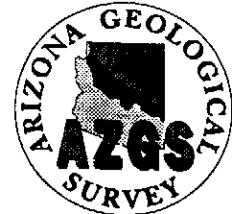




Janet Napolitano
Governor

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 July 25, 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 January 31, 2003
3. Report of Director and State Geologist about budget and other matters
4. Report of Oil & Gas Administrator about oil & gas activity in Arizona
5. Discussion about the natural gas storage projects at Red Lake and Luke
6. Discussion about the Ridgeway CO₂ Project
7. Call to the public
8. Announcements
9. 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 18th day of July 2003

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.

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

Minutes of Meeting
January 31, 2003

Present:

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

The regular Commission Meeting of January 31, 2003, 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 SEPTEMBER 13, 2002

Mr. Jones moved, seconded by Mr. Lane:

THAT THE MINUTES OF THE MEETING OF SEPTEMBER 13, 2002,
BE ACCEPTED AS PRESENTED

Motion carried unanimously.

REPORT OF DIRECTOR AND STATE GEOLOGIST

Mr. Rauzi reported that Dr. Fellows was not present because he was attending the Appropriations Subcommittee meeting for the Arizona Geological Survey. Mr. Rauzi distributed a report written by Dr. Fellows that summarized recent and upcoming projects and the budget.

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 discussed his recently completed cross sections from wells in the western Holbrook Basin to outcrops in Grand Canyon and the Sedona area. The cross sections were released as an open file report. He informed the Commissioners that his next project would be to digitize a map of the oil and gas wells in the state.

OVERVIEW AND DISCUSSION OF THE RED LAKE GAS STORAGE LP PROJECT

Messrs. Indergard, Garrett, and Houser, on behalf of Aquila Energy, presented an overview of the gas storage project north of Kingman. They described the proposed facility including several wells to supply water for leaching, two caverns leached in salt, and four wells to dispose of brine from the leaching process. They discussed the location of the facility in relation to the geology and hydrology of the Hualapai Valley.

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

No Ridgeway personnel were present. Mr. Rauzi reported that Ridgeway had submitted a proposed unit agreement to the State Land Department on November 4, 2002, and that the Land Department had denied the proposed unit agreement on January 29, 2003. He gave a copy of the decision denying the proposed unit agreement to the Commissioners.

CALL TO THE PUBLIC

Mr. Somers described one of his prospects near the old helium fields at Pinta Dome. He reported that FLO-CO₂ had contacted him about additional sources of CO₂ near St. Johns because of a recent decline in production to its liquid plant.

ELECTION OF OFFICERS

Dr. Nations was elected Chairman and Mr. Jones was elected vice-Chairman on secret ballot.

ANNOUNCEMENTS

The Commission scheduled its next meeting at 10:00 a.m. on April 25, 2003, in Room 321 at the State Land Department Building in Phoenix.

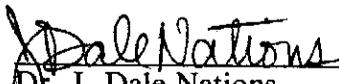
ADJOURNMENT

Mrs. Negley moved, seconded by Mr. Wagner:

THAT THE MEETING BE ADJOURNED

Motion carried unanimously. Time of adjournment was 11:28 a.m.

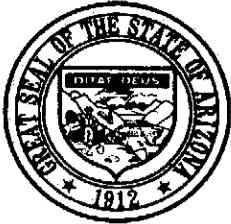
APPROVED


D. J. Dale Nations
Chairman

GUESTS IN ATTENDANCE

Richard Ahern State Land Department
Alan Bohnenkamp ACC Pipeline Safety
Chris Garrett Aquila Energy
Ken Houser Aquila Energy
Lantz Indergard Aquila Energy

Gordon LeBlanc, Jr. LBLP
Yale Rogers Grazing Lessee
John Somers High Plains Petroleum
Scott Somers High Plains Petroleum



Janet Napolitano
Governor

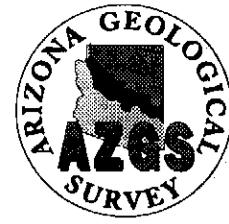
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Larry D. Fellows
Director and State Geologist

July 18, 2003

To: Oil and Gas Conservation Commissioners

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

Re: Activity Report for the July 25, 2003, Meeting

Copper Eagle Gas Storage LLC drilled three stratigraphic wells to get information about disposing brine in subsurface rocks near the western edge of the Luke salt. Copper Eagle is evaluating the gas-storage project in light of the information from the wells.

The Red Lake gas-storage project was terminated over a rate disagreement. Red Lake Gas Storage LP requested authority from the FERC to provide service to wholesale customers under market-based rates. The FERC denied that request and required Red Lake to file cost-based rate proposals. Red Lake reported that the project could not go forward without market-based rate authority. The termination had nothing to do with the suitability of the Red Lake salt deposit as a gas storage site.

