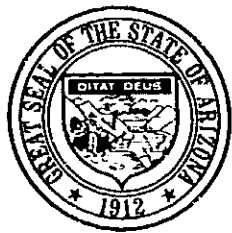


OIL & GAS CONSERVATION COMMISSION
— MINUTES OF MEETING / MAY 17, 1996 —
STEVEN L RAUZI, OIL & GAS ADMINISTRATOR



Fife Symington
Governor

State of Arizona
Arizona Geological Survey

416 W. Congress, Suite 100
Tucson, Arizona 85701
(520) 770-3500



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 May 17, 1996, 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 the Minutes of Meeting and Executive Session of February 9, 1996
3. Statement of Director and State Geologist
4. Report of Oil & Gas Program Administrator
5. Status of SB 1075 and SB 1126
6. Clarification of Conflict of Interest Law
7. Discussion of United Gas Search Performance Bond
8. Volume verification surveys pursuant to A.A.C. R12-7-182(D)
9. Election of Officers
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, 416 West Congress, Suite 100, Tucson, Arizona 85701.

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 3rd day of May 1996

OIL AND GAS CONSERVATION COMMISSION

Steven L. Rauzi

Steven L. Rauzi
Oil and Gas Program Administrator

PLEASE ADVISE ME ASAP IF YOU WILL NOT BE ATTENDING THIS MEETING



Fife Symington
Governor

State of Arizona
Arizona Geological Survey

416 W. Congress, Suite 100
Tucson, Arizona 85701
(520) 770-3500



Larry D. Fellows
Director and State Geologist

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Dated this 3rd day of May 1996

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

416 W. Congress, Suite 100
Tucson, Arizona 85701
(520) 770-3500



Larry D. Fellows
Director and State Geologist

May 3, 1996

To: Oil and Gas Conservation Commissioners
From: *SLR* Steven L. Rauzi, Oil and Gas Program Administrator
Re: Activity Report for May 17, 1996, Meeting

No new permits to drill were issued since your last meeting on February 9. The Premco Western #1 Mohave is shut-in at 1,050 feet, the Arzon #1 State is shut-in pending transfer to the State Land Department as a water well, and Ridgeway Arizona Oil Corporation has yet to begin drilling its CO₂ confirmation wells near St. Johns.

The U.S. Geological Survey reports that it plans to plug & abandon the geothermal test hole near Alpine this summer. There is no further interest in deepening the hole or converting it to a water well. The Survey's heat-flow studies of this hole were presented as part of a poster at the Fall 1995 American Geophysical Union meeting, and the details will be published as an Open File Report later this year.

Governor Symington signed SB 1075 to continue the Oil and Gas Conservation Commission through July 2006. The tax equity for oil and gas interests bill, SB 1126, passed the Senate but died in the House. The tax equity for oil and gas interests provided by SB 1126 were duplicated in the overall tax reform act, which passed but was vetoed by Governor Symington.

The \$5,000 cash performance bond was returned to Copaquen Associates on March 27, 1996. The Copaquen well was drilled, plugged, and abandoned in compliance with all applicable rules in 1981.

Two different individuals requested release of the \$5,000 performance bond posted by United Gas Search in 1991. United Gas Search constructed the well location in 1991 but never drilled the well. Ruth Tucker, assignee of the bond, requested release to her because the lease was transferred and United Gas Search ceased as operator of the lease. Rodney Ratheal, current lease holder, requested release to him because his company (1) raised the money posted by United Gas Search five years ago and (2) recently supervised and paid for the work of restoring the United Gas Search location. I advised Ruth Tucker that, pursuant to A.A.C. R12-7-103(C), transfer of property did not release the bond. This matter is set for discussion under agenda item 7.

A.A.C. R12-7-182(D) requires a capacity determination upon completion of new storage cavities with verification every five years. Sonar-caliper surveys have been used exclusively to verify cavity capacities in Arizona over the last sixteen years. Our files contain at least two sonar surveys on all cavities and three on several cavities but no volumetric measurements to complement the sonar surveys. I just finished an analysis that shows that sonar surveys provide general but not exact shapes and volumes. Volumetric measurements, on the other hand, provide a more exact volume determination. As a result, my analysis and recommendation to include both volumetric measurements and sonar surveys to provide a more complete and accurate record of volume verification are attached. Agenda item 8 provides for discussion of this matter.

OIL AND GAS CONSERVATION COMMISSION

416 West Congress #100
Tucson, Arizona 85701

Minutes of Meeting
February 9, 1996

Present:

Dr. J. Dale Nations, Chairman
Ms. Lisa C. Worthington, Vice-Chair
Dr. Donald C. Clay, Member
Mr. Zed Veale, Member
Dr. Larry D. Fellows, Director and State Geologist
Mr. Steven L. Rauzi, Oil and Gas Program Administrator

The regular Commission Meeting of February 9, 1996, was called to order by Dr. J. Dale Nations, Chairman, at 10:00 a.m. in Room 111, 416 West Congress, Tucson, Arizona.

APPROVAL OF MINUTES OF MEETING OF SEPTEMBER 15, 1995

Ms. Worthington moved, seconded by Dr. Clay:

THAT THE MINUTES OF THE MEETING OF SEPTEMBER 15, 1995,
BE ACCEPTED AS PRESENTED

Motion carried unanimously.

STATEMENT OF DIRECTOR AND STATE GEOLOGIST

Dr. Fellows welcomed the Commission to the new quarters of the Geological Survey. He reviewed several bills including HB 2386, which consolidates small funds such as the Oil and Gas Conservation Fund into the General Revenue Fund, and SB 1075, which continues the Oil and Gas Conservation Commission through July 2006.

Dr. Fellows discussed the second year of the biennial budget, noting that three new field vehicles were delivered last month and one will be delivered next year. He explained expenditures on the oil and gas program at the request of Dr. Nations.

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 welcomed Dr. Nation's reappointment, reviewed drilling activity, and reported that Arizona Resource Industries leased an additional 144,000 acres near St. Johns.

