

STATE OF MONTANA  
DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION  
MINUTES OF THE  
BOARD OF OIL AND GAS CONSERVATION MEETING AND PUBLIC HEARING  
December 4 & 5, 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, December 4, 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, Erin Ricci, and Rob Stutz.

**APPROVAL OF MINUTES**

A motion was made by Mr. Trudell, seconded by Mrs. Nelson and unanimously passed, to approve the minutes of the October 9, 2019, business meeting.

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

No comments were made.

**PROPOSED HEARING SCHEDULE FOR 2020**

The Board discussed and voted on the 2020 meeting schedule, attached as Exhibit 1. Below are the 2020 meeting and hearing dates:

February 12 & 13, 2020  
April 29 & 30, 2020  
June 24 & 25, 2020  
August 5 & 6, 2020  
September 30 & October 1, 2020  
December 2 & 3, 2020

**Motion:** Mr. Welter made the motion to approve the 2020 hearing schedule. Mrs. Nelson seconded and the motion passed unanimously.

**FINANCIAL REPORT**

Mrs. Breton discussed the financial statement, attached as Exhibit 2.

**PROPOSED AMENDMENT OF ARM 36.22.1242 REGARDING THE OIL AND GAS PRIVILEGE AND LICENSE TAX**

Mr. Halvorson reviewed the privilege and license tax (P&L tax) spreadsheets, attached as Exhibit 3.

After discussion, Mr. Halvorson recommended adopting the proposed amendment of the P&L tax rule notice that would lower the P&L tax rate. This recommendation is based on a conservative forecast.

Lowering the rate will allow cities and counties to receive a share of the revenue. There is no impact to industry.

The Board is required to give the Department of Revenue a 90-day notice prior to the rule's effective date. The effective date is April 1, 2020.

In the future, if the Board needs to increase the rate to meet expenditures, rulemaking will be required.

**Motion:** Mr. Gatzemeier made the motion to approve the recommendation to adopt the amendment to reduce the privilege and license tax rate from the current statutory maximum of 0.30% to 0.25%. Mr. Welter seconded, and the motion passed unanimously.

**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 plugging of the Alturas wells is currently underway, and the surface reclamation of those wells is planned for the summer.

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

Kraken Operating, LLC (Kraken) is asking for eight exception requests. The wells are contracted to ONEOK Rockies Midstream, but due to full compressor station capacity at the Yellowstone compressor station, Kraken has been unable to sell any 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**

Staff is still in the process of reviewing inactive wells that have not produced in a number of years that are currently on single well bonds and limited well bonds.

### **STAFF REPORTS**

#### **Rob**

Mr. Stutz reviewed a letter from Somont Oil Co., Inc. (Somont) that was sent to the Board as information only. This letter is attached as Exhibit 8.

In the letter, Somont proposed removing its fences around evaporation pits because of a recent court decision. This could potentially conflict with Board rules which require pits with any amount of oil on them to be fenced, screened, and netted. Field inspectors will need to closely monitor Somont's pits if they follow through with the proposed plan.

Currently, the Board is not directly involved in the issue until oil is discharged.

#### **Jim**

As mentioned at the previous hearing, there is an issue with the contract covering data capture from production and injection reports that are submitted on paper. This continues to impact data to operators, staff's ability to monitor delinquent reporting, and shut-in well reviews for pending change of operators. There are an estimated 6,000 reports backlogged. A new contract is necessary.

Operators who typically file paper reports are encouraged to file their reports electronically. Most of the larger companies already file electronically.

#### **George**

Mr. Hudak informed the Board that Mr. Robert Schmidt, Sidney area field inspector, will be retiring at the end of the year. He has been working for the state for 20 years.

### **OTHER BUSINESS**

No other business discussed.

## **PUBLIC HEARING**

The Board reconvened on Thursday, December 5, 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 114-2019 – 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 101-2019.

Docket 115-2019 – 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 102-2019.

Docket 116-2019 – 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 103-2019.

