

OIL & GAS CONSERVATION COMMISS
MEETING JULY 6, 1992
STEVE RAUZE PROGRAM ADMIN



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 July 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 March 6, 1992.
3. Statement of Director and State Geologist.
4. Report of Oil & Gas Program Administrator.
5. Consideration to initiate rule-making proceedings for Rules R12-7-102 through R12-7-118.
6. Oral hearing, close of record, and discussion of rules published in May 1992 A.A.R.
7. Adopt rules published in May 1992 A.A.R. subject to certification by Attorney General.
8. Contender Oil well, Sec 5, T10S-R23W, Yuma County.
9. Geothermal wells, Sec. 1, T2S-R6E, Maricopa County.
10. Call to the public.
11. Announcements.
12. 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 19th day of June 1992.

OIL AND GAS CONSERVATION COMMISSION

Steven L. Rauzi

Steven L. Rauzi
Oil and Gas Program Administrator



Fife Symington
Governor

State of Arizona
Arizona Geological Survey

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Dated this 19th day of June 1992.

OIL AND GAS CONSERVATION COMMISSION

Steven L. Rauzi
Oil and Gas Program Administrator

IF YOU ARE UNABLE TO ATTEND THIS MEETING PLEASE NOTIFY THIS OFFICE AS SOON AS POSSIBLE

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

Minutes of Meeting
March 6, 1992

Present:

Mrs. Jan C. Wilt, Chairman
Mr. J. E. Warne Jr., Vice-Chairman
Mrs. Barbara J. Murphy, Member
Dr. J. Dale Nations, Member
Dr. Larry Fellows, State Geologist
Mr. Steven L. Rauzi, Oil and Gas Program Administrator

The regular Commission Meeting of March 6, 1992, 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 NOVEMBER 1, 1991.

Mr. Warne moved, seconded by Dr. Nations:

THAT THE MINUTES OF THE MEETING OF NOVEMBER 1, 1991, BE
ACCEPTED AS PRESENTED.

Motion carried unanimously.

STATEMENT OF DIRECTOR AND STATE GEOLOGIST

Dr. Fellows reported that all vacancies are now filled and that he did not foresee any impact from the proposed budget on current personnel or the oil and gas program. He indicated that there is a recommendation for a 2% to 3.7% mid-year budget cut for the Survey. He also expected that fiscal year 1994 will be another tough budget year.

Dr. Fellows handed out copies of Senate Bill 1055 to all the Commissioners and discussed the various clarifications of language and general house keeping changes in the bill with respect to the oil and gas program. The House will not act on this bill until after March 13, 1992.

Dr. Nations moved, seconded by Mrs. Murphy:

THAT JAN WILT, CHAIRMAN, WRITE A LETTER ON BEHALF OF THE
COMMISSION TO THE HOUSE OF REPRESENTATIVES TO CONTINUE
THE ARIZONA GEOLOGICAL SURVEY FOR THE NEXT TEN YEARS
AND TO SUPPORT SENATE BILL 1055.

Motion carried unanimously.

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 he has not yet received word on the two wells that are to be drilled. He also reported that Kerr-McGee would be conducting mechanical integrity tests on their idle wells at the Dineh-bi-keyah field by July and that Ferrellgas would be running sonar calipers on four caverns at Adamana toward the end of this month. He indicated that a Canadian investor had expressed interest in drilling the Luke salt deposit in the Phoenix area and noted that the United Gas Search permit was extended to June.

CONSIDERATION TO INITIATE RULE MAKING PROCEEDINGS

The proposed amendments to rules R12-7-135 through 161 and R12-7-183 through 195 were sent to the Commissioners and have been made a part of these minutes. Mr. Rauzi handed out a calendar and flow-chart of the rule making procedure and explained that the proposed dates for future meetings were picked to coincide with the deadlines to submit the rules to GRRC. He reported that he had decreased printing costs by reducing the number of specific forms required in the rules.

Dr. Nations moved, seconded by Mrs. Murphy:

THAT THE OIL AND GAS CONSERVATION COMMISSION APPROVE
THE RULES AS PRESENTED AND INITIATE THE RULE MAKING
PROCEEDINGS.

Motion carried unanimously.

CONTENDER OIL 1 AMAN, SEC. 5, T10S-R23W, YUMA CO.

Mrs. Mead reported that she wrote a letter to Mr. Bradshaw requesting that he respond in fifteen days. He contacted her and requested an additional 90 days in hopes of putting the well to some beneficial use. Mr. Warne requested that a note be sent to Mr. Bradshaw reminding him of the 90 day extension and then, at the end of the extension period, to proceed to file the injunction to close the well without any further delay.

GEOHERMAL WELLS, SEC. 1, T2S-R6E, MARICOPA CO.

Mrs. Mead reported that the ownership of the property was still in question and that not much was accomplished since the last meeting. Mr. Pomeroy and Mr. Saxman provided the Commission with a memorandum and a request for release of the Cam-Roy drilling bonds. Mr. Pomeroy then explained that nothing is being done on the wells by the Power's people, that a vacuum situation exists, and that they have no rights to the wells or property as things currently stand. A general discussion ensued on what has been done and what the issues are with regard to returning the bonds and as to who is responsible to plug and abandon the two wells. The Commissioners agreed that the bonds go with the land and are in force until either new bonds are put up or the wells are plugged and abandoned as required.

Mr. Warne moved, seconded by Mrs. Murphy:

THAT KATE MEAD PROCEED IMMEDIATELY WITH LEGAL ACTION
ON BEHALF OF THE OIL AND GAS CONSERVATION COMMISSION TO
HAVE THE WELLS PLUGGED AND ABANDONED.

Motion carried unanimously.

Mrs. Mead said that she would give a legal opinion on the release of the bonds. Dr. Nations did not think that a legal decision was necessary because the bonds are committed to the wells and that they could not be legally released until the wells are properly plugged and abandoned.

Dr. Nations moved, seconded by Mr. Warne:

THAT THE ATTORNEY PURSUE THE ORDER TO PLUG AND ABANDON
AND THAT THE COMMISSIONERS NOT RENDER A DECISION OR EVEN
ASK THE QUESTION AT THIS TIME OF RETURNING THE BONDS.

Motion carried unanimously.

CALL TO THE PUBLIC

Mr. Pomeroy stated that the bonds were not for general work but are drilling bonds and should not be held up as bonds for past errors.

ANNOUNCEMENTS

The next meeting was scheduled for May 15, 1992, in room 500 of the State Capitol Building with a single agenda item on the Geothermal wells, Sec. 1, T2S-R6E, Maricopa County.

A meeting was scheduled for July 6, 1992, in room 500 of the State Capitol Building.

ADJOURNMENT

Mrs. Murphy moved, seconded by Dr. Nations:

THAT THE MEETING BE ADJOURNED.

Motion carried unanimously. Time of adjournment was 11:35 a.m.

APPROVED

Jan C. Wilt
Mrs. Jan C. Wilt
Chairman

Minutes of Meeting

Page 4

March 6, 1992

GUESTS IN ATTENDANCE:

Kate Mead
R. J. Pomeroy and
John Saxman

Attorney General's Office
Cam-Roy Research and
Development Corporation



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: Steven L. Rauzi, ^{SCR} Oil and Gas Program Administrator
DATE: June 19, 1992
SUBJECT: Activity Report

Since your last meeting on March 6, Governor Symington appointed Mr. Zed Veale of Flagstaff to succeed Mr. Bennett on the Commission. Mr. Veale's appointment runs through January 20, 1997. An updated roster of members is enclosed.

Dry Mesa Corporation completed their #5 Navajo-138 in May 1992 for an initial production of 250,000 cubic feet of gas and a trace of 42 degree API gravity oil a day from the Paradox Formation. This well was a reentry of an abandoned well first drilled in 1960 just north of the Dry Mesa Field. The permit for this well was issued in January 1992. TranAm Energy has submitted an application to plug and abandon the Red Lake # 1, which is their stratigraphic-observation well north of Kingman. Caddis Resources of Denver is making inquires about permitting a well in the vicinity of the Luke salt deposit.

Ferrellgas ran sonar-caliper logs on four caverns at Adamana in late March. They are now in compliance with R12-7-181(1)(i)(iv), which requires capacity determinations to be verified every five years. Amerigas is also in compliance with this rule.

Agenda item 5 is the consideration to initiate rule-making proceedings for the second set of rule revisions to be submitted to the Governor's Regulatory Review Council (GRRC). This set of rules is enclosed for your consideration. As with the first set, if the proposed revisions meet with your approval, you will need to initiate the rule-making proceeding by motion, after which the chair signs Form 101, *Notice of Proposed Rule Making*.

The first set of rule revisions, which you approved for submission to GRRC at your March 6 meeting, was approved by GRRC at their April 7 meeting. GRRC subsequently submitted the rules to the Secretary of State, who published (1) the titles of the rules, (2) a summary of the proposed revisions, (3) the cut-off date for written comments, and (4) the date for oral proceedings in the May 1992 issue of the *Arizona Administrative Register*. No written comments were received. Oral proceedings, close of record, and the adoption of the concise explanatory statement on these rule revisions will be agenda item 6. Adoption subject to certification by the Attorney General is agenda item 7.

Agenda items 8 and 9 are included to continue discussion on the Contender Oil well near Yuma and the two geothermal wells near Higley. After reviewing the complaint on the Contender well, I signed a verification and affidavit, which will be attached to the complaint. I have also provided additional information on the two geothermal wells. Ms. Mead will report on the current status of these matters.



STATE OF ARIZONA
EXECUTIVE OFFICE

FIFE SYMINGTON
Governor

June 8, 1992

Mr. Steven L. Rauzi, Executive Director
Oil & Gas Conservation Commission
845 North Park Avenue
Tucson, AZ 85719

Dear Steven:

On June 3, 1992, Governor Fife Symington had the pleasure of appointing Zed Veale (replacing Archie Roy Bennett) to the **OIL & GAS CONSERVATION COMMISSION**. Please see the attached roster.

I know that he will be a valuable member of the Commission and that you will extend to him every courtesy and recognition due this important appointment.

Sincerely,

A handwritten signature in cursive script that reads "Jackie Vieh".

Jackie Norton Vieh
Executive Assistant

JV:ps

Enc.



