

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, December 8, 1999, at the Board's office at 2535 St. Johns Avenue in Billings, Montana. Board members present were David Ballard, Denzil Young, George Galuska, Jack King, Allen Kolstad, Stanley Lund and Elaine Mitchell. Staff present were Don Garrity, Jim Halvorson, George Hudak, Rich Jacobson, Gary Klotz, Terri Perrigo, Tom Richmond and Steve Sasaki.

MINUTES

MOTION: Mr. King moved to accept the minutes of the October 27, 1999, business meeting. Mr. Lund seconded the motion and it passed unanimously.

PUBLIC COMMENT

Mr. Curt Dahlgaard of Somont Oil (Somont) said Somont has obtained 20 leases for approximately 110 wells in the Kevin Sunburst area previously operated by C Bar W. On September 7, 1999, Judge Buyske ordered C Bar W to get all its property off the leases within 90 days. C Bar W took only the salvageable items, and left open pits and junk. Somont is requesting that the Board require C Bar W to clean up the leases so Somont can begin producing the wells without having to deal with possible environmental issues associated with the pits and junk.

Mr. Sasaki said he has a copy of the Judge's order and the Shelby office is just starting to review the leases in question.

MOTION: Mr. Galuska made a motion to have C Bar W present a report on what they're doing to remedy and comply with Judge Buyske's order at the Board's February 9, 2000, business meeting. Mr. Young seconded the motion and it passed unanimously.

Mr. Keith Carver of Titan Oil in Sidney, MT was present to talk to the Board about becoming a bonded operator for seven wells.

Mr. Sasaki said Mr. Carver wants to acquire some wells off the orphan well list. Mr. Richmond advised Mr. Carver to come to the Board with its bonding request because the principals of Titan Oil are some of the same principals that were in Crown Oil, the company that went bankrupt and left the Board "hanging."

Mr. Carver said Crown Oil had five owners. He and his father, Lenny Carver, together were 20 percent stockholders in Crown and both worked as field men for the company. He and his dad are 100 percent stockholders in Titan Oil, which has been in the oil production business with five wells since July, 1998. Mr. Carver said he was never informed that Crown left the Board "hanging," because Crown told him it had all been taken care of through the bankruptcy court's stipulation to convey Crown interests to ResourceFund (Exhibit 1). He said if the agreement with ResourceFund to take care of Crown wells doesn't work out, he wants the Board to please let him know because he wants to make things right.

MOTION: Mr. Kolstad moved to approve Titan Oil for a \$50,000 blanket bond limited to seven wells: the Clark FLB and Enterprise Energy wells off the orphan well list and five other wells in Richland County currently bonded to Prairie Energy. Mr. Galuska seconded the motion and it passed unanimously.

Chairman Ballard asked Mr. Richmond if the Board was adequately staffed to deal with coal bed methane issues. Mr. Richmond said additional help may be necessary to deal with task forces, steering committees, and other joint committees. At this point, the environmental assessments for the permitting is time consuming, but not overwhelming. If it did become necessary to hire an environmental coordinator, it could be done through a contract for services. The coal bed methane demand on field inspectors' time has been somewhat mitigated by the lack of regular drilling and production activity in the Central Montana area which has allowed Alan Olson to pick up the coal bed methane duties without much problem.

BOND REPORT

Mr. Rich Jacobson presented the bond report, which is attached as Exhibit 2. He said the bonding company for Enterprise Energy had been contacted (the Board took action when Mr. Hjartarson was chief field inspector to forfeit its bond but no follow-up ever took place). The bonding company is researching its options in regard to bond forfeiture vs. paying for plugging and restoration.

Equity Oil (Equity) has requested its \$50,000 injection well bond be considered a blanket bond. Equity currently has three injection wells on this bond, and nine wells on its separate \$50,000 producing well bond. Mr. Halvorson reminded the Board that staff monitors the number of wells on a blanket bond, and if the number becomes a problem the matter is brought to the Board. Mr. Hudak had no problem with Equity Oil's request for a blanket bond, particularly with only three wells which if bonded under single well bonds would only cost \$30,000 (\$10,000 each). The Board directed Mr. Jacobson to authorize Equity Oil's \$50,000 injection well bond to be a blanket bond for no more than five wells. If Equity Oil requests that more than five wells be assigned to that bond, the request should be brought to the Board.

Stephens & Johnson Operating Company (S & J) has requested release of its \$25,000 bond. There is only one well on the bond, and it was transferred to the surface owner for a fresh water well. However, the surface owner hasn't bonded the well and it is still open to the Red River Formation at approximately 12,700 feet. The problem with releasing the bond is that the well needs to be plugged back to the fresh water zone, and S & J is still the bonded operator. Mr. Garrity recommended a letter be sent to S & J stating their bond would not be released until the well is plugged back to the fresh water zone. Mr. Halvorson said the Board also can't release the well as a fresh water well until proof is provided that a water right has been established.

FINANCIAL REPORT

Ms. Terri Perrigo gave the financial report, which attached as Exhibit 3.

WATER RESOURCES DIVISION - CONTROLLED GROUNDWATER AREA

Mr. Jack Stults of the Department of Natural Resources and Conservation's (DNRC) Water Resources Division (Water) reported on status and plans for the Powder River Basin Controlled Groundwater Area (Exhibit 4). He gave background information on why the controlled groundwater area was proposed, including Wyoming's experience with water produced from coal bed methane operations (Exhibit 5). He said Water's controlled groundwater order would be issued concurrent with the Board's order. The controlled groundwater area can be amended or rescinded, but Mr. Stults said any such action would also be done concurrent with the Board. He said after Water's order is signed, a Technical Advisory Committee (TAC) will be established and long range planning will begin.

Chairman Ballard asked about the make-up of the TAC, and how much time Mr. Stults envisioned would be required for TAC activities. Mr. Stults said he thought the TAC should be made up of groundwater hydrologists from DNRC, Department of Environmental Quality, Industry, Bureau of Mines and Geology, US Geological Survey and the Bureau of Land Management. Hydrologists would be invited to be on the TAC by the Director of DNRC, the TAC would be attached to DNRC's Water Resources Division, and it would make recommendations on applications for coal bed methane projects to the Board of Oil and Gas Conservation. He said the amount of time spent on TAC activities was hard to predict, but he hoped industry would expand at an easy to manage pace so the TAC could be

looking at one or two applications a month. He said there would be no extra personal services cost to government for TAC participation because all except industry members would already be government employees. He said DNRC Water Resources would pay the cost of TAC meetings, and that consensus would be the goal so that a single recommendation could be made to the Board. He said if TAC disagreed with the way the Board of Oil and Gas was "going," they could petition the Board.

Chairman Ballard reminded Mr. Stults that the Board of Oil and Gas sets the pace of its hearings and the TAC would have to come up with its recommendations within the Board's filing/hearing time frames. Mr. Stults said he recognized the Board "drove the train," but he hoped TAC and the Board would be able to work out a time frame so groundwater analysis could be done. Mr. Richmond said Water Resources gets a copy of coal bed methane applications as soon as they are received, but oftentimes they aren't received until close to or on the filing deadline for the next meeting which is only five to six weeks away. Mr. King said he has concern about the authority of TAC and its role, but as long as they come to the hearing as one voice that should be ok. Mr. Garrity said he hoped operators will have had contact with TAC prior to filing an application with the Board.

CENTRAL RESOURCES, INC.

Mr. Rick Hodges, Vice President of Land for Central Resources, Inc. (Central), was present to ask for more time to fix their injection well problem. Mr. Hodges said Central sold three injection wells to Jimmy Robeson of Louisiana. Mr. Robeson didn't pay the injection well fees for 1999, nor did he get a bond. Consequently, the Board ordered Central to pay the injection well fees and assessed an additional \$100 per well late fee at the October, 1999, Board meeting. Shortly thereafter, Central remitted a check for \$600 (the three injection well fees); and, according to Mr. Hodges, has no problem with paying the additional \$300 still owed to the Board. Mr. Hodges said Central has retained Mr. Gary Broeder to sue Jimmy Robeson to rescind the assignment they gave him. Central has also been in contact with Fred Cline of Great Plains Operating, who wants to acquire these properties. It was the consensus of the Board to allow Central more time to pursue the matter. Central was directed to have its attorney, Gary Broeder, inform the Board by the next business meeting of the status of the matter.

STAFF REPORTS

Mr. Hudak said he had mailed out year 2000 injection well fee statements.

Mr. Richmond said he and Mr. Halvorson will be going to New Orleans for the Interstate Oil and Gas Compact Commission meeting on December 10th.

MSU BILLINGS STUDY

The students from MSU-Billings presented their study on the Board and its operations. A copy of their report is attached as Exhibit 6.

Mr. Galuska moved to adjourn the meeting. Mr. Kolstad seconded the motion and it passed unanimously.

PUBLIC HEARING

The Board reconvened at 8:00 a.m. Thursday, December 9, 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, testimony, and technical data placed before the Board, the following action was taken in each matter.

Docket No. 115-99 - The application of Enernet of Wyoming, LLC was continued to the February, 2000, hearing.

Docket No. 116-99 - The application of Enernet of Wyoming, LLC was continued to the February, 2000, hearing.

Docket No. 117-99 - The application of Klabzuba Oil & Gas, Inc. was continued to the May, 2000, hearing.

Docket No. 118-99 - A motion was made by Mr. Lund, seconded by Mr. Galuska and unanimously passed, to approve the application of Howell Petroleum Corporation as set forth in Board Order 92-99.

Docket No. 119-99 - A motion was made by Ms. Mitchell, seconded by Mr. Lund and unanimously passed, to deny without prejudice the application of Jurassic Resources Development North America as set forth in Board Order 93-99.

Docket No. 120-99 - A motion was made by Mr. Young, seconded by Mr. Kolstad and unanimously passed, to approve the application of Ocean Energy Resources, Inc. as modified and set forth in Board Order 94-99.

Docket No. 121-99 - The application of Ocean Energy Resources, Inc. was dismissed without prejudice.

Docket No. 122-99 - A motion was made by Mr. Galuska, seconded by Ms. Mitchell and unanimously passed, to approve the application of Ocean Energy Resources, Inc. as amended and set forth in Board Order 95-99.

Docket No. 123-99 - A motion was made by Mr. Young, seconded by Mr. King and unanimously passed, to approve the application of Ocean Energy Resources, Inc. as amended and set forth in Board Order 96-99.

Docket No. 124-99 - The application of Continental Resources, Inc. was continued to the February, 2000, hearing.

Docket No. 125-99 - A motion was made by Mr. Galuska, seconded by Mr. Lund and unanimously passed, to approve the application of Energy Equity Company as set forth in Board Order 97-99.

Docket No. 126-99 - A motion was made by Mr. Kolstad, seconded by Mr. Young and unanimously passed, to approve the application of MAKOIL, Inc. as set forth in Board Order 98-99.

