

OIL & GAS CONSERVATION COMMISSION
MINUTES OF MEETING/ MAY 7, 1999
STEVEN L RAUZI. OIL & GAS ADMINISTRATOR



Jane Dee Hull
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 7, 1999, 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 of January 15, 1999
3. Statement of the Director and State Geologist
4. Report of Oil & Gas Program Administrator
5. Status of active wells
6. Status of United Gas Search Bond
7. Status of oil and gas bill
8. Call to the public
9. Announcements
10. Adjournment

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

A copy of the agenda background material provided to Commission members (with the exception of material relating to possible executive sessions) is available for public inspection at the Oil and Gas Program Administrator's office, 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 27th day of April 1999

OIL AND GAS CONSERVATION COMMISSION

Steven L. Rauzi
Oil and Gas Program Administrator

Persons with a disability may request a reasonable accommodation such as a sign language interpreter, by contacting Steve Rauzi at (520) 770-3500. Requests should be made as early as possible to allow time to arrange the accommodation. This document is available in alternative formats by contacting Steve Rauzi at (520) 770-3500.

RE: Resignation of Commission

Subject: RE: Resignation of Commission

Date: Tue, 27 Apr 1999 17:57:11 -0700

From: Lisa C Worthington <worthi@juno.com>

To: jdn@navvax.ucc.nau.edu, Fellows_Larry@pop.state.az.us, Rauzi_Steve@pop.state.az.us

Effective May 26, 1999 I will be resigning from the Arizona Oil and Gas Conservation Commission due to relocation out of the country. I was hoping to tell you all in person at the next meeting but I have a conflict that day and will not be attending.

I will be moving to New Zealand with my family . We have purchased a 2000 acre sheep and cattle station which we will continue to operate with the help of the Stock manager that is currently employed there.

It has been a real pleasure to have worked with all of you these past 7 years. I would like to extend an open offer to come to visit us in New Zealand. It is a beautiful country with some diverse geology and I would love to show you around. We are located about 35 minutes from the Christchurch airport and 45 minutes from the center of Christchurch.

New address:

Hillside
RD4 Okuku
Rangiora
New Zealand

I will be sending a resignation letter to the Governor in the next couple days.

Lisa C. Worthington

Resignation

Subject: Resignation

Date: Wed, 28 Apr 1999 07:36:51 -0700

From: Steve Rauzi <Rauzi_Steve@pop.state.az.us>

To: Lisa Worthington <worthi@juno.com>

Dear Lisa,

Your gain is our loss. Congratulations on a true adventure becoming of modern pioneers. A New Zealander.

Your presence on the Commission will be missed. I especially thank you for your effective part in getting our oil and gas bill passed.

Please e-mail me when you get settled in.

My very best wishes to you and your family!

Sincerely, Steve

OIL AND GAS CONSERVATION COMMISSION

416 West Congress #100
Tucson, Arizona 85701

Minutes of Meeting
January 15, 1999

Present:

Dr. J. Dale Nations, Chairman
Ms. Lisa C. Worthington, Vice-Chair
Mr. Zed Veale, Member
Mr. J. Dennis Wells, State Land Commissioner
Mr. Steven L. Rauzi, Oil and Gas Program Administrator

The regular Commission Meeting of January 15, 1999, was called to order by Dr. J. Dale Nations, Chairman, at 10:00 a.m. in Room 500, State Capitol Tower, Phoenix, Arizona.

APPROVAL OF THE MINUTES OF THE MEETING AND EXECUTIVE SESSION OF
OCTOBER 2, 1998

Ms. Worthington moved, seconded by Mr. Veale:

THAT THE MINUTES OF THE MEETING AND EXECUTIVE SESSION OF
OCTOBER 2, 1998, BE ACCEPTED AS PRESENTED

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 Coleman Oil & Gas drilled a gas well at the Dry Mesa Field in northeastern Arizona. He reported that the results of his latest work on the hydrocarbon source rock in the Precambrian Chuar Group are now available as an open file report and that he was starting a new study of the evaporite deposits in the Holbrook Basin.

STATUS OF ACTIVE WELLS

Mr. Rauzi reported that temporary abandonment of Ridgeway Arizona Oil Corporation's 10 shut-in wells in the St. Johns area would expire on January 23, 1999. Ridgeway has completed 2 as shut-in gas wells and continues to test the 8 wells drilled in 1997. Mr. Tom White wrote on January 5, 1999, that all of Ridgeway's wells had extensive skin damage and that more time was needed to further test and evaluate the wells before completion. He requested an extension of temporary abandonment.

