

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

Minutes of Meeting
October 23, 1992

Present:

Mrs. Jan C. Wilt, Chair
Mr. J. E. Warne Jr., Vice-Chair
Mrs. Barbara Murphy, Member
Mr. Zed Veale, Member
Dr. Larry Fellows, State Geologist
Mr. Steven L. Rauzi, Oil and Gas Program Administrator

The regular Commission Meeting of October 23, 1992, was called to order by Mrs. Jan C. Wilt at 10:00 a.m. in Room 500, State Capitol Building, Phoenix, Arizona.

Mrs. Wilt welcomed Mr. Veale to the Commission as a Member and gave him the Governor's certificate of appointment as a member of the Oil and Gas Conservation Commission.

APPROVAL OF MINUTES OF MEETING OF JULY 6, 1992

Mrs. Murphy moved, seconded by Mr. Warne:

THAT THE MINUTES OF THE MEETING OF JULY 6, 1992, BE
ACCEPTED AS PRESENTED

Motion carried unanimously.

DISCUSSION OF SUNCOR-MELANGE #32-23 WELL

Mr. Rauzi reported that the SunCor-Melange #32-23 well was drilled in September. He indicated that several questions about groundwater protection were raised as a result of this well and that he included this item to give the public an opportunity to discuss these questions with the Commission. Mr. Bill Bates, Public Works Director for the City of Avondale, wrote to Dr. Fellows about this well and was invited to this meeting in Dr. Fellow's reply. No one from Avondale attended this meeting. Mr. Rauzi is writing an article for *Arizona Geology* that will describe the construction of the well and address the protection of groundwater. Mrs. Wilt commended Dr. Fellows and Mr. Rauzi on their work with regard to this situation.

STATEMENT OF DIRECTOR AND STATE GEOLOGIST

Dr. Fellows reported on the 1994 budget and noted that IOGCC membership funds were requested. The Governor's Office will recommend the same level of funding as 1993 and unless funding is provided to account for the escalating rent and the proposed salary increase, a reduction in force will be necessary. In response to Mrs. Murphy, Dr. Fellows noted that the move to a state building is on hold because funds are not available to renovate the building. He

discussed the potential impacts from project SLIM and the mid-year budget cuts and described the annual report, which will be the first to include oil and gas activities. He canceled his attendance at the annual meeting of the Geological Society of America to conserve money for the mid-year budget cuts.

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. He reported that Mr. Merle Bohlander of Pampa, Texas, bought the old Kerr-McGee helium plant at Navajo to salvage it and requested information on reentering one of the old helium wells in the Pinta Dome Field. Apparently, he wants to make sure that the pressure in the field is depleted before he dismantles the Navajo plant. Mr. Rauzi sent him the forms and a plugging record from one of the old wells.

CONSIDERATION TO INITIATE RULE MAKING PROCEEDINGS

The proposed (1) amendments to rules R12-7-101, R12-7-119 through R12-7-122, R12-7-126 through R12-7-129, R12-7-176, and R12-7-178 through R12-7-181, (2) adoption of rules R12-7-125, R12-7-175, and R12-7-182, and (3) repeal of rule R12-7-177, Appendix 1 in Article 1, and Article 2 were sent to the Commissioners and have been made a part of these minutes. Mr. Rauzi discussed the proposed changes with emphasis on the amendments to the injection rules.

Mr. Warne moved, seconded by Mrs. Murphy:

THAT THE OIL AND GAS CONSERVATION COMMISSION APPROVE
THE RULES AS PRESENTED AND INITIATE THE RULE MAKING
PROCEEDINGS

Motion carried unanimously.

Mr. Rauzi explained the new rule-making procedure, which requires that a notice of rule making be published in the *Arizona Administrative Register* (A.A.R.) 30 days before the Governor's Regulatory Review Council (GRRC) considers the rules. An additional notice is published after the GRRC meeting. Mrs. Wilt signed the new *Notice of Proposed Rule Making Submitted to the Governor's Regulatory Review Council* for publication before the GRRC meeting and Form R101, *Notice of Proposed Rule Making*, for publication after the GRRC meeting. Mr. Rauzi indicated that he will forward the rules to the Governor's Regulatory Review Council for approval.

Mr. Rauzi pointed out that because of the new procedure, he would not appear before GRRC with this set of rules until January 5, 1993, and that the public hearing on this set of rules could not be scheduled before March 1, 1993. The Commission scheduled the oral hearing on this set of rules for March 12, 1993, in Room 500 of the State Capitol Building.

ORAL HEARING AND DISCUSSION OF RULES PUBLISHED IN THE SEPTEMBER 1992 ISSUE OF THE ARIZONA ADMINISTRATIVE REGISTER (A.A.R.)

Mrs. Wilt opened the floor for comments and discussion on this set of rules. No oral comments were received.

Mrs. Wilt requested Mr. Rauzi to discuss the written comment received on the bond required in R12-7-103 and compare this with the bond required in surrounding states. The written comment called for a bond amount of 125% of engineering and construction costs of a well. Mr. Rauzi reported that this is far in excess of the bond required in surrounding states or the federal government, that most of our bonds are in the form of certificates of deposit, and that raising the bond amount would tend to exclude financially-shaky operators and provide more flexibility to the Commission in having wells plugged and abandoned. Mr. Warne suggested a bond amount of \$10,000 for a well drilled to 10,000 feet or less and \$20,000 for a well drilled deeper than 10,000 feet. Mr. Rauzi noted that only 9 or so wells have ever been drilled deeper than 10,000 feet in Arizona so most operators would be dealing with the lower bond. The Commission agreed to maintain the statewide bond at \$25,000.

