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 CO2 sequestration project
5. Oral hearing to amend A.A.C. R12-7-103.
6. Status of Holbrook Energy wells 35-1 Hortenstein (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.
Oil and Gas Conservation Commission Minutes January 28, 2005 Page 2

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
Theresa Craig
Gordon Le Blanc
Jim Loe
Thayne Lowe
Marc Osborn
Mike Rice
Steve Melzer
John Michael Richardson
John Somers
Scott Somers

State Land Department
Assistant Attorney General for State Land Department
Holbrook Energy
Public
Osborn Meldon, P.A. for Ridgeway
Ridgeway Petroleum
State Land Department
Ridgeway Petroleum
Ridgeway Arizona Oil Corp
High Plains Petroleum
High Plains Petroleum
May 6, 2005

To: Oil and Gas Conservation Commissioners

From: 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.


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.
The IHS and a Tribal Facility shall follow the procedures for a hospital claims review as specified in A.A.C. R9-22-717 R9-22-703.

NOTICE OF PROPOSED RULEMAKING

TITLE 12. NATURAL RESOURCES

CHAPTER 7. OIL AND GAS CONSERVATION COMMISSION

[R05-55]

PREAMBLE

1. Sections Affected
   R12-7-103
   Rulemaking Action
   Amend

2. The specific authority for the rulemaking, including both the authorizing statute (general) and the statutes the rules are implementing (specific):
   Authorizing statutes: A.R.S. §§ 27-516(A) and 27-656
   Implementing statutes: A.R.S. §§ 27-516(A)(3) and 27-654

3. A list of all previous notices concerning the rules:
   Notice of Rulemaking Docket Opening: 10 A.A.R. 4122, October 8, 2004

4. The name and address of agency personnel with whom persons may communicate regarding the 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. An explanation of the rule, including the agency's reasons for initiating the rule:
   R12-7-103 specifies bonding requirements and amounts. The agency is amending R12-7-103 to provide sufficient surety for plugging abandoned wells and to improve clarity and understandability.

6. A reference to any study that the agency proposes to rely on or not rely on in its evaluation of or justification for the proposed 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

7. 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

8. The preliminary summary of the economic, small business, and consumer impact:
   These rules directly impact companies drilling for oil, gas, and geothermal resources. The rule is mostly procedural in nature and will not significantly impact the economy or have a significant impact upon small businesses or consumers. The amount of an individual well bond is not changed. The amount of a blanket bond is increased. The bond is conditioned on the performance by the operator 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 wellsites. The proposed rulemaking will benefit the regulated community by clarifying reporting requirements.

9. The name and address of agency personnel with whom persons may communicate regarding the accuracy of the economic, small business, and consumer impact statement:
   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

10. The time, place, and nature of the proceedings for the making, amendment, or repeal of the rule or, if no proceed-
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

Name

BARRY LASKIN
Yale Rogers
Co-Infra
Paul J. Buff
Laura A. Wardell
Michele Lorenzo

Representing

Ridgeway
Self
Guest of Bob Goff
Barr
A.G.
Kiley Carlyle & Applewhite