Mr. Rauzi reported that the PetroSun #15-1 NMAL well has been idle for 2 1/2 years and that PetroSun has not responded to telephone and written requests to submit paperwork to either further test or plug the well. He reported that the surface owner had called and wrote

to complain of the unreclaimed condition of the well and well site on her land.

Ms. Worthington moved, seconded by Mr. Veale:

THAT THE COMMISSION FINDS THE PETROSUN #15-1 NMAL IN VIOLATION WITH THE OIL AND GAS RULES AND STATE LAW

Motion carried unanimously.

STATUS OF UNITED GAS SEARCH BOND

Mr. Rauzi reported that he received a list of costs in January 1997 that Mr. Rodney Ratheal incurred for restoring the United Gas Search well location in late 1996. Mr. Ratheal called Mr. Rauzi in October 1998 to ask about the delay in his being reimbursed from the forfeited bond. Mr. Rauzi told Mr. Ratheal that the Commission was still waiting for written concurrence from legal counsel to reimburse him and advised him to contact Mr. Steadman directly to discuss the delay.

The Commission reiterated its intention to reimburse Mr. Ratheal and agreed that Chairman Nations should call Mr. Steadman about the unresolved status of the reimbursement from the forfeited bond.

STATUS OF OIL AND GAS BILL

Mr. Rauzi reviewed the original oil & gas bill and contrasted it with the amended language proposed by Ridgeway, amended language approved by the Commission, and similar statutes in Utah, New Mexico, Oklahoma, and Texas that Mr. Mike Rice compiled for guidance in his letter of January 14, 1999.

Mr. White advised that the main concern of Ridgeway was the trigger for the confidentiality period. Ridgeway was opposed to temporary abandonment starting the time-frame and opposed the setting of a time-frame to complete testing sufficient to demonstrate the viability of a well. Ridgeway preferred 18 months of confidentiality starting from the date a well is completed as a viable well.

Mr. Clarence Bigelow described current economic conditions in Apache County, and reported that the county was counting on Ridgeway to provide a valuable infusion of jobs.

Ms. Worthington moved, seconded by Mr. Veale:

TO AGREE IN PRINCIPAL TO THE APPROVED AMENDMENTS AS DISCUSSED AND TO AUTHORIZE THE ADMINISTRATOR TO NEGOTIATE UNDER THAT UNDERSTANDING

Motion carried unanimously.

CALL TO THE PUBLIC

Mr. Paul Buff reported that the Premco Western well in northwestern Arizona was drilling at a depth of about 800 feet, that the Bureau of Land Management was working on an exploration unit for, and an environmental impact statement on, Ridgeway's CO₂ project near St. Johns, and that a lack of funding would preclude an oil and gas lease sale in Arizona this year.

ANNOUNCEMENTS

The next meeting was scheduled for May 7, 1999, in Room 500 of the Capitol Tower.

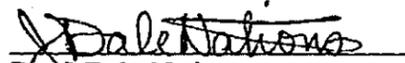
ADJOURNMENT

Ms. Worthington moved, seconded by Mr. Veale:

THAT THE MEETING BE ADJOURNED

Motion carried unanimously. Time of adjournment was 11:40 a.m.

APPROVED


Dale Nations
Chairman

GUESTS IN ATTENDANCE

Clarence Bigelow	Apache County Manager
Paul J. Buff	U.S. Bureau of Land Management
Michael J. Rice	State Land Department
Thomas White	Ridgeway Arizona Oil Corporation



Jane Dee Hull
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

April 27, 1999

To: Oil and Gas Conservation Commissioners
From: Steven L. Rauzi, Oil and Gas Program Administrator
Re: Activity Report for May 7, 1999, Meeting

Since your last meeting on January 15, 1999, Coleman Oil and Gas completed its new gas well at the Dry Mesa Field. Coleman permitted the well in July 1998. Premco is currently drilling at a depth of 370 ft on its well in northwestern Arizona. Premco is making about 1 ft per day with its Bucyrus Erie 48L cable tool rig.

