

STATE OF MONTANA
DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
MINUTES OF THE
BOARD OF OIL AND GAS CONSERVATION MEETING AND PUBLIC HEARING
October 9 & 10, 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, October 9, 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.

APPROVAL OF MINUTES

A motion was made by Mr. Gatzemeier, seconded by Mrs. Nelson and unanimously passed, to approve the minutes of the August 14, 2019, business meeting.

PUBLIC COMMENT ON AGENDA AND NON-AGENDA ITEMS

No comments were made.

LONGEVITY & SERVICE AWARDS

Chairman Durrett presented a certificate and gift card to Ben Jones for his 5 years of service to the state.

Due to the weather, the following employees were unable to attend the meeting to receive their certificate and a longevity pin or gift card:

Russ Utter, 5 years
Jerry Fraser, 10 years
Erin Ricci, 15 years
Gary Klotz, 30 years

REVIEW OF WESTERN MEADOWLARK RESOURCES, LLC REDUCTION OF PLUGGING LIABILITY

Mr. Halvorson reviewed Exhibit 1 regarding Western Meadowlark Resources, LLC (Western Meadowlark). Western Meadowlark acquired 47 producing wells and 1 injection well. At the April 11, 2019, public hearing, Western Meadowlark was ordered to appear at the October 9, 2019, board business meeting to provide the Board an update of its actions taken to reduce its plugging liability, ordered by Board Order 20-2019.

John Patterson, attorney, and Scott Cooney, chairman, appeared on behalf of Western Meadowlark to provide the update, attached as Exhibit 2.

At the April 11, 2019, public hearing, Western Meadowlark stated that it intended to return wells to production and planned to budget for plugging and abandonment of 10% of its inactive wells each year. Since that hearing, production has been re-established in Mosser Dome field, and the company had plugged one well. Two additional wells were to be plugged within one week.

Motion: Mr. Gatzemeier made the motion for Western Meadowlark to appear at the Board's April 2020, business meeting to provide an update of its actions taken to reduce its plugging liability. Mr. Weber seconded, and the motion passed unanimously.

REVIEW OF MIDWAY ENERGY, LLC REDUCTION OF PLUGGING LIABILITY

Mr. Halvorson reviewed Exhibit 3 regarding Midway Energy, LLC (Midway). Midway acquired 10 producing wells, 2 injection wells, and 3 federal wells. At the April 11, 2019, public hearing, Midway was ordered to appear at the October 9, 2019, board business meeting to provide the Board an update of its actions taken to reduce its plugging liability, ordered by Board Order 21-2019.

Colin Moody, managing member, and Colby Branch, attorney, appeared on behalf of Midway to provide the update.

Mr. Moody stated that there were issues in the spring due to improper winterization where equipment had to be replaced. This year operations will continue during the winter.

Mr. Moody plans to plug the Hunt Creek 1-H well (API # 25-009-21301) located in the SW $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 7, T8S-23E, Carbon County, Montana. He is waiting for bid proposals to plug the well.

The Board requested that Midway provide board staff with the bid proposals for the plugging of the Hunt Creek 1-H well.

Board staff noted that well identification signs need to be updated to Midway. Mr. Moody stated that the signs are on order and will be posted in the next two weeks.

Board staff also noted that production and injection reports were not up to date. Mr. Moody believed the reports were current but would verify with his staff.

FINANCIAL REPORT

Mrs. Breton discussed the financial statement, attached as Exhibit 4.

PLUGGING AND RECLAMATION PROGRAM UPDATE

There are two damage mitigation contracts outstanding. The first contract is for the Beery 2 and Beery 22-24 orphan wells that were plugged and now require surface reclamation. The second contract is for the

plugging of three orphan wells in Richland County that were formerly operated by Alturas Energy, LLC.

The work on these contracts are expected to be completed this fall.

