

OIL AND GAS CONSERVATION COMMISSION

416 West Congress #100
Tucson, Arizona 85701

Minutes of Meeting
September 15, 1995

Present:

Dr. J. Dale Nations, Chairman
Ms. Lisa C. Worthington, Vice-Chair
Dr. Donald C. Clay, Member
Mr. James C. Lanshe, Member
Mr. Zed Veale, Member
Dr. Larry D. Fellows, State Geologist
Mr. Steven L. Rauzi, Oil and Gas Program Administrator

The regular Commission Meeting of September 15, 1995, was called to order by Dr. J. Dale Nations, Chairman, at 10:00 a.m. in Room 500, State Capitol Tower, Phoenix, Arizona.

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

APPROVAL OF MINUTES OF MEETING OF March 17, 1995

Mr. Veale moved, seconded by Ms. Worthington:

THAT THE MINUTES OF THE MEETING OF MARCH 17, 1995, BE
ACCEPTED AS PRESENTED

Motion carried unanimously.

STATEMENT OF DIRECTOR AND STATE GEOLOGIST

Dr. Fellows reported that the AZGS is in the first year of its biannual budget, which is approved through fiscal year 1997. He reported that Mr. Rauzi had put together information for the Sunset Review, that a hearing will be scheduled sometime in October, and that legislation will be drafted to continue the Commission. Dr. Fellows noted the drilling at St. John's, and that drilling has been active this year.

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 testing of the Arzon hole is expected to begin

soon, that the Ridgeway 3-1 well was drilled to 1813 feet and they plan to drill five more wells, that an individual expressed interest in drilling on the Arizona Strip, and that Hunt Oil expressed interest in analyzing samples and leasing State Land. Unitization of the St. Johns structure was discussed with Mr. Barry Moody, State Land Department.

Ms. Worthington asked about the meeting with the Governor that was discussed in the last meeting. Mr. Rauzi advised that it had fallen through but that he understood the Governor would support a bill if the Commission obtained a sponsor. Dr. Fellows noted that this was his understanding as advised by Mr. Joe Lane of the Governor's staff.

Mr. Lanshe stated for the record that he was a principal shareholder in an Arizona corporation leasing land on the Arizona Strip. He advised that he would abstain from acting on any future matter with respect to this project to avoid any conflict of interest.

SUNSET REVIEW 1996

Mr. Rauzi gave a chronological background of the Sunset Review and discussed the material sent to Ms. Victoria Tafoya of the Senate Research staff. The material included a report addressing the 12 factors in ARS § 41-2354, an agency questionnaire, annual reports for fiscal years 1991-94, and copies of Commission minutes for fiscal years 1984-94.

Dr. Fellows discussed the Sunset Review process, noting that the AZGS went through its Sunset Review in 1992. He suggested that Commission members review the draft reports and plan on testifying, either individually or through the Chairman, at the hearing, which will probably be scheduled in October. Discussion ensued. Dr. Fellows advised that Legislation will have to be introduced in the next session to continue the Commission.

Mr. Dulsky discussed the time frame of the Sunset Review and advised that time is late so to expect pressure. The Commission has 40 days according to ARS § 41-2953(C).

INCENTIVES

Mr. Moody distributed "Issues Regarding Oil and Gas and Geothermal Exploration on State Trust Land." He discussed the acreage limitation; the Condemnation Clause, which is triggered, and compensated for, by action of the Federal Government; A.R.S. § 37-108, dealing with the \$200 per lease assignment fee; A.R.S. § 27-555 about rental rates; and geothermal applications, which require public auction. Discussion followed. Mr. Moody introduced Mr. Ken Rozen, to discuss archeological matters.

Mr. Rozen stated that in his opinion State agencies have an obligation to the State Historic Preservation Act to allow archaeologists 30 days to view and comment on plans of Agencies in the event of significant ground disturbance to archaeologically important sites. He suggested the survey be done by a staff archeologist, provided they knew in advance when a permit would be issued. Mr. Rauzi questioned a 30-day waiting period in areas

determined to contain no archaeologically important sites, and asked if the 30-day period applied to water wells. Mr. Rozen confirmed that it did.

Mr. Lanshe moved, seconded by Dr. Clay:

**THAT STAFF OPEN DISCUSSION WITH THE LAND DEPARTMENT
TO DETERMINE HOW THE COMMISSION CAN INCORPORATE THE
ARCHEOLOGY REQUIREMENT IN THE DRILLING PERMIT PROCESS**

Motion carried unanimously.

Ms. Worthington asked what was being done to pursue the legislative incentives discussed in the last meeting. Mr. Rauzi answered that even though the meeting with the Governor did not occur, the material prepared for the meeting is available including the recommendations for a tax credit for move-in, move-out costs and a tax waiver on production from a discovery well until drilling and completion costs were recovered. He noted that the credit or waiver made sense because they would only be available if production were established. If production were not established, there would be no cost to the State, so there was nothing to lose by adopting them.

Dr. Fellows advised that if the Commission wanted to pursue this legislatively, he would try to find a sponsor for it, starting with the Chair of the House Natural Resources Committee. Mr. Rauzi stated that it was probably too late to initiate a bill for the next session. Mr. Lanshe noted that the issue has been on the table for about a year and that it dovetailed nicely with the bill to continue the Commission. A discussion followed on the timing and feasibility of initiating the bill and combining it with the Sunset Review process.

Mr. Lanshe moved, seconded by Ms. Worthington:

**THAT STAFF INITIATE THE PROCESS TO MOVE THE INCENTIVE
SUGGESTIONS THROUGH THE UPCOMING LEGISLATIVE SESSION**

Motion carried unanimously.

CALL TO THE PUBLIC

None

ANNOUNCEMENTS

The next meeting was scheduled for 10:00 a.m. on December 8, 1995, in room 500 of the Capitol Tower.


ADJOURNMENT

Mr. Lanshe moved, seconded by Ms. Worthington:

THAT THE MEETING BE ADJOURNED

Motion carried unanimously. Time of adjournment was 11:50 a.m.

APPROVED


D. J. Dale Nations
Chairman

GUESTS IN ATTENDANCE:

Beryl I. Dulsky
Barry Moody
Ken Rozen

Chief Council, Attorney General's Office
State Land Department
State Land Department