

OIL AND GAS CONSERVATION COMMISSION
845 North Park Avenue #100
Tucson, Arizona 85719

Minutes of Meeting
November 1, 1991

Present:

Mrs. Jan C. Wilt, Chairman
Mr. A. R. Bennett, Member
Mrs. Barbara H. Murphy, Member
Dr. Larry Fellows, State Geologist
Mr. Steven L. Rauzi, Oil and Gas Program Administrator

The regular Commission Meeting of November 1, 1991 was called to order by Mrs. Jan C. Wilt, Chairman, at 10:00 A.M. in Room 500, State Capitol Building, Phoenix, Arizona.

APPROVAL OF MINUTES OF MEETING OF SEPTEMBER 6, 1991

Mrs. Murphy moved, seconded by Mr. Bennett:

THAT THE MINUTES OF THE MEETING OF SEPTEMBER 6, 1991
BE ACCEPTED AS PRESENTED.

Motion carried unanimously.

STATEMENT OF DIRECTOR AND STATE GEOLOGIST

Dr. Fellows reported that no recommendations have been received from either Budget office and that he did not expect any until the end of November or early December. He added that this will be another tough budget year and that the analysts will be looking for ways to cut and combine things as much as possible. He requested the same level of funding as last year and indicated that there were to be no requests for out of state travel except for directors to attend national meetings. He reported on the Sunset Review Hearing on October 8 and noted that one subject discussed was the possible merger of the Arizona Geological Survey and the Bureau of Mines and Mineral Resources. Both analysts said that this is still a consideration.

Dr. Fellows reported that about 70 applications were received for the research geologist position vacated by Steve Reynolds, who accepted a faculty position at Arizona State University. He indicated that the qualified applicant will have experience in regional geologic mapping and have some mineral or economic geology experience. He intends to make an offer by the end of November and have the person begin in February or March. Dr. Fellows described the two other new positions resulting from the reorganization. One is an assistant editor, who has been hired and will start November 12 and the other is a geologist II, who will be the database manager and provide back-up for Mr. Rauzi and Mr. McGarvin. Interviewing for the geologist II will begin next week.

Dr. Fellows reported that the earmarking of oil and gas lease revenues to the oil and gas program will not happen. Those revenues will continue to go into the general fund.

Chairman Wilt expressed concern about restoring funds to cover Arizona's membership in the Interstate Oil and Gas Compact Commission. This budget item has normally been included in the Governor's budget as a below-the-line item on the Commission's budget.

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 reported that a permit to drill in northwest Arizona was issued to United Gas Search in Tulsa, Oklahoma. The location is in the Arizona Strip area of Mohave County about 15 miles south of St. George, Utah, in a relatively undrilled part of the state. The proposed total depth of the well is deep enough to test the whole Paleozoic section. He added that two wells have been reworked in the northeast corner of the state, one is a gas well recompleted as an oil well and the other is an oil well recompleted as a gas well. With respect to oil and gas leasing, there has not been much activity and there were no bids on federal land in the September 5, 1991, BLM lease sale. The last big block of state land leased was near Tombstone. Mr. Rauzi reported on two new pipelines being constructed and noted that a lot of pipe is stockpiled near Winslow. El Paso is putting in some additional line on their existing pipeline right-of-way and Mohave is building a 395 mile line from Topock, Arizona, to Bakersfield, California. A new line from Kingman to Topock will be associated with that.

Regarding new interest in the state, Mr. Rauzi reported that Hunt Oil has shown interest in the southern part of Arizona and that United Gas Search, who recently obtained the permit to drill in Mohave County, is negotiating to pick up some existing leases near Yuma. They are rumored to be having discussions with Pemex in Mexico. Petrotech may be a partner in United Gas's play in the Yuma area. This evolving activity in southern Arizona could be important for the Arizona and Mexico trade agreement.

FIVE-YEAR AGENCY REVIEW OF RULES

A copy of the five-year review being submitted to the Governor's Regulatory Review Council (GRRC) was sent to each of the Commissioners for their review and comment. Mr. Rauzi discussed his plan to continue with the existing proposal to incorporate the geothermal rules with the oil, gas and helium rules. He indicated that the existing geothermal statutes should back the geothermal rules whether they are incorporated into Article 1 or listed separately in Article 2. He noted one significant difference between the two sets of rules, which is the time limit for keeping information from a "wildcat" well confidential. Statute provides for a two-year confidential period on geothermal wells whereas statute provides for a six-month confidential period on oil and gas wells. Mr. Rauzi proposed that the Commission provide for one additional six-month period for oil and gas wells. He explained that Rule 175 is being proposed to classify injection wells consistent with the federal EPA classification and that the long and cumbersome Rule 181 will be more effective and understandable if it is divided into two rules. He will amend the language in essentially every rule to be consistent with current GRRC format and style. Mrs. Mead commented that GRRC has gone through an evolution over the years with respect to whether rules should be written in active or passive voice.

In light of the delay in obtaining a resolution on the two geothermal wells near Chandler,

Chairman Wilt asked if there was a problem with the geothermal rule regarding plugging and abandonment of a nonproductive well and if so, if this would be a good time to fix that. Mr. Rauzi felt that the problem was not with the rule, but with the question of who was responsible for the well in question and pointed out that the rules define the responsible party as whoever is in control of the day-to-day activities of the well. He added that the lengthy temporary abandonment of several of the Shields Exploration wells near Fredonia was a primary factor in our proposing Rule 125 to clearly spell out the conditions and time frames for the temporary abandonment of a well.

