

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

CALL TO ORDER

A regular business meeting of the Montana Board of Oil and Gas Conservation was called to order by Chairman David Ballard at 2 p.m., Wednesday, February 10, 1999, at the Board's office at 2535 St. Johns Avenue in Billings, Montana. Board members present were Chairman Ballard, Denzil Young, Stanley Lund, George Galuska, Allen Kolstad, Elaine Mitchell and Jack King. Staff present were Tom Richmond, Jim Halvorson, George Hudak, Rich Jacobson, Terri Perrigo, Steve Sasaki and Don Garrity. Chairman Ballard introduced and welcomed the new Board members, Elaine Mitchell of Cut Bank and Jack King of Billings.

MINUTES

MOTION: Mr. Galuska moved to accept the minutes of the December 16, 1998, business meeting. Mr. Young seconded the motion and it passed unanimously. .

PUBLIC COMMENT

There was no public comment.

BOND REPORT

Mr. Rich Jacobson presented the Bond Report, which is attached as Exhibit 1. He recommended approval of Great Plains Operating LLC's request to increase to 18 the number of wells on its blanket bond. Mr. Galuska asked if approval of this request would set a precedent. Mr. Hudak said if the request were approved, Great Plains' blanket bond coverage of eighteen wells (from ten) would be in line with other blanket bonds and similar requests the Board has had from other companies.

MOTION: Mr. Young moved to approve Great Plains' request to increase its blanket bond coverage to eighteen wells. Mr. Kolstad seconded the motion and it passed unanimously.

FINANCIAL REPORT

Ms. Terri Perrigo distributed the financial report, which is attached as Exhibit 2, and explained in detail the information contained for benefit of the new Board members.

PROVIDENT ENERGY ASSOCIATES OF MONTANA LLC

Mr. Steve Sasaki introduced Mr. Floyd Williams, field representative for Provident Energy Associates of Montana LLC (Provident), who was present to discuss the Two Medicine Cut Bank Sand Unit junk oil pit. Mr. Williams said Provident inherited the pit when they bought the stock of Miller, and they have been removing the junk oil. In 1996 Provident removed 1400 barrels of pit oil for dust control and mud mixing of coal mix. No oil was removed in 1997, because BN wanted royalties on the junk oil which Provident had previously been giving away. In 1998 400 barrels were removed and hauled to Idaho for Forest Service dust control and cold road oil mix.

Mr. Williams distributed a letter from Diversified Oils, attached as Exhibit 3, as testimony to the fact they will continue to remove oil from the pit in 1999. Mr. Williams said Diversified thinks they can take two loads a week, which is about all Provident can get out of the pit. The oil was originally Texaco's, and the pit sits on state and tribal land. There is approximately five feet of oil underwater in the pit. Provident doesn't know what is under the water, but they keep adding more water to the pit so the oil doesn't touch the ground.

Mr. Williams said Provident believes most of the recoverable oil will be out of the pit in the summer of 1999, which will allow them to start dealing with the pit in 2000. They anticipate all the work will be done in a couple of years. .

LEGISLATIVE REPORT

Mr. Tom Richmond gave an update on legislation affecting the Board and industry. He handed out Exhibit 4, a response to questions asked by Senator Vicki Cocchiarella. The appropriations subcommittee approved Oil & Gas Division's budget as submitted in House Bill (HB) 2. Mr. Richmond attended the hearing on HB 7, the RIT grants bill, and the committee was pleased all our grant money is spent and that a priority plugging list has been compiled. Mr. Richmond testified in support of the Toole County grant request and SB 362 which would allow surety bonds for domestic gas wells. HB 120, which would allow Oil and Gas Division to use RIT grant money for administrative costs associated with well plugging activities, passed the House and will be carried in the Senate by Senator Keating. Mr. Richmond testified in opposition to HB 341 regarding prohibition of drilling and seismic activities in Makoshika State Park. Senate Bill (SB) 248, the Chairman's bill, was tabled in the Senate. SB 249, which caps the RIT trust fund at 1 million and sunsets the RIT tax passed second reading in the Senate. SB 340 would eliminate the bookkeeping fee as part of the valuation of oil. SB 265 provides direct tax credit for exploration, and a bill still being drafted (LC 1274) revises production taxes to 12.5 percent.

STAFF REPORTS

Mr. Steve Sasaki distributed Exhibit 5, a chronology of events in the Ron Sannes matter since the September 3, 1998, Board meeting when the \$56,400 fine on the State 1-36 well was reduced to \$2,500 contingent upon plugging of same well by December 31, 1998, in Board Order 86-98. He also distributed Exhibit 6, a letter from Monte Mason of Trust Land Management Division to Ron Sannes which directs Mr. Sannes to plug the State 1-36 well.

