



TREASURE STATE RESOURCES ASSOCIATION OF MONTANA

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TREASURE STATE RESOURCES ASSOCIATION NEWS July, 2018

Great News for Montana:

Denbury Resources Sanctions Cedar Creek Anticline CO2 Enhanced Oil Recovery Project

Source: Denbury Resources Press Release June 18, 2018

Denbury Resources Inc. (“Denbury” or the “Company”) today announced that the Company has sanctioned a CO2 enhanced oil recovery (“EOR”) project at Cedar Creek Anticline (“CCA”). CCA is a massive geological feature stretching approximately 125 miles in length across parts of Montana, North Dakota, and South Dakota. (*The field is primarily located in Montana.*) Denbury’s portion of CCA covers approximately 175,000 acres and is estimated to hold up to five billion barrels of original oil in place.

Key Project Highlights:

- ❖ Targets EOR potential greater than 400 million barrels, with initial tertiary production expected by late 2021 or early 2022
- ❖ Modest capital to first tertiary production of approximately \$250 million (including CO2 pipeline) can be funded with cash flow
- ❖ First two project phases are estimated to generate \$3 billion of cumulative net free cash flow at \$60 oil

Chris Kendall, Denbury’s President and CEO, commented, “The decision to sanction this significant project marks a major milestone for the Company and highlights our confidence in the significant long-term oil production and cash flow potential of this key asset. Over the last

few years, the Denbury team has worked diligently to prepare this project for execution, capitalizing on our vast EOR experience, and I am proud of all the efforts that made the sanctioning of the project possible.”

“We expect this project could ultimately produce more than 400 million barrels of oil through CO2 enhanced oil recovery, much greater than Denbury’s entire current proven reserves base and is attractive at \$50 oil. I believe CCA will deliver significant value to Denbury and our stakeholders for many years.”

Planned Development Summary

- ❖ **Phase 1** of the project targets 30 million barrels of estimated recoverable oil in the Red River formation at East Lookout Butte and Cedar Hills South fields.
 - Includes a 110-mile, \$150 million extension of the Greencore CO2 Pipeline from the Company’s Bell Creek Field, which will benefit all future CCA EOR development, and equates to less than \$0.50 per barrel across the total potential CCA EOR resources.
 - Estimated field development capital (in addition to the CO2 pipeline) of \$100 million before first tertiary production and an estimated \$400 million of total capital over a 15-year period. Peak capital investment is expected in 2019 at \$125 - \$150 million, mainly for the CO2 pipeline, and is generally expected to be less than \$50 million per year thereafter.
 - First tertiary production projected in late 2021/early 2022, with incremental production expected to reach between 7,500 and 12,500 barrels of oil per day within three years of first production...

- ❖ **Phase 2** of the project is estimated to begin in 2022 and will target approximately 100 million barrels of recoverable oil in the Interlake, Stony Mountain and Red River formations at Cabin Creek field...

- ❖ **Future Phases** of the project, targeting over 300 million barrels of estimated recoverable oil in the Interlake, Stony Mountain and Red River formations in Denbury’s other CCA fields will be developed based on CO2 availability and other factors.

For more information about Denbury, visit www.denbury.com.

Montana DEQ Hearing on Air Quality Fees to Be Held on Friday, July 13th at 1:00 pm. – Proposed Fees Expected to Be Reduced

The June TSRA Newsletter included information about the potential for MT DEQ to initiate rulemaking to increase the air quality operation fees for registered oil and gas well facilities and

the air quality operation fees, both from the administrative fee and the per ton of emissions fee, for facilities other than portable facilities.

The Board of Environmental Review gave the Department the green light to proceed with that process. The proposed rule language was published in the Montana Administrative Register and a **public hearing is set for Friday, July 13th at 1 pm. in Room 111 of the Metcalf Building located at 1520 E 6th Avenue in Helena, MT.** Those wishing to testify in person should plan to attend the hearing. Written comments **must be submitted no later than 5:00 pm on July 20, 2018** to Sandy Scherer, Legal Secretary, Department of Environmental Quality, P.O. Box 200901, Helena, MT 59620-0901.

