

BEFORE THE BOARD OF OIL AND GAS CONSERVATION
OF THE STATE OF MONTANA

<p>IN THE MATTER OF THE APPLICATION OF DENBURY ONSHORE, LLC FOR AN ORDER CREATING AN ENHANCED RECOVERY UNIT FOR OIL AND GAS WITHIN THE RED RIVER FORMATION UNDERLYING CERTAIN LANDS IN FALLON COUNTY, MONTANA, TO BE KNOWN AS THE MYSTERY CREEK (RED RIVER) UNIT AREA.</p>	<p>PETITION FOR REHEARING</p> <p>DOCKET NO. 73-2018</p> <p>ORDER NO. 89-2018</p>
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Pursuant to Section 82-11-143, Montana Code Annotated, Chaco Energy Company, P.O. Box 1587, Denver, Colorado 80201-1587 ("Chaco"), petitions the Board for a rehearing of the Application of Denbury Onshore LLC ("Denbury"), Docket No. 73-2018, Order No. 89-2018, dated and effective December 13, 2018, for the following reasons:

1. Chaco is the owner of an oil and gas leasehold interest in, to and under the N½ of Section 11, Township 9 North, Range 58 East, Fallon County (the "Subject Lands"), which lands lie within the Mystery Creek (Red River) Unit Area as established and delineated by this Board pursuant to Order No. 89-2018 referred to above (the "Unit").
2. Prior to establishment of the Unit Chaco was the Operator of the BN #31-11 well located within and upon the Subject Lands (the "Well"), which upon information and belief is productive of oil from both the Red River and Interlake (Silurian) Formations.
3. At the hearing on the Application of Denbury to establish and delineate the Unit held before this Board on December 13, 2018, Clayton Breckenridge, Denbury Landman, testified that the Interlake Formation relating to the Well was to be "squeezed off" so that only the Red River Formation would produce.
4. Mr. Breckenridge, in a December 4, 2018, email to Kurt T. Nelson, President of Chaco, stated that the historical production from the Well is/was approximately sixty percent (60%) from the Red River Formation and if so forty percent (40%) of production therefrom would be from the Interlake.
5. The Well currently produces approximately thirteen (13) barrels of oil per day and forty percent (40%) thereof would be approximately five (5) barrels per day which Chaco will be deprived of when the Interlake Formation is squeezed off by Denbury. Five (5) barrels of Interlake production per day multiplied by three hundred sixty-five (365) days multiplied by Thirty-five Dollars (\$35.00) per barrel represents an annual loss to Chaco of approximately Sixty-three Thousand Eight Hundred Seventy-five Dollars (\$63,875.00), less royalties and operating expenses. Production from the Interlake Formation could be more or less than five (5) barrels per day but will not be conclusively known if Denbury is allowed to squeeze off the Interlake Formation without first determining the actual current production from the Interlake Formation.

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6. Squeezing off the Interlake Formation deprives Chaco of production therefrom and corresponding revenue attributable thereto, therefore constituting a taking of such production without just compensation therefore, all of which is not addressed in Order No. 89-2018.
7. When questioned about the loss of Chaco's Interlake production, Mr. Breckenridge testified that at the end of secondary recovery operations the Well would be given back to Chaco so that it could then produce the Interlake Formation. Best guess is that this would be at least twenty (20) years following commencement of secondary recovery operations.
8. Board Order No. 89-2018 recites therein "11. The evidence indicates that granting of the application will serve to protect correlative rights and be in the best interest of conservation of oil and gas in the State of Montana." For the reasons discussed above, Chaco disputes this Finding of Fact and alleges that the correlative rights of Chaco are in fact being violated by depriving it of Interlake production from the Well without compensation therefore.

Additionally, as to being in the "best interest of conservation of oil and gas", such a statement is clearly erroneous when "squeezing off" the Interlake Formation and essentially shutting in production therefrom constitutes waste.

9. Section 82-11-206, Montana Code Annotated (Terms And Conditions Of Plan For Unit Operations), provides therein "The order under **82-11-205** must be upon terms and conditions that are just and reasonable and must prescribe a plan for unit operations that includes: . . . (9) additional provisions that are found to be appropriate for carrying on unit operations **and for the protection and adjustment of correlative rights** (emphasis added)." Chaco submits Board Order No. 89-2018 does not comport with Section 82-11-206(9).

WHEREFORE, Chaco requests the following relief:

1. That the Board grant a rehearing of Docket No. 73-2018, Order No. 89-2018, in order to address and correct the foregoing infringement of the correlative rights of Chaco; and
2. For such other or additional relief as this Board may deem appropriate.