Ms. Worthington asked about activity at the Alpine geothermal hole since being transferred to the U.S. Geological Survey as an observation well. Mr. Rauzi was not aware of any but indicated he would send an inquiry to John Sass, U.S. Geological Survey, and put it on the agenda for the next meeting.

STATUS OF SUNSET REVIEW 1996

SB 1075 continues the Commission through July 2006. Dr. Fellows reported that it passed the Senate Committee by unanimous vote, passed the House Committee by majority vote, and will now go to the Full House. He noted that in order to consolidate the overall number of bills, SB 1075 continues four agencies including the Commission, Department of Mines and Mineral Resources, Power Authority, and Outdoor Recreation Coordinating Commission.

STATUS OF INCENTIVE LEGISLATION

Mr. Rauzi passed out copies of SB 1126, which reduces the property tax rate on oil, gas, and geothermal interests from 100 per cent of assessed value to 27 per cent of assessed value. He reported that the bill passed the Senate Finance Committee on February 5 by unanimous vote, noting the several individuals who spoke in support of the bill including Dr. Fellows. He suggested a press release be issued if the bill becomes law.

FORFEITURE OF BONDS

Mr. Rauzi reported that Copaquen Associates plugged a well in 1981 in compliance with rules but never requested return of the money. He summarized counsel's recommendation to search for a current address through the Attorney General and write a certified letter; and explained that if the money remains unclaimed it may have to go into the general fund. Dr. Nations asked Mr. Rauzi to proceed and report the status in the next meeting.

CALL TO THE PUBLIC

Mr. Haas discussed transferring inspection & enforcement (I & E) functions and royalty collections on federal lands from the federal to the state level. Royalty collections were not likely to be transferred because of industry opposition and it was too soon to tell about transferring I & E functions.

Ms. Worthington moved, seconded by Dr. Clay:

THAT THE COMMISSION GO INTO EXECUTIVE SESSION

Motion carried unanimously. At 11:10 a.m., the Executive Session began.

The regular meeting resumed at 11:46 a.m.

ANNOUNCEMENTS

Mr. Rauzi announced that the *Arizona Well Location Map and Report* was updated through September 1995, and provided a copy to each of the Commissioners.

Dr. Nations asked Mr. Rauzi to put election of officers on the agenda for the next meeting.

The next meeting was scheduled for 10:00 a.m. on May 17, 1996, in room 500 of the Capitol Tower in Phoenix.

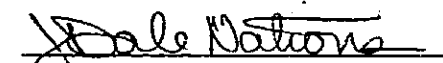
ADJOURNMENT

Ms. Worthington moved, seconded by Dr. Clay:

THAT THE MEETING BE ADJOURNED

Motion carried unanimously. Time of adjournment was 12:15 p.m.

APPROVED


Dr. J. Dale Nations
Chairman

GUESTS IN ATTENDANCE:

