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, 2015

CALL TO ORDER

The regular business meeting of the Montana Board of Oil and Gas Conservation was called to order by Chairman Linda Nelson at 3:10 p.m., Wednesday, June 24, 2015, at its office at 2535 St. Johns Avenue in Billings, Montana. Board members present were Chairman Linda Nelson, Steven Durrett, Ronald S. Efta, John Evans, Paul Gatzemeier, and Peggy Ames Nerud. Staff present was John Gizicki, Jim Halvorson, George Hudak, Ben Jones, Dave Popp, Jennifer Rath, Erin Ricci, and Rob Stutz. Vice Chairman Wayne Smith was absent.

APPROVAL OF MINUTES

The April 29, 2015 business meeting minutes stand approved.

PUBLIC COMMENT

Mr. Dale Nelson brought before the Board his concerns about the Crusch Two Fee 14-18 well located in the SW¼SW¼ of Section 18, T30N, R59E, Roosevelt County, Montana and operated by Samson Resources Company (Samson). This well is located on his property and had a spill of salt water that entered a slough, roughly 9 acres in size.

Mr. Halvorson stated the Department of Environmental Quality (DEQ), Fish and Wildlife Services, and Samson Resources are each putting together a plan on how to proceed in wetland contamination. Chairman Nelson recommended Mr. Nelson to talk with state legislators.

Staff will follow up with DEQ's progress.

REVIEW OF AND ACTION ON SETTLEMENT AGREEMENT FOR HEKKEL LITIGATION

Mr. Stutz reviewed the terms of the Hekkel settlement reached in appellate mediation. There will be no financial impact to the Board, no required changes to the Board's practices, and all parties agreed the issued Board Order will remain in effect.

Mr. Stutz recommended and the Board concurred to authorize Mr. Halvorson to sign the settlement agreement that states the Board Order is to remain in effect, the Board does not need to change its practices, and the Board does not have to pay a fine or money to other parties, included attorney fees.

FINANCIAL STATEMENT

Ms. Rath passed out and discussed the financial statement attached as Exhibit 1.

PLUGGING AND RECLAMATION PRIORITY

Mr. Halvorson passed out the plugging and reclamation priority list and the well ranking criteria, attached as Exhibit 2. There are 40-50 wells on the list.

The Kopp #1 well located in the W½NE¼SW¼ of Section 10, T24N, R57E Richland County, Montana ranks the highest in plugging priority due to it leaking H2S. This well is expected to exceed $100,000 in plugging costs. This well is currently the highest priority well and contracting procedures have been initiated.

Another top priority well is the Flack 1 well located in the SE¼SE¼NE¼ of Section 12, T28N, R11E, Chouteau County, Montana. This well was discovered by Field Inspector Gary Klotz several years ago and was drilled in the 1920s. The well is interfering with land use and is leaking water and gas.

The Obergfell 1-33 well located in the SE¼SE¼ of Section 33, T23N, R57E, Richland County, Montana is contaminated by a saltwater pit. Mr. Halvorson is considering contacting the Bureau of Mines for assistance in determining the scope of the required work.

Mr. Halvorson requested that the Board approve the plugging and reclamation ranking method based on priority. The plan is to work down the list and when possible group wells in the same area to cut mobilization costs. Mr. Gatzemeir asked how the ranking method was established. Mr. Halvorson said it was based on risk and was developed at the request of the legislative committee that had previously overseen the plugging grants.

> **Motion** – Ms. Ames-Nerud made the motion to approve the recommendation and Mr. Efta seconded. The motion passed unanimously.

BOND SUMMARY & SPILL REPORT

Mr. Halvorson discussed the bond report, attached as Exhibit 3. The purpose of a bond is to cover the plugging and reclamation of a well. Not all of the wells where a bond is forfeited have to be plugged by the Board. When a bond is forfeited, other companies have the opportunity to put up a new bond and become the operator of the well. If the Board is required to plug a well and the bond amount does not cover the entire cost, additional costs are covered by the Damage Mitigation Account. The Board also has authority under statute, after notice and hearing, to require a higher bond.

Mr. Halvorson discussed the spill report, attached as Exhibit 4.

DOCKET SUMMARY

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

GAS FLARING REPORT

Mr. Jones discussed the gas flaring report, attached as Exhibit 6. The Board's rule allows up to 100 mcf/day of gas to be flared based upon a monthly average.

Mr. Jones stated Statoil Oil & Gas can be removed from the list of operators with wells needing exceptions; he was informed prior to the meeting its wells were no longer flaring over the limit. There are 44 wells flaring in excess of 100 mcf/day at this time, up from 38 wells at the last meeting.

There are 21 flaring exception requests at this time. Of the 21 flaring exception requests, 20 are flaring due to pipeline/gas plant capacity issues and one flaring due to gas composition. Mr. Jones recommended a six month flaring exception for the 21 wells.

> **Motion** – Mr. Gatzemeier made the motion to approve the recommendations. Mr. Durrett seconded and the motion passed unanimously.

