

OIL & GAS CONSERVATION COMMISSION
MINUTES OF MEETING / APRIL 20, 2012
STEVEN L. RAUZI, OIL & GAS ADMINISTRATOR

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 April 20, 2012, at 10:00 a.m. in Room 321 of the State Land Department Building located at 1616 West Adams Street, Phoenix, Arizona 85007.

The agenda for the meeting is as follows:

1. Call to Order
2. Approval of Minutes of Meeting of January 20, 2012
3. Conflicts of interest
4. Report of Oil & Gas Administrator about new permits and drilling activity
5. Five-year review report of oil and gas rules
6. Status of the Kinder Morgan project between St Johns and Springerville and possible report from a representative of Kinder Morgan
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

Members of the Oil and Gas Conservation Commission will attend either in person or by telephone conference call.

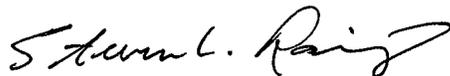
The Oil and Gas Conservation Commission may vote to go into Executive Session, pursuant to A.R.S. § 38-431.03(A)(3) or (4), which will not be open to the public, to consult with its attorney and receive legal advice with respect to any regular agenda item listed on this agenda.

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 12th day of April 2012

OIL AND GAS CONSERVATION COMMISSION



Steven L. Rauzi
Oil and Gas Program 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 20, 2012

Present:

Dr. J. Dale Nations, Chairman
Mr. Robert L. Wagner, Vice-chairman
Mr. Stephen R. Cooper, Member
Mr. Frank Thorwald, Member
Mr. Steven L. Rauzi, Oil and Gas Program Administrator

Dr. Nations, Chairman, called the regular Commission Meeting of January 20 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 JULY 15, 2011

Mr. Wagner moved, seconded by Mr. Cooper:

THAT THE MINUTES OF THE MEETING OF JULY 15, 2011, BE ACCEPTED AS
PRESENTED

Motion carried unanimously.

CONFLICTS OF INTEREST

None

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 19 new permits were issued, 33 wells were drilled, and one well was plugged since the July 2011 meeting. He reported that 75 wells were permitted, which set a record for the number of permits issued in a single year, and 67 wells were drilled in 2011. Mr. Rauzi noted that all but two permits and all wells drilled were stratigraphic tests for potash.

Mr. Rauzi reported that El Paso plugged its stratigraphic well in the Picacho Basin. He noted that El Paso found enough salt to store gas but determined that the project was not economical at this time.

FIVE-YEAR REVIEW OF OIL AND GAS RULES

Mr. Rauzi discussed his review of the rules noting that no issues came up in the last five years. He recommended that the Commission amend R12-7-107(E) to clarify that the Commission may grant exceptions to regular locations for horizontal wells after notice and hearing.

Mr. Wagner moved, seconded by Mr. Thorwald:

TO AUTHORIZE THE ADMINISTRATOR TO PROCEED WITH THE FIVE-YEAR
REVIEW REPORT WITH THE RECOMMENDATION TO CHANGE R12-7-107(E)

Motion carried unanimously.

Mr. Cox indicated that he would check to see if the proposed rule change fell under the Governor's rulemaking moratorium and let Mr. Rauzi know.

STATUS OF RIDGEWAY ARIZONA OIL CORPORATION DRILLING PROGRAM BETWEEN ST JOHNS AND SPRINGERVILLE INCLUDING POSSIBLE REPORT FROM RIDGEWAY

Mr. White announced the pending sale of Ridgeway's carbon dioxide properties between St Johns and Springerville to Kinder Morgan CO₂ Company. He reported that Ridgeway permitted two obligation wells in the St Johns Gas Unit but had no plans to drill until the sale was closed.

REPORT ON INTERSTATE OIL & GAS COMPACT COMMISSION MEETING IN NEW YORK

Dr. Nations reported on his attendance at the annual IOGCC meeting in New York October 16-18, 2011. He highlighted shale gas drilling and fracturing hazards. Presentations are available online.

CALL TO THE PUBLIC

Mr. Dixon reported that the Federal Energy Regulatory Commission would hold a conference on gas storage in the southwest in Scottsdale on February 16, 2012. He indicated that the conference is in response to cold weather in February last year when many people lost heat because of a gas shortage.

Mr. Conrath reported that the BLM would be plugging several orphaned wells on the Arizona Strip in northwestern Arizona. He reported that several companies expressed interest in leasing near Flagstaff, Kingman, Safford, and Tucson. He planned to list the tracts on the November lease sale.

ANNOUNCEMENTS

Mr. Thorwald announced that he had missed some meetings because he was diagnosed with terminal cancer about a year ago. He reported that he underwent several kinds of chemo and that he was now cancer free.

The Commission scheduled its next meeting at 10:00 a.m. on April 20, 2012, in room 321 at the State Land Department Building in Phoenix.

ADJOURNMENT

Mr. Cooper moved, seconded by Mr. Thorwald:

THAT THE MEETING BE ADJOURNED

Motion carried unanimously. Time of adjournment was 10:30 a.m.

APPROVED



J. Dale Nations
Chairman

GUESTS IN ATTENDANCE

Mr. Curtis Cox

Mr. Joe Dixon

Mr. Fred Conrath

Ms. Karen Conrath

Mr. Thomas White

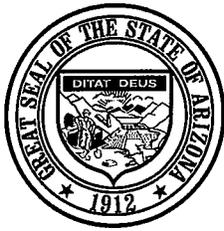
Assistant Attorney General

State Land Department

BLM Arizona State Office

BLM Phoenix District Office

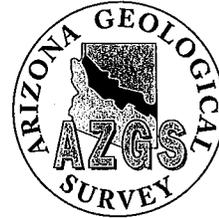
Ridgeway Arizona Oil Corporation



Janice K. Brewer
Governor

State of Arizona
Arizona Geological Survey

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



M. Lee Allison, Ph.D., R.G.
Director and State Geologist

April 12, 2012

To: Oil and Gas Conservation Commissioners

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

Re: Report about permits and drilling activity for the April 20, 2012, Meeting

Twelve new drilling permits were issued and three wells were drilled since your last meeting on January 20, 2012. All but one permit and one drilling well were stratigraphic tests for potash. The one non-potash related permit was for an oil test about 15 miles north of Holbrook.

Two companies have drilled three stratigraphic wells for potash since the beginning of the year. Passport Potash finished drilling one well at its potash project west of Petrified Forest National Park near Holbrook. American West Potash finished drilling two wells at its potash project east of Petrified Forest National Park. Companies drilling stratigraphic wells to test for potash are required to obtain a permit from the Oil and Gas Conservation Commission because the holes penetrate the Coconino Sandstone, which is a potential helium reservoir in the area of the Petrified Forest National Park. Triomphe Energy LLC started drilling its oil exploration well north of Holbrook on April 6.

I completed an inspection of both the Plains LPG storage facility near Luke and the Enterprise Products LPG storage facility near Holbrook. All wellhead valves, pneumatic controls, and emergency shut down and flare systems were in good condition. Plains operates three wells with a total capacity of 166 million gallons. Enterprise operates 11 wells with a total capacity of 93 million gallons. Enterprise plans to start testing the mechanical integrity and measuring the volume of its wells #4, #5, #6, and #11 this month. One tests the integrity of a cavern and casing by applying and measuring pressure over a period of time. Caverns and casing have good integrity if they hold pressure. One determines the volume of a cavern by lowering a sonar tool down the hole to measure the radius and calculate the incremental and total capacity of the cavern.

Kinder Morgan has completed its purchase of the carbon dioxide properties between St Johns and Springerville from Enhanced Oil Resources (Ridgeway Arizona Oil Corporation). Kinder Morgan plans to test five existing wells, stimulate and test seven existing wells and drill, complete, and test four new wells this year. A representative from Kinder Morgan may attend your April 20 meeting to discuss Kinder Morgan's plans at its St. Johns carbon dioxide project.



Janice K. Brewer
Governor

State of Arizona
Oil and Gas Conservation Commission

416 W. Congress, Suite 100
Tucson, Arizona 85701
520-770-3500
www.azogcc.az.gov
Steven L. Rauzi, Oil and Gas Administrator

Commissioners:
J. Dale Nations, Ph.D. Chair
Robert L. Wagner, Vice Chair
Stephen R. Cooper
Frank Thorwald

March 22, 2012

Ms. Christy M. Smith, Chair
Governor's Regulatory Review Council
100 N. 15th Ave., Suite 402
Phoenix, Arizona 85007

Re: Five-Year-Review Report of A.A.C. Title 12, Chapter 7, Article 1
Oil, Gas, Helium, and Geothermal Resources

Dear Ms. Smith:

The referenced Five-Year-Review Report of A.A.C. Title 12, Chapter 7, Article 1 is attached. The Arizona Geological Survey provides administrative and staff support to the Arizona Oil and Gas Conservation Commission pursuant to A.R.S. § 27-515(A).

