

STATE OF MONTANA
DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
MINUTES OF THE
BOARD OF OIL AND GAS CONSERVATION MEETING AND PUBLIC HEARING
February 12 & 13, 2020

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, February 12, 2020, 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, Gary Klotz, Deven Merritt, Dave Popp, and Rob Stutz.

APPROVAL OF MINUTES

A motion was made by Mr. Gatzemeier, seconded by Mr. Trudell and unanimously passed, to approve the minutes of the December 4, 2019, business meeting.

PUBLIC COMMENT ON AGENDA AND NON-AGENDA ITEMS

No comments were made.

WELL DONE MONTANA LLC PRESENTATION

Mr. Curtis Shuck, managing member of Well Done Montana, LLC (Well Done) and Don Lee, attorney, presented its orphan well adoption program. A handout of the presentation is attached as Exhibit 1.

Well Done has taken over four orphan wells in Toole County, Montana for its pilot program. Well Done will monitor the wells for gas emissions and then once the monitoring phase is complete, the wells will be plugged and the surface reclaimed.

Well Done estimates it will take over 20 orphan wells in 2020. Mr. Shuck is working with the surface owners to secure the agreements.

Mr. Halvorson requested that if Well Done takes over 10 or more orphan wells, Well Done will be exempt from the Board review's regarding the change of operator policy.

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

Mr. Shuck requested a letter of support from the Board.

Mr. Weber stated that the letter is a concert of position and not a conflict of interest because it fits within the Board's goals.

Motion: Mr. Weber made the motion for the Board to write a letter of support. Mrs. Nelson seconded, and the motion passed unanimously.

The public was offered an opportunity to comment on the presentation. No public comment was made.

FINANCIAL REPORT

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

PLUGGING AND RECLAMATION PROGRAM UPDATE

There is one damage mitigation contract outstanding. The contract is for the plugging of three orphan wells in Richland County that were formerly operated by Alturas Energy, LLC (Alturas). The plugging of the Alturas wells has taken place and the surface reclamation of those wells is planned for spring.

BOND SUMMARY & INCIDENT REPORT

Mr. Halvorson presented the bond report and the incident report, attached as Exhibit 3 & 4.

DOCKET SUMMARY

Mr. Halvorson presented the docket summary, attached as Exhibit 5.

GAS FLARING EXCEPTIONS

Mr. Jones discussed the gas flaring report, attached as Exhibit 6. There are 24 wells flaring in excess of 100 MCFG/day and four exception requests at this time.

Petro-Hunt is asking for three exception requests. Due to no gas capture infrastructure in the area, it is not economical for these wells to connect to a pipeline. Mr. Jones recommended a year exception for Petro-Hunt.

Whiting Oil & Gas Corporation (Whiting) is asking for an exception request for one well. There is insufficient compression capacity on Oneok's system. Mr. Jones recommended a six-month exception for Whiting.

Motion: Mrs. Nelson made the motion to approve the recommendations. 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. In the future, staff will have a shut-in report of specific operators with a high volume of inactive wells. Many of the inactive wells are in Glacier County.

STAFF REPORTS

Jim Halvorson

Mr. Halvorson reviewed the domestic well overview, attached as Exhibit 7. The surface owner can take over an uneconomic gas well for domestic purposes only. The surface owner must post a bond for the well.

The Board's action regarding domestic gas wells does not protect a domestic gas well operator from the mineral interest owner suing the domestic gas well operator.

Mr. Halvorson did not recommend any changes be made to how domestic gas wells are handled.

The Boulder River Watershed Association, Cascade Conservation District, Sweet Grass County Conservation District wrote letters to require mandatory water testing be performed before and after the drilling a well. The letters are attached as Exhibit 8.

The Great Falls Tribune published an article about the State of Montana funding a program for two years to allow residents affected by oil and gas operations to test their water to gather baseline data on the water. The article quotes there was low interest in the program. The article is also attached as Exhibit 8.

In the audience are two Shelby staff members, Gary Klotz and Deven Merritt. Deven recently joined the Shelby office.

Ben Jones

Ballard Exploration Company, Inc. (Ballard) is the operator of the Burlington 35-1 well, API # 25-033-21166, located in the SE $\frac{1}{4}$ SE $\frac{1}{4}$ NE $\frac{1}{4}$ of Section 35, T15N-30E, Garfield County. This well was drilled in 2018 as a dry hole. Drilling permits require operators to submit core chips and cutting samples to the Board's Billings office, with an option for Board staff to waive the requirement for cutting samples.