The PetroSun 15-1 NMAL well near Concho has been shut-in since August 1996. I contacted CNA Surety in Chicago. It appears that CNA Surety intends to proceed in good faith to get the well plugged and abandoned. I sent a list of local water well drillers to CNA Surety on April 5. The driller of choice is currently involved in a big project so he will not be able to get to the PetroSun well real soon.

As discussed in the January 15 meeting, the Commission was still waiting for written concurrence from legal counsel to reimburse Mr. Rodney Ratheal for restoring the United Gas Search location in January 1997. Chairman Nations contacted our legal counsel shortly after the meeting. We still have not yet heard from or received written concurrence from legal counsel.

Ridgeway Arizona Oil Corporation (Ridgeway) has 10 shut-in wells under temporary abandonment that expired January 23, 1999. The matter was discussed in your January 15 meeting but no decision was made. Ridgeway made a written request on January 20 to extend the shut-in status. Of the 10 wells, Ridgeway has completed 2 as gas wells and has indicated the need to further test the 8 wells drilled in 1997. However, it appears that 3 of the wells, the 9-22-29, 12-16-28, and 10-26-29, are located on leases that Ridgeway released in January 1999. If this is the case, the wells should be plugged immediately.

HB 2332 passed in the Senate by a vote of 30 to 0 on Monday, April 26. The governor may sign the bill by the time of your meeting on Friday, May 7.

APR-27-1999 15:47

STATE LAND DEPT.

6025424668 P.02/02

Jane Dee Hull
Governor

Michael E. Anable
State Land
Commissioner

Arizona State Land Department

1616 W. Adams Street Phoenix, AZ 85007 (602) 542-4621 www.land.state.az.us



(5)

April 27, 1999

Mr. Don Riggs
Ridgeway Arizona Oil Corporation
P. O. Box 1110
Saint Johns, Arizona 85936

RE: Relinquishment of Oil and Gas Leases.
Letter of January 15, 1999.

Dear Mr. Riggs:

In accordance with the captioned letter of January 15, 1999, the Department canceled twenty-four oil and gas leases. In this regard and as was overlooked at the time, there exist five leases upon which drilling was completed. According to our records, oil and gas leases 13-101344, 13-101352, 13-101533, 13-101536, and 13-101544 each have one well which was drilled on the property. According to the records of the Oil and Gas Commission, the wells located on 13-101344, 13-101533, and 13-101536 have been shut-in and have not been plugged and abandoned.

In order to correct this situation, it will be necessary to plug and abandon three wells and also complete final reclamation of all five well locations. As concerns reclamation of the property, I will soon be sending to you the required reclamation measures.

Sincerely

Michael Rice
Michael Rice, Manager
Minerals Section

CC: V. Ottozawa Chatupron, Engineering
Steve Rauzi, Arizona Geological Survey

MR/jh

898 9-22-29
902 12-16-28
903 10-26-29



STATE OF ARIZONA

OFFICE OF THE ATTORNEY GENERAL

JANET NAPOLITANO
ATTORNEY GENERAL

1275 WEST WASHINGTON, PHOENIX, AZ. 85007-2926

MAIN PHONE: (602) 542-8500
FACSIMILE: (602) 542-7798

May 6, 1999

file 876

Oil and Gas Conservation Commission
416 Congress, Suite 100
Tucson, Arizona 85701

Re: United Gas Search Bond

Dear Members of the Commission:

You have asked whether the Oil & Gas Conservation Commission, ("the Commission"), has authority to reimburse Rodney Ratheal for costs he incurred in restoring a well site that had been abandoned by United Gas Search, ("United"). We believe the Commission has such authority under A.R.S. § 27-524 (E) discussed below.

BACKGROUND

In 1991, United applied to the Commission for a permit to drill a well in the Arizona strip. Pursuant to Commission Rule, Arizona Administrative Code R12-7-103, United filed a performance bond with the Commission. United cleared the well site for construction but never drilled the well. United then abandoned the site.¹

In 1996, Rodney Ratheal of My Father's Oil Company, spoke to Steve Rauzi, the Oil and Gas Program Administrator, to discuss the need to rehabilitate the site. Ratheal hired heavy equipment to restore the site and also reseeded the area. He submitted documentation of the costs of restoration to Mr. Rauzi and asked to be reimbursed from United's performance bond.

