

STATE OF MONTANA
DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
MINUTES OF THE
BOARD OF OIL AND GAS CONSERVATION MEETING AND PUBLIC HEARING
October 13 & 14, 2021

CALL TO ORDER

The regular business meeting of the Montana Board of Oil and Gas Conservation was called to order by Chairman Roy Brown at 2:00 p.m., Wednesday, October 13, 2021, at its office at 2535 St. Johns Avenue in Billings, Montana. Board members present were Chairman Roy Brown, Steven Durrett, Paul Gatzemeier, Mac McDermott, Mike Weber, Corey Welter, and Jeff Wivholm. Staff present was Jennifer Breton, Drew Cziok, Brea Frickle, John Gizicki, Jim Halvorson, and George Hudak.

APPROVAL OF MINUTES

A motion was made by Mr. Durrett, seconded by Mr. Welter and unanimously passed, to approve the minutes of the August 12, 2021, business meeting.

PUBLIC COMMENT ON AGENDA AND NON-AGENDA ITEMS

No comments were made.

PROPOSED HEARING SCHEDULE FOR 2022

The Board discussed the 2022 meeting schedule, attached as Exhibit 1. Below are the proposed 2022 meeting and hearing dates:

February 16 & 17, 2022
April 13 & 14, 2022
June 15 & 16, 2022
August 17 & 18, 2022
October 12 & 13, 2022
December 7 & 8, 2022

Motion: Mr. Weber made the motion to approve only the February 2022 hearing date. Mr. Welter seconded and the motion passed unanimously.

The Board will review the remaining hearing dates at the December meeting.

LONGEVITY & SERVICE AWARDS

Chairman Brown presented certificates and longevity pins to the following individuals for their years of service to the state:

Brea Frickle, 5 years
John Gizicki, 10 years
Jim Halvorson, 30 years
Kris Goll, 40 years (unable to attend)

FINANCIAL REPORT

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

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

There were no flaring exceptions to review.

INACTIVE WELL REVIEW

Mr. Halvorson discussed the inactive well review overview and spreadsheets, attached as Exhibit 6.

On the inactive well review status handout, there is a list of nineteen operators with all its fee wells that have been inactive for two or more years. The five operators indicated in green show that a resolution has been met. Staff will mail the operators not highlighted in green a follow up letter with the December business meeting as a deadline to provide a plan for its wells.

Mr. Halvorson reviewed the estimated well count for production and injection wells by operator that have been inactive for more than 10 years and the estimated plugging cost per field inspector district. The Shelby area has the most inactive wells.

The top inactive operator, Synergy Offshore LLC, has recently announced it is selling its wells to U.S. Energy Corp.

Mr. Gatzemeier wanted to know the estimated plugging liability versus the plugging and reclamation bonded well amount.

Mr. Welter wanted to know how the Board can get more funding from the Resource Indemnity Trust (RIT) fund.

Mr. Halvorson stated that the Board receives up to \$650,000 per biennium into the Damage Mitigation account from the RIT fund. These monthly deposits occur only in the first year of the biennium and started on July 1, 2021. To get additional funding into the damage mitigation account, legislation would have to be proposed during the legislative session.

STAFF REPORTS

George Hudak

Mr. Hudak discussed J&M Snake Creek Disposal, Inc. (J&M). J&M is the operator of the Picard 5-12 salt water disposal well, API # 25- 085-21354, located in the NE $\frac{1}{4}$ SW $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 12, T29N-R58E, Roosevelt County, Montana.

On January 30, 2020, J&M failed the Mechanical Integrity Test (MIT) on the Picard 5-12 well. Wells that fail the MIT must be immediately shut-in and either repaired, reworked, or plugged for abandonment within 180 days, in accordance with ARM 36.22.1414. The wells must be successfully retested for mechanical integrity before being placed in injection service.

Board staff have had numerous discussions with J&M in an effort to get this matter resolved. On January 14, 2021, J&M was informed that if the well was not in compliance by the end of the upcoming summer field season, the matter would be referred to the Board.

At the October 13, 2021, business meeting, staff reported that J&M has not repaired, reworked, or plugged the Picard 5-12 well.

Mr. Hudak recommended that J&M must show cause at the December 2, 2021, public hearing, as to why it should not immediately plug and abandon the Picard 5-12 salt water disposal well.

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

John Gizicki

Mr. Gizicki brought to the Board's attention Black Gold Energy Resource Development, LLC (Black Gold Energy Resource Development) and Black Gold Energy Richland Facility, Inc. (Black Gold Energy Richland Facility). Both companies have several violations that need to be addressed. Mr. Chris Blount is the sole owner and operator of both companies.

