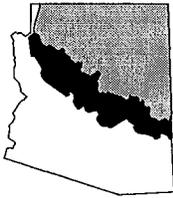


OIL & GAS CONSERVATION COMMISSION
Meeting: March 6, 1992
Steve Rauzi - Program Administrator



Fife Symington
Governor

State of Arizona
Arizona Geological Survey

845 North Park Avenue, #100
Tucson, Arizona 85719
(602) 882-4795

Larry D. Fellows
Director and State Geologist

NOTICE OF COMBINED PUBLIC MEETING AND POSSIBLE EXECUTIVE SESSION

OIL AND GAS CONSERVATION COMMISSION

Pursuant to A.R.S. § 38-431.02, notice is hereby given to the members of the Oil and Gas Conservation Commission and to the general public that the Oil and Gas Conservation Commission will hold a meeting open to the public on March 6, 1992, at 10:00 A.M. in Room 500 of the State Capitol located at 1700 West Washington, Phoenix, Arizona 85007. As indicated in the agenda, the Oil and Gas Conservation Commission may vote to go into executive session which will not be open to the public to discuss certain matters.

The agenda for the meeting is as follows:

1. Call to Order.
2. Approval of Minutes of Meeting of November 1, 1991.
3. Statement of Director and State Geologist.
4. Report of Oil & Gas Program Administrator.
5. Consideration to initiate rule making proceedings.
6. Contender Oil well, Sec 5, T10S-R23W, Yuma County.
7. Geothermal wells, Sec. 1, T2S-R6E, Maricopa County.
8. Call to the public.
9. Announcements.
10. Adjournment.

The Oil and Gas Conservation Commission may vote to go into Executive Session, pursuant to A.R.S. § 38-431.03(A)(3), which will not be open to the public to consult with its attorney and receive legal advice with respect to any regular agenda item listed on this agenda.

A copy of the agenda background material provided to Commission members (with the exception of material relating to possible executive sessions) is available for public inspection at the Oil and Gas Program Administrator's office, 845 North Park Avenue, Suite 100, Tucson, Arizona 85719.

The public will be afforded an opportunity to comment on any item on the agenda; however, at the beginning of the meeting, the Commission may vote to set up a time limit on individual comments.

Dated this 21st day of February 1992.

OIL AND GAS CONSERVATION COMMISSION

Steven L. Rauzi
Oil and Gas Program Administrator

OIL AND GAS CONSERVATION COMMISSION
845 North Park Avenue #100
Tucson, Arizona 85719

Minutes of Meeting
November 1, 1991

Present:

Mrs. Jan C. Wilt, Chairman
Mr. A. R. Bennett, Member
Mrs. Barbara H. Murphy, Member
Dr. Larry Fellows, State Geologist
Mr. Steven L. Rauzi, Oil and Gas Program Administrator

The regular Commission Meeting of November 1, 1991 was called to order by Mrs. Jan C. Wilt, Chairman, at 10:00 A.M. in Room 500, State Capitol Building, Phoenix, Arizona.

APPROVAL OF MINUTES OF MEETING OF SEPTEMBER 6, 1991

Mrs. Murphy moved, seconded by Mr. Bennett:

THAT THE MINUTES OF THE MEETING OF SEPTEMBER 6, 1991
BE ACCEPTED AS PRESENTED.

Motion carried unanimously.

STATEMENT OF DIRECTOR AND STATE GEOLOGIST

Dr. Fellows reported that no recommendations have been received from either Budget office and that he did not expect any until the end of November or early December. He added that this will be another tough budget year and that the analysts will be looking for ways to cut and combine things as much as possible. He requested the same level of funding as last year and indicated that there were to be no requests for out of state travel except for directors to attend national meetings. He reported on the Sunset Review Hearing on October 8 and noted that one subject discussed was the possible merger of the Arizona Geological Survey and the Bureau of Mines and Mineral Resources. Both analysts said that this is still a consideration.

Dr. Fellows reported that about 70 applications were received for the research geologist position vacated by Steve Reynolds, who accepted a faculty position at Arizona State University. He indicated that the qualified applicant will have experience in regional geologic mapping and have some mineral or economic geology experience. He intends to make an offer by the end of November and have the person begin in February or March. Dr. Fellows described the two other new positions resulting from the reorganization. One is an assistant editor, who has been hired and will start November 12 and the other is a geologist II, who will be the database manager and provide back-up for Mr. Rauzi and Mr. McGarvin. Interviewing for the geologist II will begin next week.

Dr. Fellows reported that the earmarking of oil and gas lease revenues to the oil and gas program will not happen. Those revenues will continue to go into the general fund.

Chairman Wilt expressed concern about restoring funds to cover Arizona's membership in the Interstate Oil and Gas Compact Commission. This budget item has normally been included in the Governor's budget as a below-the-line item on the Commission's budget.

REPORT OF THE OIL AND GAS PROGRAM ADMINISTRATOR

The activity report of Mr. Rauzi was sent to the Commissioners, and has been made a part of these minutes. Mr. Rauzi reported that a permit to drill in northwest Arizona was issued to United Gas Search in Tulsa, Oklahoma. The location is in the Arizona Strip area of Mohave County about 15 miles south of St. George, Utah, in a relatively undrilled part of the state. The proposed total depth of the well is deep enough to test the whole Paleozoic section. He added that two wells have been reworked in the northeast corner of the state, one is a gas well recompleted as an oil well and the other is an oil well recompleted as a gas well. With respect to oil and gas leasing, there has not been much activity and there were no bids on federal land in the September 5, 1991, BLM lease sale. The last big block of state land leased was near Tombstone. Mr. Rauzi reported on two new pipelines being constructed and noted that a lot of pipe is stockpiled near Winslow. El Paso is putting in some additional line on their existing pipeline right-of-way and Mohave is building a 395 mile line from Topock, Arizona, to Bakersfield, California. A new line from Kingman to Topock will be associated with that.

Regarding new interest in the state, Mr. Rauzi reported that Hunt Oil has shown interest in the southern part of Arizona and that United Gas Search, who recently obtained the permit to drill in Mohave County, is negotiating to pick up some existing leases near Yuma. They are rumored to be having discussions with Pemex in Mexico. Petrotech may be a partner in United Gas's play in the Yuma area. This evolving activity in southern Arizona could be important for the Arizona and Mexico trade agreement.

FIVE-YEAR AGENCY REVIEW OF RULES

A copy of the five-year review being submitted to the Governor's Regulatory Review Council (GRRC) was sent to each of the Commissioners for their review and comment. Mr. Rauzi discussed his plan to continue with the existing proposal to incorporate the geothermal rules with the oil, gas and helium rules. He indicated that the existing geothermal statutes should back the geothermal rules whether they are incorporated into Article 1 or listed separately in Article 2. He noted one significant difference between the two sets of rules, which is the time limit for keeping information from a "wildcat" well confidential. Statute provides for a two-year confidential period on geothermal wells whereas statute provides for a six-month confidential period on oil and gas wells. Mr. Rauzi proposed that the Commission provide for one additional six-month period for oil and gas wells. He explained that Rule 175 is being proposed to classify injection wells consistent with the federal EPA classification and that the long and cumbersome Rule 181 will be more effective and understandable if it is divided into two rules. He will amend the language in essentially every rule to be consistent with current GRRC format and style. Mrs. Mead commented that GRRC has gone through an evolution over the years with respect to whether rules should be written in active or passive voice.

In light of the delay in obtaining a resolution on the two geothermal wells near Chandler,

Chairman Wilt asked if there was a problem with the geothermal rule regarding plugging and abandonment of a nonproductive well and if so, if this would be a good time to fix that. Mr. Rauzi felt that the problem was not with the rule, but with the question of who was responsible for the well in question and pointed out that the rules define the responsible party as whoever is in control of the day-to-day activities of the well. He added that the lengthy temporary abandonment of several of the Shields Exploration wells near Fredonia was a primary factor in our proposing Rule 125 to clearly spell out the conditions and time frames for the temporary abandonment of a well.

Mrs. Murphy had queried Mr. Rauzi about the casing testing requirements in Rule 111. Mr. Rauzi reported that they are based on American Petroleum Institute (API) casing strength standards which are in turn based on American Society for Testing and Materials (ASTM) standards. He added that the lengths of the cement plugs required in Rule 127 were initially taken from the Interstate Oil and Gas Compact Commission. Mr. Rauzi discussed the objectives for these rules, which are to confine all fluids encountered to their respective strata and to provide adequate control of any high and unexpected subsurface pressures.

Mrs. Wilt questioned the repeal of Rule 102 and the affect of this action on the Commission's jurisdiction over activities on Indian lands. Mr. Rauzi pointed out that the bond rule contains the language "anywhere in the state" and did not think that repeal of 102 would diminish that jurisdiction.

Dr. Fellows commented on the definitions of "authorized agent" and "Executive Director" in Rule 101. Mr. Rauzi pointed out that neither of these terms are used in the rules and that he planned to remove those definitions that are not used in the rules. He added that "the Commission" is used repeatedly in the rules to define authority for decisions and required actions and that this definition in Rule 101 is being amended to include "any person lawfully empowered to act on their behalf."

Mrs. Murphy brought up the amount of the bonds required in Rule 103 and asked if they were sufficient to cover the cost of plugging and abandonment of wells and reclamation of the land. Mr. Bennett pointed out that if the bond is too high it will hinder exploration in the state. Dr. Fellows questioned the need to require a bond on federal lands since they already require a bond for drilling on their land. Mr. Rauzi indicated that bonds should continue to be required on federal lands in order to maintain our authority to conserve Arizona's oil, gas, and geothermal resources in all areas of the state. He also pointed out that the bond amount should remain at its current level in that this was one of the few inducements the state offered to facilitate drilling in Arizona. He noted that the vast majority of operators do properly plug and abandon their wells and added that if the Commission did raise the amount that it should not go above \$10,000 per well. Mr. Bennett indicated that increasing the bond from \$5,000 to \$10,000 would still not cover the approximate \$50,000 cost of plugging a well and that raising the amount to \$50,000 dollars would probably have a major detrimental impact on drilling in Arizona. All agreed. Mr. Rauzi indicated that the bond rule would be submitted to GRRC in August, which should give the Commission time to make a decision on the bond amount.

Mr. Rauzi handed out a calendar showing the GRRC meeting dates and discussed the proposed schedule to submit the repealed, proposed, and amended rules to them. The schedule allows about one week between the Commission's meeting and the delivery of the rule packages to GRRC.