Docket No. 127-99 - The application of MCW TRANSMISSION, LTD was continued to the February, 2000, hearing.

Docket No. 128-99 - The application of MCW TRANSMISSION, LTD was continued to the February, 2000, hearing.

Docket No. 129-99 - The application of MCW TRANSMISSION, LTD was continued to the February, 2000, hearing.

Docket No. 130-99 - A motion was made by Ms. Mitchell, seconded by Mr. Young and unanimously passed, to approve the application of Montana Board of Oil and Gas Conservation, as modified and set forth in Board Order 99-99.

Docket No. 131-99 - A motion was made by Mr. Galuska, seconded by Mr. Young and unanimously passed, to approve the application of Klabzuba Oil & Gas, Inc., as set forth in Board Order 100-99.

Docket No. 96-99 - The application of Northern Oil Production, Inc. was continued to the February, 2000, hearing.

Docket No. 98-99 - The application of Fulton Fuel Company was continued to the February, 2000, hearing.

Docket No. 100-99 - A motion was made by Mr. Kolstad, seconded by Mr. Galuska and unanimously passed, to approve the application of Luff Exploration, as set forth in Board Order 101-99.

Docket No. 101-99 - The application of Klabzuba Oil & Gas, Inc. was dismissed without prejudice.

Docket No. 102-99 - The application of Klabzuba Oil & Gas, Inc. was continued to the February, 2000, hearing.

Docket No. 103-99 - A motion was made by Mr. Kolstad, seconded by Mr. Lund and unanimously passed, to approve the application of Klabzuba Oil & Gas Inc. as set forth in Board Order 102-99.

Docket No. 102-99 - The application of Klabzuba Oil & Gas, Inc. was continued to the February, 2000, hearing.

Docket No. 103-99 - A motion was made by Mr. Kolstad, seconded by Mr. Lund and unanimously passed, to approve the application of Klabzuba Oil & Gas Inc. as set forth in Board Order 102-99.

Docket No. 104-99 - A motion was made by Ms. Mitchell, seconded by Mr. King and unanimously passed, to approve the application of Klabzuba Oil & Gas Inc. as set forth in Board Order 103-99.

Docket No. 105-99 - A motion was made by Mr. King, seconded by Mr. Lund and unanimously passed, to approve the application of Klabzuba Oil & Gas Inc. as set forth in Board Order 104-99.

Docket No. 106-99 - A motion was made by Mr. Kolstad, seconded by Mr. King and unanimously passed, to approve the application of Klabzuba Oil & Gas Inc. as set forth in Board Order 105-99.

Docket No. 107-99 - A motion was made by Mr. King, seconded by Ms. Mitchell and unanimously passed, to approve the application of Klabzuba Oil & Gas Inc. as set forth in Board Order 106-99.

Docket No. 108-99 - The application of Klabzuba Oil & Gas, Inc. was dismissed without prejudice.

Docket No. 109-99 - The application of Klabzuba Oil & Gas, Inc. was dismissed without prejudice.

Docket No. 110-99 - A motion was made by Mr. Galuska, seconded by Mr. King and unanimously passed, to approve the application of Klabzuba Oil & Gas Inc. as set forth in Board Order 107-99.

Docket No. 111-99 - A motion was made by Ms. Mitchell, seconded by Mr. King and unanimously passed, to approve the application of Klabzuba Oil & Gas Inc. as set forth in Board Order 108-99.

Docket No. 112-99 - A motion was made by Mr. King, seconded by Mr. Kolstad and unanimously passed, to approve the application of Klabzuba Oil & Gas Inc. as set forth in Board Order 109-99.

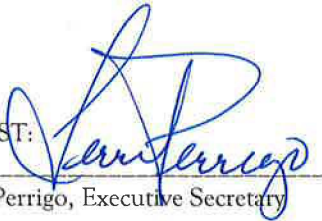
Docket No. 85-99 - The application of Enernet of Wyoming, LLC, was continued to the February, 2000, hearing.

Docket No. 92-99 - The application of Ocean Energy Resources, Inc. was continued to the February, 2000, hearing.

NEXT MEETING

The next business meeting of the Board will be February 9, 2000, at 2:00 p.m. at the Board's office at 2535 St. Johns Avenue, Billings, Montana. The public hearing will be February 10, 2000, beginning at 8:00 a.m. in the conference room of the Billings Petroleum Club, Sheraton Hotel, Billings, Montana. The filing deadline for the February 10, 2000, public hearing is Thursday, January 6, 2000.

ATTEST:


Terri Perrigo, Executive Secretary

BOARD OF OIL AND GAS CONSERVATION
OF THE STATE OF MONTANA


David Ballard, Chairman

1 **CRAIG D. MARTINSON**
 2 Attorney at Law
 3 303 North Broadway, Suite 830
 4 Billings, Montana 59101
 5 Attorney No. 953
 6 Telephone: (406) 248-9346
 7 FAX: (406) 248-2413
 8 Attorney for ResourceFund, L.P.I.

9 **IN THE UNITED STATES BANKRUPTCY COURT**
 10 **FOR THE DISTRICT OF MONTANA**

11 **IN RE:**) **Bankruptcy Case No. 97-12016-JLP-7**
 12)
 13 **CROWN OIL, INC.,**)
 14)
 15 **Debtors.**)

16 **STIPULATION TO COMPROMISE AND SETTLE CLAIMS;**
 17 **CONVEYANCE OF CERTAIN OIL & GAS INTERESTS;**
 18 **AND FOR GRANT OF RELIEF FROM STAY**

19 **COMES NOW**, the Trustee in the above-captioned case, **JOSEPH V. WOMACK**
 20 **("Trustee")** and **RESOURCEFUND, L.P.I. ("ResourceFund")**, by and through its attorney,
 21 **CRAIG D. MARTINSON**, and stipulate and agree as follows:

- 22 **A. Crown Oil, Inc. ("Crown"),** Debtor herein, is the owner and operator of the
 23 oil and gas properties described on Exhibit A attached hereto (the **"Subject Properties"**).
 24 **B. Crown** sold and conveyed a production payment (the **"Production Payment"**)
 25 to **ResourceFund** in the **Subject Properties** effective April 1, 1997. In connection with the
 26 sale and conveyance of the **Production Payment**, **Crown** and **ResourceFund** entered into
 that certain **Production and Delivery Agreement** and **Mortgage-Collateral Real Estate**
Mortgage effective April 1, 1997 (**"Production and Delivery Agreement"**). This
Production and Delivery Agreement included a granting to **ResourceFund** of a security
 interest in various items of property owned by **Crown**, all as is more fully described therein.

1 C. On August 1, 1997, Crown filed a voluntary petition under Chapter 11 of the
2 Bankruptcy Code entitled In re Crown Oil, Inc., Case No. 97-12016 in the United States
3 Bankruptcy Court for the District of Montana (the "Bankruptcy").

4 D. On December 12, 1997, the Bankruptcy Court entered its Order authorizing
5 Crown to borrow money from ResourceFund allowing ResourceFund to operate the
6 properties for Crown and granting ResourceFund a super-priority lien pursuant to 11 U.S.C.
7 §364.

8 E. On or about September 9, 1998, this case was converted to one under Chapter
9 7 of the Bankruptcy Code.

10 F. Disputes and differences exist between the parties with respect to all of the
11 events and agreements described above. As part of this agreement, the parties desire to
12 compromise and settle all disputes and differences between them, whether known or
13 unknown.

14 AGREEMENT

15 In consideration of the terms of this Agreement, the receipt and sufficiency of
16 which is hereby acknowledged, the parties agree as follows:

17 1. In consideration of the payment of \$92,500.00 from ResourceFund to Trustee,
18 the Trustee agrees as follows:

19 a. On behalf of Crown, its representatives and assigns, to hereby release,
20 satisfy and otherwise settle all claims Trustee may have against ResourceFund, its
21 principals, agents, representatives, officers, directors, employees, successors in
22 interest, and assignees, from all liability for claims and demands of any nature
arising out of any and all transactions by and between Crown, its representatives
and assigns on the one part, and ResourceFund on the other part, known or
unknown.

23 b. That the automatic stay be modified per the terms of the Motion to
24 Modify Stay filed herein by ResourceFund so as to allow ResourceFund to apply
25 for and hold the position of operator of any and all oil and gas interests held by
26 Crown, to the extent that such a stay would continue to be in effect notwithstanding
this Stipulation.

1 c. That Trustee shall convey to **Prairie Energy, Inc. or such other entity**
2 **as requested by ResourceFund**, by Trustee's Deed in the form attached hereto as
3 **Exhibit B**, any and all of the Estate's interest in the oil and gas properties described
4 **on Exhibit A**, including all personal property presently located on said properties. It
5 is the intent of the parties that Trustee shall convey any and all interest that Crown
has in any and all oil and gas properties, except those oil and gas properties and
personal property located thereon described in the attached **Exhibit C**. The parties
understand and agree that Trustee shall convey Howland #1 to Columbus Energy
Corp., free and clear of liens and interests.

6 2. **ResourceFund** agrees to pay to Crown the sum of \$92,500.00 in consideration
7 for the release and satisfaction of all claims, known or unknown, by Crown's Agent,
8 **ResourceFund**, and transfer to it or its assigns, that property further described in **Para. 1(c)**
9 herein.

10 3. **ResourceFund** shall retain, to the extent only of the value of the property
11 being assigned and conveyed to it by Crown and further described in **Para. 1(c)** herein, a
12 claim against Crown, to be satisfied solely from that property. This claim shall be
13 considered a secured claim. By this Agreement and Assignment, **ResourceFund** is in no
14 way releasing or otherwise satisfying their secured claim. To the extent that **ResourceFund**
15 shall have any money due it by Crown, that is unsecured, based on other claims or causes
16 of action, it releases Crown from any obligation for that money due and agrees and
17 acknowledges that it does not have nor will it file a general unsecured claim in this
18 Bankruptcy, but rather, will limit its claim to a secured claim for and to that property
19 described in **Para. 1(c)** herein, with this claim to be satisfied solely from that property.

20 4. **ResourceFund** and its assigns assumes any and all royalty payment obligations
21 arising after the date of the filing of the **Chapter 7 Bankruptcy** and plugging and site
22 restoration liability associated with the property transferred by Trustee to **ResourceFund** or
23 its assigns. **Resourcefund** and its assigns shall and does hereby indemnify and hold Trustee
24 harmless for all such liability assumed.

25 5. Except and to the extent that **ResourceFund** shall be due and owing and hold
26 a secured claim against Crown up to and limited to the value of the property being

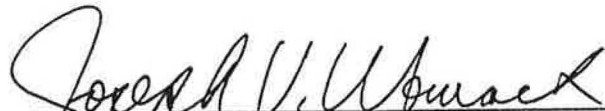
1 conveyed, as described in Para. 1(c) herein, all other agreements between the parties are
2 hereby rescinded, terminated and canceled upon approval of this **Agreement** by the
3 Bankruptcy Court. **ResourceFund** shall further release any liens it may have on the property
4 described in **Exhibit C**.

