

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

October 8, 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 October 8, 1992 in the Billings Petroleum Club, Sheraton Hotel, Billings, Montana.

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

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 and Alan Olson, Field Inspectors.

Reading of the minutes of the August 13, 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. Nelson, seconded by Mr. Rhodes and unanimously passed that the minutes of the August 13, 1992 meeting be approved.

BOND REPORT

Mrs. Rickman provided copies of the bond report for the period August 11, 1992 through October 5, 1992. Nine new bonds were approved, eight released for cancellation and two suspended.

FINANCIAL REPORT

Mrs. Rickman provided copies of the financial report for the period ending September 30, 1992.

STATUS REPORT ON UIC PROGRAM

Draft copies of the Board's formal application for primacy of the Underground Injection Control Program were provided to the board members for review prior to today's meeting. Copies of letters from the Congressional delegates in response to our request for assistance in advancing our UIC primacy application were also distributed to the board members along with a copy of a letter from John F. Wardell, Director of the Montana Office of EPA, to Senator Baucus.

Mr. Fox summarized the application contents and the procedure which will be employed by EPA for review and action. He said that EPA has 30 days after receiving our application to request additional information or clarification. They then have 90 days to either approve, disapprove or approve in part the application. Public comments will be requested and the EPA will schedule a public hearing to accept both oral and written comments. Mr. Wardell pledged prompt review by EPA once they receive the formal application.

The Board discussed this matter and took the following action.

MOTION: A motion was made by Mr. Nelson, seconded by Mr. Schaenen and unanimously passed to approve the UIC Program primacy application per the draft copy reviewed at today's meeting and directed the staff to submit the formal application to the U. S. Environmental Protection Agency, Region VIII office, Denver, Colorado, as soon as possible.

Copies of the UIC primacy application will be printed and distributed to the board members and other interested persons. The Board also directed the staff to schedule an informational meeting concerning the Board's UIC primacy application. The meeting is to be scheduled in conjunction with the Board's next regular meeting and will be held on Wednesday, December 9, 1992, from 1:00 to 3:00 p.m. at the Billings Petroleum Club, Sheraton Hotel, Billings, Montana.

PROPOSED STORM WATER DISCHARGE PERMITS

Pursuant to the Federal Clean Water Act, the Montana Dept. of Health and Environmental Sciences (DHES) proposes to implement storm water regulations by adopting general storm water discharge permits. Two tentative permits, one for mining activities and oil and gas exploration and another for construction activities were made available to industry representatives in September. They were advised that the permits would become effective on September 20, 1992 unless adverse comments were received. The proposed permits generated a great deal of concern by the regulated community due to substantial divergence from the federal program and the lack of opportunity for public comment.

Several oil and gas operators have joined together to oppose the manner in which the storm water program is being implemented. The group, as represented by Don Roberts, president of Beartooth Oil and Gas, and Gary Broeder, their attorney, were present at today's meeting and requested the Board's support in addressing their concerns to the DHES. Mr. Roberts summarized their main concerns stating that the draft permit for mining and oil and gas is 20 pages long and is difficult to understand and interpret. It does not provide the exemptions for oil and gas operations that are provided in the federal program, and it requires unreasonable and unworkable monitoring requirements. The group also criticized the DHES for failing to contact the industry or this board prior to implementing this program or others which significantly impact the oil and gas industry.

The DHES has now scheduled a public hearing on the proposed permits in response to the adverse comments received. The public hearing will be held in Helena on October 28, 1992. The department has also formed a task force of individuals from regulatory agencies, the mining industry, consulting industry and oil and gas industry to provide input and guidance concerning the development of the storm water discharge program for mining and oil and gas operations. Tom Richmond has been designated as the Board's representative on the storm water task force.