CONTENDER OIL WELL, SEC 5, T10S-R23W, YUMA COUNTY

Mrs. Mead reported that Mr. Bradshaw apparently does not have the money to plug and abandon the well and indicated that an asset check would be made to determine his ability to plug and abandon the well. She advised that the Commission go ahead and get an injunction against Mr. Bradshaw to force him to plug and abandon the well, noting that even if we got an empty judgement, i.e. there is no money there, it may have the affect of discouraging future operators from drilling a well unless they have sufficient assets to plug and abandon their wells. Chairman Wilt indicated that the Commission has already agreed to have this matter resolved by the Attorney General.

GEOHERMAL WELLS, SEC 1, T2S-R6E, MARICOPA COUNTY

Chairman Wilt indicated that the Commission has previously moved (open meeting of November 16, 1990) to have the Attorney General get the two wells plugged and abandoned by filing a suit. All present agreed that the Attorney General's Office has been slow to act, which could eventually put the Commission in a bad light. It was also agreed that this issue needs to be brought to a head.

Mrs. Mead described possible legal actions to have the wells plugged and abandoned and she did not think that pursuing a legal remedy would require having the rules changed. She proposed to file a court order to plug the well, have the order recorded in the county as a lien against the property, and thereby encumber the land and its future sale or development. In her opinion, the existing statutory authority the Commission has over geothermal wells may be sufficient to allow them to go in and lien the property. She advised that this would probably be the most appropriate solution with regard to these wells.

One potential danger of leaving the wells unplugged is the possibility of an unscrupulous operator dumping hazardous waste into one of the wells. If this or another danger to the public or environment is or seems imminent, then the state should appropriate funds to have these wells properly plugged and abandoned.

CALL TO THE PUBLIC

None.

ANNOUNCEMENTS

The next meeting was scheduled for March 6, 1992, in room 500 of the State Capitol Building.

Mr. Bennett's appointment will expire in January 1992. He wanted the record to show that in

Minutes of Meeting
November 1, 1991
Page 5

his opinion, the Commission should continue to be diversified professionally.

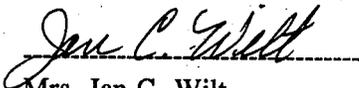
ADJOURNMENT

Mr. Bennett moved; seconded by Mrs. Murphy:

THAT THE MEETING BE ADJOURNED.

Motion carried unanimously. Time of adjournment was 11:45 a.m.

APPROVED

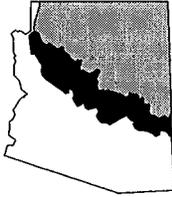


Mrs. Jan C. Wilt
Chairman

GUESTS IN ATTENDANCE:

Kate Mead
Joe Lane

Attorney General's Office
Governor's Office



Fife Symington
Governor

State of Arizona
Arizona Geological Survey

845 North Park Avenue, #100
Tucson, Arizona 85719
(602) 882-4795

Larry D. Fellows
Director and State Geologist

TO: Oil and Gas Conservation Commissioners
FROM: *SLB* Steven L. Rauzi, Oil and Gas Program Administrator
DATE: February 21, 1992
SUBJECT: **Activity Report**

Note that your next meeting is in Room 500 at the State Capitol.

One new permit to drill, No. 213, was issued to Dry Mesa Corporation on January 13, 1992. This permit is for reentry of a well drilled and abandoned in 1962. Permit No. 876, issued in September to United Gas Search, was extended for six months to June 1992.

I submitted the five-year review of the *Oil, Gas and Helium* rules to the Governor's Regulatory Review Council at the conclusion of your last meeting on November 1, 1991. I appeared before the Council on December 3, 1991, at which time the Council approved the recommendations in the five-year review by unanimous consent.

A flyer describing the merger of the Arizona Oil and Gas Conservation Commission with the Arizona Geological Survey was mailed to about 300 individuals. The flyer contained some selected Survey publications and was compiled from people who had previously bought oil and gas publications from the Commission.

On February 6, I presented a talk on drilling mud to the Special Waste Best Management Practices Advisory Committee to the Department of Environmental Quality Special Wastes Permits Unit. This committee will classify drilling mud as a hazardous, special, or solid waste by mid-1992. They offered suggestions on rule 108 regarding the use of chromium compounds in mud and indicated that with the proposed modifications they would recommend that drilling mud be classified as solid waste. They noted that with the classification as solid waste, drilling mud would not require additional regulation under the Department of Environmental Quality in light of its ongoing regulation by the Oil and Gas Conservation Commission.

Before I submit the enclosed rules to GRRC, you will have to initiate the rule making proceeding by motion and the Chairman will have to sign Form 101, *Notice of Proposed Rule Making*. This matter will be taken up under agenda item 5, consideration to initiate rule making proceedings. Barring modification by GRRC or the Attorney General, it takes approximately 211 days from the time that you initiate the rule making proceeding to certification by the Attorney General.



State of Arizona

State Capitol, West Wing, Suite 706

Phoenix 85007

FOR USE BY SECRETARY OF STATE

The Office of The Secretary of State

NOTICE OF PROPOSED RULE MAKING

1 Name of Agency ARIZONA GEOLOGICAL SURVEY

2 Agency contact person (name, address, phone) STEVEN L. RAUZI, 845 NORTH PARK AVE., STE. 100, TUCSON, ARIZONA 85719 PHONE (602) 882-4795

3 General and Specific Statutory Authority for proposed rule making: A.R.S. § 27-501 to 27-503, 27-507.01, 27-508.01, 27-509, 27-510, 27-515 to 27-517, 27-651 to 27-653, 27-655 to 27-657, and 27-662

4 Check and complete applicable items below to show proposed rule making (show A.A.C. Rule Numbers):

REPEAL (deleting existing rules) A.A.C. R12-7-189

ADOPT (new rules) A.A.C. R12-7-187

AMEND (changing existing rules) A.A.C. R12-7-135, R12-7-136, R12-7-137, R12-7-138, R12-7-139, R12-7-140, R12-7-142, R12-7-143, R12-7-150, R12-7-151, R12-7-152, R12-7-153, R12-7-160, R12-7-161, R12-7-183, R12-7-184, R12-7-185, R12-7-186, R12-7-188, R12-7-190, R12-7-192, R12-7-193, R12-7-194, R12-7-195.

RENUMBER EXISTING RULES

5 Incorporation by Reference

None

A.A.C. Rule Numbers

6 Check the following required items to show that they are included in this document:

- Form R101, an original and two copies of the Form and each attachment.
Informative summary of proposed rule making for publication in Register.
Text of rules.

- Economic impact statement.
Statement of impact on small business.
Three copies of incorporation by reference.

7 Check if these rules were previously adopted as an emergency.

Check if change in text.

8 NOTICE is given that any person may file written comments on the proposed rule making with the agency contact person on or before June 2, 19 92.

The agency has scheduled oral proceedings to be held at Room 500, State Capitol

1700 W. Washington, Phoenix Arizona
Address City

at the hour of 10:00 a.m. on the 6 day of

July, 19 92.

The agency has not scheduled oral proceedings but will do so if five or more persons file written requests with the agency contact person within thirty days after this Notice is published in the Administrative Register.

9 Certificate of Authorized Officer

Jan C. Wilt
Signature of Officer

Jan C. Wilt
Typed Name of Officer

Telephone

Chairman, Oil & Gas Cons. Comm. 3/6/92

Title Date

INFORMATIVE SUMMARY

The Oil and Gas Conservation Commission proposes to repeal A.A.C. R12-7-189, in Title 12, Chapter 7, Article 1. This rule requires books and records from refiners and processors to substantiate the reports required by the Commission and is redundant with A.A.C. R12-7-192 which also requires refiners and processors to keep books and records to substantiate reports.

The Commission proposes to adopt A.A.C. R12-7-187, in Title 12, Chapter 7, Article 1 to clearly define the reporting requirements for operators of injection projects. This rule will cover enhanced recovery wells, salt water disposal wells, and subsurface storage wells.

The Commission proposes to amend A.A.C. R12-7-135, R12-7-136, R12-7-137, R12-7-138, R12-7-139, R12-7-140, R12-7-142, R12-7-143, R12-7-150, R12-7-151, R12-7-152, R12-7-153, R12-7-160, R12-7-161, and R12-7-183, R12-7-184, R12-7-185, R12-7-186, R12-7-188, R12-7-190, R12-7-192, R12-7-193, R12-7-194, and R12-7-195 to update and clarify language, edit for consistency and grammatical accuracy, account for currently accepted practices in the regulated industry, and incorporate language to include geothermal resources. These rules prohibit pollution and define the testing, measurement, production, and reporting requirements for oil, gas, and geothermal operations and require producers, purchasers, transporters, refiners, and processors to keep accurate records of their operations in order to substantiate the required reports.

CHAPTER 7
OIL AND GAS CONSERVATION COMMISSION
ARTICLE 1
OIL, GAS, AND HELIUM

Section

R12-7-135	Gas-oil ratio <u>and potential</u> tests	1
R12-7-136	Subsurface pressure tests and reservoir surveys	2
R12-7-137	Commingling of oil <u>production</u> from pools	3
R12-7-138	Casinghead gas	5
R12-7-139	Use of vacuum pumps	6
R12-7-140	Pollution, and surface damage, <u>and noise abatement</u>	7
R12-7-142	Measurement of oil	8
R12-7-143	Oil tanks, and fire <u>walls, and fire hazards</u>	9
R12-7-150	Capacity tests of gas wells <u>and geothermal wells</u>	10
R12-7-151	<u>Measurement of g</u> Gas from gas wells <u>and geothermal resources</u> to be measured	11
R12-7-152	Utilization of gas	12
R12-7-153	Non-hydrocarbon gas	13
R12-7-160	Regulation of oil production <u>and gas production</u>	14
R12-7-161	Producer's monthly report oil wells and gas wells	15
R12-7-183	Certificate of compliance and authorization to transport	16
R12-7-184	Recovered load oil	17
R12-7-185	Transporter's and storer's monthly report	18
R12-7-186	Gas <u>or geothermal</u> purchaser's monthly report	19
R12-7-187	<i>Injection project report</i>	20
R12-7-188	Refinery reports	21
R12-7-189	Processor's report	27
R12-7-190	Gasoline plant reports	22
R12-7-192	Books and records to substantiate reports	23
R12-7-193	Written notices, requests, permits and reports	24
R12-7-194	Organization reports	25
R12-7-195	Additional information may be required	26

1 **R12-7-135. Gas-oil ratio and potential tests**

2 A. Each operator shall ~~conduct~~ make a gas-oil ratio test (~~Form 5, see Appendix 1~~) not sooner
3 than between 5 and 15 days after completion, and another not sooner than 30 days nor later than 60 days
4 following the completion or recompletion of ~~an oil well, if the any well is a wildeat or is located in a pool~~
5 which contains both oil and gas, not exempted from the requirements of this Rule. The average daily
6 oil production, the average daily gas production, and the average gas-oil ratio shall be recorded.

