

**OIL AND GAS CONSERVATION COMMISSION**

416 West Congress #100  
Tucson, Arizona 85701

Minutes of Meeting  
July 18, 2008

Present:

Dr. J. Dale Nations, Chairman  
Mr. Robert L. Jones, Vice-Chairman  
Mr. Stephen R. Cooper, Member  
Ms. Michele P. Negley, Member  
Mr. Robert L. Wagner, Member  
Mr. Steven L. Rauzi, Oil and Gas Program Administrator

Dr. J. Dale Nations, Chairman, called the regular Commission Meeting of July 18 to order at 10:00 a.m. in Room 321, State Land Department Building in Phoenix, Arizona.

APPROVAL OF THE MINUTES OF THE MEETING OF APRIL 18, 2008

Mr. Jones moved, seconded by Mr. Wagner:

THAT THE MINUTES OF THE MEETING OF APRIL 18, 2008 BE ACCEPTED  
AS PRESENTED

Motion carried unanimously.

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. He reported that two new permits were issued to Ridgeway Arizona Oil Corporation (Ridgeway) since the April 18 meeting and that Ridgeway had 13 wells in various stages of drilling, testing and completion.

STATUS OF RIDGEWAY ARIZONA OIL CORPORATION 12-15-30 STATE (PERMIT 900)

Mr. Rauzi reported that Ridgeway expected to plug and abandon the 12-15-30 well in August. Mr. White reported it was scheduled to be plugged the first week in August.

RIDGEWAY ARIZONA OIL CORPORATION REQUEST FOR SHUT-IN STATUS FOR THE 11-21 STATE (PERMIT 895) AND 9-21 STATE (PERMIT 897)

Mr. Rauzi reported that Ridgeway submitted completion reports dated June 16, 2008 for the 9-21 and 11-21 wells with a request to reclassify the wells from temporarily abandoned to shut-in. He noted that the wells have been in a temporarily abandoned status since 1998. Mr. Rauzi explained that the completion reports recorded Schlumberger test results of 1100 MCF of gas per day for the 9-21 and 1.96 MCF per day for the 11-21. He pointed out that the Schlumberger tests indicated severely damaged well bore conditions in both wells. Mr. Rauzi thought it appropriate to grant the reclassification noting that rules did not require the Commission to establish the future sustainable production of a well.

Ms. Van Quathem on behalf of Mr. Gary Kiehne noted that the definition of a shut-in well was one that is capable of production in paying quantities and questioned the evidence before the Commission that justified that determination. She opposed shut-in status.

Mr. Portman explained the Schlumberger pressure transient analysis (STAR) tests and how they measure the size of a reservoir when there is no pipeline to produce into. He described how drilling fluids can cause skin damage around the well bore and noted that the tests did indicate that both the 9-21 and 11-21 were producible.

At the request of Ms. Negley, Mr. Rauzi reviewed the H.J. Gruy reports prepared for the State Land Department and the Schlumberger STAR reports, which addressed the skin issue. Mr. Wagner noted that the Gruy report did not say the wells could not be productive in the future; they just could not make a determination. Ms. Negley was concerned about the uncertainty expressed in the Gruy report and the lack of a date of first production on the completion reports. Dr. Nations noted that the Schlumberger tests lasted from five to seven days and that the producing rates appeared to be economic considering the skin damage issue.

Mr. White indicated that it was necessary to rely on well tests and that it was not possible to fill in the date of first production on the completion reports because there could be no first production in a gas field until a pipeline infrastructure was built in order to produce and transport the gas.

Mr. Portman noted that Ridgeway had spent over \$40 million to define the boundaries and develop the field and that Ridgeway was able to raise over \$100 million dollars in private placement in the last three years. He indicated that this project has been very viable to investors because of the oil industry's efforts to squeeze more oil out of mature oil fields in the Permian basin.

Mr. Wagner moved, seconded by Mr. Jones:

TO RECLASSIFY THE 11-21 AND 9-21 WELLS FROM TEMPORARILY  
ABANDONED TO SHUT-IN STATUS

Motion carried unanimously.

RIDGEWAY ARIZONA OIL CORPORATION REQUEST TO DRILL HORIZONTAL  
SEGMENTS IN ITS WELLS LOCATED IN TOWNSHIPS 9 NORTH THROUGH 12 NORTH AND  
RANGES 28 EAST THROUGH 31 EAST

Mr. Rauzi reported that Ridgeway submitted application to drill horizontal segments in its wells located within Townships 9 through 12 North and Ranges 28 through 31 East and reviewed the requirements of A.A.C. R12-7-115(B) and R12-7-107(D). Mr. Cox indicated that he did not see a problem with this approach.

