

STATE OF MONTANA
DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
MINUTES OF THE
BOARD OF OIL AND GAS CONSERVATION MEETING

March 26, 1992

A regular meeting of the Board of Oil and Gas Conservation was called to order by Chairman Warren H. Ross at 8:00 a.m. on Thursday March 26, 1992 in the Frontier Room, Radisson Northern Hotel, Billings, Montana.

Board members present were Warren H. Ross, Chairman; Dean Swanson, Vice-chairman; James C. Nelson; Stanley Lund; Robert B. Rhodes, Jr. and David Schaenen.

Staff members present were Thomas P. Richmond, Administrator and Petroleum Engineer; James W. Halvorson, Petroleum Geologist; Timothy C. Fox, Environmental Coordinator; Dee Rickman, Executive Secretary; Donald A. Garrity, Attorney and Steven Sasaki, Northern District Field Inspector.

Reading of the minutes of the January 30, 1992 meeting was dispensed with inasmuch as a copy of the minutes was sent to each Board member prior to this meeting.

MOTION: A motion was made by Mr. Swanson, seconded by Mr. Rhodes and unanimously passed that the minutes of the January 30, 1992 meeting be approved.

BOND REPORT

Mrs. Rickman provided copies of the bond report for the period January 29, 1992 through March 24, 1992. Five new bonds were approved, five bond were released for cancellation and one was suspended.

FINANCIAL REPORT

Mrs. Rickman provided copies of the financial report for the period ending February 29, 1992.

PROPOSED BONDING AND IDLE WELL REQUIREMENTS

At the direction of the Board on January 30, 1992, the staff prepared proposed amendments to Board Rules 36.22.1308 *Plugging and Restoration Bond* and 36.22.1242 *Reports by Producers*, along with a proposed new rule to require reporting of well status changes. Copies of the proposed new and amended rules were circulated to the board members and to the two petroleum associations prior to today's meeting. A summary of Wyoming's proposed rules on idle wells was also included.

The Board discussed the proposed amendments to the bond rule which provide for an increase in the amount of a multiple well bond to \$25,000 and an increase in the amount of a single well (deeper than 3,500 feet) bond to \$10,000. The proposed amendments also provide that the Board may require up to twice those amounts when deemed necessary for an operator to be in compliance with the rule and, or in lieu of, may limit the number of wells that may be covered by a multiple well bond. This discretionary language gave rise to concern about the Board's opportunity and authority to exercise those options. After lengthy discussion about the problems that might lead to requiring limitation of the number of wells covered

by a bond or requiring the bond amount to be increased, the board decided to consider adopting a rule which would provide that any action which may be granted administratively by the staff may, at the staff's discretion, be referred to the Board.

MOTION: A motion was made by Mr. Nelson, seconded by Mr. Swanson and unanimously passed directing the staff to draft a new rule to provide that any action which may be granted administratively by the staff may, at the staff's discretion, be referred to the Board. The staff was directed to circulate the proposed new rule to the board members for review prior to publishing it and the proposed amendments to Rule 36.22.1308 in the Montana Administrative Register for public hearing and adoption.

The Board also discussed possible ways of bonding or posting other security for inactive wells separately from active wells. They directed the staff to draft language for their review to require bonding of idle wells separately on a per foot charge basis for each well bore. They also discussed the possibility of assessing an annual fee for idle wells in lieu of a bond. Such action would require legislation to grant the board authority to assess an idle well fee. The Board will review these options for possible adoption with a deferred effective date after the next legislative session. As discussed in the minutes of the January 30, 1992 meeting, Senator Gage proposes to introduce legislation to address the idle well problem by providing adequate funding for the oil and gas damage mitigation account from the Resource Indemnity Trust tax.

In conjunction with the discussion concerning idle wells, the Board discussed the proposed amendment to Board Rule 36.22.1242 which would require operators to report the status of all unplugged wells each month on Report of Production, Form No. 6. They also discussed a proposed new rule which would require an operator to report the change in status of wells from active to inactive or from producing to nonproducing. The proposed new rule would also require reporting the return of a well to active or producing status if the well was idle for six or more consecutive months.