STATE OF ARIZONA
EXECUTIVE OFFICE

FIFE SYMINGTON
Governor

OIL & GAS CONSERVATION COMMISSION

Barbara H. Murphy
5338 W. Cheryl Drive
Glendale, AZ 85302

937-2038 (H) / 371-1110 (O)
Term Expires: 1/18/93

Dale Nations
520 N. Bertrand
Flagstaff, AZ 86001

774-2542 (H) / 526-4561 (O)
Term Expires: 1/15/96

Zed Veale
1490 E. Appalachian
Flagstaff, AZ 86004

779-0051 (H) & (O)
Term Expires: 1/20/97
Replaced: Archie Roy Bennett

James E. Warne, Jr.
Post Office Box 21387
Phoenix, AZ 85036

840-5703 (H) / 952-8312 (O)
Term Expires: 1/17/94

Jan C. Wilt
3035 S. Shiela Avenue
Tucson, AZ 85746

883-6669 (O)
Term Expires: 1/16/95

Steven L. Rauzi
845 North Park Avenue, #100
Tucson, AZ 85719

Executive Director
882-4795 (O)



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. § 27-502, 27-504 to 27-506, 27-513, 27-516, 27-517, 27-523, 27-531 to 27-539, 27-651, 27-652, 27-655, 27-656, 27-659, and 27-660

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. R12-7-102 and R12-7-109

ADOPT (new rules) _____

AMEND (changing existing rules) A.A.C. R12-7-103 to R12-7-108 and R12-7-110 to R12-7-118

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. Economic impact statement.

Informative summary of proposed rule making for publication in Register. Statement of impact on small business.

Text of rules. 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 OCTOBER 2, 19 92.

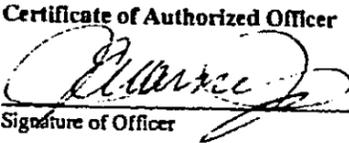
The agency has scheduled oral proceedings to be held at Room 500, State Capitol

1700 W. Washington, Phoenix Arizona
Address City

at the hour of 10:00 a.m. on the 23 day of October, 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


Signature of Officer

J. E. WARNE, JR. 882-4795
Typed Name of Officer Telephone

VICE-CHAIRMAN
Title

OIL & GAS CONS. COMM. 7-6-92
Date

INFORMATIVE SUMMARY

The Oil and Gas Conservation Commission proposes to repeal A.A.C. R12-7-102 and R12-7-109 in Title 12, Chapter 7, Article 1, because R12-7-102 provides a summary of and is redundant with other rules in the Chapter and R12-7-109 is redundant with R12-7-110.

The Commission proposes to amend A.A.C. R12-7-103, R12-7-104, R12-7-105, R12-7-106, R12-7-107, R12-7-108, R12-7-110, R12-7-111, R12-7-112, R12-7-113, R12-7-114, R12-7-115, R12-7-116, R12-7-117, and R12-7-118 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 allow the Commission to collect bond money, examine and approve applications, prescribe well-spacing requirements and regulate the drilling, casing, and testing of wells in order to conserve resources and protect the public safety and the environment. They also cause operators to post performance bonds, apply for drilling permits, dedicate acreage to each well drilled, properly identify completed or abandoned wells, build environmentally safe pits to contain drill cuttings and drilling mud, drill vertical wells to protect correlative rights, cement casing strings in wells to protect energy resources and surface and subsurface waters, and install and maintain wellhead and lease equipment to prevent uncontrolled well blowouts and fires.

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

Section	
R12-7-102. General rules applied statewide	20
R12-7-103. Bond	1
R12-7-104. Application for permit to drill and procedure to cancel a permit	2
R12-7-105. Change of location	4
R12-7-106. Identification of wells, <u>producing leases, tanks, refineries, buildings and facilities</u>	4
R12-7-107. Spacing of wells	5
R12-7-108. Pit for drilling mud and drill cuttings	9
R12-7-109. Sealing off strata	21
R12-7-110. Surface casing requirements	10
R12-7-111. <u>Intermediate and production c</u> Casing and tubing requirements	11
R12-7-112. Defective casing or cementing	12
R12-7-113. Blowout prevention <u>and related well-control equipment</u>	13
R12-7-114. Pulling outside strings of casing <u>Recovery of casing</u>	14
R12-7-115. Deviation of hole <u>and directional drilling</u>	14
R12-7-116. Multiple zone completions	16
R12-7-117. Artificial stimulation of wells	18
R12-7-118. <u>Safety regulations</u> <u>Operations in hydrogen sulfide environments</u>	18

1 R12-7-103. Bond

2 A. ~~Before any person~~ An operator shall hereafter engage in the business of drilling for or
3 producing a well in this state, such person shall file a performance bond with the Commission a bond
4 executed by such person as principal and some surety company satisfactory to the Commission prior to
5 approval of a permit to drill a new well, reenter an abandoned well or assume responsibility as operator
6 of existing wells. as surety, in ~~t~~The bond amount shall be \$10,000 for a well drilled to a total depth of
7 10,000 feet or less, \$20,000 for a well drilled deeper than 10,000 feet, principal sum of \$5,000 for each
8 individual well or in the principal sum of \$25,000 as a blanket bond to cover all wells, and shall be
9 payable to the Oil and Gas Conservation Commission, State of Arizona, and conditioned upon the faithful
10 performance by the operator of the duty to plug each dry or abandoned well, repair each well causing
11 waste or pollution, and maintain and restore the well site, for the use and benefit of the Oil and Gas
12 Conservation Fund. Such bond shall be conditioned on the following requirements:

- 13 1. ~~Compliance with all statutes and rules and regulations.~~
14 2. ~~Plugging and abandoning well as approved by the Commission.~~

15 B. The Commission shall accept a bond in the form of a surety bond, executed by the
16 operator as principal and a corporate surety authorized to do business in Arizona; a certified check; or
17 a certificate of deposit at a federally insured bank authorized to do business in Arizona.

18 B- C. Transfer of property does not release the bond. If the a property is transferred
19 and the principal desires to be released from the bond, the procedure shall be as follows:

20 1. The principal on the bond shall notify the Commission in writing ~~that the well or wells,~~
21 of the proposed transfer, giving describing accurately the location of each well, and the date and number
22 of each permit to drill, ~~has or have been transferred to a named~~ and the name, address, and telephone
23 number of the proposed transferee, for the purposes of ownership or operation.

24 2. The transferee of any well or of the operation of any such well shall declare to the
25 Commission in writing his acceptance of such the transfer and of the responsibility of such each well
26 involved in the transfer, and shall submit a new bond or bonds unless his the transferee's blanket bond

1 applies to the well or wells.

2 ~~C.~~ 3. When the Commission approves the transfer, the transferor is released from all
3 responsibility thereafter with respect to the well or wells, and the Commission ~~will~~ shall notify the
4 principal and the bonding company ~~declare~~ in writing that the transferor's applicable bond or bonds
5 applicable thereto is ~~are~~ subject to release, ~~and will so notify the principal and the bonding company.~~

6
7 **R12-7-104. Application for permit to drill ~~and procedure to cancel a permit~~**

8 A. Before drilling or reentering any well or conducting any surface disturbance associated
9 with such activity the operator shall submit to the Commission an application for permit to drill or reenter
10 and obtain approval. The complete application package shall contain ~~A person desiring to drill a well~~
11 ~~(other than a seismic shot hole) shall notify the Commission of such intent on a Form (see Appendix 1)~~
12 ~~and shall pay a fee of \$25.00 for each well. The application for permit to drill shall be accompanied by~~
13 ~~a plat as provided in Rule R12-7-107.3.~~

14 1. An application for permit to drill on a form provided by the Commission, which shall
15 include the operator's name, address and phone number, and a description of the proposed well and its
16 location;

17 2. A well and well-site construction plan that meets the requirements of R12-7-108 through
18 R12-7-118;

19 3. A plat, prepared and certified by a registered surveyor bearing the surveyor's certificate
20 number, on which is shown the exact acreage or legal subdivision allotted to the well as required by R12-
21 7-107, the well's exact location, and its ground level elevation;

22 4. An organization report as required by R12-7-194;

23 5. A performance bond, as required by R12-7-103; and

24 6. A fee of \$25.00 per well.

25 ~~A. 1. Upon receipt of any valid application, the fee, organization report and bond filed in~~

1 accordance with the provisions of this Section, the Commission will promptly issue such person a permit
2 to drill. The drilling of the well is prohibited until a permit to drill is obtained, except in the case of an
3 emergency, and then as the Commission directs. The permit shall be on Form 27 (see Appendix 1). If
4 the application is not approved, the Commission will immediately notify the person in writing the reasons
5 therefor.

6 a. ~~No emergency permit shall be granted for drilling a well unless such well shall be drilled at
7 a location as provided in Rule R12 7 107, or as provided by other order of the Commission, as set forth
8 in Rule R12 7 105. Upon the granting of an emergency permit, such permittee shall within 10 days
9 thereafter comply with the requirements of this Rule as to filing the application, fee, organization report,
10 bond, and plat, or the emergency permit shall become null and void and the well shall be plugged and
11 abandoned unless an extension in writing is granted by the Commission.~~

12 B. Upon approval of all items required in subsection (A), the Commission shall issue a
13 permit to drill. The Commission may require modification to the proposed construction plan before
14 approval. A permit shall not be issued until these modifications are adhered to by the operator. The
15 Commission shall notify the applicant in writing if the application is not approved.

16 ~~2. C. Unless operations are commenced within 90 180 days after date of approval, the~~
17 ~~permit to drill will shall become null and void unless an extension in writing is granted by the~~
18 ~~Commission.~~

19 D. In case of imminent danger to public safety, or of contamination of the environment, the
20 Commission may authorize the drilling of an emergency relief well to reduce the danger or hazard.
21 Within ten days of commencing an emergency relief well, the operator shall file an application as required
22 in subsection (A). No well drilled under this subsection shall be used for production unless it conforms
23 to the provisions of R12-7-107.

24 ~~B. After a permit has been issued and a well commenced, failure to comply with the statutes,~~
25 ~~rules and regulations and orders of the Commission may result in an order to show cause why the permit~~

1 ~~should not be cancelled and the well plugged and abandoned.~~

2

3 **R12-7-105. Change of location**

4 **A.** No operator person to whom a permit has been shall change the location of the well from
5 the location drill a well in a location other than that authorized by the permit issued pursuant to R12-7-
6 104 until the following requirements have been complied with met:

7 1. If the operator decides ~~permittee desires~~ to change the location prior to the commencement
8 of before drilling the well, an amended application for permit to drill ~~must~~ shall be filed, showing the
9 new location.