Black Gold Energy Resource Development is the bonded operator of the Indian Mound 1, API # 25-083-21377, located in the NE $\frac{1}{4}$ SW $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 15, T23N-R55E, in Richland County, Montana. This well location has an open pit with oil, contaminated soil, used filter socks, wind-blown garbage, and vegetation.

Black Gold Energy Richland Facility is the bonded operator of the Velma SWD 1-10H, API # 25-083-22531, located in the NW $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 10, T23N-R58E, Richland County, Montana. This well location has wind-blown garbage, vegetation, and an inaccurate well sign that does not reflect the current operator.

On September 9, 2021 and September 16, 2021, certified letters were sent to Mr. Blount detailing the above listed field compliance issues at the Indian Mound 1 and the Velma SWD 1-10H well locations. An October

13, 2021, deadline was given to address the compliance issues, or this matter would be brought up at the Board Business meeting.

On September 21, 2021, staff spoke with Mr. Blount about the locations for both companies.

An inspection performed on October 12, 2021, indicated that no action had been taken.

Mr. Gizicki recommended that Black Gold Energy Resource Development and Black Gold Energy Richland Facility must show cause at the December 2, 2021, public hearing, why additional penalties should not be considered for failure to remedy the field violations.

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

The Board requested that a reminder of the legal counsel requirement be added to the letter.

The Board discussed Mr. Blount's track record of violations.

Mr. Cziok is going to investigate the Board's options regarding problem operators and individuals for the next meeting.

Mr. Welter requested a list of Black Gold Energy Resource Development and Black Gold Energy Richland Facility's violations.

The second operator Mr. Gizicki discussed was SDOCO, LLC (SDOCO) who is the bonded operator of nineteen wells. The following four wells have compliance issues.

- **BN 11-15**, API # 25-055-21070, located in the NW $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 15, T22N-47E, McCone County, Montana has a rusty and leaking tank battery transfer line. It is estimated that five barrels of oil/produced water has been released. Additionally, this location needs vegetation control.
- **Lundblad 1 SWD**, API # 25-055-21107, located in the NW $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 2, T22N-R47E, McCone County, Montana has an oil spill in the pump house and needs vegetation control.
- **Clubb 1**, API # 25-055-21100, located in the SE $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 2, T22N-47E, McCone County, Montana has a spill in the pump house and needs vegetation control.
- **Burlington B-2**, API # 25-055-21111, located in the SE $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 1, T22N-R47E, McCone County, Montana needs vegetation control.

On May 27, 2021, a certified letter was sent to SDOCO to address the BN 11-15 leaking transfer line and contaminated soil. This certified letter was delivered on June 7, 2021. On June 11, 2021, staff received a letter from J. Robert Tuck stating that the issue was resolved. An inspection on June 9, 2021 and July 8, 2021, indicated the issues remain.

On September 9, 2021, a certified letter was sent to SDOCO to address the compliance issues that remain at the BN 11-15 location and to address the vegetation on the four well locations listed above in addition to the contaminated soil at the Lundblad 1 SWD and Clubb 1 wells. A deadline of October 13, 2021, was given to resolve the compliance issues or SDOCO would be brought up at the Board Business meeting.

This certified letter was delivered on September 13, 2021. On September 27, 2021, staff received a letter from SDOCO stating that the issues were resolved. An inspection performed prior to this meeting indicated that issues remain. Staff will meet with SDOCO in the field to review the remaining compliance issues.

Mr. Gizicki recommended that SDOCO must have the well locations in compliance by the October 28, 2021, hearing application deadline. Failure to come into compliance by that date, SDOCO will be ordered to show cause at the December 2, 2021, public hearing as to why penalties should not be considered for failure to remedy the field violations.

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

Jim Halvorson

Mr. Halvorson provided an update on weed control that was discussed at the previous meeting. Staff is working on a weed control policy for field inspectors.

Since the last meeting, Mr. Jones and Mr. Gizicki went into the field and cleared many field locations that had weed control issues. Many operators are developing their own weed control programs.

Mr. Popp and Mr. Gizicki will go into the field to resolve any remaining weed control discrepancies.

Mr. Halvorson discussed the change of operator policy regarding orphan wells. Mr. Halvorson requested that the Board exempt operators who take over orphan wells that have future economic life as long as the operator is in good standing and demonstrates it has the legal right to operator the wells by providing a lease. Staff still has the authority to refer orphan well transfers to the board.

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

OTHER BUSINESS

No other business discussed.

EXEMPT STAFF PERFORMANCE REVIEWS

Exempt staff performance reviews were done in a closed session meeting.

PUBLIC HEARING

The Board reconvened on Thursday, October 14, 2021, 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 77-2021 – A motion was made by Mr. Weber, seconded by Mr. Gatzemeier and unanimously passed, to approve the application of Kraken Oil & Gas LLC as set forth in Board Order 74-2021.

