

MINUTES

MONTANA SENATE
51st LEGISLATURE - REGULAR SESSION

COMMITTEE ON NATURAL RESOURCES

Call to Order: By Thomas F. Keating, on March 29, 1989, at
1:00 p.m., Room 405, of the State Capitol

ROLL CALL

Members Present: Thomas F. Keating, Larry Tveit, Fred
VanValkenburg, Loren Jenkins, Pete Story, Bill
Yellowtail, Cecil Weeding, Dorothy Eck, and Jerry Noble

Members Excused: None

Members Absent: Senators: Darryl Meyer, Lawrence Stimatz
and Elmer Severson

Staff Present: Bob Thompson and Helen McDonald

HEARING ON HB 143

Presentation and Opening Statement by Sponsor:

Representative Ted Schye, District #18, introduced this bill to create an oil and gas production damage mitigation account to be administered by the Board of Oil and Gas Conservation for the purpose of properly plugging and abandoning oil and gas wells when a responsible party cannot be found or does not have sufficient resources.

List of Testifying Proponents and What Group they Represent:

Senator Del Gage, District #5
W. W. Ballard, Balcron Oil
Jim Nelson, Chairman, Board of Oil & Gas
Doug Abelin, Montana Oil and Gas
Jim Jensen, Montana Environmental Information Center

List of Testifying Opponents and What Group They Represent:

None

Testimony:

Del Gage reviewed the bill by sections.

W. W. Ballard submitted written testimony. (Exhibit #1)

Jim Nelson supports HB 143 because it covers problems caused by those irresponsible operators who are financially insolvent.

Doug Abelin thinks this bill is necessary.

Jim Jensen supports this bill.

Questions From Committee Members:

Senator Weeding asked why bonds are unavailable now or is something new being required?

Senator Gage said it's a combination of a number of things. Courts with regard to liability situations have come in on just regular insurance and said "though your policy has been cancelled for x number of years this situation is a carry over from when that policy was in effect so you are responsible". The bonding companies are holding bonds indefinitely without cancellation for any reason. Even if the bonds finally get cancelled, the operators are uncertain if the the bonding company will come back in 10 years to say the well wasn't properly plugged and abandoned, and the operator is still responsible. Bond premiums are relatively inexpensive. A \$5,000 bond costs about \$125 a year. The bonds are not expensive but they are unavailable.

Senator Van Valkenburg wanted to know about the overall status of the Resource Indemnity Trust (RIT) interest money.

Senator Keating said the fund is around 64 million dollars and the interest earned from that is divided into four major accounts and a couple of minor accounts. Senator Keating wasn't sure which portion of the funds the RIT money would come from.

Jerome Anderson said during the meeting with the House Natural Resources subcommittee one of the things that concerned the committee was whether there was sufficient RIT money.

Senator Van Valkenburg asked if the interest money was down to zero yet?

Senator Keating said it never goes down to zero because the superfund stays there in readiness. The renewable resource and the water development projects are drawn from the fund. The interest income is used throughout the biennium for projects. The fund continues to grow through the biennium from the interest income.

Senator Van Valkenburg wanted to know if all the interest has been spent for this coming biennium.

Senator Gage said this bill doesn't affect expenditures this biennium because it won't go into effect until the 1992 biennium. Beginning next biennium, the \$50,000 appropriation under this bill will be shared equally by the entities that currently receive interest proceeds.

Senator Eck wondered if Montana has abandoned wells that were at one time plugged properly and are not now.

W. W. Ballard said most of the wells that have been plugged were done properly and there are no problems. But there have been exceptions. He referred to the diagram of a plugged producing well. (Exhibit #1)

Senator Eck asked if there are some wells that were never plugged at all?

Mr. Ballard replied that the oil and gas business goes back 70 years in Montana and there may have been some early-day wells that were never plugged but they are not causing any problems.

Senator Eck asked about the shot holes?

