



MISSOURI
Department of Natural Resources
Division of Geology and Land Survey

STATE OIL AND GAS COUNCIL
FEBRUARY 18, 2010
MISSOURI DEPARTMENT OF NATURAL RESOURCES
LEWIS AND CLARK STATE OFFICE BUILDING
1101 RIVERSIDE DRIVE
JEFFERSON CITY, MO

OPEN SESSION

MEMBERS PRESENT: Mr. Donald Ransom, Missouri Department of Economic Development; Mr. William Luebbert, Public Member; Mr. Robert Clayton, Missouri Public Service Commission; Ms. Leanne Tippet Mosby, Clean Water Commission; Mr. Joe Gillman, Missouri Department of Natural Resources

MEMBERS ABSENT: Dr. Ralph Flori, Missouri University of Science and Technology

LEGAL COUNSEL: Mr. Don Willoh, Assistant Attorney General

STAFF PRESENT: Mr. Jerry Prewett, Geological Survey Program Director; Mr. Scott Kaden, Geologic Resources Section Geologist; Mr. Jeff Jaquess, Geologic Resources Section Geologist; Mr. Hairl Dayton, Geologic Resources Section Technician; Ms. Jane Williams, Geological Survey Program Executive and Missouri Oil and Gas Council Secretary; Mr. Scott Totten, Water Protection Program

GUESTS PRESENT: Sue Belvill, Environmental Protection Agency; Kurt Hilderbrant, Environmental Protection Agency; David Bleakley, Colt Energy; Pat Morgan, Colt Energy

With a quorum being present, the open session was brought to order by Ms. Tippet Mosby at 10 a.m. Ms. Tippet Mosby asked the Council members to introduce themselves followed by the staff and guests.

Ms. Tippet Mosby asked for a motion to discuss another business item first before proceeding with the agenda. Mr. Clayton made a motion to discuss another business item first. Mr. Gillman seconded the motion. Motion carried.

Ms. Tippet Mosby gave an explanation to the Council that due to staffing changes, Mr. Scott Totten is now the statutory member for the Clean Water Commission. She stated that the Council needed to elect a new chair for the Council as she would have to step down. Mr. Gillman made a motion to nominate Mr. Totten to replace Ms. Tippet Mosby as chair for the Council. Mr. Ransom seconded. Roll call vote: Mr. Ransom, yes; Mr. Luebbert, yes; Mr. Clayton, yes; Mr. Gillman, yes. Motion carried.

MINUTES OF THE AUGUST 27, 2009 MEETING

Mr. Ransom made a motion to accept the minutes of the meeting held on August 27, 2009 as circulated. Mr. Luebbert seconded the motion. Motion carried.

REPORT ON OIL/GAS ACTIVITIES FOR 2009

Mr. Jaquess gave a presentation on 2009 Oil and Gas Activities in Missouri. See attached copy of presentation.

LEMKO OPERATING COMPANY'S PERMITS, WELLS, AND BONDS

Mr. Kaden gave a brief explanation regarding Lemko Operating Company's permits, wells, and bonds. Please see attached copy of Lemko Operating Company history. The Council had the following questions:

Question: Mr. Luebbert asked if Lemko was still in business.

Answer: As far as we know, they are no longer in business.

Question: Mr. Luebbert asked if we could plug all of those wells with the bonding money available.

Answer: Probably not, so we will have to plug what we can with the \$25,000 bonding money.

Question: Mr. Ransom asked if the previous letters that were sent had been returned.

Answer: We do have records that some of the previous letters were received so the company is aware of the situation.

Question: Mr. Gillman asked if staff had done inspections on any of the well sites.

Answer: Current staff have not yet, but prior to getting bids for the plugging of these wells, staff will go out and inspect them to get all the pertinent information for the bidders.

Mr. Kaden stated that after many letters and phone calls that Lemko never responded to, staff recommends that we proceed with the process of bond forfeiture. Mr. Clayton made a motion that staff proceed with the process of bond forfeiture. Mr. Ransom seconded the motion.

Motion carried.

KASE ENERGY'S PERMITS, WELLS, AND BONDS

Mr. Kaden gave a brief explanation regarding Kase Energy's permits, wells, and bonds. Please see attached copy of Kase Energy history. The Council had the following questions:

Question: Mr. Totten asked if the permits require a GPS location so the wells can be located.

Answer: Yes, the permit requires either a surveyed location by a Registered Land Surveyor or a GPS location.

Question: Mr. Totten asked if the bonding covers the total number of wells.

Answer: Yes, the \$20,000 bond was a blanket bond which would cover up to 50 wells. In this case we would be able to plug these two wells, with money left over, which could be used to plug other wells.

Question: Mr. Luebbert asked if Kase could come back and ask to permit more wells with this same bond.