Please contact Mr. Steven L. Rauzi, Oil and Gas Administrator, for information regarding the report. He will answer any questions or provide any additional information you may need.

There are no rules that are not reviewed with the intention that the rule will expire under A.R.S. § 41-1056(E) and no rules that are not reviewed because the Council rescheduled the review of the rule under A.R.S. § 41-1056(C).

A copy of the rules and the economic, small business, and consumer impact statements prepared for earlier rulemakings are attached.

Sincerely,

J. Dale Nations
Chairman

Enclosures

c. M. Lee Allison, State Geologist and Director
Steven L. Rauzi, Oil and Gas Administrator

FIVE YEAR
REVIEW REPORT
OF
A.A.C. TITLE 12, CHAPTER 7
ARTICLE 1

Oil, gas, helium, and geothermal resources

Arizona Oil and Gas Conservation Commission

March 22, 2012

ATTACHMENTS

RULES

A.A.C. Title 12, Chapter 7, Article 1
Oil, Gas, Helium, and Geothermal Resources, Supp. 07-4

STATUTES

A.R.S. Title 27, Chapter 4, Article 1, Sections 27-501 through 27-527

A.R.S. Title 27, Chapter 4, Article 4, Sections 27-651 through 27-677

ECONOMIC, SMALL BUSINESS, AND CONSUMER IMPACT STATEMENT

Prepared for the July 2007 rulemaking (2 rules)
Prepared for the September 2005 rulemaking (1 rule)
Prepared for the July 2002 rulemaking (2 rules)
Prepared for the December 2000 rulemaking (3 rules)
Prepared for the June 1998 rulemaking (1 rule)
Prepared for the June 1997 rulemaking (2 rules)
Prepared for the January 1993 rulemaking (October 1992 letter – 18 rules)
Prepared for the August 1992 rulemaking (June 1992 letter – 17 rules)
Prepared for the April 1992 rulemaking (February 1992 letter - 26 rules)

FIVE-YEAR-REVIEW REPORT
OF A.A.C. TITLE 12, CHAPTER 7

ARTICLE 1 OIL, GAS, HELIUM, AND GEOTHERMAL RESOURCES

R12-7-101	Definitions
R12-7-103	Bond
R12-7-104	Application for Permit to Drill
R12-7-105	Change of Location
R12-7-106	Identification of Wells, Producing Leases, Tanks, Refineries, Buildings, and Facilities
R12-7-107	Spacing of Wells
R12-7-108	Pit for Drilling Mud and Drill Cuttings
R12-7-110	Surface Casing Requirements
R12-7-111	Intermediate and Production Casing and Tubing Requirements
R12-7-112	Defective Casing or Cementing
R12-7-113	Blowout Prevention and Related Well-control Equipment
R12-7-114	Recovery of Casing
R12-7-115	Deviation of Hole and Directional Drilling
R12-7-116	Multiple Zone Completions
R12-7-117	Artificial Stimulation of Oil and Gas Wells
R12-7-118	Operations in Hydrogen Sulfide Environments
R12-7-119	Wellhead and Lease Equipment
R12-7-120	Notification of Fires, Leaks, Spills, and Blowouts
R12-7-121	Well Completion and Filing Requirements
R12-7-122	Recompletion and Routine Maintenance Operations
R12-7-125	Temporarily Abandoned and Shut-in Wells
R12-7-126	Application to Plug and Abandon
R12-7-127	Plugging Methods and Procedures
R12-7-128	Stratigraphic, Core, and Seismic Holes
R12-7-129	Wells to be Used as Water Wells
R12-7-135	Gas-oil Ratio and Potential Tests
R12-7-136	Subsurface Pressure Tests and Reservoir Surveys
R12-7-137	Commingling of Production from Pools
R12-7-138	Casinghead Gas
R12-7-139	Use of Vacuum Pumps
R12-7-140	Pollution, Surface Damage, and Noise Abatement
R12-7-142	Measurement of Oil
R12-7-143	Oil Tanks, Fire Walls, and Fire Hazards
R12-7-150	Capacity Tests of Gas Wells and Geothermal Wells
R12-7-151	Measurement of Gas from Gas Wells and Geothermal Resources
R12-7-152	Utilization of Gas
R12-7-153	Non-hydrocarbon Gas
R12-7-160	Regulation of Production
R12-7-161	Producer's Monthly Report
R12-7-175	Injection Wells including Enhanced Recovery, Disposal, and Storage Wells
R12-7-176	Permits for Injection Wells
R12-7-178	Notice of Commencement, Discontinuance, and Transfer of Injection Operations
R12-7-179	Testing and Monitoring of Injection Wells
R12-7-180	Supplementary Requirements for Storage Wells
R12-7-181	Design and Construction of Storage Wells and Cavities
R12-7-182	Operation, Inspection, and Closure of Storage-well Systems
R12-7-183	Certificate of Compliance and Authorization to Transport
R12-7-184	Recovered Load Oil
R12-7-185	Transporter's and Storer's Monthly Report
R12-7-186	Gas or Geothermal Purchaser's Monthly Report
R12-7-187	Injection Project Report
R12-7-188	Refinery Reports
R12-7-190	Gasoline Plant Reports
R12-7-192	Books and Records to Substantiate Reports
R12-7-194	Organization Reports

SUMMARY OF RULES BEING REVIEWED, NOVEMBER 2011
ARTICLE 1. OIL, GAS, HELIUM, AND GEOTHERMAL RESOURCES

<u>RULE NUMBER</u>	<u>TITLE</u>	<u>LAST REVISED</u>	<u>EFFECTIVE</u>	<u>CONSISTENT</u>	<u>A.R.S. AUTHORITY</u>	<u>ACTION</u>	<u>ENFORCEMENT</u>	<u>CLARITY, CONCISENESS AND UNDERSTANDABILITY</u>
R12-7-101	Definitions	2000	Yes	Yes	27-516 27-656	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-103	Bond	2005	Yes	Yes	27-516(A)(3) 27-654	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-104	Application for Permit to Drill	1997	Yes	Yes	27-513 27-659	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-105	Change of Location	1994	Yes	Yes	27-516(A)(2) 27-659	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-106	Identification of Wells and Facilities	1994	Yes	Yes	27-516(A)(8) 27-656	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-107	Spacing of Wells	1994	Yes	Yes	27-516(A)(12) 27-652	Amend	Yes, with no difficulty	Rule is not clear, concise and understandable
R12-7-108	Pit for Drilling Mud and Drill Cuttings	1994	Yes	Yes	27-516(A) 27-656	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-110	Surface Casing Requirements	1994	Yes	Yes	27-516(A)(1) 27-652(B)	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-111	Intermediate and Production Casing Requirements	1994	Yes	Yes	27-516(A)(1) 27-652(B)	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-112	Defective Casing or Cementing	1994	Yes	Yes	27-516(A)(1) 27-652(B)	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-113	Blowout Prevention and Well-control Equipment	1994	Yes	Yes	27-516(A)(6) 27-660	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-114	Recovery of Casing	1994	Yes	Yes	27-516(A) 27-652(A)	None	Yes, with no difficulty	Rule is clear, concise and understandable

SUMMARY OF RULES BEING REVIEWED, NOVEMBER 2011
ARTICLE 1. OIL, GAS, HELIUM, AND GEOTHERMAL RESOURCES

<u>RULE NUMBER</u>	<u>TITLE</u>	<u>LAST REVISED</u>	<u>EFFECTIVE</u>	<u>CONSISTENT</u>	<u>A.R.S. AUTHORITY</u>	<u>ACTION</u>	<u>ENFORCEMENT</u>	<u>CLARITY, CONCISENESS AND UNDER-STANDABILITY</u>
R12-7-115	Deviation of Hole and Directional Drilling	1994	Yes	Yes	27-516(A)(12) 27-656	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-116	Multiple Zone Completions	1994	Yes	Yes	27-516(A)(13) 27-656	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-117	Artificial Stimulation of Oil and Gas Wells	1998	Yes	Yes	27-516(A)(9)	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-118	Operations in Hydrogen Sulfide Environments	1994	Yes	Yes	27-502(A)(6) 27-660	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-119	Wellhead and Lease Equipment	1996	Yes	Yes	27-503(B) 27-652(A)	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-120	Notification of Fires, Leaks, Spills, and Blowouts	1996	Yes	Yes	27-503(B) 27-652(A)	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-121	Well Completion and Filing Requirements	2000	Yes	Yes	27-516(A)(2) 27-661	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-122	Recompletion and Routine Maintenance Operations	1996	Yes	Yes	27-516(A)(2) 27-652(A)	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-125	Temporarily Abandoned And Shut-in Wells	2000	Yes	Yes	27-516(A)(1) 27-652(A)	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-126	Application to Plug and Abandon	1996	Yes	Yes	27-516(A)(1) 27-652(A)	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-127	Plugging Methods and Procedures	1996	Yes	Yes	27-516(A)(1) 27-652(A)	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-128	Stratigraphic, Core, and Seismic Holes	1996	Yes	Yes	27-516(A) 27-652(A)	None	Yes, with no difficulty	Rule is clear, concise and understandable