Dated December 28, 2018.

LEE LAW OFFICE PC

By: 

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Company

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January 8, 2019

Via Email & FEDEX

Members, Board of Oil & Gas Conservation
State of Montana
2535 St. Johns Avenue
Billings, Montana 59102

Re: Docket No. 73-2018 – Chaco Energy Company’s Request for Rehearing

Gentlemen:

Please consider this letter as the objection of Denbury Onshore LLC (“Denbury”) to Chaco Energy Company’s (“Chaco”) December 28, 2018 request for a rehearing of Docket No. 73-2018. Chaco’s request should be denied for the following reasons.

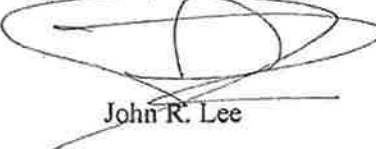
- A rehearing pursuant to Mont. Code Ann. § 82-11-143 contemplates some *material* substantive change in the facts or arguments presented at the original hearing. Chaco’s December 28, 2018 letter fails to raise any new facts or arguments – Chaco simply doesn’t like the Board’s decision. The fact is, Chaco’s “lost” production from the Interlake Formation was discussed at length throughout the hearing, and ultimately, it was unanimously determined by the Board that unitization is necessary to increase ultimate recovery, is in the interest of conservation, and serves to protect the correlative rights of Chaco and all interested parties. *See Corrected Order No. 89-2018, ¶¶ 6, 11*. Accordingly, all relevant facts, courses of action and arguments were fully proffered and considered by the Board during the original hearing, and the doctrine of administrative finality precludes a second “bite at the apple” under the present circumstances. *See NASI v. State Dept., of Highways*, 231 Mont. 395 (1988).
- Chaco’s primary argument, that it will suffer from loss of short term revenue, is not a valid reason for rehearing. All parties suffer loss of short term revenue in exchange for increased revenue over the life of the unit. That is the very nature of a secondary recovery unit. *See e.g., Trees Oil Co. v. State Corp. Comm’n*, 279 Kan. 209, 220 (2005) (upholding unitization and stating that while short-term revenue loss to Trees will occur due to unitization, “all participants lose short-term cash flow but will recover [their] allocated share of unit production.”).
- The Board’s Order certainly does not equate to a regulatory taking as Chaco argues. *Chaco Letter, p. 2 at 6*. A regulatory taking occurs when agency action deprives an owner of *all* economic value or use of the owner’s property. *Kafka v. Montana Dep’t of Fish, Wildlife & Parks*, 2008 MT 460, ¶ 67. The Board’s Order does not deprive Chaco of *all* economic value or use. Rather, unitization entitles Chaco to its proportionate share of *all* production within the unit boundaries. Production that will greatly exceed the ~5 barrels of oil per day that Chaco claims it is losing because of the

Board's Order. Indeed, other jurisdictions have recognized that unitization under similar circumstances is not a taking. *See Trees Oil Co.*, 279 Kan. at 233 ("The Commission's orders are not in any way a 'taking' as Trees argues. [Kansas' compulsory unitization act] sets out in detail the findings that must be made and the provisions required in the unitization and unit operation order. There is clearly legislative authority for the Commission's actions, and all of the statutory requirements were followed."). Here, Denbury complied with all statutory requirements, the Board correctly issued Order No. 89-2018, and a taking did not occur.

- Preventing Chaco from producing ~5 barrels of oil per day in exchange for approving unitization in the public interest does not constitute waste as Chaco argues. *Chaco Letter*, p. 2 at 8. Rather, the opposite is true; waste would be committed if the Board elected not to approve the unit in exchange for insignificant amounts of Interlake Production. *See e.g., Majority of Working Interest Owners in Buck Draw Field Area v. Wyoming Oil and Gas Conservation Comm'n*, 721 P.2d 1070 (Wyo. 1986) (upholding Commission's order requiring producers to shut in an entire field to force unitization to prevent waste). The Board certainly has jurisdiction to curtail or prevent production at any point in the interest of conservation.
- Chaco fails to mention, as discussed at the hearing, that it was offered multiple options by Denbury. Specifically, Chaco had the option to: (1) participate in the unit; (2) elect not to participate in the unit and be carried at prime plus 2%; (3) accept the good faith offer made by Denbury and immediately acquire revenue by selling its interest; (4) allow Denbury to squeeze off all production from the Red River Formation and continue producing the well from the Interlake; or (5) allow Denbury to squeeze off production from the Interlake Formation and utilize the existing well for unit operations (and then retain ownership of the well at the end of the life of the unit to resume production from the Interlake). Accordingly, Chaco's rights were adequately protected.¹
- Finally, even if Chaco's arguments did have merit, its claim involves private rights of the parties in a non-unitized formation. Therefore, the Board lacks jurisdiction to resolve the dispute. *U.V. Industry Inc. v. Danielson*, 184 Mont. 203, 219 (1974) ("the Board of Oil and Gas Conservation does not have authority to adjudicate disputes involving private rights.").

