

OIL AND GAS CONSERVATION COMMISSION
5150 North 16th Street, Suite B-141
Phoenix, Arizona 85016

Minutes of Meeting
May 31, 1991

Present:

Mrs. Jan C. Wilt, Chairman
Mr. J. E. Warne, Jr., Vice-Chairman
Dr. J. Dale Nations, Member
Mrs. Barbara H. Murphy, Member
Dr. Daniel J. Brennan, Executive Director
Dr. Larry Fellows, State Geologist
Mr. Steven L. Rauzi, Oil & Gas Program Administrator

The regular Commission Meeting of May 31, 1991 was called to order by Mrs. Jan C. Wilt, Chairman, at 10:00 A.M. in Room B-141, 5150 North 16th Street, Phoenix, Arizona 85016.

APPROVAL OF MINUTES OF MEETING OF APRIL 19, 1991

Mr. Warne moved, seconded by Ms. Murphy:

THAT THE MINUTES OF THE MEETING OF APRIL 19, 1991 BE AMENDED TO REFLECT DR. NATIONS CORRECTION OF RUTH PEARSON TO RITA PEARSON IN THE SECOND PARAGRAPH OF THE REPORT OF THE EXECUTIVE DIRECTOR.

Motion carried unanimously.

HEARING ON APPLICATION OF DRY MESA CORPORATION FOR AMENDMENTS TO CONDITIONS OF OPERATION OF AN INJECTION WELL, SEC 11, T40N-R28E, APACHE COUNTY

At 10:10 A.M., the hearing regarding Dry Mesa Corporation concerning amendments to its injection well started. Minutes for that hearing are presented separately.

REPORT OF THE EXECUTIVE DIRECTOR

The activity report of Dr. Brennan was sent to the Commissioners, and has been made a part of these minutes. Dr. Brennan reported of a call he received from an individual at Sandia Labs in Albuquerque. The caller was working on a proposal to build additional caverns for strategic petroleum reserves in the west and he requested information on the salt deposits in Arizona. Dr. Brennan mentioned that TranAm is progressing with their project to build caverns for storage of natural gas in the salt deposit at Red Lake near Kingman.

Dr. Brennan received a call from Powers Elevation about a possible irregular location in extreme northwestern Arizona. However, United Gas Search and the Bureau of Land Management have since agreed to drill at a regular location. The company has not yet submitted their application for a permit

to drill. Mr. Rauzi pointed out that he had received a call from Baroid requesting information about the rocks in the area as they were preparing the mud program for the well. They were concerned about swelling clay and lost circulation zones.

Dr. Brennan reported on a project to inject hazardous, mostly industrial, waste into the deep well at Florence. He indicated that the operation would be primarily the responsibility of the Department of Environmental Quality, but thought the Commission would be interested in learning of it. The logs on the deep Florence well indicate extensive fracturing at about 14,000 feet so it looks like a feasible project. Dr. Brennan indicated that the individual pursuing the project had asked him to join his company after he was done at the Commission and he pointed out that the project would need EPA as well as DEQ approval.

Dr. Brennan told of Katie's retirement as planned on May 3. Mrs. Murphy added that she had gotten Katie a bouquet of flowers, a rock, and a road atlas for her travels in retirement.

Dr. Brennan added that after the last meeting he, Mr. Bennett, and Mrs. Wilt had met with Rita Pearson of the Governor's office. She listened politely and indicated that she would pass the information on. Dr. Brennan and Mr. Bennett then visited the old Shrine Temple, which is being converted into a museum for the Department of Mines and Mineral Resources. However, after discovering that the Department of Mines was not a part of the proposed merger anymore, that space would probably not be available for Oil and Gas Commission offices in Phoenix as it might have been under the united agency proposal.

REPORT OF THE OIL AND GAS PROGRAM ADMINISTRATOR

The activity report of Mr. Rauzi was sent to the Commissioners, and has been made a part of these minutes. Mr. Rauzi explained that the term "tag cement" as used in his written report meant that when the cement had hardened they lower pipe into the hole to learn the exact depth of the hardened cement.

Mr. Rauzi reported that sonar calipers were run in three of the caverns at the Ferrellgas LPG facility just last Wednesday. He was present to witness these operations and indicated that no surprises were noticed in the shape or the sizes of the caverns. Dr. Brennan added that some of the caverns are still not in compliance with the rule which requires sonaring every five years, but that they are now being brought into compliance now that we are dealing with a new man in the company rather than a consultant. Mr. Rauzi added that Dale Thompson, Manager of the facility, intends to have the remaining caverns sonared by next February.

Mr. Rauzi reported that the Black Rock 3 well at the Black Rock Field was successfully plugged and abandoned. He added that the maximum H₂S reading on the well when they removed the wellhead was only 8 ppm H₂S. This was the well that leaked H₂S gas at a concentration of 60 ppm in April of 1989 when the well was first completed.