Mr. Ron Sannes told the board he began negotiations with Chesapeake Operating, Inc. (the new lessee of state land where the State 1-36 well is located) in October, 1998, to lease the State 1-36 well and install a pumping unit to begin production. Mr. Sannes distributed a letter he wrote to Monte Mason (Exhibit 7) stating negotiations were taking place, and said Mr. Mason responded with a request for a proposal. Mr. Sannes said he received Mr. Mason's response to his proposal just two hours ago--via the same memo Mr. Sasaki handed out labeled Exhibit 6. Mr. Sannes said he had not plugged the State 1-36 well by the December 31, 1998, deadline because he thought he'd get the lease on the well and be able to produce it. He said Mr. Les Rodman of Chesapeake said they wanted to lease it.

Chairman Ballard asked Mr. Sannes how much oil he thought the State 1-36 well could produce, and Mr. Sannes estimated about 15 barrels a day. Chairman Ballard said demonstration of the economics of such a venture is important and it was unfortunate that type of information wasn't brought before the Board today. Chairman Ballard asked the Board if they were in favor of considering the potential of production before deciding on what to do about the \$53,900 fine balance now owed by Mr. Sannes because of his failure to plug the State 1-36 well by the deadline. Mr. Galuska said he felt the issue was simply that Mr. Sannes is in non-compliance with a Board order.

Mr. Garrity said with no further action by the Board, the balance of the fine (\$53,900) is in place and the Board will take action to collect it. He said if the Board wants to take Mr. Sannes' bond to use to plug the well that would require a show cause hearing on why his bond should not be forfeited. Mr. Sannes said he has a \$25,000 bond with the state with about 17 wells on it, and a \$10,000 injection well bond. Mr. Galuska asked what happens to Mr. Sannes' other wells if his bond is taken. Mr. Halvorson replied they go on the orphan well list and the Board plugs them. Chairman Ballard suggested the Board wait to turn the fine over to the DNRC legal staff for collection until the April 8, 1999, Board meeting to see if Mr. Sannes gets the well plugged by then. He also suggested a show-cause hearing on why Mr. Sannes' bond should not be forfeited or increased be docketed for the April 8, 1999, Board hearing.

MOTION: A motion was made by Mr. Kolstad to defer collection of the balance of the \$56,400 fine levied in Board Order 86-98 (\$53,900) until the April 8, 1999, Board hearing. Mr. King seconded the motion and it passed unanimously.

MOTION: A motion was made by Mr. Lund, seconded by Mr. Galuska and unanimously passed, to docket a show-cause hearing for the April 8, 1999, Board hearing on why the bond of Ron Sannes should not be forfeited or increased.

On another Sannes matter, Mr. Halvorson informed the Board it had issued three orders requiring Mr. Sannes to plug three wells. One plugging was eventually waived because Mr. Sannes wanted to make the well a disposal well. In the other two he got leases; but one of the leases he got in order to get out of plugging was a six month lease and ten months later there is still no production. Mr. Garrity said this should be considered when determining what Mr. Sannes' bond should be. Chairman Ballard said the Board needs to know at the next meeting how many barrels a day Mr. Sannes produces.

Mr. George Hudak informed the Board billing for annual injection well fees had taken place. The payment was due by January 31, and as of February 5, 1999, sixteen companies were late. He said he sent a registered letter to all delinquent operators on Monday, February 8, and would send another if necessary stating the absolute deadline for payment is April 8, 1999. Mr. Hudak said Richardson Operating Co., the operator of 54 wells in Bell Creek Field, sent in a check for only 24 wells and stated they didn't want to pay the annual fee for the other thirty. Mr. Richmond reminded the Board Richardson has a \$750,000 bond with the state.

Mr. Tom Richmond said we had received \$40,000 of additional funding from the Department of Energy through the Ground Water Protection Council for our contractor (CH2M Hill) to use in developing an interactive website. He said we need to tell CH2M Hill what we want, but he has a relatively good idea: Phase 1 will be public access to such things as well and production data, well status and well ownership; and Phase 2 will consist of inter-agency access. Mr. Richmond said there are some potential problems with our interactive website vis-a-vis DNRC and what other agencies and divisions (Revenue and Trust Lands) need in order to access our data electronically. Mr. Halvorson said he thinks by the next business meeting the interactive system will be in process because CH2M Hill is setting up some of our data on a trial basis from on a file server in Denver. Chairman Ballard asked if a summary of what will be put out on a trial basis is available to please send him a copy.

Chairman Ballard said the Board needed to officially replace the Vice-Chairman since Mr. Young's previous term ended on December 31, 1999, and he is just beginning his new term. Mr. Kolstad nominated Mr. Young for Vice-Chairman. Mr. Galuska seconded the motion and it passed unanimously.

Chairman Ballard introduced Mr. Tom Hinthorne of MSU Billings who explained the SBI Program where senior business students conduct field case studies for business owners. He said 4-5 students work on each project, and projects start in January, May and September. Interested businesses outline what they would like students to do, and these outlines are presented to students to choose what they want to work on. The cost to have the students do a project for business is \$100 plus travel expenses if students have to go out of town. Chairman Ballard asked how soon we would need to get an outline to him if we wanted a group to start a project for the Board in May. Mr. Hinthorne said the sooner the better, but it could still be accomplished if the outline weren't received until early April.