¹ Apparently United subsequently sold its interest at this site to PermOK, Inc. PermOK neither posted a new bond for the site nor declared to the Commission in writing that it accepted the responsibility for plugging any dry or abandoned well. Consequently, under A.A.C. R12-7-103(C), United's sale to PermOK did not release the bond.

LEGAL ANALYSIS

1. The Commission Had Authority to Require United to File a Performance Bond

The Legislature has provided the Commission the authority to make rules that require an operator to post bond to ensure performance of the operator's obligation to plug each dry or abandoned well. A.R.S. § 27-516 (A)(3). Arizona Administrative Code R12-7-103, requires an operator to file such a performance bond with the Commission. In 1991 United posted a bond for \$5,000.00.²³ The bond is conditioned upon the following:

[a] faithful performance by the operator of the duty to drill each well in a manner to prevent waste, plug each dry or abandoned well, repair each well causing waste or pollution, and maintain and restore the well site.

A.A.C. R12-7-103(A) (emphasis added)

2. The Commission Had Authority to Forfeit United's Bond

If the operator does not satisfy his obligations under the rule, the Commission may forfeit the bond and use the bond money to restore the site. A.R.S. § 27-524 sets forth the Commission's authority:

§ 27-524 Enforcement

- E. The owner or operator is responsible for the full cost of plugging each dry or abandoned well. If the owner or operator fails to properly plug and abandon the well, the Commission may:
1. Forfeit the bond and use the money for that purpose.
 2. Sue the owner or operator for costs in excess of the amount of the bond and the owner or operator is liable for that amount.

(Emphasis added) Subsection E was added by Law 1995, Chapter 65, Section 1. The 1995 Amendment codified what was understood to be the purpose of the bond: to restore any well site that had been abandoned. In 1997, the Commission determined that United had failed to properly abandon the well, *i.e.*, restore the site, and ordered that United's bond be forfeited.

² This Rule has since been amended and the required bond amount is now \$10,000.00.

³ The "bond" posted by United was actually a Certificate of Deposit, allowed by A.A.C. R12-7-103(B).

3. The Commission Should Use The Forfeited Bond Money To Reimburse Ratheal

Once the bond is forfeited the Commission is directed to "use the bond money for that purpose". A.R.S. § 27-526 (E)(1). "That purpose" refers to the preceding clause in the statute, which identifies the operator's obligation to "properly plug and abandon the well". A.R.S. § 27-524(E). The Commission rules identify what the operator must do to "properly plug and abandon the well":

R12-7-125

A. When drilling, injection, or production operations have been suspended for sixty (60) days, the well shall be plugged and abandoned as required in R12-7-126 and R12-7-127 unless the operator obtains written permission for temporary abandonment from the Commission.

R12-7-127(G)

The drill site of an abandoned well shall be restored as nearly as possible to its natural site, to the satisfaction of the Commission. All pits shall be filled and equipment and debris shall be removed from the location.

These rules provide clear authority for the Commission to use the bond money for the costs of restoring a well site. Rule 103 identifies the purpose of the bond to "restore the well site". Rule 127 requires that an abandoned site be "restored as nearly as possible to its natural state".

Mr. Ratheal has provided notice to the Commission that this site has been restored, and has submitted documentation for the costs of restoring the site. Becky Hammond of the Bureau of Land Management Office, St. George, Utah inspected the site and determined the reclamation to be satisfactory.

The legislature gave the Commission authority to use forfeited bond money for the purpose of restoring an abandoned well site. A.R.S. § 27-524(E). Although the Commission did not order Ratheal to restore the site, the undisputed facts are that he did. By reimbursing costs the Commission determines were reasonably incurred in restoring the site, the Commission is using the forfeited bond money for the purpose identified by the legislature.⁴ Once the site has already been restored, the only way for the Commission to follow the legislative direction in using the forfeited bond money is to reimburse the costs of restoration.

⁴ One could read A.R.S. § 27-524(E) to require that, once the Commission orders a bond be forfeited, the bond money must be used for restoring the site, and no other purpose.

CONCLUSION

Under these circumstances, the Commission should reimburse Ratheal for costs, up to \$5,000.00, that the Commission determines were reasonably incurred in restoring the site.

This document is not a formal, published opinion of the Office of the Attorney General, and should not be treated or cited as such. If you have any questions or additional information, please do not hesitate to contact me.

