

OIL & GAS CONSERVATION COMMISSION
— MINUTES OF MEETING / JULY 29, 2005 —
STEVEN L RAUZI, OIL & GAS ADMINISTRATOR

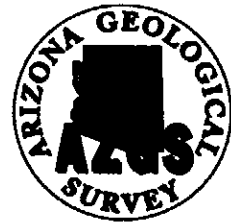


Janet Napolitano
Governor

State of Arizona
Arizona Geological Survey

416 W. Congress, Suite 100
Tucson, Arizona 85701
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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 July 29, 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 May 13, 2005
3. Report of Oil & Gas Administrator about permits issued and wells drilled or plugged since the last meeting
4. Status of final rulemaking to amend A.A.C. R12-7-103
5. Status of Holbrook Energy wells 35-1 Hortenstine (Permit 919) and 17-1 NZ (Permit 924)
6. Status of Ridgeway Arizona Oil Corporation wells 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) and possible report from a representative of Ridgeway
7. 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.
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) 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 21st day of July 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
May 13, 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 May 13 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 JANUARY 28, 2005

Mr. Jones moved, seconded by Mr. Wagner:

THAT THE MINUTES OF THE MEETING OF JANUARY 28, 2005 BE
ACCEPTED AS PRESENTED

Mrs. Negley noted that it read "Mrs. Negley Lane" in the adjournment. Mr. Rauzi indicated that he would correct that in the minutes for January 28.

Motion carried unanimously.

REPORT OF THE DIRECTOR AND STATE GEOLOGIST

Dr. Fellows reported that there was no increase or decrease in the new budget and that he would retire from state service effective June 30.

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 January 28, 2005. He reported that the CO₂ project was now finished.

ORAL HEARING TO AMEND A.A.C. R12-7-103

Mr. Rauzi reported that no oral or written comments were received on the proposed rulemaking since publication in the Arizona Administrative Register.

Dr. Nations opened the floor for discussion on the proposed rulemaking. There was none.

Mrs. Negley moved, seconded by Mr. Wagner:

TO APPROVE THE RULES AS PUBLISHED IN THE ARIZONA
ADMINISTRATIVE REGISTER

Motion carried unanimously.

STATUS OF HOLBROOK ENERGY WELLS 35-1 HORTENSTINE (PERMIT 919) AND 17-1 NZ (PERMIT 924) AND POSSIBLE DECISION CONCERNING REQUEST FOR TEMPORARY ABANDONMENT

Mr. Rauzi reported that temporary abandonment for the Hortenstine well expired this month and that Holbrook Energy was currently testing the 17-1 NZ well. He reported that Holbrook Energy had submitted a written request for temporary abandonment of the two wells. Mr. Rauzi noted that a Sundry Notice describing the current status of the wells was on file and recommended approval of the request.

Mrs. Negley moved, seconded by Mr. Lane:

TO APPROVE TEMPORARY ABANDONMENT FOR THE TWO WELLS
FOR SIX MONTHS

Motion carried unanimously.

STATUS OF RIDGEWAY ARIZONA OIL CORPORATION WELLS 22-1X STATE (888), 11-21 STATE (895), 10-22 STATE (896), 9-21 STATE (897), 12-15-30 STATE (900), AND 11-18 STATE (916), APACHE COUNTY AND POSSIBLE DECISION CONCERNING REQUEST FOR TEMPORARY ABANDONMENT

Mr. Rauzi reported that the 11-18 had temporary abandonment through January 2006 and that temporary abandonment of the 22-1X, 11-21, 10-22, 9-21, and 12-15-30 wells expired this month. Mr. Rauzi reported that Ridgeway submitted a written request to extend temporary abandonment through January 2006. He noted that a Sundry Notice describing the current status of the wells was on file and recommended approval of the request.

Mr. Jones moved, seconded by Mr. Wagner:

TO APPROVE TEMPORARY ABANDONMENT TO THE 22-1X, 11-21, 10-22,
9-21, AND 12-15-30 WELLS THROUGH JANUARY 2006

Motion carried unanimously.

CALL TO THE PUBLIC

Mr. Lasker introduced himself as newly appointed CEO of Ridgeway Petroleum and summarized his plan for staged development to prove up reserves in the St. Johns-Springerville area.

Mr. Buff reported the BLM would hold a lease sale July 13 offering 30 to 35 parcels on the Arizona Strip. He also reported that the IBLA, Interior Board of Land Appeals, upheld the termination of Rodney Ratheal's unit on the Arizona Strip for lack of diligent drilling.

ANNOUNCEMENTS

The Commission scheduled its next meeting at 10:00 a.m. on July 29, 2005, in Room 321 at the State Land Department Building in Phoenix.

Ms. Woodall explained some of the logistical and legal requirements of the open meeting law in setting up a tour or inspection of a field facility.


ADJOURNMENT

Mr. Jones moved, seconded by Mr. Wagner:

THAT THE MEETING BE ADJOURNED

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

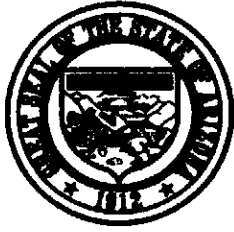
APPROVED



Dr. J. Dale Nations
Chairman

GUESTS IN ATTENDANCE

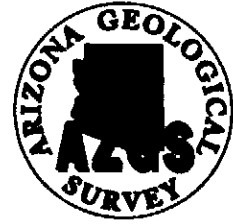
Richard Ahern	State Land Department
Paul J. Buff	Bureau of Land Management
Jo Anne Jones	Guest of Bob Jones
Barry Lasker	Ridgeway Petroleum
Michele Lorenzen	Ryley Carlock & Applewhite
Yale Rogers	Public
Laurie A. Woodall	Office of Attorney General



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Larry D. Fellows
Director and State Geologist

July 21, 2005

To: Oil and Gas Conservation Commissioners

From: ^{SLB} Steven L. Rauzi, Oil and Gas Administrator

Re: Activity Report for the July 29, 2005, Meeting

Two permits to drill were issued and two companies started drilling wells since your last meeting on May 13, 2005.