Mr. Halvorson reviewed Exhibit 5. The Board receives up to \$650,000 yearly into the Damage Mitigation account from the Resource Indemnity Trust (RIT) fund. There is a \$1.2 million cap on the Damage Mitigation account. These monthly deposits started at the beginning of the new biennium on July 1, 2019 and will occur only in the first year of the biennium. The anticipated RIT deposit amount for the biennium is \$555,806.

Due to the outstanding contracts, Board staff is unable to go out to bid on other plugging contracts until additional RIT funds are deposited into the Damage Mitigation account.

Mr. Halvorson reviewed the plugging and reclamation orphan well list, attached as Exhibit 5. The next two wells staff would like plugged are K2 America Corporation's CBSU 15-15 (API # 25-035-21167) and Wind River Hydrocarbons, Inc.'s Cornwell 1-14 (API # 25-105-21573). These wells have the next highest priority to be plugged because they are leaking.

Mr. Halvorson requested the authority to spend damage mitigation funds to plug and abandon the above two orphan wells as funds become available.

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

BOND SUMMARY & INCIDENT REPORT

Mr. Halvorson presented the bond report and the incident report, attached as Exhibit 6 & 7.

DOCKET SUMMARY

Mr. Halvorson presented the docket summary, attached as Exhibit 8.

GAS FLARING EXCEPTIONS

Mr. Jones discussed the gas flaring report, attached as Exhibit 9. There are 16 wells flaring in excess of 100 MCFG/day and six exception requests at this time.

Kraken Operating, LLC (Kraken) is asking for six exception requests. The wells 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: Mrs. Nelson made the motion to approve the recommendation. Mr. Gatzemeier seconded, and the motion passed unanimously.

INACTIVE WELL REVIEW

Mr. John Gizicki discussed Exhibit 10.

On June 26, 2019, staff received a letter from a landowner requesting that the location of the E. Sundsted 1 well be cleaned up. The well has not had production since 1996. A subsequent review determined that all wells operated by Pride Energy Company (Pride) had not produced in over two years. The inactive wells are listed below:

- BN 23-1, API # 25-083-21609, located in the SE $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 23, T23N-R54E, Richland County, Montana
- BN 10X-23, API # 25-083-21644, located in the SW $\frac{1}{4}$ NW $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 23, T23N-R54E, Richland County, Montana
- BN 23-1X, API # 25-083-21794, located in the SE $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 23, T23N-R54E, Richland County, Montana
- E. Sundsted 1, API # 25-091-21576, located in the NE $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 6, T33N-R57E, Sheridan County, Montana

On August 5, 2019, a certified letter was sent to Pride requesting a plan and schedule of abandonment for the inactive wells or justification with supporting documentation for leaving the inactive wells unplugged. This request was made in accordance with ARM 36.22.1307. The deadline for response was October 9, 2019. This letter also detailed field compliance issues that need to be addressed. No response was received to this letter.

Mr. Gizicki recommended that Pride must show cause at the December 5, 2019, public hearing, for why it should not have to provide a plan and timeline for the plugging of its wells.

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

STAFF REPORTS

Ben

On September 24, 2019, Whiting Oil and Gas Corporation (Whiting) was notified that the Iverson Bros 14-33-2H (API# 25-083-23277) and Iverson Bros 14-33-3H 3H (API# 25-083-23278) wells were in violation of ARM 36.22.608 for failure to have administrative approval prior to the hydraulic fracture stimulations. The letter sent to Whiting and the rule violation is attached as Exhibit 11. Both wells are located in SE $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 33, T26N-R58E, Richland County, Montana and were completed in March of 2019.

Jacob Parker, regulatory manager, appeared on behalf of Whiting. Mr. Parker acknowledged that the stimulations were performed without prior approval and that new procedures had been established within the company to prevent future violations.

Mr. Jones recommended a penalty of \$2,500 per well violation be assessed. This is the same penalty that was assessed to American Midwest Oil & Gas Corp. in 2014 for similar violations.