10 2. If, ~~after commencement of the drilling operations~~ it is determined that the location is
11 erroneously described on the permit after drilling has begun, the operator ~~permittee~~ shall obtain a new
12 permit showing the correct location. (Form 27, see Appendix 1).

13 **B.** If the new location is at an authorized point in the approved drilling unit as provided in
14 the initial permit, the application may be made by telephone orally or by telegraph and the Commission
15 may by telephone orally or by telegraph authorize the commencement or continuance of drilling
16 operations. Within ~~40~~ ten days after obtaining oral ~~or telegraphic~~ authorization, the operator ~~permittee~~
17 shall file a new application (Form 3, see Appendix 1), properly filled out, showing the new location, and
18 declaring that he desires a permit for the location. A new permit may be issued and the old permit
19 cancelled without payment of additional fee.

20 **C.** If the new location is located outside the approved drilling unit covered by the ~~first~~ initial
21 permit, no drilling shall be commenced or continued until ~~the new permit is issued.~~ a new application for
22 permit to drill is filed and approved as required by R12-7-104 including payment of an additional fee.

23

24 **R12-7-106. Identification of wells, producing leases, tanks, refineries, buildings and facilities**

25 **A.** The ~~owner or~~ operator shall mark each drilling, producing, ~~or~~ injection, or shut-in well

1 in a conspicuous place with his ~~the operator's name, name of lease name or number, number of well~~
2 ~~number, and the legal description of the well's location, of the well and shall take all necessary means~~
3 ~~and precautions to preserve these markings.~~

4 B. The operator shall mark each abandoned well as required in R12-7-127(F).

5 C. The operator shall mark all tank batteries, gasoline plants, structures, storage buildings,
6 compressors and compressor buildings, and all other storage or transportation equipment with the
7 operator's name, address, telephone number, lease name or number, and location. All structures within
8 a fenced yard may be identified by a single sign at the principal outside entrance to the yard.

9 D. The operator of a storage-well facility shall clearly mark each well with the operator's
10 name, lease name or number, and well number. Each outside entrance to the facility shall be marked
11 with the operator's name, address and one or more emergency response telephone numbers.

12 E. The operator of a refinery shall mark each facility at each outside entrance with the
13 operator's name, address, and one or more emergency response telephone numbers.

14 F. Sign lettering shall contrast strongly with the background and be large enough to be
15 legible under normal conditions at a distance of 25 feet. The operator shall preserve these markings and
16 keep them legible and up to date.

17
18 **R12-7-107. Spacing of wells**

19 ~~In the absence of an order by the Commission providing for the spacing of wells and establishing~~
20 ~~drainage or drilling units for a pool, the following statewide spacing rules shall apply:~~

21 ~~±~~ A. Every well drilled for oil ~~must~~ shall be located on a drilling unit consisting of
22 approximately 80 contiguous surface acres contained within the bounds of two governmental
23 quarter-quarter sections or lots having one side in common, upon which there is not located, and of which
24 no part is attributed to, any other well completed in or drilling to the same pool.

25 1. In areas not covered by United States Public Land Surveys, such the oil drilling unit shall

1 consist of an area ~~which is bounded~~ by four sides intersecting at angles of not less than 85 degrees or
2 more than 95 degrees, ~~the distance between two points farthest apart thereon shall not exceed 3,000 feet,~~
3 ~~and The unit shall contain at least 76 contiguous surface acres and its maximum dimension shall not~~
4 ~~exceed 3,000 feet.~~

5 2. No well drilled for oil shall be located closer than 330 feet to any boundary of the drilling
6 unit, nor closer than 330 feet to the shortest center line of the drilling unit.

7 3. No well drilled for oil shall be located within the bounds of a quarter-quarter section or
8 lot having one side in common with another quarter-quarter section or lot upon which there is located a
9 well completed in or drilling to the same pool. ~~The diagonal pattern of location affected by the foregoing~~
10 ~~shall also apply to the location of adjacent wells in areas not covered by United States Public Land~~
11 ~~Surveys.~~

12 2. B. Every well drilled for gas ~~must shall~~ be located on a drilling unit consisting of
13 approximately 640 ~~but not less than 600~~ contiguous surface acres within one governmental section, upon
14 which there is not located, and of which no part is attributed to, any other well completed in or drilling
15 to the same pool.

16 1. In areas not covered by United States Public Land Surveys, ~~such the gas~~ drilling unit shall
17 consist of an area ~~which is bounded~~ by four sides intersecting at angles of not less than 85 degrees or
18 more than 95 degrees, ~~the distance between two points farthest apart thereon shall not exceed 8,500 feet,~~
19 ~~and The unit shall contain at least 600 contiguous surface acres and its maximum dimension shall not~~
20 ~~exceed 8,500 feet.~~

21 ~~In areas covered by United States Public Land Surveys, such drilling unit shall consist of one~~
22 ~~governmental section containing not less than 600 surface acres.~~

23 2. Each ~~No~~ well drilled for gas shall be located within a square, each side of which is 2,000
24 feet in length and parallel to a center line of the section. ~~The center of such square shall coincide with~~
25 ~~a geometric center of the section. closer than 1,660 feet from any boundary of the drilling unit.~~

1 3. ~~Before commencing the drilling of any well, an Application for Permit to Drill (Form 3,~~
2 ~~see Appendix 1) shall be filed, and the Commission's approval obtained. In addition to the required~~
3 ~~\$25.00 fee, the application shall be accompanied by a plat prepared and certified by a registered surveyor~~
4 ~~and bearing his certificate number (surveyors registered in states other than Arizona are acceptable), on~~
5 ~~which is shown the exact acreage or legal subdivisions allotted to the well and the ground level elevation.~~
6 ~~No permit to drill will be approved by the Commission without proper designation of acreage.~~

7 C. Every well drilled for geothermal resources shall be located on a drilling unit approved
8 or as modified by the Commission. The Commission may require modification to minimize well
9 interference and provide the necessary volume of geothermal resources for the intended use, to protect
10 correlative rights, and to protect the environment.

11 D. If the operator drills a horizontal segment, that horizontal segment shall be located

12 1. At least 330 feet from the boundary of the spacing unit in the case of an oil well;

13 2. At least 1,660 feet from the boundary of the spacing unit in the case of a gas well; and

14 3. As approved or modified by the Commission in the case of a geothermal well.

15 4. E. The Commission may grant exceptions to permit the regular locations specified
16 in subsections (A), (B), and (C) only of a well at distances, or upon units, other than herein prescribed
17 whenever the Commission shall determine, after notice and hearing, that such exceptions are reasonably
18 necessary, that the unit is partly outside the pool, or for some other reason a well at a regular location
19 would be nonproductive.

20 1. Applications for ~~When exception to this rule is desired, application therefor shall fully~~
21 state the reasons why the exception is necessary and shall include ~~be made to the Commission in duplicate~~
22 accompanied by a plat prepared and certified by a registered surveyor bearing the surveyor's certificate
23 number showing ~~drawn to appropriate scale accurately showing to scale all other completed, drilling, and~~
24 permitted wells on said the property; and accurately showing to scale all adjoining surrounding properties
25 and wells. Such application shall be signed by some person acquainted with the facts, stating that all facts

1 therein stated are true, and that the accompanying plat is accurately drawn to scale and correctly reflects
2 pertinent and required data.

3 2. Such Exceptions shall be granted only after not less than ten days notice the operator
4 provides by certified mail a copy of the application to all adjoining lessees affected thereby, and only after
5 the Commission determines in a duly noted public hearing that the application is valid, at which all
6 interested parties may appear and be heard, and after the Commission has determined that an exception
7 to such rule is authorized hereunder.

8 3. When topographical conditions are such as to make the drilling at a regular location on
9 the unit unduly burdensome, the Commission may grant administratively such an exception location
10 without notice or hearing and without the above specified 10 days notice to adjoining lessees when
11 topography prohibits drilling at a regular location on the drilling unit.

12 4. In the event of change of classification of If an existing well's classification changes due
13 to its recompletion or due to a change in the nature of the product being produced, or due to a change
14 of the gas-oil ratio, the Commission may approve an unorthodox irregular location may be approved upon
15 proper application with supporting data and without the above specified 10 ten days notice and hearing,
16 provided that

17 a. The operator furnish the Commission with proof of mailing of a copy of the application
18 to all operators within a one-mile radius of the acreage to be dedicated be furnished by the Commission
19 by certified mail a copy of the application; and

20 b. The Commission receives provided further that there is no written objection to the
21 Commission application within 15 days after the date of said the mailing.

22 5. F. When an exception is granted, the Commission may take such action as will to
23 offset any advantage which that the person securing the exception may obtain over others by reason of
24 the unorthodox exception location or unit.

25 6. G. In order to prevent waste, the Commission may, after notice and hearing, fix

1 different spacing requirements and require lesser or greater acreage for drilling units in any specific oil,
2 gas, or geothermal resource pool or in any specific gas pool notwithstanding the provisions of subsections
3 1 (A), (B), and 2 (C) above.

4 ~~7. H. When two or more separately owned tracts of land are embraced within an~~
5 ~~established drilling unit, persons owning the drilling rights therein and the right to share in the production~~
6 ~~therefrom may agree to pool their interests and develop their lands as a drilling unit. In the event such~~
7 ~~persons do not agree to pool their interests, the Commission may, for the prevention of waste, for the~~
8 ~~protection of correlative rights, or to avoid the drilling of unnecessary wells, enter an order pooling and~~
9 ~~integrating their integration of interests for the development of their lands as a drilling unit. Orders and~~
10 ~~agreements effectuating such pooling shall be accomplished and executed as prescribed by pursuant to~~
11 A.R.S. §§ 27-505 and 27-666.

12
13 **R12-7-108. Pit for drilling mud and drill cuttings**

14 A. In order to assure a Each operator shall maintain an adequate supply of drilling mud to
15 confine oil, gas or water to its native stratum during the drilling of any well, operators, and shall
16 provide, before drilling is commenced, an adequate pit, either earthen or portable, for the drilling mud
17 or the accumulation of drill cuttings.

18 B. An earthen pit used for drilling, deepening, testing, reworking, or fracturing, shall be
19 constructed of or sealed with an impervious material and shall be maintained to prevent escape of any
20 contained substance. Earthen pits shall be fenced on all sides at all times.

21 C. Earthen pits shall be constructed and maintained to prevent the entrance of outside runoff
22 water and the fluid level in earthen pits shall be kept at all times at least 18 inches below the lowest point
23 of the embankment.

