

STATE OF MONTANA  
DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION  
MINUTES OF THE  
BOARD OF OIL AND GAS CONSERVATION MEETING AND PUBLIC HEARING  
August 5 & 6, 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, August 5, 2020, at its office at 2535 St. Johns Avenue in Billings, Montana. Board members present were Chairman Steven Durrett and Linda Nelson. Board members present via teleconference were Paul Gatzemeier, Mac McDermott, Dennis Trudell, Mike Weber, and Corey Welter. 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 June 24, 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.

**PROPOSED ADOPTION OF ARM 36.22.1242 – PRIVILEGE AND LICENSE TAX RATE**

Mr. Halvorson reviewed the privilege and license tax (P&L tax) spreadsheets, attached as Exhibit 2.

After discussion, Mr. Halvorson recommended not adopting the proposed amendment of the P&L tax rule notice that would raise the P&L tax rate from 0.25% to the statutory maximum of 0.30%. This recommendation is based on a conservative forecast and the current reserve account balance.

**Motion:** Mrs. Nelson made the motion to approve the recommendation to not adopt the proposed

amendment to raise the privilege and license tax rate from 0.25% to the statutory maximum of 0.30%. Mr. Gatzemeier seconded, and the motion passed via roll call vote.

At the October and December meetings, the Board can review this issue once more information becomes available on the budget and any non-Board expenses that may be allocated to the Board's account.

### **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 did not have any flaring exceptions to review.

### **STAFF REPORTS**

#### **Jim Halvorson**

An operator review subcommittee made up of Mr. Welter, Mrs. Nelson, and Mr. Halvorson met twice since the August meeting. Mr. Halvorson reviewed the subcommittee's findings in the operator review subcommittee report, attached as Exhibit 6. This report highlighted the Board's review of change of operator requests, existing authority, challenges, and suggested policy changes.

Mr. Durrett recommended that staff review companies who have 100% of their wells shut-in.

Mr. Welter stated that he would like to see increased bonding for commercial disposal wells in the future. Mr. Hudak noted there are around 10 wells, mostly located in Northeastern Montana, that would be considered commercial disposal wells.

Mr. Stutz recommended that staff review the Montana Secretary of State's (SOS) registration status of a business. Once a business entity with the SOS is dissolved, for failure to file reports or pay the fee, the business can 'wind down' for up to 5 years. The business status would be an indicator of the business's seriousness. This information could be included on the staff's handout to the Board as operators are discussed.

During bankruptcy, an operator's plugging and reclamation bonds are protected because it is a health and safety issue. Operators do not give the Board a 'pre-bankruptcy' notice. Usually, staff has an idea when an operator is headed towards bankruptcy.

**Motion:** Mrs. Nelson made the motion to reduce the well count of inactive wells on the change of operator policy and for commercial wells to be subject to Board's review. Mr. Gatzemeier seconded, and the motion passed via roll call vote.

### **Domestic Gas Wells**

Mr. Don Lee, attorney, asked if the Board has a domestic gas well policy. Mr. Halvorson stated that by statute the surface owner can take over an uneconomic gas well for domestic use and must provide a plugging and reclamation bond, the amount of which is also set by statute. There is no definition of a domestic well or domestic use.

The Board's recognition of a well as a domestic gas well does not protect the well operator/owner from possible mineral interest objections. Domestic well operators have historically not been required to file monthly reports.

### **John Gizicki**

Mr. Gizicki discussed Grassy Butte LLC's (Grassy Butte) compliance with Board Order 5-2020 issued at the February 13, 2020, hearing, attached Exhibit 7. At that hearing, the Board required Grassy Butte to either plug and abandon or convert to a stock water well its Kesterson #5 well before the August 6, 2020, public hearing. Doing so, the outstanding fine in the amount of \$8,500 is dismissed. Grassy Butte was also ordered to place a net over its pit by April 1, 2020, and skim the oil from the pit as weather allows.

Mr. Gizicki reported that Grassy Butte plugged the well by the deadline and the fine is dismissed. Grassy Butte also placed a net over the pit, and cleanup of the pit is ongoing. The field inspector reported over 400 barrels of oil had been removed from the pit, but oil remains.

Mr. Gizicki recommended that Grassy Butte must have the oil removed from the pit prior to the August 27, 2020, hearing application deadline. Failure to come into compliance will result in Grassy Butte being ordered to show cause at the October 1, 2020, public hearing, as to why additional penalties should not be imposed.

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

Mr. Gizicki discussed Zeiders Bros. Oil & Gas Company, LLC (Zeiders) compliance with Board Order 3-2020, issued at the February 13, 2020, hearing, attached as Exhibit 8. At that hearing, the Board required Zeiders to plug and abandon its Rudolph Haynie 1-5 well before the August 6, 2020, public hearing. Doing so, the outstanding fines in the amount of \$10,500 would be dismissed.