Mr. Warne moved, seconded by Mrs Murphy:

THAT THE OIL AND GAS CONSERVATION COMMISSION AMEND R12-7-103, PAGE 1, LINE 6 AND 7, TO READ "...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..."

Motion carried unanimously.

Mr. Rauzi asked Ms. Clark if this would be a substantial change and if the Commission could adopt the rule as just amended. After calling Ms. Elizabeth Stewart of the Attorney General's Office, Ms. Clark advised that the rules could be adopted today, that the minutes reflect the previous language and the exact language as amended, and that the Commission direct Mr. Rauzi to amend the concise explanatory statement accordingly and provide information showing that the new bond is a negligible increase in the total cost of drilling a well.

Previous language of R12-7-103, page 1, line 6 and 7 was "...\$5,000 for each individual well..."

ADOPT THE RULES PUBLISHED IN THE SEPTEMBER 1992 ISSUE OF THE A.A.R.

Mrs. Murphy moved, seconded by Mr. Warne:

THAT THE OIL AND GAS CONSERVATION COMMISSION CLOSE THE RECORD THIS OCTOBER 23, 1992, ON THE RULES PUBLISHED IN THE SEPTEMBER 1, 1992, ISSUE OF THE A.A.R.

Mrs. Murphy moved, seconded by Mr. Veale:

THAT THE OIL AND GAS CONSERVATION COMMISSION ADOPT THE CONCISE EXPLANATORY STATEMENT AND DIRECT MR. RAUZI TO CHANGE PARAGRAPH 2 TO REFLECT THE AMENDMENT MADE TO R12-7-103

Mr. Warne moved, seconded by Mrs. Murphy:

THAT THE OIL AND GAS CONSERVATION COMMISSION ADOPT THE RULES AS AMENDED THIS DATE SUBJECT TO CERTIFICATION BY THE ATTORNEY GENERAL

Motion carried unanimously.

Mrs. Wilt signed Form R102, *Certification of Rules and Order of Adoption* and Mr. Rauzi indicated that he would forward the rules to the Attorney General for certification.

ASSISTANT ATTORNEY GENERAL REPORT ON CONTENDER AND CAM-ROY WELLS

Ms. Clark discussed Mr. Rauzi's memo describing a contractual argument for imposing a lien on the property where the Cam-Roy wells are located. The failure to plug and abandon the Cam-Roy wells was a breach of contract and he argued for an equitable lien on the property until the contract to plug and abandon was satisfied. However, Ms. Clark noted that state agencies, unlike a regular party to a contract, must have some type of statutory authority to impose a lien on property. The Commission has authority to adopt a rule allowing the Commission to place a lien but it could not be retroactive to apply to this situation.

Mr. Warne moved, seconded by Mrs. Murphy:

THAT THE OIL AND GAS CONSERVATION COMMISSION SIGN THE LETTER TO THE ATTORNEY GENERAL THAT WAS PREPARED AT THEIR REQUEST IN THEIR MEETING OF JULY 6, 1992, AND THAT MS. KAREN CLARK PURSUE "WHATEVER" MEANS NECESSARY TO HAVE THE TWO GEOTHERMAL WELLS PLUGGED AND ABANDONED AND THAT SHE ADVISE MR. RAUZI OF PROGRESS IN THIS REGARD BY JANUARY 1, 1993

Motion carried unanimously.

With respect to the complaint on the Contender well near Yuma, Ms. Clark reported that she could not find the affidavit of Ms. Kate Mead, which is referenced in the complaint, and that a *litigation request form*, which needs to be filed when litigating for an agency, had not been filed with her superiors. She will contact Ms. Mead about the affidavit, file a *litigation request form*, and will report on this issue by January 1, 1993.

CALL TO THE PUBLIC

Dr. Fellows discussed drilling companies being registered with the Registrar of Contractors; logging companies being registered with the Radiation Regulatory Agency; and our responsibility to notify federal, state, and local governments when a permit to drill is issued. Mr. Rauzi noted that we send a copy of approved applications to the Bureau of Land Management, the State Land Department, and several scouting companies. As for local governments, the Commission thought it would be appropriate for us to advise the operator to notify them when drilling near urban or incorporated areas. The Commission noted that our *permit to drill* expressly states that a well must be drilled in full compliance with all applicable laws, statutes, rules and regulations of the State of Arizona and that it was the responsibility of the operator to have subcontractors register

or notify the appropriate state agencies.

ANNOUNCEMENTS

The next meeting was scheduled for March 12, 1993. Mr. Rauzi noted that election of new officers will be on the agenda for the next meeting.

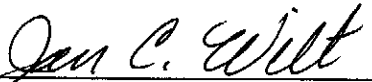
ADJOURNMENT

Mr. Veale moved, seconded by Mrs. Murphy:

THAT THE MEETING BE ADJOURNED.

Motion carried unanimously. Time of adjournment was 12:25.

APPROVED



Mrs. Jan C. Wilt
Chairperson

GUESTS IN ATTENDANCE:

Karen Clark

Attorney General's Office