SUMMARY OF RULES BEING REVIEWED, NOVEMBER 2011
ARTICLE 1. OIL, GAS, HELIUM, AND GEOTHERMAL RESOURCES

<u>RULE NUMBER</u>	<u>TITLE</u>	<u>LAST REVISED</u>	<u>EFFECTIVE</u>	<u>CONSISTENT</u>	<u>A.R.S. AUTHORITY</u>	<u>ACTION</u>	<u>ENFORCEMENT</u>	<u>CLARITY, CONCISENESS AND UNDER-STANDABILITY</u>
R12-7-129	Wells to be Used as Water Wells	2002	Yes	Yes	27-506(C) and (D) 27-658	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-135	Gas-oil Ratio and Potential Tests	1993	Yes	Yes	27-516(A)(5) 27-652(A)	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-136	Subsurface Pressure Tests and Reservoir Surveys	1993	Yes	Yes	27-503(B)(4) 27-652(A)	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-137	Commingling of Production from Pools	1993	Yes	Yes	27-516(A)(13) 27-652(A)	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-138	Casinghead Gas	1993	Yes	Yes	27-516(A)(15)	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-139	Use of Vacuum Pumps	1993	Yes	Yes	27-516(A)(14) 27-652(A)	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-140	Pollution, Surface Damage, and Noise Abatement	2002	Yes	Yes	27-502(A)(6) 27-652(A)	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-142	Measurement of Oil	1993	Yes	Yes	27-516(A)(15)	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-143	Oil Tanks, Fire Walls, and Fire Hazards	1993	Yes	Yes	27-516(A)(7)	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-150	Capacity Tests of Gas Wells and Geothermal Wells	1993	Yes	Yes	27-503(B) 27-652(A)	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-151	Measurement of Gas and Geothermal Resources	1993	Yes	Yes	27-503(B) 27-652(A)	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-152	Utilization of Gas	1993	Yes	Yes	27-503(A)	None	Yes, with no difficulty	Rule is clear, concise and understandable

SUMMARY OF RULES BEING REVIEWED, NOVEMBER 2011
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R12-7-153	Non-hydrocarbon Gas	1993	Yes	Yes	27-501(9)	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-160	Regulation of Production	1993	Yes	Yes	27-516(A)(13) 27-652	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-161	Producer's Monthly Report	1993	Yes	Yes	27-516(A)(15) 27-662	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-175	Injection Wells, Including Disposal and Storage Wells	1996	Yes	Yes	27-516(A)(20) 27-652	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-176	Permits for Injection Wells	1996	Yes	Yes	27-516(A)(20) 27-652	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-178	Notice of Commencement and Discontinuance of Injection	1996	Yes	Yes	27-516(A)(20) 27-652	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-179	Testing and Monitoring of Injection Wells	1996	Yes	Yes	27-503(B) 27-652	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-180	Supplementary Requirements for Storage Wells	1996	Yes	Yes	27-516(A)(20)	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-181	Design and Construction of Storage Wells and Cavities	1996	Yes	Yes	27-516(A)(20)	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-182	Operation, Inspection, and Closure of Storage Wells	1996	Yes	Yes	27-516(A)(20)	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-183	Certificate of Compliance and Authorization to Transport	1997	Yes	Yes	27-509 27-656	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-184	Recovered Load Oil	1993	Yes	Yes	27-510	None	Yes, with no difficulty	Rule is clear, concise and understandable

SUMMARY OF RULES BEING REVIEWED, NOVEMBER 2011
ARTICLE 1. OIL, GAS, HELIUM, AND GEOTHERMAL RESOURCES

<u>RULE NUMBER</u>	<u>TITLE</u>	<u>LAST REVISED</u>	<u>EFFECTIVE</u>	<u>CONSISTENT</u>	<u>A.R.S. AUTHORITY</u>	<u>ACTION</u>	<u>ENFORCEMENT</u>	<u>CLARITY, CONCISENESS AND UNDER-STANDABILITY</u>
R12-7-185	Transporter's and Storer's Monthly Report	1993	Yes	Yes	27-503(B)	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-186	Gas or Geothermal Purchaser's Monthly Report	1993	Yes	Yes	27-503(B) 27-656	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-187	Injection Project Report	1993	Yes	Yes	27-503(B) 27-652(A)	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-188	Refinery Reports	1993	Yes	Yes	27-503(B)	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-190	Gasoline Plant Reports	1993	Yes	Yes	27-503(B)	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-192	Books and Records to Substantiate Reports	1993	Yes	Yes	27-503(B) 27-662	None	Yes, with no difficulty	Rule is clear, concise and understandable
R12-7-194	Organization Reports	1993	Yes	Yes	27-513 27-659	None	Yes, with no difficulty	Rule is clear, concise and understandable

A.A.C. Title 12, Chapter 7, Article 1, *Oil, Gas, Helium, and Geothermal Resources* specifies procedures and requirements for drilling, operating, and abandoning oil, gas, helium, and geothermal wells.

1. **Authorization**

The Arizona Oil and Gas Conservation Commission (AOGCC) adopted these rules under its general rulemaking authority pursuant to A.R.S. §§ 27-516(A) and 27-656(A). By virtue of A.R.S. § 27-515 the AOGCC has authority to enforce A.A.C. Title 12, Chapter 7. Specific authority for each rule is listed in the preceding table, which summarizes the rules being reviewed in this report.

Copies of A.R.S. §§ 27-501 through 27-527 and §§ 27-651 through 27-677 are attached.

2. **Objectives**

Rules R12-7-101, R12-7-103, R12-7-104, R12-7-105, R12-7-106, and R12-7-107 specify procedures to obtain a permit to drill oil, gas, helium, or geothermal wells in Arizona.

R12-7-101	Definitions To define special terms and acronyms used in the rules
R12-7-103	Bond To specify bonding requirements and amounts
R12-7-104	Application for Permit to Drill To specify procedures, requirements, and timeframes for permitting wells
R12-7-105	Change of Location To specify procedures for changing permitted locations before drilling begins
R12-7-106	Identification of Wells, Producing Leases, Tanks, Refineries, Buildings, and Facilities To specify minimum identification requirements
R12-7-107	Spacing of Wells To specify well spacing and acreage dedication requirements

Rules R12-7-108, R12-7-110, R12-7-111, R12-7-112, R12-7-113, R12-7-114, R12-7-115, R12-7-116, R12-7-117, and R12-7-118 specify requirements for drilling, casing, and testing of wells.

R12-7-108	Pit for Drilling Mud and Drill Cuttings To specify requirements for drilling mud and construction of reserve pits
R12-7-110	Surface Casing Requirements To specify depth, size, cementing, and integrity requirements for surface casing
R12-7-111	Intermediate and Production Casing and Tubing Requirements To specify depth, size, cementing, and integrity requirements

- R12-7-112 Defective Casing or Cementing**
To define defective casing or cementing and standards for remediation
- R12-7-113 Blowout Prevention and Related Well-control Equipment**
To specify blowout control installation and testing requirements
- R12-7-114 Recovery of Casing**
To specify requirements for recovery of casing
- R12-7-115 Deviation of Hole and Directional Drilling**
To specify requirements for directional drilling and deviation surveys
- R12-7-116 Multiple Zone Completions**
To specify requirements for completions involving more than one zone in a well
- R12-7-117 Artificial Stimulation of Oil and Gas Wells**
To specify requirements for hydraulic fracturing and chemical treatment of wells
- R12-7-118 Operations in Hydrogen Sulfide Environments**
To specify requirements for operations in hydrogen sulfide environments

Rules R12-7-119, R12-7-120, R12-7-121, R12-7-122, R12-7-125, R12-7-126, R12-7-127, R12-7-128, and R12-7-129 specify requirements for completion, recompletion, plugging, and abandonment of wells.