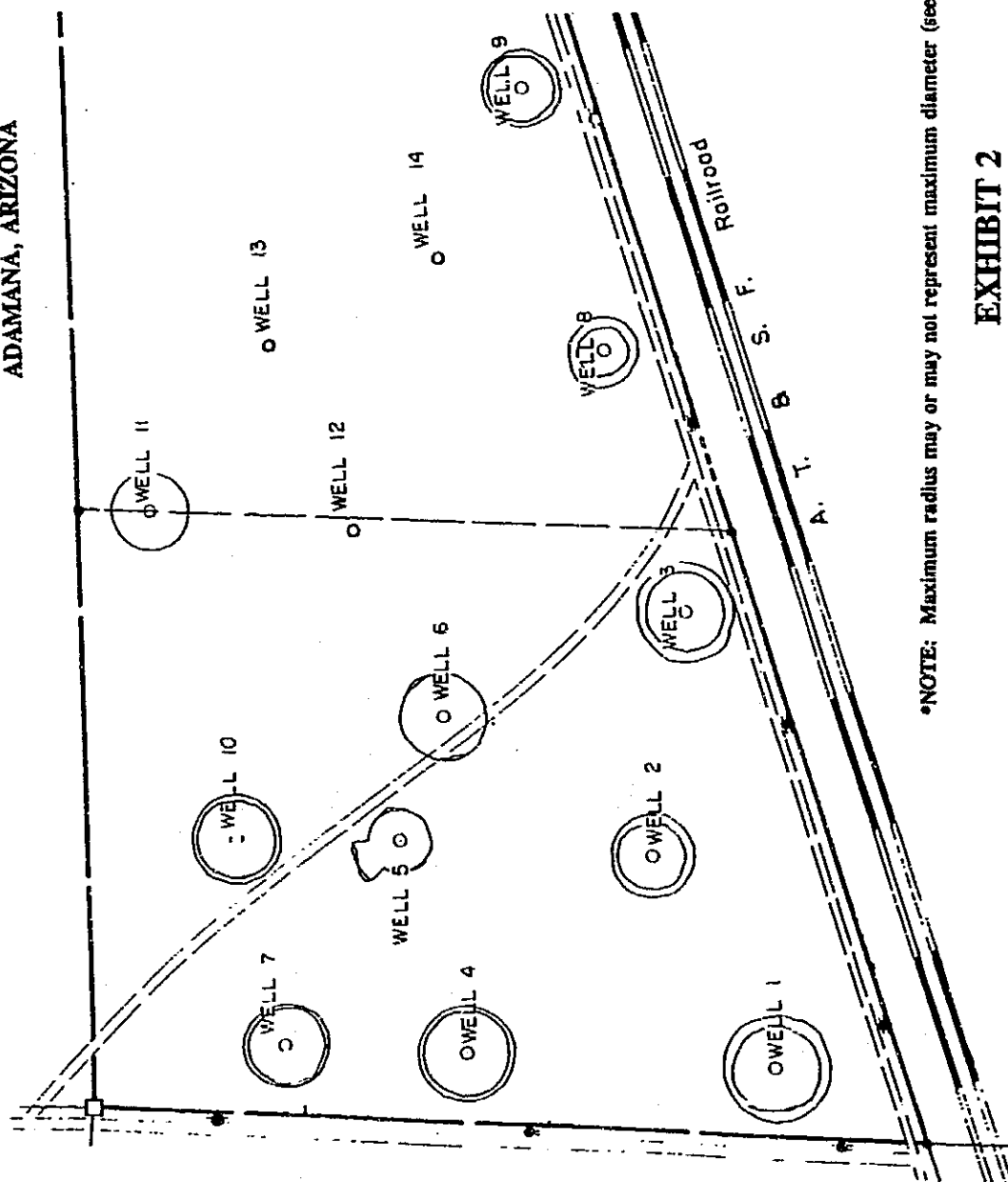
John Haas Bureau of Land Management

EXHIBIT 1

* Sonar through one string of pipe
** Sonar through two strings of pipe

CAVERN MAXIMUM RADIUS* PLOT, FERREL GAS LPG-STORAGE FACILITY

ADAMANA, ARIZONA



INDICATED RADIUS INCREASE THROUGH TIME BY SONAR MEASUREMENT

| Well No. | Initial Cavern | Initial Sonar | Max Radius | Latent Sonar | Max Radius | Sonar Volume | Indicated net Increase |
|----------|----------------|---------------|------------|--------------|------------|--------------|-------------------------------|
| 1 | 1101' | 900-985' | 479' | 99' @ 942' | 2,692 | 118' @ 944' | 176,119 bbls 19'13yr (1.5'yr) |
| 2 | 1112' | 906-995' | 479' | 74' @ 958' | 2,695 | 89' @ 938' | 197,559 bbls 15'16yr (1'yr) |
| 3 | 1140' | 944-1008' | 479' | 87' @ 995' | 3,706 | 104' @ 982' | 185,607 bbls 17'17yr (1'yr) |
| 4 | 1120' | 950-1007' | 480' | 97' @ 945' | 3,702 | 102' @ 978' | 189,616 bbls 5'12yr (5'yr) |
