

STATE OF MONTANA  
DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION  
MINUTES OF THE  
BOARD OF OIL AND GAS CONSERVATION MEETING AND PUBLIC HEARING  
June 24 & 25, 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, June 24, 2020, at its office at 2535 St. Johns Avenue in Billings, Montana. Board members present were Chairman Steven Durrett, Paul Gatzemeier, Linda Nelson, and Corey Welter. Board members present via teleconference were Mac McDermott, Dennis Trudell, and Mike Weber. Staff present was Jennifer Breton, John Gizicki, Jim Halvorson, George Hudak, Ben Jones, and Rob Stutz.

**ROLL CALL & INSTRUCTIONS**

Due to the Covid-19 pandemic, the business meeting was available via teleconference to Board members and the public.

Chairman Durrett provided the Board and public instructions on how the meeting was going to be conducted.

**APPROVAL OF MINUTES**

A motion was made by Mrs. Nelson, seconded by Mr. Gatzemeier and passed via roll call vote, to approve the minutes of the April 29, 2020, 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.

**PRIVILEGE AND LICENSE TAX RATE UPDATE**

The Privilege and License (P&L) tax rate proposed amendment of rulemaking was published, and no public comments were received. At the August hearing, the Board will decide whether to raise the P&L tax rate from 0.25% to the statutory maximum of 0.30%.

**TOI OPERATING ENFORCEMENT**

Mr. Stutz provided an update on the Board's legal action for TOI Operating (TOI). Mr. Jeff Doud is the

lead attorney on the case and is drafting the complaint for District Court to enforce Board Order 6-2020. The Board is seeking a judgement for TOI's outstanding fines and to seek the collection of the future plugging and abandonment costs of TOI's three orphaned wells.

#### **REVIEW OF EMPIRE NORTH DAKOTA LLC REDUCTION IN PLUGGING LIABILITY**

Mr. Don Lee, attorney, and Tommy Pritchard, CEO of Empire North Dakota LLC (Empire), were present via teleconference.

In June 2019, the Board approved a change of operator of 19 wells from EnergyQuest II, LLC. At that hearing, Empire was required to provide an update on its efforts to reduce its plugging liability at this meeting.

Mr. Pritchard noted that due to the low prices and Covid-19, its wells are temporary shut in, but Empire has worked on seven shut-in wells in the past year and plans to plug one well soon. Empire is buying additional wells in Richland County, Montana.

No Board action took place.

#### **REVIEW OF WESTERN MEADOWLARK RESOURCES, LLC REDUCTION IN PLUGGING LIABILITY**

Mr. John Patteson, Jr., attorney for Western Meadowlark Resources, LLC (Western Meadowlark), provided a written update of its efforts to reduce its plugging liability, attached as Exhibit 2. The letter states that Western Meadowlark intends to return Moser Dome to the seller, and it will have 11 wells remaining in Sheridan County, Montana.

No Board action took place.

#### **GRASSY BUTTE LLC**

Mr. Gizicki discussed Grassy Butte LLC's (Grassy Butte) compliance with Board Order 5-2020 issued at the February 13, 2020, hearing, attached Exhibit 3. At that hearing, the Board required Grassy Butte LLC to skim the oil from the pit as weather allowed and for the pit to be netted by April 1, 2020.

Joel Young with Grassy Butte provided an email update that the oil will be skimmed from the pit in the coming weeks. Staff noted the net was installed.

Board action will take place at the August hearing.

Mr. Welter requested a field inspection to take place next week to verify the oil has been removed.

#### **DAMAGE MITIGATION ACCOUNT AUTHORITY**

Mr. Halvorson reviewed a list of five orphan wells, attached as Exhibit 4. These wells have been moved

up in plugging priority due to the location of the wells. The wells are close to Board approved, high priority wells, so this will reduce mobilization costs.

Mr. Halvorson requested the Board's authorization to expend funds from the Damage Mitigation Account to plug and restore the wells on the attached sheet.

**Motion:** Mr. Gatzemeier made the motion to approve the recommendation. Mr. Welter seconded, and the motion passed via roll call vote.

Mr. Halvorson will have a list of the Board approved orphan wells at the next hearing.

