

STATE OF MONTANA
DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
MINUTES OF THE
BOARD OF OIL AND GAS CONSERVATION MEETING AND PUBLIC HEARING
April 10 & 11, 2019

CALL TO ORDER

The regular business meeting of the Montana Board of Oil and Gas Conservation was called to order by Chairman Steven Durrett at 2:00 p.m., Wednesday, April 10, 2019, at its office at 2535 St. Johns Avenue in Billings, Montana. Board members present were Chairman Steven Durrett, Paul Gatzemeier, Mac McDermott, Linda Nelson, Dennis Trudell, Mike Weber, and Corey Welter. Staff present was Jennifer Breton, John Gizicki, Jim Halvorson, George Hudak, Ben Jones, Dave Popp, and Rob Stutz.

VICE CHAIRMAN APPOINTMENT

Mr. Durrett welcomed two new appointees to the Board, Mike Weber and former Board chairman, Linda Nelson. The new members took the oath of office.

The Board discussed the Board's vice chair appointment. Mr. Welter nominated Mr. Gatzemeier.

Motion: Mr. McDermott made the motion to nominate Mr. Gatzemeier as Vice Chairman. Mrs. Nelson seconded, and the motion passed unanimously.

APPROVAL OF MINUTES

A motion was made by Mr. Trudell, seconded by Mr. Welter and unanimously passed, to approve the minutes of the February 13, 2019, business meeting.

PUBLIC COMMENT ON AGENDA AND NON-AGENDA ITEMS

No comments were made.

FINANCIAL REPORT

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

Mr. Halvorson gave a Legislative update. Cities and Counties have a bill regarding the Board's privilege and license tax rate (P&L). For the Cities and Counties to receive distributions, the P&L tax rate must be reduced through rule making. Mr. Halvorson recommended the Board discuss the P&L tax rate at the June meeting.

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.

There was only one bidder who bid for a contract to plug three orphan wells in Richland County that were formerly operated by Alturas Energy, LLC. The bid was accepted, and the wells are expected to be plugged this summer.

The Board is going to wait to initiate future plugging contracts until after the start of the new biennium, July 1, 2019, at which time the Board will receive its monthly deposits from the RIT fund into the Damage Mitigation account.

BOND SUMMARY & INCIDENT REPORT

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

Per the Board's request, Mr. Gizicki reviewed the statutes regarding incident and spills.

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 15 wells flaring in excess of 100 MCFG/day and eight exception requests at this time.

Kraken Operating, LLC (Kraken) is asking for exception requests for eight 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. Welter made the motion to approve the recommendation. Mr. Gatzemeier seconded, and the motion passed unanimously.

INACTIVE WELL REVIEW

Mr. Gizicki discussed Elenburg Exploration, Inc. (Elenburg). Elenburg was the only operator who received staff's letters regarding its inactive well but did not respond with its plans or intentions for the well. According to the Montana Secretary of State's website, Elenburg had a name change to Capstar Drilling, Inc.

Mr. Gizicki recommended Elenburg show cause at the June hearing for why it should not be required to plug and abandon its well.

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

The docket will be issued to Capstar Drilling, Inc., FKA Elenburg Exploration, Inc.

STAFF REPORTS

George Hudak

Mr. Hudak brought to the Board's attention the remaining two UIC operators, Equinor Pipelines LLC (FKA Statoil Pipelines LLC) (Equinor) and Bensun Energy, LLC (Bensun), who have not paid the annual injection fee of \$200 per injection well that was due January 31, 2019.

Mr. Hudak has been working with Equinor, for it mistakenly sent the check to Montana Department of Revenue. Mr. Hudak did not recommend a late penalty for Equinor.

Regarding Bensun, several attempts have been made to contact the operator and letters are being returned undeliverable. At the last hearing, Bensun stated there was going to be a change of operator for that well. No change of operator has been submitted.

Mr. Hudak recommended the Board assess Bensun a \$100 late fee for failure to submit its injection well payment prior to the deadline.

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

The total due for Bensun is \$300. This amount will be required to be paid before any change of operator request will be approved.

Jim Halvorson

Scout Energy Management LLC (Scout) is the operator of approximately 2,600 wells and report production on over 350 production reporting units in Fallon, Phillips, Richland, Roosevelt, and Valley Counties, Montana. In January 2019, Board staff discovered Scout had been incorrectly reporting production volumes. Scout was notified and subsequently given a deadline of April 10, 2019, to achieve compliance.