MOTION: A motion was made by Mr. Rhodes, seconded by Mr. Schaenen and unanimously passed directing the staff to draft a new rule to require the filing of well status change reports on board Form No. 2. The new proposed rule is to be circulated to the Board for review and then published along with the proposed amendment to Rule 36.22.1242, requiring monthly reporting of all unplugged wells on Board Form No. 6, in the Montana Administrative Register for public hearing and adoption.

Mr. Richmond also advised the Board that in conjunction with publishing the above discussed proposed new and amended rules, the notice should also include a corrected definition for the term "degrade," in response to comments received from the Water Quality Bureau of the Dept. of Health and Environmental Sciences. The term was defined in our recently adopted rules to include references to "mixing zones" which are outside of the Board's authority.

MOTION: A motion was made by Mr. Schaenen, seconded by Mr. Rhodes and unanimously passed directing the staff to include the corrected definition for the term "degrade" in the next rulemaking notice.

ENVIRONMENTAL QUALITY COUNCIL - COMMENTS ON RULES

Prior to today's meeting, copies of correspondence from Jerry Driscoll, Chairman of the Environmental Quality Council, and Mr. Richmond's response to Mr. Driscoll's letter were sent to each of the Board members. Mr. Driscoll requested written responses to the comments provided by the Environmental Quality Council on the Board's recently adopted new and amended rules. EQC's comments were received after the Board adopted the rules on January 30, 1992. In addition to Mr. Richmond's detailed written response to the comments, the EQC has requested the Board to attend its meeting in Helena on April 3, 1992 to update the Council on the Board's activities, including a presentation on the Board's response to its comments. Mr. Richmond and Mr. Nelson will attend that meeting.

WATER QUALITY BUREAU - PROPOSED GROUNDWATER POLLUTION CONTROL RULES

On March 16, 1992 Mr. Richmond received a letter from Art Wittich, Chief Environmental Counsel to Governor Stephens, requesting comments on a draft notice of proposed amendments to the Water Quality Bureau's rules concerning exclusion to the groundwater permit requirements. Tom circulated copies of Mr. Wittich's letter and his response to the board members on March 18. The Water Quality Bureau proposes to regulate underground injection activities, injection wells, reserve pits, and produced water pits associated with oil and gas exploration and production activities. The proposed amendments appear to be a duplicate regulatory system for activities under the Board's exclusive jurisdiction and regulated by the Board for almost 40 years. Mr. Richmond's response noted that our recently adopted rules include requirements for a reserve pit permit system and permit systems for all existing and new production pits along with numerous other stringent environmental rules to protect Montana's water sources. Mr. Richmond expressed surprise that the WQB has at this time proposed these changes which, if adopted, would supplant many of our recently adopted rules. There was no indication during the several months that our rules were being developed that the WQB was considering rules to disallow exclusions from the its groundwater permit requirements for oil and gas drilling and production operations. Mr. Richmond's letter noted that the proposed WQB rules could scuttle the Board's application for primacy of the UIC program and would likely have a significant impact on the industry both in terms of cost and length of time necessary to receive approval of an application for a drilling permit.

Following discussion of this matter, the Board chose to go on record in concurrence with the comments and conclusions prepared by Tom in response to Mr. Wittich's request concerning the WQB's draft proposed rules.

STATUS REPORT ON PLUGGING PROJECTS

Mr. Halvorson reported that the RFP for plugging, abandonment and site restoration of the Haskell #1 well in Dawson County, which is the first project under our Grant Project "A," has been advertised. A proposer's conference will be held on April 16, 1992 and the closing date for receipt of proposals is April 29, 1992. Work plans have been developed for all of the projects in Grant Project "A." Jim said that two applications will be submitted to DNRC for the next RDGP grant cycle which will ultimately be submitted to the 1993 Legislature for approval. One of the applications will cover well sites in Cat Creek Field and the other will cover various small projects in the Northern District.