7 Each operator shall also make, at least semiannually, gas oil ratio test of each producing oil well,
8 ~~located in a pool not exempted from the requirements of this Rule in a period prescribed by the~~
9 ~~Commission. The gas oil ratio test applicable shall be the test designated by the Commission, and shall~~
10 ~~be made by the methods and means, as the Commission may prescribe.~~

11 B. The results of the gas-oil ratio tests ~~made in accordance with the above, or for other~~
12 ~~designated periods,~~ shall be filed reported in writing to the Commission within 15 days after completion
13 of the test, on Form 5 (see Appendix 1).

14 C. Each operator shall ~~conduct~~ make a potential test within 30 days following the completion
15 or recompletion of any well for the production of oil, as to each new well or as to any well worked over,
16 ~~deepened or plugged back.~~ The results of this test shall be reported in writing to the Commission within
17 15 days after ~~on Form 6 (see Appendix 1) immediately upon completion of the~~ said test.

1 **R12-7-136. Subsurface pressure tests and reservoir surveys**

2 A. ~~Each~~ The operator shall conduct ~~make~~ a test, within 30 days after completion, to
3 determine the reservoir pressure on the discovery well of any new pool. The test shall be made after the
4 well has been shut-in for at least 24 hours, and the results shall be reported in writing to the Commission
5 within 15 ~~30~~ days after the completion of the test, ~~such discovery well on Form 7 (see Appendix 1)~~.

6 B. The Commission may require subsurface pressure measurements on a sufficient number
7 of wells in any pool to provide adequate data to determine reservoir characteristics. ~~A pressure survey~~
8 ~~shall be made of any reservoir producing oil and gas, when required by the Commission.~~ The survey
9 shall be made by the operator in the manner ~~required~~ prescribed by the Commission, and ~~will be made~~
10 ~~under~~ may require supervision ~~of~~ by a qualified agent of the Commission, ~~and be duly reported by the~~
11 ~~operator on Form 7 (see Appendix 1).~~ The results shall be reported in writing to the Commission within
12 15 days of the completion of the survey.

1 **R12-7-137. Commingling of oil production from pools**

2 A. Unless authorized by the Commission, each pool shall be produced as a single common
3 reservoir; with the wells therein shall be completed, cased, maintained, and operated as the producing
4 media for that pool; and the Oil production of oil therefrom from each pool shall at all times be
5 segregated into separate, identified tanks. The commingling of production from different pools is
6 prohibited, unless authorized by order of the Commission after notice and hearing.

7 ~~B. The Commission may require tests to determine the effectiveness of the segregation of~~
8 ~~the production from separate pools. If such a test is ordered, results are to be reported on Form 25 (see~~
9 ~~Appendix 1).~~

10 B. The Commission may approve commingling of production upon demonstration by the
11 applicant that such commingling shall not cause waste of reservoir energy or diminish recovery of the
12 resource. Application for approval of commingling shall include the following:

13 1. Electric log or other acceptable log with tops and bottoms of formations or producing
14 zones and perforated intervals shown and marked;

15 2. Diagrammatic sketch of the proposed well structure, including make, type and setting
16 depths of packers;

17 3. The reservoir pressure for each zone or formation proposed for commingling, the specific
18 gravity and BTU content of the gas if the zone produces gas, and the API gravity and gas-oil ratio of the
19 oil if the zone produces oil;

20 4. Plat showing the location of the well and all offset wells, and a list of the names and
21 addresses of operators of all leases offsetting the acreage dedicated to the applicant's well;

22 5. Waiver consenting to the proposed commingling from each offset operator, or in lieu
23 thereof, copies of letters requesting such waiver; and

24 6. Proof of mailing of notice of application for commingling to all offset operators.

1 C. The first application for commingling of pools in a field shall be approved by the
2 Commission only after notice and hearing. Subsequent applications, completed as required in subsection
3 (B), for commingling of the same zones in the same field may be approved administratively, if, after a
4 15-day holding period, there are no protests from offsetting operators.

1 **R12-7-138. Casinghead gas**

2 A. ~~The owner or operator of a lease shall not be required to measure the exact amount of~~
3 ~~casinghead gas produced and used by him for fuel purposes in the development and normal operation of~~
4 ~~the lease.~~ All casinghead gas produced and sold or transported away from a lease, except amounts of
5 flare gas, shall be metered and reported ~~on Form 16 (see Appendix 1)~~ monthly in writing to the
6 Commission in standard Mcf and gallons of liquids (~~gpm~~) per Mcf. ~~If In the event that casinghead gas~~
7 ~~is sold as supply stock for a gasoline plant, the gallons of liquids (~~gpm~~) per Mcf shall also be reported.~~
8 The operator of a lease shall not be required to measure the exact amount of casinghead gas produced
9 and used for fuel purposes in the development and normal operation of the lease.

10 B. Pending arrangements for disposition of some useful purpose, all casinghead gas that is
11 authorized to be vented shall be burned, and the estimated volume reported monthly as required by R12-
12 7-161. on Form 16 (see Appendix 1).

1 **R12-7-139. Use of vacuum pumps**

2 **A.** The use of ~~vacuum pumps or other~~ any devices for the purpose of putting a vacuum on
3 any ~~oil or gas bearing~~ stratum containing oil, gas, or geothermal resources is prohibited unless authorized
4 by the Commission.

5 **B.** The Commission may, after notice and hearing, authorize the use of vacuum pumps if
6 the applicant can show that use of the vacuum will not create waste or infringe on correlative rights.

1 **R12-7-140. Pollution, and surface damage, and noise abatement**

2 **A.** ~~The owner or operator shall take all reasonable precautions to avoid polluting~~
3 ~~streams, polluting underground water, and damaging soil. If waste oil or other deleterious substances~~
4 ~~cannot be treated or destroyed, or if the volume of such products is too great for disposal by the usual~~
5 ~~methods without damage, other means of disposal approved by the Commission shall be used.~~ **of any**
6 **well, production facility, gasoline plant, gas plant, or pipeline shall conduct operations in a manner that**
7 **will prevent surface or subsurface pollution.**

8 **B.** **During completion operations on any well, no oil, gas, salt water, fracturing fluid or**
9 **other substance shall be permitted to pollute any waters, surface or subsurface.**

10 **C.** **In swabbing and bailing operations or purging a well all substances removed from the**
11 **bore hole shall be placed in a pit or tank and shall not be allowed to pollute any surface or subsurface**
12 **waters.**

13 **D.** **All wellhead connections, surface equipment, lease flow lines, and tank batteries shall be**
14 **maintained at all times to prevent escape of oil, gas, produced water, or other substances.**

15 **E.** **All fires, leaks, or blowouts shall be reported to the Commission in accordance with**
16 **R12-7-120. Pits shall be constructed and operated in accordance with R12-7-108.**

17 **F.** **Each operator shall minimize noise when conducting air drilling operations, when the well**
18 **is allowed to produce while drilling, or as a result of the noise created by expanding gases. The method**
19 **and degree of noise abatement shall be approved by the Commission.**

1 **R12-7-142. Measurement of oil**

2 Oil or condensate shall not be transported from a lease until it has been measured. Each
3 transporter shall file a ~~A~~ monthly report of the amount of oil or condensate transported from the lease
4 as required by R12-7-185. ~~, on Form 24 (see Appendix 1) shall be filed by the 25th day of the next~~
5 ~~succeeding month after which the oil or condensate was transported from the lease.~~

1 **R12-7-143. Oil tanks, and fire fwalls, and fire hazards**

2 **A.** Oil shall not be stored or retained in an earthen reservoir or an open receptacle. The
3 Commission may require dDikes or fire walls shall be required, where it is deemed necessary by the
4 Commission to protect life, health, or property. All Such dikes or fire walls shall must be erected and
5 continuously maintained in good condition around all permanent oil tanks or batteries that are within the
6 corporate limits of any city, town or village, or where such tanks are closer than 150 feet to any highway,
7 or inhabited dwelling, or closer than 1,000 feet to any school or church. The capacity of the dike or fire
8 wall shall be 1 1/2 times the capacity of the tank or tanks that it surrounds. The reservoir so formed
9 within the dike shall be kept free from vegetation, water and oil.

10 **B.** Anything that might constitute a fire hazard in the operation of a well, tanks, separators,
11 or other equipment shall be removed to a distance of at least 150 feet from the well, tanks, separator, or
12 other equipment.

1 **R12-7-150. Capacity tests of gas wells and geothermal wells**

2 **A. The operator of a producing gas well shall determine its** ~~The open-flow capacity of each~~
3 ~~producing gas well shall be determined~~ within 30 days following completion and ~~at least once each year~~
4 in conformity with schedules which may be issued by the Commission. When a pipeline connection is
5 available, gas wells shall not be tested by open-flow method, but the open-flow capacity shall be
6 determined by the back-pressure test method, used and approved by the United States Bureau of Mines,
7 or by some other method approved by the Commission. ~~A report of each test shall promptly be filed on~~
8 ~~Form 18 (see Appendix 1).~~

9 **B. The Commission may require tests to determine the quantity and quality of geothermal**
10 resources or reservoir energy.

11 **C. The results of the tests required in this Section shall be reported in writing to the**
12 Commission within 15 days after the completion of the test.

1 **R12-7-151. Measurement of Gas from gas wells and geothermal resources to be measured**

2 **A.** All gas produced for whatever purpose in gaseous form from gas wells shall be accounted
3 for by metering or other method approved by the Commission. If the gas is sold, the purchaser shall
4 report the volume purchased as required by R12-7-186, on Form 19 (see Appendix 1). If the gas is
5 delivered to a transportation facility, ~~the volume shall be reported by the transporter~~ shall report the
6 volume transported as required by R12-7-185, on Form 24 (see Appendix 1). ~~If the gas is produced and~~
7 ~~used for any other purpose,~~ The operator shall report the volume produced as required by R12-7-161,
8 ~~shall be reported by the operator on Form 16 (see Appendix 1).~~

9 **B.** Each operator of any geothermal lease shall measure all production in accordance with
10 methods approved by the Commission. The quantity and quality of all production shall be determined
11 in accordance with the standard practices, procedures, and specifications generally used in the industry.

1 **R12-7-152. Utilization of gas**

2 **A.** ~~After completion of a gas well, n~~ No gas from such any completed gas well shall be:

3 1. Permitted to escape into the air except for testing when no pipeline connection is
4 available.