Sincerely,

Marc T. Steadman

Marc T. Steadman
Assistant Attorney General

Doc:52125:lv

BILL STATUS OVERVIEW **HB2332**

SPONSORS: FLAKE P MCGIBBON P ARZBERGER P
HART C CBROWN C

TITLE: state land; minerals, oil, gas

HOUSE FIRST READ: 01/18/99

COMMITTEES:	ASSIGNED	COMMITTEES	ACTION
Vote detail	01/18/99	NR 01/27/99	(6-0-0-0) DP
Vote detail	01/18/99	RULES 02/03/99	(8-0-0-1-0) AMEND C&P

SECOND READ: 01/19/99

MAJORITY CAUCUS: 02/04/99 Y

MINORITY CAUCUS: 02/04/99 Y

COW ACTION 1	DATE	ACTION	AYES	NAYS	NV	EXC
	02/08/99	RET ON CAL	0	0	0	0

COW ACTION 2	DATE	ACTION	AYES	NAYS	NV	EXC
	02/23/99	DPA	0	0	0	0

AMENDMENTS

Rules passed
Flake floor amendment to bill passed

THIRD READ:	DATE	AYES	NAYS	NV	EXC	EMER	AMEND	RFE	RESULT
Vote detail	03/01/99	57	2	1	0		Y		

TRANSMIT TO SENATE: 03/02/99

SENATE FIRST READ: 03/02/99

SECOND READ: 03/09/99

COMMITTEES:	ASSIGNED	COMMITTEES	ACTION
	03/09/99	CANR 03/25/99	(8-0-1-0) DP
	03/09/99	RULES 03/29/99	PFC (proper for consideration)

MAJORITY CAUCUS: 03/30/99 Y

CONSENT CALENDAR: 03/29/99 11:54 AM

THIRD READ:	DATE	AYES	NAYS	NV	EXC	EMER	AMEND	RFE	RESULT
Vote detail	04/26/99	30	0	0	0				

TRANSMIT TO HOUSE: 04/26/99

TRANSMITTED TO: GOVERNOR 04/27/99
ACTION: SIGNED 4/29/99

CHAPTER: 115
CHAPTERED VERSION: HOUSE ENGROSSED VERSION

UNITED STATES DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT
ARIZONA STATE OFFICE

In Reply Refer To:
3100 (932)

May 6, 1999

Memorandum

To: Deputy State Director, Resources, New Mexico
From: Senior Minerals Specialist, Division of Resources, Arizona
Subject: State of New Mexico Oil Conservation Division Hearing, April 15, 1999,
Regarding Ridgeway Arizona Oil Corporation's Unit Agreement Application

I received a copy of the transcript of the subject hearing. It was pointed out by a member of the public that I had requested, page 22, lines 11-13, that Ridgeway "form the unit in this manner," the way it was presented in their application and that the Federal Government came to them and said to "form the unit in this fashion," page 75, lines 6-8. I did not remember requesting and/or telling Ridgeway to form the unit in this fashion.

I called Don Riggs, Ridgeway, to ask him when I had made the statements. He said that, at lunch after the January 28 satellite broadcast of the proposed oil and gas regulations changes, he was going to propose the unit and that I responded that it was fine with me. I talked to Cindy Smith, Dames and Moore, who was at lunch with us and she said that Mr. Riggs had related a problem to us, regarding his leases, that I responded to with a suggestion that maybe a unit spanning State boundaries may solve Ridgeway's problem.

I do not recall the exact conversation, but at no time did I request or tell (direct) them to form the unit in this fashion. I might have been offering an option that could potentially solve their problem or telling them that they could submit whatever they felt they needed. I was in no way expressing Arizona BLM's preference or telling Ridgeway to form the unit in a particular configuration.

Please forward this letter to the appropriate unit of the New Mexico Oil Conservation Division so that Arizona BLM's position is properly noted for the record. Thank you for your assistance.



