

Montana Petroleum Association

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www.montanapetroleum.org

HEARD IT THROUGH THE PIPELINE

July 30, 2008

MPA ANNUAL MEETING – AUGUST 26 & 27, 2008

August 26th and 27th and the MPA Annual meeting are just around the corner. This year's guest speaker for the Petroleum Industry Appreciation Day Luncheon will be Dr. Michael Economides. Dr. Economides is a world renowned expert on energy policy related to the petroleum industry and has written several books including the "Color of Oil" and his latest "The Soviet to Putin and Back". MPA is looking forward to an excellent meeting, and with your help; record breaking attendance. Meeting and golf registrations have been sent out, if you have not received your meeting packet please contact Bobbie at mpa@montanapetroleum.org. They are also available on MPA's website at www.montanapetroleum.org.

The MPA Annual "Crude Open" is set at the Pryor Creek Country Club on August 26th. We could use any golf related items that you may have, any donations are truly appreciated. Sponsorship letters have also been sent, any help you can provide, again, is truly appreciated.

MPA also has boats reserved to fish the Big Horn on Monday August 25th. There will be prizes for various things, such as largest fish caught. This event has been sold out both the last two years, but we still have a few slots available this year. Cost is \$220 per person for a guided fishing trip on one of Montana's best trout streams. Contact Bobbie if you would like to join us on the Big Horn.

MPA LEGISLATORS' BRIEFING TOUR DATES

MPA has set the dates and locations of the Legislators' Briefing Tour and the details are attached. The western Montana tour starts on September 23, with lunch in Kalispell and ends on the 25th with lunch in Helena. There may be several of us traveling out of Helena and we could provide transportation. If any MPA members wish to fly into Kalispell and out of Helena contact Dave at dave@montanapetroleum.org. The eastern Montana tour begins with dinner in Billings on October 6th and concludes with lunch in Lewistown on October 10th. Those of you making airline reservations should keep in mind that it is a two hour drive from Lewistown to Billings to catch a return flight. You may also wish to have your travel provider check about airline availability out of Lewistown. It is our understanding that a new operator has an afternoon flight out of Lewistown to Denver. As the dates draw near please keep the MPA office apprised of your plans to participate so we can coordinate group transportation. Also, please take a look at the attached schedules and consider sponsorship for some of the events.

ENERGY AND TELECOMMUNICATIONS LEGISLATIVE INTERIM COMMITTEE---PORE SPACE

The ETIC committee met on July 15th to finalize its actions for the upcoming legislative session. On the agenda were two draft bills for consideration by the committee and their carbon sequestration report. During the discussion on the carbon report several legislators praised the comments that were sent by Dan Kieke of Chevron. The Chevron comments were directed to be merged into the report and the remainder of the comments will be included in the appendix.

The committee discussed the idea of ownership of pore space and the need to clarify existing statute. MPA submitted significant comments opposing the draft bill that legislative council staff had prepared. The ETIC held a discussion about the need at this time to push the pore space ownership legislation and decided that the bill and concept were premature. The ETIC voted 6-1 not to pursue a pore space ownership committee bill. Only Senator Lind from Missoula voted to keep the bill on track. The other draft bill, LC 4003 proposed a study of the different issues involved with geologic carbon sequestration including regulatory authority, liability, and methodology. The ETIC chose not to develop a stand alone study bill, but rather, make it a study resolution and introduce the resolution in the 2009 session. Pore space ownership was included in the study resolution. This means that a study of geologic carbon sequestration will compete with all the other ideas for potential studies in the 2010-11 interim. All the activities, studies, proposed bills, public comment, etc. can be viewed online at:

http://leg.mt.gov/css/Committees/Interim/2007_2008/energy_telecom/meeting_documents/materials.asp

Toward the end of the meeting there were several questions regarding oil production, consumption and price. The initial discussion led to a request that time at the September 4th meeting be dedicated to address the following questions:

- Oil consumption in Montana
- Oil production in Montana
- Where the oil that is used in Montana comes from
- What are economic impacts of oil production and pricing in Montana
- Why is the price so high
- What can be done to mitigate the price
- Peak oil
- How many leases in Montana are owned but not being produced on
- What are oil producers in Montana getting
- Price differentials

Two hours has been set aside on the agenda for the September 4th meeting to address these issues. Legislative staff is working to schedule a panel to discuss the items. Panelists will include Tom Richmond, Administrator of the Montana Board of Oil and Gas Conservation and Dr. Scott Rickard, Center for Applied Economics at MSU-Billings.