5 2. Used expansively in engines or pumps and then vented, or

6 3. Used to gas-lift in oil wells unless all gas produced from such gas-lift operations is
7 processed in a gasoline plant, and the residue gas is used in the manufacture of carbon black or for some
8 other beneficial use ~~that is beneficial~~ .

9 **B.** Utilization of gas in the manufacture of carbon black may be made only if approved by
10 the Commission, after notice and hearing, based on a finding that no more beneficial use is available or
11 will be available in a reasonable time.

1 **R12-7-153. Non-hydrocarbon gas**

2 A. ~~Insofar as applicable, t~~ The statewide rules of this Chapter shall also apply to helium,
3 carbon dioxide, and any other non-hydrocarbons gas.

4 B. The Commission may, after notice and hearing, publish sSpecial rules particularly
5 affecting these non-hydrocarbon gases, ~~insofar as they may vary from the statewide rules will be~~
6 ~~published by the Commission from time to time, after notice and hearing.~~

1 **R12-7-160. Regulation of oil production and gas production**

2 ~~Upon determination by~~ If the Commission determines that oil ~~production and~~ gas, or geothermal
3 resources production ~~in the state~~ is causing waste, the Commission shall limit the total amount of oil, and
4 gas, or geothermal resources which may be produced, ~~in the state.~~

1 **R12-7-16l. Producer's monthly report — ~~oil wells and gas wells~~**

2 A. ~~Each operator shall file a~~ A producer's monthly report of oil or gas production on Form
3 ~~16 (see Appendix 1) shall be filed on~~ for each producing lease ~~within the state~~ for each calendar month,
4 setting forth ~~complete data, total lease production and other information indicated on the form.~~ the
5 operator's name, each well's lease name or number, well number, state permit number, the actual
6 amounts of oil, gas, water, or geothermal resources produced, the number of days each well produced,
7 and the disposition of the produced oil, gas, water, or geothermal resources. ~~Such form~~ The operator
8 may file this report ~~may be filed~~ in its machine record version, ~~at the option of the producer.~~ Said The
9 report shall be filed on or before the 25th day of the next succeeding month.

10 B. If a well is off production for a period exceeding 30 days, the Commission shall be
11 notified in writing with and the reasons given ~~(Form 25, see Appendix 1)~~ .

1 **R12-7-183. Certificate of compliance and authorization to transport**

2 A. Each producer or operator of any well shall execute under oath and file with the
3 Commission ~~an "Operators Certificate of Compliance and Authorization to Transport Oil, or Gas,~~
4 ~~or geothermal resources from Lease" (Form 8, see Appendix 1)~~ for each well.

5 ~~D.~~ B. The certificate, when properly executed and approved by the Commission, shall
6 constitute authorization to the pipeline or other transporter to transport oil, or gas, or geothermal
7 resources from the developed unit named therein. ~~This Rule shall not prevent the production or~~
8 ~~transportation of oil or gas~~ The Commission may provide written permission for the transportation of
9 production in order to prevent waste, pending execution and approval of the certificate, if the facts
10 justify. ~~Permission for the transportation of such production will be granted in writing if the facts justify.~~

11 ~~E.~~ C. The certificate shall remain in full force and effect until:

- 12 1. The operating ownership of the developed unit changes, or
- 13 2. The transporter changes, or
- 14 3. The certificate is cancelled by the Commission.

15 ~~B.~~ D. ~~Whenever~~ a change occurs in operating ownership of any developed unit, or
16 ~~whenever~~ a change occurs in the transporter from any developed unit, ~~Form 8 (see Appendix 1) the~~
17 ~~operator shall be executed and filed in accordance with the instructions appearing thereon, except that,~~
18 file a new certificate with the Commission within ten days of the change. ~~With respect to a temporary~~
19 ~~change in transporter which involves less than the production of one month, the producer may, in lieu~~
20 ~~of filing a new certificate, notify the Commission and the transporter in writing of the estimated amount~~
21 ~~of oil, or gas, or geothermal resources to be moved by the temporary transporter, and the name of the~~
22 ~~temporary transporter. The operator shall furnish a~~ A copy of the notice shall be furnished to the
23 temporary transporter.

24 ~~C.~~ E. The temporary transporter shall not move any greater quantity of oil, or gas,
25 geothermal resources than the estimated amount shown in the notice.

1 **R12-7-184. Recovered load oil**

2 Recovered load oil may be run from a lease on which it is recovered only upon ~~provided~~ approval
3 of ~~by~~ the Commission ~~is obtained by means~~ of a "~~C~~ertificate for ~~L~~oad ~~O~~il ~~C~~redit and ~~P~~ermit to
4 ~~T~~ransport ~~R~~ecovered ~~L~~oad ~~O~~il" ~~(Form 17, see Appendix 1)~~ showing the source and amount of the
5 load oil. Upon approval, ~~by~~ the Commission, ~~one copy will~~ shall be forwarded one copy to the
6 designated transporter as authority to transport the oil. This Rule applies only to oil obtained from a
7 source other than the lease on which it is used.

1 **R12-7-185. Transporter's and storer's monthly report**

2 **A.** Each transporter of oil and condensate ~~within the state~~ shall furnish for each calendar
3 month a report ~~"Transporter's and Storer's Monthly Report" (Form 24, see Appendix 1)~~ containing
4 complete information and data ~~indicated by such form~~ respecting stocks of oil and condensate on hand
5 and all movements within the state of oil and condensate by pipeline, trucks, or other conveyances except
6 railroad, from leases to storers or refiners; movements between transporters within the state; movements
7 between storers within the state; movements between refiners within the state; and movements between
8 storers and refiners within the state.

9 **B.** Each storer of oil and condensate ~~within the state~~ shall furnish for each calendar month
10 ~~Form 24 (see Appendix 1)~~ a report containing complete information and data ~~indicated by such form~~
11 respecting the storage of oil and condensate within the state. ~~Reports of transporters and storers shall~~
12 ~~be filed on or before the 25th day of the next succeeding month.~~

13 **C.** Each storer of natural gas, liquified petroleum gas, or other hydrocarbon or non-
14 hydrocarbon gases in storage wells shall furnish for each calendar month a report containing complete
15 information and data respecting the storage, including receipts and deliveries, of such products within the
16 state.

17 **D.** Transporters and storers shall file reports required in this Section with the Commission
18 on or before the 25th day of the next succeeding month.

1 **R12-7-186. Gas or geothermal purchaser's monthly report**

2 **A.** Each purchaser or taker of gas in gaseous form or geothermal resources from any well,
3 lease, pool or proration unit ~~within the state~~ shall file for each calendar month a report "~~Gas Purchaser's~~
4 ~~Monthly Report~~" (Form 19, see Appendix 1) detailing acquisition and disposition of all gas in gaseous
5 form or geothermal resources purchased or taken by such person during that month.

6 **B.** Purchasers and takers shall file reports required in this Section with the Commission Such
7 ~~report shall be filed~~ on or before the 25th day of the next succeeding month.

1 **R12-7-187. Injection project report**

2 **A. Each operator of an injection project shall furnish for each injection well for each calendar**
3 **month a report of injection project containing complete information and data including the lease and well**
4 **number, the well's state permit number, average injection pressure during the month, amount of fluid in**
5 **barrels injected during the month, the total amount of fluid injected to date, the source of the injected**
6 **fluid, and the number of days the injection well was operated during the month.**

7 **B. Operators of injection projects shall file reports required in this Section with the**
8 **Commission on or before the 25th day of the next succeeding month.**

1 **R12-7-188. Refinery reports**

2 **A.** Each refiner of oil or condensate ~~within the state~~ shall furnish for each calendar month
3 a "~~R~~refinery ~~M~~monthly ~~R~~report" (~~Form 29, see Appendix 1~~) containing the complete information and
4 data ~~indicated by such form,~~ respecting oil, condensate and products involved in ~~such~~ the refiner's
5 operations during each month.

6 **B.** Refiners shall file reports required in this Section ~~Such report shall be filed~~ with the
7 Commission on or before the 25th day of the next succeeding month.

1 **R12-7-190. Gasoline plant reports**

2 **A.** Each operator of a gasoline plant, cycling plant, or any other plant at which gasoline,
3 butane, propane, condensate, kerosene, oil or other liquid products are extracted from gas ~~within the~~
4 ~~state,~~ shall furnish for each calendar month a "~~G~~gasoline ~~P~~plant or ~~P~~pressure ~~M~~aintenance ~~P~~plant
5 ~~M~~monthly ~~R~~report" (~~Form 21, see Appendix 1~~) ~~containing the information indicated by such form~~
6 containing complete information and data respecting gas and products involved in the operation of each
7 plant during each month.

8 **B.** Operators shall file reports required in this Section ~~Such report shall be filed~~ with the
9 Commission on or before the 25th day of the next succeeding month.

1 **R12-7-192. Books and records to substantiate reports**

2 **A.** Each operator, producer, transporter, storer, refiner, processor, gasoline or extraction
3 or geothermal generating plant operator, and initial purchaser of oil, and gas, or geothermal resources
4 ~~within the state~~ shall make and keep appropriate books and records for a period of not less than 5 years
5 that covering his operations in Arizona, from which he may be able to make are made and which will
6 substantiate the all reports required by the Commission.

7 **B.** Books and records required in this Section shall be available for inspection by the
8 Commission for at least a six year period.

1 **R12-7-193. Written notices, requests, permits and reports**

2 The Commission ~~may~~ **shall** adopt such forms of notices, requests, permits and reports ~~as it may~~
3 ~~deem advisable or necessary in carrying~~ **in order to carry** out the provisions of law and its rules and
4 regulations .

1 **R12-7-194. Organization reports**

2 **A.** ~~Before any~~ Every person acting as principal or as agent for another or who is
3 independently shall engaged in any activity covered by this Chapter, ~~the drilling operation, production,~~
4 ~~storage, transportation (except railroads), refining, reclaiming, treating, marketing, processing of, or~~
5 ~~scientific exploration for oil or gas~~ that person shall immediately file with the Commission an ~~on the form~~
6 ~~"Organization Report"~~ (Form 1, see Appendix 1) that includes a statement under oath giving the
7 following information:

8 1. The name under which ~~such~~ the business is being operated or conducted; ;

9 2. The name and post office address of ~~such~~ the person and the business or businesses in
10 which he is engaged in;

11 3. The plan or organization, and, if a reorganization, the name and address of the previous
12 organization;

13 4. The state where incorporated, if a foreign corporation, and the name and post office
14 address of the Arizona agent, together with the date of permit to do business in Arizona; and

15 5. The names and addresses of the principal officers or partners and the names and
16 addresses of the directors ~~thereof~~ .