Paul J. Buff

cc: Steve Rauzi, Arizona Oil and Gas Conservation Administrator
Mike Rice, Arizona State Land Department
Armando Lopez, Roswell Field Office, New Mexico

Selected Transcript, OGCC Meeting, May 7, 1999

Present:

Dr. J. Dale Nations, Chairman (jdn)
Dr. Don W. Clay, Member (dwc)
Mr. James C. Lanshe, Member, (jcl)
Mr. Zed Veale, Member (zv)
Mr. Michael E. Anable, State Land Commissioner (mea)
Dr. Larry D. Fellows, Director and State Geologist (ldf)
Mr. Steven L. Rauzi, Oil and Gas Program Administrator (slr)

Guests in attendance:

Clarence Bigelow	Apache County Manager (cb)
Paul J. Buff	U.S. Bureau of Land Management (pjb)
Theresa Craig	Assistant Attorney General (tc)
Jon Fiegen	Assistant Attorney General (jf)
Gary Kiehne	Self / Snow Oil and Gas (gk)
Chet Oakley	State Land Department (co)
Michael J. Rice	State Land Department (mjr)
Don Riggs	Ridgeway Arizona Oil Corporation (dr)
Doug Sawyer	Department of Mines and Mineral Resources (ds)
Delwin Wengat	Apache County (dw)
Thomas White	Ridgeway Arizona Oil Corporation (tw)

SIDE A

Call to the Public

dr (152) Ah, Don Riggs. I just kind of give you an update as to, ah, Ridgeway's, ah, progress, if, if we have progress. It, ah, as you know, we just, ah, Steve, give you all the deal on extending the temporary abandonment of these wells. This project is, ah, vary lengthy and we should, of course, you know and, you keep getting that, ah, well, we hope to have it out Friday, well that's been going on for about 2 1/2 - 3 months now, but, hopefully, within the next, by the end of this month, we will have our reserve analysis finalized. It's being done by a firm in Dallas. Ah, this project is still huge. We've had a preliminary done 2 years ago and surprised us all with the amount of gas in place. Now we've done a little more, a refinement of that, and that number has actually grown. So the project is, each time we do something out there we find out that there's more gas in place than what we ever really anticipated. We was hoping to originally have somewhere in the neighborhood of 2 to 3 trillion cubic feet and we're in excess of 10 now. And this will be a 40 - 50 year project for the State of Arizona once we get the contracts in place and all on line. It's taken a lot of time in getting the documentation on this because of the, ah, the magnitude of it. And when you start seeing numbers of this size, when you start getting into trillions of cubic feet, they start questioning themselves because this is, this is really huge, a huge, ah, deposit of carbon dioxide. There's also the helium aspect of it, ah, we're finding out there's only 4 companies in the world that process helium. So it's a real closed

Selected Transcript, OGCC Meeting May 7, 1999 / Page 2

market and it's hard to get information on how to do all of this, and it's a, ah, a very expensive process. But then also, helium is such a short supply that it is a very expensive gas. Ah, it will generate a lot of revenues for the State of Arizona over the long period of time. But the processing, ah, right now, we've got 3 different engineering firms arguing with each other over how this should be done, and, ah, that, that keeps delaying things. But hopefully once we get all of this done and get to the, ah, reserve analysis done, unitization put together with, ah, Mike Rice's, ah, division and get, ah, all of this done, then the financing will fall into place.

- dr (189) It's all of the i's have to be dotted and the t's crossed, ah, because of the, ah, magnitude of the, the, ah, money and the enormity of this project. That's just to get it drilled and on, the processing. And then you start the process of building a pipeline to California, which, that's going to be a whole new project in itself, but, ah, in discussions with everyone it seems like that the pipeline to California is going to be a more easier project than the fact the there is already a large corridor across northern Arizona that carries, ah, a couple of major pipelines right now, so that's not something that's, ah, hasn't been done, and the process is there they can document all of the processes that we've gone through before. Ah, 2 to 3 engineering firms looking at that right now.
- dr (201) Ah, still, you know, once, once we get this in place you're probably looking at, ah, low end, 30 months, high end 60 months before a plant would be up, ah, and running, and, ah, a large amount of revenues being generated off of it. In the meantime we are building a liquids plant. The liquids plant will supply carbon dioxide to the bottling companies, to the food industry and all. Ah, that, all the carbon dioxide that comes into the Phoenix area right now for the processing here either comes from California or Texas and some out of the Four Corners area of New Mexico. And in working the market, ah, analysis, there was always a small amount of gas that was, could be brought in here, and now that it's become a reality and it's been announced, ah, it's that deal, you know well, we can do something but we really want to know if you're going to do it. Well, we have the contracts and the plant is actually being built, ah, did not realize what the cost of transportation of this is. And these, these companies here are very interested in, ah, expanding that plant already, excuse me, just due to the cost of freight of getting something from Los Angeles to here versus from 200 miles from northern Arizona down here, so that, ah, that plant was set to come on line in about 150 tons a day. I think realistically, it will be more in the range of 400 tons a day of, of product being generated, ah, to be brought into the Phoenix - Tucson area. And, as other people start using this, ah, there's upwards of 600 tons eventually that could be used in the State of Arizona. Some of it is long term contract, and I don't know that it would be in the very near future that any of that would be pulled in but eventually, I think all of it would be just, ah, they, they use a \$1.55 a mile for freight and transportation of that.
- dr (231) I don't know the exact miles to, ah, Los Angeles but it's 220 more miles from the plant to here so the \$1.55 a mile, that's quite a savings on the additional 100 miles, ah, it's generated a lot of interest within the major suppliers being Praxair, Air Liquide, BOC,