Ridgeway Arizona Oil Corporation has been producing CO₂ from its #10-22 State well since July 2002. The well has produced more than 375 million cubic feet in its first year, averaging about 29 million cubic feet per month. All production is converted into liquid CO₂. Radon has been detected in the CO₂. This is not surprising because the CO₂ is being produced from arkosic sands and granite wash. Flo-CO₂ is studying this.

I completed a semi-annual inspection of the LPG storage facilities near Luke and Adamana in April. All 14 storage wells and safety devices were in good working condition.

ADOT plugged an old well near the highway north of Safford in compliance with the oil and gas rules in June. The well was drilled for oil in 1918 and apparently has been flowing salty water ever since.

I am currently working on a review of helium production and potential in Arizona. The results will be released as an open-file report. Our project to digitize the oil and gas well locations was postponed until we learn the results of a proposal we have before the US Department of Energy to fund a regional database for the sequestration of CO₂. We are partnering with New Mexico, Utah, Colorado, and Oklahoma on this project, which will include digitizing well locations and geologic, engineering, and production data for oil and gas fields in the several states. The goal is to facilitate study of areas where CO₂ may be safely sequestered from the atmosphere.

FERC Terminates project to build salt caverns at Red Lake

By Linda Stelp
Miner Staff Writer

Kingman Daily Miner, Friday, June 6, 2003

The proposed Red Lake gas storage project is dead.

"The request to build at Red Lake has been terminated," project manager Mark Cook said Thursday after learning the Federal Energy Regulatory Commission decided the company, Red Lake Gas Storage L.P., would charge wholesale customers too much for its distribution services.

The company proposed building and operating underground storage caverns and a pipeline to connect the project with interstate gas lines near Kingman.

Wednesday's decision means Red Lake, a pond 30 miles north of Kingman, and the aquifer beneath the lake will remain as they have been for thousands of years, at least for now. Environmental groups have opposed the project, as did the Hualapai Nation because of religious significance.

However, a commission spokeswoman said the issue that terminated the project had to do with the sale of the natural gas once the proposed project was completed.

On Jan. 30, the commission made preliminary determinations on non-environmental issues, deciding the storage facility would be in the public interest for the continued development of natural gas infrastructure. However, the commission had denied the company's request for authority to provide service under market-based rates and required Red Lake Gas Storage L.P. to file cost-based rate proposals, spokeswoman Tamara Young-Allen said.

On Wednesday, the commission reaffirmed that denial of Red Lake's market-based pricing.

"I am extremely disappointed that FERC did not agree with us that the project deserved market-based rate authority," said Cook, who has spearheaded the project for more than a year. "We have not seen the formal order yet to find out if anything more can be done."

However, Young-Allen said the Wednesday ruling means the project will not proceed.

"Red Lake Gas Storage L.P. told us the only way the project would go forward is with market-based rate authority," Young-Allen said. "The commission in its order yesterday denied the request a second time for market-based authority, and in the process terminated the proceeding."

Young-Allen said the commission voted 3-0 to deny the request. She said the decision may not be appealed.

Young-Allen said the commission directed its staff to continue studying increasing natural gas use in the Southwest and to ensure that storage needs are met.

"We want the project to go forward," Cook said. "We feel it is needed, but basically it is over."

For the project to be revived, he said, "It would have to be something different. We would have to start over."

The commission ruling ends a yearlong battle between Red Lake Gas Storage L.P., a subsidiary of Aquila Inc., and a group of local citizens and environmental groups opposed to the project. Aquila Inc. is an international energy holding company based in Kansas City, Mo.

City of Kingman officials also voiced concerns about the project.

Aquila bought the storage project from Southwest Gas Corp. in January 2002. The sale included 36,000 acres, the right to mine the salt caverns, and the water and mineral rights needed to build the storage caverns.

During meetings the past year, opponents voiced concerns about the amount of water needed for the project, the disposal of brackish water after the salt is mined and safety issues regarding the transport of

odorless gas through Kingman neighborhoods.

After one such meeting, Lantz Indergard, a geologist hired by Aquila, said the greatest risk from the project would not come from the salt but from the natural gas at the Red Lake well and at the connecting point where the natural gas would go from one of three existing interstate pipelines into the pipeline leading to the storage facility.

Until Wednesday's ruling, the Federal Energy Regulatory Commission (FERC) was preparing an environmental impact statement to assess the environmental and cultural concerns of the project.

In assessing the economic aspects of the project, the commission noted the company had the option of proposing a negotiated rate program with the flexibility to establish individual rate agreements with customers.

