



Douglas A. Ducey
Governor

State of Arizona
Oil and Gas Conservation Commission

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Dennis L. Turner, Oil and Gas Administrator

Commissioners:
Frank Thorwald, Chair
J. Dale Nations, Ph.D., Vice Chair
Stephen R. Cooper
William C. Feyerabend

MINUTES OF MEETING
MARCH 20, 2020

PRESENT

Mr. Frank Thorwald,	Chairman, Arizona Oil & Gas Conservation Commission (AOGCC)
Dr. Dale Nations,	AOGCC Vice Chairman (via phone)
Mr. Bill Feyerabend,	AOGCC Member
Mr. Stephen Cooper,	AOGCC Member (via phone)
Mr. Jay Skardon,	AOGCC Counsel, Office of the Attorney General
Mr. Dennis Turner,	AOGCC Program Administrator
Ms. Tawnya Cook,	Arizona Department of Environmental Quality (ADEQ)

CALL TO ORDER

Mr. Thorwald called the AOGCC Meeting of March 20, 2020 to order at 10:03 am in Room 3100B at the Arizona Department of Environmental Quality (ADEQ), Phoenix, Arizona. No conflicts of interest were reported and the roll call confirmed a sufficient number for a quorum.

DISCUSSION AND APPROVAL OF MEETING MINUTES

Dr. Nations moved, seconded by Mr. Feyerabend, that:

THE MINUTES OF JANUARY 24, 2020 PUBLIC MEETING BE APPROVED

Motion carried unanimously.

ARIZONA ENERGY PARTNERS, LLC (AEP) 16-1 State

Mr. Thorwald first asked if Mr. Gordon LeBlanc, President of Arizona Energy Partners, LLC was present or on the phone. There was no response; Mr. Thorwald asked the Administrator to continue. At the time of this meeting, Mr. Turner was still waiting for AEP's demonstration of future beneficial use of the 16-1 State. The Commission's ruling in December was that the operator comply with AAC R12-7-125(A) by June 3, 2020, the expiration date of the temporary abandonment status. Mr. Leblanc said in a March 18, 2020 email he will have more data "within 3-4 weeks" to justify putting the well into shut-in status. The well is currently in temporary abandonment status.

Mr. Cooper suggested that AEP be given appropriate notice that the Commission could take a potentially adverse action, if the operator fails to respond with the requested information, including one or more the following: deny re-entry into the well until a satisfactory demonstration of future beneficial use is made; deny renewal of permit # 1216 and # 1217; deny future permit applications until the demonstration of beneficial use for the 16-1 State is satisfactory to the Commission; and/ or plug and abandonment. This matter will again be on the May 15, 2020 agenda.

Regarding the letter, Dr. Nations stated that there appears not to be any evidence that it is a viable well, that the letter should be a strong warning and that the Commission will not consider anything more.

Mr. Turner will send AEP a letter. After a brief discussion about the merits of sending it from the Attorney General's office, it was decided that the letter should come from the Administrator.

POLLARD HELIUM 36-1 State – Temporary Abandonment Status

Mr. Turner first asked if anyone from Pollard Helium was on the phone. There was no response. The temporary abandonment status of the 36-1 State well expires in early April. Mr. Turner has had difficulty connecting with both Mr. Josh Pollard and Ms. Lauren Webster through email and telephone. The company closed its office without informing the Commission and the company's email address of record is non-functional (messages bounce). Mr. Turner was able to reach Mr. Pollard indirectly through his father (Mr. Charles Pollard) via telephone, and through both Mr. Pollard Sr. and Mr. Pollard Jr.'s personal email addresses. Mr. Joshua Pollard's response to Mr. Turner's email (stating the Commission may discuss in this meeting to take over the well and to plug and abandon it) was not clear in regards to Pollard's intent for the well.

Owing to the failure of the operator to provide the requested demonstration of future beneficial use of the well, Mr. Turner suggested the Commission consider plug and abandonment using the performance bond that Pollard Helium deposited with the Commission. Mr. Turner will contact the insurance company. For projects under \$100,000 the formal procurement process is not required to get three bids. Mr. Turner suggested that Butler Oil, the company that drilled the well, may be the appropriate one to plug it because they will be in the area drilling wells this spring. Mr. Turner will also speak to Procurement to discuss options.

Pollard Helium was given until March 19th to respond. Mr. Joshua Pollard replied in a rambling email (March 11, 2020) that only related directly to the well itself with the comment that they had "not made any actions on the well." A plug and abandonment application was not submitted and no statement about the well's viability was included in the email.