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

Whiting is fined \$5,000 for failure to meet the fracturing requirements of ARM 36.22.608 for the Iverson Bros 14-33-2H and Iverson Bros 14-33-3H wells.

George

Mr. Hudak brought to the Board's attention Carrell Oil Company DBA COCO (Carrell). Carrell is the operator of the following two enhanced oil recovery wells used for injection:

- Fifer 3 well, API # 25-069-05141, located in SW $\frac{1}{4}$ NW $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 21, T15N-R30E, Petroleum County, Montana
- Govt. 4 well, API # 25-033-05028, located in SW $\frac{1}{4}$ NW $\frac{1}{4}$ SE $\frac{1}{4}$ in Section 6, T14N-R31E, Garfield County, Montana

Carrell is in violation of ARM 36.22.1416, which requires injection wells to be retested for mechanical integrity no less than once each five years until the well is plugged. Wells that fail a mechanical integrity test must be immediately shut-in until either repaired, reworked, or plugged for abandonment in accordance with ARM 36.22.1414. The wells must be successfully retested for mechanical integrity before being placed in injection service.

Mr. Hudak made several attempts to contact the operator.

Mr. Hudak recommended that Carrell must return these wells to compliance prior to the November 7, 2019, hearing application deadline. Failure to come into compliance will result in Carrell being ordered to show cause at the December 5, 2019, public hearing, as to why these wells remain out of compliance and why additional penalties should not be imposed.

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

Jim

Mr. Halvorson informed the Board that there is an issue with the Digital Archives contract. Digital archives handles the processing of production and injection reports. Typically it takes 2-3 weeks to process production and injection reports before the staff has the reporting information.

The owner of Digital Archives had a medical issue and as a result has not processed reports for the past few weeks. There have been several attempts to contract Digital Archives. If Digital Archives does not respond next week, staff will terminate the contract. It will take months to get a new contract. This issue impacts

data to operators, staff's ability to monitor delinquent reporting, and shut-in well reviews for pending change of operators.

Operators who typically file paper reports are encouraged to file their reports electronically.

Next week, the comment period closes for the lowering of the privilege and license tax rate. This rule change will allow cities and counties to receive a share of the revenue. No public hearing is scheduled.

Currently, oil prices are \$20 below the price estimate used in determining the proposed tax rate. Before the next hearing, staff will analyze Board's ability to lower the tax rate.

The bond forfeiture procedure is under review. Currently, the Board can go after an operator to recoup the plugging and abandonment costs of an operator's wells once the bond has been expended.

Staff wanted to see if there is another way to go after an operator prior to the plugging and abandonment of a well and costs being incurred. One such way is with a judgement that has civil penalties. This judgement would come from outstanding fines.

Mr. Halvorson presented the proposed 2020 meeting schedule, attached as Exhibit 12. The Board voted on the February meeting and hearing dates, February 12th and 13th. No decision was made on the remaining meeting/hearing dates.

OTHER BUSINESS

No other business discussed.

PUBLIC HEARING

The Board reconvened on Thursday, October 10, 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 88-2019 – 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 85-2019.

Docket 89-2019 – The application of Kraken Oil & Gas LLC was continued to the December 2019 hearing.

Docket 90-2019 – The application of Kraken Oil & Gas LLC was continued to the December 2019 hearing.

Docket 91-2019 – The application of Kraken Oil & Gas LLC was continued to the December 2019 hearing.

Docket 92-2019 – The application of Kraken Oil & Gas LLC was continued to the December 2019 hearing.

Docket 93-2019 – A motion was made by Mr. Trudell, seconded by Mr. Weber and unanimously passed, to approve the application of Baldwin Lynch Energy Corporation as set forth in Board Order 86-2019.

Docket 94-2019 – A motion was made by Mr. Welter, seconded by Mr. Gatzemeier and unanimously passed, to approve the application of Continental Resources, Inc. as set forth in Board Order 79-2019.