As a result of the discussion concerning this matter, Mr. Garrity was directed to draft a letter for Mr. Ross' signature to Dennis Iverson, Director of the Department of Health & Environmental Sciences, expressing the Board's concern with the storm water regulations and program implementation. The department will be encouraged to keep our staff advised of its regulatory activities that affect oil and gas operations in Montana and to utilize information and assistance that we may be able to provide in such matters. Mr. Garrity will also attend the October 28, 1992 public hearing on the storm water program on behalf of the Board.

PUBLIC HEARING ON PROPOSED BOND RULE AMENDMENTS

At 9:00 a.m., Chairman Ross convened the public hearing on the proposed adoption and amendments of rules pertaining to bonding requirements, well status reporting requirements, referral of administrative decisions to the Board and the definition of the term "degrade". The notice of the proposed hearing to adopt the proposed new rules and amendments to existing rules was published on September 10, 1992 in the Montana Administrative Register and was also mailed to all persons on the Oil and Gas Division's mailing list.

At today's hearing written comments were provided by Shell Western E & P Inc., Nance Petroleum Company and the Montana Petroleum Association. Oral comments were made by Bill Fulton, Sands Oil Co.; Jeff Casey, Cenex; Dennis Campbell, FBS Insurance Co.; and Marcus Winder, Shell Western E & P Inc.

Following discussion of the proposed amendments and the comments received, the Board directed the staff to prepare a draft notice of adoption for its review. The draft notice will paraphrase the comments

received from interested parties and the Board's responses. It will be distributed to the Board for review prior to the December 10, 1992 meeting and scheduled for board action on that date.

GAS FLARING APPLICATION

Mr. Richmond presented an application from Oil Quest Resources, Inc. for permission to vent and flare gas from its Picard #2-14 well in Section 14, Township 29 North, Range 58 East, Roosevelt County.

MOTION: A motion was made by Mr. Rhodes, seconded by Mr. Gage and unanimously passed authorizing Oil Quest Resources, Inc. permission to vent and flare gas from its Picard #2-14 well in an amount not to exceed 140 mcf per day for a period of 12 months. This matter was set forth by Administrative Order No. 67-92.

STAFF REPORTS

Coolidge--H2S Gas in E. Kevin Nisku Field - Mr. Richmond reported that he received a letter from G. B. Coolidge expressing concern about a recent detection of H2S gas at two producing oil wells located adjacent to two oil wells operated by Coolidge in the East Kevin Nisku Field. Mr. Coolidge states that his wells produce pipeline quality sweet gas sold to and processed by a nearby gas processing plant. He is concerned about the potential of H2S contamination of his wells. Following discussion, the Board directed Tom to advise Mr. Coolidge that he may request a hearing before the Board to inquire into this alleged problem. The Board suggested that Mr. Coolidge provide expert witnesses to testify as to the possibility of contamination of his wells.

Bob Dennis Lawsuit - Mr. Richmond advised the Board that Fred Rathert, an attorney from Williston, North Dakota, has expressed interest in representing the Board on a 50% contingency basis to collect the \$200,000 judgment against Bob Dennis ordered by District Judge Thomas Honzel. Mr. Rathert proposes to bill the Board for out-of-pocket expenditures, with initial costs expected to be no more than \$50. Tom also reported that we have now contracted the restoration work needed at the Dennis sites for \$30,900.

MOTION: A motion was made by Mr. Nelson, seconded by Mr. Schaeen and unanimously passed authorizing Mr. Richmond to accept Mr. Rathert's offer to represent the Board in collecting the Dennis judgment on a 50% contingency plus cost basis, providing that the costs be limited to \$250 without further board approval and providing that the agreement terminates in two years unless extended by the Board.

BLM/BOGC Memorandum of Understanding - The current Memorandum of Understanding between the Board and the Montana Bureau of Land Management provided for an expiration date five years after adoption on November 19, 1987. The BLM and the board's staff recommended renewing the MOU with the following three changes:

1. inserting a sentence stating that the BLM will notify the BIA and affected tribes or any applications involving trust lands,
2. inserting a statement that orders issued by the Board which affect spacing units containing both federal and non-federal lands shall contain the following statement: "A federal communitization agreement for spacing units which contain both federal and non federal lands shall be submitted to the Authorized Officer of the Bureau of Land Management prior to or upon completion of a producible well." and,
3. removing the five-year expiration provision, but retaining the 60-day cancellation provision upon written notice to the other party.