5 6. Each of the parties shall cooperate fully with the other as requested to provide
6 information associated with any matters relating to Debtor's **Chapter 11 and Chapter 7**
7 **Bankruptcies** and the oil and gas properties and personal property involved in this case
8 shall execute any and all documents as necessary to carry out the intent of this **Agreement**,
9 including but not limited to **ResourceFund's** releasing of record any liens it may have on the
10 property described in **Exhibit C**.

11 7. All of the terms of this **Agreement** and the parties' performance hereunder are
12 subject to and conditioned upon Bankruptcy Court approval.

13 8. Upon execution of this **Agreement**, **Trustee** shall file a motion with the
14 Bankruptcy Court seeking approval of its terms and the sale of the property described in
15 **Exhibit A to ResourceFund**. Upon approval by the Bankruptcy Court, the parties shall
16 promptly carry out the terms of this **Agreement**. In particular, within **three (3) days** of
17 approval, **Trustee** shall execute and deliver the **Trustee's Deed to ResourceFund** in
18 exchange for the \$92,500.00 to be paid by cashier's check or certified funds or other funds
19 agreeable to **Trustee**.

20 DATED this 25th day of December, 1998.

21
22 
23 JOSEPH V. WOMACK, Trustee in Bky


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25 
26 CRAIG D. MARTINSON, Attorney for
ResourceFund, L.P.I.

EXHIBIT A and all other supporting or appropriate conveyance documents will be prepared upon approval of this transaction by the Bankruptcy Court.

CROWN OIL, INC
 PROPERTIES TO BE TRANSFERRED
 TO RESOURCEFUND (OR ITS DESIGNATED AFFILIATE)

<u>MONTANA COUNTY</u>	<u>WELL NAME</u>	<u>LEGAL LOCATION</u>	<u>API NUMBER</u>
Fallon	Halmans 32-20	8N-60E-20	25-025-21334
Fallon	BN 11-11	9N-58E-11	25-025-21273
Fallon	BN 12-11	9N-58E-11	25-025-21021
Fallon	BN 31-11	9N-58E-11	25-025-21243
Fallon	Halmans 1-26	9N-59E-26	25-025-21274
Dawson	Gov't McGhee 1A	17N-53E-22	25-021-05146
Dawson	NCT 4-2	17N-53E-23	25-021-05147
Dawson	NCT 4-3	17N-53E-23	25-021-05144
Dawson	NCT 4-1 SWD	17N-53E-23	unknown
Richland	Strasheim 3-3	22N-59E-03	25-083-21612
Richland	Dige 6-4	22N-59E-04	25-083-21613
Richland	Carlsen-Lyche 21-41	23N-59E-21	25-083-21292
Richland	Carlsen-Lyche 22-12	23N-59E-22	25-083-21346
Richland	MT AG STA 28-41	23N-59E-28	25-083-21384
Richland	Gullickson 9-34	23N-59E-34	25-083-21552
Richland	D.M. Anderson 1	24N-58E-30	25-083-21702
Richland	Sundheim 14-15	24N-59E-15	25-083-21511
Roosevelt	Tininenko 4-19	29N-59E-19	25-085-21275
Sheridan	C. Petersen 1	35N-58E-19	25-091-21664
Fallon	Scheigert 14-30	9N-60E-30	25-025-21330
 NORTH DAKOTA COUNTY			
Hettinger	Urlacher #1	133N-97W-24	unknown
Hettinger	Redetzke #1 SWD	133N-97W-23	unknown
Slope	Cash Creek Federal "A" 1	135N-106W-14	33-087-00106

Well name	County, State
1. Blair 33-31x	Richland, MT
✓ 2. Clark Fib #1	Richland, MT
3. Thiel 14-23	Richland, MT
4. Norgaard 10-20	Richland, MT
✓ 5. Dore #1	Richland, MT
7. Boonedog #1	Adams, ND
8. Ballard 22-20	Wibaux, MT
9. Wojahn A 5-2	Wibaux, MT
10. Michaels #3-3	Wibaux, MT
11. Moerman Fee	Wibaux, MT
12. Federal 1-26 SWD in Fallon County	

EXHIBIT B, page 2 of 2 pages

					County	ST.	WI.	NR1.
Federal # 3-22	SW1/4NE1/4	SEC 3	TWP 147 N	RGE 104 W	McKenzie	ND.	0.203125	0.169848
Federal # 3-32x	SW1/4NE1/4	SEC 3	TWP 147 N	RGE 104 W	McKenzie	ND.	0.1875	0.162888
Federal # 2-43	NE1/2SE1/4	SEC 2	TWP 147 N	RGE 105 W	McKenzie	ND.	0.75	0.569124
Federal # 14-31	SE1/4NW1/4	SEC 14	TWP 148 N	RGE 105 W	McKenzie	ND.	0.31875	0.274724
Federal # 11-44	S/2	SEC 11	TWP 148 N	RGE 105 W	McKenzie	ND.	0.5835281	0.477139
Federal # 15-43	SE1/4NW1/4	SEC 15	TWP 148 N	RGE 105 W	McKenzie	ND.	0.5842604	0.5064585
Federal # 11-23	SE1/4NW1/4	SEC 11	TWP 148 N	RGE 105 W	McKenzie	ND.	0.4491531	0.383179

D.M. Howland Richland Co, Montana

EXHIBIT C

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4 Denver, CO 80225

5 **Netherland, Sewell & Assoc, Inc.**
6 4500 Thanksgiving Tower
7 1601 Elm St
8 Dallas, TX 75201-4754

9 **Laurence J. Kaiser**
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12 New York NY 10004

13 **Nelson Mead, Jr.**
14 Triumph Securities Corp
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Ruth Lechner, Legal Assistant to
Craig D. Martinson, Attorney at law

MONTANA BOARD OF OIL & GAS CONSERVATION

BOND ACTIVITY SUMMARY

October 27, 1999 through December 8, 1999

APPROVED BONDS

Equity Oil Company Salt Lake City, UT	RLI Insurance Company Surety No. RLB0001560	Amount \$50,000 Type UIC Limited Effective 11/23/99
Equity Oil Company Salt Lake City, UT	RLI Insurance Co. Surety No. RLB0001531	Amount \$50,000 Type Multi-well Effective 11/4/99
Joseph R Larsen Galata, MT	Norwest Bank, Shelby CD No. 0231068305	Amount \$5,000 Type Single-well Effective 11/9/99
Rincon Oil & Gas, LLC Arvada, CO	Wells Fargo Bank, Denver, Co. CD No. 1005012984	Amount \$3,000 Type Limited Effective 11/29/99
Torch Operating Co. Houston, TX	United Pacific Insurance Co. Surety No. B2918492	Amount \$50,000 Type Multi-well Effective 3/31/99

CANCELLED BONDS

Agate Petroleum, Inc. Tulsa, OK	Aetna Casualty & Surety Co. Surety No. 40S100687380	Amount \$10,000 Type Blanket Effective 12/3/99
Main Realty, Inc. Shelby, MT	U.S. Fidelity & Guaranty Co. No bond number	Amount \$5,000 Type Single-well Effective 10/29/99
MOMCO, Inc. Casper, WY	1st Interstate Bank, Billings CD No. 1200008335	Amount \$3,300 Type UIC Single Effective 11/19/99

MOMCO, Inc. Casper, WY	1st Interstate Bank, Billings CD No. 5189	Amount \$10,000 Type Blanket Effective 11/19/99
Quinten R. Larsen Galata, MT	Bank of Montana, Shelby CD No. 3500003184	Amount \$5,000 Type Single-well Effective 11/30/99
Starrock Resources, Inc. Calgary, AB, Canada	1st Interstate Bank, Billings CD No. 1100001577	Amount \$5,000 Type Single-well Effective 11/29/99
TWO Taylor Well Operating Shelby, MT	1st State Bank, Shelby CD No. 2993	Amount \$1,500 Type Single-well Effective 11/12/99

CHANGES TO EXISTING BONDS

AltaMont Oil & Gas, Inc. Cut Bank, MT (Operator name change from J.P. Operating Co. & CD No. 10734 released)	1st Interstate Bank, Cut Bank CD No. 2400010819	Amount \$6,000 Type Limited Effective 11/2/99
Berco Resources, LLC Denver, CO (United Fire & Casualty Co. bond # 55-102368 replaced & released)	American Casualty Company Surety No. 929121657	Amount \$25,000 Type Multi-well Effective 11/4/99
Cline Production Company Billings, MT (Existing Letter of Credit No. 1423 released)	Norwest Bank - Casper, WY Letter of Credit No. 1430	Amount \$60,000 Type UIC Blanket Effective 10/19/99
Cline Production Company Billings, MT (Bond amount increased from \$25,000. Letter of Credit No 1424 released)	Norwest Bank - Casper, WY Letter of Credit No. 1431	Amount \$50,000 Type Multi-well Effective 10/15/99
Eagle Creek Colony Galata, MT (CD's combined and reclassified as blanket domestic bond)	Norwest Bank, Shelby CD Nos. 8390 & 8783	Amount \$10,000 Type Domestic Effective 11/10/99
Great Plains Resources, Inc. Littleton, CO (Bond amount increased from \$25,000)	1st Security Bank, Roundup CD Nos. 116178 & 114165	Amount \$50,000 Type Multi-well Effective 11/19/99

Headington Oil, LP
Dallas, TX
(American Mercury Insurance No. AMMT1200 replaced & released)

Continental Casualty Co.
Surety No. 190785565

Amount \$20,000
Type UIC Limited
Effective 11/24/99

L.E. Behm, Inc.
Minot, ND
(Bond increased from \$25,000)

Norwest Bank
CD Nos 1004366 & 1005489

Amount \$30,000
Type Limited
Effective 11/22/99

FORFEITED BONDS

Enterprise Energy, Inc.
Huntsville, TX
(Bonding company researching their options)

Underwriters Indemnity Co.
Surety No. B01561

Amount \$10,000
Type Blanket
Effective 11/29/99

United States Energy Corp.
Longview, TX
(Forfeiture reversed, bond reinstated)

US Fidelity and Guaranty Co.
Surety No. 18-0130-1327-75

Amount \$10,000
Type Blanket
Effective 7/15/99

REQUEST FOR BOARD ACTION

Equity Oil Company
Salt Lake City, UT
(Request to have this bond considered a blanket UIC bond.)

RLI Insurance Company
Surety No. RLB0001560

Amount \$50,000
Type UIC Limited
Effective 11/23/99

Stephens & Johnson Operating Co.
Wichita Falls, TX
(Request to release bond)

CNA Insurance Company
BNS 1428270

Amount \$25,000
Type Multi-well
Effective

RIDERS TO EXISTING BONDS

EOG Resources, Inc.
Houston, TX
(Operator name changed from Enron Oil & Gas Company)

Seaboard Surety Co.
Surety No. 252641

Amount \$50,000
Type Multi-well
Effective 10/8/99

Request to release bond for Stephens and Johnson Operating Company

Stephens and Johnson Operating Company has requested the release of their bond. One non-producing well remains attached to the bond and there is a question as to the responsible party for that well.