17 **B.** When a ~~Immediately after any~~ change occurs, as to facts stated in the report filed, a
18 supplementary new organization report (Form 1, see Appendix 1) shall be immediately filed with the
19 Commission within ten days of the change. ~~with respect to such change.~~

1 **R12-7-195. Additional information may be required**

2 These rules shall not be taken or construed to limit or restrict the authority of the Commission
3 to require the furnishing of ~~such~~ additional reports, data or other information relative to production,
4 transportation, storing, refining, processing, or handling of oil, gas, geothermal resources, or their
5 products ~~in the State of Arizona as may appear to be necessary or desirable, either generally or~~
6 ~~specifically~~, for the prevention of waste and the conservation of oil, ~~and gas, and~~ geothermal resources.

R12-7-188. Refinery reports

Each refiner of oil or condensate within the state shall furnish for each calendar month a "Refinery Monthly Report" (Form 29, see Appendix 1) containing the information and data indicated by such form, respecting oil, condensate and products involved in such refiner's operations during each month. Such report shall be filed with the Commission on or before the 25th day of the next succeeding month.

Historical Note

Former Rule 901; Amended eff. Sept. 29, 1982 (Supp. 82-5).

R12-7-189. Processor's reports

A person who is the owner, or who has the control or management of any refinery or processing plant in the state shall keep at his office or other place of business in the state a daily record of:

1. All oil and gas received into the refinery or processing plant.
2. The names and addresses of the persons from whom the oil and gas was received.
3. The quantity and quality of the oil and gas received from each person.
4. Each disposition of a product obtained from refining or processing the oil or gas.

Historical Note

Former Rule 902; Amended eff. Sept. 29, 1982 (Supp. 82-5).

R12-7-190. Gasoline plant reports

Each operator of a gasoline plant, cycling plant, or any other plant at which gasoline, butane, propane, condensate, kerosene, oil or other liquid products are extracted from gas within the state, shall furnish for each calendar month a "Gasoline Plant or Pressure Maintenance Plant Monthly Report" (Form 21, see Appendix 1) containing the information indicated by such form respecting gas and products involved in the operation of each plant during each month. Such report shall be filed with the Commission on or before the 25th day of the next succeeding month.

Historical Note

Former Rule 903; Amended eff. Sept. 29, 1982 (Supp. 82-5).

R12-7-191. Reserved**R12-7-192. Books and records to substantiate reports**

Each operator, producer, transporter, storer, refiner, gasoline or extraction plant operator, and initial purchaser of oil and gas within the state shall make and keep appropriate books and records for a period of not less than 5 years that cover his operations in Arizona, from which he may be able to make and substantiate the

February 21, 1992

Mr. Gerald W. Tobin, Chairperson
Governor's Regulatory Review Council
c/o Office of Strategic Planning & Budgeting
1700 West Washington, Room 500
Phoenix, Arizona 85007

Re: **A.A.C. Title 12, Chapter 7, Article 1 *Oil, Gas and Helium***
Repeal R12-7-189
Adopt R12-7-187
Amend R12-7-135, R12-7-136, R12-7-137, R12-7-138, R12-7-139, R12-7-140, R12-7-142
R12-7-143, R12-7-150, R12-7-151, R12-7-152, R12-7-153, R12-7-160, R12-7-161
R12-7-183, R12-7-184, R12-7-185, R12-7-186, R12-7-188, R12-7-190, R12-7-192,
R12-7-193, R12-7-194, R12-7-195.

Dear Mr. Tobin:

The Oil and Gas Conservation Commission respectfully submits the following information to the Governor's Regulatory Review Council in support of its proposal to repeal, adopt, and amend the above rules.

I. DESCRIPTION OF PROPOSED AND AMENDED RULES; PURPOSE; ACCOMPLISHMENTS:

A. The Commission proposes to repeal R12-7-189, which requires records to substantiate reports, as redundant with R12-7-192, which also requires these records, and adopt R12-7-187 to clearly define the reporting requirements for operators of injection projects. The remaining 24 rules referenced above have been amended to update and clarify language, edit for consistency and grammatical accuracy, account for currently accepted practices in the regulated industry, and incorporate language to include geothermal resources. The amended rules define the testing, measurement, and reporting requirements on oil, gas, and geothermal production and processing in Arizona. Five of the rules regulate the utilization, and the initial purchase and transport of all oil, gas, and geothermal resources produced from or stored in wells in Arizona. Two of the rules prohibit pollution, surface damage, and fire hazards at well sites and leases. In addition, these rules require operators to maintain books and records to substantiate the required tests and reports. The rules are authorized pursuant to the Conservation Act of 1951 and are specifically authorized by A.R.S. §§ 27-501 through 27-517.

B. These rules provide the means by which the Commission monitors production, initial purchase, transport, and processing so as to prevent waste and ensure the conservation and maximum recovery of the state's oil, gas, and geothermal resources.

II. Costs and Benefits of Enforcement and Implementation

Article 1 - Oil, Gas and Helium

Description of Group Affected	Description of Effect	Increased Costs/ Decreased Revenues	Decreased Costs/ Increased Revenues
<p>In this economic impact statement, "minimal" means less than \$1,000; "moderate" means between \$1,000 and \$5,000; and "substantial" means more than \$5,000.</p>			
<p>A. Agency / Political Subdivision</p>			
<p>Arizona Geological Survey Oil and Gas Program</p>	<p>Staff (1.5 FTE) time is required to write and promulgate rules.</p>	<p>Substantial</p>	<p>None</p>
	<p>Remove specific forms to reduce printing costs.</p>	<p>None</p>	<p>Moderate</p>
	<p>Staff currently collects and files the required reports and production data. Required well tests are witnessed by qualified staff personnel.</p>	<p>None</p>	<p>None</p>
<p>Oil and Gas Conservation Commission</p>	<p>Additional open meetings may be required to review and approve new and amended rules.</p>	<p>Minimal</p>	<p>None</p>
<p>B. Other State Agencies / Political Subdivisions</p>			
<p>OSP</p>	<p>Review of new and amended rules. Some printing and administrative costs.</p>	<p>Minimal</p>	<p>None</p>
<p>GRRC</p>	<p>Consideration of new and amended rules.</p>	<p>Minimal</p>	<p>None</p>
<p>Secretary of State</p>	<p>Printing and administrative costs.</p>	<p>Minimal</p>	<p>None</p>
<p>Attorney General</p>	<p>Certification of new and amended rules.</p>	<p>Minimal</p>	<p>None</p>

II. Costs and Benefits of Enforcement and Implementation

Article 1 - Oil, Gas and Helium

Description of Group Affected	Description of Effect	Increased Costs/ Decreased Revenues	Decreased Costs/ Increased Revenues
C. Federal Agencies	U.S. Bureau of Mines & Helium, DOE Energy Information Admin.	None	None
D. Privately / Publicly Owned Businesses	Operators, producers, purchasers, transporters, and refiners.	None	None
Well service and testing companies.	The required tests currently provide a market for these types of businesses.	None	None
Industry Scouting, Data Management, and Statistical Analysis companies.	Required reports currently provide a data source for these types of businesses.	None	None
E. Consumers	These rules do not directly affect consumers.	None	None
F. Private Individuals	These rules prohibit pollution and hazards.	None	None

In this economic impact statement, "minimal" means less than \$1,000; "moderate" means between \$1,000 and \$5,000; and "substantial" means more than \$5,000.

III. ALTERNATIVES

One alternative to the proposed rules would be to lump all testing and measurement requirements into one large rule. This alternative would result in a long, cumbersome rule with many subsections. Having several separate rules allows an operator to find that rule more quickly in the contents page at the beginning of the Chapter. Another alternative considered was to continue with the rules as they are currently written. This alternative is not feasible because several rules contain archaic words or phrases, are not gender neutral, or are written in passive voice.

IV. IMPACT OF THE PROPOSED AND AMENDED RULES ON SMALL BUSINESS

The proposed rule and the amended rules impact all operators and producers. Current producers and operators in the state include four firms that fit the definition of a small business. Since the reporting and testing requirements are directly related to the number of wells an operator controls or the amount of production an operator processes, these rules require less from smaller operators than larger operators. The rules are less burdensome to small businesses because with fewer wells, fewer reports are required. These rules are not really burdensome to any operator because test and production results are normally recorded as a matter of good business practice. Each operator already performs the required well tests and submits the required reports. These tests and reports provide the necessary information by which operators, and the Oil and Gas Conservation Commission, determine the quantity, quality, and productive potential of oil, gas, or geothermal resources. Each operator and producer already participates in and allows site visits and inspections of its operations and facilities and keeps and files accurate records with the Oil and Gas Program Administrator.

I anticipate that the proposed rule and the amended rules will not increase or decrease the costs of compliance because all operators and producers already meet the requirements. The proposed amendments to the referenced rules and the adoption of the one new rule will make Title 12, Chapter 7, Article 1 more concise, consistent, and understandable, both to the regulated audience and the regulating agency. The result will be a positive impact on current small business in the state and may attract additional small business by making the regulation easier to understand and follow.

Sincerely,



Steven L. Rauzi
Oil & Gas Program Administrator

Enclosures

1. Notice of Proposed Rule Making (R101)
2. Proposed rules
3. Informative Summary

cc Oil and Gas Conservation Commission:

J. C. Wilt, Chairperson
J. E. Warne, Jr., Vice-Chairperson
A. R. Bennett
B. H. Murphy
J. D. Nations

AUTHORIZING STATUTES -- Article 1 *Oil, Gas and Helium*

<u>RULE NUMBER</u>	<u>BRIEF DESCRIPTION</u>	<u>A.R.S. AUTHORITY</u>
R12-7-135	Gas-oil ratio test	27-503.B(4); 27-516.A(5)
R12-7-136	Pressure tests and surveys	27-503.B(4); 27-516.A
R12-7-137	Commingling	27-503.A; 27-516.A(1); 27-516.B; 27-517
R12-7-138	Casinghead gas	27-516.A(15)
R12-7-139	Vacuum pumps	27-501(20)(b); 27-516.A(1)(d),(4),(5),(14); 27-516.B; 27-517; 27-651(12)
R12-7-140	Pollution & surface damage	27-502.A(6); 27-516.A(1)(c); 27-652; 27-656.A
R12-7-142	Measurement of oil	27-503.B(4); 27-516.A(15)
R12-7-143	Oil tanks & fire walls	27-502.A(6); 27-516.A(6),(7)
R12-7-150	Capacity tests, gas & geothermal	27-503.B(4); 27-655; 27-656
R12-7-151	Measurement of gas	27-503.B(4); 27-656
R12-7-152	Utilization of gas	27-503.A; 27-503.B(7); 27-517
R12-7-153	Non-hydrocarbon gas	27-501(9); 27-503.A; 27-516.A; 27-517
R12-7-160	Regulate production	27-516.A(13); 27-652; 27-656.A
R12-7-161	Production reports	27-516.A(15); 27-662
R12-7-183	Compliance & transport	27-501(1),(2); 27-509; 27-510; 27-516.A(17); 27-656.A
R12-7-184	Recovered load oil	27-509; 27-510
R12-7-185	Transport & storage reporting	27-503.B(6); 27-507.01
R12-7-186	Gas purchase reports	27-503.B(6); 27-508.01; 27-652.A; 27-656.A
R12-7-187	<i>Injection reports</i>	27-503.B(6); 27-516.A(20); 27-652
R12-7-188	Refinery reports	27-503.B(4),(6)
R12-7-190	Gasoline plant report	27-503.B(4),(6)
R12-7-192	Books & records	27-503.B(6); 27-656.A
R12-7-193	Notices, requests, permits & reports	27-503.B; 27-515.A; 27-516.A(19); 27-656.A
R12-7-194	Organization report	27-515.B(3); 27-516.A(8); 27-656.A; 27-657
R12-7-195	Additional information	27-502; 27-503; 27-652; 27-653

