

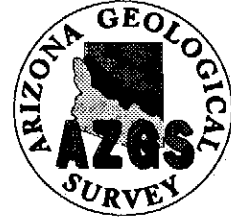
OIL & GAS CONSERVATION COMMISSION
~~MINUTES OF MEETING / OCTOBER 22, 2004~~
STEVEN L RAUZI, OIL & GAS ADMINISTRATOR



Janet Napolitano
Governor

State of Arizona
Arizona Geological Survey

416 W. Congress, Suite 100
Tucson, Arizona 85701
(520) 770-3500
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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 October 22, 2004, 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, pursuant to A.R.S. § 38-431.03(A)(3) or (4), the Oil and Gas Conservation Commission may vote to go into executive session, which will not be open to the public, for discussion or consultation with its attorney.

The agenda for the meeting is as follows:

1. Call to Order
2. Approval of Minutes of Meeting of April 30, 2004
3. Report of Oil & Gas Administrator
 - Permits issued and wells drilled or plugged since the last meeting
4. Possible action to initiate rulemaking proceedings on A.A.C. R12-7-103 to amend the blanket bond amounts in Arizona
5. Request of Gruy Petroleum for temporary abandonment of proposed wells
6. Status of Holbrook Energy wells 35-1 Hortenstine (Permit 919) and 26-1 State (Permit 886) and possible request of Holbrook Energy for temporary abandonment
7. Status of High Plains Petroleum 12-16-28 State (Permit 902), Apache County
8. Ridgeway Arizona Corporation wells 3-1 State (Permit 884), 22-1X State (Permit 888), 11-21 State (Permit 895), 10-22 State (Permit 896), 9-21 State (Permit 897), 12-15-30 State (Permit 900), and 11-18 State (Permit 916), Apache County
 - Procedural history of request for temporary abandonment, expiration of temporary abandonment
 - Current compliance status of wells
 - Possible executive session pursuant to A.R.S. § 38-431.03(A)(3) or (4) Procedural remedies and or enforcement options
 - Possible decision concerning request for temporary abandonment
9. Status of Ridgeway Arizona Oil Corporation's proposed unit agreement
10. Call to the public
 - This is the time for the public to comment. Members of the Commission may not discuss items that are not on the agenda. Therefore, action taken as a result of public comment will be limited to directing staff to study the matter or scheduling the matter for further discussion and decision at a later date.

11. Announcements

12. Adjournment

The Oil and Gas Conservation Commission may vote to go into Executive Session, pursuant to A.R.S. § 38-431.03(A)(3) or (4), 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 may 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 14th day of October 2004

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
April 30, 2004

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
Dr. Larry D. Fellows, Director and State Geologist
Mr. Steven L. Rauzi, Oil and Gas Administrator

Dr. J. Dale Nations, Chairman, called the regular Commission Meeting of April 30 to order at 10:00 a.m. in Room 321, State Land Department Building in Phoenix, Arizona.

Dr. Nations presented Mrs. Negley with her certificate of re-appointment to the Commission.

APPROVAL OF THE MINUTES OF THE MEETING OF JANUARY 23, 2004

Mr. Jones moved, seconded by Mr. Wagner:

THAT THE MINUTES OF THE MEETING OF JANUARY 23, 2004, 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 three permits to drill were issued to Ridgeway Arizona Oil Corporation since the last Commission meeting. He described a project he was working on to investigate potential geologic carbon sequestration sites in Arizona that was being funded by the U.S. Department of Energy. Mr. Rauzi reported that Texas required a variable blanket bond depending on the number of wells and compared the requirement with the blanket bond requirement in Arizona. He recommended that the Commission consider adopting a variable blanket bond requirement similar to the variable blanket bond requirement in Texas.

Mr. Jones moved, seconded by Mrs. Negley:

THAT THE ADMINISTRATOR PROCEED WITH THE ADMINISTRATIVE
RULEMAKING PROCESS AND OPEN A REGULATORY DOCKET

Motion carried unanimously.