STAFF REPORT

John Gizicki

Mr. Gizicki brought to the Board's attention Interstate Exploration, LLC (Interstate), Exhibit 7. The Nelson 2-1 well located in the SE¼NW¼NE¼ of Section 30, T14N, R60E, Wibaux County, Montana was spudded on November 12, 2014. On May 19, 2015, the reserve pit at this location was found to contain oil and was not netted. Interstate was notified of the violation by the inspector on May 19, 2015, to which Interstate responded with a detailed plan proposing a net installation on June 16, 2015. As of June 24, 2015, no remedies had been initiated.

Mr. Gizicki recommended Interstate be fined, upon notification, $250.00 per day until the net is in place.

> **Motion** – Ms. Ames-Nerud made the motion to approve the recommendations and Mr. Efta seconded. The motion passed unanimously.

Rob Stutz

Mr. Stutz gave a litigation update. The Carbon Resource Council case is pending and still awaiting a decision.

There is a new lawsuit from Omimex Petroleum, Inc. The Board is the only plaintiff in the case and it challenges Board Order 29-2015 regarding the pooling of production from the Reveille Federal 2759 14-26H.

On July 27, 2015, the Board will respond to the rulemaking process for the certification of carbon sequestration equipment. Comments in regards to this matter will be accepted up to July 23, 2015.

OTHER BUSINESS

No other business discussed.

PUBLIC HEARING

The Board reconvened on Thursday, June 25, 2015, at 8:00 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, and technical data placed before the Board, the following action was taken in each matter.

Docket No. 99-2015 – A motion was made by Mr. Efta, seconded by Mr. Gatemeier and unanimously passed, to approve the application of Denbury Onshore, LLC as set forth in Board Order 107-2015.

Docket No. 100-2015 – 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 True Oil LLC was approved as set forth in Board Order 119-2015.

Docket No. 101-2015 – A motion was made by Mr. Gatzemeier, seconded by Mr. Evans and unanimously passed, to approve the application of Kraken Oil & Gas LLC as set forth in Board Order 112-2015.

Docket No. 102-2015 – A motion was made by Mr. Gatzemeier, seconded by Mr. Evans and unanimously passed, to approve the application of Kraken Oil & Gas LLC as set forth in Board Order 113-2015.

Docket No. 103-2015 – A motion was made by Mr. Efta, seconded by Ms. Ames-Nerud and unanimously passed, to approve the application of Kraken Oil & Gas LLC as set forth in Board Order 114-2015.

Docket No. 104-2015 – A motion was made by Mr. Efta, seconded by Ms. Ames-Nerud and unanimously passed, to approve the application of Kraken Oil & Gas LLC as set forth in Board Order 115-2015.

Docket No. 105-2015 – 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 Kraken Oil & Gas LLC was approved as set forth in Board Order 120-2015.

Docket No. 106-2015 – 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 Kraken Oil & Gas LLC was approved as set forth in Board Order 121-2015.

Docket No. 107-2015 – A motion was made by Mr. Evans, seconded by Ms. Ames-Nerud and unanimously passed, to approve the application of Kraken Oil & Gas LLC as set forth in Board Order 116-2015.

Docket No. 108-2015 – A motion was made by Mr. Evans, seconded by Ms. Ames-Nerud and unanimously passed, to approve the application of Kraken Oil & Gas LLC as set forth in Board Order 117-2015.

Docket No. 109-2015 – 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 Kraken Oil & Gas LLC was approved as set forth in Board Order 122-2015.

Docket No. 110-2015 – 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 Kraken Oil & Gas LLC was approved as set forth in Board Order 123-2015.

Docket No. 111-2015 – A motion was made by Mr. Durrett, seconded by Mr. Gatzemeier and unanimously passed, to approve the application of Wolf Operating, LLC as set forth in Board Order 108-2015.

Docket No. 112-2015 – The application of Wolf Operating, LLC involves land under the jurisdiction of the BLM. The order will be issued by the BLM. BLM noted there was no protest for this docket.

Docket No. 113-2015 – A motion was made by Mr. Durrett, seconded by Mr. Gatzemeier and unanimously passed, to approve the application of Wolf Operating, LLC as set forth in Board Order 109-2015.

Docket No. 114-2015 – A motion was made by Ms. Ames-Nerud, seconded by Mr. Evans, to acknowledgement the Board's jurisdiction to the notice requirement and not to any other issues identified in this proceeding and to fine J. Burns Brown Operating Co. $100.00 per day for the four days between the expiration of the required 180-day notice period and the commencement of activity that disturbed the land surface. The motion failed.

A second motion made by Mr. Gatzemeier, seconded by Mr. Durrett and unanimously passed, to approve the Board's acknowledgement to its jurisdiction to the notice requirement and not to any other issues identified in this proceeding.

A third motion was made by Chairman Nelson, seconded by Ms. Ames-Nerud and passed approved fining J. Burns Brown Operating Co. $100.00 per day for the four days between the expiration of the required 180-day notice period and the commencement of activity that disturbed the land surface as set forth in Board Order 111-2015.

