

**OIL AND GAS CONSERVATION COMMISSION**

416 West Congress #100

Tucson, Arizona 85701

Minutes of Meeting

July 26, 2002

Present:

Dr. J. Dale Nations, Chairman  
Mr. Robert L. Jones, Vice-Chairman  
Mr. Joseph J. Lane, Member  
Mrs. Michele P. Negley, Member  
Dr. Larry D. Fellows, Director and State Geologist  
Mr. Steven L. Rauzi, Oil and Gas Administrator

The regular Commission Meeting of July 26, 2002, was called to order by Dr. J. Dale Nations, Chairman, at 10:00 a.m. in Room 321, State Land Department Building, Phoenix, Arizona.

Dr. Nations welcomed Mr. Lane to the Commission and presented him with the Governor's Certificate of Appointment. Mr. Lane said a few words about his background.

APPROVAL OF THE MINUTES OF THE MEETING OF APRIL 19, 2002

Mr. Jones moved, seconded by Mrs. Negley:

THAT THE MINUTES OF THE MEETING OF APRIL 19, 2002, BE  
ACCEPTED AS PRESENTED

Motion carried unanimously.

EXECUTIVE SESSION PURSUANT TO A.R.S § 38-431.03(A)(3) TO CONSULT WITH  
COUNSEL ABOUT OPEN MEETING LAW ISSUES

Mrs. Negley moved, seconded by Mr. Lane:

THAT THE COMMISSION GO INTO EXECUTIVE SESSION

Motion carried unanimously. The Executive Session began at 10:05 a.m.

The regular meeting resumed at 10:45 a.m.

DISCUSSION AND POSSIBLE RATIFICATION OF DR. NATIONS' LETTER OF JUNE  
18, 2002 TO THE STATE LAND COMMISSIONER

The Commission discussed an action of the Commission that may have been taken in violation of the Open Meeting Law. The action involved a review by the Oil and Gas Conservation Commissioners of Dr. Nations' June 18, 2002, letter to the State Land Commissioner, stating that an abandoned, unplugged oil or gas hole was a liability not an

improvement.<sup>1</sup> The action was taken in response to a disagreement between a current oil and gas lessee, High Plains Petroleum, and a previous oil and gas lessee, Ridgeway Arizona Oil Corporation. A draft copy of the letter was emailed to the Commissioners for review on June 14, 2002. The Commissioners had telephoned or emailed agreement with the letter as written by June 18, 2002.<sup>2</sup>

Mr. Rogers stated that the unplugged 12-16-28 State well would add value to the land if it was converted into a water well. Mr. Rauzi reported that rules required abandoned oil or gas holes to be properly plugged back to the base of the fresh water before being converted into water wells. Mr. Lowe stated that Ridgeway's position was that it owned the 12-16-28 hole and related improvements even though it surrendered the lease to that particular parcel.

Mrs. Negley moved, seconded by Mr. Lane:

THAT LEGAL COUNSEL RESEARCH THE COMMISSION'S AUTHORITY  
BEFORE TAKING FURTHER ACTION ON THE LETTER

Motion carried unanimously.

Mr. Jones moved, seconded by Mr. Lane:

TO TABLE AGENDA ITEM #4 PENDING RECEIPT OF LEGAL ADVICE

Motion carried unanimously.

#### STATEMENT OF DIRECTOR AND STATE GEOLOGIST

Dr. Fellows reported that the Arizona Geological Survey finished fiscal year 2002 with a 4 3/4 percent budget cut and was starting fiscal year 2003 with a 3 1/8 percent cut. He noted that the oil and gas records had been microfilmed and that Mr. Rauzi was working on a map of the Luke salt body.

#### REPORT OF THE OIL AND GAS 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 Copper Eagle Gas Storage planned to start limited injection testing of its stratigraphic hole near Luke Air Force Base this weekend, Ridgeway started producing CO<sub>2</sub> on July 5, and the Governor's Regulatory Review Council approved the Commission's final rulemaking on July 9. He reported that the original microfilm of the oil and gas records was stored in the Department of Library and Archives vault in Phoenix with a copy at the office in Tucson and that he was working on a map that would show the outline of the Luke salt deposit in relationship to main streets and Luke Air Force Base.

#### CALL TO THE PUBLIC

Mr. Rogers requested the Commission to place the matter of who has the state lease and the

12-16-28 well on the agenda for the next meeting. Ms. Woodall indicated she would examine the issue and advise the Commission on whether it was appropriate to bring a matter of who has the state lease before the Commission.