RIDGEWAY ARIZONA OIL CORPORATION WELL 9-22-29 STATE (PERMIT 898) AND 10-16-31 STATE (PERMIT 899), APACHE COUNTY

Mr. Rauzi reported that Ridgeway plugged the two wells in February 2004. He explained that Ridgeway plugged the 9-22-29 in accordance with the Commission's motion from the January 23 meeting and plugged the 10-16-31 because it failed a casing integrity test.

OVERVIEW OF THE ST. JOHNS PROJECT: PRESENTATION BY STEVE MELZER, DIRECTOR RIDGEWAY PETROLEUM CORPORATION

Mr. Melzer presented the big picture of the project including pipelines to ship CO₂ to enhanced recovery projects in California and Texas and the construction of a plant to extract helium from the CO₂. He described the likelihood and timing of project components and explained that the current high price of oil and helium was good for the project. He noted that Reliant was increasing the capacity of its CO₂ liquid plant as he spoke.

ST. JOHNS PROJECT DRILLING: PRESENTATION BY ALAN MEANS, CAMBRIAN MANAGEMENT

Mr. Means explained that migrating clays and high percentages of iron caused serious problems during the drilling and completion of the existing wells. He described his proposed drilling and completion techniques to overcome these problems and obtain better production rates in new wells.

RIDGEWAY ARIZONA OIL CORPORATION WELLS 3-1 STATE (PERMIT 884), 22-1X STATE (PERMIT 888), 11-21 STATE (PERMIT 895), 10-22 STATE (PERMIT 896), 9-21 STATE (PERMIT 897), AND 12-15-30 STATE (PERMIT 900), APACHE COUNTY

Mr. Rauzi reviewed a list he prepared of well data that Ridgeway had submitted to the Commission since 1997. He noted that Ridgeway had not submitted the water analyses that Mr. Means described in his presentation and highlighted several items on the list that Ridgeway had not yet submitted to the Commission. Mr. Rauzi expressed his concern about the integrity of the steel casing in the 3-1 well in light of the poor integrity of the steel casing in the 10-16-31 well that led Ridgeway to plug the 10-16-31 in February. He stated he was not as concerned about the integrity of the fiberglass casing in light of the condition of the fiberglass casing in the 9-22-29 well.

Mr. Means responded that Ridgeway was in the process of getting all the missing information completed and intended to submit that to the Commission by the end of next week. He reported that Ridgeway would drill three new wells starting next week and indicated that Ridgeway would test the integrity of the steel casing in the 3-1 well when it brought in a pulling unit to complete and test the new wells.

Mr. Ruck indicated that Ridgeway was as concerned about the integrity of the steel casing in the 3-1 well as the Commission. He explained that the wells with fiberglass casing were possibly very valuable to Ridgeway for possible injection of produced waters or possibly to be reworked. He said that Ridgeway couldn't make that decision now.

After some discussion, Mrs. Negley moved, seconded by Mr. Wagner:

TO DENY AN EXTENSION OF TEMPORARY ABANDONMENT FOR WELL 3-1
BEYOND JULY 23, 2004

After further discussion, Mrs. Negley withdrew her motion and Mr. Wagner
withdrew his second. Mrs. Negley moved, seconded by Mr. Jones:

TO EXTEND TEMPORARY ABANDONMENT TO ALL THE WELLS FOR AN
ADDITIONAL THREE MONTHS PAST JULY 23, 2004, TO OCTOBER 23, 2004

Motion carried unanimously.

CALL TO THE PUBLIC

Mr. Buff reported that the April lease sale in Santa Fe, New Mexico included two Arizona
tracts that were leased to High Plains Petroleum. He noted that Forest Guardians protested the
two leases in Arizona because of the Gunnison Ground Squirrel.

ANNOUNCEMENTS

The Commission scheduled its next meeting at 10:00 a.m. on October 8, 2004, at a place to
be announced.

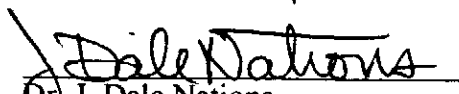
ADJOURNMENT

Mr. Wagner moved, seconded by Mr. Jones:

THAT THE MEETING BE ADJOURNED

Motion carried unanimously. Time of adjournment was 12:35 p.m.

