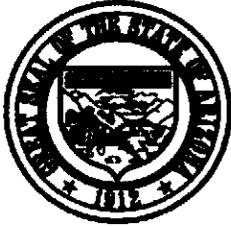


OIL & GAS CONSERVATION COMMISSION  
— MINUTES OF MEETING / MAY 13, 2005 —  
STEVEN L RAUZI, OIL & GAS ADMINISTRATOR

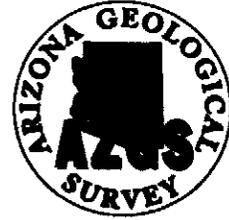


Janet Napolitano  
Governor

State of Arizona  
**Arizona Geological Survey**

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

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 May 13, 2005, 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 January 28, 2005
3. Report of Director & State Geologist about the budget and related matters
4. Report of Oil & Gas Administrator about permits issued and wells drilled or plugged since the last meeting and status of the CO<sub>2</sub> sequestration project
5. Oral hearing to amend A.A.C. R12-7-103.
6. Status of Holbrook Energy wells 35-1 Hortenstine (Permit 919) and 17-1 NZ (Permit 924) and possible decision concerning request for temporary abandonment.
7. Status of Ridgeway Arizona Oil Corporation 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 and possible decision concerning request for temporary abandonment.
8. 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.
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) 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 6th day of May 2005

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 28, 2005

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 January 28 to order at 10:00 a.m. in Room 321, State Land Department Building in Phoenix, Arizona.

APPROVAL OF THE MINUTES OF THE MEETING OF OCTOBER 22, 2004

Mr. Jones moved, seconded by Mr. Wagner:

THAT THE MINUTES OF THE MEETING OF OCTOBER 22, 2004, BE  
ACCEPTED AS PRESENTED

Motion carried unanimously.

REPORT OF THE DIRECTOR AND STATE GEOLOGIST

Dr. Fellows reported that there was no increase or decrease in the new 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 the permits issued and wells drilled or plugged since the last meeting on October 22, 2004. He reported that Unocal was drilling a stratigraphic hole in the Picacho Basin to see if the subsurface geology there was suitable for storing natural gas.

SET DATE FOR ORAL HEARING TO AMEND A.A.C. R12-7-103

The Commission scheduled its next meeting at 10:00 a.m. on May 13, 2005, in Room 321 at the State Land Department Building in Phoenix.

STATUS OF HOLBROOK ENERGY WELLS 35-1 HORTENSTINE (PERMIT 919) AND 26-1 STATE (PERMIT 886) AND POSSIBLE MOTION TO RELEASE FORFEITED BOND ON THE 26-1 STATE

Mr. Rauzi reported that the Hortenstine well was half way through its six-month period of temporary abandonment and that Holbrook Energy had plugged the 26-1 State well with the forfeited Gus Berry bond money. Mr. Le Blanc reported that he expected to finish the completion attempt of the 35-1 and possibly permit and drill another nearby hole by the time of the next meeting. Mr. Le Blanc also anticipated another test in the vicinity of the 26-1 hole.

Mrs. Negley moved, seconded by Mr. Wagner:

TO RELEASE THE FORFEITED GUS BERRY BOND TO HOLBROOK ENERGY LLC FOR PLUGGING THE 26-1 STATE HOLE

Motion carried unanimously.

STATUS OF HIGH PLAINS PETROLEUM 12-16-28 STATE (PERMIT 902), APACHE COUNTY

Mr. Rauzi reported that High Plains Petroleum plugged the 12-16-28 well in January 2005.

STATUS OF RIDGEWAY ARIZONA OIL CORPORATION 11-18 STATE (PERMIT 916), APACHE COUNTY AND POSSIBLE DECISION CONCERNING REQUEST FOR TEMPORARY ABANDONMENT

Mr. Rauzi reported that Ridgeway drilled the 11-18 in May 2004 and tested it throughout the summer and fall but had performed no work on the well since October 2004. He informed the Commissioners that rules required an operator to plug a well after 60 days of inactivity unless the Commission granted temporary abandonment, which clearly allowed further testing of a well. Mr. Rauzi reported that he had advised Mr. Osborn of the need for a written request for temporary abandonment about a week before the meeting but that he had received no such request. Mr. Melzer responded that Ridgeway did not consider the well to be temporarily abandoned in its mind but would submit a written request for temporary abandonment. After further discussion about well status and the requirements of the rules,

Mr. Jones moved, seconded by Mr. Lane:

TO GRANT A ONE-YEAR PERIOD OF TEMPORARY ABANDONMENT TO THE 11-18 STATE ON THE CONDITION THAT RIDGEWAY SUBMIT A WRITTEN REQUEST FOR TEMPORARY ABANDONMENT BY FEBRUARY 4

Motion carried unanimously.