ARIZONA REVISED STATUTES

CHAPTER 4

OIL AND GAS

ARTICLE 1. PRODUCTION AND CONSERVATION

27-501. Definitions

In this article, unless the context otherwise requires:

1. "Certificate of clearance" means a permit approved and issued or registered by the commission for transportation or delivery of oil, gas or oil and gas products.
2. "Certificate of compliance" means a certificate issued by the commission prior to connection of an oil or gas well with a pipe line, showing compliance with the conservation laws of this state and conservation rules, regulations and orders of the commission.
3. "Commission or commissioner" means the oil and gas conservation commission.
4. "Completed well" means a well that meets any of the following conditions:
 - (a) Has produced or is ready to produce new formation hydrocarbons.
 - (b) Has been declared a dry hole and temporarily abandoned or plugged and abandoned.
 - (c) Has been otherwise readied for operation as in the case of injection and service wells.
5. "Developed area" or "developed unit" means a drainage unit having a completed well capable of producing oil or gas in paying quantities.
6. "Drainage unit" or "drilling unit" means the maximum area in a pool which may be drained efficiently by one well to produce the reasonable maximum amount of recoverable oil or gas in the area.
7. "Field" means the general area which is or appears to be overlaid by not less than one pool, including underground reservoirs containing oil, gas or both.
8. "Fund" means the oil and gas conservation fund.
9. "Gas" means natural gas, casinghead gas, all other hydrocarbons not defined as oil and helium or other substances of a gaseous nature. Natural gas and casinghead gas are further defined as follows:
 - (a) "Natural gas" means any combustible gas or vapor composed chiefly of hydrocarbons occurring in gaseous or vapor phase at initial reservoir conditions.
 - (b) "Casinghead gas" means any gas or vapor indigenous to an oil stratum and produced from such stratum with oil.
10. "Illegal oil" and "illegal gas" means oil or gas produced within the state from any well during any time in which the well has produced in excess of the amount allowed by law or any rule, regulation or order of the commission or the production of which shall cause waste.
11. "Illegal product" means any product derived, in whole or in part, from illegal oil or gas.
12. "Net drainage" means drainage not equalized by counter-drainage.
13. "Oil" means crude petroleum oil and all other hydrocarbons, regardless of gravity, produced at a well in liquid form by ordinary production methods and which are not the result of condensation of gas.
14. "Owner" means the person having the right to drill into, produce and appropriate production of oil, gas or both from a pool.
15. "Person" includes a corporation, association, partnership, receiver, trustee, guardian, executor, administrator, fiduciary, representative or any group acting as a unit and includes any department, agency or instrumentality of the state or any of its governmental subdivisions.
16. "Pool" means an underground reservoir containing a common accumulation of oil, gas or both and includes each zone of a general structure completely separated from any other zone in the structure.
17. "Producer" means the owner of a well capable of producing oil or gas.
18. "Product" means oil, gas or any product, by-product, mixture or blend of oil or gas.
19. "Royalty owner" means a person possessing an interest in the production but who is not an owner.
20. "Waste" means and includes:
 - (a) Physical waste, as that term is generally understood in the oil and gas industry.
 - (b) The inefficient, excessive or improper use of or the unnecessary dissipation of reservoir energy.
 - (c) The locating, spacing, drilling, equipping, operating or producing of any oil or gas well or wells in a manner which causes or tends to cause reduction in the quantity of oil or gas ultimately recoverable from a pool under prudent and proper operations or which causes or tends to cause unnecessary or excessive surface loss or destruction of oil or gas.
 - (d) The inefficient storing of oil or gas.
 - (e) The production of oil or gas in excess of transportation or marketing facilities.
 - (f) The production of oil or gas when it is unprofitable to dispose of such production.
21. "Well" means and includes any hole drilled or spudded in for the purpose, with the intention or under the representation, of penetrating oil or gas bearing strata or of penetrating any strata in search of stratigraphic data pertinent to the location of oil or gas bearing strata, whether or not in either case, oil or gas is actually discovered, and any hole used in connection with the underground storage of hydrocarbon substances, whether liquid or gaseous, and any hole used in connection with a process to inject any substance for purposes of disposal or to increase recovery, including any hole used for the purpose of secondary or tertiary recovery, and any hole used for the purpose of pressure maintenance. The commission may, as it shall deem to be to the best interests of the state, determine that any hole drilled or spudded in shall be included within this definition to the extent necessary for the administration and enforcement of the rules required by § 27-516. The determination of the commission shall be final in any circumstance involving the question of purpose, intent or representation provided such determination shall be subject to appeal as provided by § 27-520.

27-502. Declaration of policy

A. It is the public policy of the state to:

1. Conserve the natural resources of oil and gas and products thereof.
2. Prevent waste of oil and gas resources.
3. Provide for protection and adjustment of correlative rights of owners of land wherein the natural resources lie and of owners and producers of oil and gas resources and products thereof, and of others interested therein.
4. Encourage development of natural resources of oil and gas and their products.
5. Encourage continuous and economic supply thereof and demand therefor.
6. Safeguard the health, property and public welfare of citizens of the state and other interested persons.
7. Promote all purposes indicated by the provisions of this article.

B. This article shall be administered by the oil and gas conservation commission.

C. The legislature finds and declares that oil and gas in commercial quantities have now been discovered and are being produced within this state. 1959

27-503. Waste of oil or gas prohibited; powers of commissioner to prevent waste

A. Waste of oil or gas is unlawful and is prohibited.

B. The commissioner shall make inquiries he deems proper to determine whether waste exists or is imminent. In the exercise of such power the commissioner may:

1. Collect data.
2. Make investigations and inspections.
3. Examine property, leases, papers, books and records, including drilling records and logs.
4. Examine, check, test and gauge oil and gas wells, tanks, refineries and modes of transportation.
5. Hold hearings.
6. Require keeping of records and making of reports.

7. Take action he deems necessary to enforce and effectuate the provisions of this article.

C. The commissioner may in order to prevent waste and avoid drilling unnecessary wells, permit the cycling of gas in any pool or portion thereof or the introduction of gas or other substance into an oil or gas reservoir for the purpose of repressuring the reservoir, maintaining pressure or carrying on secondary recovery operations of any type. The commissioner shall permit the pooling or integration of separate tracts when reasonably necessary in connection with the operations.

27-507.01. Common purchaser of crude oil and petroleum; duties; ratable taking; discrimination prohibited

A. Every person as defined in this article which may now, or hereafter, purchase crude oil or petroleum in this state, whether they be common carriers or affiliated with common carriers or not, shall be a common purchaser of such crude oil or petroleum, and shall purchase crude oil or petroleum offered it for purchase without discrimination in favor of one producer or person as against another in the same field. The question of justice or unreasonableness shall be determined by the commission, taking into consideration the production and age of the wells in respective fields and all other proper factors. It shall be unlawful for any common purchaser to discriminate between or against crude oil or petroleum of a similar kind or quality in favor of its own production, or production in which it may be directly or indirectly interested, either in whole or in part, but for the purpose of allocating the purchase of crude oil or petroleum to be marketed, such production shall be taken in like manner as that of any other person or producer and shall be taken in a ratable proportion that such production bears to the total production offered for the market in such field. The commission shall have the authority, however, to relieve any such common purchaser, after due notice and hearing, from the duty of purchasing crude oil or petroleum of inferior quality or grade.

B. It shall be the duty of the commission to enforce the provisions of this section and it shall have the power, after notice and hearing, to issue orders defining the conditions under which extensions of pipelines shall be made to connect wells, but no such order shall be made unless the commission finds that such extensions are reasonably required and economically justified. In issuing such orders the commission shall give specific consideration to the economic factors involved.

1962

27-508.01. Common purchaser of gas; duties; ratable taking; discrimination prohibited

A. Every person as defined in this article now or hereafter engaged in purchasing from one or more producers, gas produced from gas wells shall be a common purchaser thereof within each pool from which it purchases, and as such it shall purchase gas lawfully produced from gas wells with which its gas transportation facilities are connected in the pool and other gas lawfully produced within the pool and tendered to a point on its gas transportation facilities. Such purchases shall be made without unjust or unreasonable discrimination in favor of one producer against another in the price paid, the quantities purchased, the bases of measurement, or the gas transportation facilities afforded for gas of like quantity, quality, and pressure available from such wells. The question of justice or reasonableness shall be determined by the commission. In the event any such common purchaser is likewise a producer, he is prohibited to the same extent from discriminating in favor of himself on production from gas wells in which he has an interest, direct or indirect, either in whole or in part, as against other production from gas wells in the same pool. For the purposes of this section, reasonable differences in prices paid or facilities afforded, or both, shall not constitute unreasonable discrimination if such differences bear a fair relationship to differences in quality, quantity or pressure of the gas available, the depth of the producing formation, or to the relative lengths of time during which such gas will be available to the purchaser. The provisions of this section shall not apply to:

1. Any well or pools used for storage and withdrawal from storage of natural gas originally produced not in violation of this section or of the rules, regulations or orders of the commission.

2. Purchases of casinghead gas from oil wells.

3. Persons purchasing gas principally for use in operations for secondary recovery of oil or gas, or for pressure maintenance, or cycling, or gas lift operations.