APPROVED


Dr. J. Dale Nations
Chairman

GUESTS IN ATTENDANCE

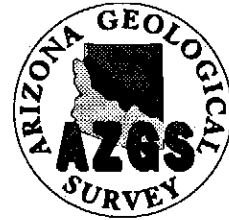
Richard Ahern	State Land Department	Marc Osborn	R & R Partners
Paul J. Buff	Bureau of Land Management	Mike Rice	State Land Department
Theresa Craig	Assistant Attorney General	John Richardson	Ridgeway
Thayne Lowe	Osborn Maledon for Ridgeway	Walter Ruck	Ridgeway
Alan D. Means	Ridgeway	Gary Slusher	State Land Department
Steve Melzer	Ridgeway	Laurie Woodall	Assistant Attorney General
Keenan Murray	State Land Department		



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Larry D. Fellows
Director and State Geologist

October 14, 2004

To: Oil and Gas Conservation Commissioners

From: Steven L. Rauzi, Oil and Gas Administrator

Re: Activity Report for the October 22, 2004, Meeting

Four permits to drill were issued, one well was drilled, one well was re-entered, and one well was plugged since your last meeting on April 30, 2004.

Salt Grass Exploration permitted a well north of Springerville.

Holbrook Energy permitted and drilled a well in the old Pinta Dome helium field in early September. Holbrook Energy is currently evaluating that well.

Holbrook Energy re-entered, tested, and plugged the 26-1 State well near Meteor Crater. The Townsend Company drilled and abandoned the 26-1 State well in 1995. Gus Berry re-entered and deepened the 26-1 well in October 1999. The Commission forfeited Gus Berry's bond in its January 23, 2004 meeting for failure to plug and abandon the 26-1 well.

Gruy Petroleum permitted two wells south of Sanders and east of the old Pinta Dome helium field. If the wells have potential Gruy Petroleum would like to temporarily abandon the wells for up to one year pending the drilling of additional wells in the area to determine if there is enough cumulative potential to rebuild a helium plant in the area.

Ridgeway Arizona Oil Corporation plugged the 3-1 State in late September and is still evaluating the 11-18 State, which it drilled in May 2004. Ridgeway drilled the 3-1 State in 1995.

Notices of Rulemaking Docket Opening

Name: Judy Kioski, Public Information Officer
Address: Department of Emergency and Military Affairs
Division of Emergency Management
5636 E. McDowell Road, Building 103
Phoenix, AZ 85008
Telephone: (602) 231-6245
Fax: (602) 231-6356
E-mail: Judy.kioski@azdema.gov

Name: Beth Zimmerman, Recovery Manager
Address: Department of Emergency and Military Affairs
Division of Emergency Management
5636 E. McDowell Road, Building 103
Phoenix, AZ 85008
Telephone: (602) 231-6310
Fax: (602) 392-7501
E-mail: beth.zimmerman@azdema.gov

5. The time during which the agency will accept written comments and the time and place where oral comments may be made:

To be determined

6. A timetable for agency decisions or other action on the proceeding, if known:

To be determined

NOTICE OF RULEMAKING DOCKET OPENING

OIL AND GAS CONSERVATION COMMISSION

- 1. Title and its heading:** 12, Natural Resources
Chapter and its heading: 7, Oil and Gas Conservation Commission
Article and its heading: 1, Oil, Gas, Helium, and Geothermal Resources
Section numbers: R12-7-103

- 2. The subject matter of the proposed rule:**
Section R12-7-103 specifies bonding requirements and amounts

- 3. A citation to all published notices relating to the proceeding:**
None

4. The name and address of agency personnel with whom persons may communicate regarding the proposed rule:

Name: Steven L. Rauzi, Oil & Gas Administrator
Address: Arizona Geological Survey
416 W. Congress, Suite 100
Tucson, AZ 85701-1315
Telephone: (520) 770-3500
Fax: (520) 770-3505

5. The time during which the agency will accept written comments and the time and place where oral comments may be made:

Written comments: 8:00 a.m. – 4:00 p.m.
Oral comments: 8:00 a.m. – 4:00 p.m. at location listed in item #4.