In its Aug. 30 application, the company sought authority to charge market-based rates for storage and distribution system services such as wheeling, or transporting natural gas, and trading.

After FERC's first denial, Red Lake Gas Storage L.P. filed a request for a rehearing, stating the Jan. 30 FERC order erred by redefining the project's geographic market, and that customers lack sufficient alternatives in that market.

Red Lake further stated "the cost-of-service rates do not provide adequate incentive to attract the investment necessary to develop a risky project like Red Lake."

The company reiterated that, unless market-based rates were approved, development of the proposed storage facility could not go forward, according to a FERC document.

The FERC order dated June 4, 2003, includes the following statement: "The commission orders: The rehearing request filed by Red Lake in this proceeding is denied, and this proceeding is terminated."

The Wednesday decision prevents Red Lake Gas Storage from going through with the project under its present application. Cook said he hasn't had time to decide whether the company will re-apply.

Robert Fenwick, who lives close to Red Lake and has actively opposed the project, said he is "very happy" that the project has been terminated.

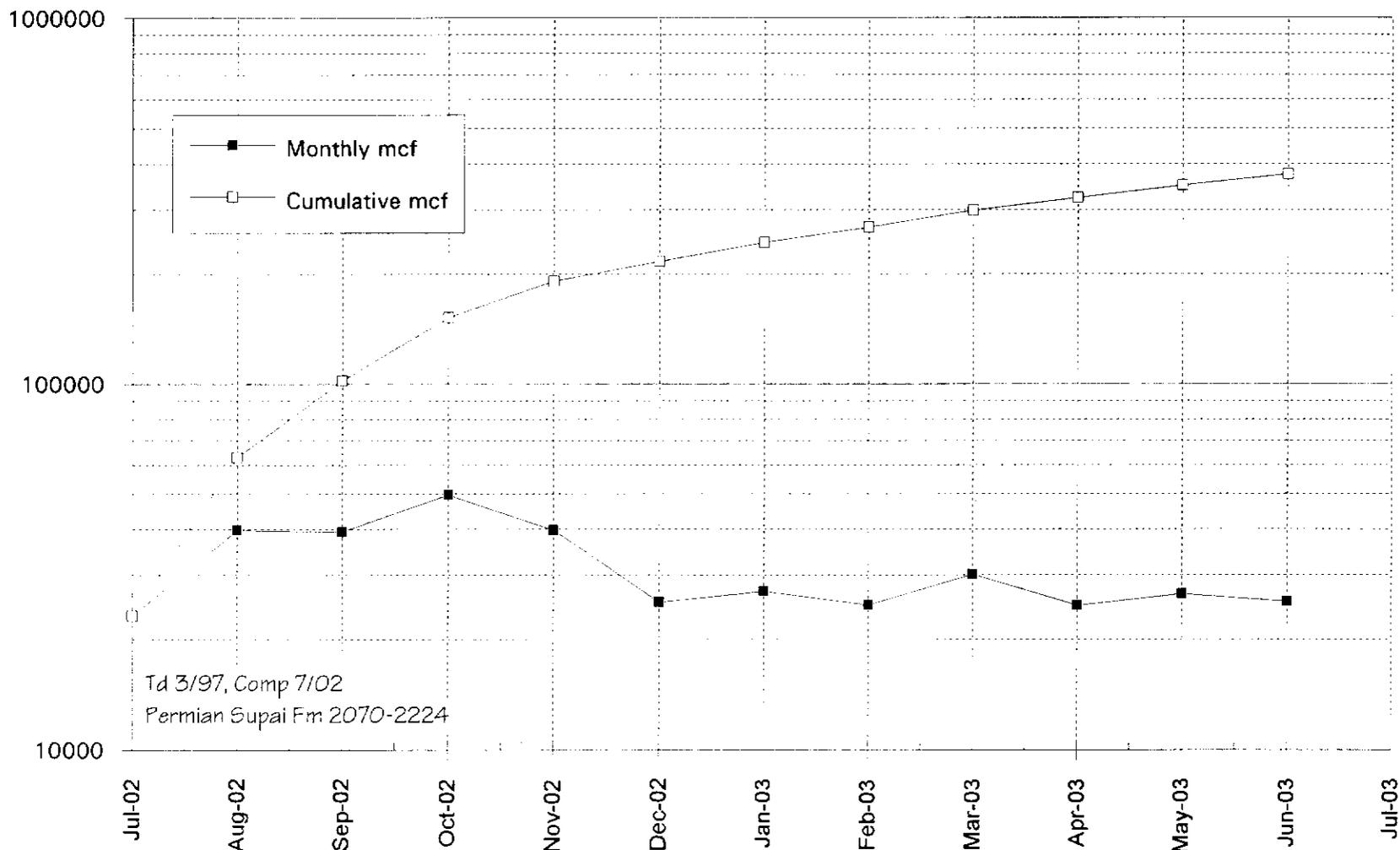
Jack Ehrhardt, who along with other local citizens hired an environmental attorney to legally oppose the project, said he is relieved at its outcome.