Frankly, the public interest is better served by denying Chaco's request and leaving the present Order as is. Denbury complied with all of the statutory requirements for compulsory unitization and the Board correctly approved the Mystery Creek plan of unit operations after considering all of Chaco's arguments. Thanks you for consideration of our position.

Respectfully submitted,



John R. Lee

¹ Note that Chaco, per Montana law and the plan of unit operations approved by the Board, will be compensated for any existing equipment used by Denbury for unit operations. Mont. Code Ann. § 82-11-206(4); Unit Operating Agreement, Article 10. Further, the unit will in no way benefit from the lack of production from the Interlake; thus, Chaco is not entitled to compensation under 82-11-206(9) as it suggests. *Chaco Letter*, p. 2 at 9.

**MONTANA BOARD OF OIL AND GAS CONSERVATION
FINANCIAL STATEMENT**

As of 2/6/19

Fiscal Year 2019: Percent of Year Elapsed - 61%

EXHIBIT 3

		Budget	Expends	Remaining	%
Regulatory	Personal Services	1,216,149	592,384	623,765	48.7
UIC	Personal Services	266,959	130,523	136,436	48.9
	Total Expended	1,483,108	722,907	760,201	48.7
Regulatory	Equipment & Assets	46,371	335	46,036	0.7
UIC	Equipment & Assets	10,179	74	10,105	0.7
	Total Expended	56,550	409	56,141	0.7
Regulatory	Operating Expenses:				
	Contracted Services	168,795	61,672	107,123	36.5
	Supplies & Materials	45,164	25,522	19,642	56.5
	Communication	63,337	27,080	36,257	42.8
	Travel	36,206	13,861	22,345	38.3
	Rent	25,877	11,556	14,321	44.7
	Utilities	16,770	6,231	10,539	37.2
	Repair/Maintenance	24,633	12,504	12,129	50.8
	Other Expenses	26,216	17,747	8,469	67.7
	Total Operating Expenses	406,998	176,173	230,825	43.3
UIC	Operating Expenses:				
	Contracted Services	37,051	10,577	26,474	28.5
	Supplies & Materials	9,915	5,257	4,658	53.0
	Communication	13,902	6,094	7,808	43.8
	Travel	7,947	1,518	6,429	19.1
	Rent	5,680	2,537	3,143	44.7
	Utilities	3,681	1,368	2,313	37.2
	Repair/Maintenance	5,407	1,902	3,505	35.2
	Other Expenses	5,754	631	5,123	11.0
	Total Operating Expenses	89,337	29,883	59,454	33.4
	Total Expended	496,335	206,055	290,280	41.5

	Budget	Expends	Remaining	%
Carryforward FY17				
Personal Services	63,132	-	63,132	0.0
Operating Expenses	63,132	-	63,132	0.0
Equipment & Assets	30,000	-	30,000	0.0
Total	156,264	-	156,264	0.0

Funding Breakout	Regulatory Budget	Regulatory Expends	UIC Budget	UIC Expends	2018 Total Budget	2018 Total Expends	%
State Special	1,669,518	768,892	366,475	160,480	2,035,993	929,372	45.6
Federal 2018 UIC (10-1-2017 to 9-30-2018)			108,000	108,000	108,000	108,000	100.0
Federal 2019 UIC (10-1-2018 to 9-30-2019)	-	-	115,000	-	115,000	-	0.0
Total	1,669,518	768,892	589,475	268,480	2,258,993	1,037,372	45.9

REVENUE INTO STATE SPECIAL REVENUE ACCOUNT

	FY 19	FY 18
Oil & Gas Production Tax	\$ 1,100,287	\$ 3,492,293
Oil Production Tax	1,034,270	3,205,721
Gas Production Tax	66,017	286,571
Drilling Permit Fees	8,075	15,500
UIC Permit Fees	235,000	239,800
Interest on Investments	18,400	11,133
Copies of Documents	258	658
Miscellaneous Reimbursements	-	23,045
TOTAL	\$ 1,362,020	\$ 3,782,429