| 5 | 1119' | 938-1035' | 388' | 100' @ 1026' | 3,795 | 101' @ 1026' | 169,615 bbls 1'6yr (2'yr) |
| 6 | 1120' | 924-1027' | 480' | 93' @ 952' | 3,796 | 94' @ 1006' | 176,893 bbls 1'16yr (0.8'yr) |
| 7 | 1152' | 951-1079' | 480' | 84' @ 1035' | 3,796 | 90' @ 1066' | 199,654 bbls 6'16yr (4'yr) |
| 8 | 1132' | 956-1069' | 480' | 57' @ 1060' | 3,792 | 72' @ 1054' | 140,952 bbls 39'12yr (3'yr) |
| 9 | 1125' | 972-1065' | 480' | 71' @ 1030' | 3,792 | 81' @ 1015' | 168,797 bbls 10'12yr (8'yr) |
| 10 | 1150' | 978-1042' | 479' | 85' @ 988' | 2,695 | 98' @ 988' | 168,792 bbls 13'16yr (8'yr) |
| 11 | 1176' | 960-1101' | 389' | 84' @ 1070' | 3,795 | 84' @ 1070' | 244,537 bbls 0'6yr (-1yr) |
| 12 | 1200' | | | | | | Cavern not developed |

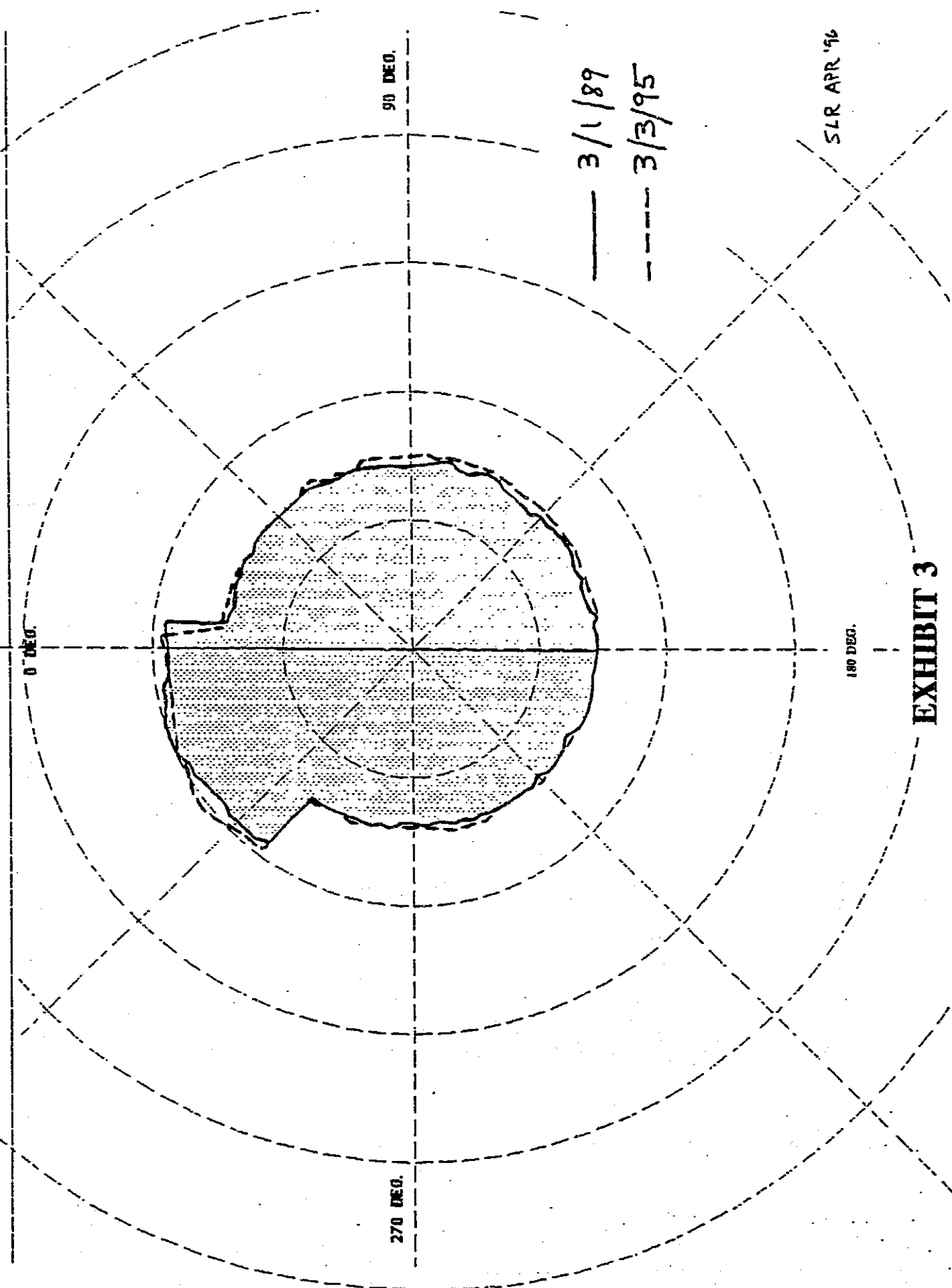
*NOTE: Maximum radius may or may not represent maximum diameter (see Well 5 above & Exhibits 3-5)