UIC PROPOSED RULES

Mr. Fox reported that the notice of public hearing on the proposed adoption of new rules to implement the Underground Injection Control Program was published in the Montana Administrative Register on March 16, 1992. The hearing is scheduled to be held in Billings on May 7 in conjunction with the Board's next meeting. Mr. Fox said that he received a call from Paul Osborne of the Denver EPA office after we published the notice of public hearing on the proposed UIC rules. Mr. Osborne was disappointed that the Board was proceeding with the hearing on the proposed rules at this time. EPA officials indicated last September that our proposed program was acceptable and that they would soon give formal approval, but they have not yet done so. EPA apparently was still expecting to suggest some additional changes after the Advisory Committee on Class II Injection Wells completed its study and provided its recommendations for changes for the various state programs.

Mr. Richmond said that he would invite Mr. Osborne and others to attend an informal public open house on May 6 at 1:00 p.m. at the Board's Billings office. The purpose of the meeting would be to allow Board members, staff and interested public and industry personnel an opportunity to discuss the proposed rules and the UIC program in general.

SOLID WASTE MANAGEMENT PROJECT--EPA GRANT

Mr. Fox reported that requests for proposals for the solid waste management project have been prepared and will soon be advertised. A proposers conference will be held at the Billings office on April 24, 1992 and the deadline for submitting proposals will be May 8, 1992. The contract is to be awarded by May 15, 1992, calling for work to begin by May 25. Site selection and sampling will be conducted in June and July. Mr Fox said that representatives from EPA's Solid Waste Branch in Washington, D.C. have requested to visit during that time and to ride with one of our field inspectors who is involved in the project.

IOGCC REGULATORY COMMITTEE STUDY

Mr. Richmond reported that Bill Smith, former administrator of the Colorado Oil and Gas Board, has been contracted by the Interstate Oil and Gas Compact Commission to conduct a study of the regulatory programs of various states. The purpose of the study is to determine the financial impacts on the state's programs and increases in personnel resulting from rules adopted for environmental protection purposes. He said that Mr. Smith would be visiting the Billings office on April 1, 1992 to discuss those issues with our staff.

IOGCC MID-YEAR MEETING

The next meeting of the Interstate Oil and Gas Compact Commission will be held in Wichita, Kansas June 21 - 24, 1992.

MOTION: A motion was made by Mr. Nelson, seconded by Mr. Swanson and unanimously passed authorizing Mr. Richmond and one board member to attend the IOGCC meeting in Wichita, Kansas.

PUBLIC HEARING

At 10:00 a.m. Chairman Warren Ross announced that the Board would hear the applications scheduled for the March 26, 1992 public hearing. As a result of the discussion, study, testimony and technical data placed before the Board the following action was taken in each matter.

MOTION: A motion was made by Mr. Nelson, seconded by Mr. Rhodes and passed that the application of Pennzoil Exploration and Production Company heard under Docket No. 86-91 be granted as set forth by Board Order No. 11-92. Vice Chairman Swanson opposed the motion.

MOTION: A motion was made by Mr. Schaenen, seconded by Mr. Rhodes and unanimously passed that the application of True Oil Company heard under Docket No. 87-91 be granted as set forth by Board Order No. 12-92.

MOTION: A motion was made by Mr. Schaenen, seconded by Mr. Swanson and unanimously passed that the applications of E. C. Yegen heard under Dockets No. 11-92, 12-92 and 13-92 be granted as set forth by Board Orders No. 13-92, 14-92 and 15-92 respectively.

MOTION: A motion was made by Mr. Lund, seconded by Mr. Nelson and unanimously passed that the application of Justice Water Service heard under Docket No. 14-92 be granted as set forth by Board Order No. 16-92.

