

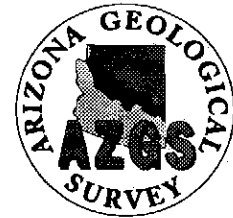


Janet Napolitano
Governor

State of Arizona
Arizona Geological Survey

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

www.azgs.az.gov



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 January 31, 2003, at 10:00 a.m. in Room 321 of the State Land 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 13, 2002
3. Report of Director and State Geologist
4. Report of Oil & Gas Administrator including gas storage in Arizona and recently completed projects.
5. Overview and discussion of the Red Lake Gas Storage LP project
6. Discussion with Ridgeway personnel and the public about the Ridgeway CO₂ Project
7. Call to the public
8. Election of officers
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 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 24th day of January 2003

OIL AND GAS CONSERVATION COMMISSION

A handwritten signature in black ink, reading "Steven L. Rauzi".

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.

OIL AND GAS CONSERVATION COMMISSION

416 West Congress #100
Tucson, Arizona 85701

Minutes of Meeting
September 13, 2002

Present:

Dr. J. Dale Nations, Chairman
Mr. Robert L. Jones, Vice-Chairman
Mr. Joseph J. Lane, Member
Mr. Steven L. Rauzi, Oil and Gas Administrator

The regular Commission Meeting of September 13, 2002, 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 AND MINUTES OF THE EXECUTIVE SESSION OF JULY 26, 2002

Mr. Jones moved, seconded by Mr. Lane:

THAT THE MINUTES OF THE MEETING AND MINUTES OF THE
EXECUTIVE SESSION OF JULY 26, 2002, BE ACCEPTED AS
PRESENTED

Motion carried unanimously.

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 Copper Eagle was drilling the 1-12 hole about 2 miles northwest of the 1-19 hole. He described a map he completed showing the depth of the Luke salt relative to major streets and city boundaries. He reported that the Ridgeway 10-22 State well had produced a little over 23 million cubic feet of CO₂ in July.

DISCUSSION AND POSSIBLE VOTE ON DR. NATIONS' JUNE 18, 2002 LETTER TO THE STATE LAND COMMISSIONER [CARRIED FORWARD FROM JULY 26, 2002 MEETING]

Ms. Woodall reviewed Dr. Nations' June 18, 2002 letter to the State Land Commissioner. She reported that the letter was null because it was not ratified at the July 26 meeting. She advised the Commission to take no further action on the letter based on her own analysis regarding the Commission's role in the matter and the lack of requested analysis from the interested parties at the July 26 meeting. The Commission decided to take no further action on the letter.

DISCUSSION WITH RIDGEWAY PERSONNEL AND PUBLIC ABOUT THE STATUS OF RIDGEWAY'S CO₂ PROJECT

No Ridgeway personnel were present. There was no discussion about the Ridgeway project.

DISCUSSION WITH COPPER EAGLE PERSONNEL AND PUBLIC ABOUT THE
STATUS OF THE COPPER EAGLE GAS STORAGE PROJECT

Mr. Reid reported that Copper Eagle was drilling its third stratigraphic hole this year. He explained that the main purpose for drilling the holes was to gather subsurface information relative to the disposal of brine from cavities leached in the Luke salt for storing natural gas. He mentioned that meetings with the Federal Energy Regulatory Commission were ongoing.

CALL TO THE PUBLIC

Mr. Somers described the work that High Plains Petroleum was doing on the Navajo and Cedar Mesa anticlines in the Holbrook Basin. He handed out a summary of the projects.

ANNOUNCEMENTS

Dr. Nations announced that election of officers would be placed on the next agenda.

The Commission scheduled its next meeting at 10:00 a.m. on January 31, 2003, in Room 321 at the State Land Department Building in Phoenix.

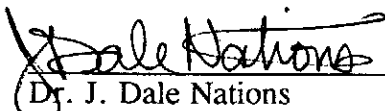
ADJOURNMENT

Mr. Jones moved, seconded by Mr. Lane:

THAT THE MEETING BE ADJOURNED

Motion carried unanimously. Time of adjournment was 10:45 a.m.

APPROVED


Dr. J. Dale Nations
Chairman

GUESTS IN ATTENDANCE

Richard Ahern	State Land Department
Alan Bohnenkamp	ACC Pipeline Safety
Bob Gray	ACC Utilities Division
John Karabees	Karabees Agencies

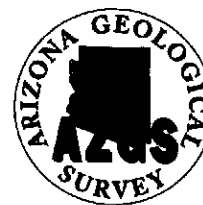
Yale Rogers	Grazing Lessee
John Somers	High Plains Petroleum
Scott Somers	High Plains Petroleum
Laurie Woodall	Assistant Attorney General



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Larry D. Fellows
Director and State Geologist

30 January 2003

MEMORANDUM

TO: OIL AND GAS CONSERVATION COMMISSION
FROM: Larry D. Fellows
SUBJECT: Report for the 31 January 2003 meeting

The Appropriation Subcommittee meeting for the Arizona Geological Survey (AZGS) was scheduled at the same time as the Oil and Gas Conservation Commission meeting. I'm sorry I am not able to attend your meeting.

The AZGS has several oil and gas projects in late stages of completion. First, Steve Rauzi completed a report on the correlation of Permian rock units in north-central Arizona. Steve traced these units from the outcrop areas at the Grand Canyon and Sedona southeastward in the subsurface toward the Holbrook basin. His correlations can be linked with two of his previous studies that extend the correlation of the same units into southern Apache County near Springerville.