Well in question:	Katherine Dynneson "B" #1	API No. 083-21019
	C SE 30-24N-58E	Completed 9-4-68
	PBTD 12,745 '	Red River formation

- 7-11-68 **Original Permit:** Miami Oil Producers, Inc. Signed by: Jack Stivers, VP
Well in question attached to Miami Oil Producers, Inc. bond.
- 8-11-80 S & J Operating Company obtains a bond:
- Travelers Indemnity Company bond number 728E1178 \$10,000.
- This bond stipulates: **"To cover liability currently covered under bond of Miami Oil Producers, Inc."**
- Well in question transferred to S & J's bond.
- 9-1-93 Stephens and Johnson Operating Company obtains a bond:
- Continental Insurance Company bond number BNS 1428270 \$25,000.
- This bond **assumes all wells** covered by S & J Operating Co. bond above.
- Well in question transferred to Stephens and Johnson's bond.
- 6-19-95 Change of Operator approved. 16 private and 3 Federal wells transferred from the above bond for Stephens and Johnson to **Stivers, Inc.** Jack Stivers, President.
- Well in question not mentioned and remains on Stephens & Johnson's bond.
- 9-6-96 CNA Insurance Company named as the Surety Co. for the Stephens & Johnson bond.
- 9-18-96 Request from Stephens and Johnson to cancel their bond.

Stephens and Johnson states that the well in question was returned to the landowner Katherine Dynneson and subsequently to Sherman Dynneson in the settlement of a lawsuit 7-12-79. The board was not notified of this settlement and Dynnesons have not obtained a bond. Court documents support the claim that the well was returned 'as is' to the landowner.

- 9-1-99 Sherman Dynneson has filed a Release Agreement in which he agrees to accept the well as a fresh water well, but **does not** accept responsibility of the well below the fresh water zone.
- Steve will not approve the Release Agreement until the well is plugged back to the fresh water zone.

**BOARD OF OIL AND GAS CONSERVATION
FINANCIAL REPORT
Fiscal Year 2000 -- Through November 30, 1999
Percentage of Year Elapsed: 42%**

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	573,102	136,400	24%	90,257	42,332	47%	663,359	178,731	27%
Other Comp	5,532	1,250	23%	976	351	36%	6,508	1,600	25%
Benefits	145,747	38,414	26%	26,324	10,652	40%	172,071	49,066	29%
Vacancy Savings	(18,863)			(2,913)			(21,776)		
Other Svcs	90,177	25,343	28%	77,790	13,581	17%	167,967	38,924	23%
Supplies	26,127	8,907	34%	19,064	2,603	14%	45,191	11,510	25%
Communications	31,317	8,753	28%	5,129	3,223	63%	36,446	11,976	33%
Travel	22,539	4,638	21%	12,609	3,489	28%	35,148	8,127	23%
Rent	12,865	4,995	39%	2,593	1,604	62%	15,458	6,599	43%
Utilities	7,418	2,791	38%	2,078	899	43%	9,496	3,690	39%
Repair/Maint	9,165	3,111	34%	3,390	1,115	33%	12,555	4,226	34%
Other Exps	12,221	6,262	51%	6,708	3,404	51%	18,929	9,666	51%
Equipment	39,756	28,935	73%	0	0	0%	39,756	28,935	73%
Debt Svc	0	0	0%	0	0	0%	0	0	0%
TOTAL	\$957,103	\$269,798	28%	\$244,005	\$83,253	34%	\$1,201,108	353,051	29%
FUNDING									
State Special Revenue	957,103	269,798		244,005	62,930		1,201,108	332,728	
Federal Funds	0	0		0	20,323		0	20,323	
TOTAL FUNDING	\$957,103	\$269,798		\$244,005	\$83,253		\$1,201,108	\$353,051	29%
Appropriation Balance	\$687,305			\$160,752			\$848,057		
Percentage Expended	28%			34%			29%		

OTHER APPROPRIATIONS/EXPENDITURES FROM STATE SPECIAL REVENUE ACCOUNT

DNRC Centralized Services	\$65,235	0
Department of Revenue	\$31,587	0

REVENUE INTO STATE SPECIAL REVENUE ACCOUNT (02432)

	Total FY 2000	Total FYE 1999	Percentage YTD00:FYE99
Oil Production Tax	157,483	477,728	0.33
Gas Production Tax	38,183	149,872	0.25
Penalty & Interest	228	91	2.50
Drilling Permit Fees	12,975	23,875	0.54
UIC Permit Fees	600	160,400	0.00
Enhanced Recovery Filing Fee	123	0	0.00
Interest on Investments	7,365	25,255	0.29
Copies of Documents	4,643	7,941	0.58
Other	4,451	589	7.56
TOTALS	\$226,051	\$845,751	0.27

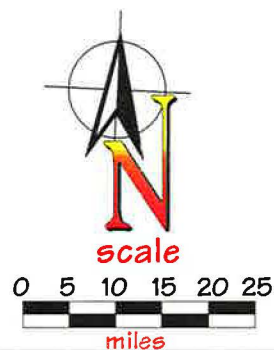
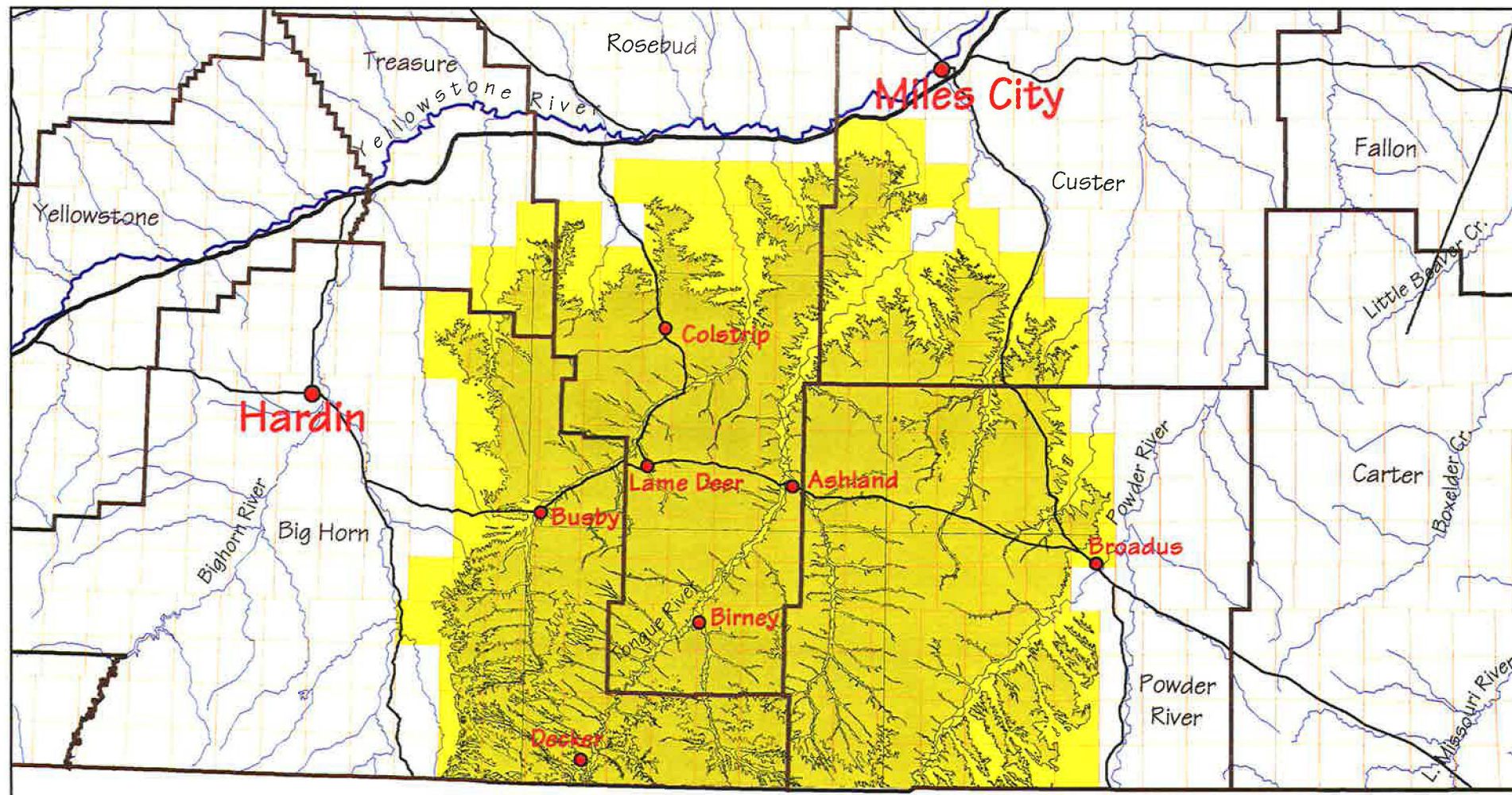
INVESTMENT ACCOUNT BALANCES

Regulatory	\$383,262
Damage Mitigation	\$177,629

GRANT BALANCES

<u>Name</u>	<u>Authorized Amt</u>	<u>Expended</u>	<u>Balance</u>
			0
Devil's Basin	1,279	0	1,279
Oil Well Abandon	20,105	0	20,105
99A	300,000	0	300,000
99B	300,000	0	300,000
TOTALS	\$621,384	\$0	\$621,384