Mrs. Murphy had queried Mr. Rauzi about the casing testing requirements in Rule 111. Mr. Rauzi reported that they are based on American Petroleum Institute (API) casing strength standards which are in turn based on American Society for Testing and Materials (ASTM) standards. He added that the lengths of the cement plugs required in Rule 127 were initially taken from the Interstate Oil and Gas Compact Commission. Mr. Rauzi discussed the objectives for these rules, which are to confine all fluids encountered to their respective strata and to provide adequate control of any high and unexpected subsurface pressures.

Mrs. Wilt questioned the repeal of Rule 102 and the affect of this action on the Commission's jurisdiction over activities on Indian lands. Mr. Rauzi pointed out that the bond rule contains the language "anywhere in the state" and did not think that repeal of 102 would diminish that jurisdiction.

Dr. Fellows commented on the definitions of "authorized agent" and "Executive Director" in Rule 101. Mr. Rauzi pointed out that neither of these terms are used in the rules and that he planned to remove those definitions that are not used in the rules. He added that "the Commission" is used repeatedly in the rules to define authority for decisions and required actions and that this definition in Rule 101 is being amended to include "any person lawfully empowered to act on their behalf."

Mrs. Murphy brought up the amount of the bonds required in Rule 103 and asked if they were sufficient to cover the cost of plugging and abandonment of wells and reclamation of the land. Mr. Bennett pointed out that if the bond is too high it will hinder exploration in the state. Dr. Fellows questioned the need to require a bond on federal lands since they already require a bond for drilling on their land. Mr. Rauzi indicated that bonds should continue to be required on federal lands in order to maintain our authority to conserve Arizona's oil, gas, and geothermal resources in all areas of the state. He also pointed out that the bond amount should remain at its current level in that this was one of the few inducements the state offered to facilitate drilling in Arizona. He noted that the vast majority of operators do properly plug and abandon their wells and added that if the Commission did raise the amount that it should not go above \$10,000 per well. Mr. Bennett indicated that increasing the bond from \$5,000 to \$10,000 would still not cover the approximate \$50,000 cost of plugging a well and that raising the amount to \$50,000 dollars would probably have a major detrimental impact on drilling in Arizona. All agreed. Mr. Rauzi indicated that the bond rule would be submitted to GRRC in August, which should give the Commission time to make a decision on the bond amount.

Mr. Rauzi handed out a calendar showing the GRRC meeting dates and discussed the proposed schedule to submit the repealed, proposed, and amended rules to them. The schedule allows about one week between the Commission's meeting and the delivery of the rule packages to GRRC.

CONTENDER OIL WELL, SEC 5, T10S-R23W, YUMA COUNTY

Mrs. Mead reported that Mr. Bradshaw apparently does not have the money to plug and abandon the well and indicated that an asset check would be made to determine his ability to plug and abandon the well. She advised that the Commission go ahead and get an injunction against Mr. Bradshaw to force him to plug and abandon the well, noting that even if we got an empty judgement, i.e. there is no money there, it may have the affect of discouraging future operators from drilling a well unless they have sufficient assets to plug and abandon their wells. Chairman Wilt indicated that the Commission has already agreed to have this matter resolved by the Attorney General.

GEOHERMAL WELLS, SEC 1, T2S-R6E, MARICOPA COUNTY

Chairman Wilt indicated that the Commission has previously moved (open meeting of November 16, 1990) to have the Attorney General get the two wells plugged and abandoned by filing a suit. All present agreed that the Attorney General's Office has been slow to act, which could eventually put the Commission in a bad light. It was also agreed that this issue needs to be brought to a head.

Mrs. Mead described possible legal actions to have the wells plugged and abandoned and she did not think that pursuing a legal remedy would require having the rules changed. She proposed to file a court order to plug the well, have the order recorded in the county as a lien against the property, and thereby encumber the land and its future sale or development. In her opinion, the existing statutory authority the Commission has over geothermal wells may be sufficient to allow them to go in and lien the property. She advised that this would probably be the most appropriate solution with regard to these wells.

One potential danger of leaving the wells unplugged is the possibility of an unscrupulous operator dumping hazardous waste into one of the wells. If this or another danger to the public or environment is or seems imminent, then the state should appropriate funds to have these wells properly plugged and abandoned.

CALL TO THE PUBLIC

None.

ANNOUNCEMENTS

The next meeting was scheduled for March 6, 1992, in room 500 of the State Capitol Building.

Mr. Bennett's appointment will expire in January 1992. He wanted the record to show that in

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his opinion, the Commission should continue to be diversified professionally.

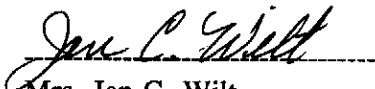
ADJOURNMENT

Mr. Bennett moved, seconded by Mrs. Murphy:

THAT THE MEETING BE ADJOURNED.

Motion carried unanimously. Time of adjournment was 11:45 a.m.

APPROVED



Mrs. Jan C. Wilt
Chairman

GUESTS IN ATTENDANCE:

Kate Mead
Joe Lane

Attorney General's Office
Governor's Office