6. A timetable for agency decisions or other action on the proceeding, if known:

None

NOTICE OF RULEMAKING DOCKET OPENING

**CORPORATION COMMISSION
SECURITIES DIVISION**

- 1. Title and its heading:** 14, Public Service Corporations; Corporations and Associations;

R12-7-103. Bond

A. An operator shall file a performance bond with the Commission prior to approval of a permit to drill a new well, re-enter an abandoned well, or assume responsibility as operator of existing wells. ~~The bond amount shall be \$10,000 for a well drilled to a total depth of 10,000 feet or less, \$20,000 for a well drilled deeper than 10,000 feet, or \$25,000 as a blanket bond to cover all wells and~~ The performance bond shall be payable to the Oil and Gas Conservation Commission, State of Arizona, and conditioned upon the 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.

1. The bond amount shall be \$10,000 for a well drilled to a total depth of 10,000 feet or less or \$20,000 for a well drilled deeper than 10,000 feet.

2. A blanket bond may be used to cover all wells as follows:

a. \$25,000 for 10 or fewer wells;

b. \$50,000 for more than 10 but fewer than 50 wells; and

c. \$250,000 for more than 50 wells.

B. The Commission shall accept a bond in the form of a surety bond, executed by the operator as principal and a corporate surety authorized to do business in Arizona, a certified check, or a certificate of deposit at a federally insured bank authorized to do business in Arizona.

C. Transfer of property does not release the bond. If a property is transferred and the principal desires to be released from the bond, the procedure shall be as follows:

1. The principal on the bond shall notify the Commission in writing of the proposed transfer, giving the location of each well, the date and number of each permit to drill, and the name, address, and telephone number of the proposed transferee.

2. The transferee of any well or of the operation of any well shall declare to the Commission in writing acceptance of the transfer and of the responsibility of each well and shall submit a new bond or bonds unless the transferee's blanket bond applies to the well or wells.

3. When the Commission approves the transfer, the transferor is released from all responsibility with respect to the well or wells, and the Commission shall notify the principal and the bonding company in writing that the transferor's applicable bond or bonds are subject to release.

1/19/1994

7/8/2004



Ridgeway

Petroleum Corp.

P.O. Box 1110

St. Johns, AZ 85936

State of Arizona
Arizona Geological Survey
426 W. Congress
Suite 100
Tucson, Arizona 85701
Attn: Mr. Steve Rauzi

October 21, 2004

Re: Ridgeway Arizona Oil Corp
Status of Temporarily Abandon Wells
#22-1X, 11-21, 10-22, 9-21 and 12-15-30

Mr. Rauzi,

Ridgeway is in the process of completing the AZ #11-18 which was drilled earlier this year. The process of completing the well has been complicated due to availability of oilfield equipment and services. Oil and gas commodity prices are at all time highs which has caused activity in the industry to increase. As a result, services and equipment have been difficult to secure for the completion process on the #11-18. Therefore Ridgeway has not been able to acquire the results on the new drilling and completion techniques which we plan to utilize on remediating the subject wells. Ridgeway therefore requests a six (6) month extension on temporary abandon status of these wells. The wells are shut-in and pose little environmental threat in their current status.

Since the last Oil and Gas Conservation Commission meeting April 30, 2004 Ridgeway has plugged and abandoned the AZ #3-1 as discussed during this meeting. Additionally, reporting status on existing activity is up to date. If you have any questions or require additional please advise.

Sincerely,

Alan D. Means, PE
Agent for Ridgeway Arizona Oil Corp.