Mr. Ballard said the shot holes are governed by some very rigid regulations.

Closing by Sponsor: Representative Schye closed by saying "it has all been said".

DISPOSITION OF HB 143

Recommendation and Vote: Senator Story moved that HB 143 be concurred in. Motion passed.

HEARING ON SJR 19

Presentation and Opening Statement by Sponsor: SJR 19 was introduced by Senator Pete Story, District #41. He said there were six different bills this session concerning solid waste. There is a great diversity of problems in the state regarding landfills. Livingston's problem was wind and it forced the city to install the only incinerator in the state. The incinerator was supposed to pay for itself by running steam for the railroad shops but the shops closed. The city of Livingston had to stop using the landfill because the refuse couldn't be buried fast enough to keep it from flying around and

ending up in neighboring grounds. The state doesn't know what requirements the federal government will mandate in the future, but Montana will have to comply with whatever they are. The state wants to know the most practical, sensible and cost effective way to dispose of waste.

List of Testifying Proponents and What Group they Represent:

Chris Kaufman, Montana Environmental Information Center
Kim Wilson, Sierra Club
Jim Leiter, Dept. of Health & Environmental Sciences
Sue Winegartner, Mont. Solid Waste Contractors

List of Testifying Opponents and What Group They Represent:

None

Testimony:

Chris Kaufman said there is a problem regarding solid waste. She read from an article from an industry magazine and concluded that ultimately Montana's solution to the solid waste problems will only come through the efforts by individual firms, citizens, and local, state, and federal governments.

Kim Wilson has been a long-time supporter of solid waste management. He thinks that solid waste management and groundwater problems will be the biggest environmental problem in the state in 1990.

Jim Leiter, from the Department of Health & Environmental Science solid waste program, said there are two things in Senator Story's resolution that are particularly important. One is the importation of waste from out of state. He gets calls from persons in other areas of the country that are extremely interested in the fact that Montana's disposal rates are so low. It's economical for other areas to send waste to Montana, pay for transportation and still save money. The second is the possibility of federal intervention. The federal government has made it very clear several years that solid waste management is a state or local problem and should be controlled. But it is very obvious from the proposed solid waste regulations that the federal government intends for the states to respond to guidelines and regulations.

Sue Winegartner urges support of this resolution because

there are going to be some major mandated changes coming from the federal government.

Questions From Committee Members:

Senator Tveit asked what is happening to the incinerator at Livingston?

Senator Story thinks the taxpayers in Livingston will have to pay twice the money they thought would be needed. The Montana Resource, Inc. (MRI) has not made an offer to buy steam again. If the residents knew steam wasn't going to be made, the incinerator could have been put in an area where there are no homes.

Senator Weeding asked if the legislature has a resolution for the Environmental Quality Control (EQC) to study groundwater.

Bob Thompson said Senator Beck requested a resolution for the EQC to examine groundwater and pesticides. But it may be written as a general groundwater resolution.

Closing by Sponsor: Senator Story closed by saying some eastern states are having problems disposing of waste and this problem is coming our way.

DISPOSITION OF SJR 19

Recommendation and Vote: Senator Story made a motion that SJR 19 be concurred in. Motion passed.

ADJOURNMENT

Adjournment At: 1:55 p.m.


THOMAS F. KEATING Chairman

TFK/hmc

senmin.329

NAME	PRESENT	ABSENT	EXCUSED
Chairman Tom Keating	✓		
Vice-Chairman Larry Tveit	✓		
Senator Fred VanValkenburg	✓		
Senator Loren Jenkins	✓		
Senator Darryl Meyer		✓	
Senator Lawrence Stimatz		✓	
Senator Pete Story	✓		
Senator Bill Yellowtail	✓		
Senator Elmer Severson		✓	
Senator Cecil Weeding	✓		
Senator Dorothy Eck	✓		
Senator Jerry Noble	✓		

Each day attach to minutes.