24 D. Any mud contained in an earthen pit shall be water-based and contain no more than one
25 pound per barrel of thinner for each 25 pounds per barrel of barite or hematite. Mud containing

1 chromium lignosulfonate, ferrochrome lignosulfonate or other chromium compounds shall not be used.

2 E. Drilling mud shall be disposed of by either recycling or commercial off-site disposal.
3 Mud described in subsection (D) may be disposed of by evaporation and subsequent leveling of the pits.

4
5 R12-7-110. Surface casing requirements

6 ~~A. In areas where pressure and formations are unknown, sufficient~~ Surface casing shall be
7 ~~run to reach~~ set at a sufficient depth below to protect and isolate all known or reasonably estimated
8 freshwater levels zones and to prevent blowouts or uncontrolled flows. The surface casing shall

9 1. Be of sufficient size to permit the use of an intermediate string or strings of casing;
10 2. Surface casing shall be set in or through an impervious formation, and shall be cemented
11 by the pump and plug, or displacement, or other approved method approved by the Commission; with
12 sufficient cement to fill the annulus to the top of the hole.

13 3. Be cemented back to surface either during the primary cement job or by remedial action;
14 and

15 4. Have API approved centralizers on the bottom three joints as a minimum.

16 ~~B. In areas where subsurface conditions have been established by drilling experience,~~
17 ~~surface casing, size at the owner's option, shall be set and cemented to the surface by the pump and plug,~~
18 ~~or displacement, or other approved method at a depth sufficient to protect all fresh water and to insure~~
19 ~~against blowouts or uncontrolled flows.~~

20 ~~C. B.~~ Cement shall be allowed to set a minimum of 12 hours under the lowest necessary
21 pressure before drilling the cementing plugs or initiating tests.

22 ~~D. The proposed surface casing program shall be reported on Form 3 (see Appendix 1) by~~
23 ~~each applicant for a drilling permit. The issuance of a drilling permit (Form 27, see Appendix 1) shall~~
24 ~~constitute the approval by the Commission of the surface casing program specified in the application.~~

25 E. C. Surface casing shall be pressure tested for at least 30 minutes to 70 percent of

1 internal yield pressure or one psi per foot of casing depth, whichever is less, with a minimum of 600 psi
2 for 30 minutes. If a drop of more than 10 percent of the test pressure should occur, the casing shall be
3 considered defective and corrective measures shall be applied. In wells drilled with cable tools, casing
4 may be tested by bailing the well dry. The hole ~~must~~ shall remain satisfactorily dry for one hour before
5 commencing further operations. Results of the above test and any remedial action shall be reported on
6 Form 25 (see Appendix 1) in writing to the Commission within 20 15 days following the test.

7 D. The operator of a well shall notify the Commission at least 48 hours before setting surface
8 casing so that a representative of the Commission may witness all or a part of the operations required in
9 this Section.

11 **R12-7-111. Intermediate and production casing and tubing requirements**

12 A. All producing wells drilled shall be completed with a string of casing that shall be
13 properly production casing set directly above or through the producing interval and cemented by the
14 pump and plug method, or other method approved by the Commission, at a sufficient depth to protect
15 adequately the oil or gas bearing stratum zones to be produced. In addition, other An intermediate string
16 of casing shall may be used required to seal off all oil, gas, and water, strata potentially productive, lost
17 circulation, and abnormally pressured zones that may be encountered in the well, except those to be
18 produced. The Commission may require casing strings to be cemented from the maximum depth of the
19 casing to at least 50 feet inside the previously run string of casing. For liners, a minimum of 100 feet
20 of overlap between a string of casing and the next larger casing is required.

21 B. Such s Strings of casing shall stand cemented for at least 12 hours before drilling out the
22 cementing plugs or initiating such tests as the Commission may require. Cementing shall be by pump
23 and plug method, or other method approved by the Commission.

24 C. Strings of intermediate and production casing in wells drilled with rotary tools shall be
25 pressure tested. Minimum casing test pressure shall be approximately one third to 70 percent of the

1 manufacturer's rated internal yield pressure or one psi per foot of casing depth, whichever is less, except
2 that the test pressure shall not be less than 600 psi and need not be greater than 1500 psi. In cases where
3 combination strings utilizing casing of varied grades and weights are ~~involved~~ used, the above test
4 pressures shall apply to the lowest pressure rated casing component used. Test pressures shall be applied
5 for a period of 30 minutes. If a drop of pressure declines more than 10 percent in 30 minutes, of the test
6 pressure should occur, the casing shall be considered defective and corrective measures shall be applied.

7 1. ~~Casing strings in wells drilled with cable tools, casing may be tested as outlined in Subsection~~
8 ~~C. above, or by bailing the well dry, in which case the hole must shall~~ remain satisfactorily dry for a
9 period of at least one hour before commencing any further operations on the well. All tests must be
10 reported on Form 25 (see Appendix 1). Results of the above test and any remedial action shall be
11 reported in writing to the Commission within 15 days following the test.

12 2. ~~All flowing oil wells shall be tubed.~~

13 3. D. All flowing oil wells shall have ~~(Tubing shall be set as near the bottom as~~
14 ~~practical and with tubing perforations shall not be more than 250 feet above the top of the pay zone to~~
15 ~~be produced. Wells may be completed with small-diameter casing, which is generally understood in the~~
16 ~~industry to be "slim hole" or "tubingless" completions, in lieu of tubing.~~

17 D. ~~Nothing in this Rule shall be construed as prohibiting the completion of wells with small~~
18 ~~diameter casing in lieu of tubing which is what is generally understood in the industry to be "slim hole"~~
19 ~~or "tubingless" completions.~~

20 E. The operator shall notify the Commission at least 48 hours before setting any casing string
21 so that a representative of the Commission may witness all or a part of the operations required in this
22 Section.

23

24 **R12-7-112. Defective casing or cementing**

25 ~~If any well appears to have a defective casing program or be faultily cemented or to have~~

1 ~~corroded casing that will permit or create underground waste, the operator shall proceed with diligence~~
2 ~~to use an appropriate method to eliminate the hazard of underground waste.~~

3 A. The operator shall take immediate steps to correct the casing condition of any well that
4 may cause, or is causing, underground waste of oil, gas, or geothermal resources or contamination of
5 fresh waters. These steps shall restore the integrity of the casing to the standards set in R12-7-110(C)
6 and R12-7-111(C).

7 B. ~~The remedial actions of~~ The operator shall be reported the corrective actions taken in
8 writing to the Commission on Form 25 (see Appendix 1) within 15 days of the completion of the work.
9 If the hazard condition of the waste casing cannot be eliminated corrected, the well shall be properly
10 plugged and abandoned in compliance with R12-7-127.

11
12 **R12-7-113. Blowout prevention and related well-control equipment**

13 A. When drilling in areas where pressures are unknown or high pressures do or are likely
14 to exist, a blowout preventer, control head and related lines and connections necessary to control the
15 pressures and to keep the well under control at all times shall be installed as soon as the surface casing
16 is set.

17 B. Upon installation, ~~a~~All ram-type blowout preventers and related equipment shall be
18 pressure tested to the lesser of the manufacturer's full working pressure rating of the equipment, 70
19 percent of the minimum internal yield pressure of any casing subject to test, or one psi per foot of the
20 last casing string depth. Annular or bag-type preventers shall be tested to the lesser ~~a~~minimum of 1000
21 psi or 50 percent of full working pressure on installation. The blowout preventer and related equipment
22 shall be tested:

- 23 1. ~~Before drilling cement plug and~~ After each string of casing is set in the well;
24 2. Not less than once each week 14 days from each control station; and-
25 3. Following repairs that require disconnection of any pressure seal in the assembly. Only

1 the component repaired or replaced need be tested unless the alteration or repair occurs at a normal full
2 blowout preventer test period. Test shall be made using water.

3 C. The operator shall maintain records of the tests required in this Section until the well is
4 completed and shall submit copies of these records to the Commission if required.

5
6 **R12-7-114. Pulling outside strings of casing Recovery of casing**

7 When pulling outside strings of casing from any well, the space outside the casing left in the hole
8 shall be left full of heavy drilling mud or cement of adequate specific gravity to seal off each fresh and
9 salt water stratum, and each oil and/or gas bearing stratum from which no production is obtained. This
10 action of the operator shall be reported to the Commission (Form 25, see Appendix I).

11 Recovery of inside or outside strings of casing is prohibited unless written approval is obtained
12 from the Commission. Approval shall be given only for wells where mudding and plugging operations
13 can be carried out safely and the well abandoned in compliance with R12-7-127.

14
15 **R12-7-115. Deviation of hole and directional drilling**

16 A. Unless the operator shall have secured the permission of the Commission after notice and
17 hearing for the directional deviation of the well, no drilling well may be directionally intentionally
18 deviated from its normal vertical course unless the operator shall first file application and obtain approval
19 from the Commission after notice and hearing. An application for directional drilling may be approved
20 administratively without notice and hearing if the maximum deviation of the well does not exceed a 100-
21 foot radius from the surface location. Deviation from the vertical for short distances is permitted in the
22 drilling of a well without special approval only to straighten the hole, sidetrack junk, or correct other
23 mechanical difficulties, by any means of deviation, except as provided in Subsection E hereof.

24 B. When a well is intentionally directionally deviated from its normal course for any reason,
25 a complete angular deviation and directional survey of the finished hole shall be made at the expense of

1 ~~the operator and a certified copy of such survey shall be filed with the Commission within 30 days.~~
2 ~~However, no deviation and directional survey will be necessary if the hole is deviated for short distances,~~
3 ~~as provided for in Subsection E. of this Rule. An application for directional drilling shall include~~

- 4 1. The name, address, and phone number of the operator;
- 5 2. The field name, lease name, well number, state permit number, reservoir name, and
6 county where the proposed well is located;
- 7 3. A plat or sketch showing the distance from the surface location to section and lease lines
8 and to the target location within the intended producing interval;
- 9 4. The reason for the intentional deviation; and
- 10 5. The signature of the operator.