Cores were taken from the well, however, no core chips were sent to the Billings office. Ballard sent a letter to the Board addressing the permit violation and apologized for the mistake. They did provide to the United States Geological Survey (USGS) the full cores after analysis but did not save any core chips. The written core analysis is on file in the Billings office, and cores are available to the public at the USGS, Core Laboratory, Arvada, CO.

No Board action was taken.

John Gizicki

Mr. Gizicki discussed Exhibit 9.

Apex Energy LLC (Apex) is the operator of 10 producing wells in Richland County, Montana and one producing well in Dawson County, Montana. The following two wells have compliance issues:

- **Engen 1-A**, API # 25-083-21696, located in the NW $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 29, T25N-59E, Richland County, Montana has contaminated soil inside the tank battery, junk iron, a tank, and an ajax shed on location.
- **FLB Spokane 4**, API # 25-083-21700, located in the SE $\frac{1}{4}$ NE $\frac{1}{4}$ of Section 12, T22N-59E, Richland County, Montana contains a junk pumpjack, tubing, buckets, a treater shed, and wind-blown tin on and off the well location.

On December 17, 2019, a certified letter was sent to Apex detailing the above listed compliance issues. A February 12, 2020, deadline was given to resolve the compliance issues or they would be brought up at the Board Business meeting.

On February 6, 2020 and February 7, 2020, the field inspector noted that work had been done but compliance was not achieved. The Engen 1-A well still contains contaminated soil, junk iron, and an ajax shed and the FLB Spokane 4 still has the junk pumpjack.

On February 12, 2020, Verlon Edwards with Apex contacted staff to see if Apex was in compliance. Compliance had not been achieved.

Mr. Gizicki recommended that Apex be required to have the well locations in compliance by March 26, 2020, hearing application deadline. Failure to come into compliance by that date will result in Apex being ordered to show cause at the April 30, 2020, public hearing, as to why penalties should not be imposed for failure to remedy the field violations.

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

Mr. Gizicki discussed Exhibit 10.

BNV Energy Company LLC (BNV Energy) is the bonded operator of the BNV Eagle 1 well, API # 25-049-21110, located in the NE $\frac{1}{4}$ NE $\frac{1}{4}$ of Section 14, T18N-R5W, Lewis and Clark County, Montana.

On May 10, 2018, the well was deepened. As required under ARM 36.22.1010, “within 30 days following completion of the well work, a subsequent report of the actual work performed must be submitted on Form No. 2.” No subsequent report has been received.

On January 14, 2019, September 3, 2019, and November 7, 2019, letters were mailed to BNV Energy requesting the required subsequent report. No response was received to these letters.

On January 14, 2020, a certified letter was sent with a February 12, 2020, deadline to submit the required subsequent report or the issue was going to be brought up at the Board Business meeting. No response was received to this letter.

Mr. Gizicki recommended that BNV Energy be required to submit the subsequent report of the deepening of the BNV Eagle 1 well by March 26, 2020, hearing application deadline. Failure to submit the report by that date will result in BNV Energy being ordered to show cause at the April 30, 2020, public hearing, as to why penalties should not be imposed for failure to provide the required report.

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

Rob Stutz

Mr. Stutz reviewed an email from Travelers Casualty & Surety Co. of America (Travelers) regarding the collection of Molen Drilling Co., Inc. \$10,000 bond that was forfeited at the August 15, 2019, hearing. The email is attached as Exhibit 11.

Travelers is stating a statute of limitation and will not pay the full amount of the bond. Travelers offered a “nuisance” payment of \$2,500 to settle the claim.

The Board discussed whether legal action should be taken by the Board to recover the full amount of the bond.

The Board decided for Mr. Stutz to make a counter offer of \$5,000 to Travels.

Motion: Mrs. Nelson made the motion for Mr. Stutz to make a counter offer of the bond in the amount of \$5,000. Mr. Gatzemeier seconded, and the motion passed unanimously.

Mr. Stutz proposed updating the Board’s legal requirements for Board proceedings and the rules of practice. This will require rulemaking by the Board, but he does not expect any protesters for the changes.