Meanwhile, DEQ Air Quality Bureau staff have continued their efforts to scrutinize their funding needs. **The most recent information provided by the Bureau is that the fees they expect to include in a final rule adopted by the BER have been reduced from those proposed in the draft rule. Currently they expect to reduce the proposed oil and gas registration fees from \$900 to \$850 and the amount per ton fee from \$45.37 to \$44.35.** DEQ staff will present those new figures in testimony on July 13th.

Montana Chamber Foundation Releases Report on Colstrip

Source: MT Chamber of Commerce Press Release June 25, 2018

During a press conference in the Montana Capitol, the Montana Chamber Foundation announced the results of a commissioned study on the impact of early retirement of Colstrip units 3 and 4 performed by Dr. Patrick Barkey from the Bureau of Business and Economic Research (BBER) at the University of Montana.

The study finds that communities across the state have been heavily reliant on the “outsized tax contributions of the coal industry to the revenue base of state government,” and the entire state has a stake in the outcomes affecting Colstrip. During the study, BBER evaluated the implications for the state economy if circumstances caused the premature closure of Units 3 and 4 at the Colstrip Steam Electric Station, as well as the adjacent Rosebud Mine. Specifically, the report examined the consequences for jobs, income, population, economic output and other measures of economic activity to the state economy in the event that Units 3 and 4 were to shut down in 2027.

Some of the findings included:

- ✓ Estimated statewide loss of 3,300 jobs, wages considerably above the state average
- ✓ Anticipated income loss of between \$250 and \$350 million per year or \$5.2 billion over the 16-year period covered by the research

- ✓ Decline in annual gross sales and economic output of between \$700 and \$800 million or \$12.5 billion over the same 16 year period
- ✓ Expected loss of \$80 million in state tax and non-tax revenues per year, or \$1.2 billion over the same 16-year period.

BBER estimates that Montana's special taxes on energy and natural resources make the tax impact of Colstrip and the mine's early closure at least a third larger than they would be on non-energy related business.

"The goal of the analysis is to provide information regarding the contributions of Colstrip and the Rosebud coal mine to the state of Montana and the associated impacts to the state's economy if the power plant was to be prematurely retired," said Barkey. "The data clearly demonstrates that there would be considerable economic cost in terms of jobs, income, spending and tax revenues."

The study also examined the impact to individual consumers and businesses in Montana. The data shows there would be an increased cost to Northwestern rate payers, as well as to large commercial and industrial customers due to the elimination of price discounts currently available to Montana based commercial businesses...

Copies of the Executive Summary or the full report can be found at:

<http://www.montanachamber.com>

EPA and Army Seek Additional Public Comment on 'Waters of the U.S.' Repeal

Source: U.S. EPA Press Release June 29, 2018

The U.S. Environmental Protection Agency (EPA) and the Department of the Army (Army) are issuing a supplemental proposal to the July 2017 proposed action to repeal the 2015 definition of "Waters of the United States" (WOTUS). The proposal specifically requests comment on the legal basis of the 2015 WOTUS rule, which the agencies believe has led to uncertainty and confusion across the country.

"By issuing today's supplemental proposal, we are responding to public feedback, expanding opportunities for comment, and providing clarity and transparency in the rulemaking process," said EPA Administrator Scott Pruitt. **"We are making it clear that we are proposing to permanently and completely repeal the 2015 WOTUS rule and keep the pre-2015 regulatory framework in place as we work on a new, improved WOTUS definition."**

During last summer's public comment period, the EPA and Army heard from hundreds of thousands of stakeholders about the proposal to repeal the 2015 definition of WOTUS. After

reviewing this input, the EPA and the Army are issuing a supplemental notice of proposed rulemaking to clarify that the agencies are proposing to permanently repeal the 2015 rule in its entirety. As part of the initial proposal, the EPA and the Army indicated their intent to recodify the pre-2015 regulations – a longstanding regulatory framework that is currently being administered by the agencies – to keep them in place until the agencies finalize a new definition of WOTUS.