FUNDING FOR THE AGENCY AND PROPOSED LEGISLATION

Dr. Brennan passed out copies of the Omnibus Reconciliation Bill (ORB) drawn up to facilitate

passage of the budget proposal. He pointed out those parts of the bill which amended the powers of the State Geologist and the Oil and Gas Conservation Commission so as to accomplish the dissolution of the Oil and Gas Commission office and merge its function into the Arizona Geological Survey. The bill removes the Commission's authority to employ personnel and adds that the Geological Survey shall provide the staff support to the Commission to administer and enforce the oil and gas laws. Otherwise the laws are unchanged. In Dr. Brennan's opinion, the other authorities of the Commission were unchanged. The Commission retained the same powers and duties to hold hearings, approve rules, set policy, and to do everything it now does, except that the staff support will be under the administrative handling of the State Geologist. Dr. Brennan also felt that the ORB did not provide for the transfer of personnel from one agency to another nor did he feel that the Personnel Department rules would cause that to happen. He did point out that the bill stated that the State Geologist has to appoint somebody. The legislature was expected to pass the bill by Tuesday.

Mr. Warne stated that the bill was written ambiguously in that it puts the Commission in a rather compromising position in that it does not allow the Commission to select their representative; on the other hand, it says the Commission shall have jurisdiction and authority over all persons and property deemed necessary to administer and enforce the provisions. Mr. Warne was concerned that if the Commission could not hire the person that it was to be responsible for, then its authority was normalized to where it could not be responsible for its actions. Dr. Nations noted that the Commission had pointed this out at several points during the consideration of the whole legislative process.

Dr. Nations inquired as to why no attempt was made to eliminate the Commission at this time. Dr. Brennan responded that it was still necessary to have a body to make this kind of policy. He stated that there was some consideration to setting up an Oil and Gas Board but decided that it was easier to retain the Commission.

Chairman Wilt asked Dr. Fellows if he would explain what was going to happen now. After expressing his appreciation for Mrs. Wilts' graciousness through all this, Dr. Fellows first explained that he did not ask for this responsibility but was told that's the way it was going to be. He indicated that he had been queried on the matter by Keith Brainard of the Joint Legislative Budget Committee (JLBC) and that he had referred him to some of those states where the state surveys have the responsibility for oil and gas regulation. He knew that Mr. Brainard did contact at least two because two State Geologists had called him back to find out what was going on. The State Geologist from Alabama had indicated to him that in a set up such as this it was extremely important to have a governing body such as the Commission to set policy.

With regard to hiring, Dr. Fellows pointed out that he did not intend to hire somebody without involving the Commission. Furthermore, it was his understanding that the Oil and Gas Program Administrator was being transferred to the agency in order to have somebody with expertise to carry on essentially as is being done now. He indicated that the merger will have a major impact on the Geological Survey which does not currently have the staff to provide administrative support. That means that he will have to terminate a position and reclassify in order to provide secretarial support and provide a backup to Mr. Rauzi, as well as make room in Tucson for all of the agency's equipment, furniture, and cuttings. Since the Survey's vehicles are in field duty, he assured the Commission that the agency car would be dedicated to the oil and gas program. In closing, Dr.

Fellows stated that he intended to do the best he could under the circumstances.

Chairman Wilt inquired about the timing of the move, its cost, and the lease on the Phoenix office. Dr. Brennan pointed out that the lease did not expire for two and a half more years but that a 60-day termination clause could be invoked if money was not appropriated for rent. He thought it would be prudent to notify the landlord right now. Dr. Fellows also thought that it should be done as quickly as possible and pointed out that the facilities management people at the Department of Administration suggested it be done immediately. He also reported that money was budgeted for moving expenses and that there was not any money to operate the agency in Phoenix after July 1. The move is tentatively scheduled for late July.

Dr. Nations inquired if the Commission would meet in Tucson or continue to meet in Phoenix and asked Dr. Fellows of his opinion on that. Dr. Fellows thought it would be most appropriate to continue to meet in Phoenix but thought it would be something the Commission would want to decide and indicated that money is budgeted to pay the Commissioner's travel expenses. Dr. Brennan pointed out that there are several meeting rooms in the Capitol complex that could be used for Commission meetings.

Chairman Wilt asked Dr. Fellows if there was anything else. Dr. Fellows expressed his appreciation to Dr. Brennan for his support through all this uncertainty and bad news for his part.

CALL TO THE PUBLIC

Mr. Pomeroy expressed his disappointment in the turn of events of the legislature. He indicated that he had done some investigation but that it was unsuccessful. Mr. Pomeroy discussed the geothermal energy industry in California and Arizona and suggested that federal funds to study the feasibility of this industry in Arizona would suffer without the Commission to speak up. In response, Dr. Fellows summarized the geothermal studies done by the Arizona Geological Survey with funds provided by the Department of Energy.

In response to the discussion of geothermal energy, Mr. Rauzi recalled an inquiry he received about a week ago from Frank Mancini at the Department of Commerce about funding the hot rock geothermal project at Nutrioso. Apparently funds will be made available for such projects from the state's oil overcharge fund.

ANNOUNCEMENTS

Dr. Fellows announced that he would have all of the thinking done on the budget by September. The Commission would then have a chance to look at it, and if something comes up at that time, then it could be modified. Dr. Nations indicated that the Commissioners did need to review the oil and gas budget.

The next meeting was scheduled for September 6, 1991.

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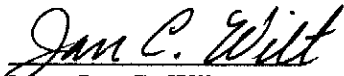
ADJOURNMENT

Mr. Warne moved, seconded by Mrs. Murphy:

THAT THE MEETING BE ADJOURNED.

Motion carried unanimously. Time of adjournment was 11:20 A.M.

APPROVED



Mrs. Jan C. Wilt
Chairman

GUESTS IN ATTENDANCE:

Carol Lewin
R. J. Pomeroy and
John Saxman

Attorney General's Office
Cam-Roy Research and
Development Corporation