"They were acting like an Enron, with no concern for cultural and natural resource issues," Ehrhardt said.

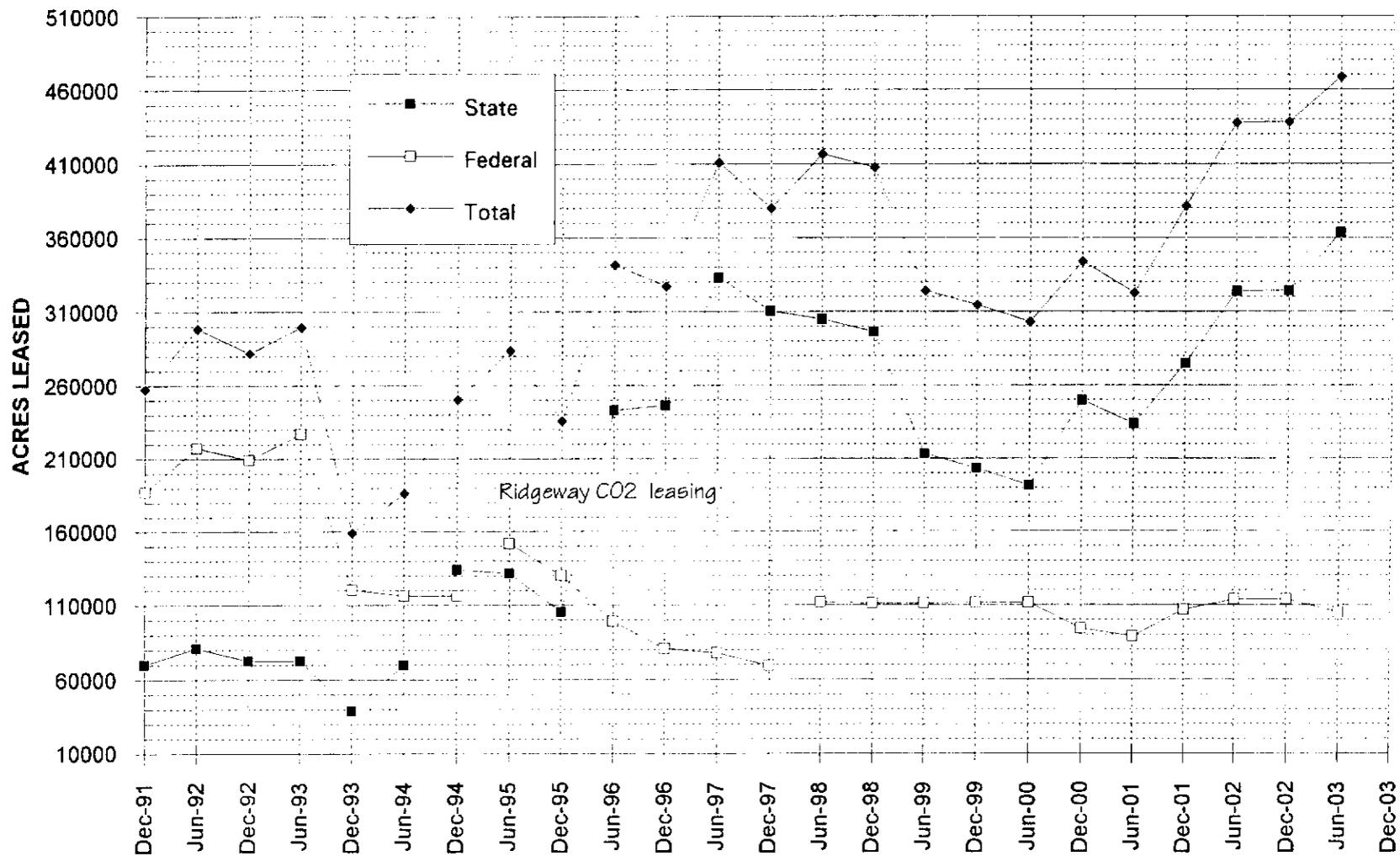
Young-Allen said at the present time no other company has requested authorization for gas storage facilities at Red Lake.

Close

Monthly and cumulative CO2 production in Arizona



OIL AND GAS LEASES IN ARIZONA



OGCC Mtg July 25, 2003

Name

Representing

Paul J. Buff
Dale Mason
Marc Osborn
Richard Ahearn

BLM
ADWR-
Ridgeway
ASCD