Second, Steve is writing the feature article for the Spring issue of Arizona Geology, the AZGS' quarterly newsletter. The article will summarize the steps needed to drill a well in Arizona. We expect to have the issue in the mail before the end of February.

My attention is now focused on the budget. Two weeks ago the Governor released her proposed budget for FY 03, 04, and 05. She recommends no further reductions to the AZGS budget, which will remain flat. Last week the legislature released its budget for the same period. It recommends that the budget of the AZGS and most other state agencies be reduced by an additional 3 percent this fiscal year. That reduction will carry forward into FY 04 and 05.

The AZGS has received substantial budget cuts: one in FY 2002 (4.75 percent) and two so far in FY 03 (3.125 percent at the beginning of the year and 11 percent in the Special Session in December 2002). The legislative budget just released this week would, if passed, add another 3 percent cut on top of the others.

These cuts are greatly reducing the effectiveness of the AZGS. Since the reductions began we had to terminate one temporary geologist who was working on a federally funded project because we needed those funds to pay a permanent staff member. We did

not fill a vacant accounting position and we eliminated our only graphics position. Most recently, in response to the 11 percent cut in December, we eliminated state funding from two geologist positions and began paying them to work on contracted projects. The 3 percent cut will require reducing one or two more full-time geologist positions to less than full time.

The bottom line is that we are being forced to work on more externally funded projects. Once these projects are completed, there is no assurance that there will be other funds to follow. If there are no other funds, layoffs will be necessary.

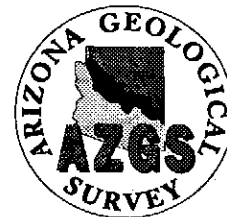
Our geologic mapping project, for which we receive federal funds, requires a dollar-for-dollar match of state and federal funds. Because of the budget cuts this fiscal year, when we submit our funding proposal for next year we will have \$115,400 less for the state match than we did last year. As a result we will be able to hire only three federally funded geologic mappers instead of the five we have this year.



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Larry D. Fellows
Director and State Geologist

January 24, 2003

To: Oil and Gas Conservation Commissioners

From: *SLR* Steven L. Rauzi, Oil and Gas Administrator

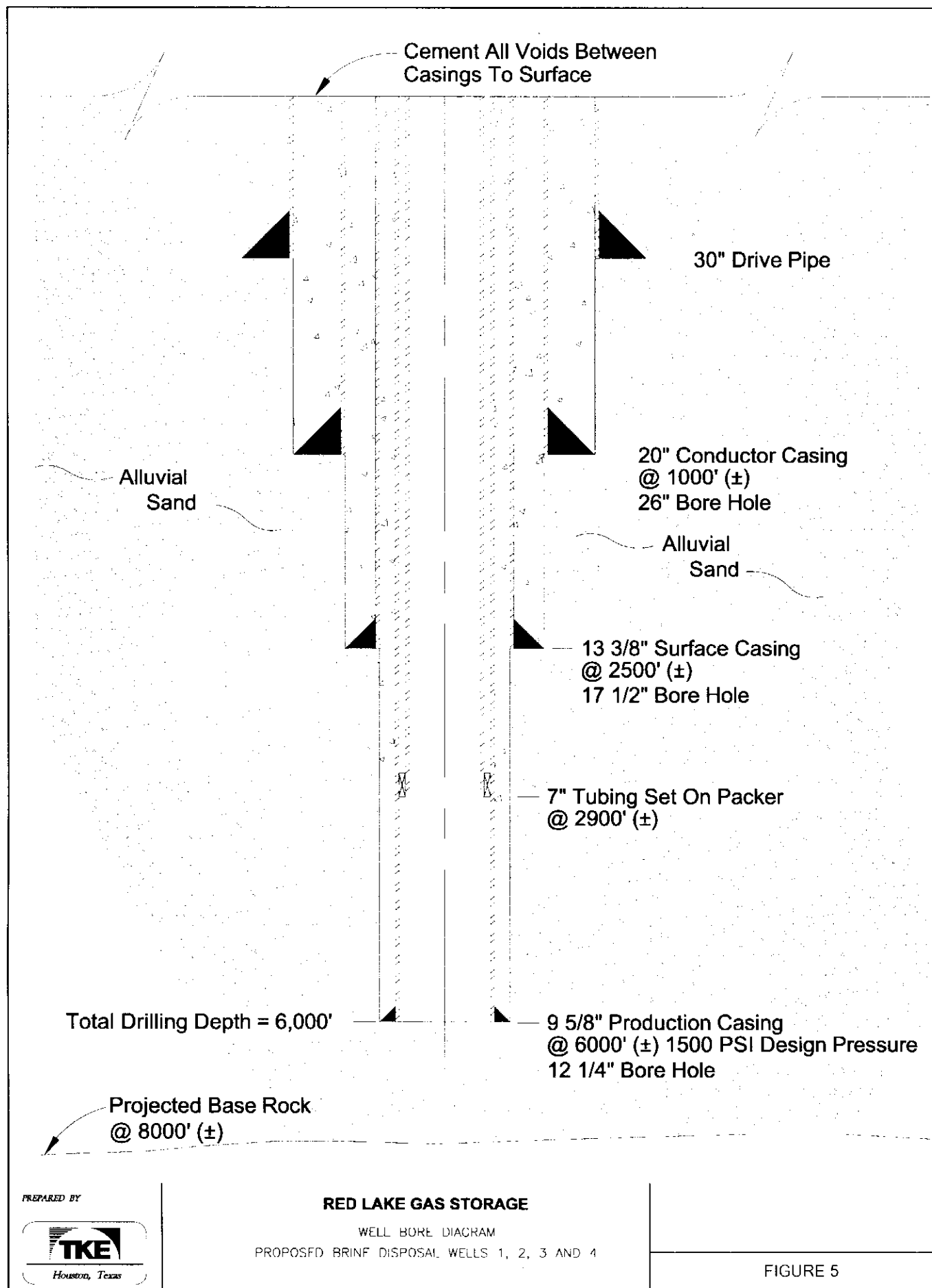
Re: Activity Report for the January 31, 2003, Meeting