B. If a person is unable to purchase all the gas offered, or whenever the requirement for natural gas produced in Arizona from any pool can be fulfilled only by the production of natural gas therefrom under conditions constituting waste, or whenever the commission finds and determines that the orderly development of, and production of natural gas from, any pool requires the exercise of its jurisdiction, then said person shall purchase gas ratably so as to take the gas in proportion to the allowables or allocations established by the commission from all the wells to which it is connected, but this shall not apply when a difference in their production results from the inability of a well to produce proportionately with other wells connected to the purchaser, and in the event allowables or allocations have not been established by the commission, then said person shall purchase gas ratably from all wells to which it is connected in a manner so as to prevent waste and protect correlative rights as defined in this article. Any common purchaser taking gas produced from gas wells from a pool shall take ratably in accordance with the allocation formula, as may be established by special field rules or statewide regulations of the commission.

C. Nothing in this section shall be construed or applied to require any person to purchase gas of a quality, pressure, or any other condition, by reason of which such gas cannot be economically and satisfactorily used by such purchaser by means of his gas transportation facilities then in service.

1962

27-509. Certificate of compliance

A. An owner or operator of an oil or gas well shall, before connecting with an oil or gas pipe line, secure from the commissioner a certificate showing compliance with the conservation laws of the state and the conservation rules, regulations and orders of the commissioner. No operator of a pipe line shall connect with a well until the owner or operator furnishes a certificate of compliance.

B. The commissioner may cancel a certificate of compliance issued under this section when it appears, after due notice and hearing, that the owner or operator of a well has violated or is violating an oil or gas conservation law of the state, or a rule, regulation or order of the commissioner promulgated thereunder. Upon notice from the commissioner to the operator of a pipe line connected to any such oil or gas well that the certificate of compliance has been cancelled, the operator of the pipe line shall disconnect from the well, and it shall be unlawful for the operator of the pipe line to transport oil or gas therefrom until a new certificate of compliance has been issued by the commissioner. The owner or operator of a well shall not produce oil or gas therefrom unless a certificate of compliance is in effect covering the well.

C. This section shall not be construed to prevent a temporary connection of not more than ten days' duration with a well in order to take care of production and prevent waste until opportunity has been given the owner or operator of the well to secure a certificate of compliance. If the certificate of compliance is not secured within the ten-day period, the well shall be shut in until such time as a certificate of compliance is secured.

1971

27-510. Certificate of clearance

A. The sale, purchase or acquisition, or the transportation, refining, processing or handling of illegal oil or gas or illegal product is unlawful, but until the commissioner provides for certificates of clearance or some other method affording an opportunity to determine whether a contemplated transaction involves illegal oil or gas or illegal product, no penalty shall be imposed except as provided by subsection B.

B. Penalties may be imposed for each transaction prohibited by this section when the person committing the prohibited transaction knows that illegal oil or gas or illegal product is involved in the transaction or when the person could have known or determined such fact by the exercise of reasonable diligence or from facts within his knowledge.

C. Penalties provided in this article shall apply, regardless of lack of actual notice or knowledge, to any sale, purchase or acquisition, and to transportation, refining, sale, purchase or handling in any way without a certificate of clearance of illegal oil and gas or illegal product, where administrative provision is made for identifying the character of the commodity as to its legality.

1955

27-515. Powers and duties of commission; fees; compensation of personnel; publication revolving fund

A. ~~The commission shall have jurisdiction and authority over all persons and property deemed necessary to~~ administer and enforce the provisions of this article and other laws relating to conservation of oil and gas. The commission may, at any time, enter upon property and inspect wells drilled for oil or gas, and well records, and shall control property, machinery and appliances necessary to gauge the wells. The Arizona geological survey shall provide staff support to the commission to administer the provisions of this chapter.

B. The commission may:

1. Administer oaths to a witness in any hearing, investigation or proceeding held under this article or other law relating to conservation of oil and gas.

2. Issue subpoenas requiring attendance and testimony of witnesses and production of books, papers and records deemed material or necessary, and direct service of subpoenas by a sheriff or other officer authorized by law to serve process.

3. Prescribe rules and do all acts necessary or advisable to carry out the provisions of this article.

4. Collect such fees as will cover the costs of such services as, but not limited to, reproduction of records or any portion thereof and copies of rules. The monies so collected shall not be subject to the provisions of section 27-523, but shall be transmitted by the commission to the state treasurer for deposit in the fund from which the expenditure was originally made.

5. ~~Publish, in cooperation with the resource analysis division of the state land department,~~ technical maps, cross sections and reports and sell these materials for such fees as will cover the costs incurred in their preparation, reproduction and distribution.

C. The commission may enter into cooperative agreements with agencies of the United States government, with agencies of state or local government or with Indian tribes for the purpose of protection of the fresh water supplies of the state from contamination or pollution brought about by the drilling of any well or for any other purpose of this article.

D. The commission may APPLY FOR AND, accept gifts, devises and donations of books, well records, maps or other materials. All donated materials shall become public records.

E. Monies collected under subsection B, paragraph 5 of this section shall be deposited in the ~~oil and gas conservation commission publication~~ GEOLOGICAL SURVEY PRINTING revolving fund and SHALL BE used to prepare, reproduce and distribute further publications. Monies in the publication revolving fund are not subject to section 27-523. ~~and are exempt from section 35-190, relating to lapsing of appropriations, except all monies in the revolving fund exceeding five thousand dollars shall revert to the state general fund~~

27-516. Rules and regulations

A. The commission shall make rules and amend them as deemed necessary for the proper administration and enforcement of this article, including the following rules, regulations and orders:

1. Requiring the drilling, casing and plugging of wells in a manner to prevent:
 - (a) Escape of oil and gas from one stratum to another.
 - (b) Intrusion of water into an oil or gas stratum from a separate stratum.
 - (c) Pollution of fresh water supplies by oil, gas or salt water.
 - (d) Waste.
2. Requiring reports showing the location of oil and gas wells and requiring filing of logs and drilling record within thirty days from the completion of a well drilled for oil or gas.
3. Requiring a reasonable bond with good and sufficient surety conditioned on the performance of the duties prescribed in paragraphs 1 and 2 of this subsection including the obligation to plug each dry or abandoned well.
4. Preventing drowning by water of any stratum or part capable of producing oil or gas in paying quantities and preventing the premature and irregular encroachment of water which reduces or tends to reduce the total ultimate recovery of oil or gas from any pool.
5. Requiring the operation of wells with efficient gas-oil ratio and fixing the limits of such ratios.
6. Preventing blow-outs, caving and seepage.
7. Preventing creation of unnecessary fire hazards.
8. Requiring identification of ownership of oil and gas wells, producing leases, refineries, tanks, plants, structures and storage and transportation equipment and facilities.
9. Regulating shooting, perforating and chemical treatment of wells.
10. Regulating gas cycling operations.
11. Regulating secondary recovery methods, including introduction of gas, air, water or other substance into producing formations.
12. Regulating spacing of wells and establishing drilling units.
13. Limiting, allocating and apportioning production of oil and gas from a pool or field for prevention of waste, and allocating production between tracts of land under separate ownership in a pool on a fair and equitable basis so that each tract will be permitted to produce not more than its just and equitable share from such pool.
14. Preventing, so far as practicable, reasonably avoidable drainage from each developed unit, not equalized by counterdrainage.
15. Requiring a producer of oil or gas to submit for each oil or gas well operated, on a form prescribed by the commission, a monthly report of actual production from each oil or gas well. Such report shall be submitted on or before the twenty-fifth day of the next succeeding month.
16. Requiring persons making settlement with the owner of oil or gas interests to render statements to the owner showing the quantity and gravity purchased and the price per barrel of oil or the price per one thousand cubic feet of gas.
17. Requiring, either generally or in a particular area, a certificate of clearance for transportation or delivery of oil, gas or any product.

18. Requiring the applicant for a drilling permit, if the surface of the land is owned by another not in a contractual relationship with the applicant, to post bond in a reasonable sum with good and sufficient surety conditioned on payment of just compensation to the landowner for actual damages to the surface of or improvements on the land caused by the drilling permittee's operations.

19. Requiring all forms and reports requested by the commission to be submitted to the commission on or before the twentieth day of the next succeeding month for monthly reports or within twenty days following the completion of the action requiring the report, except as otherwise provided by the commission.

20. Requiring the permitting of all wells and the approval of all equipment and methods:

(a) To create or use existing storage space for the underground storage of hydrocarbon substances, whether liquid or gaseous.

(b) Used for the injection of any substance into geological strata for the purpose of pressure maintenance or for the purpose of increasing ultimate recovery.

(c) Used for the purpose of secondary and tertiary recovery.

(d) Used for the disposal of any substance.

B. No rule, regulation or order, or change, renewal or extension, except as otherwise provided by this article, shall, in the absence of an emergency, be made by the commission under the provisions of this article except after a public hearing of which not less than ten days' notice has been given. The public hearing shall be held at such time and place as may be prescribed by the commission, and any interested person shall be entitled to be heard. Notice shall be given by personal service, by publication or by United States mail, addressed, postage prepaid, to the last known mailing address of the person or persons affected. The date of service shall be the date on which service was made in the case of personal service, the date of first publication in the case of notice by publication and the date of mailing in the case of notice by mailing. The notice shall issue in the name of the state, and shall be signed by a member of the commission or its deputy, shall specify the style and number of the proceeding, the time and place of the hearing and shall briefly state the purpose of the proceeding. Should the commission elect to give notice by personal service, such service may be made by an officer authorized to serve process or by the commission in the same manner as is provided by law for the service of process in civil actions in the courts of this state. Proof of service by the commission shall be by the affidavit of the commission or its authorized representative making personal service. If service is made by the sheriff, the proof of service shall be as required by law for service of process in civil actions. If the matter to be heard concerns the adoption, amendment or repeal of a regulation of general applicability, notice shall be by publication.

C. If an emergency is found by the commission to exist, which in its judgment requires making, changing, renewing or extending a rule, regulation or order without first having a hearing, the emergency rule, regulation or order shall have the same validity as if a hearing had been held after due notice. The emergency rule, regulation or order shall remain in force not to exceed thirty days from its effective date but shall expire when a rule, regulation or order with respect to the subject matter of the emergency rule, regulation or order becomes effective after due notice and hearing.

27-517. Hearings; reporter; fees

A. Any interested person shall, by written request, have the right to have the commissioner call a hearing for the purpose of taking action in respect to any matter within the jurisdiction of the commissioner. Hearings shall be held at the time and place the commissioner directs, and any person having an interest in the subject matter of the hearing may appear and be heard. Upon receipt of the request, the commissioner shall promptly call a hearing, and, not more than thirty days thereafter shall take action with regard to the matter as he deems appropriate. The request for hearing shall be accompanied by a fee of fifty dollars.