SENATE STANDING COMMITTEE REPORT

March 29th, 1989

MR. PRESIDENT:

We, your committee on Natural Resources, having had under consideration HB 143 (third reading copy -- blue), respectfully report that HB 143 be concurred in.

Sponsor: Schye (Gage)

BE CONCURRED IN

Signed: 

Thomas F. Keating, Chairman

SENATE STANDING COMMITTEE REPORT

March 29, 1989

MR. PRESIDENT,

We, your committee on Natural Resources, having had under consideration SJR 19 (first reading copy -- white), respectfully report that SJR 19 do pass.

DO PASS

Signed: *Thomas F. Keating*
Thomas F. Keating, Chairman



**BALCRON
OIL COMPANY**

P.O. Box 21017
1601 Lewis Avenue Building
Billings, MT 59104
(406) 259-7860

SENATE NATURAL RESOURCES
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3-29-89
BILL NO. HB 143

March 27, 1989

Senate Natural Resources Committee
State Capitol
Helena, MT 59620

Re: House Bill 143
Drilling Bond Bill

Dear Committee Members:

Balcron Oil Company was formed in June of 1963. For more than 25 years we have operated within the State of Montana. During this time, we have drilled or caused to be drilled approximately 300 exploratory wells. All wells have either been plugged and abandoned as dry holes or completed as producers according to the rules and regulations of the oil and gas conservation commission. Balcron has always accepted its responsibility as a member of the Montana community and has never been derelict in discharging its duties with respect to oil and gas operations and no claims have been filed against the company.

On February 24, 1989, our drilling bond was cancelled for all new wells. We will be effectively shut down for drilling new exploratory or development wells in Montana as no bond will be in effect to cover such operations unless HB 143 is passed.

If a company such as ours, which has operated without an incident or claim against it can not secure a drilling bond, then all companies may be in some danger of losing their bond coverage.

My company supports House Bill 143 for the following reasons:

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1. It limits the duration of time a bond will be required for a well in that a bond will be required for only the length of time to drill the well and plug or complete it. This, I believe, will permit bonding companies to issue bonds without an extended time period of exposure. (Sections 5 (5) and 7).
2. The state is protected (Section 9) in part by the ability to create a lien on all real and personal property in the state. This includes the well and all associated equipment. In most cases, the value of the well equipment itself will pay for any plugging and abandonment costs.
3. Producing wells, the ones that fall under the RIT proposal, all have pipe in them. The production casing has been inserted into the wellbore and cemented. Therefore a steel cylinder is in the hole, and the commission normally requires a plug at the bottom of the pipe to close off the producing formation and one plug at the top, a relatively simple procedure. Very little possibility exists for future problems or contaminations inasmuch as cemented pipe is present and seals off all other zones that might be contaminated. A diagram of a plugged, formerly producing well is attached. Also attached is a copy of the sundry notice form that is filed with the commission.

Let me emphasize that for exploratory wells in Montana, a success ratio of one successful oil or gas well out of each ten wells drilled is normal. This means for exploratory wells, only one time in ten will the proposed law be in effect.

For each well drilled in Montana the following list shows the persons receiving income from the drilling of the well and those persons paying taxes to the State of Montana:

1. Mineral owner - for leasing his minerals
2. Landowner - for damages done to his land
3. Surveyor - for surveying well location

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4. Dirt contractor - for constructing drill site
5. Drilling contractor (minimum of 10 men)
6. Drilling mud company
7. Oil well cementing company
8. Oil well logging company (minimum of 2 men)
9. Oil well supply companies for pipe and wellhead equipment and drill bits
10. Fuel supplier - for gasoline, propane and diesel
11. Geologist
12. Petroleum engineer

This list does not take into account benefits to the nearby communities for restaurants, motels, grocery stores, and clothing stores to supply the needs of the above listed workers. Please remember all of these persons pay taxes to the State of Montana.