Docket 78-2021 – A motion was made by Mr. Weber, seconded by Mr. Gatzemeier and unanimously passed, to approve the application of Kraken Oil & Gas LLC as set forth in Board Order 75-2021.

Docket 79-2021 – The application of Kraken Oil & Gas LLC was continued to the December 2021 hearing.

Docket 80-2021 – The application of Kraken Oil & Gas LLC was continued to the December 2021 hearing.

Docket 81-2021 – Board staff placed this application on the Default Docket for approval without hearing if no protests or requests for hearing were received by 10:00 a.m. on the day of the hearing. None were received. The application of Hydra MT, LLC was approved as set forth in Board Order 77-2021.

Docket 65-2021 – The application of Empire North Dakota LLC was withdrawn.

Docket 82-2021 – A motion was made by Mr. Durrett, seconded by Mr. Wivholm and unanimously passed that staff may proceed with administrative review and approval of the Galuska Exploration & Production LLC and Galuska, George R. to Three Forks Resources, LLC change of operator requests. This is set forth in Board Order 76-2021.

Docket 83-2021 – A motion was made by Mr. Welter, seconded by Mr. McDermott and unanimously passed that staff may proceed with administrative review of A.B. Energy LLC's change of operator request. This is set forth in Board Order 78-2021.

Docket 84-2021 – The application of MCR, LLC was withdrawn.

Docket 85-2021 – The show-cause hearing of Big Sky Energy, LLC was dismissed.

Docket 86-2021 – The show-cause hearing of Drawings, LLC was dismissed.

Docket 87-2021 – The show-cause hearing of MLB, LLC was dismissed.

Docket 88-2021 – A motion was made by Mr. Durrett, seconded by Mr. Weber and unanimously passed that American Midwest Oil & Gas Corp. is fined \$1,000 for failure to appear at the October 14, 2021, public hearing. American Midwest Oil & Gas Corp. must begin to plug and abandon its wells in Toole County, Montana prior to the December 2, 2021, public hearing. Failure to begin to plug and abandon the wells may result in additional penalties or 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 81-2021.

Docket 89-2021 – A motion was made by Mr. Weber, seconded by Mr. Welter and passed that Kykuit Resources, LLC is fined \$1,000 for failure to appear at the October 14, 2021, public hearing. Kykuit Resources, LLC must begin to plug and abandon its wells not capable of production prior to the December 2, 2021, public hearing. Failure to begin to plug and abandon the wells may result in additional penalties or 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 82-2021.

Docket 90-2021 – A motion was made by Mr. Welter, seconded by Mr. Weber and unanimously passed that Docket 90-2021, Roland Oil and Gas, is continued until the December 2, 2021, public hearing. This is set forth in Board Order 80-2021.

Docket 52-2020 – A motion was made by Mr. Gatzemeier, seconded by Mr. Durrett and unanimously passed that Docket 52-2020, Zeiders Bros. Oil & Gas, LLC, is dismissed and the outstanding fine of \$12,500 remains in effect. This is set forth in Board Order 83-2021.

Docket 32-2021 – A motion was made by Mr. Gatzemeier, seconded by Mr. Weber and unanimously passed that Docket 32-2021, Forward Energy, LLC, is continued until the December 2, 2021, public hearing. Forward Energy, LLC and its legal counsel must appear at the December 2, 2021, public hearing. This is set forth in Board Order 84-2021.

Docket 73-2021 – A motion was made by Mr. Durrett, seconded by Mr. Gatzemeier and unanimously passed that that Docket 73-2021, Highlands Montana Corporation, is continued until the December 2, 2021, public hearing. This is set forth in Board Order 79-2021.

Docket 75-2021 – A motion was made by Mr. Gatzemeier, seconded by Mr. Welter and unanimously passed that Pamect Oil, Keith E. Tyner DbA and Lowrance-Tyner Operating must show cause at the December 2, 2021, public hearing for why it should not immediately plug and abandon its non-producing wells in Pondera and Teton Counties, Montana. This is set forth in Board Order 85-2021.

NEXT MEETINGS

The next business meeting of the Board will be Wednesday, December 1, 2021, 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 2, 2021, 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 2nd public hearing is October 28, 2021.

BOARD OF OIL AND GAS CONSERVATION OF THE STATE OF MONTANA

Roy Brown, Chairman
Steven Durrett, Vice-Chairman
Paul Gatzemeier, Board Member
Mac McDermott, Board Member
Joseph Michael Weber, Board Member
Corey Welter, Board Member
Jeff Wivholm, Board Member

ATTEST:

Jennifer Breton, Program Specialist