Docket No. 115-2015 – A motion was made by Mr. Durrett, seconded by Mr. Efta and unanimously passed, to approve the application of Petro-Sentinel LLC as set forth in Board Order 110-2015.

Docket No. 116-2015 – The application of Synergy Offshore, LLC was continued to the August 2015 hearing.

Docket No. 117-2015 – The application of Synergy Offshore, LLC was continued to the August 2015 hearing.

Docket No. 118-2015 – The application of XTO Energy Inc. was continued to the August 2015 hearing.

Docket No. 119-2015 – The application of XTO Energy Inc. was continued to the August 2015 hearing.

Docket No. 2-2015 – The application of Interstate Exploration LLC was continued to the August 2015 hearing.

Docket No. 3-2015 – The application of Interstate Exploration LLC was continued to the August 2015 hearing.

Docket No. 46-2015 – A motion was made by Mr. Evans, seconded by Mr. Gatzemeier and unanimously passed, to approve the application of Statoil Oil & Gas LP as set forth in Board Order 118-2015.

Docket No. 78-2015 – The application of Oasis Petroleum, Inc. was continued to the August 2015 hearing.

Docket No. 120-2014 – A motion was made by Mr. Gatzemeier, seconded by Mr. Evans and unanimously passed, to continue the Show-Cause Hearing of Pride Energy Company until the Board's August 13, 2015 hearing. This is set forth in Board Order 124-2015.

Docket No. 121-2014 – A motion was made by Ms. Ames-Nerud, seconded by Mr. Gatzemeier and passed, that Custom Carbon Processing, Inc. remedy the violations on or before July 1, 2015. Additionally, Custom Carbon Processing, Inc. is subject to a $250.00 fine for each day after July 1, 2015 that the violations remain unresolved and fined $1,000.00 for failure to address the violations prior to the May 21, 2015 deadline. This is set forth in Board Order 125-2015. Mr. Efta recused himself and took no part in this matter.

Docket No. 122-2014 – A motion was made by Mr. Durrett, seconded by Mr. Efta and unanimously passed, to have Coastal Petroleum Company appear at the August 13, 2015 public hearing and show-cause, if any it has, why its plugging and reclamation bond should not be forfeited for failure to properly reclaim the location of the State 7-16 well. This is set forth in Board Order 126-2015.

Docket No. 338-2014 – A motion was made by Mr. Durrett, seconded by Mr. Gatzemeier and unanimously passed, to continue the Show-Cause Hearing for K2 America Corporation until June 2016 or next public hearing thereafter. Additionally, Docket 338-2014 will be rescheduled immediately should K2 fail to comply with reporting or other regulatory requirements at any time prior to June 2016. This is set forth in Board Order 127-2015.

Docket No. 362-2014 – A motion was made by Mr. Gatzemeier, seconded by Mr. Evans and unanimously passed, to dismiss Docket 362-2014, Wexco Exploration, LLC. This is set forth in Board Order 128-2015.

Docket No. 34-2015 – A motion was made by Ms. Ames-Nerud, seconded by Mr. Efta and unanimously passed, to have Cavalier Petroleum appear at the August 13, 2015 public hearing and show-cause, if any it has, why its plugging and reclamation bond should not be forfeited for failure to properly plug its wells or provide a timeline for the proper plugging and reclamation of its wells. This is set forth in Board Order 129-2015.

Docket No. 95-2015 – A motion was made by Mr. Gatzemeier, seconded by Mr. Durrett and unanimously passed, to have Kelly Oil and Gas, LLC appear at the August 13, 2015 public hearing. Additionally, remedy the violations at the Dybvik KV-1 and Stensvad 2X-25 wells and submit a plan to repair or plug the State E-2 injection well by the August 13, 2015 public hearing. This is set forth in Board Order 130-2015.

Docket No. 96-2015 – A motion was made by Ms. Ames-Nerud, seconded by Mr. Gatzemeier and unanimously passed to have Alturas Energy come into full compliance with field violations by August 1, 2015 and appear at the August 13, 2015 public hearing to report its progress. Additionally, Alturas Energy LLC is to pay the outstanding fine of $1,000.00 by July 1, 2015. This is set forth in Board Order 131-2015.

Docket No. 97-2015 – A motion was made by Mr. Efta, seconded by Ms. Ames-Nerud and unanimously passed, to continue Augusta Exploration, LLC until August 13, 2015 public hearing. This is set forth in Board Order 132-2015.

NEXT MEETING

The next business meeting of the Board will be Wednesday, August 12, 2015, 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 13, 2015, beginning at 8:00 a.m. at the Board's hearing room at its office at the 2535 St. Johns Avenue in Billings, Montana. The filing deadline for the August 13, 2015, public hearing is July 9, 2015.

BOARD OF OIL AND GAS CONSERVATION
OF THE STATE OF MONTANA

Linda Nelson, Chairman
Steven Durrett, Board Member
Ronald S. Efta, Board Member
John Evans, Board Member
Paul Gatzemeier, Board Member
Peggy Ames-Nerud, Board Member

ATTEST:

Jennifer Rath, Program Specialist