Scout proposed to remedy the matter by submitting amended monthly reports for the period of January 2017 to the present. Scout also stated that significant changes in accounting software should alleviate future reporting problems. Approximately two months after the initial notification, Scout submitted the first batch of amended reports. It was found that the reports contained errors, and it took several attempts to resolve those errors. Once the initial errors were resolved, it was able to submit its next month of amended production. However, as of this date Scout has amended only two months of reports.

In addition to the required amendments, two months of reports are delinquent for a current calculated late reporting penalty of \$7,190. This penalty was not initially applied under the adopted penalty schedule due

to the operator's continuing attempts to achieve compliance, but additional months have since become delinquent.

As the largest natural gas producer in the state, errors and delinquencies in Scout's production reports impede the Board's ability to provide timely and accurate data to public and private users and impact forecasts of future state revenues.

ARM 36.22.1242 requires that each operator file production reports which are due the end of the month following the month being reported.

Mr. Halvorson recommended that Scout's amended and delinquent production reports must be submitted, processed, and error free by the May 9, 2019, hearing application deadline, or the delinquent reporting penalty will be immediately applied. If reporting is not current at the close of business on May 9, 2019, a \$500 per day fine will be imposed until compliance is achieved, and Scout will be required to appear at the Board's June hearing to show cause as to why additional penalties for failure to file accurate and timely production reports should not be considered.

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

The Board appointment confirmation hearing for Mrs. Nelson and Mr. Weber is tomorrow afternoon.

The Legislature is expected to wrap up April 26, 2019.

Mr. Trudell requested Board staff to review the new transfer of ownership of wells policy for the new board members. 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, 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 was mailed to all operators in March. The policy is available on the Board's webpage.

Rob Stutz

Mr. Stutz noted that the new board member handbook has the current version of the Board's rules. The old rule book that was in a small, black binder can be thrown out. The Secretary of State maintains the official copy of the Board's rules.

OTHER BUSINESS

No other business discussed.

PUBLIC HEARING

The Board reconvened on Thursday, April 11, 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 14-2019 – A motion was made by Mrs. Nelson, seconded by Mr. Trudell and unanimously passed, to approve the application of Kraken Oil & Gas LLC as set forth in Board Order 8-2019.

Docket 15-2019 – A motion was made by Mr. Gatzemeier, seconded by Mr. Trudell and unanimously passed, to approve the application of Kraken Oil & Gas LLC as set forth in Board Order 9-2019.

Docket 16-2019 – A motion was made by Mr. Trudell, seconded by Mrs. Nelson and unanimously passed, to approve the application of Kraken Oil & Gas LLC as set forth in Board Order 10-2019.

Docket 17-2019 – The application of Kraken Oil & Gas LLC was continued to the June 2019 hearing.

Docket 18-2019 – The application of Kraken Oil & Gas LLC was continued to the June 2019 hearing.

Docket 19-2019 – The application of Kraken Oil & Gas LLC was continued to the June 2019 hearing.

Docket 20-2019 – A motion was made by Mr. Welter, seconded by Mr. Gatzemeier and unanimously passed, to approve the application of Briscoe Petroleum, LLC as set forth in Board Order 11-2019.

Docket 21-2019 – A motion was made by Mr. Trudell, seconded by Mrs. Nelson and unanimously passed, to approve the application of Alta Vista Oil Corporation as set forth in Board Order 12-2019.

Docket 22-2019 – A motion was made by Mr. Trudell, seconded by Mrs. Nelson and unanimously passed, to approve the application of Alta Vista Oil Corporation as set forth in Board Order 13-2019.

Docket 23-2019 – A motion was made by Mr. Gatzemeier, seconded by Mr. Trudell and unanimously passed, to approve the application of Alta Vista Oil Corporation as set forth in Board Order 14-2019.

Docket 24-2019 – A motion was made by Mr. Gatzemeier, seconded by Mr. Trudell and unanimously passed, to approve the application of Alta Vista Oil Corporation as set forth in Board Order 15-2019.

Docket 25-2019 – The application of Poplar Resources, LLC was continued to the June 2019 hearing.

Docket 26-2019 – A motion was made by Mrs. Nelson, seconded by Mr. Trudell and unanimously passed, to approve the application of True Oil, LLC as set forth in Board Order 16-2019.

Docket 27-2019 – A motion was made by Mrs. Nelson, seconded by Mr. Trudell and unanimously passed, to approve the application of True Oil, LLC as set forth in Board Order 17-2019.