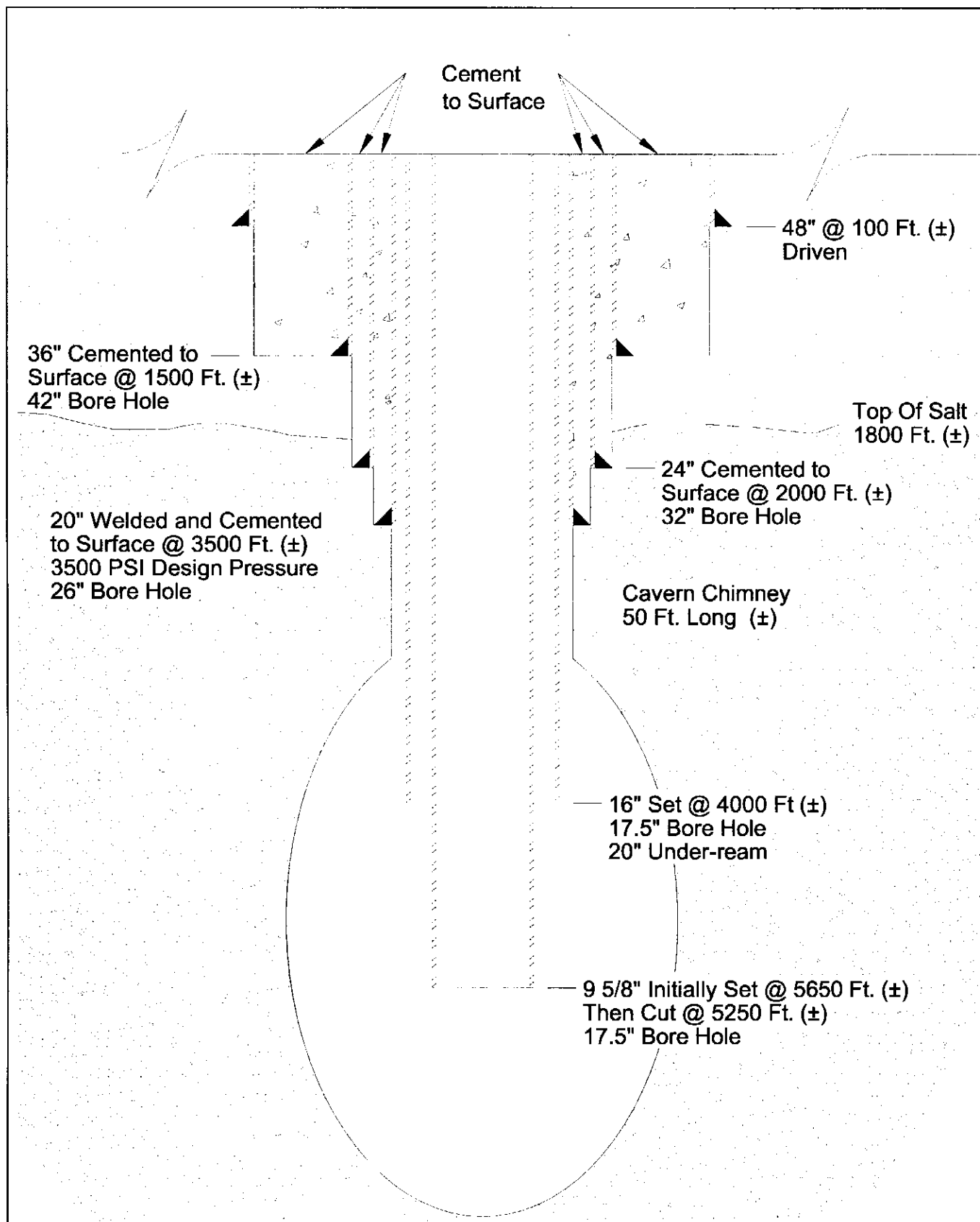
Copper Eagle Gas Storage LLC drilled three stratigraphic wells last year relative to its gas storage project in the Luke area. As you know, Copper Eagle plans to store natural gas by leaching caverns in the Luke salt. Brine disposal will be an important part of the process because there will be a large volume of brine generated as the caverns are leached. For that reason Copper Eagle drilled the stratigraphic wells to get information on the feasibility of disposing brine in deep wells near the western edge of the Luke salt. Copper Eagle is now evaluating the information from the wells and continuing to work on its applications for the injection-well permits.

Red Lake Gas Storage LP is pursuing storage of natural gas in the Red Lake salt deposit north of Kingman. They drilled a stratigraphic test north of the Red Lake Playa in December 2001. Red Lake submitted its UIC permit application to the US EPA in December 2002 and requested that I review it for compliance with Arizona requirements. I anticipate that Red Lake will be requesting a hearing before the Commission to permit two gas storage and four brine disposal wells within the next few months.