MOTION: A motion was made by Mr. Swanson, seconded by Mr. Rhodes and unanimously passed to approve renewal of the Memorandum of Understanding between the Montana Bureau of Land Management and the Board with the three changes set forth above.

Pioneer Exploration - Mr. Halvorson reported that Tom approved an alternate plan of restoration for Pioneer's three wells in Flaxville Field, Daniels County on September 22, 1992. Access problems may still

delay the restoration, but Pioneer is attempting to resolve those problems with the landowner, Lee Cook. One of the wells, the Roos disposal well, is located on another person's land and may be accessible by an alternate route. If the problems are not resolved by November 12, 1992, the Board directed that a hearing be scheduled for December 10, 1992 to require Mr. Cook to show cause why he should not be fined for refusing to allow access to his land for proper restoration of the sites. Pioneer must attempt to gain alternate access to the Roos well if necessary to complete its restoration. The show cause docket may be modified to include Pioneer Exploration if it does not adequately attempt to resolve the access problems and complete the restoration as required by Order 76-91.

Torch Energy Corporation - Mr. Halvorson advised the Board that Torch Energy plugged its Snake Butte Ranch #1-15 well in Roosevelt County in 1990 and negotiated an agreement with the landowner to leave the site unreclaimed. During a routine inspection earlier this year, the unreclaimed site was detected and the operator advised that alternate reclamation plans must be approved by the Board. To date Torch Energy has made no attempt to resolve the problem. Mr. Halvorson was directed to write to Torch Energy Corporation and request them to contact the surface owner and field inspector J. D. Hodges to determine what level of restoration is necessary to satisfy both the surface owner and the Board. The matter will be reviewed again at the Board's December 10 business meeting to determine if it will be necessary to docket the matter for a show cause hearing.

Five B's Oil and Gas Inc. - Mr. Sasaki reported that Five B's Oil and Gas, Inc. has plugged and abandoned four state wells in Section 36, Township 35 North, Range 3 West, Toole County in accordance with Board Order No. 41-92 which required that the wells be plugged and abandoned not later than October 1, 1992.

Solid Waste Management Project - Mr. Fox reported that all of the site sampling and field work for the Solid Waste Management Project has been completed and the project is now in the second phase. Mr. Richmond reported that in response to a letter from Janelle Fallan of the Montana Petroleum Association, he has invited them to recommend one or two industry representatives to serve on an ad hoc review committee to assist in technical and editorial review of the study reports/analyses and to provide suggestions for the form and substance of the final report.

PUBLIC HEARING

At 10:00 a.m. Chairman Warren Ross announced that the Board would hear the applications scheduled for the October 8, 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. Schaenen, seconded by Mr. Gage and unanimously passed that the application of Terra Energy Corporation heard under Docket No. 70-92 be granted as set forth by Board Order No. 61-92.

MOTION: A motion was made by Mr. Swanson, seconded by Mr. Schaenen and unanimously passed that the application of Sands Oil Company heard under Docket No. 71-92 be granted as set forth by Board Order No. 62-92.

At the outset of the hearing of Docket No. 72-92, upon the application of Pennzoil Exploration and Production Company, Board member Dean Swanson announced that he deemed himself disqualified to participate and he took no further part in the proceedings of this matter.

MOTION: A motion was made by Mr. Rhodes, seconded by Mr. Gage and unanimously passed that the application of Pennzoil Exploration and Production Company heard under Docket No. 72-92 be granted as amended and set forth by Board Order No. 63-92.

