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 January 19, 2001, at 10:00 a.m. in Room 321 of the State Lands Department Building located at 1616 West Adams Street, 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 September 15, 2000
3. Statement of the Director and State Geologist
4. Report of Oil & Gas Administrator
5. Update on Ridgeway's CO2 Project
6. Status of Active Wells and Projects
7. Lockhart #1 Rabbitt Sample Study
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)(6), 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 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 10th day of January 2001

OIL AND GAS CONSERVATION COMMISSION

Steven L. Rauzi
Oil and Gas 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.
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OIL AND GAS CONSERVATION COMMISSION

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Oil and Gas Administrator

PLEASE ADVISE ME AS SOON AS POSSIBLE IF YOU WILL NOT BE ATTENDING THIS MEETING

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OIL AND GAS CONSERVATION COMMISSION
416 West Congress #100
Tucson, Arizona 85701

Minutes of Meeting
September 15, 2000

Present:
Dr. J. Dale Nations, Chairman
Dr. Donald W. Clay, Member
Mr. Robert L. Jones, Member
Mr. Zed Veale, Member
Mr. Michael E. Anable, State Land Commissioner
Dr. Larry D. Fellows, Director and State Geologist
Mr. Steven L. Rauzi, Oil and Gas Administrator

The regular Commission Meeting of September 15, 2000, was called to order by Dr. J. Dale Nations, Chairman, at 10:00 a.m. in Room 321, State Land Department Building, Phoenix, Arizona.

APPROVAL OF THE MINUTES OF THE MEETING OF MAY 19, 2000

Dr. Clay moved, seconded by Mr. Jones

THAT THE MINUTES OF THE MEETING OF MAY 19, 2000, BE ACCEPTED AS PRESENTED

Motion carried unanimously.

STATEMENT OF DIRECTOR AND STATE GEOLOGIST

Dr. Fellows reported that a two-year budget was prepared in conjunction with a strategic plan and was submitted September 1, 2000, for fiscal years 2002 and 2003. The budget included a request for funds to microfilm the oil and gas records in 2002 and add an inspector in 2003. Drilling activity is expected to increase because of the Ridgeway project and the higher price of oil. Dr. Fellows noted that Mr. Rauzi was working on a report about oil and gas potential in Arizona.

REPORT OF THE OIL AND GAS 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 testing of the well near Meteor Crater was delayed and that Premco Western was drilling below a depth of 2300 feet at its well in northwestern Arizona. He reported that he had received inquiries about drilling a stratigraphic test into the Luke salt deposit relative to storing natural gas and an oil test of the Precambrian Chuar in northern Arizona but that no applications have been submitted. Mr. Rauzi discussed some of the evidence pointing to the oil and gas potential in Arizona.
ORAL PROCEEDING TO ADOPT AMENDED RULES

Mr. Rauzi reported that the notice of proposed rulemaking and the text of the proposed rules were published in the August 4, 2000, Arizona Administrative Register. He reported that the primary reason for revising the rules was to conform with recent changes in statute brought about by H.B. 2492. He noted that the rule changes were in accord with discussions with Mr. Osborn and Mr. White, of Ridgeway Arizona Oil Corporation, in Tucson in early May and with discussions in the Commission meeting of May 19, 2000.

Mr. Osborn and Mr. White voiced support of the rules as presented.

Mr. Jones moved, seconded by Mr. Veale

THAT THE PROPOSED RULES BE ADOPTED AS PRESENTED AND PUBLISHED IN THE AUGUST 4, 2000, ARIZONA ADMINISTRATIVE REGISTER

Motion carried unanimously.

UPDATE ON RIDGEWAY'S CO₂ PROJECT

Mr. Rauzi reported that Crescendo Energy of Midland, Texas, had made several inquiries about helium in Arizona, apparently in conjunction with plans to produce the 2 shut-in helium wells at the Dineh-bi-Keyah Field. He reported that Crescendo had recently requested some application-to-drill forms but he did not know if that was associated with the Ridgeway project.

Mr. White reported that the price and demand for helium has gone up which has resulted in interest in Ridgeway's helium from 4 major industrial gas companies. As a result, Ridgeway has perforated the Fort Apache in 2 wells to test for helium. Mr. White reported that some acid jobs were pending and that within the next month or so they would see what the helium contents will be on these wells. He explained that production of helium depended on a market for CO₂. Ridgeway had to produce CO₂ in order to get the helium out and that the industrial gas companies understood that.