El Paso Natural Gas Company started drilling its well in the Picacho Basin in mid July. This well is a stratigraphic test to collect information relative to potential storage of natural gas. All information from the well is being held confidential in accordance with statute.

McCabe Energy started drilling its well north of Flagstaff in late July. This well is an oil and gas test related to the oil source rock potential of Precambrian Chuar Group rocks. All information from the well will be held confidential in accordance with statute.

Holbrook Energy LLC conducted a production test in its 17-1 NZ near Concho in mid May. To date the Commission has not received any subsequent information about the production test. The 17-1 was granted temporary abandonment through October 2005.

Holbrook Energy LLC requested temporary abandonment for its 35-1 Hortenstine at Pinta Dome to evaluate a slim-hole completion procedure in the well. To date the Commission has not received any subsequent information about the completion procedure. The 35-1 was granted temporary abandonment through October 2005.

Gruy Petroleum applied to plug and abandon both of its wells south of Sanders sometime in late July or early August. These were the first of several wells that Gruy had planned to drill to determine if there was 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 from Salt Grass.

NOTICE OF FINAL RULEMAKING
TITLE 12. NATURAL RESOURCES
CHAPTER 7. OIL AND GAS CONSERVATION COMMISSION

PREAMBLE

1. **Sections Affected** **Rulemaking Action**
 R12-7-103. Amend
2. **The specific authority for the rulemaking, including both the authorizing statutes (general) and the statutes the rule is 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. **The effective date of the rule:**
 Sixty days after the rule is filed with the Secretary of State
4. **A list of all previous notices concerning the rule:**
 Notice of Rulemaking Docket Opening: 10 A.A.R. 4122, October 8, 2004
 Notice of Proposed Rulemaking: 11 A.A.R. 780, February 18, 2005
5. **The name and address of agency personnel with whom persons may communicate regarding the rulemaking:**
 Name: Steven L. Rauzi, Oil & Gas Administrator
 Address: Arizona Geological Survey
 416 West Congress, Suite 100
 Tucson, Arizona 85701-1315
 Telephone: (520) 770-3500
 Fax: (520) 770-3505
6. **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.
7. **A reference to any study relevant to the rule that the agency reviewed and either relied on or did not rely on in its evaluation of or justification for the rule, where the public may obtain or review each study, all data underlying each study, and any analysis of each study and other supporting material:**
 None
8. **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
9. **The summary of the economic, small business, and consumer impact:**
 The rule directly impacts companies drilling for oil, gas, and geothermal resources. The rule is mostly procedural in nature and will not significantly impact the economy or consumers. There will be a moderate to significant impact on companies drilling 11 or more wells under a blanket bond. The amount of an individual well bond is not changed. The categories and amounts of blanket bonds are increased. The bond is conditioned on the performance of the operator. The proposed rulemaking will benefit the regulated community by clarifying reporting requirements. No private persons or consumers are directly affected by the proposed rulemaking.

10. **A description of the changes between the proposed rule, including supplemental notices, and the final rule (if applicable):**
Minor changes were made at the suggestion of the Governor's Regulatory Review Council's staff to improve the clarity, conciseness, and understandability of the rule.
11. **A summary of the principal comments made regarding the rule and the agency response to them:**
No written comments were received. No oral comments were received at the May 13, 2005, oral proceeding to adopt the amended rule.
12. **Any other matters prescribed by statute that are applicable to the specific agency or to any specific rule or class of rules:**
Not applicable
13. **Any material incorporated by reference and its location in the text:**
None
14. **Was this rule previously made as an emergency rule?**
No
15. **The full text of the rule 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 before drilling~~ a new well, ~~re-enter re-entering~~ an abandoned well, or ~~assume~~ assuming responsibility as the operator of an existing wells well. ~~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 shall be~~ Choosing one of the following options, an operator shall provide a performance bond for each well or a blanket performance bond 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 each well site and otherwise act in a manner that is consistent with A.R.S. Title 27 Chapter 4 and this Chapter:
1. For individual wells, an operator shall provide a \$10,000 bond for each well drilled to a total depth of 10,000 feet or less or a \$20,000 bond for each well drilled deeper than 10,000 feet, or
 2. For multiple wells, an operator shall provide one of the following blanket bonds to cover all wells:
 - a. \$25,000 for 10 or fewer wells;
 - b. \$50,000 for more than 10 but fewer than 50 wells; or
 - c. \$250,000 for 50 or more wells.
- B. ~~The Commission shall accept~~ An operator shall provide 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~~ If an operator plans to transfer a property and desires release from the bond, the following rules apply:
1. ~~The principal on the bond~~ operator shall notify the Commission in writing of the proposed transfer, ~~giving~~ providing 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~~ The operator shall obtain from the proposed transferee a declaration to the Commission in writing, acceptance of accepting the transfer and of the responsibility of for each well, and As the new operator, the proposed transferee shall submit a new bond or bonds unless the transferee's transferee has previously provided a blanket bond applies to the well or wells that complies with subsection (A)(2).
 3. ~~When~~ If 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~~ transferor and the bonding company in writing ~~that the transferor's applicable bond or bonds are subject to~~ of the release.

AOGCC MTG

7-29-05

Name

Representing

~~James [unclear]~~
~~[unclear]~~
Richard Allen

guest
Ridgeway AZ Oil Corp
ASLD