At this point Mr. Hinthorne left and the Board began discussion of whether to take advantage of the program. The following ideas of what the SBI Program could research for the Board included: a) a comparison of other states' oil and gas regulatory divisions with Montana's; b) services the industry gets from the Board, is industry getting what it pays for, and can the Board do it for less; c) a customer survey--what do people want to get from us; d) most effective phone usage and effectiveness of the Shelby office; e) determination of whether we furnish the same things to industry as other commissions; f) a way to simplify filing of reports, including electronic filing and e-mailing.

Chairman Ballard said he sees the ideas in three major categories: 1) a comparison of Montana's Board to other commissions; 2) what are the Board's needs; and 3) the efficiency of current Board operations, i.e. voice mail, the Shelby office, and simplicity of filing.

MOTION: Mr. Galuska moved to engage the SBI Program to do a study for the Board addressing the three categories summarized by Chairman Ballard. Mr. Young seconded the motion and it passed unanimously.

Staff was directed to develop an outline of what we want done within the next month.

Mr. Galuska moved to adjourn. The motion was seconded by Mr. Kolstad and it passed unanimously.

PUBLIC HEARING

The Board reconvened at 8:00 a.m. Thursday, February 11, 1999, in the conference room at the Billings Petroleum Club in the Sheraton Hotel, to hear the matters docketed for 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.

Docket No. 1-99 A motion was made by Mr. Young, seconded by Mr. Lund and unanimously passed, to approve the application of Great Plains Operating LLC, as set forth in Board Order 1-99.

Docket No. 2-99 A motion was made by Mr. Kolstad, seconded by Mr. Galuska and unanimously passed, to approve the application of Pennaco Energy, Inc., as set forth in Board Order 2-99.

Docket No. 3-99 A motion was made by Mr. Galuska, seconded by Mr. Young and unanimously passed, to approve the application of Redstone Gas Partners, LLC, as set forth in Board Order 3-99.

Docket No. 4-99 The application of Tyler Oil Company was withdrawn.

Docket No. 5-99 A motion was made by Mr. Young, seconded by Mr. Lund and unanimously passed, to approve the application of J. Burns Brown Operating Company, as set forth in Board Order 4-99.

Docket No. 6-99 A motion was made by Mr. Kolstad, seconded by Mr. Lund and unanimously passed, to approve the application of J. Burns Brown Operating Company, as set forth in Board Order 5-99.

Docket No. 7-99 A motion was made by Ms. Mitchell, seconded by Mr. Young and passed, to approve the application of Fulton Fuel Company, as set forth in Board Order 6-99. Mr. Galuska disqualified himself from participation in the hearing on this application and did not vote.

Docket No. 8-99 The application of Fulton Fuel Company was continued to the April 8, 1999, hearing.

Docket No. 9-99 A motion was made by Mr. Kolstad, seconded by Mr. Young and unanimously passed, to approve the application of Fulton Fuel Company, as set forth in Board Order 7-99.

Docket No. 10-99 A motion was made by Mr. Galuska, seconded by Ms. Mitchell and unanimously passed, to approve the application of Fulton Fuel Company, as set forth in Board Order 8-99.

Docket No. 11-99 A motion was made by Mr. Young, seconded by Mr. Kolstad and unanimously passed, to approve the application of Somont Oil Co., as set forth in Board Order 9-99.

Docket No. 12-99 A motion was made by Mr. King, seconded by Mr. Galuska and unanimously passed, to approve the application of Burlington Resources Oil & Gas Company, as set forth in Board Order 10-99.

Docket No. 13-99 A motion was made by Mr. King, seconded by Mr. Galuska and unanimously passed, to approve the application of Burlington Resources Oil & Gas Company, as set forth in Board Order 11-99.

Docket No. 14-99 A motion was made by Mr. King, seconded by Mr. Galuska and unanimously passed, to approve the application of Burlington Resources Oil & Gas Company, as set forth in Board Order 12-99.

Docket No. 15-99 A motion was made by Mr. King, seconded by Mr. Galuska and unanimously passed, to approve the application of Burlington Resources Oil & Gas Company, as set forth in Board Order 13-99.

Docket No. 16-99 A motion was made by Mr. King, seconded by Mr. Galuska and unanimously passed, to approve the application of Burlington Resources Oil & Gas Company, as set forth in Board Order 14-99.

Docket No. 17-99 A motion was made by Mr. King, seconded by Mr. Galuska and unanimously passed, to approve the application of Burlington Resources Oil & Gas Company, as set forth in Board Order 15-99.

Docket No. 18-99 The show cause hearing of Carrel Oil Company was continued to the April 8, 1999, hearing.