Mr. White reported that the pipeline has been ordered for the CO₂ liquids plant and that FLO-CO₂ was working on the permit for right of improvement for the State Land Department. He indicated that the 10-22 State and 10-16 State wells in Arizona and the State 1-16 well in New Mexico would supply the liquids plant. Mr. White reported that Ridgeway planned to do a unit agreement rather than just produce from the individual leases.

CALL TO THE PUBLIC

Mr. Rice reported that the Land Department had received oil and gas applications to lease
Oil and Gas Conservation Commission Minutes September 15, 2000 Page 3

59,000 acres northeast of Flagstaff from a company in Texas. He thought there was a good chance this would lead to some drilling activity.

ANNOUNCEMENTS

Chairman Nations announced that election of officers would be on the agenda for the next meeting.

The next meeting was scheduled for January 19, 2001, in Room 321, State Land Department Building, Phoenix, Arizona.

ADJOURNMENT

Mr. Veale moved, seconded by Dr. Clay:

THAT THE MEETING BE ADJOURNED

Motion carried unanimously. Time of adjournment was 10:48 p.m.

APPROVED

Dr. Dale Nations
Chairman

GUESTS IN ATTENDANCE

Marc Osborn R & R Partners
Michael J. Rice State Land Department
John Somers High Plains Petroleum
Thomas White Ridgeway Arizona Oil Corporation
January 10, 2001

To: Oil and Gas Conservation Commissioners

From: Steven L. Rauzl, Oil and Gas Administrator

Re: Activity Report for the January 19, 2001, Meeting

One new Permit to Drill was issued since your last meeting in September 2000. The permit was issued to SunCor Development Company for a 5200 ft stratigraphic test of the Luke salt deposit near Phoenix. SunCor plans to start drilling by February.

Mr. Gus Berry perforated the Devonian in his well near Meteor Crater in October 2000. He is waiting on a rig to test intervals that had oil stain, fluorescence, and trace cut. The shows are coincident with good drilling breaks. Two of the shows are also coincident with good crossover (gas effect) on the neutron-density curves.

Premco Western's bailer is stuck at a depth of 2300 ft at its well in northwestern Arizona. Premco spudded its well in April 1998 with an old cable tool rig but has since converted to rotary drilling.

The Precambrian test in northern Arizona has been delayed. One of the companies initially involved in the deal studied the samples from the Lockhart #1 Babbit well, which is the basis for this play. The samples from the Babbit well suggest that an under-pressured reservoir is present in this area.

The revised rules R12-7-101, R12-7-121, and R12-7-125, that you adopted in your meeting of September 15, 2000, were approved by the Governor's Regulatory Review Council on December 5, 2000. The rules became effective December 7, 2000, when they were submitted to the Secretary of State.

I have finished the report entitled "Arizona has oil and gas potential!" All that remains is final formatting for publication.
NOTICE OF FINAL RULEMAKING

TITLE 12. NATURAL RESOURCES

CHAPTER 7. OIL AND GAS CONSERVATION COMMISSION

PREAMBLE

1. Sections Affected
   R12-7-101
   R12-7-121
   R12-7-122
   R12-7-123

2. Authority
   A.R.S. §§ 27-516(A) and 27-656
   Implementing statutes: A.R.S. §§ 27-516(A)(1) and (2), 27-652(A), and 27-661

3. Effective Date
   December 7, 2000

4. A list of all previous notices concerning the rules:
   Notice of Rulemaking Docket Opening: 6 A.A.R. 2128, June 9, 2000
   Notice of Proposed Rulemaking: 6 A.A.R. 2833, August 4, 2000

December 29, 2000

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Arizona Administrative Register

Notices of Final Rulemaking

5. The name and address of agency personnel with whom persons may communicate regarding the rulemaking:
   Name: Steven L. Rausz, Oil & Gas Administrator
   Address: Arizona Geological Survey
             416 West Congress, Suite 100
             Tucson, Arizona 85701-1315
   Telephone: (520) 778-3500
   Fax: (520) 778-3505

6. An explanation of the rule, including the agency's reasons for initiating the rule:
   R12-7-101 lists definitions used in the rules. R12-7-121 specifies completion and reporting requirements for wells.
   R12-7-125 specifies requirements for temporarily abandoned and shut-in wells. These rules were amended to conform
   with a recent change in statute that extended the confidential period for well records from 6 months to 1 year,
   add a new shut-in status to distinguish between inactive wells that are capable of production (shut-in) from those that
   are not (temporarily abandoned), and improve clarity and understandability.

