

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

Minutes of Meeting
January 14, 1994

Present:

Dr. J. Dale Nations, Chairman
Mr. James E. Warne, Jr., Vice-Chairman
Dr. Mrs. Jan C. Wilt, Member
Mr. Zed Veale, Member
Mrs. Lisa C. Worthington, Member
Dr. Larry D. Fellows, State Geologist
Mr. Steven L. Rauzi, Oil and Gas Program Administrator

The regular Commission Meeting of January 14, 1994, was called to order by Dr. J. Dale Nations, Chairman, at 10 a.m. in Room 500, State Capitol Tower, Phoenix, Arizona.

APPROVAL OF MINUTES OF MEETING AND OF THE EXECUTIVE SESSION OF AUGUST 20, 1993

Mr. Warne moved, seconded by Mrs. Worthington:

THAT THE MINUTES OF THE MEETING AND OF THE EXECUTIVE SESSION OF AUGUST 20, 1994, BE ACCEPTED AS PRESENTED

Motion carried unanimously.

WELCOME NEW COMMISSION MEMBER

On behalf of the Commission, Dr. Nations welcomed Mrs. Worthington to the Commission as a member and presented her with Governor Symington's certificate of appointment.

STATEMENT OF DIRECTOR AND STATE GEOLOGIST

Dr. Fellows reported that the geothermal well near Alpine had shows of oil and noted that Mr. Rauzi published an article on the shows in the January 4th *Oil and Gas Journal* and is preparing a more detailed report to be announced in the March issue of *Arizona Geology*.

Dr. Fellows advised that the agency's analysts recommended no increase or decrease for the fiscal year 1994-95 budget, which will be heard by the House and Senate subcommittees on January 21st, and did not plan to fund a replacement vehicle. He is concerned that the five agency vehicles have over 80,000 miles on them and will probably all wear out about the same time.

Dr. Fellows reported that Arizona is the only state without a mine/land reclamation law and that to get one, the Arizona mining association sponsored a reclamation bill that does not specify an agency to administer the law. However, in two previous subcommittee meetings, they expressed their preference for combining the State Mine Inspector, Arizona Geological Survey, and Arizona Department of Mines and Resources into a new agency to administer the law. Dr. Fellows' noted

this bill would negatively impact Survey activities. The Sierra Club and the league of conservation voters oppose the mining association bill and propose that the Department of Environmental Quality administer the reclamation bill.

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 gave a copy of his *Oil and Gas Journal* article on oil shows in the geothermal well to the Commissioners and reported that seven inquires were received after it was published. One oil company is interested in doing geochemical and maturation studies and a geochemical services company offered to analyze core samples at no charge. Mr. Rauzi noted that this is a good way to get maturation and geochemical analyses for our file. Mrs. Worthington stated that we should make the core available to anyone who wants to do an analysis. Mr. Frank Mancini, Arizona Department of Commerce (ADOC), which sponsored the geothermal project, advised that ADOC would agree to any further exploration along this line and would cooperate on whatever sampling is done.

Mr. Rauzi reported that Mr. Dale Thompson, Adamana terminal manager, sent a written request for a one-year extension to sonar five caverns at the Ferrellgas LPG facility because of the large volume of product stored in them. The request provides for a receipt, storage, and transferring schedule to ensure that the caverns will be empty and ready for sonaring next year. Mr. Rauzi recommended that the extension be granted noting that the caverns are in compliance with rules and that no safety problems would result. The Commission agreed to the extension.

Mr. Rauzi reported that Mrs. Karen Clark, Attorney General's office, called and will recommend that the second set of rules be certified. He expected them to start on the third set after the second set is certified. He noted that Joan Salvatierra, legal assistant to the Arizona Department of Environmental Quality (ADEQ) on the underground injection control (UIC) primacy project, was present at the meeting.

STATUS OF #1 ALPINE-FEDERAL GEOTHERMAL WELL

Mr. Rauzi reported that the U.S. Geological Survey (USGS) wanted to assume responsibility for the Alpine hole for continued observation and possible deepening but that they were prevented by law from posting a bond as required by our rules, which thus required that we continue to hold Tonto's bond. To resolve this situation, John E. Mock (also known as Ted), director geothermal division, U.S. Department of Energy (DOE), in a letter dated November 15, 1993, committed up to \$25,000 to plug the well after the USGS studies. Mr. Rauzi noted that all we have is a faxed copy of Mr. Mock's letter and advised that according to our rules, we cannot release Tonto's bond until the well is plugged or a new operator posts a new bond. The question is if Mr. Mock's written commitment satisfies the Commission's bonding requirement.

