

STATE OF MONTANA  
DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION  
MINUTES OF THE  
BOARD OF OIL AND GAS CONSERVATION MEETING AND PUBLIC HEARING  
February 13 & 14, 2019

**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, February 13, 2019, at its office at 2535 St. Johns Avenue in Billings, Montana. Board members present were Chairman Ron Efta, Paul Gatzemeier, Mac McDermott, Dennis Trudell, and Corey Welter. Staff present was Jennifer Breton, John Gizicki, Jim Halvorson, George Hudak, Ben Jones, Dave Popp, and Rob Stutz. Board member Steven Durrett was absent.

**APPROVAL OF MINUTES**

A motion was made by Mr. Trudell, seconded by Mr. Welter and unanimously passed, to approve the minutes of the December 12, 2018, business meeting.

**PUBLIC COMMENT ON AGENDA AND NON-AGENDA ITEMS**

No comments were made.

**CHACO ENERGY COMPANY REQUEST FOR REHEARING OF DOCKET 73-2018**

The Board reviewed the rehearing request of Chaco Energy LLC (Chaco), attached as Exhibit 1, and Denbury Onshore, LLC's protest of that request, attached as Exhibit 2.

At the Board's December 13, 2018, public hearing, the Board approved the application of Denbury's Mystery Creek (Red River Formation) enhanced recovery unit that comprised 8,158.28 acres in Fallon County, Montana. Denbury demonstrated that the requirements of Title 82, chapter 11, part 2, MCA, had been met. The Board issued Board Order 89-2018 providing for creation of the unit.

At that hearing, attorney Don Lee appeared on behalf of Chaco and Kirkwood Oil & Gas LLC. Mr. Lee's clients' well, BN #31-11, is located within the unit area and produces from the Red River Formation and the Interlake Formation. Mr. Lee stated that neither company opposed the unitization, but that he had questions for Denbury and comments related to his clients' interests in the proposed unit.

After that hearing, Chaco filed a rehearing request of Docket 73-2018 under § 82-11-143, MCA. Chaco argued that Denbury violated its correlative rights by shutting in the Interlake Formation and depriving Chaco of the Interlake production of the well without just compensation in violation of § 82-11-206(9), MCA.

Denbury filed an objection to Chaco's petition arguing that Chaco raised no new issues in its rehearing request, that Chaco's correlative rights were not violated, and that the unitization order met the statutory requirements and should be remain unchanged.

No one appeared on behalf of Chaco or Denbury at the rehearing request.

The Board considered and discussed the rehearing request. Chaco did not demonstrate that a rehearing should be granted. A motion was made and unanimously passed by the Board to deny the request for rehearing of Docket 73-2018.

**Motion:** Mr. Welter made the motion to deny the hearing request of Docket 73-2018. Mr. Trudell seconded, and the motion passed unanimously.

### **FINANCIAL REPORT**

Mrs. Breton discussed the financial statement, attached as Exhibit 3.

Administrative Order 1-A-2008 delegated signature authority for staff to establish certificated of deposits (CD) and the forfeiture of CDs on behalf of the Board. The individuals in this order were updated in Administrative Order 1-A-2019.

The Legislature reviewed the Board's budget in January. It recognized that the Board did not spend all of its authority and reduced expenditures to build a reserve balance.

Cities and Counties have a bill draft regarding the Board's privilege and license tax rate. This bill has not been introduced.

### **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 working on a contract for three orphan wells in Richland County that was formerly operated by Alturas Energy, LLC.

### **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 discussed the gas flaring report, attached as Exhibit 7. There are ten wells flaring in excess of 100 MCFG/day and two exception requests at this time.

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

Mr. Jones recommended a six-month exception for Kraken.

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

## **INACTIVE WELL REVIEW**

Mr. Halvorson reviewed the policy for change of operator requests. The policy is:

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

Existing companies: 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.

\*Wells are considered inactive if the well has not produced oil or gas or injected for two years prior to the receipt of the transfer request.

Based on the policy, attached as Exhibit 8, change of operator requests will be docketed for the next available hearing date. At that hearing, legal counsel is required for the receiving operator. The topics the operator should be prepared to present and discuss with the Board is included in the policy. The policy will give the Board the flexibility to review the operator's bond, double the bond, limit the bond, assess performance conditions, etc.