Ms. Negley moved, seconded by Mr. Jones:

TO AUTHORIZE THE OIL AND GAS ADMINISTRATOR TO APPROVE  
APPLICATIONS TO DRILL HORIZONTAL SEGMENTS IN WELLS LOCATED  
WITHIN TOWNSHIPS 9 THROUGH 12 NORTH, RANGES 28 THROUGH 31

EAST PROVIDED THAT EACH APPLICATION IS IN COMPLIANCE WITH A.A.C. R12-7-115(B) AND THAT NO HORIZONTAL SEGMENT CROSSES LEASE LINES OR EXTENDS BEYOND THE NORMAL SETBACKS AS SPECIFIED IN A.A.C. R12-7-107(D)

Motion carried unanimously.

STATUS OF RIDGEWAY ARIZONA OIL CORPORATION DRILLING PROGRAM BETWEEN ST JOHNS AND SPRINGERVILLE INCLUDING POSSIBLE REPORT FROM A REPRESENTATIVE OF RIDGEWAY

Mr. Rauzi reported that Ridgeway had permitted 23 wells so far this year and had 13 wells in various stages of drilling, testing, or completion.

Mr. Portman reported that drilling activity had slowed and that Ridgeway was starting to concentrate on completions and how to deal with skin damage and produce the wells most effectively. He noted they were working on front-end engineering for a helium plant, CO<sub>2</sub> compression, and pipelines. Mr. Portman indicated they had recently raised another \$35 million in capital to continue developing the project including a CO<sub>2</sub> pilot in the Permian basin. He described how a CO<sub>2</sub> miscible flood process worked. Mr. Portman noted that the current spacing for gas wells was 640 acres and he anticipated that Ridgeway would eventually be asking to go to either 320 or 160 acres to more effectively drain the field.

In response to an inquiry from Mr. Dixon about delivery of the Cobb report to Cawley Gillespie, Mr. Portman reported that they expected some preliminary results from Cawley Gillespie in a few weeks to a month. Mr. Portman noted that the Cobb report shows how much gas is in place and that it is there; whereas the Cawley report will attempt to translate that into proven undeveloped reserves within accepted standards of reasonable certainty.

DISCUSSION ABOUT LIABILITY OF WELLS ON LEASES PENDING A DECISION FROM THE STATE LAND DEPARTMENT

Mr. Rauzi recalled discussion of the liability issue in the January 18 meeting and the memo delivered by Mr. Cox at the April 18 meeting. He noted that the Commission could not discuss it at the April meeting because it was not on the agenda. Mr. Cox explained that the Commission was not liable for harms occurring at the wells because of a "qualified immunity" under A.R.S. § 12-820.02(A)(5).

DISCUSSION ABOUT OIL AND GAS CONSERVATION COMMISSION LETTERHEAD

Mr. Rauzi provided the latest draft of the letterhead with the address between the state seal on the left and list of commissioners on the right. He noted the protocol is to put the State of Arizona above the agency name. The Commissioners accepted the letterhead with the address in accord with protocol and Commissioners listed alphabetically.

CALL TO THE PUBLIC

Mr. Dixon reported that as part of a budget reconciliation the State Land Department would increase application fees for oil and gas lease renewals and sales from \$100 to \$500 starting August 1.

ANNOUNCEMENTS

Dr. Nations discussed his attendance at the 2008 IOGCC (Interstate Oil and Gas Compact Commission) annual meeting in Calgary and noted that the new IOGCC director proposed holding the 2010 annual meeting in Tucson. He announced that business cards are available to Commissioners that wanted them. The Commission scheduled its next meeting at 10:00 a.m. on October 17, 2008, at the Arizona Geological Survey in Tucson.


ADJOURNMENT

Mr. Jones moved, seconded by Ms. Negley:

THAT THE MEETING BE ADJOURNED

Motion carried unanimously. Time of adjournment was 11:25 a.m.

APPROVED

  
J. Dale Nations  
Chairman

GUESTS IN ATTENDANCE

Curtis Cox	Assistant Attorney General
Joe Dixon	State Land Department
Bill Dowdle	State Land Department
Larry Meier	State Land Department
Barry Portman	Ridgeway Arizona Oil Corporation
Michele Van Quathem	Ryley Carlock & Applewhite
Yale Rogers	Self
Thomas White	Ridgeway Arizona Oil Corporation