



MISSOURI
Department of Natural Resources
Division of Geology and Land Survey

STATE OIL AND GAS COUNCIL
AUGUST 27, 2009
MISSOURI DEPARTMENT OF NATURAL RESOURCES
KANSAS CITY REGIONAL OFFICE
500 NE COLBERN ROAD
LEE'S SUMMIT, MO

OPEN SESSION

MEMBERS PRESENT: Dr. Shari Dunn-Norman, Missouri University of Science and Technology; Mr. Donald Ransom, Missouri Department of Economic Development; Mr. Joe Gillman, Missouri Department of Natural Resources; Mr. Robert Clayton, Missouri Public Service Commission; Ms. Leanne Tippet Mosby, Clean Water Commission

MEMBERS ABSENT: Mr. William Luebbert, Public Member

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. Jeff Crews, Geologic Resources Section Geologist; Ms. Jane Williams, Geological Survey Program Executive and Missouri Oil and Gas Council Secretary

GUESTS PRESENT: Dr. Ralph Flori, Missouri University of Science and Technology; Mr. Jim Stegeman, Colt Energy; Mr. David Bleakley, Colt Energy

With a quorum being present, the open session was brought to order by Dr. Dunn-Norman at 10:42 a.m. Dr. Dunn-Norman asked the Council members to introduce themselves followed by the staff and guests.

MINUTES OF THE AUGUST 27, 2008 MEETING

Mr. Ransom made a motion to accept the minutes of the meeting held on August 27, 2008 as circulated. Mr. Gillman seconded the motion. Motion carried.

ELECTION OF CHAIR AND VICE CHAIR

Mr. Gillman made a motion that the chair for the coming year be Ms. Leanne Tippet Mosby and that vice-chair be Shari Dunn-Norman or her replacement. Mr. Ransom seconded the motion. Motion carried. Mr. Gillman thanked Dr. Dunn-Norman for her service on this Council and

commented on how greatly we appreciate all she has done. Dr. Dunn-Norman stated she would be very happy to help us with anything.

YEARLY PERMIT AND PRODUCTION NUMBERS

Mr. Jaquess gave a presentation on 2008 and 2009 Oil and Gas Activities in Missouri. See attached copy of presentation.

MIT TESTING PROCEDURES

Mr. Kaden explained the current guidelines for conducting Mechanical Integrity Tests (MITs). See attached copy of MIT Guidelines. DGLS staff suggest the well should be tested at the permitted pressure instead of the operating pressure. If operations use an injection well at a pressure that is lower than the permitted pressure and they want to conduct the MIT at that pressure, the operators should request a modification of the permit to reflect the pressure the well is operated at. A short discussion followed Mr. Kaden's explanation and Council agreed that the suggestion was beneficial. Mr. Kaden stated that staff will send letters to all operators to let them know of the change in the testing procedure.

CONFIDENTIALITY PROCEDURES

Mr. Kaden gave a presentation on confidentiality of oil and gas permits and special projects. See attached copy of presentation. Mr. Kaden explained there are provisions in the regulations for confidentiality and he wanted the Council to be informed of how the confidentiality procedures work.

COLT ENERGY STEAM INJECTION LIABILITY

Mr. Kaden gave a presentation of Colt Energy's steam injection project. He explained DGLS's roll in the permitting of oil and gas wells, stratigraphic test wells, class II injection wells, etc. Colt has a concern that their steam injection project could damage nearby wells that are grouted with bentonite instead of cement grout. Colt asked who would be responsible if there was damage to wells, or damage to formations causing fluid migration, etc. DGLS is tasked by EPA to protect drinking water under the Underground Injection Control (UIC) program. Mr. Kaden explained that if the water well or heat pump well was installed prior to the operation or implementation of a steam project, the steam project/oil operator would be responsible for determining the location of these wells within a ½ mile area surrounding their injection well. This is called an AOR (Area of Review). If DGLS determines that the steam project could affect the surrounding wells, then they would require a Corrective Action Plan during the permitting process. If this steam project is already in operation and a landowner wishes to drill a water well or heat pump well, then it would be the responsibility of the water well or heat pump driller to make sure that the well is constructed properly. This may require the use of a cement grout and steel casing instead of PVC casing and bentonite grout. Mr. Jim Stegeman from Colt Energy gave an example of a lease they had where their company had taken a lease prior to the property owners building a new house and drilling a heat pump well. The heat pump well penetrated the formation that the company was looking at for a possible steam site. Mr. Stegeman explained

that they had the lease for oil and gas rights prior to them drilling the wells, which raises their concern about the protection of their rights. Mr. Bleakley talked about the process in Kansas compared to Missouri. He believes that all of the wells in the Vernon County area where steam operations and injection operations are taking place should be identified and some rules and regulations looked at on the drilling completion methods of these wells located in this area. Mr. Kaden explained that he had given this same presentation to the Wellhead Installation Board (WIB), who regulates the drilling of water well and heat pump wells, and expressed Colt Energy's concerns. The WIB stated that you could not use cement on a heat pump well because of the need for the flexibility of bentonite grout. Mr. Stegeman asked if you have the lease take precedence even if you haven't started the project yet. Mr. Kaden believes that it would, but that could be more of a legal question. There were several questions regarding leases. Dr. Dunn-Norman believes that the UIC Area of Review addresses hydraulics and not thermal issues. Mr. Bleakley suggested that there really needed to be some communication between Wellhead Projection and DGLS oil and gas staff. Ms. Tippet Mosby suggested that she could possibly get the two entities together to discuss these issues and report back to the Council at a later date. Mr. Gillman thanked Colt Energy for coming forward with this issue and being proactive in trying to prevent a situation where there could be an impact on sources of drinking water.

ISSUES AND CHALLENGES

Mr. Prewett gave a presentation on some issues and challenges regarding oil, gas, coal and other energy resources that we face in the future. See attached copy of presentation. He gave a brief description about our Geological Survey Program within the Department of Natural Resources. He also discussed a little history of the energy industry in Missouri and the nation. Mr. Prewett discussed the decrease we have in staff and dollars and the fact that the state of Missouri does not have an oil and gas production tax. In an eight state area, Iowa and Missouri are the only two states that do not have a production tax. Mr. Gillman asked if we know where we rank as far as oil and gas production within the eight state area. Mr. Jaquess stated that we are last in the eight state area. Mr. Prewett stated that when the regulations were put into place, the cost to plug a well was around \$1.50/foot and now it is up to at least \$3.50/foot. Mr. Gillman explained that other states have very different bonding structures, but also many of them have the production taxes that they can use to build up their remedial funds that enable them to go out and plug abandoned wells, etc. Mr. Ransom made a motion that DGLS put together a recommendation of change to our rules and regulations and bring a proposal to the Council at the next meeting. Mr. Gillman seconded the motion. Motion carried.

OTHER BUSINESS

Dr. Dunn-Norman asked if anybody had anything they would like to bring before the Council. The Council discussed the need to have meetings more often than once per year and recommended having a meeting every six months. Staff will schedule the next Council meeting for February, 2010.

Mr. Gillman 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. Ms. Tippet Mosby seconded the motion. Roll call vote: Mr. Ransom, yes; Mr. Clayton, yes; Mr. Gillman, yes; Ms. Tippet Mosby, yes. Motion carried.

As no other business was brought before the Council, Ms. Tippet Mosby made a motion to adjourn the meeting. Mr. Gillman seconded the motion. Motion carried. Meeting adjourned at 12:30 p.m.