REVENUE INTO DAMAGE MITIGATION ACCOUNT

	FY 19	FY 18
RIT Investment Earnings:	\$ -	\$ 131,005
July	-	-
August	-	12,531
September	-	9,947
October	-	10,149
November	-	12,509
December	-	10,203
January	-	10,392
February	-	11,740
March	-	9,234
April	-	11,055
May	-	11,940
June	-	21,305
Bond Forfeitures:	10,022	210,381
Interest on Investments	5,757	9,663
TOTAL	\$ 15,779	\$ 351,049

INVESTMENT ACCOUNT BALANCES

Regulatory Account	\$ 2,753,245
Damage Mitigation Account	\$ 392,607

REVENUE INTO GENERAL FUND FROM FINES

		FY 19
FRANK MILLER	7/6/2018	\$ 60
SCOUT ENERGY MANAGEMENT LLC	7/10/2018	4,140
WHITE ROCK OIL AND GAS LLC	7/20/2018	140
BALLANTYNE VENTURES LLC	7/27/2018	140
NINE POINT ENERGY LLC	7/27/2018	220
SCOUT ENERGY MANAGEMENT LLC	7/27/2018	4,140
HAWLEY OIL LLP	8/10/2018	440
SONKAR INC	8/10/2018	90
GREAT PLAINS ENERGY INC	8/10/2018	60
GERALD W PAUGH	8/22/2018	70
QUINGUE OIL	8/31/2018	60
GEORGE CAMPANELLA	8/31/2018	110
HAWLEY OIL LLP	8/31/2018	110
GEORGE CAMPANELLA	8/31/2018	110
BERNICE MCPHILLIPS	8/31/2018	110
CRAZY MOUNTAIN OIL AND GAS LLC	8/31/2018	370
GRASSY BUTTE	8/31/2018	70
MYSTIQUE RESOURCES COMPANY	9/7/2018	60
INTERMOUNTAIN LEASING INC.	9/28/2018	120
HOFLAND JAMES D	10/19/2018	70
LOWRANCE COMPANY INC / AIKINS DRILLING COMPANY	10/26/2018	70
CALIBER MIDSTREAM PARTNERS LP	11/2/2018	70
HIGHLANDS NATURAL RESOURCES CORP	11/2/2018	60
DRAWINGS LLC	11/9/2018	70
ALTA VISTA OIL AND GAS	11/9/2018	70
MONTANA LAND AND MINERAL COMPANY	11/9/2018	70
SHADWELL RESOURCES GROUP LLC	11/9/2018	70
SEYMOUR OIL & GAS	11/16/2018	60
PROVIDENT ENERGY OF MONTANA LLC	11/28/2018	180
HOFLAND, JAMES D	12/11/2018	70
HAWLEY OIL LLP	1/4/2019	250
UNITED STATES ENERGY CORP	1/4/2019	70
BEHM ENERGY	1/7/2019	70
SHADWELL RESOURCES GROUP LLC	1/7/2019	1,000
PEARSON, GABRIEL	1/16/2019	120
BIG SNOWY RESOURCES LP	1/16/2019	130
SAGE CREEK COLONY	1/16/2019	60
RINCON OIL AND GAS LLC	2/4/2019	60
RINCON OIL AND GAS LLC	2/4/2019	60
TOTAL		\$ 13,300

DAMAGE MITIGATION CONTRACTS

<u>Name</u>	<u>Authorized Amt</u>	<u>Expended</u>	<u>Balance</u>	<u>Status</u>	<u>Expiration Date</u>
Beery 2 and Beery 22-24 Wells Plug and Reclaim	\$ 176,500	\$ 155,704	\$ 20,796	Under Contract	6/30/2019
Krone-Augusta 31-32-1 Well Plug and Reclaim	600,000	393,590	206,411	Completed	9/30/2018
Dybvik KV 1 Remediation	21,465	-	21,465	Under Contract	12/31/2019
TOTAL	\$ 797,965	\$ 549,294	\$ 248,671		

CONTRACTS

<u>Name</u>	<u>Authorized Amt</u>	<u>Expended</u>	<u>Balance</u>	<u>Status</u>	<u>Expiration Date</u>
MT Tech - Elm Coulee EOR Study (MOU 127220)	\$ 863,905	\$ 715,310	\$ 148,595	Under Contract	12/31/2019
Agency Legal Services 2019	70,000	11,441	58,559	Under Contract	6/30/2019
COR Enterprises - Billings Janitorial	48,664	39,013	9,651	Under Contract	6/30/2019
Production and Injection Form Data Entry	26,000	25,970	30	Under Contract	2/28/2019
TOTAL	\$ 1,008,569	\$ 791,735	\$ 216,834		