Ridgeway Arizona Oil Corporation has been producing CO₂ from its #10-22 State well since July 2002. All of the CO₂ is being processed at the FLO-CO₂ liquids plant and most, if not all, is being used in the beverage industry in Tucson and possibly Phoenix. Ridgeway is currently working on the details of a proposed unit agreement with the State Land Department. The Land Department held a public hearing to gather input about the proposed unit agreement in St. Johns in December. I anticipate the unit agreement to come before the Commission for ratification once the Land Department and Ridgeway have settled upon a final unit agreement.

Since your last meeting in September I finished some stratigraphic cross sections from wells the western Holbrook Basin to outcrops in the Grand Canyon and the Sedona areas. These cross sections were made available to the public as Open File Report 03-01. My next objective is to digitize the well location map.





PREPARED BY



RED LAKE GAS STORAGE

WELL BORE DIAGRAM
PROPOSED GAS STORAGE WELLS 1 AND 2

FIGURE 4

STATE LAND DEPARTMENT OF THE STATE OF ARIZONA
BEFORE THE STATE LAND COMMISSIONER

IN THE MATTER OF PROPOSED UNIT
AGREEMENT FOR THE EXPLORATION,
DEVELOPMENT OR OPERATIONS OF
OIL AND GAS POOLS SUBMITTED
NOVEMBER 4, 2002, FOR STATE TRUST
LANDS DESCRIBED THEREIN.

APPLICANT: RIDGEWAY ARIZONA
OIL CORPORATION

ORDER NO. 262-2002/2003

DECISION AND ORDER
DENYING
PROPOSED UNIT
AGREEMENT

FINDINGS OF FACT

The records of the Arizona State Land Department reflect the following facts:

1. On November 4, 2002, Ridgeway Arizona Oil Corporation filed a proposed unit agreement for the exploration, development and operation of a pool(s) of unitized substances including carbon dioxide (CO₂) and helium on state lands, with the Arizona State Land Department (Department).
2. The unit agreement proposes to include 79 state oil and gas leases encompassing an approximate 120,000 acres of State Trust Land. The state oil and gas leases are held by Ridgeway Arizona Oil Corporation, and are located between the towns of St. Johns and Springerville, Apache County, Arizona.
3. The unit agreement would also include an approximate 9,000 acres of oil and gas interests acquired by the state on December 16, 2002, the interest of which are subject to existing federal oil and gas lease agreements. In addition, the unit agreement would include an approximate 4,146 acres of federal reserved oil and gas interests from which 90% of the revenues would be paid to the state.
4. The unit agreement also proposes to include an approximate 11,000 acres of federal land and 26,700 acres of private land.
5. The unit agreement as proposed includes among others, the following provisions:
 - a. Unitization of substances including carbon dioxide and helium.
 - b. Targets an Enhanced Oil Recovery ("EOR") market in California.
 - c. Unitization for purposes of delivering CO₂ to the EOR market.
 - d. Identification of land to be included in the unit, specifying certain state lands already under lease to Ridgeway.

- e. Allocation of production based on gross acreage figures.
 - f. Contraction of the unit to its productive limits five years and no later than ten years after delivery of CO₂ to a pipeline.
 - g. Cancellation of the unit agreement by the Commissioner if the pipeline is not commenced in fifteen years, providing however, for an extension of the deadline if authorized by the Commissioner.
 - h. Royalty settlement provisions which include a formula based upon after-tax cash flow calculations and language which includes the timing of payment, audit limitations, and waiver provisions.
 - i. A rental provision that provides for a one-time 50% bonus payment and escalation of rentals at 5% per year until such time as there is delivery of CO₂ to a pipeline.
 - j. A provisional drainage clause that may or may not require the drilling of offset wells and payment of royalty.
6. A.R.S. §27-557 (C) provides in part, "The State Land Commissioner shall, not later than ten days after the date of a proposed cooperative or unit plan for the exploration, development or operation of oil and gas pools is filed with the Department, give notice in writing of such proposal to the Oil and Gas Conservation Commission, the Bureau of Geology and Mineral Technology and all holders of oil and gas leases on state lands to be included in the proposed cooperative or unit plan. Any interested person may, within ten days after the date of such notice, file a written protest with the Department."
7. The Department gave such notice on November 13, 2002 and after receiving documents completing the submission, the Department again gave notice on November 21, 2002.
8. Protests to the proposed unit agreement prior to and during the hearing were received and made a matter of record on:
- November 26, 2002, and November 29, 2002, by Snow Oil & Gas, Inc.,
- November 26, 2002, by Dale Deratany,
- December 27, 2002, by Michele Lorenzen of the law firm of Ryley, Carlock & Applewhite on behalf of Snow Oil and Gas,

November 29, 2002, and December 30, 2002, by Dawn Meidinger of the law firm of Fennemore Craig, on behalf of Dick Udall,