At that hearing, Mr. Zeiders testified that he and a consultant were working on the abandonment plans for the well and would submit a sundry notice with its intent within the next few weeks.

On February 20, 2020, an intent to abandon sundry notice from Zeiders was received for the well. Since that time, staff has had no further communications from Zeiders, and the well remains unplugged.

Mr. Gizicki recommended that Zeiders must immediately plug and abandon its Rudolph Haynie 1-5 well before the October 1, 2020, public hearing and that the outstanding fine in the amount of \$10,500 is reinstated.

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

**OTHER BUSINESS**

No other business discussed.

## **PUBLIC HEARING**

The Board reconvened on Thursday, August 6, 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 37-2020 – A motion was made by Mrs. Nelson, seconded by Mr. Gatzemeier and passed, that Cardinal Oil, LLC's application designates two spacing units, one comprised of the E½ of Section 27 and the other, the W½ of Section 27, T10N-R31E, Rosebud County, Montana, are designated to drill a Heath Formation well anywhere within each of said temporary spacing units but not closer than 200' (heel/toe setback) and 660' (lateral setback) to the exterior boundaries thereof. This is set forth in Board Order 29-2020. Mr. Welter recused himself and took no part in this matter.

Docket 38-2020 – A motion was made by Mr. Welter, seconded by Mr. Gatzemeier and passed, that staff may proceed with administrative review and approval of Carrell Oil Company DBA COCO to Cat Creek Holdings LLC's change of operator request. Cat Creek must appear at the February 2021, business meeting and provide the Board a summary of its plugging and reclamation plans for its non-producing wells. This is set forth in Board Order 30-2020.

Docket 39-2020 – A motion was made by Mr. Gatzemeier, seconded by Mrs. Nelson and passed, that staff may proceed with administrative review and approval of True Oil LLC to Three Forks Resources, LLC's change of operator request. This is set forth in Board Order 31-2020.

Docket 32-2020 – A motion was made by Mrs. Nelson, seconded by Mr. Gatzemeier and passed, that staff may proceed with administrative review and approval of Bayswater Exploration & Production, LLC to Crazy Mountain Oil & Gas LLC or Montana Energy Company LLC upon the receipt of the original change of operator request for the correct operator, submit plugging and reclamation bonds, and the operator must register with the Montana Secretary of State. The operator must appear at the April 2021, public hearing and provide an update of its activities including any reduction in abandonment liability by either plugging wells or returning wells to production or injection. This is set forth in Board Order 32-2020. Mr. Welter opposed the motion.

Docket 40-2020 – A motion was made by Mr. Trudell, seconded by Mrs. Nelson and passed, that Roland Oil and Gas is fined \$1,000 for failure to appear at the August 6, 2020, public hearing. Roland is to appear at the October 1, 2020, public hearing and show-cause, if any it has, why additional penalties should not be assessed for failure to file delinquent production reports, failure to pay the penalty assessed for delinquent reporting, and failure to appear at the August 6, 2020, public hearing. This is set forth in Board Order 33-2020.

Docket 41-2020 – A motion was made by Mrs. Nelson, seconded by Mr. Gatzemeier and passed, that Shadwell Resources Group, LLC must remedy the field compliance issues for its Velma SWD 1-10H injection well, API # 25-083-22531, located in the NW¼NW¼ of Section 10, T23N-R58E, Richland County, Montana, by August 24, 2020. Shadwell is subject to a \$250 fine for each day after August 24, 2020, that the violations remain unresolved. The fine will remain in effect until compliance is confirmed by inspection. Shadwell is fined \$1,000 for failure to appear at the August 6, 2020, public hearing and Docket 41-2020 is continued until the October 1, 2020, public hearing. This is set forth in Board Order 34-2020.

Docket 127-2019 – A motion was made by Mr. Gatzemeier, seconded by Mrs. Nelson and passed, to dismiss the show-cause hearing of Pride Energy Company. This is set forth in Board Order 35-2020.

Docket 128-2019 – A motion was made by Mr. Welter, seconded by Mr. Gatzemeier and passed, to continue Docket 128-2019, Carrell Oil Company DBA COCO, until the October 2020 hearing. Board staff has authority to dismiss the docket if the Fifer 3 well located in the SW¼NW¼NW¼ of Section 21, T15N-R30E, Petroleum County, Montana is plugged prior to the October 1, 2020, public hearing. This is set forth in Board Order 36-2020.

#### NEXT MEETINGS

The next business meeting of the Board will be Wednesday, September 30, 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, October 1, 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 October 1<sup>st</sup> public hearing is August 27, 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