Proposed Extent of the Powder River Basin Controlled Groundwater Area

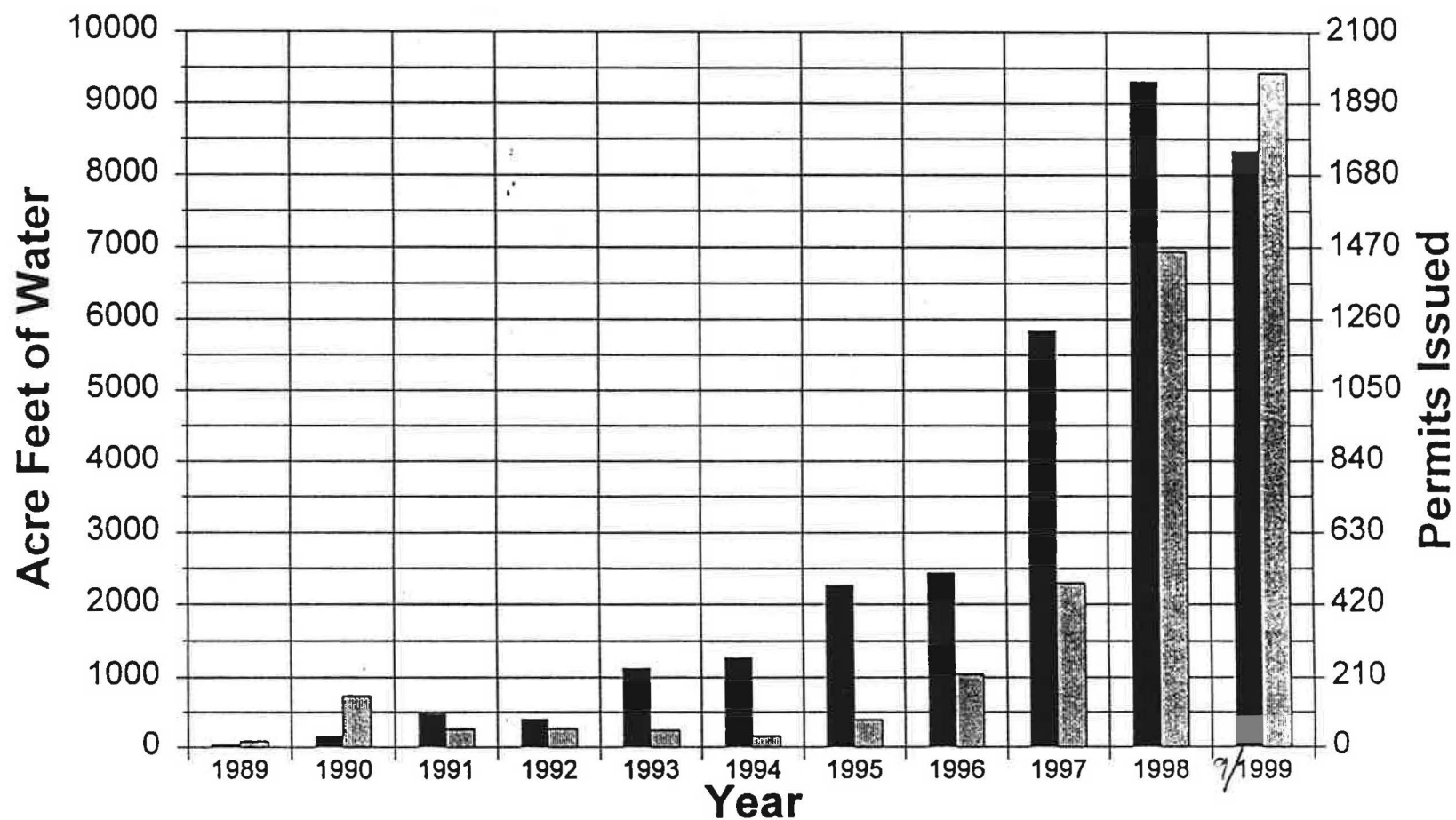


Approximate extent of the Tongue River Member of the Fort Union Formation and the Wasatch Formation within the Powder River Basin (based on preliminary data from Montana Bureau of Mines and Geology open-file reports)

Townships included in the proposed Controlled Groundwater Area



Ground Water Production from Coal Bed Methane in the State of Wyoming



Water Prod.

Total: 31,608 AcFt.
Since Start -up 89'



Permits Issued

4,584 Total

Prepared by the Wyoming
State Engineer's Office

Montana Board of Oil & Gas Conservation

SBI Report



By

Matt Foreman
Leah Pretty on Top
Jodi Rossmiller
Dustin Temple

For

Mgt 458 – Dr. Stan Mendenhal

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- C. Proposed Organizational Chart
- D. Permitting Flowchart
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Executive Summary

This report is the culmination of a entire semester's effort to complete several objectives for the Montana Board of Oil and Gas Conservation. The following pages contain the results of the strategic audit conducted by this group. Three major areas have been analyzed and reported upon. First, sensitivity analysis of the MBOG revenue stream was conducted and reported upon. In addition, budgetary analysis several assets and deficiencies currently residing within the informal fiscal policies being utilized by the MBOG. Recommendations for mitigating measures have been suggested as well as recognition of current efficiencies.

Secondly, managerial policies and process control procedures were examined. During this examination, a distinct lack of strategic planning became apparent. This report outlines the MBOG shortcomings in this area and puts forward possible solutions. Workflow analysis is also an issue contained within this report. Several of the MBOG duties are extremely labor intensive. An attempt was made to illustrate potential bottlenecks that slow the process down with the use of flowcharts.

Finally, this report examines the current Information Technology (IT) currently in place, as well as projects currently in development by the MBOG. The increasing reliance of the MBOG upon their IT infrastructure makes this a critical issue.

Introduction

This report is to the Montana Board of Oil and Gas Conservation from the following students in Business Policy at Montana State University – Billings: Matt Foreman, Leah Pretty On Top, Jodi Rossmiller, and Dustin Temple. This project began at the beginning of the fall 1999 semester. Each of the participants in this project chose this particular issue for their senior project due to interest in the prospect of working with the Board of Oil and Gas. During the course of this study, each member of the group has gained considerable insight in to the Oil and Gas industry, as well as their own academic discipline.

Initially, the group met with the Chairman of the Board of Oil and Gas Conservation, Mr. Dave Ballard, to discuss the possibilities for this endeavor. After meeting with Mr. Ballard, a contract was written and agreed to by both the students and Mr. Ballard. The contract outlined four major objectives of this project. They are:

- Determine and evaluate both the nature and severity of budgetary impacts endured by the Montana Board of Oil and Gas Conservation, (MBOG), caused by fluctuations in oil and gas prices. Develop forecasts for various economic scenarios and

possible budgetary adjustments to mitigate the undesirable effects of these fluctuations.

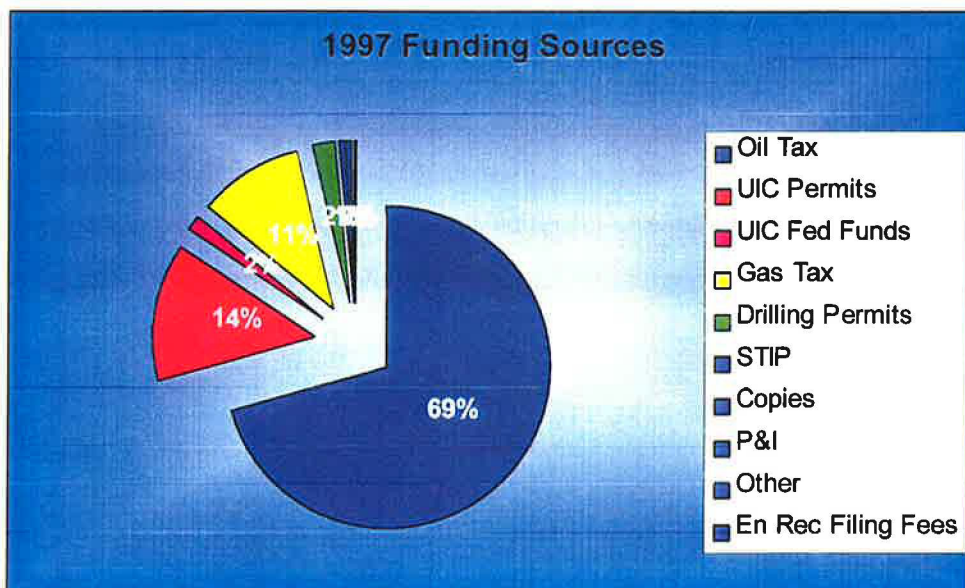
- Catalog and analyze the MBOG's current business operations in terms of services provided to the industry. Gauge the regulated community's opinions and ideas via survey to obtain the level of customer satisfaction currently enjoyed by the MBOG and areas of the MBOG's operations that tend to be problematic or cumbersome for Montana oil producers. Evaluate and expand upon projects currently in progress to improve the MBOG's business services to the oil producing community; particularly the improvements in Information Technology infrastructure for both customer and administrative ease of use.
- Compare MBOG services, organizational dynamics, and general business practices to similar programs in neighboring oil and gas producing states.

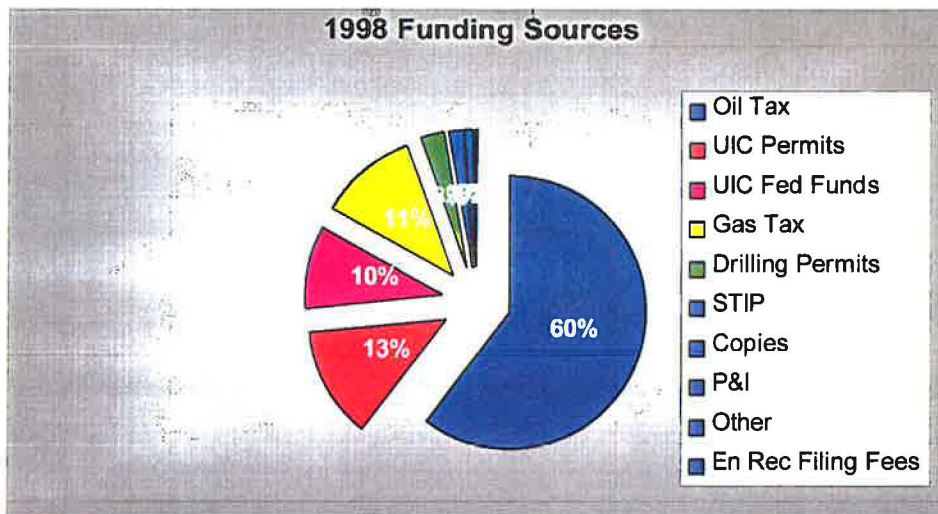
Report to the MBOG the current state of its operations. Recommend changes to increase efficiency and cut costs, but also not operations that are currently doing well.

Over the course of the semester, each of the objectives has been researched and satisfied in the best manner possible. This report will answer the questions posed by those objectives and complete the task given this group at the project's inception.

Budgetary Impacts of Oil and Gas Prices

Given the funding mechanism used to generate operating Revenue for the Montana Board of Oil and Gas Conservation (MBOG), traditional financial analysis of the MBOG's current financial situation is not possible. The funds used to operate the MBOG's programs, pay its staff, fund its projects, and generally fulfill its statutory obligations come from a variety of sources. The following graphs illustrate each funding source and its respective contribution to the MBOG budget over the previous two years.





Several of these categories appear more significant than they are, but the overall picture becomes clear. The majority of the funds needed to fund the MBOG are derived from the privilege and license tax on oil. Taxes on natural gas production consistently provide around 10% of the overall operating budget for the MBOG. These two products provide almost all of the funds that can be used for general operation of the MBOG. The UIC, (Underground Injection Control), funds cannot be used for activities other than those designated specifically for the UIC program. Given this funding scenario, fluctuations in oil and gas prices have a severe impact upon the MBOG's ability to raise revenue, forecast budgets, and strategically plan financially. Each of the surrounding petroleum states is funded in a very similar manner. Most, however, do not have an independent Board that controls the actual operation of their division. Consequently, the MBOG has more control over its expenditures.