**Agency Legal Services
Expenditures in FY18**

<u>Case</u>	<u>Amt Spent</u>
BOGC Duties	\$ 11,015
MEIC	426
Total	\$ 11,441

**Montana Board of Oil and Gas Conservation
Summary of Bond Activity**

EXHIBIT 4

12/12/2018 Through 2/13/2019

Approved

Montalban Oil & Gas Operations, Inc. Cut Bank MT	111 M2	Approved	1/29/2019
		Amount:	\$50,000.00
		Purpose:	Multiple Well Bond
Certificate of Deposit	\$50,000.00	FIRST INTERSTATE BANK	ACT

Canceled

Energy Corporation of America Charleston WV	626 T1	Canceled	1/17/2019
		Amount:	\$10,000.00
		Purpose:	UIC Single Well Bond
Energy Corporation of America Charleston WV	626 M1	Canceled	1/17/2019
		Amount:	\$50,000.00
		Purpose:	Multiple Well Bond
Longshot Oil, LLC Spokane WA	590 M1	Canceled	1/15/2019
		Amount:	\$50,000.00
		Purpose:	Multiple Well Bond

Forfeited

Wind River Hydrocarbons, Inc. Aurora CO	682 G1	Forfeited	1/8/2019
		Amount:	\$10,000.00
		Purpose:	Single Well Bond

Forfeiture Ordered

Hinto Energy, LLC Edwards CO	749 T1	Forfeiture Ordered	12/13/2018
		Amount:	\$10,000.00
		Purpose:	UIC Single Well Bond
Certificate of Deposit	\$10,000.00	Wells Fargo Bank, NA	ACT
Hinto Energy, LLC Edwards CO	749 M1	Forfeiture Ordered	12/13/2018
		Amount:	\$50,000.00
		Purpose:	Multiple Well Bond
Certificate of Deposit	\$50,000.00	Wells Fargo Bank, NA	ACT
Pronghorn Petroleum Joint Venture Baker MT	272 T1	Forfeiture Ordered	12/13/2018
		Amount:	\$10,000.00
		Purpose:	UIC Single Well Bond
Certificate of Deposit	\$10,000.00	1ST INTERST BNK OF COM, BLGS	ACT

Released

Montalban Oil & Gas Operations, Inc. Cut Bank MT	111 M1	Released	1/31/2019
		Amount:	\$25,000.00
		Purpose:	Multiple Well Bond
Montalban Oil & Gas Operations, Inc. Cut Bank MT	111 L1	Released	1/31/2019
		Amount:	\$3,000.00
		Purpose:	Limited Bond

Montana Board of Oil and Gas Conservation
Summary of Bond Activity

12/12/2018 Through 2/13/2019

Released

Montalban Oil & Gas Operations, Inc. Cut Bank MT	111 G4	Released Amount: Purpose:	1/31/2019 \$5,000.00 Single Well Bond
Montalban Oil & Gas Operations, Inc. Cut Bank MT	111 G3	Released Amount: Purpose:	1/31/2019 \$5,000.00 Single Well Bond
Montalban Oil & Gas Operations, Inc. Cut Bank MT	111 G2	Released Amount: Purpose:	1/31/2019 \$5,000.00 Single Well Bond
Montalban Oil & Gas Operations, Inc. Cut Bank MT	111 G1	Released Amount: Purpose:	1/31/2019 \$5,000.00 Single Well Bond

Incident Report

EXHIBIT 5

Company	Responsibility	Date	Incident	Oil Released	Water Released	Source	Contained	Latitude	Longitud	County	T-R-S
Denbury Onshore, LLC	BOG	12/24/2018	Spill or Release			Flow Line - Injection	No	45.08200	-105.12500	Powder River	9S-54E-27 NWSE
Continental Resources Inc	BOG	1/12/2019	Fire	5 Gallons		Flare Pit	Yes	47.91190	-104.65091	Richland	25N-55E-17 SWSW
Denbury Onshore, LLC	BOG	1/14/2019	Spill or Release	200 Barrels		Other	Yes	46.63288	-104.45641	Fallon	10N-58E-8 NESW
Denbury Onshore, LLC	BOG	1/14/2019	Spill or Release	200 Barrels		Other	Yes	46.63288	-104.45641	Fallon	10N-58E-8 NESW
Denbury Onshore, LLC	BOG	1/18/2019	Spill or Release		20 Barrels	Flow Line - Injection	No	46.13722	-104.14139	Fallon	7N-60E-36 NENE
Denbury Onshore, LLC	BOG	1/19/2019	Spill or Release		75 Barrels	Flow Line - Injection	No	46.37206	-104.16010	Fallon	7N-60E-11 NESE
Denbury Onshore, LLC	BOG	1/25/2019	Spill or Release		100 Barrels	Flow Line - Injection	No	46.69303	-104.52777	Wibaux	11N-57E-22 SENE
Somont Oil Company, Inc.	BOG	1/29/2019	Spill or Release	10 Barrels		Treater	No	48.83141	-111.93104	Toole	36N-3W-36 NESE
Denbury Onshore, LLC	BOG	1/30/2019	Spill or Release	180 Barrels		Tank or Tank Battery	Yes	46.20222	-104.20472	Fallon	6N-60E-4 NESE
Denbury Onshore, LLC	BOG	1/31/2019	Spill or Release	5 Barrels	20 Barrels	Well Head	Yes	46.35569	-104.25301	Fallon	7N-60E-18 SESW
Slawson Exploration Company Inc	BOG	1/31/2019	Fire			Other	Yes	47.80289	-104.93817	Richland	24N-53E-32 NENE