9. Pursuant to A.R.S. §27-557 (C) "Upon receipt of such a protest, the State Land Commissioner shall, not later than thirty days after receipt of the protest, hold a public hearing at the county seat of the county in which the state lands to be included in the proposed cooperative or unit plan are located. Notice of the public hearing shall be published three times in a newspaper of general circulation in the county, the last publication to be not less than ten days prior to the hearing.
10. A public hearing was scheduled in St. Johns, Arizona, at the Apache County Board of Supervisors Meeting Room, 75 W. Cleveland, Annex Building, for 10:00 a.m, December 30, 2002.
11. Notice of the public hearing was published in the White Mountain Independent on December 10, 13, and 17, 2002; the last publication being 13 days prior to the hearing.
12. The public hearing was held on December 30, 2002, and both written and oral protests were received and made a matter of record with the Department.
13. Protests received prior to and during the public hearing, and written comments received after the hearing raised concerns on virtually all of the fundamental provisions of the agreement.
 - a. Merits of unitization.
 - b. Unit Operating Agreement.
 - c. Ownership interests.
 - d. Environmental Issues.
 - e. Tract Participation.
 - f. Timing and requirements for contraction.
 - g. Development and Operation of the unit.
 - h. Royalty issues.
 - i. Rental issues.
 - j. Technical geologic issues.
 - k. Oil and Gas Commission review.
 - l. Vague definitions and undefined terms.
 - m. Helium resource on federal lands not subject to lease.

4 Attached to and incorporated herein by reference is a letter dated December 27,
5 2002 on behalf of Snow Oil and Gas which identifies a number of these issues.

- 6 14. Post hearing protests to the proposed unit agreement were received and accepted
7 by the Commissioner as follows:

8 December 31, 2002, by High Plains Petroleum Corporation,

9 January 14, 2003, by Prize Energy Resources, L.P.,

10 January 28, 2003 by George Tsiolis of the law firm Snell & Wilmer
11 on behalf of Prize Energy Resources, L.P.

- 12 15. The unit area boundary includes land which is identified in the unit agreement
13 as federal land that has since the filing of the unit agreement, been acquired by
14 the state. The state succeeds to the interest of the federal government on these
15 leases covering an approximate 9,035 acres. However, the federal leases do not
16 include helium and there is reserved to the federal government, the option of
17 extracting or having extracted, the helium from gas production.

- 18 16. The unit agreement proposes to include an approximate 4,461 acres of land in
19 which the federal government retained ownership of oil and gas interests, would
20 continue to administer the leases, and would pay to the state 90% of the revenues
21 received.

- 22 17. The Land Department is in the process of acquiring an approximate 9,700 acres
23 of additional federal land in the unit area, however this acquisition is not
24 anticipated to be completed until the end of 2003.

- 25 18. There is no existing CO₂ pipeline to the potential California EOR market.

- 26 19. The unit agreement does not attach a unit operating agreement setting forth
27 either the Form of Operating Agreement or specific terms defining how
28 operations will be conducted, how costs will be apportioned and accounted for,
and generally how the working interest owner stands to be affected.

20. The unit area includes within its boundaries a lease to Ridgeway Arizona Oil
Corporation that is currently producing CO₂ for a local market.

21. Unit agreement provisions concerning contraction, tract participation and
royalty, have been the subject of litigation in other states.

4 CONCLUSIONS

5 A.R.S. §27-557 (C) states in part, "The State Land Commissioner shall, not later
6 than sixty days after the date the proposed cooperative or unit plan is filed with the
7 Department or, in the event of protest and public hearing, not later than thirty days
8 after the date of such public hearing, determine whether it is in the best interest of the
state to commit state lands to the cooperative or unit plan as proposed or as modified.

9 After reviewing the unit agreement and in consideration of the protests and other
10 information provided to the Department, the Department finds that approval of the unit
11 agreement at this time would be premature and not in the best interest of the Trust for
the following reasons:

- 12 1. The proposed unit agreement sets forth no acceptable plan of development
13 or deadline for development of the resource and is fundamentally
deficient.
- 14 2. Contraction of the proposed unit area to its productive limits is dependent
15 upon delivery of CO₂ to a pipeline which itself has no deadline for
16 completion.
- 17 3. The proposed unit area includes but does not address the state's
18 acquisition of federal oil and gas interests, the leases of which exclude
helium, one of the substances to be unitized.
- 19 4. The proposed unit agreement includes approximately 9,700 acres of
20 federal land which, although not currently owned by the state, may be
acquired.
- 21 5. The commitment of federal and private acreage to the proposed unit may
22 be essential to the economic viability of the unit and the state should
23 therefore await resolution of the more important issues affecting working
24 interest owners and others affected parties.
- 25 6. Compensation to the Trust for the proposed unit agreement is insufficient
26 considering the lengthy delay in drilling, development, and optimal
production from the unit area.
- 27 7. The extension of all leases by production from one or more leases meeting
28 only the demands of a local market does not reflect the level of production
or income for which the Department is bargaining.

8. Information provided the Department indicates the proposed unit area may vary in its productive capability and the allocation of production on a gross acreage basis should await further review.
9. The royalty settlement provision of the proposed unit agreement does not obtain fair market value for production and is complex, requiring a level of oversight and administration that the Department is not capable of supporting.
10. The drainage provision in the proposed unit agreement does not adequately protect the Trust interests.
11. As contained herein in the Findings of Fact 8, 13 and 14, the interested parties raised numerous questions regarding many provisions within the form of the proposed unit agreement. Addressing these questions will require additional time and information.
12. Pursuant to A.R.S. § 27-531 *et seq* when parties cannot agree, the Oil and Gas Conservation Commission has authority to undertake a technical review with the objective of trying to establish a unit which includes productive lands, is economically viable, and that is fair to interested parties.