11 ~~D. C. All producible wells that are located 300 feet or less from any drilling unit line~~
12 ~~and that reach a depth of 4000 feet or more shall have directional surveys made to the total depth of the~~
13 ~~hole before setting the final string or casing. The operator of any well capable of production, and whose~~
14 ~~producing interval or any portion thereof is located 330 feet or less in the case of an oil well or 1,660~~
15 ~~feet or less in the case of a gas well from the boundary of any drilling unit shall run a directional survey~~
16 ~~before running the production casing. A certified copy of such directional surveys shall be filed with the~~
17 ~~Commission by the operator within 30 days.~~

18 ~~C. D. In order to ensure compliance with this Section, (The Commission may make,~~
19 ~~or require the operator to make, run a directional survey of any hole at such the operator's expense. The~~
20 ~~Commission may require an operator to make run a directional survey of any hole at the request of an~~
21 ~~offset operator, if, in the Commission's opinion, such is necessary, but at the expense and risk of the~~
22 ~~offset operator unless it is found the survey shows that such the well is completed at a point outside the~~
23 ~~drilling unit, or at an unauthorized point.~~

24 E. Within 30 days following the completion of a directionally drilled well, the operator shall
25 file with the Commission a complete angular deviation and directional survey of the well obtained by an

1 approved well survey company. Wells may without permit be intentionally deviated short distances where
2 necessary to straighten the hole, sidetrack junk, or correct other mechanical difficulties. This action of
3 the operator shall be reported to the Commission on Form 25 (see Appendix 1).

4 F. Nothing in these rules shall be interpreted to permit the drilling of any well in such
5 manner that it crosses the drilling unit lines, except by permit approval obtained after notice and hearing.

6
7 **R12-7-116. Multiple zone completions**

8 A. ~~The first application for approval of a multiple completion between two or more zones~~
9 ~~or reservoirs in each field may be ratified only by order of the Commission after notice and hearing. If~~
10 ~~as a result of such Completions to include production from more than one common source of supply from~~
11 ~~a single well is prohibited except as authorized by the Commission after notice and hearing. After notice~~
12 ~~and hearing, the Commission shall maintain authorize the multiple completion involving certain specific~~
13 ~~zones or reservoirs in a field, the Commission shall add such zones or reservoirs in said field to a list~~
14 ~~of zones or reservoirs, by fields, for which in specific fields throughout the state approved for multiple~~
15 ~~completions have been authorized.~~

16 C. ~~B. Operators shall file an a~~ Application for approval of a multiple completion shall
17 be filed on Form 11 (see Appendix 1) with the Commission and shall demonstrate the method to be used
18 to keep the production streams separate. The application shall be accompanied by the following:

19 1. ~~An e~~ Electrical log or other acceptable log with tops and bottoms of formations or
20 producing zones and perforated intervals shown and marked;

21 2. ~~A d~~ Diagrammatic sketch of the multiple completion installation indicating make, type,
22 and setting depths of packer or packers;

23 3. ~~A p~~ Plat showing the location of the well and all offset wells, and the names and addresses
24 of operators of all leases offsetting acreage dedicated to applicant's well; and

25 4. Proof of mailing of application for multiple completion to all offset operators. Waivers

1 ~~consenting to such multiple completion from each offset operator, or in lieu thereof, copies of letters~~
2 ~~requesting such waivers, and proof of affidavit of mailing notice to offset operators.~~

3 ~~Concurrent with the filing of the application with the Commission, a copy of the application shall~~
4 ~~be forwarded by registered mail to each operator of a lease offsetting applicant's lease.~~

5 B. C. The Commission may approve subsequent applications for multiple completion
6 of the same zones or reservoirs in the same fields may be approved administratively, without the
7 necessity of a hearing, under the following conditions: provided that

8 1. The applicant can show that the Commission has approved and listed the zones or
9 reservoirs as required in subsection (A);

10 2. The subsequent application is filed as required in subsection (B); and

11 3. The Commission receives no protest to the application after a 15-day holding period.

12 ~~Upon receipt of the application with attachments as provided in Subsection C, below the~~
13 ~~Commission will first determine if the zones or reservoirs to be multiple completed were theretofore~~
14 ~~approved for multiple completion. If so, the Commission will hold such application for 10 days. If~~
15 ~~within said 10 day period any offset operator, reciting reasonable cause, shall file a protest to such~~
16 ~~multiple completion with the Commission, or if the Commission does not approve the application, the~~
17 ~~matter shall be set for notice and hearing before the Commission.~~

18 ~~If no such protests to such multiple completion are offered by either an offset operator or the~~
19 ~~Commission within said 10 day period, the application shall be approved and appropriate ratification~~
20 ~~issued by the Commission.~~

21 D. ~~If the Commission approves the application of a multiple completion, the operator shall~~
22 ~~within 30 15 days of the completion of the final setting of the final packer or packers, the operator shall~~
23 ~~file a report the same on with the Commission identifying the well and its location showing the make,~~
24 ~~type, and depth set of each packer and the signature of the supervisor of the work. Form 12 (see~~
25 ~~Appendix 1), and shall file This report shall include the results of a packer leakage test on Form 13 (see~~

1 Appendix 1) and detail for each separate common source of supply, its stabilized shut-in pressure,
2 producing pressure, and the simultaneous shut-in pressure on each other separate common source of
3 supply. The operator shall notify the Commission at least 48 hours in advance of performing the tests
4 required in this subsection, within 30 days of completing said tests.

5 E. Every operator of a multiplex completed well shall be so equipped, operated, produced,
6 and so maintained that there will be no the well to prevent commingling of the production from said
7 formations the separate sources of supply. Upon request by the authorized agent of ~~t~~ The Commission
8 may require any multiplex completed well shall to be tested at any time to demonstrate the effectiveness
9 of the separation of sources of supply, ~~such~~ These tests to may be witnessed by representatives of the
10 Commission and by offset operators, if desired.

11
12 **R12-7-117. Artificial stimulation of wells**

13 A. The operator shall report the artificial stimulation of any well to the Commission in
14 writing within 15 days of the stimulation showing the type of stimulation, the amounts and types of
15 materials used, and the pressures applied.

16 B. If ~~injury~~ the artificial stimulation of a well results in any damage to the producing
17 formation, a freshwater formation, casing, or casingseat that permits or may permit communication
18 between fluid-bearing zones, as a result of artificial stimulation of a well, the operator shall immediately
19 notify the Commission and proceed with diligence to use appropriate means to ~~rectify~~ correct the damage.
20 If the artificial stimulation results in irreparable ~~injury~~ damage to the well, ~~the Commission may require~~
21 the operator to shall plug and abandon the well in compliance with R12-7-127. ~~The artificial stimulation~~
22 ~~of any well shall be reported to the Commission on Form 25 (see Appendix 1).~~

23
24 **R12-7-118. ~~Safety regulations~~ Operations in hydrogen sulfide environments**

25 A. ~~Anything that might constitute a fire hazard in the operation of the well, tanks, separators,~~

title

1 or other equipment shall be removed to a distance of at least 150 feet from the well, tanks, separator or
2 other equipment.

3 **B.** Oil shall not be stored in earthen reservoirs or in open receptacles.

4 **C. A.** When drilling, redrilling, deepening, or plugging back operations in areas where
5 the formations to be penetrated are of known to contain or are expected to contain occurrences of
6 hydrogen sulfide gas (H₂S) in excess of 10 ppm and in areas where the presence or absence of H₂S is
7 unknown, or in wells drilled below 10,000 feet, monitoring and safety equipment as approved by the
8 Commission shall be required. the operator shall contract the services of an approved H₂S safety
9 company to be on location at the known or expected depths.

10 **B.** A written contingency plan, providing details of actions to be taken to alert and protect
11 operating personnel and members of the public in the event of an accidental release of H₂S gas shall be
12 submitted to the Commission as part of the initial application for a permit to drill or as a sundry notice.



Fife Symington
Governor

State of Arizona
Arizona Geological Survey

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Larry D. Fellows
Director and State Geologist

June 19, 1992

Mr. J. Elliott Hibbs, GRRC Chairman
Department of Administration
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 A.A.C. R12-7-102 and R12-7-109
Amend A.A.C. R12-7-103, R12-7-104, R12-7-105, R12-7-106, R12-7-107, R12-7-108,
R12-7-110, R12-7-111, R12-7-112, R12-7-113, R12-7-114, R12-7-115, R12-7-116,
R12-7-117, and R12-7-118.

Dear Mr. Hibbs:

On behalf of the Oil and Gas Conservation Commission the Arizona Geological Survey respectfully submits the following information to the Governor's Regulatory Review Council in support of its proposal to repeal and amend the above rules.

I. DESCRIPTION OF AMENDED RULES; PURPOSE; ACCOMPLISHMENTS:

A. The Commission proposes to (1) repeal R12-7-102 and R12-7-109 because they are redundant with other rules in this group, and (2) amend the remaining rules to update and clarify language, edit for consistency and grammatical accuracy, account for advancements in technology and currently accepted practices in the regulated industry, and incorporate language to include geothermal resources. The rules to be amended allow the Commission to collect bond money, examine and approve applications, prescribe well-spacing requirements, and regulate the drilling, casing, and testing of wells in order to conserve resources and protect the public's safety and the environment. These rules also cause operators to post performance bonds, apply for drilling permits, dedicate acreage to each well drilled, properly identify completed or abandoned wells, build environmentally safe pits to contain drill cuttings and drilling mud, drill vertical wells to protect correlative rights, cement casing in wells to protect energy resources and underground sources of drinking water, and install and maintain wellhead and well-control equipment to prevent uncontrolled well blowouts and fires. These rules are authorized pursuant to the Conservation Act of 1951 and are specifically authorized by A.R.S. §§ 27-502 through 27-539 and §§ 27-651 through 27-660.

B. These rules provide the means by which the Commission regulates the permitting, spacing, drilling, and casing of wells in order to prevent waste of and to ensure the conservation and maximum recovery of the state's oil, gas, and geothermal resources.