7. A reference to any study that the agency relied on in its evaluation of or justification for the rule and where the
   public may obtain or review the study, all data underlying each study, any analysis of the study and other
   supporting material:
   None.

8. A showing of good cause why the rule is necessary to promote a statewide interest if the rule will diminish a
   previous grant of authority of a political subdivision of this state:
   Not applicable.

9. The summary of the economic, small business, and consumer impact:
   These rules directly impact companies drilling for oil, gas, and geothermal resources. The rules are mostly procedural
   in nature and will not significantly impact the economy or have a significant impact upon small businesses or
   consumers. The proposed rulemaking does not significantly increase or decrease the costs of compliance. The longer
   confidential period, new shut-in status, and resulting clarity and understandability of the rules should have a positive
   impact on small businesses. No private persons or concerns are directly affected by the proposed rulemaking.

10. A description of the changes between the proposed rules, including supplemental notice, and the final rules (if
    applicable):
    Changes were made at the suggestion of the Governor's Regulatory Review Council staff to improve the clarity,
    conciseness, and understandability of the rules.

11. A summary of the principal comments and the agency's response to them:
    No written comments were received. Two individuals from the regulated community voiced support of the proposed
    rules at the September 15, 2000, hearing to adopt the rules.

12. Any other matters prescribed by statute that are applicable to the specific agency or to any specific rule or class of
    rules:
    Not applicable.

13. Interpretation by reference and their location in the rules:
    None.

14. Was this rule previously adopted as an emergency rule?
    No.

15. The full text of the rules follows:

TITLE 12. NATURAL RESOURCES

CHAPTER 7. OIL AND GAS CONSERVATION COMMISSION

ARTICLE 1. OIL, GAS, HELIUM, AND GEOTHERMAL RESOURCES

R12-7-101. Definitions
R12-7-121. Well Completion and Filing Requirements
R12-7-125. Temporarily Abandoned and Shut-in Wells

ARTICLE 1. OIL, GAS, HELIUM, AND GEOTHERMAL RESOURCES

R12-7-101. Definitions
In this Chapter, unless the context otherwise requires:
Arizona Administrative Register
Notices of Final Rulemaking

R12-7-121. Well Completion and Filing Requirements

An operator shall file a completion report with the Commission within 30 days after the completion of a well is completed. The completion report shall contain a description of the well and lease, the casing record, the tubing record, the perforation record, the stimulation, and completion records, and data on the initial production. The operator shall submit the following to the Commission within 30 days of the date the work is done, including any:

1. Lithologic, mud, or wireline log.
2. Directional survey.
3. Core description and analysis.
4. Stratigraphic or fault determinations.
5. Formation or thin-layer test.
6. Formation fluid analysis or.
7. Other similar information or survey.

Other well data, including all logs, tests, and surveys shall be filed with the completion report or within 30 days after the completion of the well.

AGA The operator shall furnish samples of all cores and drilled cuttings, at the maximum interval of 10 feet, to the Commission within 30 days of after drilling is completed. The operator may furnish samples of continuous core in chips at 1-foot intervals, removing the drilling rig from the hole. All samples for the Commission shall be handled as follows: The operator shall:

1. Air dry all samples; shall be washed and dried.
2. Approximately 3 tablespoons of each sample shall be placed in an envelope showing the identification of the sample and of the following identifying information: the well from which the sample originated, the location of the well, the Commission's permit number for the well, and the depth at which the sample is taken and at which the sample was taken.
3. Samples shall be packaged in package sample envelopes in protective boxes and shipped to the Oil and Gas Program Administrator, Arizona Geological Survey, 416 West Congress, Suite 100, Tucson, AZ 85701.

4. Core samples may be furnished in chips and posted and shipped as specified in paragraphs (3) and (4).
R12.7-125. Temporary Abandonment Temporarily Abandoned and Shut-in Wells

A. When drilling, injection, or production operations at a well are suspended, or have been suspended for 60 days, an operator shall plug the well and shut-in the well. The Commission may order the well to be temporarily abandoned or shut-in. The Commission shall not classify a well as shut-in until the operator submits a completion report under R12.7-121, unless the operator obtains written permission for temporary abandonment from the Commission. On drilling wells, the drilling rig shall not be removed from the hole until written permission for temporary abandonment is obtained from the Commission. Permission granted shall be for a period not to exceed 1 year. One-year extensions may be granted.