Upon statistical analysis of the fluctuation in oil and gas prices vis-à-vis privilege

and license collections over the same period, the coefficient of determination between the two, given a constant tax rate of .003%, is .835. This value indicates that 83.5% of the variations in the production and license revenues can be explained from the variations in oil and gas prices. This value was calculated using Econometric Views, a forecasting software package, the quarterly average prices for oil (WTI SPOT), and natural gas (NYMEX), and the quarterly privilege and license tax proceeds. The oil and gas tax prices were the independent variables in the model while the privilege and license tax proceeds (quarterly approximation) was the dependent variable. While there are several additional sources of revenue that contribute to the budget, none are significant, and most are beyond any influence by the MBOG.

Attempts at finding a workable forecasting model for oil and gas tax revenue has produced only marginal results. Given the extreme unpredictability demonstrated by commodities prices in general and energy prices in particular, a number of regression models were formulated and subsequently rejected due to their low coefficient of determination statistics (R^2), and high Mean Squared Error (MSE) calculations. The Utah State Oil, Gas and Mining Division has experimented with forecasting these variables to derive revenue with only limited success. The forecasting model they are using is very similar to one developed by the MBOG statistical technician in the Billings office, Mr. Rich Jacobsen. This model basically calculates a decline curve for the resource in question. By calculating

this curve one can derive a remarkably accurate production forecast for the state petroleum industry. The problem arises, however, when trying to add energy prices into that model. The extreme randomness of the commodity-pricing phenomenon makes forecasting revenues based on these prices extremely difficult.

Despite the difficulties posed by the current funding mechanisms, some distinct advantages begin to appear upon closer examination. First, the MBOG budget is not funded from state general fund dollars and thus any surplus accrued by the MBOG is not forfeited at the fiscal year end. This has been advantageous to the MBOG on numerous occasions as the Department of Revenue has been less than timely in their dispersal of oil and gas tax proceeds to the MBOG accounts on numerous occasions. The ability to carry a reserve balance gives the department a sense of security in the event that energy prices do change significantly, or an unexpected expense suddenly arises. In addition, the reserve can give the Board itself time to react to changes in the economy or operational expense and make an appropriate adjustment in the privilege and license tax rate.

Upon examination of the MBOG budgets, one thing immediately becomes apparent. The MBOG staff has done an excellent job in controlling costs and utilizing their limited resources. In calculating the percent of change statistics for various line items, most budgetary expenditures are within 5% of the previous

years actual expenses for that particular item. One possibility for reduction in expenditure is the examination of non-personnel expenses for satellite offices. Rents in the Shelby and Helena offices totaled nearly \$14,000 in fiscal year 99. Given the limited resources of the MBOG, a traffic study might be in order for these offices to determine how much actual benefit is being derived from their operation.

Given the high correlation between oil and gas prices and the privilege and license tax proceeds, provision needs to be made for unexpected swings in the revenue stream funding the MBOG. In the event of a severe decline in price and/or production, the MBOG needs to formally develop a contingency plan to deal with this scenario. Each critical factor of production needs to be identified, quantified, and ranked in order of importance. Strategic planning of this type in the financial area would allow the MBOG to be proactive in this situation rather than reactive. Having a well-conceived plan in place would avoid the possibility of knee-jerk reactions to financial hardships. Additionally, this plan would remove any anxiety or uncertainty on the part of the organization, as the plan of action would be laid out in advance.

The MBOG is faced with significant challenges when considering the financial management and budgeting process. Due to the nature of legislative appropriation, an economic incentive does exist to spend money in the first year of the state biennium. As a result, project planning and expenditure should be

timed to take advantage of this phenomenon. Due to the lack of control the MBOG has over their revenue stream, extreme care should be utilized in the budgeting process as well and the management of the investment account that contains any surplus the board might enjoy. With some planning and effort up front, the MBOG can mitigate many of the unpleasant effects of the fluctuations in oil and gas prices.

Planning Outline Example

- I. Identify Critical Functions
 - a. Prioritize Operational Areas
 - b. Determine Funding/Staffing Requirements
 - c. Examine Previous expenditures for areas identified as critical.
- II. Identify Peripheral Functions
 - a. Determine Order of Reduction
 - i. Expenses
 - ii. Staff
 - b. Possible Solutions
 - i. Identify Duties that can be shifted
 - ii. Cost savings associated with shifted duties
- III. Develop Order of Operation for Strategic Plan
 - a. Standard Operating Procedure
 - i. Should include order of operation for any proposed budgetary cuts.
 - ii. Timetable for implementation

Analysis of Operations and Management

When deciding on different topics to research for the MBOG, the three topics that seemed to be most obvious were office usage, Internet usage, and customer usage of the Annual/Quarterly reports. These main topics were developed through discussion with the MBOG staff. In accordance with the objectives of this project, a telephone survey of oil and gas producers in the state was conducted. In doing this survey, we attempted to reach 150 individual petroleum producers calling them two to three times each. Out of the 150 possible respondents, only 19% actually responded to the survey. Conversely, 81% of those surveyed failed to respond despite repeated attempts to contact them by telephone. This low response rate is a result of numerous factors. The producer database provided for us by the Petroleum Association was out of date and virtually unusable. Secondly, the unwillingness of respondents to take part in the survey severely hampered the effort to get a statistically significant sample.

After reviewing how and where the information was obtained, one can begin to examine each of the topics in relation to the findings of the survey. The first area is customer satisfaction. In talking to the respondents, there were several common threads that appeared when asked what they liked best about the MBOG. A major recurring theme illuminated by the survey was the friendliness and professional attitude of the MBOG staff. 27% of the respondents indicated that the MBOG's staff was extremely helpful. Several comments indicated that

the MBOG staff had put aside their own work to assist in customer inquiries. This indicates a high level of concern on the MBOG's part for their customers. Additionally, 27% producers surveyed felt that the staff was pleasant and easy to work with. They said that the staff provided concise and accurate answers to the questions brought to them in a timely matter. 14% of the respondents view the keeping of historical records, in an organized and up to date format, as a major asset.

Conversely, there were many things that frustrated the respondents. One issue they shared with us is they did not know about MBOG's website. An additional frustration is that 9% want to know what issues that the staff have going on. The respondents want to hear what's new on a more recent basis. Too many original copies are also a major issue with 14% of the respondents. Many of the respondents have problems with sending three original copies. Two questions seemed to be at the forefront of the producers concerns. They are: "What exactly do you want us to send" and "Can we send photo-copies instead of all originals?" A final concern of 9% of the respondents seems to be the use of jargon on the part of the MBOG. The staff needs to be careful not to talk above their audience and thereby alienate their customers.

The objective of this section is to ascertain where most of the regulated community reports. The Billings office receives 77% of the filing and verification process. Helena was reported as 15% and 8% reported to Shelby. Given the

reporting breakdown, the Billings office should have at least one copy of all filings. 67% of the regulated community indicated that the MBOG provided them with information in a timely manner. When an inquiry about an issue is made, the information is usually provided quickly and in a usable format.

When viewing the Internet usage section, 95% of the regulated community's business has an Internet provider. This gives the MBOG a huge opportunity that it should take advantage of. When asked if they would like to check old files, file reports, or file permits, the regulated community strongly agreed. Almost every producer surveyed agreed that it would be less time consuming and more efficient to do paper work on the Internet. Although most producers indicated that Internet filings would be an attractive option in and of itself, most indicated that they would prefer to file in some sort of combination form. Perhaps posting and initial filing on the web and following up with an actual printed copy of the electronic form for both their records and those records residing at the MBOG.

The last main objective of the survey is the Annual and Quarterly Reports. When the Annual reports are circulated, 75% of those responding to the survey received it. About half of the people who did not receive the Annual report indicated that they had no use for it, which differs significantly from the responses given by producers who actually received the annual reports. According to the survey, 64% of those responding do not use the annual reports. The percentages for the Quarterly reports show a different view. The Quarterly

reports have a 65% circulation rate. Most of the producers responded that this report is more valuable to them than the Annual report. This keeps them on track with what is going on with other companies and they are able to keep up to date with the opening and closing of wells. 94% of the responding producers indicated that they would like to receive the quarterly reports online. Since 95% of the producers have Internet access, putting the Quarterly reports online would help to capture the thirty-five percent that don't receive the reports. Electronic posting of these reports will reduce printing and distribution costs.

Decreasing the amount of copies to be filed for certain reports is a primary concern of the respondents. Having to send three original documents is very burdensome to the producers. This is an area where Internet filing would help immensely. In addition, the turnaround time on production reporting seems to be a problem. Even though receiving information is tolerable at this point, the producers would prefer to obtain it faster. This makes it easier for the operators to keep a project going rather than having to shut down until the board can reply.

Work Flow Analysis

Through interviewing the MBOG staff, insight into the daily operations of the MBOG began to emerge. Starting from the top and reviewing where the strengths and weaknesses are found in the process was the first step. In regards to the permitting process, there seems to be five stops per permit. The first person in the office that handles the permit is the administrative aids. They read through the permit checking for spelling, correct location, and add the cost of the

permits. They take the permit to the bond office where the statistician gives it an API number that is unique and specific to that well. After the statistician puts the API number on it, it goes back to the administrative aides. The administration aide then brings the permit to the petroleum engineer who researches the permit making sure that the specifications are right. If everything appears in order, then the administrator approves the permit. If something is wrong, then the operator is contacted and the permit information is corrected and resubmitted. Once the permit has been approved, it is then sent back to the administration aides who enter the information into the database where it will be tracked for the next six months. The aides then send a copy to the operator, a copy to the inspector of that region, a copy to the file, and a copy to the state or federal department, depending on who has jurisdiction.

Another labor-intensive process occurring at the MBOG is the Sundry Notice. The administrative aides first handle the Sundry Notice. They proof read the document for errors and send it to the appropriate field operator. The field inspector goes to the site and verifies the notice and sends it back to the MBOG. At this point, the administrative aides enter the information into the database and send a copy of the approved notice to the operator. Once the work is finished, the operator sends a completion report to MBOG explaining what has been done. Finally, the administrative aides take that information, add it to the database, and then file it.

Given the redundancy and duplication of processes that appear to exist, an

examination of the most common processes seems to be in order. Several issues seem to require multiple resources from multiple positions. Batching these tasks by position would cut the processing time, and allow for more efficient utilization of time by each employee in the process. The examples noted previously are exactly that: examples. The MBOG management should examine, in detail, the workflows in their operation and make an effort to streamline these in order to decrease costs, increase employee productivity, and improve customer satisfaction. On the surface, several of these processes have some extreme bottlenecks that significantly slow down the task being done. Given the complexity of the administrative and statutory requirements placed on most of the processes, only an internal analysis of these factors by the MBOG staff itself will provide meaningful insight into, and solutions for some of these problems.