EXHIBIT 2

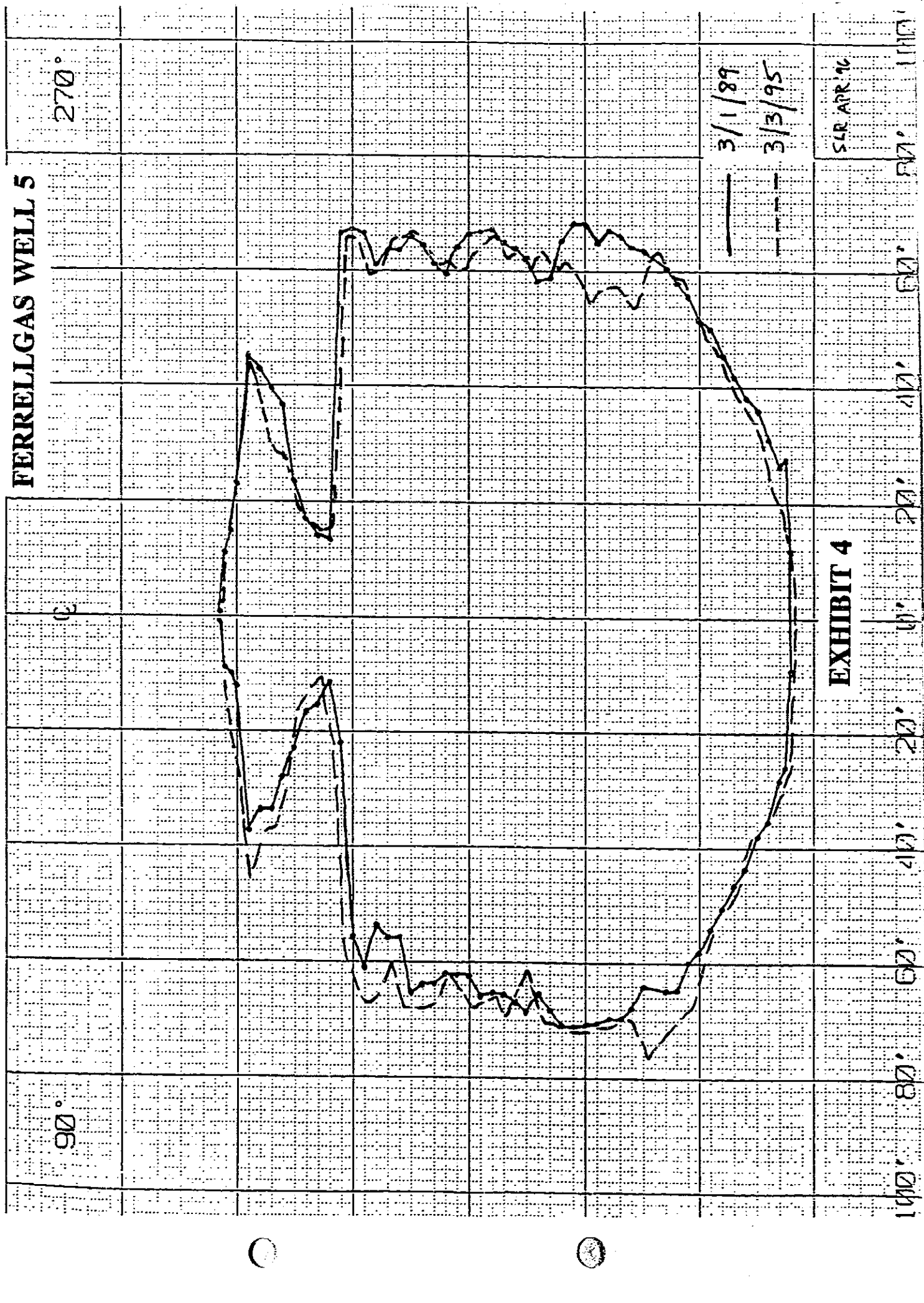
SLR APR '76

MAXIMUM RADIUS PLOT FERRELLGAS WELL 5

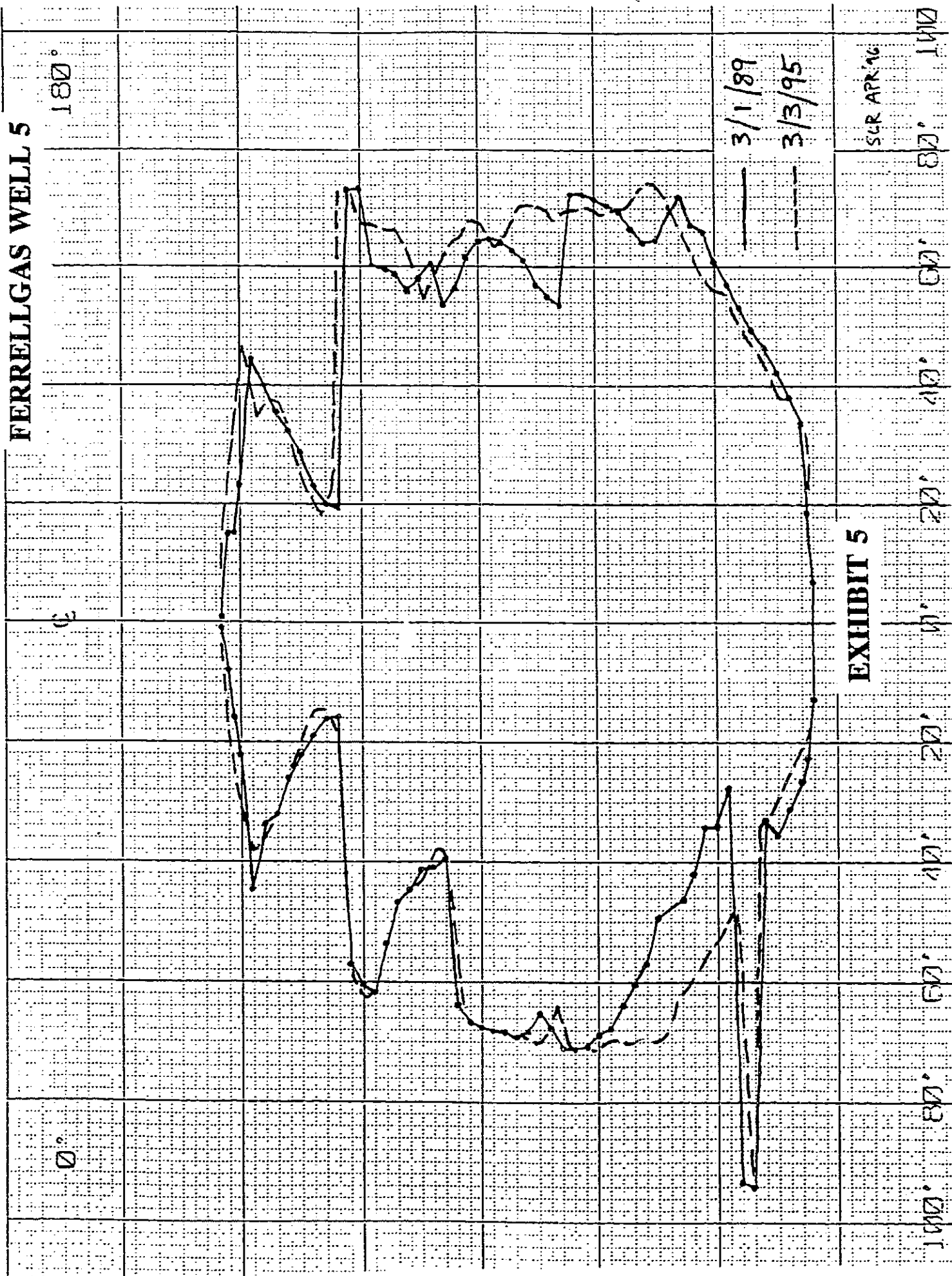
SCALE : 1" = 50'



VERTICAL CROSSSECTION



VERTICAL CROSSSECTION



SCALE : 1" = 50'