- R12-7-119 Wellhead and Lease Equipment**
To specify requirements for wellheads and other lease equipment
- R12-7-120 Notification of Fires, Leaks, Spills, and Blowouts**
To specify requirements for preventing and reporting fires, spills, and blowouts
- R12-7-121 Well Completion and Filing Requirements**
To specify completion and filing requirements for drilled wells
- R12-7-122 Recompletion and Routine Maintenance Operations**
To specify requirements on workovers, recompletions, or stimulation of wells
- R12-7-125 Temporarily Abandoned and Shut-in Wells**
To specify requirements when operations are suspended for 60 or more days
- R12-7-126 Application to Plug and Abandon**
To require operators to submit plugging plans to the AOGCC for approval
- R12-7-127 Plugging Methods and Procedures**
To specify plugging methods, procedures, and reporting requirements

R12-7-128 Stratigraphic, Core, and Seismic Holes
To specify requirements for holes drilled for stratigraphic or seismic information

R12-7-129 Wells to be Used as Water Wells
To specify requirements for converting wells drilled for oil or gas to water wells

Rules R12-7-135, R12-7-136, R12-7-137, R12-7-138, R12-7-139, R12-7-140, R12-7-142, R12-7-143, R12-7-150, R12-7-151, R12-7-152, R12-7-153, R12-7-160, and R12-7-161, specify requirements for testing and production of wells.

R12-7-135 Gas-oil Ratio and Potential Tests
To specify testing requirements

R12-7-136 Subsurface Pressure Tests and Reservoir Surveys
To specify initial and periodic testing requirements

R12-7-137 Commingling of Production from Pools
To specify requirements for accounting of production from separate pools

R12-7-138 Casinghead Gas
To specify measurement and other requirements for gas produced from oil wells

R12-7-139 Use of Vacuum Pumps
To specify conditions and requirements for use of vacuum pumps

R12-7-140 Pollution, Surface Damage, and Noise Abatement
To specify requirements to prevent pollution, surface damage, and noise

R12-7-142 Measurement of Oil
To require oil to be measured before being transported from a lease

R12-7-143 Oil Tanks, Fire Walls, and Fire Hazards
To specify requirements for oil tanks, fire walls, and preventing fire hazards

R12-7-150 Capacity Tests of Gas Wells and Geothermal Wells
To require open-flow capacity tests

R12-7-151 Measurement of Gas from Gas Wells and Geothermal Resources
To require accurate measurement of gas and geothermal resources

R12-7-152 Utilization of Gas
To specify prohibited uses of gas from wells

R12-7-153 Non-hydrocarbon Gas
To extend Title 12, Chapter 7 to cover non-hydrocarbon gases

R12-7-160 Regulation of Production
To specify conditions for limiting or allocating production

R12-7-161 Producer's Monthly Report
To require operators to report all oil, water, and gas production from wells

Rules R12-7-175, R12-7-176, R12-7-178, R12-7-179, R12-7-180, R12-7-181, and R12-7-182 specify requirements for injection, re-injection, enhanced recovery, disposal, and storage wells.

R12-7-175 Injection Wells Including Enhanced Recovery, Disposal, and Storage Wells
To specify what type of injection wells require permits from the AOGCC

R12-7-176 Permits for Injection Wells
To specify special requirements for permitting injection wells

R12-7-178 Notice of Commencement, Discontinuance, and Transfer of Injection Operations
To specify requirements for start up, abandonment, or transfer of injection wells

R12-7-179 Testing and Monitoring of Injection Wells
To specify testing, monitoring, and reporting requirements for injection wells

R12-7-180 Supplementary Requirements for Storage Wells
To specify additional requirements for storage wells

R12-7-181 Design and Construction of Storage Wells and Cavities
To specify minimum design and construction requirements for storage wells

R12-7-182 Operation, Inspection, and Closure of Storage-well Systems
To specify operation, inspection, and abandonment requirements for storage wells

Rules R12-7-183, R12-7-184, R12-7-185, R12-7-186, R12-7-187, R12-7-188, R12-7-190, R12-7-192, and R12-7-194 specify reporting requirements.

R12-7-183 Certificate of Compliance and Authorization to Transport
To specify requirements to transport oil and gas from a lease

R12-7-184 Recovered Load Oil
To specify requirements for transporting load oil

R12-7-185 Transporter's and Storer's Monthly Report
To specify reporting requirements for transporters and storers

R12-7-186 Gas or Geothermal Purchaser's Monthly Report
To specify reporting requirements for gas or geothermal purchasers

- R12-7-187 Injection Project Report**
To specify reporting requirements for operators of injection wells
- R12-7-188 Refinery Reports**
To specify reporting requirements for refineries
- R12-7-190 Gasoline Plant Reports**
To specify reporting requirements for gasoline and related plants
- R12-7-192 Books and Records to Substantiate Reports**
To specify requirements for books and records to verify reported data
- R12-7-194 Organization Reports**
To specify information required in organization reports

3. **Analysis of effectiveness in achieving objectives**

These rules effectively achieve their objectives. They help the AOGCC conserve resources and protect public health and safety by (1) requiring sound drilling, completion, and production practices; (2) eliminating unnecessary wells; and (3) providing for the maximum recovery of the resource in an environmentally sound manner. Copies of the rules being reviewed are attached.

4. **Analysis of consistency with state and federal statutes and rules**

The AOGCC judges the consistency of its rules in connection with its statutory declaration of policy (A.R.S. § 27-502), obligation to prevent physical waste (A.R.S. § 27-503), authorizing statutes (A.R.S. §§ 27-515, 27-516, and 27-656), and the Arizona Administrative Procedures Act (A.R.S. §§ 41-1001 et seq.). A.A.C. Title 12, Chapter 7 is consistent with all applicable state and federal statutes and rules.

5. **Status of enforcement of the rules**

All rules are enforced. The AOGCC has experienced no difficulty in enforcing these rules.

6. **Wisdom of the rules**

These rules protect public health and safety, prevent contamination of surface and groundwater resources, and ensure safe and efficient exploration for and development of the state's oil, gas, and geothermal resources in an environmentally sound manner. The rules are consistent with currently accepted industry practices, technological advances in the regulated industry, current environmental protection standards, related rules, and the intent, wisdom, and current enforcement policy of the AOGCC.

7. **Analysis of the clarity, conciseness, and understandability**

These rules do not contain unnecessary verbiage, are well organized, and are clear, concise, and understandable in their present form. The AOGCC intends to further clarify R12-7-107.

8. **Written criticisms of the rules during the past five years**

The AOGCC has not received any written criticisms of these rules during the past five years.

9. **Economic, small business, and consumer impact summary**

There are currently seven companies (two publicly-owned businesses, two publicly-owned small businesses, and three privately-owned small businesses) engaged in oil and gas exploration or development activity in Arizona; two operate 14 liquefied petroleum gas (LPG) storage wells, four operate 41 producing oil and gas wells, and one is currently drilling wells.

These rules directly impact the companies engaged in oil, gas, or geothermal exploration or development activities. The rules are mostly procedural in nature and do not significantly impact the economy or have a significant impact upon small businesses or consumers. The AOGCC has not identified anything that would alter the economic, small business, and consumer impact statements that were submitted with the rulemaking in 2007, 2005, 2002, 2000, 1998, 1997, 1993, and 1992. These economic, small business and consumer impact statements concluded that the rules would not significantly impact the economy or have a significant impact upon small businesses or consumers.

10. **Analysis submitted to the agency by another person comparing state business impact**

None

11. **Status of action indicated in previous five-year review report**

The AOGCC completed the proposed course of action December 28, 2007.

12. **Determination that the rule imposes the least burden and costs**

The rules are mostly procedural in nature and as such impose the least burden and costs to persons regulated by the rule, including paperwork and other compliance costs necessary to achieve the underlying regulatory objective.

13. **Proposed course of action**

The AOGCC intends to amend A.A.C. R12-7-107 to clarify that the Commission may grant exceptions to regular locations for horizontally drilled wells after notice and hearing. The AOGCC is not seeking an exception to the rulemaking moratorium. Should the moratorium end in June 2012 the Commission plans to complete the rulemaking by December 2013.

OIL AND GAS CONSERVATION COMMISSION

ECONOMIC, SMALL BUSINESS AND CONSUMER IMPACT STATEMENT

FOR AMENDING R12-7-115 and R12-7-121

EXECUTIVE SUMMARY

These rules directly impact companies drilling for oil, gas, and geothermal resources in Arizona. The rules are mostly procedural in nature and will not significantly impact the economy or have a significant impact upon small businesses or consumers. Eleven wells have been drilled so far in 2007. Three wells were drilled in 2006, seven wells in 2005, and one well each was drilled in 2004 and 2003.

The Oil and Gas Conservation Commission (OGCC) is amending R12-7-115 to clarify what is meant by the normal vertical course of a well and require testing at reasonably frequent intervals to determine the deviation from normal. Testing, which usually consists of lowering an instrument down the inside of the drill pipe on a wire-line during connections, will alert an operator to increases in deviation and allow the operator to take corrective measures before the deviation becomes a serious problem. Tabulation of the deviation readings normally fit on a single sheet of paper. The OGCC is amending R12-7-121 to improve understandability by adding language to make the rule consistent with governing statutes and state that the completion report is confidential in addition to all other well information. The proposed rulemaking should benefit small businesses in the regulated community by clarifying existing requirements and improving understandability.