ENVIRONMENTAL QUALITY COUNCIL

The Environmental Quality Council met on July 14-15, one of the items discussed was the package of climate change bills. The bills address several items including changes to enhance recycling in Montana, incentives to increase Montana's food production, mass transit, and transportation fuel savings, biomass study, incentives to owners of rental property to improve energy efficiency, and additional funding for weatherization of homes owned by low income persons. Of these, LC 6007 funds a weatherization program for the disabled and elderly but specifying 5% of the state share of oil and gas revenues. The committee moved to draft the bills in one motion. LC 6007 was the topic of discussion based on a letter sent by Council Member Brian Cebull who urged that the funding source be determined by the legislative appropriations process as opposed to a statutory based appropriation. Senator Story attempted to segregate LC 6007 from the rest of the bills and discuss separately, but that motion failed.

Additionally, the proposed agency legislative proposals from the Department of Environmental Quality and the Department of Natural Resources were reviewed in concept. No bill drafts have been done yet, but approval was received for Legislative Council staff to begin drafting the bills. DNRC legislation is predominately water related which will merit review once bill drafts are finished. The Montana Board of Oil and Gas Conservation's draft legislation is in the DNRC package and includes a bill to modify current well compulsory pooling requirements by lowering required approvals from 80% of working interests to 60% on royalty interests and 70% of working interest owners.

DEQ has two proposals that merit special attention once bill drafts are available, one offers incentives to consumers who use biodiesel and the other modifies damages awards and environmental clean up statutes. The purpose of the later bill is to ensure that restoration damage awards and settlements from citizen suits are used for restoration and that restoration at sites that are undergoing remediation or are listed under CECRA is consistent with remediation under CECRA.

The DEQ, DNRC and Council bill information can all be viewed online at:

http://leg.mt.gov/css/Committees/Interim/2007_2008/environmental_quality_council/meetings/meetings.asp#meeting6

MONTANA OIL AND GAS REVENUES

Recent news in Montana suggests that the 2009 legislative session will have a \$400 million dollar revenue surplus to work with for Montana's 2010-2011 budget. MPA just received the first quarter of fiscal year 2008 (July 1-Sept 30, 2007) oil and gas production tax revenue distributions from the Department of Revenue. First quarter of 2008 total was a record breaking \$83,895,425.63 of which \$38,728,999.38 goes to various local county governments across the state. Oil and gas production tax revenues continue to exceed expectations even though current oil production is slightly lower this year. Oil and gas continue to provide the third largest single revenue stream to the State of Montana. Nice job, keep it up!

EPA PUBLISHES NOTICE OF PROPOSED RULE MAKING FOR CO2 SEQUESTRATION

The EPA published a proposed rule to establish a new injection well program for the geologic sequestration of CO₂. Comments are due by November 24th. A PDF copy is attached or the rule can be found at the following web site:

<http://www.epa.gov/fedrgstr/EPA-WATER/2008/July/Day-25/w16626.htm>

EPA RELEASES GREENHOUSE GAS DOCUMENT FOR PUBLIC COMMENT

Contact (news media only): Jonathan Shradar, (202) 564-4355 / shradar.jonathan@epa.gov

(Washington, D.C. - July 11, 2008) Today EPA released an Advance Notice of Proposed Rulemaking (ANPR) soliciting public input on the effects of climate change and the potential ramifications of the Clean Air Act in relation to greenhouse gas emissions.

"The ANPR reflects the complexity and the magnitude of the question of whether and how greenhouse gases could be effectively controlled under the Clean Air Act," said EPA Administrator Stephen L. Johnson.

Today's action is in response to the April 2, 2007 Supreme Court decision in Massachusetts v. EPA, which found that greenhouse gas emissions could be regulated if EPA determines they cause or contribute to air pollution that may reasonably be anticipated to endanger public health or welfare. With the ANPR, EPA is evaluating the broader ramifications of the decision throughout the Clean Air Act, which covers air pollution from both stationary and mobile sources.

The ANPR solicits public input as EPA considers the specific effects of climate change and potential regulation of greenhouse gas emissions. In the advance notice, EPA presents and requests comment on the best-available science, requests relevant data, and asks questions about the advantages and disadvantages of using the Clean Air Act to potentially regulate stationary and mobile sources of greenhouse gases. The ANPR also reviews various petitions, lawsuits and court deadlines before the agency, and the profound effect regulating under the Clean Air Act could have on the economy.

The notice's publication in the Federal Register begins a 120-day public comment period.

Read the ANPR: <http://www.epa.gov/epahome/pdf/anpr20080711.pdf>

Fact sheet: <http://www.epa.gov/epahome/anprfs.htm>

ARTICLES OF INTEREST:

USGS: Assessment of Undiscovered Biogenic Gas Resources: North Central Montana Province. This is an interesting 2 page report that is attached.