Docket 95-2019 – A motion was made by Mr. Welter, seconded by Mr. Gatzemeier and unanimously passed, to approve the application of Continental Resources, Inc. as set forth in Board Order 80-2019.

Docket 96-2019 – A motion was made by Mr. Welter, seconded by Mr. Gatzemeier and unanimously passed, to approve the application of Continental Resources, Inc. as set forth in Board Order 81-2019.

Docket 97-2019 – A motion was made by Mr. Welter, seconded by Mr. Gatzemeier and unanimously passed, to approve the application of Continental Resources, Inc. as set forth in Board Order 83-2019.

Docket 98-2019 – A motion was made by Mr. Welter, seconded by Mr. Gatzemeier and unanimously passed, to approve the application of Continental Resources, Inc. as set forth in Board Order 82-2019.

Docket 99-2019 – A motion was made by Mr. Welter, seconded by Mr. Gatzemeier and unanimously passed, to approve the application of Continental Resources, Inc. as set forth in Board Order 84-2019.

Docket 100-2019 – The application of Sage Creek Colony was continued to the December 2019 hearing.

Docket 101-2019 – The application of Sage Creek Colony was continued to the December 2019 hearing.

Docket 102-2019 – The application of Sage Creek Colony was continued to the December 2019 hearing.

Docket 103-2019 – The application of Sage Creek Colony was continued to the December 2019 hearing.

Docket 104-2019 – The application of Sage Creek Colony was continued to the December 2019 hearing.

Docket 105-2019 – The application of Sage Creek Colony was continued to the December 2019 hearing.

Docket 106-2019 – The application of Sage Creek Colony was continued to the December 2019 hearing.

Docket 107-2019 – The application of Cline Production Company was continued to the December 2019 hearing.

Docket 108-2019 – A motion was made by Mrs. Nelson, seconded by Mr. Gatzemeier and unanimously passed, that staff may proceed with administrative review and approval of ANG Holdings (USA) Corp.'s change of operator request. ANG's \$50,000 multiple well bond is limited to 82 producing wells. This is set forth in Board Order 78-2019.

Docket 109-2019 – No motion was made. Staff will continue to monitor White Rock Oil & Gas, LLC's efforts to reduce its plugging liability. This is set forth in Board Order 87-2019.

Docket 74-2019 – The application of Foothills Exploration, LLC was withdrawn.

Docket 110-2019 – A motion was made by Mr. Gatzemeier, seconded by Mr. Trudell and unanimously passed, that Zeiders Bros. Oil & Gas Company, LLC is fined \$1,000 for failure to appear at the October 10, 2019, public hearing. Zeiders Bros. Oil & Gas Company, LLC must show cause at the December 5, 2019, public hearing for why it should not immediately plug and abandon its Rudolph Haynie 1-5 well, API # 25-055-21207, located in the SE $\frac{1}{4}$ NE $\frac{1}{4}$ of Section 5, T22N-R47E, McCone County, Montana and why additional penalties should not be assessed. This is set forth in Board Order 88-2019.

Docket 111-2019 – A motion was made by Mr. Welter, seconded by Mr. Gatzemeier and unanimously passed, that the \$250 daily fine remains in effect for TOI Operating until the Moerman 14-30 well is plugged and abandoned. Docket 111-2019 is continued until the December 5, 2019, public hearing. This is set forth in Board Order 89-2019.

Docket 112-2019 – A motion was made by Mr. Gatzemeier, seconded by Mr. Trudell and unanimously passed, that PARMT LLC is fined \$1,000 for failure to appear at the October 10, 2019, public hearing. PARMT must show cause at the December 5, 2019, public hearing for why it should not immediately plug and abandon the Guenther 2-8 well, located in the SW $\frac{1}{4}$ NE $\frac{1}{4}$ of Section 8, T33N-R58E, Sheridan County, Montana and why additional penalties should not be assessed. This is set forth in Board Order 90-2019.