STATUS OF RIDGEWAY ARIZONA OIL CORPORATION'S PROPOSED UNIT AGREEMENT

Dr. Nations clarified with Mr. Osborn that Ridgeway's presentation was for informational purposes only and that no formal request for action was implied by the presentation.

Mr. Lowe summarized the core points and concepts of the proposed unit from Ridgeway's perspective. He noted that two New Mexico attorneys, Mr. Jim Bruce, representing Ridgeway, and Mr. Gene Gallegos, representing the State Land Department, were conducting the formal negotiations. Mr. Lowe reported that royalty was the only substantive provision remaining to be worked out. He emphasized that participation in the unit was strictly voluntary on a per acre pro rata basis because neither Ridgeway nor other parties had fully explored the characteristics of their land. He explained the concept of participation including royalty versus working interests and the right of any party to invoke the Commission's jurisdiction to order unitization upon meeting a certain burden of proof. Mr. Richardson discussed the proposed unit area with the aid of a map handout noting how

Ridgeway's percentage of working interest only varied from 79 to 87 percent by dropping out the various leases not controlled by Ridgeway.

ELECTION OF OFFICERS

Mr. Lane moved, seconded by Mrs. Negley:

TO KEEP THE CURRENT SLATE OF OFFICERS FOR ANOTHER YEAR

Motion carried unanimously.

CALL TO THE PUBLIC

None

ANNOUNCEMENTS

Mr. Rauzi announced that he had completed digitizing the oil and gas well location map, which the Arizona Geological Survey would release in its digital information series.

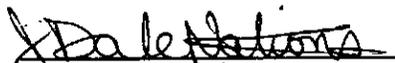
ADJOURNMENT

Mrs. Negley Lane moved, seconded by Mr. Wagner:

THAT THE MEETING BE ADJOURNED

Motion carried unanimously. Time of adjournment was 11:20 a.m.

APPROVED

  
Dr. J. Dale Nations  
Chairman

GUESTS IN ATTENDANCE

Richard Ahern	State Land Department
Theresa Craig	Assistant Attorney General for State Land Department
Gordon Le Blanc	Holbrook Energy
Jim Loe	Public
Thayne Lowe	Osborn Maledon, P.A. for Ridgeway
Marc Osborn	Ridgeway Petroleum
Mike Rice	State Land Department
Steve Melzer	Ridgeway Petroleum
John Michael Richardson	Ridgeway Arizona Oil Corp
John Somers	High Plains Petroleum
Scott Somers	High Plains Petroleum



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Larry D. Fellows  
Director and State Geologist

May 6, 2005

To: Oil and Gas Conservation Commissioners

From: <sup>SLR</sup> Steven L. Rauzi, Oil and Gas Administrator

Re: Activity Report for the May 13, 2005, Meeting

Two permits to drill were issued, two wells were drilled, and one well was plugged since your last meeting on January 28, 2005.

El Paso Natural Gas Company permitted two stratigraphic tests to collect information about salt in the Picacho Basin. El Paso had not started drilling as of this report.

Unocal Picacho Peak Gas Storage LLC drilled and abandoned its stratigraphic hole in the Picacho basin in late January and early February. All information from the well is being held confidential.

Holbrook Energy LLC drilled the 17-1 NZ near Concho in February. Holbrook Energy ran production pipe and is currently testing the well.

Both of the Gruy Petroleum wells south of Sanders remain shut in pending additional testing and drilling to determine if there is enough helium to justify rebuilding a helium extraction plant in the area.

Salt Grass Exploration permitted a well north of Springerville in May 2004. That permit was extended upon written request for an extension from Salt Grass.

McCabe Energy permitted a well north of Flagstaff in late October 2004. McCabe did not drill the hole and the permit expires in May 2005.

Our participation in Phase One of the Southwest Carbon Sequestration Partnership is pretty much complete. The main purpose of phase one was to compile existing data on potential geologic sinks in Arizona such as oil and gas fields and saline reservoirs. In phase one we scanned the oil and gas well logs, digitized the oil and gas well locations and populated a database of potential geologic sinks in Arizona.



ing is scheduled, where, when, and how persons may request an oral proceeding on the proposed rule:

Date: May 13, 2005  
Time: 10:00 a.m.  
Location: 1616 W. Adams, Room 321  
Phoenix Arizona 85007  
Nature: Oral proceeding to adopt amended rules

**11. Any other matters prescribed by statute that are applicable to the specific agency or to any specific rule or class of rules:**

Not applicable

**12. Incorporation by reference and their location in the rules:**

None

**13. 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**

Section

R12-7-103. Bond

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

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.

AOGCC Mtg 5-13-05

<u>Name</u>	<u>Representing</u>
BARRY LASKER	RIDGEWAY
Yale Rogers	SELF
JoAnne Jans	guest of Bob Jans
Paul J. Buff	BLM
Laura Waddell	AG.
Michele Lorenzen	Ryley Carlock & Applewhite