Docket 117-2019 – A motion was made by Mr. Welter, seconded by Mrs. Nelson and unanimously passed, to approve the application of Prima Exploration, Inc. as set forth in Board Order 108-2019.

Docket 118-2019 – A motion was made by Mr. Welter, seconded by Mr. Trudell and unanimously passed, to approve the application of Prima Exploration, Inc. as set forth in Board Order 109-2019.

Docket 119-2019 – A motion was made by Mr. Welter, seconded by Mrs. Nelson and unanimously passed, to approve the application of Denbury Onshore LLC as set forth in Board Order 97-2019.

Docket 120-2019 – A motion was made by Mr. Weber, seconded by Mr. Trudell and unanimously passed, to approve the application of Denbury Onshore LLC as set forth in Board Order 98-2019.

Docket 121-2019 – A motion was made by Mr. Welter, seconded by Mr. Gatzemeier and unanimously passed, to approve the application of Denbury Onshore LLC as set forth in Board Order 99-2019.

Docket 122-2019 – A motion was made by Mrs. Nelson, seconded by Mr. Trudell and unanimously passed, to approve the application of Denbury Onshore LLC as set forth in Board Order 100-2019.

Docket 123-2019 – A motion was made by Mr. McDermott, seconded by Mrs. Nelson and unanimously passed, that staff may proceed with administrative review and approval of Keesun Corporation's change of operator request. This is set forth in Board Order 110-2019.

Docket 124-2019 – The application of Scout Energy Management LLC was continued to the February 2020 hearing.

Docket 125-2019 – A motion was made by Mr. Welter, seconded by Mr. McDermott and unanimously passed, that staff may proceed with administrative review and approval of A. B. Energy LLC's change of operator request. This is set forth in Board Order 111-2019.

Docket 126-2019 – A motion was made by Mr. Welter, seconded by Mrs. Nelson and unanimously passed, to dismiss the application of Crazy Mountain Oil & Gas as set forth in Board Order 112-2019.

Docket 89-2019 – A motion was made by Mr. Welter, seconded by Mr. Gatzemeier and unanimously passed, to approve the application of Kraken Oil & Gas LLC as set forth in Board Order 104-2019.

Docket 90-2019 – A motion was made by Mr. Welter, seconded by Mr. Gatzemeier and unanimously passed, to approve the application of Kraken Oil & Gas LLC as set forth in Board Order 105-2019.

Docket 91-2019 – 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 106-2019.

Docket 92-2019 – 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 107-2019.

Docket 100-2019 – A motion was made by Mr. Welter, seconded by Mr. McDermott and unanimously passed, to approve the application of Sage Creek Colony as set forth in Board Order 113-2019.

Docket 101-2019 – A motion was made by Mr. Welter, seconded by Mr. McDermott and unanimously passed, to approve the application of Sage Creek Colony as set forth in Board Order 114-2019.

Docket 102-2019 – A motion was made by Mr. Gatzemeier, seconded by Mr. Welter and unanimously passed, to approve the application of Sage Creek Colony as set forth in Board Order 115-2019.

Docket 103-2019 – A motion was made by Mr. Gatzemeier, seconded by Mr. Welter and unanimously passed, to approve the application of Sage Creek Colony as set forth in Board Order 116-2019.

Docket 104-2019 – The application of Sage Creek Colony was withdrawn.

Docket 105-2019 – The application of Sage Creek Colony was withdrawn.

Docket 106-2019 – The application of Sage Creek Colony was withdrawn.

Docket 127-2019 – A motion was made by Mr. Gatzemeier, seconded by Mrs. Nelson and unanimously passed, that Docket 127-2019, Pride Energy Company, is continued to the August 6, 2020, public hearing. This is set forth in Board Order 117-2019.

Docket 128-2019 – A motion was made by Mrs. Nelson, seconded by Mr. Welter and unanimously passed, that Docket 128-2019, Carrell Oil Company DBA COCO, is continued until the June 25, 2020, public hearing. This is set forth in Board Order 118-2019.