Docket 113-2019 – A motion was made by Mr. Welter, seconded by Mrs. Nelson and unanimously passed, that the \$9,997.50 payment proposed by Christy Strevey on behalf of Bensun Energy, LLC be accepted and that payment is required before the close of business on October 10, 2019. Docket 113-2019 is continued until the December 5, 2019, public hearing. This is set forth in Board Order 91-2019.

Docket 60-2017 – A motion was made by Mr. McDermott, seconded by Mrs. Nelson and unanimously passed, that Black Gold Energy Resource Development, LLC immediately increase its plugging and reclamation bond to \$20,000 by the November 7, 2019, deadline, in accordance with ARM 36.22.1308(3). Docket 60-2017 and the outstanding fine in the amount of \$112,500 are dismissed if the additional bonding amount of \$10,000 is received prior to the deadline. Black Gold must address the outstanding field violations of record by the November 7, 2019, deadline. Black Gold is subject to a \$250 fine for each day after the deadline that the violations remain unresolved. The fine will remain in effect until compliance is confirmed by inspection. The failure to come into compliance will result in Black Gold being ordered to show cause at the December 5, 2019, public hearing, as to why the field violations remain. This is set forth in Board Order 92-2019.

Docket 75-2019 – A motion was made by Mr. Welter, seconded by Mr. Trudell and unanimously passed, that Grassy Butte, LLC's injection permit for the Kesterson #5 well, API # 25-087-21488, located in the SW $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 34, T10N-R33E, Rosebud County, Montana is revoked. Grassy Butte, LLC must have an approved plan to plug and abandon the Kesterson #5 well by the December 5, 2019, public hearing. This is set forth in Board Order 93-2019.

Docket 76-2019 – A motion was made by Mr. Welter, seconded by Mrs. Nelson and unanimously passed, that Summit Gas Resources, Inc. must plug and abandon the Visborg 22-0841 11SA well, API # 25-003-22690, located in the NE $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 22, T8S-R41E prior to the December 5, 2019, public hearing. Docket 76-2019 is continued until the December 5, 2019, public hearing. This is set forth in Board Order 94-2019.

Docket 77-2019 – A motion was made by Mr. Weber, seconded by Mr. Trudell and unanimously passed, that Docket 77-2019, Cline Production Company, is dismissed with respect to the following wells which are in compliance:

- Kincheloe 1-6 well, API # 25-087-21346, located in the SE $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 1, T10N-R31E
- Kincheloe 10-19 well, API # 25-087-21239, located in the NW $\frac{1}{4}$ NW $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 19, T11N-R32E
- Kincheloe 1-12 well, API # 25-087-21354, located in the NW $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 1, T10N-R31E

A second motion was made by Mr. Gatzemeier, seconded by Mr. Welter and unanimously passed, to deny the continuance request.

A third motion was made by Mr. Trudell, seconded by Mrs. Nelson and unanimously passed, that Cline is fined \$1,000 for failure to appear at the October 10, 2019, public hearing. Docket 77-2019 is continued as amended to the December 5, 2019, public hearing and Cline must return the Kincheloe 3X-30 well, API # 25-087-21285, located in the NW $\frac{1}{4}$ of Section 30, T11N-R32E, Rosebud, County, Montana, to compliance prior to the December 5, 2019, public hearing. This is set forth in Board Order 95-2019.

Docket 78-2019 – A motion was made by Mr. McDermott, seconded by Mr. Trudell and unanimously passed, that Docket 78-2019, A & G Oil & Gas, is continued until the December 5, 2019, public hearing. This is set forth in Board Order 96-2019.

NEXT MEETINGS

The next business meeting of the Board will be Wednesday, December 4, 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, December 5, 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 December 5th public hearing is November 7, 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