To destroy this revenue base and tax base by a lack of effective bonding is unnecessary. Bonds will still be required for all wells until production is obtained. After completion of the well as a commercial well, then and only then will the proposed bill become effective and release the drilling bond for the well. Again, the value of the producing equipment alone should cover the cost of plugging and abandoning the well if the operator is unable to do so.

I sincerely endorse the passage of House Bill 143 to permit the independent oil and gas industry to continue to be a part of the Montana tax base.

Very truly yours,

W. W. Ballard

W. W. Ballard
President
Balcron Oil Company

WWB:acf

**Locate well by footage measurement from legal subdivision (Section) line
and nearest drilling or producible well, if any.**

Form No. 2
File at
Billings
or Shelby

Form No. 2
File at
Billings
or Shelby

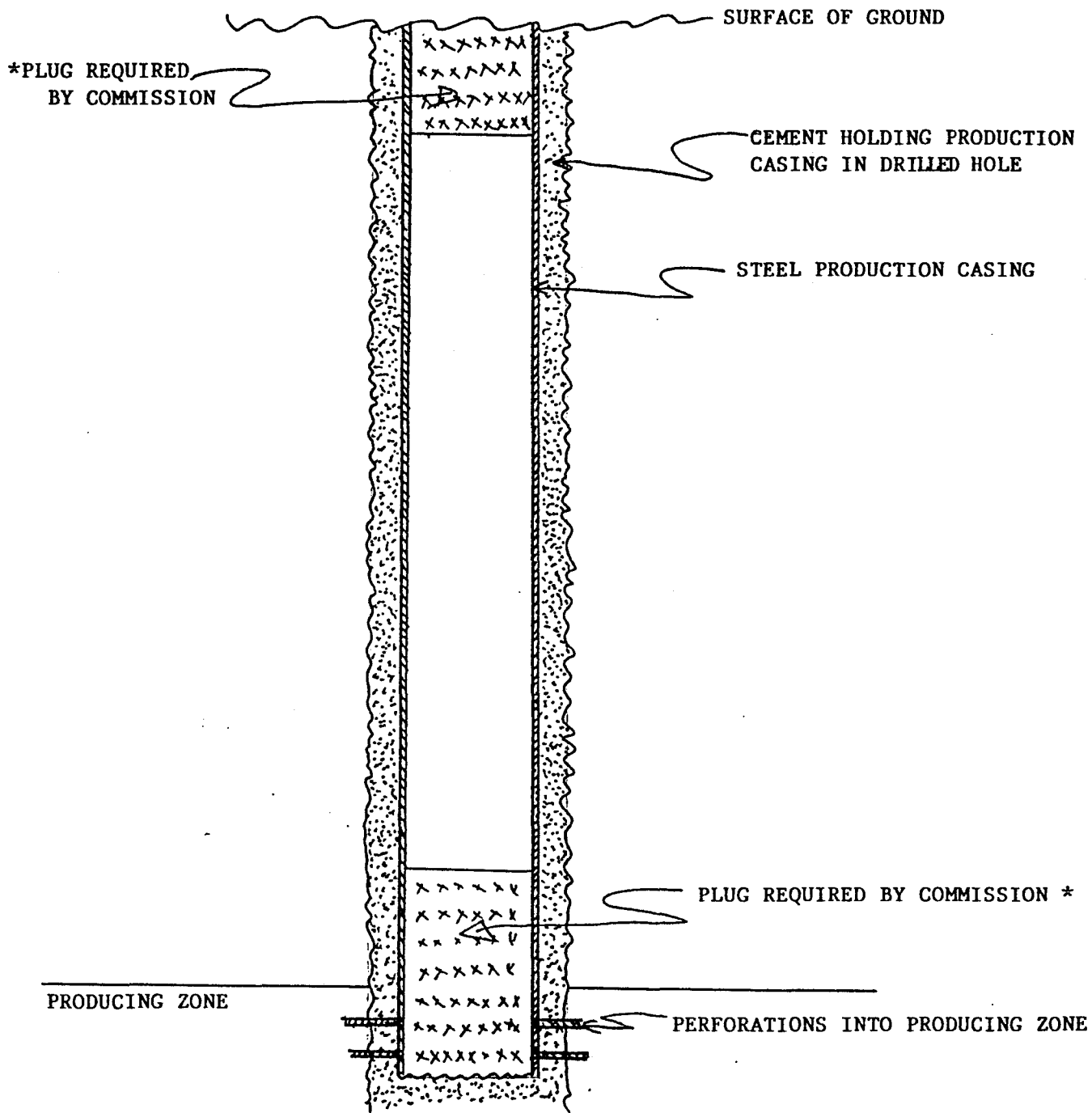
	Rge.....	
Locate Well Correctly	Twp.....	
		SCALE—1"=2000'