Although the Land Department may ultimately approve a unit agreement, it is in the best interests of the Trust to await review by the Oil and Gas Conservation Commission or further evaluation and, if possible, resolution of the issues raised by interested parties.
13. There is no pipeline in existence and no expeditious deadline for completion of a pipeline.
14. The existence of an EOR market utilizing CO₂ in California has not been established.

ORDER

Upon consideration of the facts, IT IS ORDERED that the proposed Unit Agreement for the Exploration, Development, or Operation of Oil and Gas Pools filed on November 4, 2002 by Ridgeway Arizona Oil Corporation, for the State Trust Lands described therein, is and the same hereby denied as the proposal, as submitted, is not in the best interests of the trust. This denial order is issued without prejudice to the applicant who may take measures to revise the proposed unit agreement for future consideration by the State Land Commissioner.

4 GIVEN under my hand and the official seal of the Arizona State Land
5 Department this 29 day of January , 2003.

6
7 (S E A L)

MARK WINKLEMAN
State Land Commissioner

8 by: 
9

10
11 This is an appealable agency action. Pursuant to A.R.S. § 41-1092.03 and
12 A.A.C. R12-5-202, if you are directly or adversely affected by this decision, you may
13 request a hearing within thirty (30) days of the date you receive this notice. A request
14 for a hearing must be in writing and filed with the Department, and must state your
15 name and address, the specific action or actions of the Department which are the basis
16 of the hearing request, and a concise statement of the reasons for this appeal. You also
17 have the right to an informal settlement conference pursuant to A.R.S. § 41-1092.06 if
18 it is requested in writing and filed with the Department no later than twenty (20) days
19 before the hearing.

20 Send your request to the State Land Department, Attention: Director,
21 Operations Division. If you do not timely file a request for a hearing, the decision of
22 the Commissioner may be final and not subject to further review.

23 In accordance with Title II of the Americans With Disabilities Act (ADA), the
24 Arizona State Land Department does not discriminate on the basis of disability in the
25 provision of its programs, services and activities.

26 Persons with a disability may request a reasonable accommodation such as a sign
27 language interpreter, by contacting the Department's, ADA Coordinator, at (602) 542-
28 2639. Request should be made as early as possible to allow time to arrange the
accommodation.

1 Order No. 262-2002/2003
2 D&O Denying Proposed Unit Agreement
3 Page 8

4 Copy of the foregoing mailed/
5 delivered this 29 day of
6 January, 2003 to:

7 Certified No. 0578 9642 MR THOMAS WHITE
8 OPERATIONS MANAGER
9 RIDGEWAY ARIZONA OIL CORP
10 P O BOX 1110
11 ST JOHNS AZ 85936

12 Certified No. 0578 9635 DALE DERATANY
13 HC 62 BOX 235
14 RESERVE NM 87830

15 Certified No. 0578 9628 DAWN G MEIDINGER
16 FENNEMORE CRAIG
17 (Representing Dick Udall)
18 3003 N CENTRAL AVE SUITE 2600
19 PHOENIX AZ 85012 2913

20 Certified No. 0578 9611 MICHELE L LORENZEN
21 RYLEY CARLOCK & APPLEWHITE
22 (Representing Snow Oil & Gas)
23 ONE NORTH CENTRAL AVE SUITE 1200
24 PHOENIX AZ 85004 4417

25 Certified No. 0578 9604 JOHN B SOMERS II PRESIDENT
26 HIGH PLAINS PETROLEUM
27 3860 CARLOCK DR
28 BOULDER CO 80305

29 Certified No. 0578 9765 GEORGE A TSIOLIS
30 SNELL & WILMER
31 (Representing Prize Energy Resources, L.P.)
32 ONE ARIZONA CENTER
33 PHOENIX, AZ 85004 2202

34 Certified No. 0578 9543 DR. LARRY FELLOWS, STATE GEOLOGIST
35 ARIZONA GEOLOGICAL SURVEY
36 416 W CONGRESS SUITE 100
37 TUCSON AZ 85701

Order No. 262-2002/2003
D&O Denying Proposed Unit Agreement
Page 9

Certified No. 0578 9574 DR DALE NATIONS CHAIRMAN
AZ OIL & GAS CONSERVATION COMM
416 W CONGRESS SUITE 100
TUCSON AZ 85702

Certified No. 0578 9550 DAN W SNOW
SNOW OIL & GAS INC
P O BOX 1277
ANDREWS TX 79714

Certified No. 0578 9529 GARY KIEHNE
BOX 175
SPRINGERVILLE AZ 85938

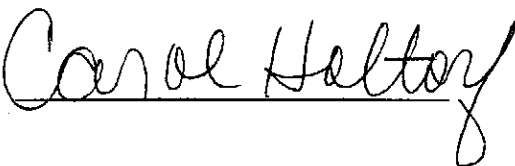
Certified No. 0578 9536 DICK & MYRNA UDALL
FLYING BOX RANCH INC
P O BOX 69
EAGAR AZ 85925

Certified No. 0578 9598 ERIC THORNTON
RIDGEWAY ARIZONA OIL CORP
P O BOX 1110
ST JOHNS AZ 85936

Certified No. 0578 9581 STEVE MELZER
P O BOX 2083
MIDLAND TX 79702

Certified No. 0578 9567 MENARD ENERGY CORP
5701 WOODWAY #350
HOUSTON TX 77057

Copy to: Attorney General's Office, Natural Resources Section/attn: Theresa Craig
Land Information, Title & Transfer Section/Richard B. Oxford, Director
Natural Resources Division/Mineral Section/Mike Rice, Manager
Natural Resources Div./Geologist & Mineral Section/attn: Richard Ahern
Agency Representative/attn: Roz Sedillo