Mr. Frank Mancini advised that a specific task of the ADOC contract with Tonto is for Tonto to plug the well by March 30, 1994, and that transfer of the well would impact its contract. Therefore, Mr. Mancini requested that ADOC be kept in the loop on the negotiations and noted that the USGS has not directly notified ADOC about the transfer.

Dr. Nations asked if notification is appropriate after the Commission takes action on the transfer and if the Commission has authority to waive its own rules in this case. Mr. Rauzi felt that the question is if the written commitment by Mr. Mock to fund \$25,000 to plug is acceptable as a

bond. Mr. Warne wanted to be assured that whoever committed plugging funds had the appropriate authority to do so.

Mr. Mancini reported that after they received Mr. Mock's November 15 letter, they wrote to Dr. Allan Jelacic, Mr. Mock's deputy, who wrote back on December 16, 1993, that the geothermal division of the DOE would allocate up to \$25,000 to the USGS for plugging costs even though DOE had no further interest in the well. ADOC, therefore, unless the transfer is formalized before March 30, expects Tonto to proceed as scheduled in its contract with Tonto.

Tom Moses, USGS, indicated that their main interest in the hole is continued scientific study and getting it deepened to Precambrian basement. He noted that the USGS is prepared to solicit funds from the U.S. Department of Interior (DOI) or elsewhere to accomplish this. Dr. Nations asked about the time frame required for this. Mr. Moses indicated 1 to 1.5 years to get funding and about 2 years to complete the scientific study and any deepening.

Dr. Nations expressed the Commission's desire to see the USGS continue studies in the hole but noted the problem in transferring the well without a bond as required by its rules. Mr. Moses related the USGS's past history in acquiring wells, noting that the USGS has always complied with requirements of state agencies in plugging such wells, and pointed out that such transfers in other states were normally accomplished with a phone call. He assured the Commission, however, that he could provide them with an original letter of commitment from Mr. Mock. Mr. Dulsky noted that the Commission does not have authority to waive its own rules.

At the advice of Mr. Fritz Goreham, field solicitor, DOI, Mr. Moses stated that the USGS will provide the Commission with a formal letter from the USGS accepting responsibility and laying out a schedule for completing scientific studies, and from Mr. Mock committing funds for plugging the well. Dr. Nations thought the Commission would be safe with this type of formal agreement from the USGS. Mr. Dulsky stated that the Commission needed to be assured that the person signing the letter has authority to commitment the funds. Mr. John Haas, U.S. Bureau of Land Management (BLM), stated that the BLM would accept such an agreement from the USGS.

The Commission requested the Attorney General to prepare an opinion on this type of agreement and scheduled a meeting for March 11, 1994, to conclude the matter.

PERMITTING PROCEDURES

Mr. Rauzi reviewed the background material on this agenda item, which has to do with communication with local governments, and provided the Commissioners with the staff's recommendation to address the communication problem.

Mr. Warne moved, seconded by ^{Dr.} Mrs. Wilt:

THAT THE COMMISSION, AS A COURTESY AND TO PROMOTE COMMUNICATION BETWEEN GOVERNMENTAL AGENCIES, PROVIDE A COPY OF THE APPROVED APPLICATION FOR PERMIT TO DRILL AND A COVER LETTER TO THE COUNTY MANAGER OF THE COUNTY IN WHICH THE WELL IS LOCATED

Motion carried unanimously.

The Commission directed Mr. Rauzi to notify the managers of the fifteen counties and Mr. Mitchell of Avondale of the resolution. Mrs. Wilt requested that he enclose a copy of his article in the Winter 1992 issue of *Arizona Geology* explaining how the drilling and permitting procedure is designed to protect fresh water aquifers.

CONTENDER OIL COMPANY BOND

In accordance with the August 20, 1993, motion to forfeit this bond, Dr. Nations endorsed Contender Oil Company's certificate of deposit, which is made payable to the Arizona Oil and Gas Conservation Commission. Mr. Rauzi will take the endorsed certificate to the bank and get a cashier's check made payable to the Arizona Oil and Gas Conservation Commission for deposit into the oil and gas conservation fund.