The agencies are also issuing the supplemental notice of proposed rulemaking to give the public an opportunity to comment on additional considerations that support the agencies' proposed repeal, some of which the agencies did not discuss in detail in the initial proposal.

“This supplemental proposal reflects our continued commitment to common sense in the rulemaking process,” said R.D. James, Assistant Secretary of the Army for Civil Works.

The agencies are continuing to review the comments received on the July 2017 proposal and will be accepting comment on the supplemental proposal for 30 days after it is published in the Federal Register. Commenters do not need to resubmit comments already provided to the agencies in response to the July 2017 proposal.

For more information on both actions go to: <http://www.epa.gov/wotus-rule>

Background:

The EPA and the Army are working through a two-step process to consider revisions to the definition of “waters of the United States,” consistent with the February 2017 Presidential Executive Order 13778. The Executive Order states that it is in the national interest to ensure that the nation’s navigable waters are kept free from pollution, while at the same time promoting economic growth, minimizing regulatory uncertainty, and showing due regard for the roles of Congress and the states under the Constitution.

According to the EPA’s Frequently Asked Questions page concerning WOTUS, the two-step process is:

- 1. The agencies are taking action to establish the legal status quo in the CFR by proposing to repeal the 2015 Rule and recodify the regulation that was in place prior to issuance of the 2015 Rule which is being implemented consistent with court orders enjoining that rule and with the agencies’ final rule adding an applicability date.*
- 2. The agencies plan to propose a new definition interpreting the jurisdictional bounds of the Clean Water Act that would replace the broader approach of the 2015 Rule, taking into consideration the principles that Justice Scalia outlined in the Rapanos plurality opinion.*

See the following article for an update on “step two”.

EPA Sends WOTUS Proposal to OMB

Source: National Association of REALTORS® Washington Report June 22, 2018

In a positive first step to finally obtain a clear and consistent definition of “waters of the US” (WOTUS) ...the EPA has sent a proposal to the White House Office of Management and Budget (OMB) to clarify which wetlands and waterways are protected by the Clean Water Act.

While EPA’s Announcement did not include any details about the proposal or a timeframe for review, EPA Administrator Scott Pruitt has indicated that the new definition will follow the vision of the late Supreme Court Justice Antonin Scalia in a 2006 case, which could significantly reduce the number of waters that are federally protected to only those with “relatively permanent” surface water connections to larger bodies of water.

The new definition of WOTUS is the second in what Pruitt has called a “two-step” process to repeal and replace the WOTUS Rule. In the meantime, the administration has also been able to delay the rule by two years. Once the OMB review is finalized, the EPA will release the proposed rule for public comment.

Meanwhile....

Congress Votes on WOTUS Provisions

Source: National Association of REALTORS® Washington Report June 22, 2018

On June 21, 2018, the U.S. House of Representatives voted 213-211 to approve the Agriculture and Nutrition Act (aka the Farm Bill), which included an amendment by Rep. Jim Banks (R-IN) permanently repealing the 2015 water rule. According to Rep. Banks, “WOTUS gave unelected bureaucrats at the EPA the power to broadly interpret what is a navigable waterway in a way where even a puddle could be subject to federal regulation. This rule has been harmful across all industries in our country and it is time we remove the regulation once and for all.”

Also on June 21, the Senate voted 62-34 to table an amendment by Sen. Mike Lee (R-UT) to the Energy and Water Development appropriations bill that would have repealed the 2015 rule. In comments on the Senate floor, Lee said that the 2015 rule represents “some of the worst kind of lawmaking that occurs here in the swamp,” in which Congress “sets forth a very broad, vague standard and an executive branch agency figures out the rest, sometimes with disastrous consequences.