STATE LAND DEPARTMENT OF THE STATE OF ARIZONA
BEFORE THE STATE LAND COMMISSIONER

IN THE MATTER OF THE PUBLIC)
HEARING FOR THE STATE LAND) NOTICE OF RESULTS OF
DESCRIBED IN THE RIDGEWAY) PUBLIC HEARING
PROPOSED UNIT AGREEMENT.)
PETITIONER: RIDGEWAY ARIZONA OIL)
CORPORATION)

Pursuant to A.R.S. §27-557(C) the Arizona State Land Department (Department) held a Public Hearing on December 30, 2002, 10:00 am, at the County Annex Building in St. Johns, Arizona.

Attendees at the Public Hearing included: Michele Lorenzen of Ryley, Carlock and Applewhite representing Snow Oil and Gas; Gary Kiehne; Myrna and Dick Udall; Thomas White, Steve Melzer, Eric Thornton, Carmen Tanner, and Marc Osborn representing Ridgeway Arizona Oil Corporation (Ridgeway); Theresa Craig, Assistant Attorney General, Richard Oxford, Director, Land, Information, Title & Transfer Division, Mike Rice, Manager, Minerals Section, Richard Ahern, Geologist Planning Section, and Rozanna Sedillo, Hearing Officer, all representing the Department. The hearing was taped but was not transcribed.

The hearing was held to provide all interested parties an opportunity to comment publicly or submit written comments on the unit agreement proposed by Ridgeway. The agreement involves federal, private and State lands.

Comments received prior to the date of hearing, but available at the hearing were from: Snow Oil & Gas, Inc. dated November 19, November 26, and December 27, 2002; Dale Deratany dated November 23, 2002, and Dawn Meidinger of Fennemore Craig, on behalf of Mr. Dick Udall, dated November 29, 2002. At the hearing Mr. Udall presented another letter of comment, prepared by Dawn Meidinger of Fennemore Craig.

A brief overview of the proposed unit agreement was presented by Mr. Steve Melzer for Ridgeway. Oral testimony was given by Mr. Dick Udall, Ms. Michele L. Lorenzen, and Mr. Gary Kiehne. Ridgeway (Mr. Melzer) then presented a slide presentation, a copy of which was submitted to the Department for public record.

The hearing was adjourned at approximately 11:30 a.m.

1 Notice of Results of
2 Public Hearing
3 Page 2

4 GIVEN under my hand and the official seal of the Arizona State Land
5 Department this 13 day of January , 2003.

6 MARK WINKLEMAN
7 State Land Commissioner

8 by: Rozanna Sedillo
9 Agency Representative

10
11 Copy of the foregoing mailed/
12 delivered this 13 day of
13 January , 2003, to:

14 Certified No. 0578 9895 MR THOMAS WHITE
15 OPERATIONS MANAGER
16 RIDGEWAY ARIZONA OIL CORP
P O BOX 1110
ST JOHNS AZ 85936

17 copy to: DR. LARRY FELLOWS, STATE GEOLOGIST
18 ARIZONA GEOLOGICAL SURVEY
19 416 W CONGRESS SUITE 100
TUCSON AZ 85701

20 DR DALE NATIONS CHAIRMAN
21 AZ OIL & GAS CONSERVATION COMM
22 416 W CONGRESS SUITE 100
TUCSON AZ 85702

23 SNOW OIL & GAS INC
24 P O BOX 1277
ANDREWS TX 79714

25
26 DALE DERATANY
27 HC 62 BOX 235
28 RESERVE NM 87830

1 Notice of Results of
2 Public Hearing
3 Page 3

4 copy to: GARY KIEHNE
5 BOX 175
6 SPRINGERVILLE AZ 85938

7 DAWN G MEIDINGER
8 FENNEMORE CRAIG
9 3003 N CENTRAL AVE SUITE 2600
10 PHOENIX AZ 85012 2913

11 DICK & MYRNA UDALL
12 FLYING BOX RANCH INC
13 P O BOX 69
14 EAGAR AZ 85925

15 MICHELE L LORENZEN
16 RYLEY CARLOCK & APPLEWHITE
17 ONE NORTH CENTRAL AVE SUITE 1200
18 PHOENIX AZ 85004 4417

19 Copy to: Attorney General's Office, Natural Resources Section/attn: Theresa Craig
20 Land Information, Title & Transfer Section/Richard B. Oxford, Director
21 Natural Resources Division/Mineral Section/Mike Rice, Manager
22 Natural Resources Div./Geologist & Mineral Section/attn: Richard Ahern
23 Agency Representative/attn: Roz Sedillo

24 Carol Heltzer
25
26
27
28



High Plains Petroleum Corporation

3860 Carlock Dr. Boulder, CO 80305 303-494-4529

December 27, 2002

Arizona State Land Department
1616 West Adams
Phoenix, Arizona 85007

Attention: Mr. Richard Ahern
Geologist

Re: Unitization Proposal
Lands on the St. Johns,
Cedar Mesa and Coyote
Creek Anticlines
Apache County, Arizona

Gentlemen,

This letter is to comment and provide input in writing on the proposal by Ridgeway Arizona Oil Corporation to unitize lands on the above-referenced structures in Apache County, Arizona. Since High Plains Petroleum is a royalty owner on the Coyote Creek Anticline, since I am a lease owner on Cedar Mesa Anticline that is partially included in the proposed unit and since my company, High Plains Petroleum, developed and sold prospectsto Ridgeway on the three (3) anticlines, High Plains and I most certainly would be affected by unitization.