DEVELOPMENTS IN NAVAJO NATION

Mr. Rauzi reported on newspaper reports about the Navajo Council voting to create an Oil and Gas Corporation and informed the Commission that he called the Navajo Mineral office and invited Mr. Aktar Zaman to this meeting. Dr. Nations reported that he also contacted the Navajo Mineral office and that they are interested in cooperative ventures with private industry. The Navajo's have hired a lawyer to get the oil and gas office going.

Dr. Nations asked if the Tribe would not have to pay state severance taxes. Mr. Rauzi noted that the newspaper reported that they would not have to pay state and local taxes, which would give them a price advantage over private industry. Mr. Dulsky noted that the state does not collect taxes for activities on the reservation but that questions arise when other parties are involved. Each case is looked at individually. Dr. Nations pointed out that we regulate activities on the reservation only as a courtesy to the Tribe. Mr. Warne stated that as long as they feel our expertise is useful to them they would cooperate with us. Mr. Dulsky referred to the Navajo Generating Station noting that it was initially regulated by the state because there was no one objecting to it. Now, with the assistance of the U.S. Environmental Protection Agency, the Tribe regulates it. The same would normally be true here, the question being whether the Tribe would concede some of their sovereignty to the state, which is unlikely as time goes on, as has been the case with the Indian gaming issue.

CALL TO THE PUBLIC

Mr. John King, Castle Resources, introduced himself and, noting the Commission's problem about the \$5,000 bond, suggested that the Commission consider a catch-all rule to cover something not anticipated in statute or rule whereby the Commission, by two-thirds vote, could exercise its own judgment to solve the matter. He noted the difficulty in writing law to anticipate all possibilities and suggested that now would be a good time to enact such a law to cover similar situations in the future. Dr. Nations acknowledged the suggestion and asked Mr. Rauzi to explore that possibility the next time we have a rule revision.

^{Dr.}
Mrs. Wilt asked Mrs. Salvatierra for information on the ADEQ UIC primacy project. She reported that she is gathering all law regarding underground injection, comparing state and federal laws, and seeing where ADEQ is deficient. Mr. Rauzi advised that he sent Mrs. Salvatierra a copy of our rules on class II injection wells. Mrs. Salvatierra reported that ADEQ is primarily concerned with class V wells but that all classes of injection wells need to be covered before primacy is granted. ^{Dr.} Mrs. Wilt expressed concern that the Commission's authority over class II

wells not be undermined.

ANNOUNCEMENTS

The next meeting was scheduled for March 11, 1994, in room 500 of the Capitol Tower.

ASSISTANT ATTORNEY GENERAL REPORT ON STATUS OF POWER RANCH GEOTHERMAL WELLS

Mr. Warne moved, seconded by Mrs. Worthington:

THAT THE COMMISSION GO INTO EXECUTIVE SESSION

Motion carried unanimously. At 11:20 a.m., the Executive Session began.

The regular meeting resumed at 11:50 a.m.

Dr. Nations suggested that the Commission request an appropriation for enforcement activity even though a case is not now pending. Mrs. Worthington agreed and suggested the Commission establish an enforcement fund to cover similar situations in the future.

ADJOURNMENT

^{Dr.}
~~Mrs.~~ Wilt moved, seconded by Mr. Veale:

THAT THE MEETING BE ADJOURNED

Motion carried unanimously. Time of adjournment was 11:55 a.m.

APPROVED



Dr. J. Dale Nations
Chairman

GUESTS IN ATTENDANCE:

John Haas	U.S. Bureau of Land Management
L.W. Brooks	Independent Oil & Gas Producer, Denver, CO
Tom Moses	U.S. Geological Survey, Menlo Park, CA
Fritz Goreham	Field Solicitor, U.S. Department of Interior
Bert Reed	Reed Petroleum
Frank Mancini	Arizona Department of Commerce
John E. Crawford	Consultant, Arizona Department of Commerce
John M. King, Sr.	Castle Resources Corp.
Beryl I. Dulsky	Attorney General Office, Assistant Chief Counsel
Michel Mills	Attorney General Office
Joan Salvatierra	Legal assistant, Arizona Department of Environmental Quality