OTHER BUSINESS

No other business discussed.

PUBLIC HEARING

The Board reconvened on Thursday, February 13, 2020, 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 1-2020 – The application of Lonewolf Operating, LLC was continued to the April 2020 hearing.

Docket 2-2020 – The application of Lonewolf Operating, LLC was continued to the April 2020 hearing.

Docket 3-2020 – A motion was made by Mr. Welter, seconded by Mr. Trudell and unanimously passed, to deny the application of White Rock Oil and Gas, LLC as set forth in Board Order 1-2020.

Docket 4-2020 – The application of Western Meadowlark Resources was withdrawn.

Docket 124-2019 – A motion was made by Mr. Trudell, seconded by Mrs. Nelson and unanimously passed, that staff may proceed with administrative review and approval of Omimex Canada, LTD and Topaz Oil & Gas, Inc. to Scout Energy Management LLC's change of operator request. Scout must provide Board staff a summary of its plugging and reclamation plans for its non-producing wells by August 13, 2020. This is set forth in Board Order 2-2020.

Docket 5-2020 – A motion was made by Mrs. Nelson, seconded by Mr. Welter and unanimously passed that Zeiders Bros. Oil & Gas Company, LLC's \$250 daily fine is stopped as of February 13, 2020. The outstanding fines in the amount of \$10,500 will be dismissed if Zeiders Bros. plugs and abandons its Rudolph Haynie 1-5 well, API # 25-055-21207, located in the SE¼NE¼ of Section 5, T22N-R47E, McCone County, Montana before the August 6, 2020, public hearing. This is set forth in Board Order 3-2020.

Docket 6-2020 – A motion was made by Mr. Trudell, seconded by Mrs. Nelson and unanimously passed that PARMT LLC must show cause at the April 30, 2020, public hearing and show cause, if any it has, why its plugging and reclamation bond should not be forfeited for failure to plug and abandon its Guenther 2-8 well, located in the SW¼NE¼ of Section 8, T33N-R58E, Sheridan County, Montana as required by Board Order 120-2019, in accordance with § 82-11-123(5), MCA. This is set forth in Board Order 4-2020.

Docket 7-2020 – A motion was made by Mrs. Nelson, seconded by Mr. Welter and unanimously passed that the \$2,200 payment proposed by Joel Young of Grassy Butte, LLC be accepted. The \$250 daily fine is stopped as of February 13, 2020. The outstanding fine in the amount of \$8,500 will be dismissed if Grassy Butte either plugs and abandons or converts to a stock water well its Kesterson #5 well, API # 25-087-21488, located in the SW¼NW¼ of Section 34, T10N-R33E, Rosebud County, Montana before the August 6, 2020, public hearing. A net must be placed over its pit by April 1, 2020, and the oil must be skimmed from the pit as weather allows. This is set forth in Board Order 5-2020.

Docket 8-2020 – A motion was made by Mr. Welter, seconded by Mr. Trudell and unanimously passed that the plugging and reclamation bond for TOI Operating is forfeited and the Board pursue legal action to recoup the fines and the costs of plugging the three wells. This is set forth in Board Order 6-2020.

Docket 113-2019 – A motion was made by Mr. Welter, seconded by Mr. Trudell and unanimously passed that Bensun Energy, LLC must submit a revised signed change of operator request (Form 20) for the wells that are going to be transferred to Diamond Halo and Diamond Halo submit its plugging and reclamation bonds for the wells it is going to acquire by the April 30, 2020, public hearing. The failure to provide the change of operator request and plugging and reclamation bonds, 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. This is set forth in Board Order 7-2020.

Docket 131-2019 – A motion was made by Mr. Welter, seconded by Mrs. Nelson and unanimously passed that Black Gold Energy Resource Development, LLC is fined \$5,000 for unauthorized injection into the Indian Mound 1 SWD well, in violation of Board Order 121-2019. Black Gold must pay the outstanding fines now totaling \$6,060 prior to the March 26, 2020, hearing deadline. The daily fine of \$17,000 will be held in abeyance for two board hearings and will be dismissed if the Indian Mound 1 SWD well remains in compliance during that period. This is set forth in Board Order 8-2020.

NEXT MEETINGS

The next business meeting of the Board will be Wednesday, April 29, 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, April 30, 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 April 30th public hearing is March 26, 2020.

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