Docket No. 110-98 A motion was made by Mr. Galuska, seconded by Mr. Young and unanimously passed, to approve the application of Fulton Fuel Company, as set forth in Board Order 16-99.

Docket No. 111-98 The application of Enron Oil & Gas Company was continued to the April 8, 1999, hearing.

Docket No. 112-98 The application of Decker Operating Company, LLC, was continued to the April 8, 1999, hearing.

Docket No. 113-98 The application of Decker Operating Company, LLC, was continued to the April 8, 1999, hearing.

Docket No. 114-98 The application of Decker Operating Company, LLC, was continued to the April 8, 1999, hearing.

Docket No. 115-98 The application of Decker Operating Company, LLC, was continued to the April 8, 1999, hearing.

NEXT MEETING

The next business meeting of the Board will be April 7, 1999, at 2:00 p.m. at the Board's office at 2535 St. Johns Avenue, Billings, Montana. The public hearing will be April 8, 1999, beginning at 8:00 a.m. in the conference room of the Billings Petroleum Club, Sheraton Hotel, Billings, Montana. The filing deadline for the April 8, 1999, public hearing is Thursday, March 11, 1999

BOARD OF OIL AND GAS CONSERVATION
OF THE STATE OF MONTANA



David Ballard, Chairman

ATTEST:



Terri Perrigo, Executive Secretary

MONTANA BOARD OF OIL & GAS CONSERVATION

BOND ACTIVITY SUMMARY

December 15, 1998 through February 10, 1998

APPROVED BONDS

CMS Oil & Gas Company Houston, TX	American Casualty Company Surety No. 190649503	Amount \$50,000 Type Multi-well Effective 11/24/98
Northland Holdings, Inc. Calgary, Alberta	US Bank, Havre CD No. 350020310396	Amount \$4,500 Type Limited Effective 1/5/99

CANCELLED BONDS

Aztec Energy Co. Cut Bank, MT	1st Bank of Shelby CD No. 1522	Amount \$5,000 Type Single-well Effective 2/10/99
Burlington Resources Oil & Gas Co. Midland, TX	CNA Insurance Companies Surety No. 142400313	Amount \$10,000 Type Blanket Effective 1/4/99
Burlington Resources Oil & Gas Co. Midland, TX	Safeco Insurance Company Surety No. 5229487	Amount \$10,000 Type Limited Effective 1/4/99
Golden & Land Oil Company Bismarck, ND	United States Fidelity & Guaranty Surety No. 47-0130-5183-78	Amount \$10,000 Type Blanket Effective 12/16/98

CHANGES TO EXISTING BONDS

Energen Resources MAQ, Inc. Houston, TX (Operator name changed from 'Total Minatome Corporation')	St. Paul Fire & Marine Insurance Surety No. 400HL5493	Amount \$10,000 Type Blanket Effective 11/5/98
KCS Resources, Inc. Houston, TX (Bond increase from \$25,000 to \$50,000)	Underwriters Indemnity Co. Surety No. B5603	Amount \$50,000 Type Multi-well Effective 12/22/98

Northern Oil Production, Inc.
Plentywood, MT

(Bond increased to \$50,000 for blanket coverage)

Rocky Mountain Bank, Plentywood
CD No's 7968, 1570, & 1701

Amount \$50,000

Type Multi-well

Effective 2/5/99

REQUEST FOR BOARD ACTION

Great Plains Operating, LLC
Littleton, CO

(Request wells allowed on this bond from 10 wells to 18 wells)

1st Security Bank, Roundup
CD No's 5730, 5215, & 5138

Amount \$50,000

Type UIC Limited

Effective 10/28/98

**BOARD OF OIL AND GAS CONSERVATION
FINANCIAL REPORT
Through January 31, 1999
Percentage of Year Elapsed: 58%
(Payrolls: 55%)**

OIL & GAS APPROPRIATIONS/EXPENDITURES/FUNDING

EXPENDITURES	REGULATORY PROGRAM			UIC PROGRAM			TOTAL HB2 PROGRAM		
	Appropriation	Expended	Percent of Approp Spent	Appropriation	Expended	Percent of Approp Spent	Appropriation	Expended	Percent of Approp Spent
Salaries	446,982	191,383	43%	151,147	63,622	42%	598,129	255,005	43%
Other Comp	7,728	2,846	37%	672	204	30%	8,400	3,050	36%
Benefits	125,595	50,995	41%	40,426	16,393	41%	166,021	67,388	41%
Vacancy Savings	(16,346)			(5,394)			(21,740)		
Other Svcs	89,453	38,867	43%	70,247	16,647	24%	159,700	55,514	35%
Supplies	34,335	8,282	24%	20,621	2,161	10%	54,956	10,443	19%
Communications	32,054	14,795	46%	7,132	3,657	51%	39,186	18,451	47%
Travel	26,829	8,261	31%	13,790	1,220	9%	40,619	9,481	23%
Rent	14,576	5,847	40%	4,720	1,808	38%	19,296	7,654	40%
Utilities	12,210	4,434	36%	3,954	1,419	36%	16,164	5,853	36%
Repair/Maint	16,552	4,198	25%	5,360	1,410	26%	21,912	5,608	26%
Other Exps	15,254	5,673	37%	7,298	2,588	35%	22,552	8,261	37%
Equipment	19,259	0	0%	0	0	0%	19,259	0	0%
Debt Svc	0	0	0%	0	0	0%	0	0	0%
TOTAL	\$824,481	\$335,581	41%	\$319,973	\$111,128	35%	\$1,144,454	446,709	39%
FUNDING									
State Special Revenue	824,481	335,581		209,973	86,737		1,034,454	422,318	
Federal Funds	0	0		110,000	24,391		110,000	24,391	
TOTAL FUNDING	\$824,481	\$335,581		\$319,973	\$111,128		\$1,144,454	\$446,709	39%
Appropriation Balance	\$488,900			\$208,845			\$697,745		
Percentage Expended	41%			35%			39%		