More Groups seek to halt drilling because of sage grouse:

http://www.helenair.com/articles/2008/07/01/state/85st_080701_grouse.txt

EPA Releases Carbon Sequestration Regulations:
http://www.hollandhart.com/Email/EPARelasesANPR_Web.html

Bakken Articles from the Billings Gazette
<http://billingsgazette.net/articles/2008/07/20/news/state/16-oilpumping.txt> and
<http://billingsgazette.net/articles/2008/07/20/news/state/18-bakkenoil.txt>

Officials Discuss Oil's Future from the Sidney, Montana Herald attached

UPCOMING MEETINGS

MPA Annual Meeting, Golf Tournament & Petroleum Industry Appreciation Day Luncheon – August 26 & 27, 2008 – Crowne Plaza Hotel, Billings, MT. For registration information, please contact the MPA office at (406) 442-7582, mpa@montanapetroleum.org, or visit the website at www.montanapetroleum.org.

BLM, Billings area Resource Management Plan Scoping Meetings. For schedule, please go to www.blm.gov/mt/st/en/fo/billings_field_office.html or call (406) 896-5199.

Energy and Telecommunications Interim Committee, September 5th, State Capitol Helena Montana.

THANK YOU TO NEW MEMBERS (7/4/08 – 7/30/08):
Oasis Petroleum North America LLC; R&R Mobile Services

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July 3, 2008

MPA ANNUAL MEETING – AUGUST 26 & 27, 2008

Please mark you calendars for the MPA Annual Meeting at the Crowne Plaza Hotel in Billings, Montana, August 26-27, 2008. The meeting will start on the morning of August 26th with a MPA Board of Directors Meeting, followed by golf in the afternoon, and finishing the day with a BBQ dinner at Pryor Creek Golf Course. We will have several presentations on Wednesday morning, August 27th followed by the Petroleum Industry Appreciation Luncheon at noon. **The keynote speaker is world renowned author Dr. Michael Economides, Chairman of the Board of XGAS and Paleon Oil and Gas; Professor at the Cullen**

College of Engineering, University of Houston. We are very excited to have him as the keynote speaker and looking forward to a great turnout. We are working on an afternoon seminar that will be very timely and informative. We'll have the completed agenda out by the end of next week. Please mark your calendars, we will have details and registration forms out soon. I encourage you to attend.

MPA PLANNING MEETING 2008

The annual MPA Planning Meeting in Big Sky, Montana was well attended. The planning meeting is a great opportunity for all members to come together to discuss issues and proper courses of action for MPA in the coming year. This year's meeting was especially critical because it serves as the guide MPA will take heading into, what appears to be a, controversial Legislative session in January 2009. Highlights of the meeting include:

- MPA opposes draft legislation on pore space ownership that is scheduled for a hearing in front of the interim committee on energy and telecommunications on July 16th.
- Continue to work on changes for paying production taxes when royalty owners take product in kind.
- Pursue options for clarifying costs allow for gathering system costs
- Continue to develop and implement a Good Neighbor Policy based on New Mexico's program
- Endorse and help implement in Montana the Western Regional Air Partnership
- Re-energized the MPA Public Affairs Committee

In addition, the members offered ideas to be included in the legislative briefing tour which will take place in two segments this fall. Western Montana tour will occur between September 23-25 and the eastern Montana will be the week of October 6th. Information will be forthcoming on the briefing tour. We have all ready booked dates for the 2009 planning meeting in Big Sky so mark next year's calendar for June 22-24th.

SAGE GROUSE UPDATE

The deadline for comments to the USFWS on data was June 27th. MPA submitted comments which are at the following link:

<http://www.montanapetroleum.org/media/MPA%20SG%20Comments%20USFWS%20final%20June%2008.pdf> . Also on the MPA website are the formal comments submitted by the

Director of the Montana Fish Wildlife and Parks. Director Hagener expressed his concern over the impact of oil and gas development on sage grouse. Some of MFWP ideas are the need to be use a geographically phased approach to field development, unitization (for wildlife), controlled surface use; just to name a few. It will be interesting to see how these suggestions manifest themselves into Montana policy, rule or even potential 2009

Legislation. Director Hagener's comments can be viewed here:

<http://www.montanapetroleum.org/media/MFWP%20Letter%20Commenting%20on%20Sage%20Grouse%206-27-08.pdf>

A MESSAGE FROM THE DEPARTMENT OF ENVIRONMENTAL QUALITY REGISTRATION BUREAU

In October 2007, the Montana Department of Environmental Quality – Air Resources Management Bureau established the Air Quality Registration Section. The Registration Section is responsible for regulating oil or gas well facilities that choose to register in lieu of obtaining a Montana Air Quality Permit. Upon the establishment of the Registration Section, 660 oil or gas well facilities had submitted Registration Forms. As of June 30, 2007, the Registration Section had reviewed and acknowledged 36% of these “backlogged” Registration Forms. The Registration Section will continue to review and acknowledge Registration Forms for new oil or gas well facilities and updates to existing registered oil or gas well facilities as the Registration Forms are submitted. As of June 30, 2008, 719 Registration Forms had been submitted and a total of 614 oil or gas well facilities remain registered facilities.

