Mason Lake (1st Cat Creek) Unit, attached as Exhibit 6. The South Wolf Springs Amsden Unit was created under Board Order 23-1992 and Beartooth Oil & Gas Company was the most recent operator. The Bureau of Land Management (BLM) terminated the unit effective August 31, 2017. The Mason Lake (1st Cat Creek) Unit was created under Board Order 80-1996 and Hinto Energy, Inc. was the most recent operator. The BLM terminated the unit effective February 6, 2016.

Mr. Halvorson recommended staff to docket these requests under the Board's own motion to vacate Board Order 23-1992 and 80-1996 at the February 14, 2019, public hearing.

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

Mr. Halvorson discussed with the Board possible ways to handle inactive wells & change of operator requests. A handout on this matter is attached as Exhibit 7.

There are 45-50 operators with producing or injection wells that have been inactive for two or more years. Many of the operators are defunct on this list. Letters will be mailed to the operators requesting a schedule of abandonment of the well or justification to leaving the well unplugged. Operator responses will be reviewed by the Board at a business meeting. If there is no response from the operator regarding the inactive well, staff will request a show-cause hearing to begin the process of bond forfeiture.

If there is a landowner request to abandon an inactive well, the request will be reviewed by staff and the landowner will be asked to provide the status of the underlying mineral lease or surface agreement. A letter will then be sent to the operator and the process from the inactive well section will be followed, including board's review of the responses. The language in the letter will be modified in cases where the potential for future use of the wellbore is unlikely due to lack of an active lease or agreement.

Staff requests adoption of a policy concerning change of operator requests. This would be available to companies planning to sell or acquire wells. The proposed policy is:

New companies: New companies that intend to acquire 15 or more wells on a multiple well bond would have their bond and change of operator request referred to the board for approval.

Existing companies: If the receiving operator's multiple well bond covers 10 or more inactive wells, or if as a result of the transfer 10 or more inactive wells would be covered by the bond, approval of the change of operator request would be referred to the board for approval.

This policy would allow staff to be consistent in change of operator requests. If needed, this policy could be modified in the future.

A checklist will be developed for new operators to demonstrate it has the financial ability to operate new wells. Mr. Stutz will work with Board staff to ensure the checklist covers the statutory requirements.

Motion: Mr. Gatzemeier made the motion for the Board to approve the policy presented by staff for change of operator requests and for staff to report back at the next meeting with a checklist. Mr. Welter seconded, and the motion passed unanimously.

Before the next meeting, staff will mail the initial round of letters to the operators with inactive wells listed in Exhibit 7.

Chairman Efta stated that an attorney is required for show-cause respondents.

Mr. Halvorson recommended that language be added to the letters of show cause of the legal representation requirements.

Mr. Stutz informed the Board that an individual can represent itself, but a corporation cannot.

After a lengthy discussion, the Board clarified that an attorney is required for show-cause business entity respondents. However, anyone with a personal interest in a docket, regardless of corporation status, can speak to its personal concerns/interest.

Mr. Halvorson will work with Mr. Stutz to review requirements and develop a formal policy.

OTHER BUSINESS

No other business discussed.

PUBLIC HEARING

The Board reconvened on Thursday, December 13, 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 82-2018 / 1-2019 FED – A motion was made by Mr. Welter, seconded by Mr. Trudell and unanimously passed, to approve the application of St. Croix Operating, Inc. as set forth in Board Order 74-2018.

Docket 83-2018 – A motion was made by Mr. Gatzemeier, seconded by Mr. Durrett and unanimously passed, to approve the application of Kraken Oil & Gas LLC as set forth in Board Order 75-2018.

Docket 84-2018 – A motion was made by Mr. Gatzemeier, seconded by Mr. Durrett and unanimously passed, to approve the application of Kraken Oil & Gas LLC as set forth in Board Order 76-2018.

Docket 85-2018 – 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 77-2018.

Docket 86-2018 – 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 78-2018.

Docket 87-2018 – 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 79-2018.

Docket 88-2018 – 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 80-2018.

Docket 89-2018 – A motion was made by Mr. Trudell, seconded by Mr. Welter and unanimously passed, to approve the application of Kraken Oil & Gas LLC as set forth in Board Order 81-2018.

Docket 90-2018 – A motion was made by Mr. Trudell, seconded by Mr. Welter and unanimously passed, to approve the application of Kraken Oil & Gas LLC as set forth in Board Order 82-2018.

Docket 91-2018 – 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 83-2018.

Docket 92-2018 – A motion was made by Mr. Gatzemeier, seconded by Mr. Trudell and unanimously passed, to approve the application of Denbury Onshore LLC as set forth in Board Order 84-2018.

Docket 93-2018 – 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 85-2018.

Docket 94-2018 – 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 85-2018.

Docket 95-2018 – 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 Hydra MT, LLC was approved as set forth in Board Order 87-2018.

Docket 96-2018 – 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 Hydra MT, LLC was approved as set forth in Board Order 88-2018.

Docket 73-2018 – A motion was made by Mr. McDermott, seconded by Mr. Welter and unanimously passed, to approve the application of Denbury Onshore LLC as set forth in Board Order 89-2018.

Docket 97-2018 – The show-cause hearing of Hofland, James D. was dismissed.

Docket 98-2018 – The show-cause hearing of Provident Energy of Montana, LLC was dismissed.

Docket 99-2018 – The show-cause hearing of Apex Energy, LLC was dismissed.

Docket 100-2018 – A motion was made by Mr. McDermott, seconded by Mr. Trudell and unanimously passed, to forfeit the plugging and reclamation bond of Pronghorn Petroleum Joint Venture. This is set forth in Board Order 90-2018.

Docket 101-2018 – A motion was made by Mr. Durrett, seconded by Mr. Trudell and unanimously passed, to forfeit the plugging and reclamation bond of Hinto Energy, LLC. This is set forth in Board Order 91-2018.

Docket 60-2017 – A motion was made by Mr. Gatzemeier, seconded by Mr. Welter, that Black Gold Energy Resource Development, LLC cannot transfer any new fluids to either site until existing storage is addressed. Black Gold must empty all scattered tanks and dispose of saltwater/content and repair the injection tank battery berm prior to the February 14, 2019, public hearing.

The motion was amended by Mr. Durrett, seconded by Mr. McDermott and unanimously passed to allow Black Gold to transfer fluids to the sites. Black Gold must empty all scattered tanks and dispose of saltwater/content and repair the injection tank battery berm prior to the February 14, 2019, public hearing. Docket 60-2017 is continued until the February 14, 2019, public hearing. This is set forth in Board Order 92-2018.

Docket 81-2018 – A motion was made by Mr. Durrett, seconded by Mr. Gatzemeier and unanimously passed, that Bensun Energy, LLC's wells are shut-in for illegal production per ARM 36.22.1245 until the \$13,750 fine is received. Additionally, the off-location salt contamination at the Loucks 1 SWD and the staining/contamination at the Loucks 33-27 should be properly disposed of by May 9, 2019. This is set forth in Board Order 93-2018.

NEXT MEETINGS

The next business meeting of the Board will be Wednesday, February 13, 2019, 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, February 14, 2019, 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 February 14th public hearing is January 10, 2019.

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
Dennis Trudell, Board Member
Corey Welter, Board Member

ATTEST:

Jennifer Breton, Program Specialist