The policy will be mailed to all operators.

Mr. Gizicki reviewed the initial round of letters that were mailed to inactive well operators discussed at the last meeting, attached as Exhibit 9.

There were five unreachable operators. Staff recommended the operators show cause at the April hearing for why they should not be required to plug and abandon its wells.

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

Mr. Gizicki also presented the actions that staff proposed to take with respect to the other operators who did receive the mailed notice.

### **STAFF REPORTS**

Mr. Halvorson reviewed two potential bills in the Legislature that could impact oil and gas.

### **OTHER BUSINESS**

Chairman Efta announced that he was resigning from the Board. He enjoyed his 12 years the Board. The Board and staff thanked him for his time spent on the Board.

## **PUBLIC HEARING**

The Board reconvened on Thursday, February 14, 2019, 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 1-2019 – The application of Lonewolf Operating, LLC was continued to the April 2019 hearing.

Docket 2-2019 – The application of Lonewolf Operating, LLC was continued to the April 2019 hearing.

Docket 3-2019 – The application of Lonewolf Operating, LLC was continued to the April 2019 hearing.

Docket 4-2019 – The application of Lonewolf Operating, LLC was continued to the April 2019 hearing.

Docket 5-2019 – The application of Lonewolf Operating, LLC was continued to the April 2019 hearing.

Docket 6-2019 – A motion was made by Mr. Welter, seconded by Mr. Gatzemeier and unanimously passed, to approve the application of Stephens Production Company as set forth in Board Order 1-2019.

Docket 7-2019 – A motion was made by Mr. Gatzemeier, seconded by Mr. Trudell and unanimously passed, to approve Montana Board of Oil and Gas Conservation's request to vacate Board Order 23-1992 as set forth in Board Order 3-2019.

Docket 8-2019 – A motion was made by Mr. Gatzemeier, seconded by Mr. Trudell and unanimously passed, to approve Montana Board of Oil and Gas Conservation's request to vacate Board Order 80-1996 as set forth in Board Order 4-2019.

Docket 9-2019 – A motion was made by Mr. McDermott, seconded by Mr. Gatzemeier and passed, to approve the application of Denbury Onshore, LLC as set forth in Board Order 2-2019.

Docket 10-2019 – A motion was made by Mr. McDermott, seconded by Mr. Gatzemeier to fine Kykuit Resources, LLC (Kykuit) \$1,000 for failure to appear at the February 14, 2019, public hearing. At staff's discretion, the \$1,000 fine could be waived based on Kykuit's reason for no response. Kykuit must appear at the April 11, 2019, 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 failure to appear at the February 14, 2019, public hearing.

The motion was amended and staff's discretion to waive the \$1,000 fine was removed. The motion passed unanimously. This is set forth in Board Order 5-2019.

Docket 11-2019 – The show-cause hearing of Rincon Oil & Gas LLC was dismissed.

Docket 12-2019 – The show-cause hearing of Roland Oil and Gas was dismissed.

Docket 13-2019 – A motion was made by Mr. Gatzemeier, seconded by Mr. McDermott and unanimously passed, to dismiss Docket 13-2019, Shadwell Resources Group, LLC, as set forth in Board Order 6-2019.

Docket 60-2017 – A motion was made by Mr. Gatzemeier, seconded by Mr. Welter and unanimously passed, to continue Docket 60-2017, Black Gold Energy Resource Development, LLC, until the June 13, 2019, public hearing, at which time compliance will be reviewed and a determination will be made concerning the outstanding fine of \$125,000. This is set forth in Board Order 7-2019.

#### NEXT MEETINGS

The next business meeting of the Board will be Wednesday, April 10, 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, April 11, 2019, beginning at 9:00 a.m. at the Board's hearing room at its office at 2535 St. Johns Avenue in Billings, Montana. The filing deadline for the April 10<sup>th</sup> public hearing is March 7, 2019.

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

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Ronald S. Efta, Chairman  
Paul Gatzemeier, Board Member  
Mac McDermott, Board Member  
Dennis Trudell, Board Member  
Corey Welter, Board Member

ATTEST:

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Jennifer Breton, Program Specialist