OTHER APPROPRIATIONS/EXPENDITURES FROM STATE SPECIAL REVENUE ACCOUNT

DNRC Centralized Services	\$57,034	0
Department of Revenue	\$31,764	8,319

REVENUE INTO STATE SPECIAL REVENUE ACCOUNT

	Year to Date FY 1999	Total FYE 1998	Percentage YTD99:FYE98
Oil Production Tax**	271,311	614,788	0.44
Gas Production Tax**	67,471	120,833	0.56
Penalty & Interest	91	231	0.39
Drilling Permit Fees	12,775	34,690	0.37
UIC Permit Fees	50,200	170,599	0.29
Enhanced Recovery Filing Fee	0	425	0.00
Interest on Investments	17,808	21,579	0.83
Copies of Documents	3,755	9,961	0.38
Database Services	0	74	0.00
Other	263	4,356	0.06
TOTALS	\$423,674	\$977,536	0.43

INVESTMENT ACCOUNT BALANCES

Regulatory	\$476,022
Damage Mitigation	\$228,799

GRANT BALANCES

Name	Authorized Amt	Expended	Balance
Cat Creek	214,810	45,676	169,134
S. CutBank A	257,610	257,610	0
S. CutBank B	300,000	300,000	0
SL Grant	183,260	163,155	20,105
Devil's Basin	342,390	255,251	87,139
Balco	600,000	358,348	241,652
96A	164,222	0	164,222
TOTALS	\$2,062,292	\$1,380,040	\$682,252

**FYE 1998 modified to include FY97 negative accrual adjustment oil = (175,923), gas = (28,456)

Financial statements submitted to BOCC in FY98 excluded negative accrual adjustment for comparison with cash-basis FY97 data

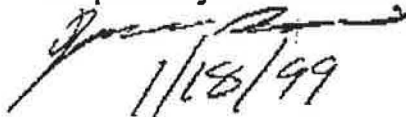
JESSE SERIO**d.b.a. Diversified Oils****1433 5th Ave East****KALISPELL, MONTANA 59901**Proposal submitted to:Provident Energy Associates
Tulsa, OklahomaWork to be performed at:

Cut Bank, Montana

We hereby propose to perform the labor necessary for the completion of:

pumping of Oil from pit. I will pay the hot oil truck Owner Billy Carl to extract oil from pit.
In return, I obtain the oil free of charge.

Respectfully submitted: Jesse Serio


1/18/99**ACCEPTANCE OF PROPOSAL**

*The above prices, specifications and conditions are satisfactory and are hereby accepted.
You are authorized to do the work as specified. Payment will be made as outlined above.*

Signature:  Mr

Signature: _____

February 9, 1999

Senator Vicki Cocchiarella
Capitol Station
Helena, Montana 59620

Dear Senator Cocchiarella:

The following are answers to the questions you faxed to me yesterday.

1. How many unplugged oil and gas wells exist in Montana?

There are 12,756 unplugged wells, which includes 2428 unplugged federal and Indian wells. This includes all wells: oil, gas, and service wells (e.g.: injection, gas storage, etc.)

2. How many of these wells are "shut in" and are not producing?

There are 7026 shut-in wells including 1687 federal or Indian shut-in wells.

3. How many of the wells are pre- 1954?

There are 3580 unplugged pre-1954 wells; 608 of these are federal or Indian.

4. How many wells are not bonded?

There are 393 unbonded wells (does not include federal or Indian)

5. How many wells are bonded under the \$10,000 blanket bonds and what is the average number of wells under each bond?

There are 2554 (non-federal) wells bonded under \$10,000 blanket bonds, an average of 18.64 wells per bond.

6. How many wells have been bonded under the new bond requirements?

There are 7381 (non-federal) wells bonded that meet the current bonding requirements.

7. What is the average cost of plugging wells for the Board? What is the highest it has cost and what is the lowest it has cost?