MOTION: A motion was made by Mr. Nelson, seconded by Mr. Lund and unanimously passed to enter an order in the matter heard under Docket No. 73-92, concerning the failure of Nerdlihc Company, Inc. to properly maintain and reclaim pits in Daniels County, Montana. This matter was set forth by Board Order No. 64-92, accepting the work completed by Nerdlihc after the show cause order was issued and assessing a fine in the amount of \$1,000 for its failure to comply with the Board's rules governing pits.

MOTION: A motion was made by Mr. Schaenen, seconded by Mr. Nelson and unanimously passed to enter an order in the matter heard under Docket No. 74-92, concerning the failure of Milan R. Ayers to properly plug and abandon certain wells. This matter was set forth by Board Order No. 65-92 which requires Mr. Ayers to plug six wells at the rate of not less than one per month, weather permitting, and in any event, plugging all six not later than June 1, 1993. The order also provides that if the required work is not completed by June 1, 1993, Mr. Ayers' surety bond will be forfeited.

MOTION: A motion was made by Mr. Nelson, seconded by Mr. Lund and unanimously passed to enter an order in the matter heard under Docket No. 75-92, concerning the failure of Gallup City Oil, Inc., Wade Hawley and Kim Hawley to file production reports. This matter was set forth by Board Order No. 66-92 which requires respondents to bring its monthly production reports up to date immediately and continue to file them on time; to stop the escape of produced water from the evaporation pit on its Christensen lease in Teton County by October 30, 1992; and, to install identification signs at all of its wells not later than March 1, 1993. The order further provides that if, at any time between now and October 31, 1993, respondents fail to comply with any of the provisions of said order they are ordered to pay the sum of \$1,000 as a penalty for their failure to do so.

MOTION: A motion was made by Mr. Nelson, seconded by Mr. Rhodes and unanimously passed to continue the matter scheduled under Docket No. 76-92, concerning the failure of Marian L. Irgens to file production reports for herself and others on producing wells in Toole County, to the Board's next meeting on December 10, 1992. Each of said producers is to be docketed separately and subpoenaed for said hearing.

MEETING DATES

The next regular meeting of the Board of Oil and Gas Conservation is scheduled to be held on Thursday, December 10, 1992 at the Billings Petroleum Club, Billings, Montana. The filing deadline for that meeting is November 12, 1992. An informal informational meeting concerning the Board's application for primacy of the Underground Injection Control Program will be held in conjunction with the next regular meeting on Wednesday, December 9, 1992 from 1:00 to 3:00 p.m., also at the Billings Petroleum Club.

The Environmental Protection Agency has scheduled a public hearing on the Board's application for primacy of the UIC program. The hearing will be held at the Holiday Inn, Billings, Montana, at 7:00 p.m., December 16, 1992.

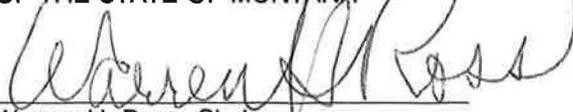
The Board scheduled its first meeting and public hearing for 1993 to be held on February 4, 1993 at the Billings Petroleum Club, Sheraton Hotel, Billings, Montana. The filing deadline for that hearing is January 7, 1993.

The annual Interstate Oil and Gas Compact Commission meeting will be held in Salt Lake City, Utah, December 6-8, 1992. Tom Richmond was designated to represent the Board at that meeting.

Chairman Ross advised the Board that the Montana Land and Mineral Owners Association will have its annual meeting in Havre on November 14, 1992. The president of the National Association of Land and Mineral Owners is scheduled to be the keynote speaker at that meeting.

The meeting adjourned at 3:00 p.m. Thursday, October 8, 1992.

BOARD OF OIL AND GAS CONSERVATION
OF THE STATE OF MONTANA



Warren H. Ross, Chairman

Dean A. Swanson, Vice Chairman

James C. Nelson

Scott O. Gage

Stanley Lund

Robert B. Rhodes, Jr.

David Schaenen

(SEAL)

ATTEST:



Dee Rickman, Executive Secretary