Selected Transcript, OGCC Meeting May 7, 1999 / Page 3

your big industrial gas companies.

jcl (236) Is Air Products and Chemicals involved?

dr (236) Ah, just the liquid CO₂ is all that would be involved in it, there's not any chemicals of any kind. To process CO₂?

jcl (239) No, there's a company that I was referring to called Air Products and Chemicals, which is as big as Air Liquide and some of the others.

dr (240) Oh, ah, you know they could be. I'm familiar with Air Products, yah. Ah, I don't know their market in Arizona. I know Air Liquide has got the plant in Tucson.

jcl (243) They have a plant in Chandler.

dr (243) Okay. Air Products does? And, ah, their doing the argons for the welding industry and all that. You see the carbon dioxide industry is all, and well, eventually the helium, but, ah, and argon can probably be processed off of the, this plant, once it's up to where you're moving 500 million a day, because there is argon in the gas stream, but, it's like 2 ten thousands of 1 percent. Ah, once you get up to moving large volumes of gas then there would be enough that you could extract it out based on the economics of the market at that time. But the liquid carbon dioxide business is, ah, really grown. Ah these, ah, FACE programs that the government is doing. There's one just south of town here. A lot of that's being handled through the University over, ah, out of Tucson. Ah, we had a meeting down there back in, ah, December I think it was. Ah, they're, they're looking at moving a lot of that to here, just due to the fact that, ah, once this plants' up and running there's a lot of, ah, study areas within the State of Arizona that they could do, and, there again, they're having to pay upwards of a \$110 a ton due to transportation right now. You could cut that price by 40 to 50 percent, which gives them much greater budget to do more projects.

jdn (264) Is the plant that's under construction in St. Johns?

dr (264) Yes. Well, it'll actually be located out in the field by Tucson Electric. We have a 240 acres inside their compound that we have, ah, leased from them and this, this liquid carbon dioxide plant is small. Ah, it's 3 skid-mounted refrigeration units. And it just takes the gas and refrigerates it down, liquefies it, ah, the plant and all, you know, can be all put in that, that same area, eventually. This is not much of a plant site itself.

jdn (274) Are there any questions from the Commissioners?

cb (274) Ah, Mr. Chairman of the Commission and Commissioner Anable. Ah, we appreciate the last time we were here, ah, and the way things have turned out for Ridgeway. Ah, I'm representing Apache County and the Board of Supervisors, ah, I'm

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here to thank you, also to let you know that Apache County supports Ridgeway a 100% on what they're doing, and, ah, we appreciate the fact that the Commission is working well with them and is supportive of them and, we're excited about the economic benefits that are going to come into our county area for those people who are unemployed, to be able to give us a sense of stability in relationship to the timber industry and cattle industry pretty well being closed down. So it's a god send to us and I think that, ah, a husky guy like that would be considered an angel. We do appreciate him. If there is anything we can ever do or supply, ah, to the Commission, ah, from the governmental point of view, we'd be most happy to do so.

jdn (288) Thank you

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<u>NAME</u>	<u>REPRESENTING</u>
Thomas White	Ridgeway AZ Oil Corp
Don Liggs	Ridgeway AZ Oil Corp
Paul J. Burt	BLM
Gray Kiehne	Saff. Snow Oil & Gas,
Chet Oakley	ASLD
Clarence Blyden	Apache Co.
Delwin Wenzel	Apache Co.
Mike Rice	State Land
Theresa Cunn	Ass't AG for State Land
Mike Amble	State Land
Doug Sawyer	Az Dept of Mines & Minerals