We estimate the average cost of all wells plugged to date is \$36,000/well. The highest cost well was \$162,000 and the lowest was \$709.00. The average cost is somewhat skewed as the worst wells (in terms of difficulty to plug) have been the older pre-regulatory wells which we have concentrated on plugging first. Averages vary widely because of depth and well condition; for example, the wells plugged under the three 1991/92 RIT grants had an average cost of \$23,600 to \$81,600 per well. The wells plugged in the 1997/98 Devils Basin grant averaged \$13,000 each.

8. Is the state paying for the cost of plugging wells now that were drilled since the 1970's?

Yes. If the responsible party cannot be located, has no assets, or refuses to plug wells causing environmental damage, the Board may step in to plug its wells. Although these wells are added to the priority-plugging list, modern wells in relatively good condition may not be plugged for several years. The Board can file a lien against property of the responsible party, and can pursue civil action to recover plugging costs. These actions have been (and are) pursued if there is a reasonable chance of recovery.

9. Of the existing plugging grants and the new grants in HB 7, how many of these were drilled since 1970? What portion of the cost of clean-up is paid for by bonds and what portion is grant funds from the state?

Of the 115 wells plugged or proposed to be plugged with RIT grants, 28 were drilled after 1970. The proportionate cost of plugging wells with bond funds compared to grant funds is difficult to estimate. RIT grants have paid to plug 94 wells since 1991 (the first year the Board obtained RIT grant funds). The Production Damage Mitigation Account (PDMA) paid to plug 47 wells since 1985. The PDMA receives a biennial appropriation of \$50,000 from RIT interest income (not from the grant account) and all of the bond forfeiture funds. We provide the agency match portion of the grant request (typically about \$5,000 to \$10,000 per grant) from the PDMA. If one chooses to ignore the relatively small amounts of RIT added to the PDMA and the relatively small amount of PDMA funds used as match to the RIT grants, 47 wells were plugged with bond money and 94 wells were plugged with RIT grants. Therefore, 33% of plugging activities have been covered by bonds and 67% by RIT grants. Of the 115 wells plugged or pending plugging with RIT grant funds, 69% are pre-regulatory (1954) and 31% were drilled after bonding was required.

I hope I have adequately addressed your request. If you need anything else, please let me know.

Sincerely,

Thomas P. Richmond
Administrator
Board of Oil and Gas Conservation

RON SANNES CHRONOLOGY SINCE SEPTEMBER 3, 1998 BOGC HEARING

BOGC Business Meeting 2/10/99

- 9/3/98 See Attached Board Order 86-98.
- 9/14/98 \$2,500 fine paid before 9/15/98 deadline set by Board Order 86-98.
- 11/17/98 Notified Mr. Sannes that the saltwater spill in July of 1998 on the Bailey 32-2 lease needs to be address. Since the crop has long since been harvested, there was no reason why he could not clean it up.
- 11/98 Saltwater spill cleaned up on production site. Saltwater contaminated soil used to build up dike around battery and well site. Saltwater contamination extends out into farmer's field, inspector suggests that Mr. Sannes address that problem with the landowner.
- 12/7/98 Notified Mr. Sannes that an oil spill had occurred on his Federal Land Bank of Spokane No.1 lease, which needs to be reported and cleaned up.
- Called by Keith Carver, Titan Oil Well Service about bidding plugging program for the Ron Sannes, State 1-36 well; which, must be plugged and restored by 12/31/98 per Board Order 86-98 or if the well is not plugged and restored the balance of the \$56,400 fine will be due.
- 12/11/98 To date nothing has been done to the State 1-36 well location, saltwater spill on the Bailey 32-2 lease not cleaned up yet, and oil spill on the Federal Land Bank of Spokane No.1 has had nothing done for cleanup, per Darrel Hystad.
- Spill report received from Ronald M. Sannes for the Federal Land Bank of Spokane No.1 lease. Stating 49 bbls. of fluid were lost to the emergency diked area, with a small amount reaching the lease road. Cleanup proposed by the end of January 1999.
- Received a call from Wisco concerning plugging of State 1-36 well of Ronald Sannes, stating negotiating with Mr. Sannes for plugging.
- 12/15/98 Received a call from Titan Oil Well Service, Keith Carver, stating Mr. Sannes could not come to an agreement on payment with him. So Titan Oil Well Service was no longer negotiating to plug Mr. Sannes well.

BEFORE THE BOARD OF OIL AND GAS CONSERVATION
OF THE STATE OF MONTANA



ORDER NO. 86-98

IN THE MATTER OF THE FAILURE OF RONALD M. AND
MARGARET ANN SANNES TO PAY THE FINE DUE ON THE
HATLEY #1 WELL IN SECTION 10, T23N-R54E, RICHLAND
COUNTY, MONTANA, AND THEIR FAILURE TO CURE THE
DEFICIENCIES IN NINETEEN OTHER INSTANCES.