MAXIMUM RADIUS PLOT

FERRELLGAS WELL 6

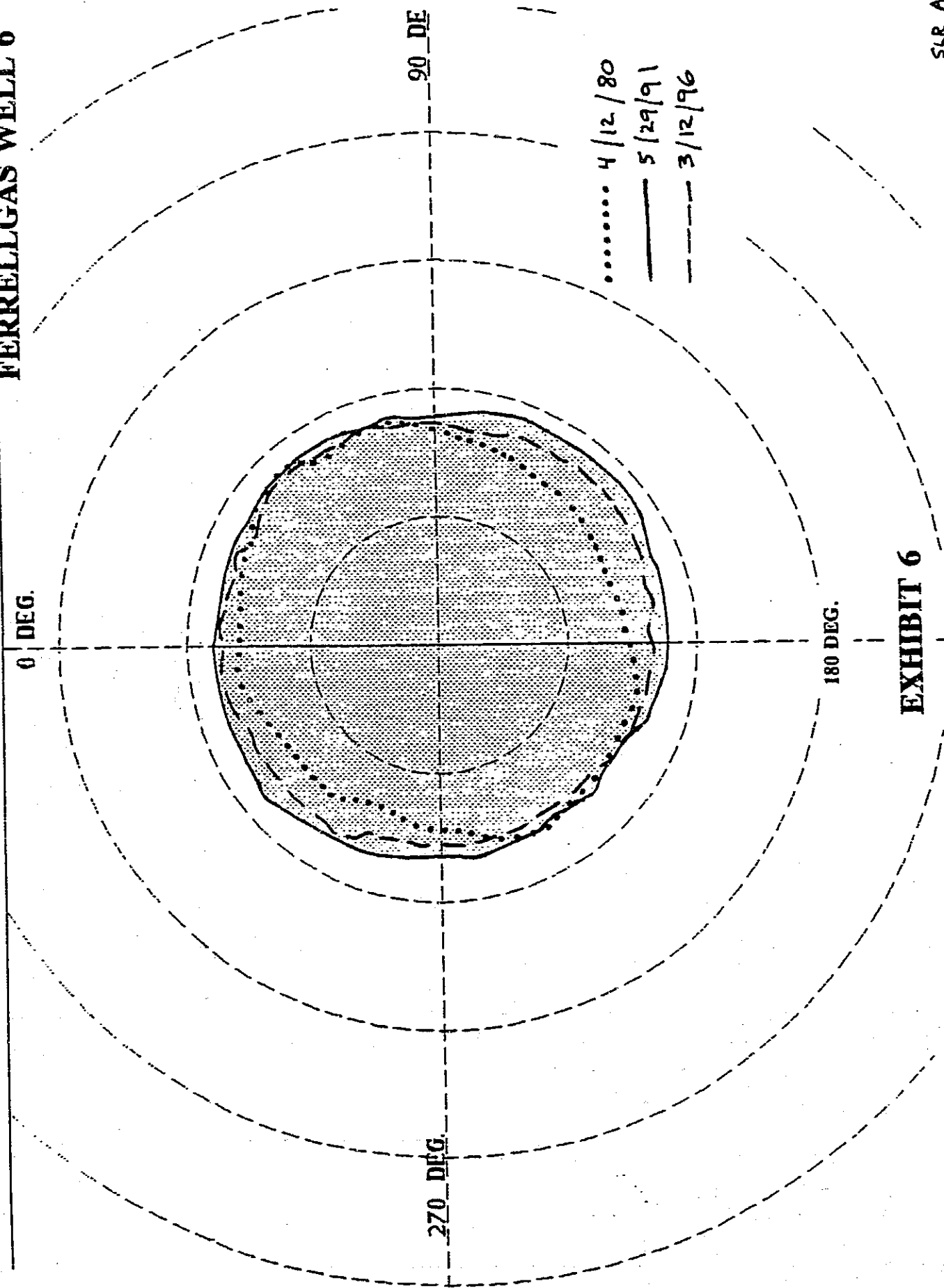


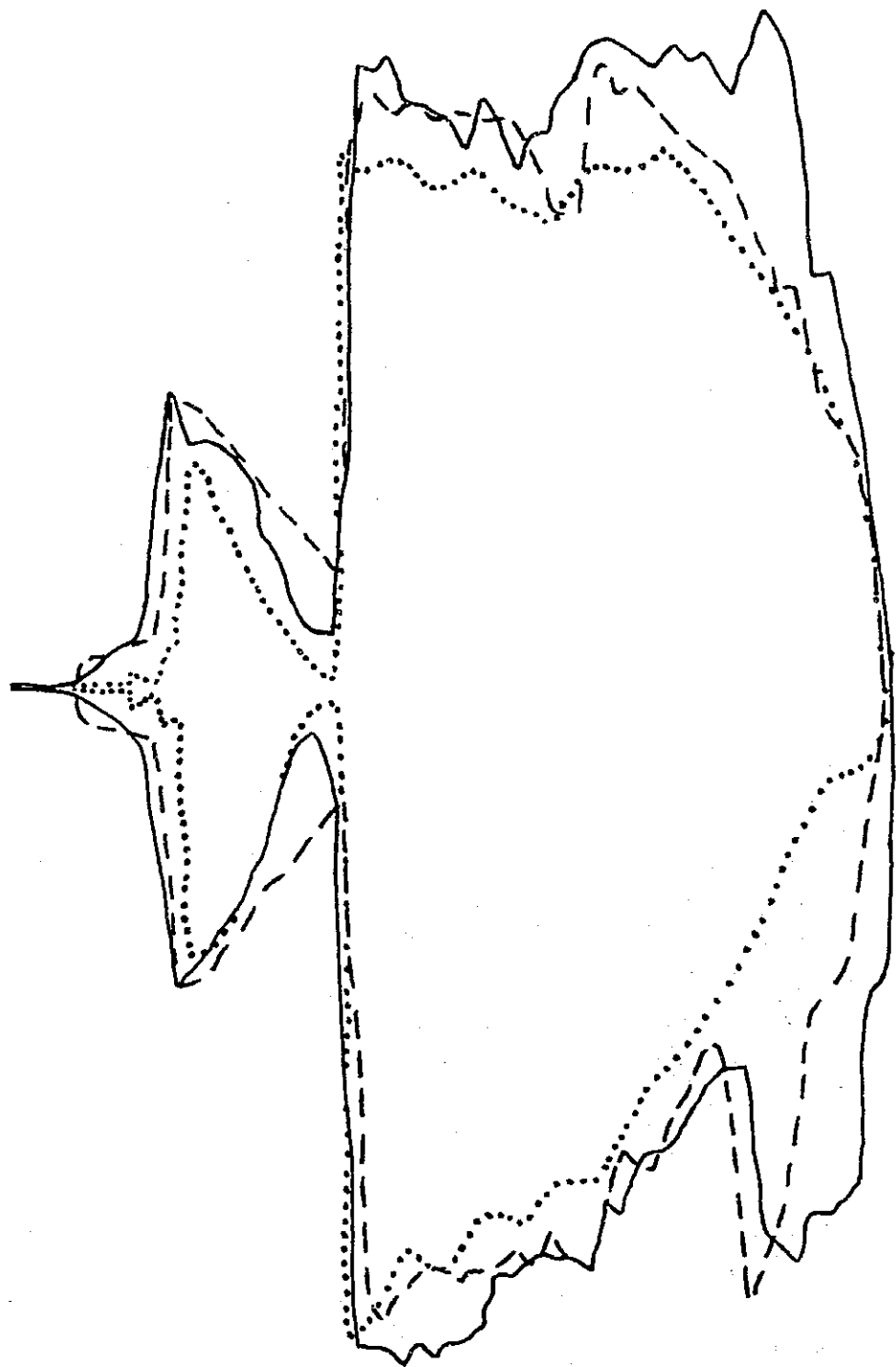
EXHIBIT 6

SLR APR '96

FERRELLGAS WELL 6

0 DEG.

180 DEG.



..... 4/12/80
—— 5/29/91
--- 3/12/96

SLR APR '96

100'

80'

60'

40'

20'

0

20'

40'

60'

80'