Docket Summary

1-2019	Lonewolf Operating, LLC	Permanent spacing unit, Sawtooth Formation, 34N-21E-5: SESENW, NENESW, SWSWNE, NWNWSE (L. Neuens 7-5).	Continued	TSU, Order 62-2018 Application continued to April hearing, email received 1/30/19.	<input type="checkbox"/>
2-2019	Lonewolf Operating, LLC	Permanent spacing unit, Sawtooth Formation, 34N-21E-6: Lot 4 (NWNW) (J. Pike 4-6).	Continued	Drilled under statewide spacing Related applications, Dockets 2, 3-2019. Application continued to April hearing, email received 1/30/19.	<input type="checkbox"/>
3-2019	Lonewolf Operating, LLC	Pooling, Permanent spacing unit, Sawtooth Formation, 34N-21E-6: Lot 4 (NWNW) (J. Pike 4-6). Non-consent penalties requested.	Continued	Related applications, Dockets 2, 3-2019. Application continued to April hearing, email received 1/30/19.	<input type="checkbox"/>
4-2019	Lonewolf Operating, LLC	Permanent spacing unit, Sawtooth Formation, 34N-21E-6: Lot 7 (SWSW) (S. Pike 13-6).	Continued	Drilled under statewide spacing Related applications, Dockets 4, 5-2019. Application continued to April hearing, email received 1/30/19.	<input type="checkbox"/>
5-2019	Lonewolf Operating, LLC	Pooling, Permanent spacing unit, Sawtooth Formation, 34N-21E-6: Lot 7 (SWSW) (S. Pike 13-6). Non-consent penalties requested.	Continued	Application continued to April hearing, email received 1/30/19.	<input type="checkbox"/>
6-2019	Stephens Production Company	Temporary spacing unit, Muddy Formation test well, 8S-53E-7: Lots 3, 4, 8S-52E-12: Lots 2, 3. Well to be located approximately 1,515' FSL, 39' FWL in Section 7. Apply for permanent spacing within 90 days of successful completion.			<input type="checkbox"/>
7-2019	Board of Oil and Gas Conservation	Vacate Board Order 23-1992; termination of the South Wolf Springs Amsden Unit by the BLM letter effective August 31, 2017.			<input type="checkbox"/>
8-2019	Board of Oil and Gas Conservation	Vacate Board Order 80-1996; termination of the Mason Lake (1st Cat Creek) Unit by the BLM letter effective February 6, 2016.			<input type="checkbox"/>
9-2019	Denbury Onshore, LLC	Convert the 24X-07 well, T10N-R58E-7: SESW, (API # 025-21188) to a Class II injection well (SWD), Mission Canyon Formation.			<input type="checkbox"/>
10-2019	Kykuit Resources, LLC	Show Cause: failure to file production reports and pay administrative fees.			<input type="checkbox"/>
11-2019	Rincon Oil & Gas LLC	Show Cause: failure to file production reports and pay administrative fees.	Dismissed	Reports and half of the fine received: 1/23/19 Other half of fine received: 2/4/19	<input type="checkbox"/>
12-2019	Roland Oil and Gas	Show Cause: failure to file production reports and pay administrative fees.		Reports and half of the fine received: 1/17/19	<input type="checkbox"/>