There are currently 12 companies (four publicly-owned businesses and eight privately-owned small businesses) engaged in oil and gas exploration or development activity in Arizona; two operate 14 Liquefied Petroleum Gas storage wells, four operate 41 producing oil and gas wells, and six are currently evaluating recently drilled wells.

The proposed rulemaking does not significantly increase or decrease the costs of compliance. The amended rules will be consistent with all applicable state statutes. The amended rules should have a positive impact on all businesses.

A.R.S. § 41-1055 REQUIREMENTS FOR THE E.I.S.

1. An identification of the proposed rulemaking

The OGCC is amending R12-7-115 to clarify what is what is meant by the normal vertical course of a well and require testing at reasonably frequent intervals to determine the deviation from normal.

The OGCC is amending R12-7-121 to improve understandability by adding language to make the rule consistent with governing statutes and state that the completion report is confidential in addition to all other well information.

2. Persons directly affected by the proposed rulemaking

The rules directly impact companies drilling for oil and gas in Arizona.

3. Estimate of Costs and Benefits of Enforcement and Implementation

(Summarized in chart, attachment A)

The proposed rulemaking clarifies existing requirements and improves understandability. There will be minimal effects on the revenues of employers subject to the proposed rulemaking.

4. Probable impact on private and public employment

The proposed rulemaking clarifies existing requirements and improves understandability.

No impact on private employment is anticipated. There will be no impact on public employment.

5. Probable impact on small businesses

The proposed rulemaking does not significantly increase or decrease the costs of compliance. The improved clarity and understandability of the rules should have a positive impact on small businesses. No private persons or consumers are directly affected by the proposed rulemaking.

6. Probable effect on state revenues

None

7. Description of less intrusive or costly methods; alternatives

The proposed rulemaking does not significantly increase or decrease the costs of compliance. The proposed rulemaking is the least intrusive and least costly way for the OGCC to make the rules consistent with statutes and clarify requirements.

ATTACHMENT A
SUMMARY OF COSTS AND BENEFITS
 (Amend R12-7-115 and R12-7-121 to clarify requirements and improve consistency and understandability)

Description of Group Affected	Description of Effect	Increased Costs/ Decreased Revenues	Decreased Costs/ Increased Revenues
Impact costs: Minimal < \$1,000; Moderate \$1,000 - \$5,000; Substantial > \$5,000			
A. Agency / Political Subdivision			
Arizona Geological Survey	Staff time required to draft rules	Minimal	None
Oil and Gas Conservation Commission	Meetings are required to adopt amended rules	None	None
B. Other State Agencies / Political Subdivisions			
G.R.R.C.	Informal and formal review of amended rule	Minimal	None
Secretary of State	Printing and administrative costs	Minimal	None
C. Federal Agencies			
	None	None	None

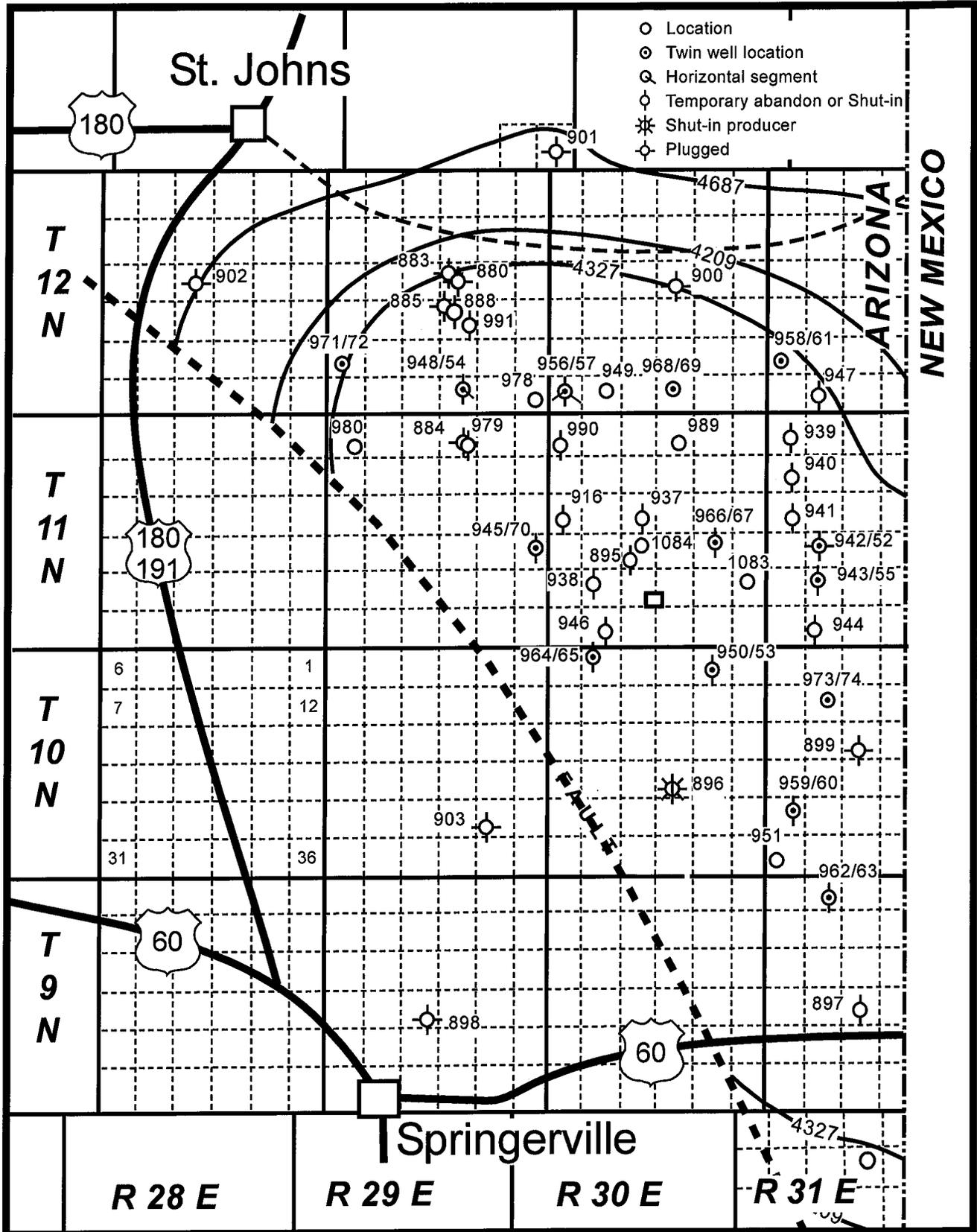
ATTACHMENT A
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Description of Group Affected	Description of Effect	Increased Costs/ Decreased Revenues	Decreased Costs/ Increased Revenues
Impact costs: Minimal < \$1,000; Moderate \$1,000 - \$5,000; Substantial > \$5,000			
D. Privately / Publicly Owned Businesses			
Companies drilling oil or gas wells in Arizona	The amended rules do not significantly increase or decrease the cost of compliance.	Minimal	None
E. Consumers	None	None	None
F. Private Individuals	None	None	None