Docket 71-98

Report of the Board

The above entitled cause came on regularly for hearing on the 3rd day of September, 1998, in the Billings Petroleum Club, Billings, Montana, pursuant to the order of the Board of Oil and Gas Conservation of the State of Montana, hereinafter referred to as the Board. At this time and place testimony was presented, statements and exhibits were received, and the Board then took the cause under advisement; and, the Board having fully considered the testimony, statements and exhibits and all things and matters presented to it for its consideration by all parties in the Docket, and being well and fully advised in the premises, finds and concludes as follows:

Findings of Fact

1. Due, proper and sufficient notice was published and given of this matter, the hearing hereon, and of the time and place of said hearing, as well as the purpose of said hearing; all parties were afforded opportunity to present evidence, oral and documentary.
2. This matter was originally set for hearing on July 16, 1998, but was continued to this date at the request of the applicant.
3. At the deliberations in July, 1997, by Board Order 77-97, this Board ordered that the Hatley #1 well be plugged and the location restored on or before October 4, 1997, and further that a fine of \$200 per day be imposed beginning October 25, 1997, for each day the plugging, abandonment and site restoration remained incomplete. The fine due on said well under Board Order 77-97 is \$56,400. Payment of that fine or forfeiture of the bond to enforce that fine will effectively put Mr. and Mrs. Sannes out of business.
4. The nineteen other deficiencies outlined in the report attached to Show Cause Order 54-98 have been corrected but there still exists an obligation to plug and reclaim the State 1-36 well in the NENE of Section 36, T26N-R57E, Richland County, Montana.
5. Ronald and Margaret Ann Sannes have a brief and troubled history in the oil business in Montana. They have appeared before this Board six times in the last 26 months. When they are cited to appear before the Board, they contact their counsel, Mr. Joel Guthals, and, due in no small part to Mr. Guthals' counsel, Respondents take some actions to correct the deficiencies in their operations. This Board wants Mr. Guthals to be involved at an earlier stage and will direct that all future notices of deficiencies be given to Mr. Guthals as well as the Respondents.
6. This Board has no desire to put anyone out of business so long as they are conscientiously striving to bring their operations into compliance with the Board's orders and regulations and the statutes of the State of Montana.
7. Entering the orders set forth below will give Respondents one final opportunity to bring their operations into conformity with the law.

Order

IT IS THEREFORE ORDERED by the Board of Oil and Gas Conservation of the State of Montana that Ronald and Margaret Sannes will, no later than September 15, 1998, pay a fine of \$2,500.

IT IS FURTHER ORDERED that Respondents plug and reclaim the State 1-36 well in the NENE of Section 36, T26N-R57E, Richland County, Montana, by December 31, 1998.

IT IS FURTHER ORDERED that, should said State 1-36 well be properly plugged and reclaimed by December 31, 1998, the balance of the \$56,400 fine levied on Respondents by Board Order 77-97 be rescinded.

IT IS FURTHER ORDERED that Mr. Joel Guthals, Attorney at Law, of 10 North 27th Street in Billings, Montana, (PO Box 1977) be mailed copies of all communications to Ronald and Margaret Sannes from this Board or its staff.

Done and performed by the Board of Oil and Gas Conservation of the State of Montana at Billings, Montana, this 3rd day of September, 1998.

BOARD OF OIL AND GAS CONSERVATION
OF THE STATE OF MONTANA

David Ballard, Chairman

Denzil Young, Vice Chairman

Warren H. Ross, Board Member

Stanley Lund, Board Member

George Galuska, Board Member

Dean Swanson, Board Member

Allen Kolstad, Board Member

ATTEST:

Terri Perrigo, Executive Secretary

Montana Board of Oil and Gas Conservation

Submit In Duplicate To:

Billings or Shelby Offices

ARM 36.22.307,
1003, 1004, 1011,
1013, 1103, 1222,
1301, 1306, and 1309

Sundry Notices and Report of Wells

Operator Ronald M. Sannes

Address P.O. Box 603

City Billings State MT Zip Code 59103

Telephone Number (406) 248-1171 Telefax Number (406) 248-4858

Location of well (1/4-1/4 section and footage measurements):

NE/4 SE/4 1980' FSL and 660' FEL

If directionally or horizontally drilled, show both surface and bottom hole locations)

API Number:

25 0 8 3 2 1 1 8 8

State County Well

Well Type (oil, gas, injection, other):

Oil

Lease Name:

Federal Land Bank of Spokane

Lease Type (Private/State/Federal):

Private

Well Number:

1

Unit Agreement Name:

Field Name or Wildcat:

Mondak West

Section, Township, and Range:

7 22N 60E

County:

Richland

Indicate below with an X the nature of this notice, report, or other data:

☐ Notice of Intention to Change Plans
☐ Notice of Intention to Run Mechanical Integrity Test
☐ Notice of Intention to Stimulate or to Chemically Treat
☐ Notice of Intention to Perforate or to Cement
☐ Notice of Intention to Abandon Well
☐ Notice of Intention to Pull or Alter Casing
☐ Notice of Intention to Change Well Status
☐ Supplemental Well History
☒ Other (specify) Notice of Undesirable Incident