Information Systems

The major IT initiative currently underway at the MBOG is the continuing development of the RBDMS database and its related applications. The board maintains information on approximately 35,000 wellbores, which includes all known wells drilled in the state. The board uses a Risk Based Data Management System (RBDMS), a database that electronically stores all well information. The RBDMS stores information on 8,500 monthly production reports, 11,000 records on core chips and samples, 120,000 formation tops, 80,000 well history records and detailed information for each of the nearly 35,000 wells drilled.

The use of technology to provide information has been an evolutionary process at the MBOG. The RBDMS project has provided a mechanism by which numerous labor-intensive processes have been or will be automated and streamlined into computer based systems. Each stage in the RBDMS development has been carefully thought out and implemented on a conservative basis to minimize disruption of normal MBOG operations and services provided to the industry. The integral involvement of both the state geologist and the division administrator has been instrumental in ensuring the RBDMS project was developed in a useful format that will eventually provide significant technological assistance to not just the MBOG operation, but similar programs in petroleum producing states around the country.

Due to the exponential growth in Internet usage by both the business and public communities, the MBOG has been very proactive in their development of an organizational presence on the World Wide Web. An excellent first step has been taken in this page's development, but additional planning and design needs to be implemented to ensure this service will provide timely, accurate information to the regulated community. An exciting development in the RBDMS program that would provide extremely valuable information to producers via the Web is the Geographical Information System (GIS). By making this data available on the web, producers could obtain exact latitude and longitude coordinate of any well in the database. This would not only aid producers, but could conceivably reduce the number of calls and requests for this type of information that the MBOG staff currently has to satisfy manually. When compared to similar programs, the IT infrastructure in the MBOG is fairly progressive. By getting involved in the RBDMS project from its inception, the MBOG has had considerable influence in its development. As a result, most of the MBOG operations could conceivably move to the RBDMS database at some point.

Without a dedicated position to maintain the MBOG's IT infrastructure, that duty has fallen on the state geologist. Any minor problems, this individual can take care of, but there is a RBDMS help desk that can help resolve more difficult issues, including program changes.

There are a number of deficiencies in regards to the IT infrastructure in general that should be examined. First, no strategic planning exists for hardware support, file backup and redundancy, disaster recovery, or upgrade paths. Given the growing importance of RBDMS, a contingency plan should be developed and put into place to ensure minimal service disruption in the event of a hardware failure, database corruption, or similar disaster. With the plans to provide data to the public from the RBDMS database via the Internet, a service level agreement needs to be formalized and published once the system is ready to be put into production. The MBOG cannot begin to provide this information and not be prepared to support the application. As this method gets utilized more and more, producers will come to rely on the service and the MBOG must have the resources in place to adequately provide support and maintenance for the application. As a result, the responsibility for the RBDMS database could begin to overwhelm the individual running the system at the current time. The MBOG should consider requesting an additional FTE from the state legislature to manage its IT infrastructure. While this will cost additional funds, the corresponding relief of the exempt position currently administering RBDMS should be considerable. This position would also be in a position to ensure continuity of service for both the internal and external users of the RBDMS database.

Summary of Problems and Recommendations

Financial

Lack of Strategic Planning

Given the uncertainty of the revenue stream funding the MBOG from year to year, a contingency plan needs to be developed and put into place. Operational priorities need to be outlined, as well as those areas that can reduce expenditures in the event of a significant financial difficulty. Due to the extreme difficulty in forecasting revenues of this type, the budgeting process needs to be very methodical in its process. With proper budgetary analysis and careful planning, most potential problems due to revenue issues could be avoided.

Satellite Offices

Upon analysis of the MBOG budgets for possible cost savings, one area immediately stands out; satellite offices. It is not only possible, but also likely, that eliminating one or both of these satellite offices could not only save funds, but also improve the overall efficiency and responsiveness of the MBOG operation. Therefore, it is recommended that a traffic/usage study be commissioned to examine how much benefit is actually being provided to both the customers and the MBOG by these satellite offices. An objective third party should do this examination to avoid any perception of bias or ulterior motive.

Managerial and Process Control

Lack of strategic planning

In interviews with MBOG staff, several employees have expressed concern over a distinct lack of direction and focus in the organization. No communication of departmental goals and objectives has been made to most of the employees. This lack of communication and planning severely hampers the cohesiveness of the unit and negatively impacts the MBOG's productivity. It is recommended that at least annually, some strategic planning in regard to departmental goals for the coming year be done and those efforts be communicated to all employees in the organization. This will improve synergy among the various functional areas at the MBOG and help maintain employee pride and focus.

Task Environment

The MBOG has been successful, fiscally at least, over the last several years due primarily to the staffing mix the organization has enjoyed. Each employee seems to have pride in their work and displays excellent work ethics. While this is certainly a credit to the organization, a potential problem immediately becomes apparent. Charisma and personality can only take an entity so far; an environment needs to be developed to ensure continued success regardless of the employee mix the MBOG may be faced with. Each current employee at the MBOG can provide valuable insight into their position and help management

develop the policies and procedures necessary to provide a structured, productive environment that will ensure success in the coming years.

Performance Assessment

While the MBOG has recently instituted an individual employee assessment plan, there is currently no mechanism to gauge the department's overall performance. This relates to the strategic planning issue raised earlier. Before the implementation of any strategic action, a method to quantify, measure, and report the results of the action should be developed. Incentives for good performance as a unit are an important part of achieving organizational goals rather than focusing solely on individual accomplishments.

Customer Perceptions

While the rank and file employee at the MBOG does enjoy a good repertoire with the regulated community, the department at times has been seen as less than adequate in the services it has provided to the industry. One must bear in mind that the MBOG is a regulatory agency and as such should not attempt to win a popularity contest. However, that is not to say that customer service should not be a high priority to the MBOG. The survey administered as part of this project, though limited in response, provided some very useful data and suggestions that the MBOG should consider. When an organization has a captive market, as does the MBOG, it is very easy to discount the customer's needs and perceptions. All efforts should be made to provide for consistency of service,

rapid and accurate filling of information requests, and maintaining a consciousness of what the customer needs and how best to accomplish those needs. The MBOG customer base is not just the oil and gas industry. The public has placed its trust in the MBOG to regulate this industry in its best interests. Customer service does simply mean satisfying the industry, but also entails discharging the duties assigned the division in accordance with the law, and in the most efficient, economical method possible.

Information Systems

GIS

The Geographic Information Systems (GIS) is currently being developed to provide a map of all the wells and their locations in the state. The GIS is generated from the RBDMS and will be published on the MBOG web page. This system will allow both the MBOG and anyone viewing the web page to quickly and reliably locate any given well within the state. Due to the concentration of wells in some fields, this system will provide invaluable information on well location.

Facilitate electronic software & data distribution

The adoption of electronic software would allow producers to submit required forms electronically. This method of software distribution would ensure that the versions of the software that the producers are using to report their production electronically are of the same version; thus eliminating possible version compatibility issues. In addition, this would lessen the support burden for the employees answering questions about the electronic filing programs, as instructions and answers to common questions could be posted as well.

Data distribution would allow operators to download information such as well history data, statistical information, a listing of wells permitted and completed, monthly reports etc. Information requests currently being received and serviced via telephone would begin to diminish as a result of this service. This would free up MBOG employees to a certain degree and allow them to concentrate on other duties

Increased customer awareness

As we have become a technologically reliant society, Internet usage has dramatically increased. For this reason an attractive, functional web page would give the organization increased customer exposure. Increasing customer awareness should allow the MBOG to compete more readily with other state agencies for spending authority with the Montana Legislature.

Potential Problems Posed by the Web Page

Reliability

The issue of reliability becomes an immediate concern once the web page has been modified to provide information for customer use. Steps need to be taken to stabilize this reliability, as the customer will come to depend on the information provided by the web page.

Support

Supporting the web page with its increased functionality will eventually become an issue. As the page increases in popularity and function, the individual maintaining the web page will have to dedicate more and more time to its upgrade and maintenance.

Security

Finally, the issue of security needs to be addressed as well. Information available to the public will be filtered, as only specific information will be accessible. Security measures should be examined to ensure that no confidential or proprietary information is inadvertently released. Currently the state network is protected by firewall.

In examining the web sites of surrounding petroleum producing states, the Utah and Wyoming sites seemed to be the most beneficial and friendly to the user. Each site is broken down by category, a feature that makes the navigation in the web page very intuitive. The Utah site does contain a lot of the information recommended for the MBOG site such as pertinent organizational information (ie., history, objectives, etc.).

IT Recommendations

Supply public with a stated mission and objectives

The website should include the MBOG stated mission and program objectives.

This will give the public direction as to the purpose of MBOG and what the organization hopes to achieve. This type of structure will also give the staff a better understanding of what their functions are and the accepted company culture.

Add more information to website

What's New

A what's new category would provide the customer with the most recent information regarding the organizational operations and current trends in the gas and oil industry. For example, information such as current MBOG additions like the geographic information system or national modifications of the gas and oil industry would fall under this category.

Frequently Asked Questions

This addition to the website would answer common customer questions of the MBOG. The types of information the customer could obtain from this category include the date of the next hearing meeting, the location of a specific well, the amount of production of a producers well etc.

History of the MBOG

Adding a brief history of the MBOG would provide background information to a person who has little or no knowledge of the gas and oil industry. This would be most beneficial for a person who is researching and inquiring about the gas and oil industry. This component would give the customer a general understanding of the organization.

Download form and specific well information

Maximizing the electronic software distribution is another recommendation.

Rather than using outside consulting, we recommend using the in-house program created by the statistical technician from the Helena office.

The statistical technician forwards a disk copy of the program to the operator, who enters production data and saves the information to disk and returns it to the stat tech that compiles the production data for production reporting.

This program could possibly benefit more operators if it were included on the web site, for downloading.

Create a local IT support structure

The creation of a local IT support structure is the next recommendation. After studying the IT structure of MBOG, we suggest that as the RBDMS and the website grows a fulltime IT support personnel is necessary. Such a position would entail maintaining both the RBDMS and the website as well as daily operational duties. This position would also be responsible for backup and recovery duties of the RBDMS and the website. Actual costs for such a position vary, but similar positions in governmental agencies generally require a salary in the \$30,000 - \$35,000 range.

Encourage bigger companies to file electronically

To increase efficiency of the production process we recommend, that the organization encourage larger oil and gas companies of the state to file electronically. In addition, it is recommended that the producers be required to code their own production reports before they are forwarded to the Helena office.