Secretary Zinke Praises President Trump's Governmental Reform and Modernization, Welcomes NMFS back to Interior

Executive Branch reorg strengthens Zinke's plan to modernize and reorganize Interior

Source: U.S. Dept. of Interior Press Release June 21, 2018

In accordance with President Donald J. Trump's Executive Order 13781, the Executive Branch will undergo a reorganization to better meet the needs of Americans in the 21st century. Today the President announced a proposal to merge administrative responsibilities from other agencies into the Department of the Interior to improve the efficiency of the regulatory process. In the proposal, Interior would gain the National Marine Fisheries Service (NMFS) and aspects of the Army Corps of Engineers Civil Works, while transferring some environmental cleanup programs to the Environmental Protection Agency. These moves strengthen Secretary Zinke's plan to modernize and reorganize the Department of Interior through common regional boundaries by taking a more collaborative government approach.

"President Trump is a businessman who knows that an effective operation needs to be organized for success, which is exactly why he is leading this commonsense reorganization of the executive branch," **said U.S. Secretary of the Interior Ryan Zinke.** "By merging agencies that handle similar, if not the same, functions we would be able to greatly improve services to the American people and better protect the land and wildlife under our care. At Interior, we are leading the government reform and modernization by consolidating dozens of regional bureau boundaries into twelve common unified boundaries – down from 61 for the nine bureaus – and pushing more assets and decision-making out into the field. This will allow government agencies to work more collaboratively on everything from wildlife and habitat management to expanding recreation access on public lands to environmental reviews and permitting infrastructure projects."

The Department of Commerce's NMFS would return to Interior and merge with the U.S. Fish and Wildlife Service. This would consolidate the administration of the Endangered Species Act and Marine Mammal Protection Act into one agency within Interior. This merger would also combine the Services' science and management capacities, resulting in more consistent federal fisheries and wildlife policy and improved service to the public, particularly on infrastructure permitting.

Interior would also take on certain duties of the Army Corps of Engineers Civil Works, such as flood and storm damage reduction, aquatic ecosystem restoration, and other regulatory activities. This realignment would allow for more rational public policy outcomes and better investments.

Additionally, some of Interior's environmental cleanup programs would be consolidated into the Environmental Protection Agency's Superfund program, which would reduce the number of decisions and approvals, eliminate policy inconsistency among agencies, and expedite the clean up of contaminated sites.

MT Sage Grouse Habitat Conservation Program Update

As reported last month, based on input from Montana Sage Grouse Oversight Team members and interested stakeholders, the Sage Grouse Program undertook an additional review of the Habitat Quantification Tool Technical Manual and the Mitigation Policy Guidance document. According to staff they "have been cleaning up clerical errors, adding more robust discussion to clarify things, and making some revisions.

Those documents are expected to be released for general public comment and solicited scientific peer review sometime in the first week of July. All of the individuals suggested by the stakeholders have been invited to participate in the peer review group along with those identified earlier by the Program.

General public comment and peer review will run concurrently. The Program will review all comments at the end of the comment period. Changes to both documents are possible, depending on public and scientific peer review comments. MSGOT members will receive copies of all comments that are received.

MSGOT is expected to meet by teleconference call some time in late July to consider matters related to stewardship grants. All MSGOT meetings are publically noticed. Copies of documents and other materials can be found at: <https://sagegrouse.mt.gov/Team>
Other meetings scheduled for this year are:

- September 14: The Program anticipates bringing forward proposed final mitigation documents and proposed administrative rules. MSGOT would be asked to consider initiation of rulemaking. They may also be tasked with taking action on stewardship grants.
- December 18: MSGOT is expected to consider whether to adopt final rules and any other business that needs to be concluded before the end of the calendar year.