Mr. White reported that Ridgeway started production in July and was shipping CO<sub>2</sub> to the liquids plant on a daily basis. He indicated that the 10-22 State well was producing but there was more remedial work to do on the 10-16 State in Arizona and the well in New Mexico. He noted that the line pressure was 375 pounds at the 10-22 well and 300 pounds at the plant. He reported that he would submit a completion report for the 10-22 State as soon as he got the production rates from the chart integrators.

Mr. Somers passed out and discussed a letter from Ridgeway's land man regarding their plugging of the 12-16-28 State well and his overriding royalty under four state leases including the lease with the 10-22 State well.

#### ANNOUNCEMENTS

The Commission scheduled its next meeting at 10:00 a.m. on September 13, 2002, in Room 321 at the State Land Department Building in Phoenix.

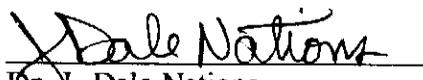
#### ADJOURNMENT

Mr. Jones moved, seconded by Mr. Lane:

THAT THE MEETING BE ADJOURNED

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

APPROVED

  
Mr. J. Dale Nations  
Chairman

#### GUESTS IN ATTENDANCE

Richard Ahern	State Land Department	Yale Rogers	Grazing Lessee
Paul Buff	Bureau of Land Management	John Somers	High Plains Petroleum
Gordon LeBlanc Jr.	LeBlanc Petroleum	Scott Somers	High Plains Petroleum
Thayne Lowe	Ridgeway Petroleum	Thomas White	Ridgeway Arizona Oil Corp
Mark Osborn	Ridgeway Petroleum	Laurie Woodall	Assistant Attorney General
Mike Rice	State Land Department		

<sup>1</sup> Attached as Appendix A

<sup>2</sup> Attached as Appendix B



Jane Dee Hull  
Governor

State of Arizona  
**Arizona Geological Survey**  
416 W. Congress, Suite 100  
Tucson, Arizona 85701  
(520) 770-3500



Larry D. Fellows  
Director and State Geologist

June 18, 2002

Mr. Michael E. Anable  
State Land Commissioner  
1616 W Adams  
Phoenix AZ 85006

Dear Mike:

The State Land Department granted Mr. John Somers, High Plains Petroleum, an oil and gas lease, #13-107141, in January 2002. There is an abandoned, unplugged, hole, the #12-16-28 State, on the lease parcel. The Oil and Gas Conservation Commission (OGCC) approved Mr. Somers' application to re-enter the #12-16-28 State on March 20, 2002.

A previous lessee (Ridgeway Arizona Oil Corporation) leased the subject parcel in January 1996, drilled the #12-16-28 State in May 1997, and surrendered the lease in January 1999. The previous lessee did not plug the #12-16-28 State hole before it surrendered the lease. The previous lessee had not fulfilled its obligation to plug the abandoned hole as of March 2002.

Mr. Somers wrote to the OGCC on May 29, 2002, that the State Land Department was considering whether or not an abandoned, unplugged oil and gas hole is an improvement, which would require a current lessee to reimburse a previous oil and gas lessee. Aside from any issue of salvageable value, the OGCC considers an abandoned, unplugged hole a liability not an improvement. Statutes explicitly obligate an operator to plug each dry or abandoned well. Statutes further require an operator to post a performance bond to cover just such a liability.

It is the opinion of the OGCC that if a lessee surrenders a lease before plugging each dry or abandoned well, the lessee has left the State a liability, not an improvement. The OGCC believes that a determination that an abandoned, unplugged hole is an improvement would be contrary to statutory intent and detrimental to future oil and gas exploration and development in Arizona.

Sincerely,

Dale Nations  
Chairman, Oil and Gas Conservation Commission

C Larry D. Fellows, Director and State Geologist  
Commissioners

APPENDIX B

6-14-02 @ 8:50a

- 1 - Call Bob Jones - lve msg & my phone #
- 2 - Call Joe Lane - Advise of letter & my phone #
- 3 - Call Michele Negley - lve msg @ office & my phone #  
lve msg @ home & my phone #
- 4 Call Bob Wagner - advise of letter & my phone #

6-14-02 @ 11:00a

Joe Lane calls & agrees with content = yes, send letter.

6-14-02 @ 11:28a

Bob Jones emails approval of Dale's letter as written.

6-14-02 @ 2:30p

Michele Negley calls & requests background of the situation.  
what is residual value of a plugged hole? = none.  
value of converting to w/w is if plugged back + transferred.  
Agrees with intent of letter + will email note to that end.

6-18-02

Bob Wagner emails okay to letter