In June 2008, the Registration Section began to conduct compliance inspections of registered facilities and field verifications of facilities that the Registration Section has identified as possibly needing to be registered or permitted. The Registration Section will be contacting registered facilities that have been inspected and sending an inspection report outlining the findings of the inspections. The Registration Section will also be contacting owners of facilities that have been identified as needing to be either registered or permitted and requesting information demonstrating that the facilities do not exceed the 25 ton per year registration/permit threshold. If you have any questions, the Registration Section can be reached at (406) 782-2689.

Executive Director’s Note: *I have been impressed by the willingness of this Bureau to work with the oil and gas industry and also fulfill their duties. The registration process is new and there will undoubtedly be bugs to work out, which MPA is monitoring. The willingness of these folks to listen is very much appreciated.*

BLM RECOGNIZES THREE OPERATORS FOR REDUCING ENERGY FOOTPRINT ON THE LAND

On May 24th, Bureau of Land Management Deputy Director Luke Johnson announced the winners of the BLM’s 2008 awards for leadership and creativity in reducing the footprint of natural gas, oil, and geothermal energy development on public lands. MPA Members, BP and Devon Energy, along with Questar were the winners. See the following link:
http://www.blm.gov/wo/st/en/info/newsroom/2008/may_08/NR_052208.html

THE BLM RESOURCE MANAGEMENT PLAN REWRITES

Billings and Pompey’s Pillar area RMPs are schedule for scoping meetings. Please see the following website for details:
http://www.blm.gov/mt/st/en/fo/billings_field_office/rmp.html

MONTANA LEGISLATIVE WATER POLICY INTERIM COMMITTEE:

The committee has released their draft legislation and report. MPA has followed this committee through the last year and has not received comments on their actions. It would

be a good idea to have a brief legal and technical review of their legislation. Please notice Dave at dave@montanapetroleum.org if you have any concerns.

The Water Policy letter is listed below:

The [Water Policy Interim Committee](#) of the Legislature is seeking public comment on its [draft report](#), the first of its kind issued in more than a decade. The draft report, including [draft legislation](#), is available for comment from July 1 through July 31. Comments will be compiled and presented to the WPIC at the August 12 and 13 meeting in Helena.

The public may also comment on a [draft case study report](#) conducted by the Montana Bureau of Mines and Geology. The 2007 Legislature directed the bureau to study the extent to which ground water withdrawals may result in net depletion of surface water in a closed basin or in specific areas of a closed basin.

More information about the reports is available in the [press release](#), or by contacting Joe Kolman at jkolman@mt.gov or 444-9280.

YOUTUBE AND THE BAKKEN

Recent news stories about the large oil reserves in the Bakken Formation are seeing many highly viewed clips on YouTube, some are very good, and then some are not. You might find the following interesting:

<http://www.youtube.com/watch?v=S2OJTIKdijc&feature=related>

Other related stories:

http://www.energyandcapital.com/aqx_p/4910?OVRAW=bakken&OVKEY=bakken&OVMTTC=standard&OVADID=24881303022&OVKWID=123665161022

The USGS Responds: USGS call many internet stories "inappropriate and irresponsible." The text of the USGS story is attached:

UPCOMING MEETINGS

Environmental Quality Council: July 14-15th. The EQC will discuss their draft legislation they selected to address climate change. Link to EQC meeting site:

http://leg.mt.gov/css/lepo/2007_2008/environmental_quality_council/meetings/meetings.asp#meeting6

Energy and Telecommunication: July 16th. The ETIC will discuss draft legislation on pore space ownership and carbon sequestration studies.

Link to meeting site:

http://leg.mt.gov/css/committees/interim/2007_2008/energy_telecom/default.asp

Please take a minute and review the carbon sequestration study link on the above page. This will contain a draft pore space ownership bill that MPA will oppose.

Legislative Water Pollicy: Meets August 13-14 in Helena to discuss their draft legislation and report which was listed above. Please take a minute and review.

THANK YOU TO NEW MEMBERS (4/12/08 – 7/3/08):

ATC Associates Inc.; Behm Energy; Ed Bartlett, LLC; Kadrmas Lee & Jackson; and Nance Resources, Inc.