Answer: Not after the bond has been forfeited. If Kase were to request permits before we have forfeited the bond, we could deny the permits because they have wells that are in violation. Mr. Kaden stated that we have not heard from them even though the last letter sent was signed for, and staff recommends that we proceed with the process of bond forfeiture. Mr. Clayton made a motion to proceed with the process of bond forfeiture. Mr. Luebbert seconded the motion. Motion carried.

CARMEL ENERGY'S KENNEDY LEASE PERMIT AND WELL STATUS

Mr. Kaden gave a presentation explaining Carmel Energy's Kennedy lease permit and well status. Please see attached copy of Carmel Energy's Kennedy lease permit history. Mr. Kaden explained that staff would like a determination as to who would be responsible for the clean up of this site. Staff interpretation of the regulations place responsibility with Carmel. In 2006, the Council directed staff to require the return of a site to its pre-drilling condition before a bond may be released to the operator. Additionally, the lease agreement between Mr. Kennedy and Carmel Energy, states that Carmel must level all levees around slush pits and other excavations and generally restore the surface of the land as nearly to its present condition as possible. Staff recommends that the Council should direct the Attorney General's Office to file a lawsuit against Carmel if compliance is not begun within 60 days of their notice. Mr. Kaden also reminded Council that there are additional Carmel sites that have similar situations, but the Kennedy lease is the one that is a hot topic because there are some other operators that are interested in leasing this site. The Council had the following questions:

Question: Mr. Ransom asked if Carmel has any assets.

Answer: Carmel has \$44,000 of blanket bonding on permits at this time.

There was discussion regarding whether this falls under the Council's authority or if it is an issue between the land owner, Carmel, and the new company.

Question: Mr. Clayton asked if Carmel wants to sell a lease, does the permit go with it and it is completely transferable or does the new company come in and file a new bond and ask for a new permit?

Answer: The permit does go with the lease, but the new company has to submit a new bond then we can release the original bond to the previous company.

Question: Mr. Totten asked if there are any environmental laws being broken here, for instance, storm water regulations.

Answer: None that we are aware of.

Question: Mr. Clayton asked if a lawsuit is filed, will it be seeking penalties or just seeking performance under the old obligation.

Answer: There are provisions in the law that would allow us to do that but, at this point, staff has not pursued that. They are mainly trying to get the site cleaned up.

Mr. Bleakley from Colt Energy stated that they are trying to make an agreement with the land owner to lease the Kennedy Lease and clean it up. He also made a suggestion to send letters to good operators to see if they would be interested in taking over any of the Lemko, Kase, or Carmel wells.

Mr. Clayton made a motion to go into closed session immediately. Mr. Gillman amended the motion to go in to closed session after the open meeting. Mr. Luebbert seconded the motion. Roll call vote: Mr. Ransom, yes; Mr. Luebbert, yes; Mr. Clayton, yes; Mr. Gillman, yes. Motion carried.

POSSIBLE RULEMAKING (10CSR50)

Mr. Prewett gave a presentation on needed changes to the rules and regulations. Please see attached copy of Mr. Prewett's presentation. Mr. Prewett explained the two main areas that need changing are bonding structure and mechanical integrity tests (MITs). Two other areas we are considering would be injection of produced water into lower aquifers and development of a fee structure for late submittal of required forms. Mr. Prewett asked the Council to give any suggestions they may have regarding these changes. Mr. Clayton made a motion that staff proceed with the process of rule changing. Mr. Ransom seconded the motion. Motion carried.

OTHER BUSINESS

Mr. Totten asked if anybody had anything they would like to bring before the Council. The Council decided to have the next meeting in August, 2010. Mr. Totten suggested having the meeting in Kansas City and possibly taking the Council on a field trip to see some of the wells. The Council agreed to this suggestion.

Mr. Totten made a motion that the State Oil and Gas Council meet in closed session at 9:30 a.m. at the next regular Council meeting for the purpose of discussing matters protected from disclosure by law as provided for in Section 610.021, RSMo., including but not limited to: legal actions, pending litigation, and attorney-client privileged matters with the Council attorney. Mr. Clayton seconded the motion. Roll call vote: Mr. Ransom, yes; Mr. Clayton, yes; Mr. Luebbert, yes; Mr. Totten, yes. Motion carried.

The Council went into closed session at 12 p.m. as requested by the previous motion.

Open session reconvened at 12:15 p.m.

Mr. Clayton made a motion for staff, including the Attorney General's Office, to take any and all legal actions necessary to enforce remediation of the property involving the wells associated with Carmel, including but not limited to penalty actions, forfeiture of bonds, and any other legal actions associated with violations associated with this company. Mr. Ransom seconded the motion. Motion carried.

As no other business was brought before the Council, Mr. Luebbert made a motion to adjourn the meeting. Mr. Totten seconded the motion. Motion carried. Open session was adjourned at 12:20 p.m.