THE NOTICE OF INTENTION TO DRILL THIS WELL IS APPROVED SUBJECT TO THE FOLLOWING CONDITIONS:

1. Any person, before commencing the drilling of any oil or gas well or water source or injection well shall secure from the Board a drilling permit and shall pay to the Board the following amounts: for each well whose estimated depth is thirty-five hundred (3,500) feet or less, twenty-five dollars (\$25.00); from thirty-five hundred and one (3,501) feet to seven thousand (7,000) feet, seventy-five dollars (\$75.00); seven thousand and one (7,001) feet and deeper, one hundred fifty dollars (\$150.00).
2. No well is to be spudded in unless the proper surety drilling bond has been posted and approved by the Board of Oil and Gas Conservation of the State of Montana. Date of spudding must be reported to the Board verbally or in writing within 72 hours of commencing drilling.
3. Cable tool operators must construct an adequate sump to contain all mud and water bailed from the hole.
4. Surface or conductor casing must be properly cemented by an approved method and pressure tested to determine a tight bond with the surrounding formations in case an unexpected flow of oil, gas or water should be encountered, unless special permission has been granted for formation shut-off.
5. Any production casing must be cemented unless a formation shut-off or packer is approved by the Board. Sufficient cement must be used to protect the casing and all possible productive and fresh water bearing formations exposed in the process of drilling and not otherwise protected.
6. All production casing must be tested by bailing or pressure to determine if there is a tight bond with the surrounding formations or possible leaks in the casing. The results of the test must be reported on Form No. 2, said report to include the size, weight, thread and length of casing, amount of cement used, and date work is done. If test shows failure, the defect must be corrected before any drilling operations are resumed.
7. Any contemplated change in status of a well such as to plug and abandon, deepen, plug back, redrill, alter casing, etc. must be presented on Form No. 2 for approval by the Board prior to commencement of work.
8. A satisfactory drilling record must be kept for each tour, showing top and thickness of each and all formations drilled and all other information of value, one copy of which is to be kept at the rig while drilling is in progress for examination by any authorized agent of the Board.
9. All producing wells must be marked with name of the operator, number of the well and location, using reasonable precautions to preserve these markings at all times.
10. Delivery to the Board of two copies of all surveys, reports, analyses, logs, tests, samples and core descriptions, etc., as described in Rule 36.22.1013 and one copy of all cementing records as furnished by the cementing company and described in Rule 36.22.1241.
11. All work must be done in conformity with the regulations of the Board of Oil and Gas Conservation of the State of Montana, as contained in "General Rules and Regulations," and amendments thereto, as well as regulations prescribed in lieu thereof.

Ex. #1
3-29-89
PS 5065

DIAGRAM OF PLUGGED PRODUCING WELL



* ONLY PLUGS THAT COMMISSION WOULD BE REQUIRED TO SET IF ALL OTHER MEANS AVAILABLE TO COMMISSION FAILED TO FORCE OPERATOR TO PLUG WELL