June 19, 1992

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>			
Arizona Geological Survey Oil and Gas Program	Staff (1.5 FTE) time is required to write and promulgate rules. Printing costs.	Substantial	None
Oil and Gas Conservation Commission	Staff currently collects and files the required bonds, applications, reports, and data. Circulation of cement and required well tests are witnessed by qualified staff personnel.	None	None
OSP	Additional open meetings may be required to review and approve new and amended rules.	Minimal	None
<p>B: Other State Agencies / Political Subdivisions</p>			
GRRC	Review of repealed and amended rules.	Minimal	None
Secretary of State	Consideration of repealed and amended rules.	None	None
Attorney General	Printing and administrative costs.	Minimal	None
	Certification of amended rules.	Minimal	None

Article 1 - Oil, Gas and Helium

II. Costs and Benefits of Enforcement and Implementation

Description of Group Affected	Description of Effect	Increased Costs/ Decreased Revenues	Decreased Costs/ Increased Revenues
C. Federal Agencies			
U.S. Bureau of Land Management, U.S. Bureau of Indian Affairs.	Required bonds, applications, reports, and data supplement these agencies' requirements on federal land.	None	None
D. Privately / Publicly Owned Businesses			
Operators and producers	Each currently submits required material, performs required tests and submits the required reports.	None	None
Well service and testing companies	Required testing and monitoring currently provide a market for these businesses.	None	None
Industry Scouting companies	Required applications currently provide a data source for these businesses.	None	None
Surety companies, Arizona banks, and Registered Land Surveyors	Required bonds and surveying of well locations currently provide a market for these businesses.	None	None
E. Consumers	These rules do not directly affect consumers.	None	None
F. Private Individuals	These rules prohibit pollution, hazards, and prevent waste of energy resources.	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

These rules are not costly or intrusive. They simply prescribe industry-standard requirements, which protect correlative rights, protect underground sources of drinking water, and ensure the conservation of oil, gas, and geothermal resources. Therefore, the alternatives that were considered do not change the basic substance of the rules.

One alternative considered to the proposed amendments was to lump closely related requirements into fewer but larger rules. However, this alternative would result in long and cumbersome rules with many subsections. Having separate rules allows an operator to find a particular requirement 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 AMENDED RULES ON SMALL BUSINESS

The majority of firms presently engaged in oil, gas, or geothermal drilling and production in Arizona are small businesses. The permit application, casing, and reporting requirements in the amended rules depend on the number of wells an operator drills or operates. Because small operators tend to drill fewer wells, they have less of a burden in both costs and reporting requirements. Furthermore, these rules are not really burdensome to any operator because the dedication of acreage, cementing of casing, and the use of proper safety and well-control equipment are matters of good business practice. Each operator and producer has been and will continue to be required to post a performance bond and obtain the necessary permits in order to drill and produce oil, gas, helium, or geothermal wells in the state. Each operator and producer has been and will continue to be required to participate in and allow site visits and inspections of its drilling and casing operations and file test results and activity records with the Oil and Gas Program Administrator. Compliance with these amended rules will not require additional professional skills or reporting or bookkeeping requirements upon the part of small businesses.

I anticipate that 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 were made to 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 more small business by making the regulation easier to understand and follow.

Sincerely,

Steven L. Rauzi

Steven L. Rauzi
Oil & Gas Program Administrator

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

cc Larry D. Fellows

Oil and Gas Conservation Commission: J. C. Wilt, Chairman
J. E. Warne, Jr., Vice-Chairman
B. H. Murphy
J. D. Nations
Z. Veale

AUTHORIZING STATUTES -- Article 1 Oil, Gas and Helium

<u>RULE NUMBER</u>	<u>BRIEF DESCRIPTION</u>	<u>A.R.S. AUTHORITY</u>
R12-7-103	Bond	27-516.A(3),(18); 27-523; 27-652; 27-656; 27-659
R12-7-104	Permit to drill	27-513; 27-516.A(2),(20); 27-652; 27-659
R12-7-105	Change location	27-513; 27-516.A(2); 27-652; 27-659
R12-7-106	Identification	27-516.A(8); 27-652; 27-656
R12-7-107	Spacing of wells	27-504; 27-505; 27-506.A; 27-516.A(12); 27-516.B; 27-517; 27-531 through 27-539 27-652; 27-656
R12-7-108	Reserve pits	27-516.A(1)(c); 27-516.A(6); 27-652; 27-656
R12-7-110	Surface casing	27-516.A(1),(6); 27-652; 27-656; 27-660
R12-7-111	Casing & tubing	27-516.A(1),(4),(6); 27-652; 27-660
R12-7-112	Defective casing or cementing	27-516.A(1)(b),(c); 27-651; 27-656; 27-660
R12-7-113	Blowout prevention	27-516.A(6); 27-656; 27-660
R12-7-114	Recovery of casing	27-516.A(1),(6); 27-656
R12-7-115	Deviation of hole	27-506.A; 27-516.A(13); 27-516.B; 27-517 27-652; 27-656
R12-7-116	Multiple completion	27-516.A(1)(a),(13); 27-516.B; 27-517; 27-656.A
R12-7-117	Well stimulation	27-516.A(1),(9); 27-652; 27-655; 27-656
R12-7-118	Hydrogen sulfide environments	27-502.A(6); 27-516.A(7); 27-656.A

ARIZONA REVISED STATUTES

CHAPTER 4

OIL AND GAS

ARTICLE 1. PRODUCTION AND
CONSERVATION

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

27-504. Drilling units; rules and regulations; exceptions

A. For the prevention of waste, to protect and enforce the correlative rights of owners in a pool, and to avoid augmentation and accumulation of risks arising from drilling an excessive number of wells, or reduced recovery which might result from too small a number of wells, the commission shall, after a hearing, establish a drilling unit or units for each pool. The establishment of a unit for gas shall be limited to the production of gas.

B. Each well permitted to be drilled on a drilling unit shall be drilled under the applicable rules and regulations and in accordance with the applicable spacing pattern prescribed by the commission. Exceptions to the rules and spacing pattern may be granted where it is shown, after notice and hearing, that the unit is partly outside the pool or, for some other reason, a well so located on the unit would be non-productive. Exceptions permitting a proposed well to be drilled on an unorthodox location may be granted on the basis of topography or terrain without notice or hearing.

C. If an exception is granted, the commission shall take action which will offset any advantage which the person securing the exception may have over other producers by reason of drilling the well as an exception, and so that drainage from developed units to the tract with respect to which the exception is granted will be prevented or minimized, and the producer of the well drilled as an exception will be allowed to produce no more than a just and equitable share of the oil and gas in the pool. 1962

27-505. Pooling of interests

A. When two or more separately owned tracts of land are embraced within an established drilling unit, persons owning the drilling rights therein and the right to share in the production therefrom may agree to pool their interests and develop their lands as a drilling unit. If the persons do not agree to pool their interests, the commissioner may, for prevention of waste, for protection of correlative rights, or to avoid drilling of unnecessary wells, enter an order pooling and integrating their interests for the development of their lands as a drilling unit. Orders effectuating such pooling shall be made after notice and hearing, and shall be upon terms and conditions which will afford the owner of each tract the opportunity to recover or receive his just and equitable share of the oil and gas in the pool without unnecessary expense. Operations incident to drilling a well upon any portion of a unit covered by a pooling order shall be deemed for all purposes to be the conduct of such operations upon each separately owned tract in the unit by the several owners thereof. The portion of the production allocated to the owner of each tract included in a drilling unit formed by a pooling order shall, when produced, be considered as if it had been produced from the tract by a well drilled thereon. If such pooling is effectuated, the cost of development and operation of the pooled unit chargeable by the operator to other interested owners shall be limited to the actual and reasonable expenditures required for that purpose, including a reasonable charge for supervision. As to owners who refuse to agree upon pooling, the order shall provide for reimbursement for costs chargeable to each such owner out of, and only out of, production from the unit belonging to such owner. In event of dispute relative to such costs, the commissioner shall upon notice to all interested parties and hearing thereon, determine the proper costs. Appeals may be taken from the determination as from any other order of the commissioner. If one or more of the owners drills and operates, or pays the expense of drilling and operating the well for the benefit of others, then, in addition to any other rights conferred by the pooling order, the owner or owners so drilling or operating shall have a lien on the share of production from the unit accruing to the interest of each of the other owners for the payment of his proportionate share of the expenses. All the oil and gas subject to the lien, or so much thereof as necessary, shall be marketed and sold by the creditor and the proceeds applied in payment of the expenses secured by the lien, with the balance if any payable to the debtor.

B. The commissioner shall, in all instances where a unit has been formed from lands or areas of more than one ownership, require the operator, upon request of an owner, but subject to the right of the operator to market production and collect the proceeds with respect to an owner in default, as provided in subsection A, to deliver to the owner or his assigns his proportionate share of the production from the well common to the drilling unit. The owner receiving his share shall provide at his own expense proper receptacles for the receipt and storage thereof.

C. If the persons owning and drilling or exercising other rights in separate tracts embraced within a drilling unit fail to agree upon the pooling of the tracts and drilling of a well on the unit, and if the commissioner is without authority to require pooling as provided by this section, then, subject to all other applicable provisions of this article, the owner of each tract embraced within the drilling unit may drill on his tract, but the allowable production from the tract

shall be the proportion of the allowable production for the full drilling unit as the area of such separately owned tract bears to the full drilling unit.

D. An agreement for repressuring or pressure-maintenance operations, cycling or recycling operations, including extraction and separation of liquid hydrocarbons from natural gas in connection therewith, or for carrying on any other method of unit or cooperative development or operation of a field or pool or a part of either, is authorized and may be performed, and shall not be held or construed to violate any statutes of this state relating to trusts, monopolies or contracts and combinations in restraint of trade, if, after notice and a public hearing, the agreement is approved by the commissioner as being in the public interest, protective of correlative rights, and reasonably necessary to increase ultimate recovery or to prevent waste of oil or gas. The agreements shall bind only the persons who execute them, and their heirs, successors, assigns, and legal representatives.

1955

27-506. Regulation of drilling in pools; notice of sale, transfer or purchase

A. The commissioner shall, upon notice and hearing, regulate drilling and location of wells in any pool and the production therefrom to prevent reasonably avoidable net drainage from each developed unit so that each owner in a pool shall have the right and opportunity to recover his fair and equitable share of recoverable oil and gas in the pool.

B. A rule, regulation or order of the commissioner made under the provisions of this section shall not be of such effect as to:

1. Make it necessary for a producer from, or an owner of, a tract of land in a pool, in order to obtain his just and equitable share of the production of the pool, to drill and operate a well on the tract in addition to such wells as may without waste produce his share.

2. Occasion net drainage unless wells are drilled and operated on the tract in addition to such wells thereon as can without waste produce the tract's just and equitable share of the production of the pool.