B. When requesting temporary abandonment, the operator shall file with the Commission a description of the mechanical condition of the well and a current casing, completion, or cement bond log. The Commission shall not approve temporary abandonment or an extension unless the operator can show that the mechanical condition of the well will prevent damage to the producing zone, prevent contamination of fresh-water or other natural resources, and prevent leakage of any substance at the surface. The Commission may require a mechanical integrity test of the casing before approving or extending temporary abandonment.

An operator may temporarily abandon or shut-in a well for up to 5 years if the operator demonstrates to a person of the Commission a future beneficial use of the well and submits a Notice to the Commission containing the following information:

1. Evidence of casing integrity as required in R12.7-112 including a complete description of the current casing, cementing, and perforation record of the well;
2. The stimulation and cement squeeze record and complete data on the results of any well tests performed to date; and
3. All other well data required in R12.7-112(A).

C. Upon expiration of the period of temporary abandonment or an extension, the well shall be plugged and abandoned, unless the operator can demonstrate to the Commission why the well should not be plugged and abandoned, and a further extension issued.

Before an approved time frame for a temporarily abandoned or shut-in well expires, the operator shall return the well to beneficial use under a plan approved by the Commission, permanently plug and abandon the well, or apply for an extension to temporarily abandon or shut-in the well. If the integrity of the well casing is in question, the Commission may require the operator to:

1. Prove casing integrity in accordance with R12.7-112;
2. Plug any well that fails to meet the casing integrity required by R12.7-112, and
3. Re-test the well in accordance with R12.7-120 to confirm shut-in status.

D. Before re-entering any temporarily abandoned well, the operator shall give the Commission at least 10 days' written notice detailing the proposed activities.

An operator shall ensure that no work begins on a temporarily abandoned or shut-in well until approved by the Commission. The operator shall give at least 24 hours notice to the Commission before any work begins. Within 12 days of completing the proposed work, the operator shall file a written report with the Commission fully describing the work performed including a copy of all test results, pressures, and fluid analyses.

NOTICE OF FINAL RULEMAKING

TITLE 17. TRANSPORTATION

CHAPTER 4. DEPARTMENT OF TRANSPORTATION - MOTOR VEHICLE DIVISION

PREAMBLE

L. Sections Affected

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<tr>
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STATE OF ARIZONA
OIL & GAS CONSERVATION COMMISSION

SAMPLE POLICY

The Oil and Gas Conservation Commission hereby adopts the following as its policy regarding samples and cores. In the discretion of the Commission, the following samples shall be preserved and maintained in good order:

1. Samples received by the Commission under A.A.C. R12-7-121 shall be preserved and maintained in good order.
2. A record or file shall be kept indicating the location of samples from each well.
3. Samples are to be maintained for use as a public library.
4. Samples may be examined at the discretion of any person requesting to do so. Reasonable notice for removal of the sample may be required.
5. Samples may be loaned for use with permission to any responsible person at the discretion of the Commission.
6. Users of samples shall use reasonable and customary measures to maintain the integrity and volume of each individual sample and shall not mix samples together.
   a. Users may remove cores for mineralogical determination. Acid shall not be placed in the bulk sample, rather, one or two individual grains may be removed to a separate container for acid test.
   b. Solvents shall not be placed in the bulk sample, rather, one or two individual grains may be removed to a separate container for solvent test.
   c. In no case shall bulk solvent extraction or pyrolysis, or other destructive tests be run on any sample without prior permission of the Commission.
7. Users shall return all individual samples to their original containers. If the container is damaged beyond use, a new container shall be provided.
8. Users shall return all samples in order from top of the box in the original sample box.
9. Users shall provide the Commission, within 30 days of their completion, copies of all logs, geological and other reports, microfilm analysis, core test analysis, and any other study or analysis made possible by use of samples from the Commission’s library. The Commission shall grant a six-month confidentiality period, if so requested by the owner of the report and may grant one six-month extension of the period of confidentiality if so requested.

ADOPTED AS REVISED BY THE OIL AND GAS CONSERVATION COMMISSION ON 11/21/96

[Signature]

A.A.C. R12-7-121

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<tr>
<td>John Somers</td>
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