December 7, 1999

Mr. Dave Ballard

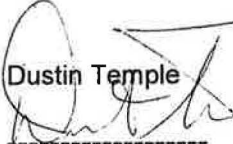
Chairman, Montana Board of Oil and Gas Conservation

Dear Mr. Ballard,

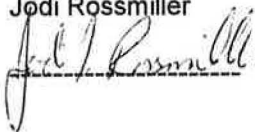
Over the course of this project, this group gained a wealth of knowledge and insight into the Montana Board of Oil and Gas Conservation (MBOG) office, culture, operations, and structure. The MBOG staff should be proud of the job that they have been doing over the last several years with understaffing, budgetary issues, and increasing responsibilities. The intent of this report was not to target any specific office or individual, but rather provide an objective overview of the MBOG's current state of affairs, identify actual and potential problems, and attempt to provide meaningful solutions. This group felt, during the compilation of this report, that these suggestions were well thought out, sincere, and a solid place for the MBOG to start. No organization, albeit public or private, can hope to survive in today's economy without the flexibility, willingness, and mechanisms to change with the times. All the required resources are available to the MBOG to make themselves into a model for other organizations to look to. It is simply having the courage, willingness, and temerity to take the risk and make the change.

Sincerely Yours,

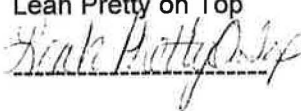
Dustin Temple



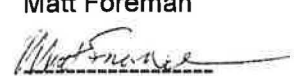
Jodi Rossmiller



Leah Pretty on Top



Matt Foreman



Appendix A – Telephone Survey

Offices:

1) To which office do you file reports?

A. Shelby

B. Helena

Billings

Not at all

2) To which office do you file permits?

A. Shelby

B. Helena

Billings

Not at all

3) Which office do you contact to verify records?

A. Shelby

B. Helena

Billings

Not at all

4) If you file reports, permits or verify records, how many times a month do you use one

of the offices?

- A. 0-4 times
- B. 5-10 times
- C. 11-15 times
- D. 16+ times

5) Does this office have the information that you need?

- A. Yes
- B. No
- C. Sometimes

General Information:

6) Please list the types of information you obtain from the Montana Board of Oil and Gas (MBOG).

7) Please list the things you believe MBOG does the best.

8) Please list the things that MBOG does that frustrate you the most.

9) To what extent does MBOG give you timely information (example: permits, old file records, etc...)?

Never ...1...2...3...4...5...6...7...All the time

10) To what extent does MBOG give you the information (example: permits, old file records, etc...) you really need?

Never ...1....2...3...4...5...6...7...All the time

Internet:

11) Does your company have a Internet provider available to you?

A. Yes

B. No

12) Would you be willing to use the Internet to access information on your permits and old file records?

7 - completely willing to do it

6 - willing to do it

5 - moderately willing to do it

4 - good either way

3 - moderately not willing to do it

2 - not willing to do it

1 - absolutely not willing to do it

13) Would you be willing to use the Internet to file reports?

7 - completely willing to do it

- 6 - willing to do it
- 5 - moderately willing to do it
- 4 - good either way
- 3 - moderately not willing to do it
- 2 - not willing to do it
- 1 - absolutely not willing to do it

14) Would you be willing to use the Internet to file permits?

- 7 - completely willing to do it
- 6 - willing to do it
- 5 - moderately willing to do it
- 4 - good either way
- 3 - moderately not willing to do it
- 2 - not willing to do it
- 1 - absolutely not willing to do it

15) Rank the following: 3=what you prefer, 2=what you are willing to use, and 1=least liked

- ____ I would prefer to file on the Internet.
- ____ I would prefer to file the same as now.
- ____ I would prefer to file in a combination of these.

Annual & Quarterly Reports:

16) Do you use the Annual reports in your business?

Yes

No

17) Do you throw the annual report away before viewing it?

Yes

No

18) Do you receive the Quarterly statistical reports?

A. Yes

B. No

19) How do you use them?

20) Would you like to access the Quarterly reports from the Internet?

Yes

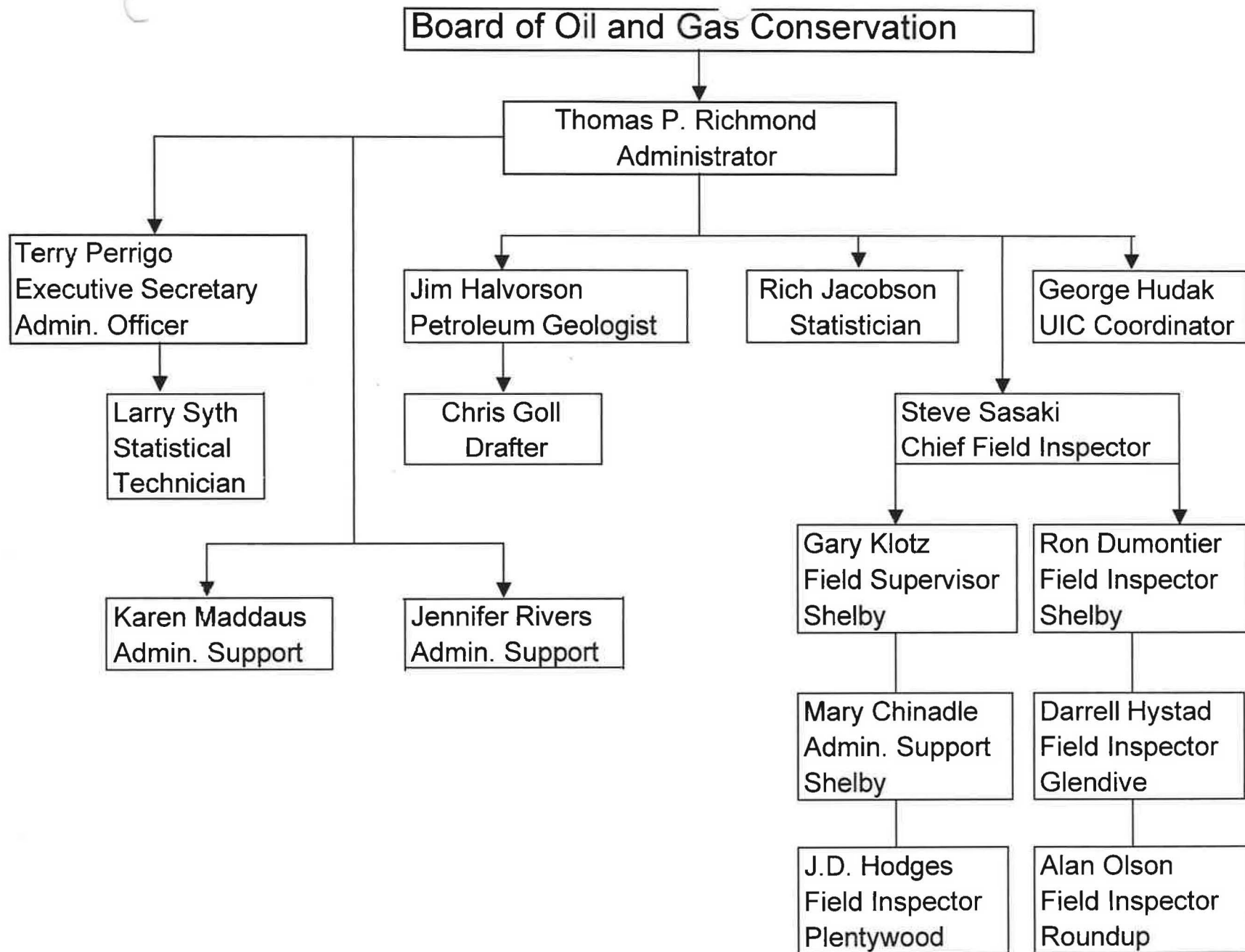
No

Appendix B – Survey Results and Calculations

Survey Response

Q. 1	Shelby	8%	Q. 2	Shelby	8%
	Helena	15%		Helena	15%
	Billings	77%		Billings	77%
Q. 3	Shelby	8%	Q. 4	0 to 4	55%
	Helena	15%		5 to 10	41%
	Billings	77%		11 to 15	0%
				16+	4%
Q. 5	Yes	67%			
	No	0%			
	Sometimes	33%			
Q. 6	Production Research		Geological Data		
	Field Spacing		Ownership		
	Water Production Zones		Oil Spill Data		
	Old Well Files		Hearing Reports		
	Getting New Filing Forms		Underground Injection		
	Historical Well Data		Field Maps		
	Clarification of Rules		Engineering Information		
	Core and Sample Data		Pipeline Information		
Q. 7	Willingness to help				
	Easy to work with				
	Knowledgeable, on top of what is going on with regulated community				
	Keeping historical records organized				
	Organization of hearing issues				
	Field maps				
Q. 8	No knowledge of website				
	Update on what the MBOG is doing				
	Lack of accessible current production data				
	Failure to speak at operators level				
	Too many copies				
	Don't know how many copies that they need				
Q. 9	1	0%	Q. 10	1	0%
	2	0%		2	0%
	3	5%		3	0%
	4	21%		4	22%
	5	21%		5	22%
	6	16%		6	12%
	7	37%		7	44%
Q. 11	Yes	95%	Q. 12	1	0%
	No	5%		2	0%

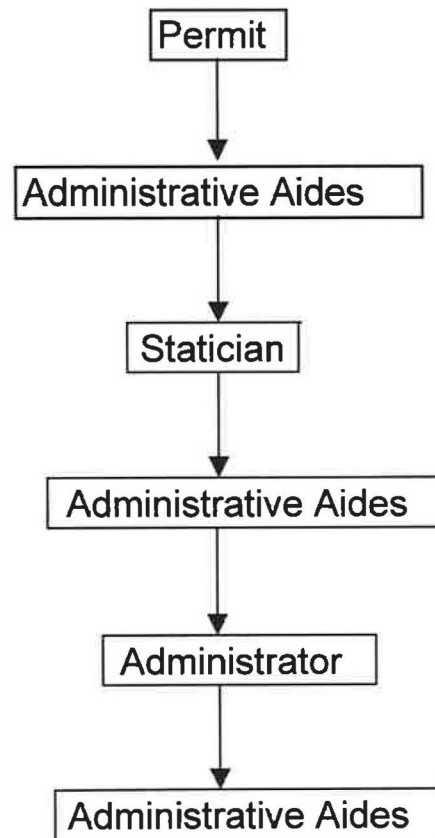
					3	0%
					4	0%
					5	0%
					6	16%
					7	84%
Q. 13	1	0%		Q. 14	1	0%
	2	0%			2	0%
	3	0%			3	0%
	4	0%			4	0%
	5	0%			5	0%
	6	16%			6	16%
	7	84%			7	84%
Q. 15	1	30%		Q. 16	Yes	75%
	2	30%			No	25%
	3	40%				
Q. 17	Yes	36%		Q. 18	Yes	65%
	No	64%			No	35%
Q. 19	To look at how the other companies are doing					
	Historical data					
	Easy to compare different Companies					
	View production numbers					
	View reservoir recovery					
	Track activities					
Q. 20	Yes	94%				
	No	6%				



Appendix C – Proposed Organizational Chart

APPENDIX D

Permitting Process



APPENDIX E Sundry Notice Filing Process