Docket 129-2019 – A motion was made by Mr. Welter, seconded by Mr. Trudell and unanimously passed, that Zeiders Bros. Oil & Gas Company, L.L.C. is fined \$1,000 for failure to appear at the December 5, 2019, public hearing. Zeiders Bros. must have an approved plan to plug and abandon or begin the process to plug and abandon its Rudolph Haynie 1-5 well, API # 25-055-21207, located in the SE¼NE¼ of Section

5, T22N-R47E, McCone County, Montana by the January 9, 2020, hearing application deadline. Following the January 9, 2020, deadline, a penalty of \$250 per day be assessed until an abandonment plan has been received. This is set forth in Board Order 119-2019.

Docket 130-2019 – A motion was made by Mr. Trudell, seconded by Mrs. Nelson and unanimously passed, that PARMT LLC is fined \$1,000 for failure to appear at the December 5, 2019, public hearing. PARMT must have an approved plan to plug and abandon or begin the process to plug and abandon its Guenther 2-8 well, located in the SW¼NE¼ of Section 8, T33N-R58E, Sheridan County, Montana by January 9, 2020, hearing application deadline. Following the January 9, 2020, deadline, a penalty of \$250 per day be assessed until an abandonment plan has been received. This is set forth in Board Order 120-2019.

Docket 131-2019 – A motion was made by Mr. Welter, seconded by Mr. Trudell and unanimously passed, that Black Gold Energy Resource Development, LLC's Indian Mound 1 SWD well is shut in until the outstanding field violations are addressed and authorization to commence injection is granted by the Board's staff. The \$250 daily fine remains in effect until compliance is achieved and confirmed by inspection. Black Gold is fined \$1,000 for failure to appear at the December 5, 2019, public hearing. Docket 131-2019 is continued until the February 13, 2020, public hearing. This is set forth in Board Order 121-2019.

Docket 132-2019 – A motion was made by Mr. Gatzemeier, seconded by Mr. Welter and unanimously passed, that Grassy Butte, LLC must have an approved plan to plug and abandon or begin the process to plug and abandon its Kesterson #5 well, API # 25-087-21488, located in the SW¼NW¼ of Section 34, T10N-R33E, Rosebud County, Montana by January 9, 2020, hearing application deadline. Following the January 9, 2020, deadline, a penalty of \$250 per day be assessed until an abandonment plan has been received. This is set forth in Board Order 123-2019.

Docket 76-2019 – The show-cause hearing of Summit Gas Resources, Inc. was dismissed.

Docket 77-2019 – A motion was made by Mr. Gatzemeier, seconded by Mr. Welter and unanimously passed, that Docket 77-2019, Cline Production Company, is continued until the February 13, 2020, public hearing. This is set forth in Board Order 124-2019.

Docket 111-2019 – A motion was made by Mrs. Nelson, seconded by Mr. Gatzemeier and unanimously passed, that TOI Operating must begin the process to plug and abandon its wells by the February 13, 2020, public hearing. Failure to begin to plug and abandon its wells as required by this order may result in the forfeiture of the plugging and reclamation bond in its entirety, as permitted by § 82-11-123(5), MCA. The \$250 daily fine is stopped as of December 5, 2019. This is set forth in Board Order 122-2019.

Docket 113-2019 – A motion was made by Mr. Welter, seconded by Mr. Gatzemeier and unanimously passed, that Docket 113-2019, Bensun Energy, LLC, is continued until the February 13, 2020, public hearing. A revised signed change of operator request (Form 20) be submitted if wells are to be excluded from the transfer. Diamond Halo is to appear at the February hearing to present the change of operator request. This is set forth in Board Order 125-2019.

## NEXT MEETINGS

The next business meeting of the Board will be Wednesday, February 12, 2020, 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 13, 2020, 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 February 13<sup>th</sup> public hearing is January 9, 2020.

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

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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:

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Jennifer Breton, Program Specialist