C. Any owner of a well, any owner of land upon which a well is located, or any lessor or lessee of land upon which a well is located shall notify the commissioner, in writing and on such form as the commission may prescribe, of the sale, assignment, transfer, conveyance or exchange of such well, land or lease. Such notice shall be made within ten days of such sale, assignment, transfer, conveyance or exchange and shall contain:

1. The name and address of the person to whom sold, assigned, transferred, conveyed or exchanged.

2. The name and location of the well.

3. The date of the sale, assignment, transfer, conveyance or exchange.

D. Any person who acquires ownership or operation of any well, ownership of any land upon which a well is located or any lease rights to land on which a well is located, whether by purchase, assignment, transfer, conveyance, exchange or otherwise, shall, within ten days after acquiring such well, land or lease rights, notify the commissioner, in writing and on such form as the commission may prescribe, of his ownership or operation. Such notice shall contain:

1. The name and address of the person from whom acquired.

2. The name and location of the well.

3. The date of acquisition.

4. The date when operations are assumed or resumed by new owner.

1973

27-513. Permit to drill well

A person desiring to drill a well in search of oil or gas shall notify the commissioner on a form prescribed by the commissioner, and shall pay a fee of twenty-five dollars for each well. Upon receipt of notification and the fee, the commissioner shall promptly issue the person a permit to drill, unless drilling the well is contrary to law or to a rule, regulation or order of the commissioner. Drilling the well is prohibited until a permit to drill is obtained in accordance with the provisions of this section.

1955

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.

1973

27-523. Funds

A. Monies collected by the commissioner under this article shall be remitted by him to the state treasurer for deposit in a special fund known as the oil and gas conservation fund.

B. Expenses incident to the administration of this article shall be paid from the oil and gas conservation fund, subject to legislative appropriation.

1965

ARTICLE 1.1. FIELDWIDE UNITIZATION

27-531. Integration of interests and spacing units

A. To prevent or to assist in preventing waste, to insure a greater recovery of oil and gas, and to protect the correlative rights of persons owning interests in the tracts of lands affected, such persons may validly integrate their interests to provide for the unitized management, development and operation of such tracts of land as a unit. Where, however, such persons have not agreed to so integrate their interests, the commission, upon proper petition, after notice and hearing as provided in § 27-516 shall be vested with the jurisdiction and authority, and it shall be its duty to make and enforce such orders and do such things as may be necessary or proper to carry out and effectuate the purposes of this article.

B. The commission shall make an order providing for the unitized operation of a pool or part thereof if, after proper petition and notice and hearing it finds that:

1. The unitized management, operation and further development of a pool or portion thereof is reasonably necessary in order to effectively carry on pressure control, pressure-maintenance or repressuring operations, cycling operations, water flooding operations, or any combination thereof, or any other form of joint effort calculated to substantially increase the ultimate recovery of oil and gas from the pool; and

2. One or more of the unitized methods of operation as applied to such pool or portion thereof are feasible, will prevent waste and will, with reasonable probability, result in the increased recovery of substantially more oil and gas from the pool than would otherwise be recovered; and

3. The estimated additional cost, if any, of conducting such operations will not exceed the value of the additional oil and gas so recovered. 1962

27-532. Order; units and unit areas; plan of unitization

The order of the commission shall define the area of the pool or portion thereof to be included within the unit area and prescribe with reasonable detail the plan of unitization applicable thereto. Each unit and unit area shall be limited to all or a portion of a single pool. Only so much of a pool as has been defined and determined to be productive of oil and gas by actual drilling operations may be so included within the unit area. A unit may be created to embrace less than the whole of a pool only where it is shown by the evidence that the area to be so included within the unit area is of such size and shape as may be reasonably required for the successful and efficient conduct of the unitized method of operation for which the unit is created, and that the conduct thereof will have no material adverse effect upon the remainder of such pool. The plan of unitization for each such unit and unit area shall be one suited to the needs and requirements of the particular unit dependent upon the facts and conditions found to exist with respect thereto. In addition to such other terms, provisions, conditions and requirements found by the commission to be reasonably necessary or proper to effectuate or accomplish the purpose of this article, and subject to the further requirements hereof, each such plan of unitization shall contain fair, reasonable and equitable provisions for:

1. The efficient unitized management or control of the further development and operation of the unit area for the recovery of oil and gas from the pool affected. Under such a plan the actual operations within the unit area may be carried on in whole or in part by the unit itself, or by one or more of the lessees within the unit area as the unit operator subject to the supervision and direction of the unit, dependent upon what is most beneficial or expedient. The designation of the unit operator shall be by vote of the lessees in the unit in a manner provided in the plan of unitization and not by the commission.

2. The division of interest or formula for the apportionment and allocation of the unit production, among and to the several separately owned tracts within the unit area such as will reasonably permit persons otherwise entitled to share in or benefit by the production from such separately owned tracts to produce and receive, in lieu thereof, their fair, equitable and reasonable share of the unit production or other benefits thereof. A separately owned tract's fair, equitable, and reasonable share of the unit production shall be measured by the value of each such tract for oil and gas purposes and its contributing value to the unit in relation to like values of other tracts in the unit, taking into consideration acreage, the quantity of oil and gas recoverable therefrom, location on the structure, its probable productivity of oil and gas in the absence of unit operations, the burden of operations to which the tract will or is likely to be subjected, or so many of said factors, or such other pertinent engineering, geological or operating factors, as may be reasonably susceptible of determination. "Unit production" as that term is used in this article means and includes all oil and gas produced from a unit area from and after the effective date of the order of the commission creating the unit regardless of the well or tract within the unit area from which the same is produced.

3. The manner in which the unit and the further development and operation of the unit area shall or may be financed and the basis, terms and conditions on which the cost and expense thereof shall be apportioned among and assessed against the tracts and interest made chargeable therewith, including a detailed accounting procedure governing all charges and credits incident to such operations. Upon and subject to such terms and conditions as to time and rate of interest as may be fair to all concerned, reasonable provision shall be made in the plan of unitization for carrying or otherwise financing lessees who are unable to meet promptly their financial obligations in connection with the unit.

4. The procedure and basis upon which wells, equipment and other properties of the several lessees within the unit area are to be taken over and used for unit operations, including the method of arriving at the compensation therefor, or of otherwise proportionately equalizing or adjusting the investment of the several lessees in the project as of the effective date of unit operation.

5. The supervision and conduct of the unit operations, in respect to which each person shall have a vote with a value corresponding to the percentage of the costs of unit operations chargeable against the interest of such person.

6. The time when the plan of unitization shall become effective.

7. The time when and the conditions under which and the method by which the unit shall or may be dissolved and its affairs wound up. 1962

27-533. Ratification or approval of plan by lessees and owners

A. No order of the commission creating a unit and prescribing the plan of unitization applicable thereto shall become effective unless and until the plan of unitization has been signed, or in writing ratified or approved by lessees of record of not less than sixty-three per cent of the unit area affected thereby and by owners of record of not less than sixty-three per cent (exclusive of royalty interest owned by lessees or by subsidiaries of any lessee) of the normal one-eighth royalty interest in and to the unit area, and the commission has made a finding either in the order creating the unit or in a supplemental order that the plan of unitization has been so signed, ratified or approved by lessees and royalty owners owning the required percentage interest in and to the unit area. Where the plan of unitization has not been so signed, ratified or approved by lessees and royalty owners owning the required percentage interest in and to the unit area at the time the order creating the unit is made, the commission shall, upon petition and notice, hold such additional and supplemental hearings as may be requested or required to determine if and when the plan of unitization has been so signed, ratified or approved by lessees and royalty owners owning the required percentage interest in and to the unit area and shall, in respect to such hearings, make and enter a finding of its determination in such regard. In the event lessees and royalty owners, or either, owning the required percentage interest in and to the unit area have not so signed, ratified or approved the plan of unitization within a period of six months from and after the date on which the order creating the unit is made, the order creating the unit shall cease to be of further force and effect and shall be revoked by the commission.

B. An order providing for unit operations may be amended by an order made by the commission, in the same manner and subject to the same conditions as an original order providing for unit operations, provided:

1. If such an amendment affects only the rights and interests of the owners, the approval of the amendment by the royalty owners shall not be required.

2. No such order of amendment shall change the percentage for allocation of oil and gas as established for any separately owned tract by the original order, except with the consent of all persons owning interests in such tract.

C. The commission, by an order, may provide for the unit operation of a pool or a part thereof that embraces a unit area established by a previous order of the commission. Such order, in providing for the allocation of unit production, shall first treat the unit area previously established as a single tract, and the portion of the unit production so allocated thereto shall then be allocated among the separately owned tracts included in such previously established unit area in the same proportions as those specified in the previous order.

1962

27-534. Unlawful operation

From and after the effective date of an order of the commission creating a unit and prescribing the plan of unitization applicable thereto, the operation of any well producing from the pool or portion thereof within the unit area defined in the order by persons other than the unit or persons acting under its authority or except in the manner and to the extent provided in such plan of unitization shall be unlawful and is prohibited.

1962

27-535. Status and powers of unit; liability and expenses; lien

A. The obligation or liability of the lessees or other owners of the oil and gas rights in the several separately owned tracts for the payment of unit expense shall at all times be several and not joint or collective and in no event shall a lessee or other owner of the oil and gas rights in the separately owned tract be chargeable with, obligated or liable, directly or indirectly, for more than the amount apportioned, assessed or otherwise charged to his interest in such separately owned tract pursuant to the plan of unitization and then only to the extent of the lien provided for in this article.

B. Subject to such reasonable limitations as may be set out in the plan of unitization, the unit shall have a first and prior lien upon the leasehold estate and all other oil and gas rights (exclusive of one-eighth landowners' royalty interest) in and to each separately owned tract, the interest of the owners thereof in and to the unit production and all equipment in the possession of the unit, to secure the payment of the amount of the unit expense charged to and assessed against such separately owned tract. The interest of the lessee or other persons who by lease, contract or otherwise are obligated or responsible for the cost and expense of developing and operating a separately owned tract for oil and gas in the absence of unitization shall, however, be primarily responsible for and charged with any assessment for unit expense made against such tract and resort may be had to overriding royalties, oil and gas payments, royalty interests in excess of one-eighth of the production, or other interests which otherwise are not chargeable with such costs, only in the event the owner of the interest primarily responsible fails to pay such assessment or the production to the credit thereof, is insufficient for that purpose. In the event the owner of any royalty interest, overriding royalty, oil or gas payment, or any other interest which under the plan of unitization is not primarily responsible therefor pays in whole or in part the amount of an assessment for unit expense for the purpose of protecting such interest or the amount of the assessment in whole or in part is deducted from the unit production to the credit of such interest, the owner thereof shall to the extent of such payment or deduction be subrogated to all the rights of the unit with respect to the interest or interests primarily responsible for such assessment. A one-eighth part of the unit production allocated to each separately owned tract shall in all events be regarded as royalty to be distributed to and among, or the proceeds thereof paid to, the royalty owners free and clear of all unit expense and free of any lien therefor.