### **BOND SUMMARY & INCIDENT REPORT**

Mr. Halvorson presented the bond report and the incident report, attached as Exhibit 5 & 6.

### **DOCKET SUMMARY**

Mr. Halvorson presented the docket summary, attached as Exhibit 7.

### **GAS FLARING EXCEPTIONS**

Mr. Jones discussed the gas flaring report, attached as Exhibit 8. There are 19 wells flaring in excess of 100 MCFG/day and 12 exception requests at this time.

Kraken Operating, LLC (Kraken) is asking for 12 exception requests. The wells are connected to a gas pipeline, but Kraken has been unable to sell or not able to sell enough gas. Mr. Jones recommended a six-month exception for Kraken.

**Motion:** Mr. Gatzemeier made the motion to approve the recommendation. Mrs. Nelson seconded, and the motion passed via roll call vote.

### **OTHER BUSINESS**

Mr. Gizicki brought to the Board's attention Shadwell Resources Group, LLC (Shadwell), attached as Exhibit 9. Shadwell is the bonded operator of record of the Velma SWD 1-10H injection well, API # 25-083-22531, located in the NW $\frac{1}{4}$ NW $\frac{1}{4}$  of Section 10, T23N-R58E, Richland County, Montana.

Around May 4, 2020, a spill occurred that was estimated to be over 55 barrels of salt water / oil. Staff did not receive immediate notification of the spill or a written report of the spill from Shadwell, as required under ARM 36.22.1103.

On June 4, 2020, a certified letter was mailed to Shadwell addressing the May 4<sup>th</sup> spill and field compliance issues that include an overflowing dumpster with used filter socks and lack of weed control.

On June 11, 2020, a landowner reported that under 10 barrels of salt water / oil had misted onto his field.

On June 12, 2020, Shadwell's president, Kevin Leland, was contacted via telephone and was informed of the June 11<sup>th</sup> spill. Mr. Gizicki, verified that Mr. Leland received the June 4<sup>th</sup> letter regarding the first spill and compliance issues. Mr. Leland had received the letter.

On June 17, 2020, Mr. Gizicki conducted a field inspection at the location and confirmed all compliance issues remained and identified additional compliance issues including open containers with oily fluids and a leaking tank.

On June 18, 2020, Mr. Gizicki notified Shadwell via email that this matter was going to be brought up at the Board Business meeting. No response was received to this email.

Mr. Gizicki recommended that Shadwell must immediately cease operations at the Velma SWD 1-10H well and that no additional fluids be transported to the location until violations are remedied, compliance is confirmed by inspection, and the order is lifted by the Administrator.

**Motion:** Mr. Welter made the motion to approve the recommendation. Mrs. Nelson seconded, and the motion passed via roll call vote.

Mr. Stutz interpreted a statute that could be used in cases where an operator has a compliance history. The statute is regarding bonding and the Board's ability to require additional bonds.

The Board would have to establish a policy of how the statute would be reviewed and applied. A subcommittee was appointed to look into the matter. There will be a report at the August meeting of the committee's findings. The committee was made up of Mr. Welter, Mrs. Nelson, and a Board Staff member.

## PUBLIC HEARING

The Board reconvened on Thursday, June 25, 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 32-2020 – The application of Crazy Mountain Oil & Gas LLC was continued to the August 2020 hearing.

Docket 36-2020 – The show-cause hearing of Hesla Oil, LLC was dismissed.

Docket 113-2019 – A motion was made by Mr. Welter, seconded by Mr. Weber and passed, to forfeit the plugging and reclamation bonds of Bensun Energy, LLC. This is set forth in Board Order 26-2020.

Docket 128-2019 – A motion was made by Mr. Welter, seconded by Mr. Trudell and passed, to continue the show-cause hearing of Carrell Oil Company DBA COCO to the August 2020 hearing. This is set forth in Board Order 27-2020.

Docket 33-2020 – A motion was made by Mr. Trudell, seconded by Mr. Gatzemeier and passed, to forfeit the plugging and reclamation bond of PARMT LLC. This is set forth in Board Order 28-2020.

## NEXT MEETINGS

The next business meeting of the Board will be Wednesday, August 5, 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, August 6, 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 August 6<sup>th</sup> public hearing is July 2, 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