Recent Sage Grouse Actions Taken at the Federal Level

US Forest Service Changes to Sage Grouse Protections Proposed

Source: [Helena Independent Record](#) June 21, 2018 By: Keith Ridler, AP

The U.S. Forest Service has proposed changes to sage grouse protections established in 2015 in six Western States that call for eliminating special designations for crucial habitat as well as keeping areas open for mining.

The agency also said restrictions on water development for livestock will be removed as will other requirements that could limit some livestock grazing. The plan covers greater sage grouse habitat in Idaho, California, Nevada, Wyoming, Utah and Montana...

A key component of the 2015 management plan included establishing key sage grouse habitat called focal areas that restricted development...Under the Forest Service's latest proposal, focal areas would be eliminated...that doesn't mean protections for sage grouse will be removed...the land will still be designated priority sage grouse habitat with restrictions on surface development.

The revision process started in November 2017 with the Forest Service seeking public comments...comments on the proposed changes will be taken through July 20. Those will be used to create an Environmental Impact Statement for sage grouse habitat.

TSRA Annual Meeting Wrap Up

At the recent TSRA Annual Meeting in Butte, attendees heard a flurry of updates about significant progress to restore "common sense" decision making processes in key federal agencies as well as a look ahead at the 2019 Legislature. The Association thanks all our presenters and speakers who offered their time and expertise. We look forward to the 2019 Annual Meeting tentatively being planned for June 19-20, 2019 in Missoula, Montana.

TSRA would particularly like to recognize our many sponsors one more time for their generous support. We couldn't hold meetings like this without you.

2018 TSRA Meeting Sponsors

Trailblazer Level: BNSF Railway and Sibanye-Stillwater Mining

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Start Planning Now for the 2019 TSRA Legislative Showcase

The date and location for the 2019 TSRA Legislative Showcase has been confirmed. We'll be holding the event at the Radisson Colonial Hotel in Helena, MT on Tuesday, January 8, 2019.

Participants will be able to sign up as sponsors and/or reserve a booth or table display this Fall. This is one of the best attended events of the session – in 2017 over 120 legislators stopped by to learn more about issues important to TSRA members.

Put that date on your calendar and watch for more details later this year.

Upcoming Events/Dates

July 10-11, 2018	Revenue and Transportation Interim Committee State Capitol, Helena, MT
July 16-17, 2018	Montana Coal Council Annual Meeting Bighorn Resort, Billings, MT
July 16-17, 2018	Water Policy Interim Committee State Capitol, Helena, MT
July 19-20, 2018	Energy and Telecommunications Committee State Capitol, Helena, MT
July 25-26, 2018	Environmental Quality Council State Capitol, Helena, MT
August 28-29, 2018	Montana Petroleum Association Annual Meeting Billings, MT

September 6-7, 2018	Montana Wood Products Association Hilton Garden Inn, Missoula, MT
September 10, 2018	Energy and Telecommunications Committee State Capitol, Helena, MT
September 10-11, 2018	Water Policy Interim Committee State Capitol, Helena, MT
September 12-13, 2018	Environmental Quality Council State Capitol, Helena, MT
September 13, 2018	Revenue and Transportation Interim Committee State Capitol, Helena, MT
September 14, 2018	MT. Sage Grouse Oversight Team State Capitol, Helena, MT
November 7-10, 2018	MT Farm Bureau Federation Convention Double Tree and Northern Hotels, Billings, MT
November 19, 2018	Revenue and Transportation Interim Committee State Capitol, Helena, MT
December 5, 2018	Montana Taxpayers Association Annual Meeting Radisson Colonial Hotel, Helena MT
December 11-13, 2018	Montana Stockgrowers Association Convention Double Tree and Northern Hotels, Billings, MT

If you don't want to receive the TSRA Newsletter, please let me know. If you want to share with others in your company or organization, please do so. The mission of the Treasure State Resources Association is to promote and enhance the Montana Way of Life through responsible resource development.