1962

27-536. Modification of property rights, leases and contracts; title to property; distribution of proceeds; delivery in kind; effect of operations; matters not affected

A. Property rights, leases, contracts and all other rights and obligations shall be regarded as amended and modified to the extent necessary to conform to the provisions and requirements of this article, and to any valid and applicable plan of unitization or order of the commission made and adopted pursuant hereto, but otherwise to remain in full force and effect. No division order or other contract relating to the sale or purchase of production from a separately owned tract shall be terminated by the order providing for unit operations, but shall remain in force and apply to oil and gas allocated to such tract until terminated in accordance with the provisions thereof.

B. Nothing contained in this article shall be construed to require a transfer to or vesting in the unit of title to the separately owned tracts or leases thereon within the unit area, other than the right to use and operate the same to the extent set out in the plan of unitization, nor shall the unit be regarded as owning the unit production. The unit production and the proceeds from the sale thereof shall be owned by the several persons to whom the same is allocated under the plan of unitization. All property, whether real or personal, which the unit may in any way acquire, hold or possess, shall not be acquired, held and possessed by the unit for its own account but shall be so acquired, held and possessed by the unit for the account and as agent of the several lessees and shall be the property of such lessees as their interests may appear under the plan of unitization, subject, however, to the right of the unit to the possession, management, use or disposal of the same in the proper conduct of its affairs, and subject to any lien the unit may have thereon to secure the payment of unit expense. Neither the unit production or proceeds of the sale thereof, nor the other receipts shall be treated, be regarded, or taxed as income or profits of the unit; but instead, all such receipts shall be the income of the several persons to whom or to whose credit the same are payable under the plan of unitization. To the extent the unit may receive or disburse said receipts it shall only do so as a common administrative agent of the persons to whom the same are payable.

C. The amount of the unit production allocated to each separately owned tract within the unit, and only that amount, regardless of the well or wells in the unit area from which it may be produced and regardless of whether it be more or less than the amount of the production from the well or wells, if any, on any such separately owned tract, shall for all intents, uses and purposes be regarded and considered as production from such separately owned tract, and except as may be otherwise authorized in this article, or in the plan of unitization approved by the commission, shall be distributed among or the proceeds thereof paid to the several persons entitled to share in the production from such separately owned tract in the same manner, in the same proportions, and upon the same conditions that they would have participated and shared in the production or proceeds thereof from such separately owned tract had not said unit been organized and with the same legal force and effect. If adequate provisions are made for the receipt thereof, the share of the unit production allocated to each separately owned tract shall be delivered in kind to the persons entitled thereto by virtue of ownership of oil and gas rights therein or by purchase from such

owners subject to the rights of the unit to withhold and sell the same in payment of unit expense pursuant to the plan of unitization, and subject further to the call of the unit on such portions of the gas for operating purposes as may be provided in the plan of unitization.

D. Operations carried on under and in accordance with the plan of unitization shall be regarded and considered as a fulfillment of and compliance with all of the provisions, covenants and conditions, express or implied, of the several oil and gas leases upon lands included within the unit area, or other contracts pertaining to the development thereof insofar as said leases or other contracts may relate to the pool or portion thereof included in the unit area. Wells drilled or operated on any part of the unit area no matter where located shall for all purposes be regarded as wells drilled on each separately owned tract within such unit area.

E. Nothing in this article or in any plan of unitization shall be construed as increasing or decreasing the implied covenants of a lease in respect to a common source of supply or lands not included within the unit area of a unit.

1962

27-537. Enlargement of area; creation of new units; amendment of plan

The unit area of a unit may be enlarged to include adjoining portions of the same pool, including the unit area of another unit, and a new unit created for the unitized management, operation and further development of such enlarged unit area, or the plan of unitization may be otherwise amended, all in the same manner, upon the same conditions and subject to the same limitations as provided in this article with respect to the creation of a unit in the first instance; except that where the amendment to the plan of unitization relates only to the rights and obligations as between lessees the requirement that the same be signed, ratified and approved by royalty owners of record of not less than sixty-three per cent of the unit area shall have no application.

1962

27-538. Federal taxation

Any unit agreement approved by the commission shall contain language suggested by the internal revenue service under I.T. 3930 and I.T. 3948 so that owners in the unitized area will not be held taxable as a corporation.

1962

27-539. Validation of unit agreements

An agreement for the unit or cooperative development and operation of a field, pool, or part thereof, may be submitted to the commission for approval as being in the public interest or reasonably necessary to prevent waste. Such approval shall constitute a complete defense to any suit charging violation of any statute of the state relating to trusts and monopolies on account thereof or on account of operations conducted pursuant thereto. The failure to submit such an agreement to the commission for approval shall not for that reason imply or constitute evidence that the agreement or operations conducted pursuant thereto are in violation of laws relating to trusts and monopolies.

1962

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.

1977

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.

1977

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

27-659. Application to drill

The owner or operator of any property, before commencing the drilling of a well or entering or deepening an abandoned well, shall file with the commission an application to drill, on a form prescribed by the commission, containing such information as may be required by the commission. Such application shall be accompanied by a fee of twenty-five dollars per well. All monies so received by the commission shall be deposited to the oil and gas conservation fund. 1972

27-660. Safety requirements

Any person engaged in the drilling of a well for geothermal resources in an area wherein fluids, gases or steam under high pressure are known to exist, or any person drilling a well for geothermal resources in any area where pressures are not known, shall case in a watertight manner the borehole to a depth sufficient to protect against surface-cratering in the event of a blow out with pipe of adequate strength, and equip the well with a blow out preventor and other safety devices, in accordance with pipe and equipment specifications and procedures approved by the commission, and shall further exercise due caution in all drilling operations to prevent blow outs, explosions or fires. 1972

CONCISE EXPLANATORY STATEMENT, Title 12, Chapter 7, Article 1: *Oil, gas and helium*

1. The Oil and Gas Conservation Commission, pursuant to A.R.S. § 27-516.A, has adopted the following rules, as amended, to monitor the production and the initial purchase, transport, and processing of the state's oil, gas, and geothermal resources in order to prevent their waste and to ensure their conservation and maximum recovery. A brief description and the specific statutory authority for each rule is as follows:

<u>RULE NO.</u>	<u>BRIEF DESCRIPTION</u>	<u>A.R.S. AUTHORITY</u>
R12-7-135	Gas-oil ratio and potential tests	27-503.B(4); 27-516.A(5)
R12-7-136	Pressure tests and reservoir surveys	27-503.B(4); 27-516.A
R12-7-137	Commingling of production	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, damage, and noise	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 & fire hazards	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 and geothermal	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	Regulation of production	27-516.A(13); 27-652; 27-656.A
R12-7-161	Production reports	27-516.A(15); 27-662
R12-7-183	Certificate of compliance and authorization to 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	Transporter's & storer's reports	27-503.B(6); 27-507.01
R12-7-186	Gas & geothermal purchaser's reports	27-503.B(6); 27-508.01; 27-652.A; 27-656.A
R12-7-187	Injection project reports	27-503.B(6); 27-516.A(20); 27-652
R12-7-188	Refinery report	27-503.B(4),(6)
R12-7-190	Gasoline plant report	27-503.B(4),(6)
R12-7-192	Books & records to substantiate	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 may be required	27-502; 27-503; 27-652; 27-653

After reviewing these rules pursuant to A.R.S. § 41-1054, the Oil and Gas Conservation Commission (1) repealed A.A.C. R12-7-189, which requires books and records from refiners and processors to substantiate the reports required by the Commission, because it is redundant with A.A.C. R12-7-192, which also requires refiners and processors to keep books and records to substantiate reports, (2) adopted A.A.C. R12-7-187, which defines the reporting requirements for operators of injection projects, because this requirement was previously hard to locate as it was contained in R12-7-179, which is a general rule on records and reports, and (3) amended A.A.C. R12-7-135 through R12-7-140, R12-7-142, R12-7-143, R12-7-150 through R12-7-153, R12-7-160, R12-7-161, R12-7-183 through R12-7-186, R12-7-188, R12-7-190, and R12-7-192 through R12-7-195 to update and clarify language, edit for consistency and grammatical accuracy, remove gender-specific terminology, account for currently accepted practices in the regulated industry, and incorporate language to include geothermal resources.

2. No written comments were received on this group of rules after they were approved by the Governor's Regulatory Review Council on April 7, 1992, and after they were published in the May 1992 issue of the *Arizona Administrative Register*. As a result, there is no change in the text of the proposed rules contained in the notice of proposed rule adoption filed with the Secretary of State on April 16, 1992, pursuant to §41-1022 and the text of the rules as finally adopted by the Oil and Gas Conservation Commission.

3. Arguments for the rules are (1) these rules prohibit pollution, surface damage, excessive noise, and fire hazards around the well-site, (2) these rules define the testing, measurement, production, and reporting requirements for oil, gas, and geothermal operations and (3) these rules require operators, producers, purchasers, transporters, refiners, and processors to keep accurate records of their operations in order to substantiate the required reports. No arguments were received against this set of rules.



J. E. Warne, Jr.
Vice-Chairman
Oil and Gas Conservation Commission



State of Arizona
Arizona Geological Survey

845 North Park Avenue, #100
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Larry D. Fellows
Director and State Geologist

TO: Oil and Gas Conservation Commissioners
FROM: *SLP* Steven L. Rauzi, Oil and Gas Program Administrator
DATE: April 30, 1992
SUBJECT: Status on the Cam-Roy and Contender Oil cases.

Enclosed is a copy of Kate Mead's cover letter regarding her progress on the referenced cases, and a copy of her draft complaint on the Contender 1 Aman well. Please note that she expects an order to show cause hearing in the Contender case to be set for late May or early June, and that she is currently pulling factual information together in order to fully apprise the court of the facts in the Cam-Roy case. I informed her that your desire was to file these cases concurrently. She responded that the Cam-Roy complaint would be filed as soon as she pulled the factual information together, well before your next meeting in July.

In light of this progress, Jan C. Wilt, Chairman, and James E. Warne, Jr., Vice-Chairman, agreed that the meeting scheduled for May 15, 1992, would not be necessary. July would be the appropriate time for Kate to report on the progress of these cases.