Docket 28-2019 – A motion was made by Mrs. Nelson, seconded by Mr. Trudell and unanimously passed, to approve the application of True Oil, LLC as set forth in Board Order 18-2019.

Docket 29-2019 – A motion was made by Mrs. Nelson, seconded by Mr. Gatzemeier and unanimously passed, to approve the application of Primary Fuels, LLC as set forth in Board Order 19-2019.

Docket 30-2019 – A motion was made by Mr. Welter, seconded by Mr. McDermott and unanimously passed, to approve Western Meadowlark Resources, LLC's pending change of operator request once the bonding amount of \$50,000 for the multiple well bond and the \$1,500 for the injection well is received. Western Meadowlark is to appear at the Board's October 9, 2019, business meeting to provide an update of actions taken to reduce its plugging liability. This is set forth in Board Order 20-2019.

Docket 31-2019 – A motion was made by Mr. Welter, seconded by Mr. Gatzemeier and unanimously passed, to approve Midway Energy, LLC's pending change of operator request. Midway Energy, LLC is to appear at the Board's October 9, 2019, business meeting to provide an update of actions taken to reduce plugging liability. This is set forth in Board Order 21-2019

Docket 1-2019 – The application of Lonewolf Operating, LLC was continued to the June 2019 hearing.

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

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

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

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

Docket 32-2019 – A motion was made by Mr. Gatzemeier, seconded by Mr. Trudell and unanimously passed, that A & G Oil & Gas must have an approved plan to plug and abandon the following wells by the June 13, 2019, public hearing:

- Normont 1 well, located in the SE $\frac{1}{4}$ NW $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 2, T34N-R2W, Toole County, Montana
- Rossmiller 3 well, in the NW $\frac{1}{4}$ NW $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 11, T34N-R2W, Toole County, Montana
- Mullady 11-30 well, located in the SE $\frac{1}{4}$ NE $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 30, T35N-R3W, Toole County, Montana

This is set forth in Board Order 22-2019.

Docket 33-2019 – A motion was made by Mr. Gatzemeier, seconded by Mr. Trudell and unanimously passed, that Compass Energy, Inc. must have an approved plan to plug and abandon its Robert Aiken 6-24 well, located in the SE $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 24, T30N-R4W, Pondera County, Montana by the June 13, 2019, public hearing. This is set forth in Board Order 23-2019.

Docket 34-2019 – A motion was made by Mr. Gatzemeier, seconded by Mr. Trudell and unanimously passed, that Molen Drilling Co., Inc. must have an approved plan to plug and abandon its Cremer 1-23 well, located in the NW $\frac{1}{4}$ SE $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 22, T2N-R15E, Sweetgrass County, Montana by the June 13, 2019, public hearing. This is set forth in Board Order 24-2019.

Docket 35-2019 – A motion was made by Mr. Gatzemeier, seconded by Mr. Trudell and unanimously passed, that TDW Gas Processing, LLC must have an approved plan to plug and abandon its Adams 3 well, located in the SE¼SW¼NW¼ of Section 20, T34N-R1W, Toole County, Montana by the June 13, 2019, public hearing. This is set forth in Board Order 25-2019.

Docket 36-2019 – A motion was made by Mr. Gatzemeier, seconded by Mr. Trudell and unanimously passed, that UnionTown Energy Montana LLC must have an approved plan to plug and abandon its Little Montana 1 well, located in the SE¼SE¼ of Section 35, T10N-R28E, Musselshell County, Montana by the June 13, 2019, public hearing. This is set forth in Board Order 26-2019.

Docket 37-2019 – A motion was made by Mr. Weber, seconded by Mr. Trudell and unanimously passed, to continue Docket 37-2019, Kykuit Resources, LLC, until the June 13, 2019, public hearing. The \$1,000 penalty for not appearing at the February hearing will be vacated upon the receipt of the \$320 fine that was assessed for delinquent production reports. This is set forth in Board Order 27-2019.

Docket 38-2019 – The show-cause hearing of BBX Operating Co. LLC was dismissed.

NEXT MEETINGS

The next business meeting of the Board will be Wednesday, June 12, 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, June 13, 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 June 13th public hearing is May 9, 2019.

BOARD OF OIL AND GAS CONSERVATION OF THE STATE OF MONTANA

Steven Durrett, Chairman
Paul Gatzemeier, Vice-Chairman
Mac McDermott, Board Member
Linda Nelson, Board Member
Dennis Trudell, Board Member
Joseph Michael Weber, Board Member
Corey Welter, Board Member

ATTEST:

Jennifer Breton, Program Specialist