In my opinion, which is also the opinion of the New Mexico State Land Department, there hasn't been enough drilling, or production performance to justify the unitization of the lands on the anticlinorium. As a reservoir engineer, I do not believe there is sufficient evidence yet that there is reservoir continuity across the anticlinorium on which the above-referenced anticlines are situated. In fact, there is every reason to believe that the widely separated wells that have been drilled are in separate reservoirs.

Seismic was shot on Cedar Mesa Anticline. That seismic revealed a complex, highly faulted structure with multiple reservoirs separated by faults. Such a subsurface situation is likely to exist on the other anticlines as well, so unitization should not take place, at least not until further development drilling has proven the presence of continuous, interconnected reservoirs. So far, gas has only been found in separate stratigraphic intervals with tight reservoir discontinuities in between.

To date, there has only been production on the very top of the anticlinorium, on Coyote Creek Anticline. Of three (3) wells that were connected to the FLOCO₂ plant, only one is producing. The other two, which are lower on the structure are

"logged off" with water and unable to produce. That performance indicates that only the very top of the structure may be productive. The flanks may produce some gas and water, but those areas cannot be equitably unitized with lands on the top. Water saturation at the top of an accumulation is almost always much less. As a result, large gas fields, like the Hugoton Field in Kansas, or the Blanco Mesaverde Field in New Mexico, are not unitized.

If there was a common reservoir across the whole anticlinorium, then including only part of Cedar Mesa Anticline would be unfair. My Arizona state leases and unleased fee land outside of the proposed unit could be drained by production from within the unit. At the New Mexico Oil Conservation Commission hearing for the Cottonwood Canyon Unit, Ridgeway's geologist testified that there is gas down to the +4700 ft. contour, and Ridgeway's proposed unit doesn't cover that whole area. Exhibit 11 from that hearing is attached.

Ridgeway by its loss of the discovery well on the St. Johns Anticline, by its failure to test either of the gas bearing zones in its well on Cedar Mesa Anticline, by its connection of wells to the FLOCO₂ plant that are incapable of production, by its failure to plug wells promptly and by its disregard for the protection of fresh water has indicated that it may not possess the technical expertise to operate such a unit without subjecting nonoperating participants to considerable liability. Furthermore, Ridgeway has testified that it spent twenty-three million dollars (\$23,000,000) in drilling only fifteen, or twenty shallow wells to delineate the area that contains gas. If so, Ridgeway also may be incapable of operating a unit in a prudent and profitable manner. In addition, in the 8 years since the discovery of gas on the Platts ranch on St. Johns Anticline, Ridgeway has been unable to find a market for more than a small volume of CO₂, so why is a unit needed, except solely for the benefit of Ridgeway?

In 1999, Ridgeway allowed many of its original leases to expire, instead of extending those leases for a second 5 year term and paying the State of Arizona the increased lease rental of two dollars an acre (\$2/ac.). Ridgeway just applied for new leases to the same land thereby depriving the State of Arizona of a dollar an acre (\$1/ac.) on tens of thousands of acres each year. Those 1999 leases will reach the end of their primary term in 2004, slightly over a year from now. Isn't this just another way to extend those leases indefinitely by payment of shutin royalty, which is not in the best interest of the State of Arizona, as well as a way for Ridgeway to tie up others' unleased land?

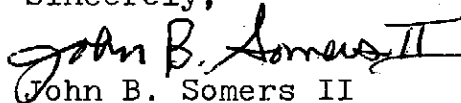
The New Mexico State Land Department has not approved Ridgeway's proposed Cottonwood Canyon Unit, holding such

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approval in abeyance, and the Arizona State Land Department shouldn't approve a unit in Arizona either, at least not until there is further justification.

As I mentioned at the meeting of the Arizona Oil and Gas Commission in July, 2002, separate units on each of the anticlines are being considered. As a result, the Arizona State Land Department should hold off and take no action on the unit proposed by Ridgeway, as the State of New Mexico has.

Sincerely,



John B. Somers II
President
High Plains Petroleum

Attachment

cc: Mr. Steven L. Rauzi
Oil and Gas Administrator
Arizona Geological Survey
Arizona Oil and Gas Conservation Commission
Mr. Jay Platt
Mr. Gary L. Kiehne
Mr. & Mrs. Deratany
The Santa Fe Railroad
c/o Devon Energy

Chair - Dale Nations

Vice Chair -

Bob Jones

Chair: Nations

Vice Chair: Jones

Chair: Dale Nations

Vice Chair: Bob Jones

Chair: Dale Nations

Vice Chair: Bob Jones

Chair: Dale Nations

Vice Chair: Bob Jones

OGCC Mtg 1-31-03

Name

Representing

Scott Lomen	High Plains Petroleum
John Lomen	" " "
Yale Rogers	Yale Rogers
Richard Ahern	ASLD
Alan Behnenkamp	Az Corp Comm. Pipeline Safety
Lantz Langerhans	AGUILA
Chris Garrett	Aquila
Kew Houser	Aquila
Gordon LeBlanc, Jr.	LBLP