B. The commissioner shall prescribe rules of order and procedure in hearings or other proceedings held under this article. The commissioner shall appoint a competent shorthand reporter to be present throughout all public hearings. The reporter shall be sworn by the commissioner faithfully to perform the duties of a reporter. The commissioner shall have the same control and authority over the reporter as the judge of a superior court exercises over a court reporter, and the duties of the reporter shall, insofar as applicable, be the same as those fixed by law for a court reporter.

C. As soon as possible following the hearing the commission shall bill the person requesting the hearing for the total cost of publication for the notices of such hearing and the total cost of the court reporter's fees less the original fifty dollar fee. The requesting party shall within ten days after receipt of the billing by the commission reimburse the commission the amount of money so billed or be subject to the penalties as prescribed in subsection A of § 27-527. The money so collected by the commission shall not be subject to the provision of § 27-523 but shall be deposited by the commission with the state treasurer to the fund from which the expenditure was originally made.

ARTICLE 4. GEOTHERMAL RESOURCES

27-651. Definitions

In this article, unless the context otherwise requires:

1. "Commission" means the oil and gas conservation commission.
2. "Completion" or "completed well" means a well that has produced or is capable of producing geothermal resources or has been determined to be a dry hole, temporarily abandoned or plugged and abandoned, or has been readied for other phases of exploitation.
3. "Department" means the state land department.
4. "Environment" means the sum total of all the external conditions which may act upon an organism or community, to influence its development or existence.
5. "Geothermal area" means the same general surface area which is underlain or reasonably appears to be underlain by one or more formations containing geothermal resources.
6. "Geothermal resources" means:
 - (a) All products of geothermal processes embracing indigenous steam, hot water and hot brines.
 - (b) Steam and other gases, hot water and hot brines resulting from water, other fluids or gas artificially introduced into geothermal formations.
 - (c) Heat or other associated energy found in geothermal formations, including any artificial stimulation or induction thereof.
 - (d) Any mineral or minerals, exclusive of fossil fuels and helium gas, which may be present in solution or in association with geothermal steam, water or brines.
7. "Lease" means a geothermal resources development lease issued for state lands pursuant to the provisions of this article.
8. "Lessee" means the holder of a lease or any assignee of an original lease or part thereof.
9. "Operator" means any person drilling, maintaining, operating, pumping or in control of any well, and includes the owner, when any well is or has been or is about to be operated or under the direction of the owner.
10. "Owner" means and includes the operator when any well is operated or has been operated or is about to be operated by any person other than the owner.
11. "Person" means and includes any individual, firm, association, corporation or any other group or combination acting as a unit.
12. "Waste" means any physical waste including, but not limited to, underground waste resulting from the inefficient, excessive or improper use or dissipation of reservoir energy or resulting from the location, spacing, drilling, equipping, operation or production of a geothermal resources well in such a manner that reduces or tends to reduce the ultimate economic recovery of the geothermal resources within a reservoir, and surface waste resulting from the inefficient storage or utilization of geothermal resources and the location, spacing, drilling, equipping, operation or production of a geothermal resources well in such a manner that causes or tends to cause the unnecessary or excessive surface loss or destruction of

geothermal resources obtained or released from the reservoir.

13. "Well" means any well drilled in search of geothermal resources or any development well on lands in areas proved to be underlain by one or more formations containing geothermal resources or reasonably presumed to contain geothermal resources or any well drilled for information purposes, or any producing well or reentered abandoned well used for the injection of fluids into the geothermal formation or disposition of fluids into nongeothermal formations, or any well drilled for the purpose of stimulating the heat of a formation or for the creation of heat in a formation by nuclear or any other form of energy.

1977

27-652. Supervision by commission

A. The commission shall so supervise the drilling, operation, maintenance and abandonment of geothermal resource wells as to encourage the greatest ultimate economic recovery of geothermal resources, to prevent damage to and waste from underground geothermal reservoirs, to prevent damage to or contamination of any waters of the state or any formation productive or potentially productive of fossil fuels or helium gas, and to prevent the discharge of any fluids or gases or disposition of substances harmful to the environment by reason of drilling, operation, maintenance or abandonment of geothermal resource wells.

B. Any person engaged in the drilling of a well for geothermal resources underlying a usable groundwater aquifer shall case the bore hole in a watertight manner from the land surface to the geothermal producing zone or to a depth sufficient to prevent damage or contamination of the aquifer from the escape of geothermal resources from the bore hole. Materials and installation procedures for casing and sealing of the bore hole shall be in accordance with specifications and procedures approved by the commission.

C. Disposal of water or brines obtained from a geothermal well whether by ponding and evaporation, release to a watercourse or other means shall not damage or contaminate the underlying groundwater aquifer or pollute any stream, river or body of surface water. Construction and maintenance of all geothermal water and brine disposal systems and of the devices required to monitor quantity and quality of the waters and brines disposed of in each system shall be in accordance with specifications, procedures and regulations approved by the commission.

D. Whenever the commission finds that it would be in the interest of maintenance of the underground geothermal resource, prevention of subsidence of the land surface or maintenance of the quality of surface and other ground waters, the commission may require reinjection of the geothermal effluent or injection of other water supplies into the producing zones.

1972

27-653. Information; filing; confidentiality

The commission shall collect all information regarding all wells drilled in the state for geothermal resources necessary for the purpose of supervision of such wells. All such data shall be filed in the commission office and, upon request of the operator, shall be kept confidential for a period not to exceed two years following the date of completion of such well. All such data shall also be available to the director of water resources, who shall keep the information obtained confidential when such a request has been made of the commission by the operator.

1962

27-655. Commission approval prior to operation; information; hearing

The commission shall have jurisdiction over any stimulation, induction or creation of a geothermal resource. Prior to any operation involving the stimulation, induction or creation of a geothermal resource, or any combination thereof, approval of the commission must be obtained. All information deemed necessary by the commission concerning such operations shall be submitted to the commission in such form as determined by the commission no later than thirty working days prior to a commission hearing to consider approval of said application. No application to stimulate, induct or create a geothermal resource will be approved by the commission except after notice and hearing as set forth in § 27-656. 1972

27-656. Rules and regulations; hearing

A. The commission shall promulgate rules and regulations necessary for the proper administration and enforcement of this article.

B. No rule, regulation or order, or change, renewal or extension thereof, except as otherwise provided by this article, shall, in the absence of an emergency, be made by the commission under the provisions of this article except after a public hearing of which not less than ten days' notice has been given. The public hearing shall be held at such time and place as may be prescribed by the commission and any interested person shall be entitled to be heard. Notice shall be given by personal service, by publication, or by United States mail, addressed, postage prepaid, to the last known mailing address of the person or persons affected. The date of service shall be the date on which service was made in the case of personal service, the date of first publication in the case of notice by publication, and the date of mailing in the case of notice by mailing. The notice shall issue in the name of the state, and shall be signed by a member of the commission or its deputy, shall specify the style and number of the proceeding, the time and place of the hearing, and shall state briefly the purpose of the proceeding. If the commission elects to give notice by personal service, such service may be made by an officer or process server authorized to serve process, or by the commission, in the same manner as is provided by law for the service of process in civil actions in the courts of this state. Proof of service by the commission shall be by the affidavit of the commission or its authorized representative making personal service. Where service is made by an officer or process server authorized to serve process, the proof of service shall be as required by law for service of process in civil actions. If the matter to be heard concerns the adoption, amendment or repeal of a regulation of general applicability, notice shall be by publication.

C. If an emergency is found by the commission to exist which, in its judgment, requires making, changing, renewing or extending a rule, regulation or order without first having a hearing, the emergency rule, regulation or order shall have the same validity as if a hearing had been held after due notice. The emergency rule, regulation, or order shall remain in force not to exceed thirty days from its effective date, but in any event shall expire when a rule, regulation or order with respect to the subject matter of the emergency rule, regulation or order becomes effective after due notice and hearing. 1972

27-657. Agent for process

Every owner or operator of any well shall designate an agent who resides in this state upon whom may be served all orders, notices and processes of the commission or of any court of law. Every person so appointing an agent shall, within ten days after the termination of any such agency, notify the commission, in writing, of such termination, and unless operations are discontinued, shall appoint a new agent within such ten day period. 1972

27-662. Monthly report

The owner or operator of any well producing geothermal resources shall file with the commission on or before the twenty-fifth day of the next succeeding month a monthly producers report, setting forth the total production from each well and such other information as may be determined by the commission. 1972



CAM-ROY RESEARCH CORPORATION

P.O. Box 893 • Chandler, AZ 85225 • (602) 963-1773

MEMORANDUM and REQUEST

P/W 605

To: Oil and Gas Conservation Commission
State of Arizona
Re: Cam-Roy Drilling Bond
From: Cam-Roy Research Corporation
Date: March 6, 1992

Sometime between February and April of 1987, Cam-Roy Research Corporation, through it's legal counsel, Russell Kolshrud, deposited with the Oil and Gas Commission two Certificates of Deposit for \$5,000 each, bearing #01-2506289 and #010-2506290, as drilling bonds in anticipation of work to be performed on the two geothermal wells in Sec. 1, T2S-R6E, commonly referred to as the Power geothermal wells.

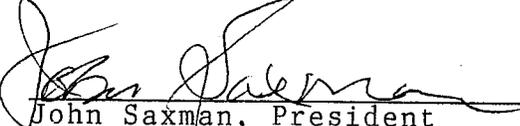
Before financing could be completed to sustain the work planned, a suit was filed by a joint venture group and a decision rendered through the three levels of the state's court, held that the lease held by Cam-Roy had terminated as of April 20, 1987.

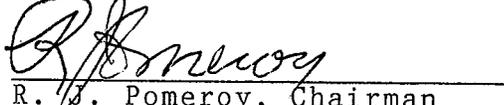
Upon advice of counsel and on the grounds that Cam-Roy never had an operational period of time to justify a deposit of the drilling bonds for work contemplated and not specifically defined to the Commission, and further due to the court decree, the corporation cannot legally perform any work on the wells since the termination date, above mentioned, we must and most urgently request the release of the bonds. We are also informed that

termination of the lease by the courts has removed Cam-Roy from any possible connotation as owner, operator, or producer.

Cam-Roy has been forced to sustain a \$1,000,000 loss by the court action and counsel advises that further retention of the drilling bonds by the commission is an unnecessary additional injury for the corporation. Request is respectfully made herewith that the commission authorize the release of the drilling bonds.

Respectfully yours,


John Saxman, President


R. J. Pomeroy, Chairman

March 6, 1992

- 1- John Saxman
- 2- Johnny

Jan Webb
Dale Nations

Jim Warren
Lory Fellows
Alice

Barbara Murphy

Kate Reed