Location and status of Ridgeway Arizona Oil Corp wells in east-central Arizona

Permit	Well	Location Sec-Twp-Rge	Total Depth	Status and comment
880	1 Plateau Cattle	ne sw 15-12n-29e	2431 ft	Drilled 8/1994, plugged 9/1997
883	1A Plateau Cattle	ne sw 15-12n-29e	220 ft	Drilled 11/1994, plugged 11/1997
884	3-1 State	ne se 3-11n-29e	1813 ft	Drilled 10/1995, plugged 9/2004
885	22-1 State	nw nw 22-12n-29e	218 ft	Drilled 8/1995, plugged 8/1997
888	22-1X State	se nw 22-12n-29e	2149 ft	Drilled 6/1997, shut-in 6/1997
890	35-1 State	ne sw 35-12n-29e	not drilled	Permit expired 4/1997
891	10-1 State	sw ne 10-11n-29e	not drilled	Permit expired 4/1997
892	11-1 State	se nw 11-11n-29e	not drilled	Permit expired 4/1997
893	2-1 State	se nw 2-11n-29e	not drilled	Permit expired 4/1997
895	11-21 State	ne sw 21-11n-30e	2410 ft	Drilled 3/1997, shut-in / app to plug
896	10-22 State	sw sw 22-10n-30e	2265 ft	Completed 7/2002; shut-in 3/2004
897	9-21 State	sw ne 21-9n-31e	2686 ft	Drilled 3/1997, shut-in / app to plug
898	9-22-29 State	sw se 22-9n-29e	3180 ft	Drilled 4/1997, plugged 2/2004
899	10-16-31 State	ne sw 16-10n-31e	2728 ft	Drilled 5/1997, plugged 2/2004
900	12-15-30 State	ne sw 15-12n-30e	2603 ft	Drilled 5/1997, plugged 7/2008
901	13-36-29 State	sw ne 36-13n-29e	2454 ft	Drilled 5/1997, plugged 5/1997
902	12-16-28 State	nw ne 16-12n-28e	2280 ft	Drilled 5/1997, plugged 1/2005
903	10-26-29 State	nw sw 26-10n-29e	3200 ft	Drilled 5/1997, plugged 1/2000
904	15-28-29 State	ne nw 28-15n-29e	2410 ft	Drilled 6/1997, plugged 6/1997
915	11-33 State	ne sw 33-11n-30e	not drilled	Permit expired 10/2004
916	11-18 State	c sw 18-11n-30e	2535 ft	Drilled 5/2004, temporarily abandoned
917	10-13 State	ne sw 13-10n-30e	not drilled	Permit expired 10/2004
937	11-16-30 State	nw se 16-11n-30e	2377 ft	Drilled 3/2007, shut-in
938	11-29-30 State	se nw 29-11n-30e	1906 ft	Drilled 2/2007, shut-in
939	11-06-31 State	nw se 06-11n-31e	2711 ft	Drilled 4/2007, shut-in
940	11-07-31 State	nw se 07-11n-31e	1885 ft	Drilled 4/2007, temporarily abandoned
941	11-18-31 State	nw se 18-11n-31e	2035 ft	Drilled 4/2007, temporarily abandoned
942	11-20-31 State	se nw 20-11n-31e	1934 ft	Drilled 5/2007, plugged 2/2008
943	11-29-31 State	se nw 29-11n-31e	2850 ft	Drilled 5/2007, shut-in
944	11-32-31 State	ne sw 32-11n-31e	2900 ft	Drilled 5/2007, temporarily abandoned
945	11-24-29 State	sw ne 24-11n-29e	1906 ft	Drilled 2/2007, shut-in
946	11-32-30 State	c se 32-11n-30e	1690 ft	Drilled 3/2007, temporarily abandoned
947	12-32-31 State	ne sw 32-12n-31e	85 ft	Spudded 5/2007, temporarily abandoned
948	12-34-29 State	nw ne 34-12n-29e	1140 ft	Drilled 2/2008, plugged 2/2008, blow out
949	12-32-30 State	sw ne 32-12n-30e	not drilled	Permit expired 7/2008
950	10-02-30 State	sw ne 02-10n-30e	2650 ft	Drilled 2/2008, temporarily abandoned
951	10-31-31 State	nw sw 31-10n-31e	not drilled	Permit expired 9/2008
952	11-20-31x State	se nw 20-11n-31e	not drilled	Permit expired 7/2008
953	10-02-30x State	sw ne 02-10n-30e	1899 ft	Drilled 2/2008, temporarily abandoned
954	12-34-29x State	nw ne 34-12n-29e	3048 ft	Drilled 2/2008, shut-in
955	11-29-31x State	se nw 29-11n-31e	1909 ft	Drilled 3/2008, temporarily abandoned
956	12-31-30 State	se nw 31-12n-30e	4202 ft	Drilled 3/2008, temporarily abandoned
957	12-31-30x State	se nw 31-12n-30e	2622 ft	Drilled 3/2008, temporarily abandoned
958	12-30-31 State	sw sw 30-12n-31e	not drilled	Permit expired 8/2008
959	10-29-31 State	sw ne 29-10n-31e	2869 ft	Drilled 3/2008, temporarily abandoned
960	10-29-31x State	sw ne 29-10n-31e	not drilled	Permit expired 8/2008
961	12-30-31x State	sw sw 30-12n-31e	not drilled	Permit expired 9/2008
962	09-05-31 State	nw se 05-09n-31e	122 ft	Drilled 4/2008, temporarily abandoned
963	09-05-31x State	nw se 05-09n-31e	2969 ft	Drilled 4/2008, temporarily abandoned
964	10-05-30 State	nw nw 05-10n-30e	2600 ft	Drilled 3/2008, temporarily abandoned
965	10-05-30x State	nw nw 05-10n-30e	not drilled	Permit expired 9/2008
966	11-23-30 State	nw ne 23-11n-30e	2550 ft	Drilled 4/2008, shut-in
967	11-23-30x State	nw ne 23-11n-30e	not drilled	Permit expired 9/2008
968	12-34-30 State	se nw 34-12n-30e	not drilled	Permit expired 12/2008
969	12-34-30x State	se nw 34-12n-30e	not drilled	Permit expired 12/2008
970	11-24-29x State	sw ne 24-11n-29e	2137 ft	Drilled 4/2008, temporarily abandoned
971	12-30-29 State	ne sw 30-12n-29e	not drilled	Permit extended through 01/2012
972	12-30-29x State	ne sw 30-12n-29e	not drilled	Permit expired 1/10/2009
973	10-08-31 State	sw ne 08-10n-31e	not drilled	Permit expired 2/14/2009
974	10-08-31x State	sw ne 08-10n-31e	not drilled	Permit expired 2/14/2009
978	12-36-29 State	nw sw 36-12n-29e	not drilled	Permit expired 8/13/2009
979	11-03-29x State	ne se 03-11n-29e	1670 ft	Drilled 11/2010, temporarily abandoned
980	11-06-29 State	se se 06-11n-29e	not drilled	Permit expired 2/13/2011
989	11-03-30 Fee	n2 se 03-11n-30e	not drilled	Permit expired 2/23/2011
990	11-06-30 State	ne sw 06-11n-30e	1788 ft	Drilled 11/2010, temporarily abandoned
991	12-22-29 State	ne se 22-12n-29e	1690 ft	Drilled 11/2010, temporarily abandoned
1083	11-25-30 Prize	se nw 25-11n-30e	not drilled	Permitted 10/31/2011
1084	11-21-30 State	sw ne 21-11n-30e	not drilled	Permitted 11/28/2011

Ridgeway Arizona Oil Corporation Wells



04/20/12





St. Johns Field Development Update

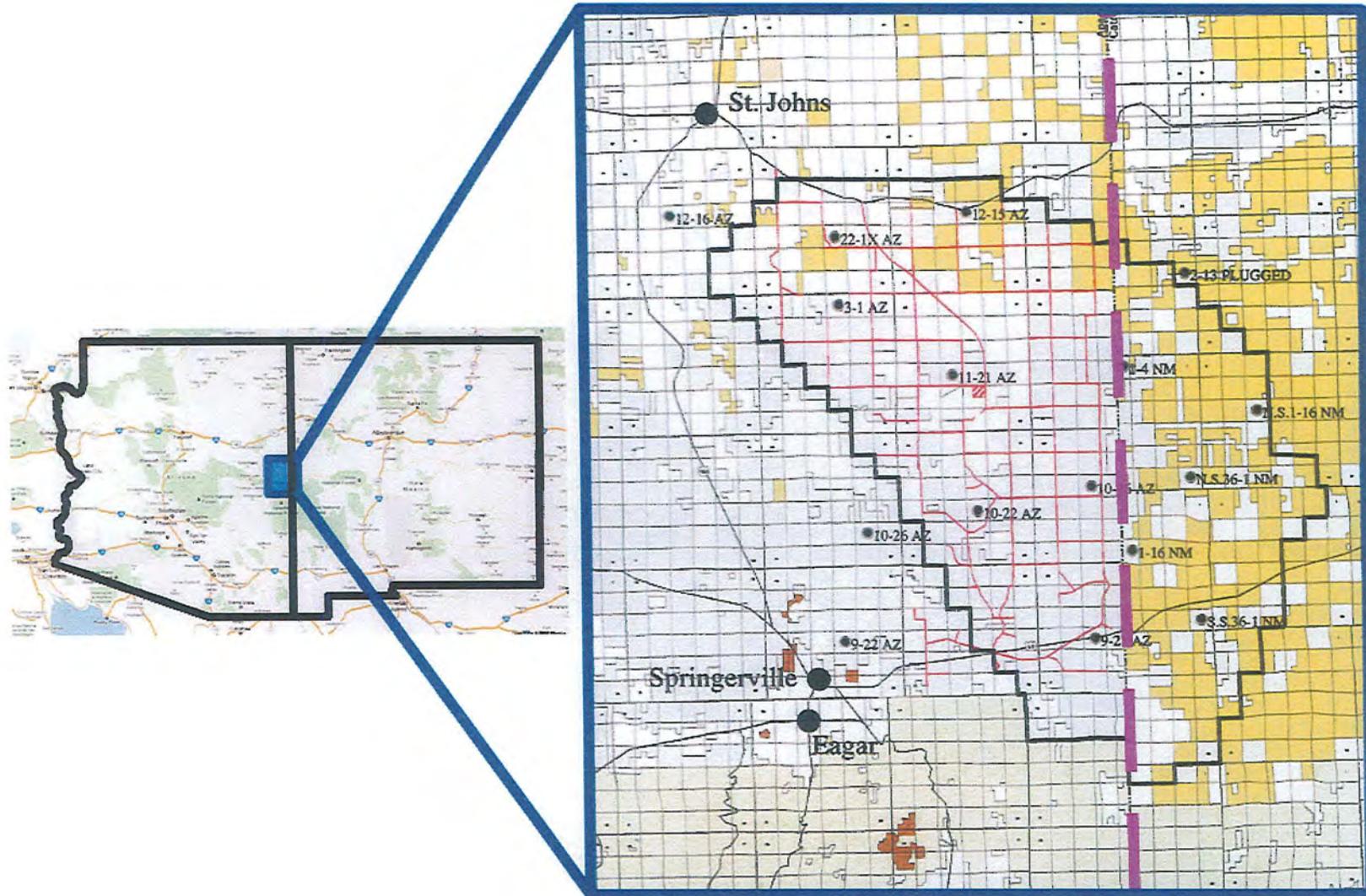
Mark Peavy

4/20/12

Agenda

- Plan Summary / Highlights
- Subsurface
- Surface
- Pipeline
- 2012 Timeline
- Project Timeline