☐ Subsequent Report of Mechanical Integrity Test
☐ Subsequent Report of Stimulation or Chemical Treatment
☐ Subsequent Report of Perforation of Cementing
☐ Subsequent Report of Well Abandonment
☐ Subsequent Report of Pulled or Altered Casing
☐ Subsequent Report of Drilling Waste Disposal
☐ Subsequent Report of Production Waste Disposal
☐ Subsequent Report of Change in Well Status
☐ Subsequent Report of Gas Analysis (ARM 36.22.1222)

Describe Proposed or Completed Operations:

Describe planned or completed work in detail. Attach maps, well-bore configuration diagrams, analyses, or other information as necessary. Indicate the intended starting date for proposed operations or the completion date for completed operations.

A swedge on the oil tank broke loose causing approximately 49 bbls. of total fluid to spill out. It was nearly all contained in the dike with a small amount spilling out onto the adjoining road which covered an area measuring approximately two feet wide and eight feet long.

We plan to clean up the location by the end of January 1999.

BOARD USE ONLY

Approved _____

Date _____

Name _____

Title _____

The undersigned hereby certifies that the information contained on this application is true and correct:

12-09-98

Date

Signed (Agent)

Ronald M. Sannes, Owner

Print Name & Title

Exhibit 6

**DEPARTMENT OF NATURAL RESOURCES
AND CONSERVATION****TRUST LAND MANAGEMENT DIVISION**

MARC RACICOT, GOVERNOR

1625 ELEVENTH AVENUE

STATE OF MONTANADIRECTOR'S OFFICE (406) 444-2074
TELEFAX NUMBER (406) 444-2684PO BOX 201601
HELENA, MONTANA 59620-1601

February 10, 1999

Ronald M. Sannes
P.O. Box 603
Billings, MT 59103Re: State of Montana O&G Lease #17,289-76 (cancelled)
State #1-36 well
Section 36, Township 26 North, Range 57 East, Richland County

Dear Mr. Sannes:

I have reviewed the January 22, 1999 letter you submitted, which included photocopies of BOGC production reports for the State 1-36 from 12/88 through 01/90. You provided no engineering or geologic information to support your proposal to recompleate this well.

The Trust Land Management Division (TLMD) allowed you nearly two years (March 92 through December 1, 1994) to return this lease to commercial production. During that time, you did not undertake any operations to return the lease to a producing status, and lease #17,289-76 was cancelled December 27, 1994.

The tract was subsequently offered for lease. Chesapeake Operating, Inc. obtained State of Montana lease #31,859-96 covering all of Sec. 36 - T26N - R57E, effective March 5, 1996. Chesapeake was offered the opportunity to utilize and take responsibility for the wellbore, but declined.

You had ample opportunity to take diligent steps to recompleate the State 1-36 while you held the oil & gas lease. Since Chesapeake obtained the new lease and declined to assume the wellbore, you remain responsible for proper plugging and reclamation. Chesapeake is the lessee and therefore the only party that can produce oil & gas from this tract. Please proceed to plug the State 1-36 and reclaim the surface site as required in the BOGC show cause order.

Sincerely,

A handwritten signature in dark ink, appearing to read "Monte G. Mason".

Monte G. Mason, Chief
Minerals Management Bureau

c: Tom Richmond, Administrator, BOGC, Billings, MT 59102

Exhibit 7

Ronald M. Sannes

2203 Montana Ave ◆ P.O. Box 603 ◆ Billings, MT 59103
Phone (406) 243-1171 ◆ Fax (406) 243-4858

January 22, 1999

RECEIVED
JAN 25 1999
D.N.R.C.

Department of Natural Resources & Conservation
TRUST LAND MANAGEMENT DIVISION
1625 Eleventh Ave.
PO Box 201601
Helena MT 59620-1601

Attn: Monte Mason

State Lease #17,289-76 (cancelled)

RE: STATE (Cenex) #1-36
NE/4 Sec.36, T26N-R57E
Richland County, Montana

Dear Monte:

We are negotiating with Chesapeake Operating, Inc. to purchase the state lease for the referenced well. In that event, we would like to describe our plans to set up a producing well.

We have a pumping unit on one of our well locations in North Dakota that we would transfer to this location and set up. We would like to begin this work in the middle of March/99, providing the weather is favorable, and finish it in April/99.

We would like to go down and reperforate the "B" Zone and the "C" Zone in the Red River. The "B" Zone has never been perforated and we would like to reperforate the upper portion of the "C" Zone. By reperforating the Red River, we would increase the amount of fluid and thereby increase our recoverable oil. Basing our price on \$15.00 per barrel, which would be an average over the years, we believe producing from these new zones would be economically feasible for both our company and the State of Montana.

We would very much like to have an opportunity to explore this well's potential.

Very truly yours,



Ronald M. Sannes