13-2019	Shadwell Resources Group, LLC	Show Cause: why additional penalties should not be imposed for failure to pay the \$1,000 fine that was assessed for not appearing at the October 4, 2018, hearing by the December 12, 2018, business meeting. Shadwell Resources, LLC paid the \$1,000 fine on January 7, 2019, but is still required to appear at the February 14, 2019, hearing, as directed by Board Order 4-A-2018.	<i>Paid \$1,000 fine</i>	<input type="checkbox"/>
60-2017	Black Gold Energy Resource Development, LLC	Show Cause: why its plugging and reclamation bond should not be forfeited for failure to begin to plug and abandon its Indian Mound 1 SWD well located in the NE¼SW¼SW¼ of Section 15, T23N, R55E, Richland County, Montana as required by Board Order 45-2017, in accordance with § 82-11-123(5), MCA.		<input type="checkbox"/>

GAS FLARING

February 13, 2019

Company	Wells Flaring over 100	Wells Flaring over 100 w/o Exception	Current Exceptions (over 100)	Exception Requests	Wells over 100 Hooked to Pipeline
Kraken	7	2	5	2	5
Petro-Hunt	3	0	3	0	0
Totals	10	2	8	2	5

Flaring Requests

Summary

There are 10 wells flaring over 100 MCFG per day based on current production numbers.

8 of the 10 wells have approved exceptions due to distance, pipeline capacity issues, or time to connection.

There are 2 exceptions requested at this time.

Kraken

Fletch 5-8 #1H – API #25-083-23347, 26N-59E-33

1. Flaring 210 MCF/D.
2. Completed: 2/2018.
3. Estimated gas reserves: 446 MMCF.
4. Proximity to market: Connected to pipeline.
5. Flaring alternatives: Used mobile refrigeration unit from May through October 2018 to capture and process gas that would have been flared. Declining production has made the MRU no longer economic.
6. Amount of gas used in lease operations: 7 MCF/D.
7. Justification to flare: Contracted/connected with ONEOK Rockies Midstream, Kraken has had very limited success selling gas into the line due to sales line pressure.

Eagle 4-9 #2H – API #25-083-23345, 26N-59E-33

1. Flaring 130 MCF/D.
2. Completed: 2/2018.
3. Estimated gas reserves: 426 MMCF.
4. Proximity to market: Connected to pipeline.
5. Flaring alternatives: Used mobile refrigeration unit from May through October 2018 to capture and process gas that would have been flared. Declining production has made the MRU no longer economic.
6. Amount of gas used in lease operations: 7 MCF/D.
7. Justification to flare: Contracted/connected with ONEOK Rockies Midstream, Kraken has had very limited success selling gas into the line due to sales line pressure.

Transfer of Plugging and Reclamation Responsibility Through Change of Operator Requests

The Montana Board of Oil and Gas Conservation is directed by § 82-11-123(5), MCA, to require “the furnishing of a reasonable bond with good and sufficient surety, conditioned for performance of the duty to properly plug each dry or abandoned well.” To assure that the statutory requirements are being met, the board has adopted the following policy for review of change of operator requests:

For New Companies: Requests for approval of bond and a change of operator request by a company new to the state that includes 15 or more wells to be covered by a single, multiple well bond will be referred to the board.

Change of Operator Requests: If the approval of a change of operator request would result in 10 or more inactive wells on a multiple well bond, approval of the change of operator request will be referred to the board.

For this policy, a well will be considered inactive if it has not produced oil or gas or injected for 2 years prior to receipt of the well transfer request.

Change of operator requests that are subject to the criteria listed above will be scheduled for the board’s next available hearing date.

By rule, the Board may consider doubling the required bond or limit the number of wells covered by any multiple well bond (ARM 36.22.1308(3)). Other conditions of approval may be considered.

The board suggests that the operator receiving the wells be prepared to present and discuss the following:

- Financial information that will help assess the company’s ability to meet the statutory requirement and determine whether additional bond coverage may be warranted.
- For new companies, management experience in oil and gas operations, and presence in other states.
- Plans for acquired wells, including a schedule for reduction in the plugging liability represented by inactive wells on either existing or new multiple well bonds.

February 13, 2019

INACTIVE WELLS REVIEW – BOARD ACTION

The operators on the following pages were sent a letter with a February 1, 2019 deadline to submit to our office an intent to abandon their wells or supporting documentation for why they should not be required to plug their wells.

LETTERS THAT CAME BACK UNDELIVERABLE

- A & G Oil & Gas - 4 wells in Toole County. 3 on \$50,000 multiple well bond (cert of deposit) and 1 well on fed bond.
- Compass Energy, Inc. – 1 well in Pondera County on \$1,500 single well bond (cert of deposit).
- Molen Drilling Co., Inc. – 1 well in Sweetgrass County on \$10,000 blanket bond (surety).
- TDW Gas Processing, LLC – 1 well in Toole County on \$1,500 single well bond (cert of deposit).
- UnionTown Energy Montana LLC – 1 well in Musselshell County on \$10,000 single well bond (cert of deposit).