St. Johns Field Location



St. Johns 2012 Objectives

- Develop credible well performance predictive models for each zone, using 4-pt well tests and pressure transient analyses.
- Demonstrate ability to reduce positive “skin” and improve well performance through improved stimulation / workover techniques.
- Demonstrate ability to drill and complete wells cost-effectively and with minimal damage to the formation(s).
- Solidify OGIP estimates by establishing commercial well production rates across broader segments of the mapped reservoirs.
- Complete preliminary field development plan by year end.

Well Testing / Workovers

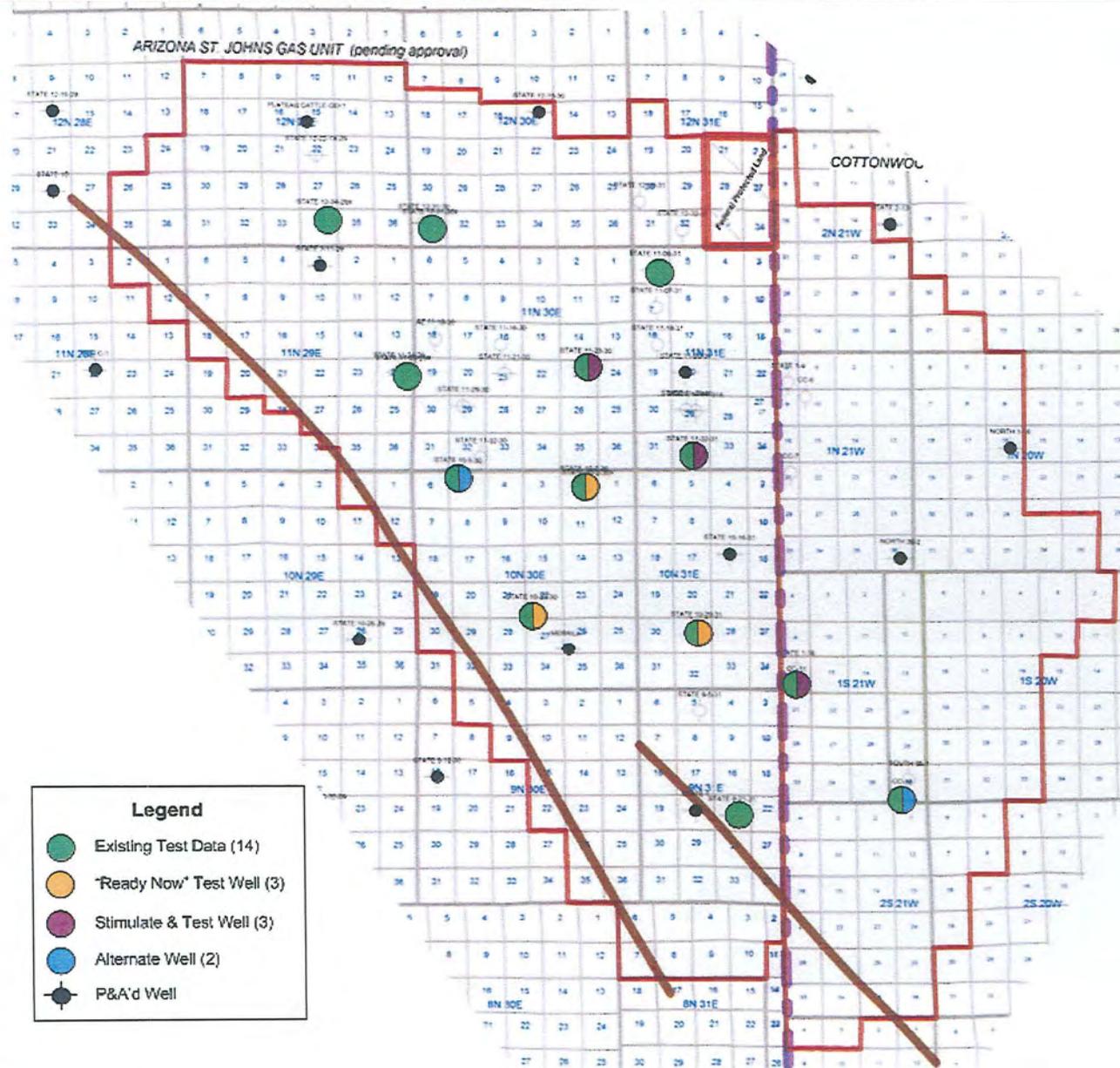
1. Goal:

- 4 “test only” well tests (3 Granite Wash, 1 Amos Wash)
- 7 “stimulate and test” workovers (3 Granite Wash, 4 Amos Wash)

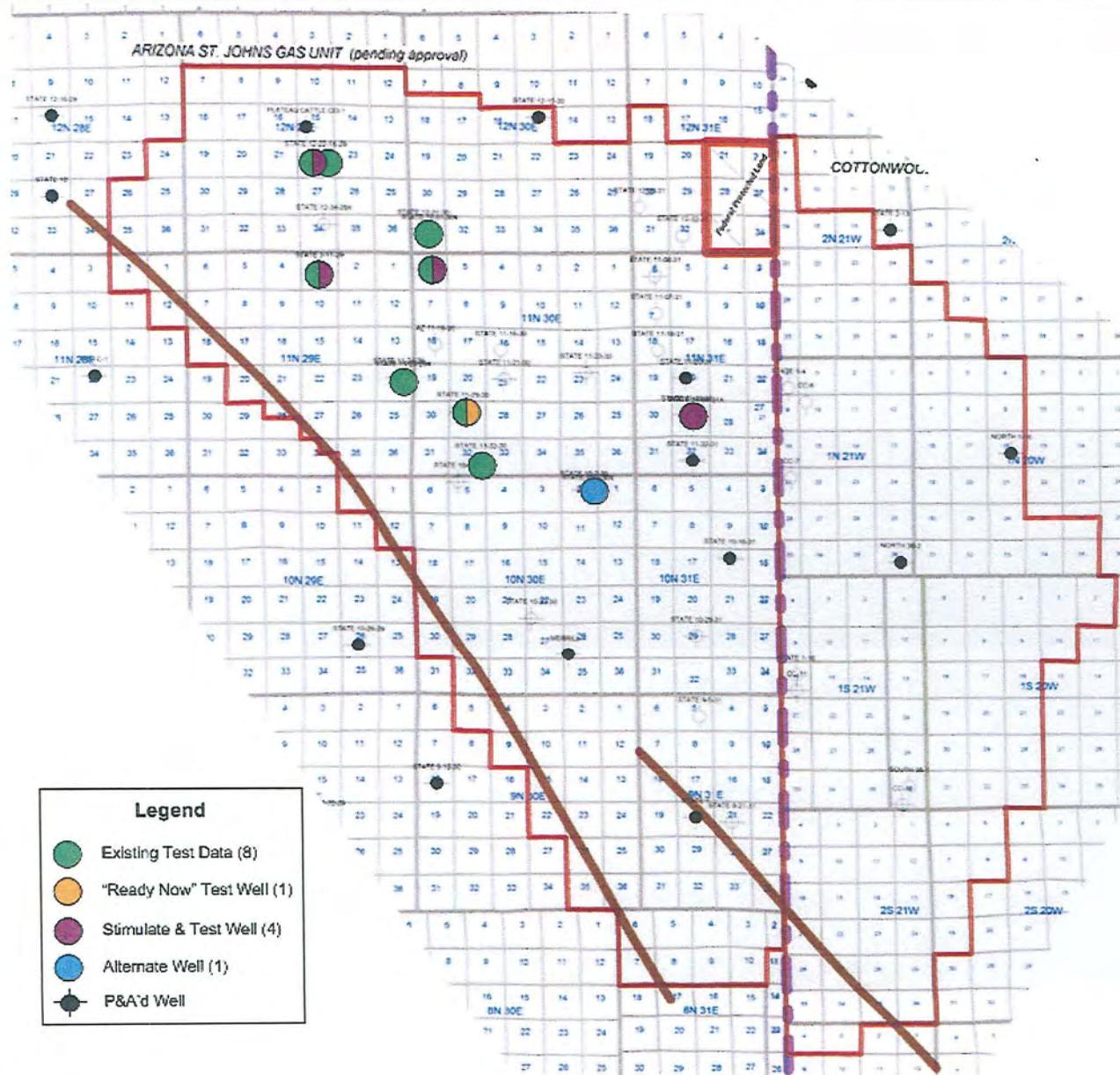
2. Objectives:

- Develop credible well performance models
- Implement and evaluate stimulation techniques specific to both Granite and Amos Washes.
- Validate Estimated Ultimate Recovery estimates through more stringent production testing.