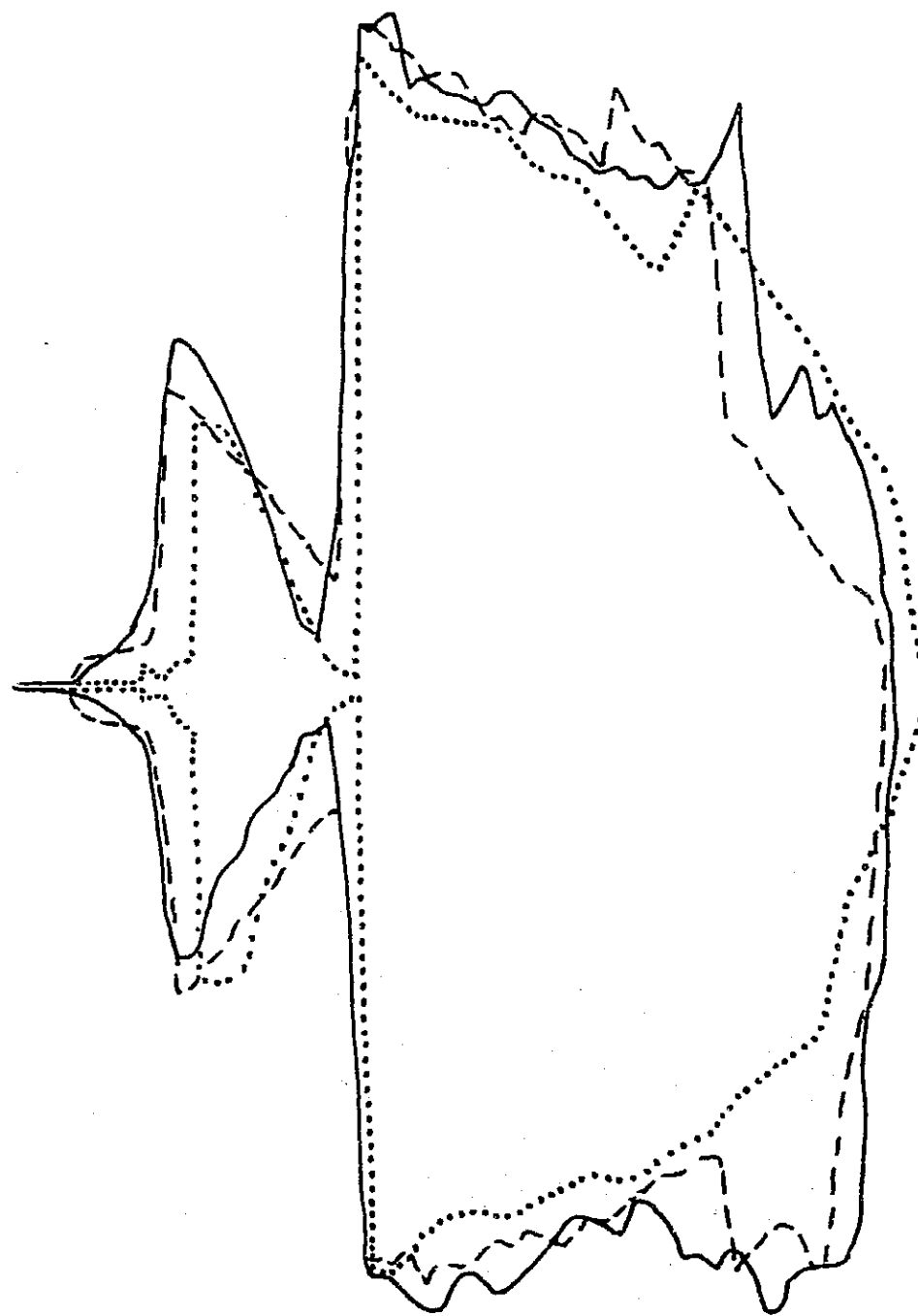
100'

EXHIBIT 7

FERRELLGAS WELL 6

90 DEG.

270 DEG.



..... 4/12/80
—— 5/29/91
--- 3/12/96

SLR APR '96

100' 80' 60' 40' 20' 0 20' 40' 60' 80' 100'

EXHIBIT 8

ARIZONA GEOLOGICAL
SURVEY

416 W. CONGRESS, SUITE 100, TUCSON, AZ 85701

FAX

State of Arizona
Arizona Geological Survey
416 W. Congress, Suite 100
Tucson, Arizona 85701
(520) 770-3500



Larry D. Fellows
Director and State Geologist

Date: 3-4-96

Number of pages including cover sheet: 4

To: Dr. J. Date Nations

Phone:

Fax phone: 523-9220

CC:

From: Steve Rauzi

Phone: (520) 770-3500

Fax phone: (520) 770-3505

REMARKS: ☐ Urgent ☒ For your review ☐ Reply ASAP ☐ Please comment

Truman's (Fiegen) response to your Feb. 13 letter. Fiegen requested a copy of our conflict file early last week. Should I include a copy of this letter with the Commissioner's mailing for the May 17 mts or put it on the agenda (to get some closure to the subject)? The enclosures referred to in paragraph two of Truman's letter are in our conflict file.



STATE OF ARIZONA

OFFICE OF THE ATTORNEY GENERAL

GRANT WOODS
ATTORNEY GENERAL

1275 WEST WASHINGTON, PHOENIX 85007-2926

MAIN PHONE : 542-5025
TELECOPIER : 542-4085

February 29, 1996

Dr. J. Dale Nations, Chairman
Arizona Oil & Gas Conservation Commission
416 West Congress, Suite 100
Tucson, AZ 85701

Dear Dr. Nations:

Civil Unit Chief Counsel Edward Truman asked me to respond to your February 13, 1996 request on behalf of the Arizona Oil & Gas Conservation Commission for general legal advice regarding conflict of interest, appearance of conflicts of interest and responsibilities and liabilities of individual members and commissions as a whole.