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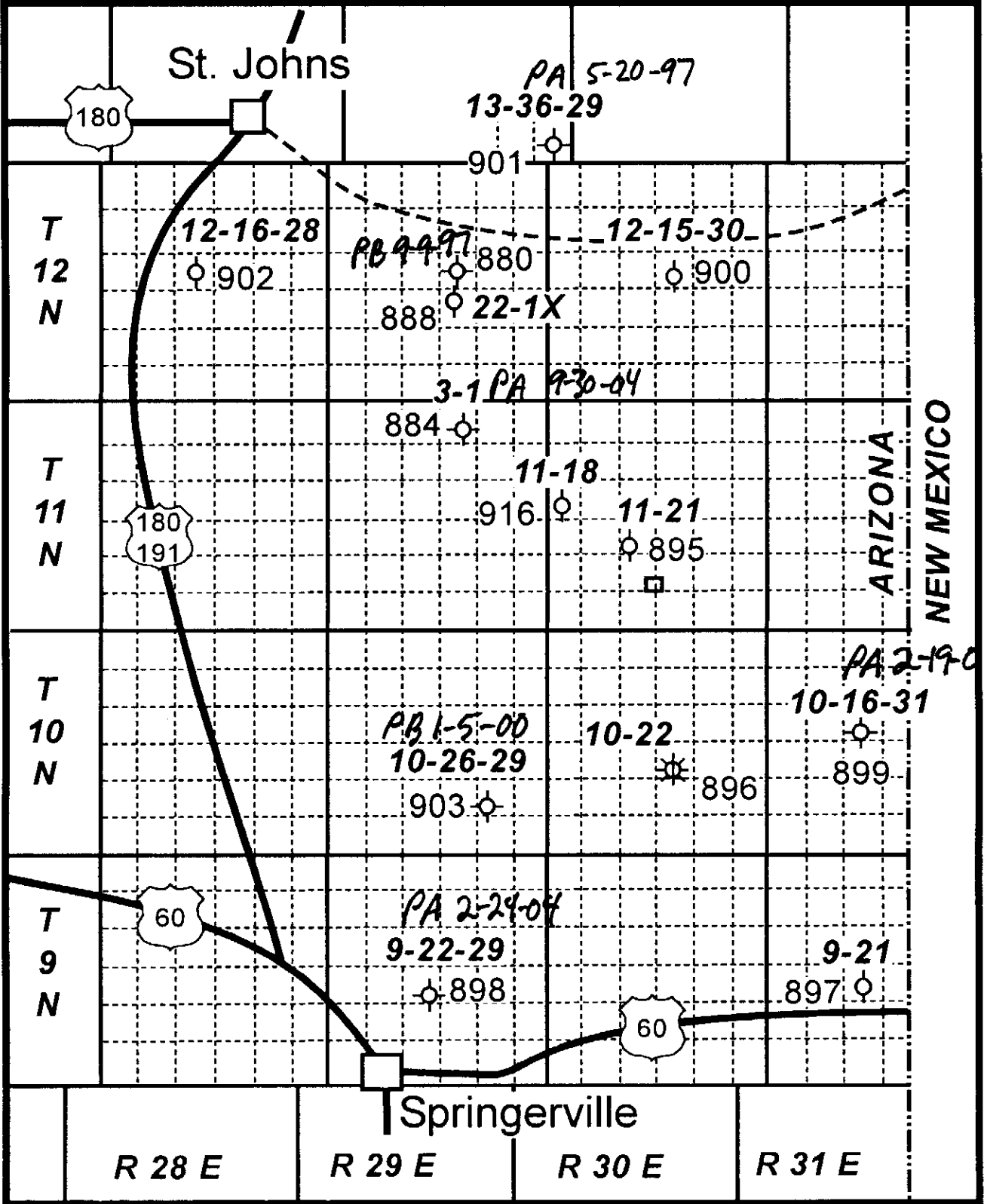
Ridgeway Wells and Lease Expiration Dates

<u>Permit</u>	<u>Well</u>	<u>Lease #</u>	<u>Exp Date</u>	<u>Notes</u>
895	11-21	13-101357	2nd 01/18/06	Drilled 3/97
896	10-22	13-100215	Ann 08/21/05	Prod 7/02 SI 3/04
897	9-21	13-101510	2nd 01/18/06	Drilled 3/97
888	22-1X	13-104761	2nd 02/28/09	Drilled & Comp 2/97
900	12-15-30	13-101545	2nd 01/24/06	Drilled 5/97
916	11-18	13-101357	2nd 01/18/06	Drilled 5/04 Evaluating

Length of temporary abandonment should run no longer than the lease term

896 (10-22 State) is held by production but has been shut-in since March 2004

Ridgeway Arizona Oil Corporation Wells



OGCC MTG

OCT 22, 2004

<u>Name</u>	<u>Representing</u>
Marc Osborn	Ridgewood
Richard Abner	ASLD
Gordon LeBlanc, Jr.	Holbrook Energy
Mike Rice	State Land
Laurie A Woodall	AGener
Teresa Craig	Asst Dir Gen - SW