Granite Wash Proposed Well Work



Amos Wash Proposed Well Work



Drilling & Completion Plan

1. Goal:

- Drill & complete 4 new wells (2 Granite Wash, 2 Amos Wash)

2. Objectives

- Demonstrate ability to drill and complete wells cost-effectively and with minimal damage to the formation(s).
- Through selection of candidates, establish commercial production across broader segment of reservoirs.
- Meet Unit obligations (Drill 2 wells by February 1, 2013)

Subsurface Plan

- 2012 (Pilot Program)
 - Develop mineralogical model
 - Develop reservoir model
 - Develop drilling & workover plans
 - Drilling mud selection
 - Wellbore design & construction
 - Perform 4-point well tests coupled with workovers & stimulations
 - Drill pilot wells and test
- 2013+ (Field Development Program)
 - Apply “lessons learned” from pilot to drilling and completion plans
 - Drill and complete required number wells to achieve 450 MMCFPD
 - Workover wells as needed

St. Johns 2012 Subsurface Plan

St. John's Tasks		2011	2012											
		Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Res	Mineralogy													
	Petrophysics													
WT	4-Pnt Well Testing													
W/O	Stimulation Design													
	Workovers & Stimulations													
D & C	Drilling Design													
	Completion Design													
	Drilling Program													
	Completion Program													

Surface Plans

- 2012
 - Front End Engineering and Design
 - Complete Environmental/Cultural Studies
 - Design Review/Stakeholder Engagement
 - Final Project Approval
- 2013+
 - Detailed Design/Engineering
 - Order Long Lead Equipment
 - Construction through 2015
- Facilities start-up late 2015

2012 Pipeline & Facilities Scope of Work

FEED & CL Survey

- Route selection
- Hydraulic study
- Power Availability Study
- Valve Study
- HCA Analysis
- Basic Engineering
- Preliminary Land Work
- Centerline Survey

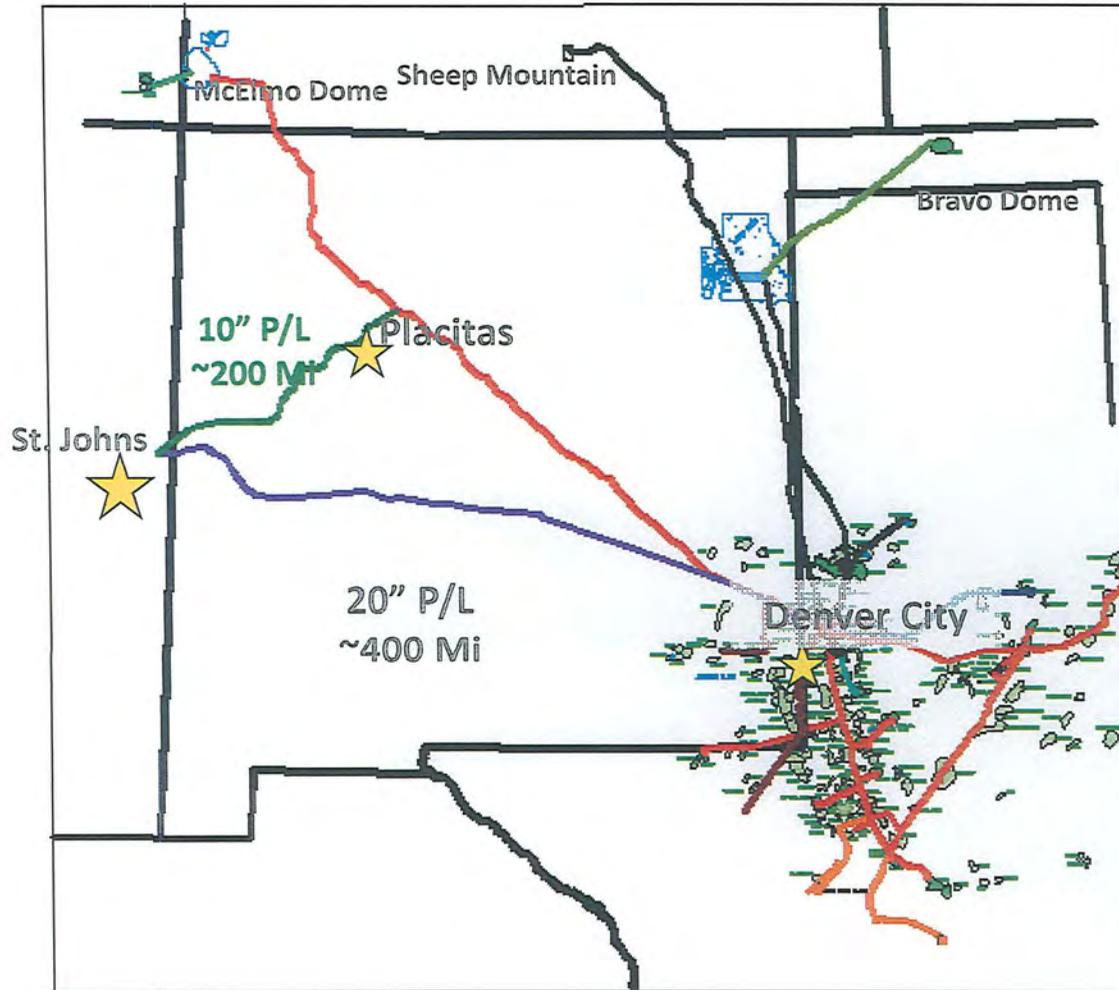
Environmental

- Agency Consultation
- Environmental Project Management
- EIS Preparation and submittal
- Cultural Resources and Ecological Surveys

Lobos Pipeline Plans

- Preliminary Engineering
 - Studies (Power Availability, constructability, land/ROW)
- Survey
 - Plat Work
 - Centerline Survey
- Environmental
 - Face to Face Meeting with Regulatory Agencies
 - EIS permit application/submittal
 - Cultural and Ecological Survey
- Land Acquisition
 - Line List
 - Permission to survey
 - Obtain ROW

Lobos Pipeline Map



St. Johns 2012 Surface Plan

St. John's Tasks		2011	2012													
		Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec		
Facilities	FEED															
	Environmental															
P/L	FEED															
	Environmental															

2012 Plan Summary

- Subsurface
 - Pilot Program
 - Confirm well deliverability
 - Develop drilling, completion, and workover strategies
 - Field test strategies
- Surface
 - Start facilities engineering study
 - Design facility and flowlines
- Pipeline
 - Begin Engineering
 - Route, hydraulics, power, construction
 - Survey, plats
 - Environmental Impact Statement

St. Johns Project Plan

St. John's Tasks		2012				2013				2014				2015				2016			
		Q1	Q2	Q3	Q4																
Subsurface	Reservoir Evaluation	█																			
	Well Testing		█																		
	Stimulations & Workovers	█	█																		
	Drilling & Completions		█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
Facilities	Feed / Engineering						█	█	█	█	█	█	█	█	█	█	█				
	Environmental							█	█												
	Construction													█	█	█	█	█	█		
Pipeline	FEED / Engineering						█	█	█	█	█	█	█	█	█	█	█	█			
	Environmental							█	█	█	█	█	█	█							
	Right of Way / Land									█	█	█	█	█	█	█	█	█	█		
	Construction																	█	█	█	█
	In Service																				█

Q & A

AZOGCC MTA 4-20-2012

<u>Name</u>	<u>Representing</u>
Thomas White	KM
Mark Peavy	KM
Coy Bryant	KM
Paul Nunley	KM
Joe Dixon	AZ State Land Dept.
Dennis Hall	Montgomery & Associates
Michele Roberson	" "