Recommendation: Schedule a show cause at the April hearing for why they should not be required to plug and abandon their wells.

TURN PAGE FOR ADDITIONAL OPERATOR RESPONSES TO THE LETTERS

INACTIVE WELLS REVIEW – ADDITIONAL RESPONSES

LETTERS RECEIVED BY OPERATORS, BUT THEY DID NOT RESPOND

- Daube Company – 1 well in Golden County and 1 well in Stillwater County both on \$10,000 blanket bond (surety).
- Elenburg Exploration, Inc. – 1 well in Liberty County on \$10,000 blanket bond (surety).
- EnCana Oil & Gas (USA) Inc. – 1 well in Phillips County on \$150,000 multiple well bond (surety).
- Grynberg, Jack J. – 2 wells in Hill County on \$10,000 blanket bond (cert of deposit).

Staff Action: Send letter with a March 7, 2019 deadline (April hearing deadline) to respond to the requested information. Failure to respond will result in scheduling a show cause hearing in April for why they should not be required to plug their wells.

OPERATORS THAT RESPONDED TO LETTER

- Iofina Natural Gas, Inc. - (31 SI gas wells and 3 SWD wells, 2 wells in Choteau County and 32 wells in Hill County). 31 wells on \$50,000 multiple well bond (cert of deposit) and the 3 SWD wells are on separate \$1,500 UIC bonds (cert of deposits). Their plan stated they would have sundry notices submitted by June 2019 and will begin plugging their wells by September 2019.
- Miami Oil Producers, Inc - 2 wells in Phillips County and 1 in Pondera County on \$25,000 blanket bond (surety). They sent an email stating that they have contacted a service company to plug their wells and that they will request a plugging schedule from the service company and update us when that information becomes available.

Staff Action: Send letter with a June 1, 2019 deadline to submit sundries and pursue any action if needed at the June 12, 2019 business meeting.

- Zeider Bros Oil & Gas Company, LLC – 1 dry hole well in McCone County on \$10,000 single well bond (cert of deposit). A statement was sent indicating they are determining if the well is capable of being completed in upper zones as a commercial gas well. If uneconomical, they will look at converting to a SWD.

Staff Action: Send letter with an August 1, 2019 deadline to update the board on progress and pursue any action if needed at the August 14, 2019 board business meeting.

INACTIVE WELLS - LANDOWNER INITIATED

The following operators were sent a letter with a February 1, 2019 deadline to submit to our office an intent to abandon their wells or supporting documentation for why they should not be required to plug their wells.

LETTER RECEIVED BY OPERATOR, BUT THEY DID NOT RESPOND

- EnergyQuest II, LLC – Curtis Hunter A-1 SI oil well in Richland County on a \$50,000 multiple well bond (surety). There is a total of 18 wells on this bond, 9 of which have been SI over 2 years. The Curtis Hunter A-1 last produced in 2000.

Staff Action: Send letter with March 7, 2019 deadline (April hearing deadline) to respond to the requested information. A new letter will be sent. Failure to respond will result in scheduling a show cause hearing in April for why they should not be required to plug their wells.

OPERATORS THAT RESPONDED TO LETTER

- Citation Oil & Gas Corp. – 2 SI oil wells in Richland County, the Anderson 1-30 and Anderson 2-30 on a \$50,000 multiple well bond (surety). There is a total of 121 wells on this bond, 76 of which have SI for more than 2 years. The Anderson 1-30 last produced in 2011 and the 2-30 last produced in 2010.

Citation sent a statement indicating they would like the two wells to be put on TA status. They are also looking at options to convert a well to a SWD because both Anderson wells produce a high volume of water. Another option they presented is to use a polymer in both wells to reduce water production and return the two wells to production. They reported that for their plans to be economic, oil would need to be \$80.00/ barrel or more.

Staff Action: Send letter with an August 1, 2019 deadline to update the board on their progress and pursue any action if needed at the August 14, 2019 board business meeting.

- TOI Operating – Moerman 14-30 SI oil well in Wibaux County on a \$50,000 multiple well bond (surety). There are a total 3 wells on this bond, all of which are SI, 2 of which have been SI over 2 years. Last reported production was in 2003 (2 bbls for month of October). 1993 Marked last year of consistent production.

TOI sent a statement that included a plugging procedure and requested to have until May 15, 2019 to begin plugging operations.

Staff Action: Send letter with a May 15, 2019 deadline to begin to plug and abandon the well and pursue any action if needed at the June 12, 2019 board business meeting.