At the outset of the hearing of Docket No. 15-92, Board members Robert B. Rhodes, Jr. and Dean Swanson announced that they deemed themselves disqualified to participate in the hearing and they took no further part in the proceedings by the Board on this matter.

MOTION: A motion was made by Mr. Nelson, seconded by Mr. Lund and unanimously passed that the application of Somont Oil Company heard under Docket No. 15-92 be granted as set forth by Board Order No. 17-92.

MOTION: A motion was made by Mr. Swanson, seconded by Mr. Schaenen and unanimously passed that the application of Balcron Oil Company heard under Docket No. 16-92 be granted in the manner set forth by Board Order No. 18-92.

MOTION: A motion was made by Mr. Schaenen, seconded by Mr. Swanson and unanimously passed that the application of Cenex heard under Docket No. 17-92 be granted as amended and set forth by Board Order No. 19-92.

MOTION: A motion was made by Mr. Swanson, seconded by Mr. Rhodes and unanimously passed that the application of Macum Energy, Inc. heard under Docket No. 18-92 be granted as set forth by Board Order No. 20-92.

Dockets No. 19-92 and 20-92, upon the application of Texaco Inc., were withdrawn at the request of the applicant.

MOTION: A motion was made by Mr. Swanson, seconded by Mr. Nelson and unanimously passed that the applications of Beartooth Oil and Gas Company heard under Dockets No. 21-92 and 22-92 be granted as set forth by Board Orders No. 21-92 and 22-92 respectively.

MOTION: A motion was made by Mr. Schaenen, seconded by Mr. Rhodes and unanimously passed that the application of Beartooth Oil and Gas Company heard under Docket No. 23-92 be granted as set forth by Board Order No. 23-92.

MOTION: A motion was made by Mr. Nelson, seconded by Mr. Lund and unanimously passed that the application of Keesun Corporation heard under Docket No. 24-92 be granted as set forth by Board Order No. 24-92.

MOTION: A motion was made by Mr. Schaenen, seconded by Mr. Rhodes and unanimously passed that the application of J. Burns Brown Operating Company heard under Docket No. 25-92 be granted as set forth by Board Order No. 25-92.

Docket No. 26-92, upon the application of J. Burns Brown Operating Company, was withdrawn at the request of the applicant.

At the outset of the hearing of Docket No. 27-92, Board member Jim Nelson announced that he deemed himself disqualified to participate in the hearing and he took no further part in the proceedings by the Board on this matter.

MOTION: A motion was made by Mr. Schaenen, seconded by Mr. Rhodes and unanimously passed that the application of Union Oil Company of California heard under Docket No. 27-92 be granted as set forth by Board Order No. 26-92.

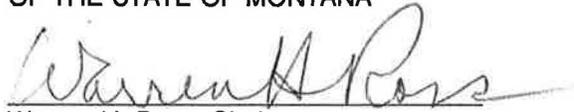
MOTION: A motion was made by Mr. Nelson, seconded by Mr. Swanson and unanimously passed that the application of Norfolk Energy Inc. heard under Docket No. 28-92 be granted as set forth by Board Order No. 27-92.

MEETING DATES

The next regular meeting of the Board of Oil and Gas Conservation is scheduled to be held on Thursday, May 7, 1992 in the Frontier Room, Radisson Northern Hotel, Billings, Montana. The filing deadline for said hearing is Thursday, February 27, 1992. A meeting has also been scheduled for June 25, 1992 to be held at the Billings Petroleum Club, Billings, Montana. The filing deadline for that meeting is May 28, 1992.

The meeting adjourned at 7:00 p.m. Thursday, March 26, 1992.

BOARD OF OIL AND GAS CONSERVATION
OF THE STATE OF MONTANA



Warren H. Ross, Chairman
Dean A. Swanson, Vice Chairman
James C. Nelson
Stanley Lund
Robert B. Rhodes, Jr.
David Schaenen

(SEAL)

ATTEST:


Dee Rickman, Executive Secretary