Enclosed please find Chapter 8 of the *Arizona Agency Handbook* and the public service orientation manual for elected and appointed public officials written by the office of the Attorney General which set forth conflicts of interest law in Arizona. *Arizona Agency Handbook* Section 8.4.2 discusses conflict of interest matters relating to board and commission members.

The essence of the conflict of interest statutes is to prevent public officers or employees with a conflict of interest in a particular public matter or decision from participating in those matters or decisions. Pursuant to Sections 38-501 through 38-511, A.R.S., (Conflict of Interest of Officers and Employees) and decisions of the Arizona courts, it is imperative that a commission member with a conflict of interest in a commission matter declare the conflict in the public records of the commission and refrain from any participation in the commission matter.

A.R.S. § 38-503 sets forth the primary conflict of interest statute and states that any public officer or employee who has, or whose relative has, a "substantial interest" in any contract, sale, purchase, service or decision before the public agency, shall make that interest known in the official records of the agency and refrain from voting upon or otherwise participating in any manner

Dr. J. Dale Nations, Chairman
Arizona Oil & Gas Conservation
February 29, 1996
Page 2

as an officer or employee in such contract, sale, purchase or decision. Section 38-502(11) defines a "substantial interest" as "any pecuniary or proprietary interest, either direct or indirect, other than a remote interest." Thus, any pecuniary or proprietary interest which a commission member or a member's family has, in a commission matter is a conflict of interest under Arizona law unless the legislature has specifically defined it as a "remote interest," defined at Section 38-502(10).

It is the responsibility of a commission member to identify the circumstances in which actions of the commission might affect him specially and to avoid any situation in which a conflict exists. It is important to note that even if a member is confident that he can be objective in the matter and that the public interest would not be harmed by his participation, the member must disclose the conflict and completely withdraw from any commission consideration of that issue. Arizona's conflicts of interest statutes are broadly construed and substantial civil and criminal penalties have been provided for failure to comply with the statutory requirements. Sections 38-506, 38-510.

Regarding your question relating to protection of boards and commissions from the appearance of conflicts by individual members, Section 8.8.2 states that once a person has disclosed a conflict of interest and withdrawn from participation in the matter, the public officer or employee "must not communicate about the matter with anyone involved in the decision making process in order to avoid the appearance of impropriety." Thus, it appears there is no appearance of impropriety, or conflict of interest, as a matter of law, attaching to a board or commission where individual members with a conflict declare the conflict and refrain from all involvement in the matter. Once a member with a conflict declares a conflict and does not participate in the matter, the board or commission is fully able to consider and act upon the matter with no appearance of a conflict of interest.

As always, if there are questions regarding specific situations involving individual members or additional questions on conflict of interest generally or questions involving any other

Dr. J. Dale Nations, Chairman
Arizona Oil & Gas Conservation
February 29, 1996
Page 3

matter, please do not hesitate to contact either Ed Truman or me at
(602) 542-1610.

Sincerely,

Jon B. Fiegen

Jon B. Fiegen
Assistant Attorney General
Environmental Enforcement Section

enc.
JBF/las

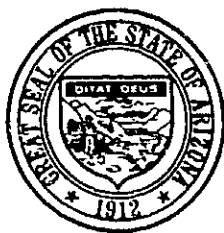
cc. Edward B. Truman
Civil Unit Chief Counsel
Environmental Enforcement Section

No. 3333

February 13, 1996

Memo: Dale Nations, Chairman
From: *SR* Steve Rauzi

The letter to Mr. Edward B. Truman is enclosed for your signature. A stamped envelope addressed to Mr. Truman in Phoenix is attached for your convenience.



Fife Symington
Governor

State of Arizona
Arizona Geological Survey

416 W. Congress, Suite 100
Tucson, Arizona 85701
(520) 770-3500



Larry D. Fellows
Director and State Geologist

February 13, 1996

Mr. Edward B. Truman
Civil Unit Chief
Attorney General's Office
1275 West Washington
Phoenix, Arizona 85007

Dear Mr. Truman:

Commissioners Worthington and Clay attended the Training for Boards and Commissions in Phoenix in September 1995. One issue discussed was conflicts of interest, appearance of conflicts, and responsibilities and liabilities of individual members and commissions as a whole.

As a result of those discussions and concerns expressed by Commissioners Worthington and Clay, the Oil and Gas Conservation Commission requests clarification about conflicts of interest, appearance of conflicts, responsibilities of members to report conflicts, and options available to protect Commissions from appearance of conflicts by individual members.

Mr. Rauzi maintains a conflict of interest file on behalf of the Oil and Gas Conservation Commission. Please contact him if that file will assist you in your response.

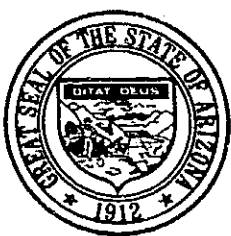
Sincerely yours,

OIL AND GAS CONSERVATION COMMISSION

/original signed/

J. Dale Nations, Chairman

bc: Commissioners (per Dale's request)



Fife Symington
Governor

State of Arizona
Arizona Geological Survey

416 W. Congress, Suite 100
Tucson, Arizona 85701
(520) 770-3500



Larry D. Fellows
Director and State Geologist

February 9, 1996

Mr. John H. Sass
U.S. Geological Survey
2255 N. Gemini Drive
Flagstaff, AZ 86001

Dear John:

The Oil and Gas Conservation Commission continues to be interested in the geothermal-observation hole near Alpine. Dale Nations asked me about it in today's meeting of the Commission.

That is why I am writing to ask about the status of your work on this project. Do you still feel the hole will be deepened to Precambrian rocks?

I want to update the Commission in its May 17 meeting in Phoenix, and would appreciate any information you would be kind enough to provide, especially about any published or soon to be published results. Of course, you are most welcome if you wish to attend the May 17 meeting. I do look forward to hearing from you soon.

Sincerely,

Steven L. Rauzi
Oil & Gas Program Administrator

AOGCC MTG 5-17-96

NAME

REPRESENTING

JOHN HAAS

BLM

JON FIEGEN

AGO