Dr. Nations moved, seconded by Mr. Feyerabend, to:

REPEAL THE TEMPORARY ABANDONMENT STATUS OF THE POLLARD 36-1 STATE WELL ON APRIL 5, 2020 AND CHANGE IT TO PLUG & ABANDONED STATUS

Motion carried unanimously.

ORPHANED WELLS

The Administrator believes the Commission should be more proactive about plugging and abandonment of wells that may languish for years in temporary abandonment for no reason. More emphasis needs to be placed on a cogent demonstration of beneficial use for a well before approval of TA status. Mr. Turner is concerned that there may already be a small orphaned or abandoned well problem in Arizona. There has not been the abundance of drilling in Arizona as there has been in other states, which is why there are not a lot of orphaned wells in Arizona. Owing to incomplete records, there is no inventory of orphaned or abandoned wells in Arizona and the wells files are not always accurately documented.

There was discussion about the merits of creating a policy to encourage operators to post extra bond money for TA status. It was pointed out that, although a good idea, the rules need to be changed first.

Mr. Feyerabend presented ideas about adding 10% or 20% to each bond to build a small hedge to address instances where a well becomes orphaned. For example wells that were drilled in the 1940s and improperly plugged and are maybe contributing to an environmental problem, the only recourse in those cases would be to use the State's General Fund to plug and abandon those wells. Mr. Feyerabend asked if the bond is large enough to cover plugging expenses. We need to be proactive with operators so they understand they cannot keep a well abandoned indefinitely – or they need to have justification for keeping a well in temporary abandonment status.

REPORT BY THE OIL AND GAS ADMINISTRATOR

Cobalt Group, LLC – Submitted a Sundry Notice for routine maintenance work on their well to use a water and acid mixture to flush and dissolve clay minerals and carbonates that are plugging the pores around the wellbore. This will improve flow and allow for quality testing of the well at various perforations. Cobalt has submitted all required documentation, plus a cement bond log.

The quality of the signal that is coming back on the bond log is of concern to Mr. Turner. The signal from the CBL tool is so attenuated that it appears there is little cement behind casing from the surface to the bottom of the surface casing. The drilling reports indicate that there has been a return of cement which is a good indicator that there is good circulation, but it is not a guarantee that there are no gaps or channels without cement.

Mr. Scott Bowles of Cobalt Group, LLC, Mr. Ren Gardner, drilling and completion consultant and Mr. Chris Caliendo, who oversaw the cement bond log operation for the well were on the phone. Mr. Gardner explained in detail how the surface casing cement job and the production casing cement job were done. The surface casing was set at approximately 1,770 feet and cement was circulated cement under a lot of pressure to back to surface. They claimed to have 100 barrels of cement returns, indicating enough cement to seal the annulus. When they stopped pumping there was no shrinkage, such as from caving problems or large gas pockets. This gave them the confidence that there was enough cement.

Mr. Chris Caliendo discussed the cement bond log interpretation. The log only measured production casing and not surface casing. Mr. Caliendo stated that he sees a cement top at 1,049 feet. Everything worked as it should to come together at 1,074 feet to confirm a cement top.

There was discussion around the calculation of the volume of cement pumped versus the volume filling the annular space. Cobalt expected to pump 116 barrels of cement. When the 2,842 feet of open hole from 4,616 up to 1,774 is figured in, that calculates out to 76 barrels of capacity. When you figure in from 1,774 up to 1,050 feet of casing on casing, that comes out to be 23.3 barrels, therefore it should have been right at where they found cement. They pumped 116 barrels; where the cement ended up was actually 100 barrels where it sits. The calculation is on the production casing with the intended excess, the cement top was 15% lower than where it should have been, but that is still 700 feet above the base of the surface casing.

The discussion returned to the cement bond log. Cobalt believed that they had adequate cement returns on the surface casing, which is why they didn't run a cement bond log on the surface casing. The cement was recovered to the surface and did not drop on the annulus, which is indicative of cement being present from top to bottom. Cobalt stated they had full returns; they never lost circulation; were able to circulate 110 barrels of excess cement. The cement settled 8 – 10 feet below ground level, indicating cement from the surface to 1,775 feet.

The Commission members and Mr. Turner were satisfied with Cobalt's report. Mr. Turner will respond in writing to make it official that they can proceed.

Plains Midstream – Bumstead LPG facility – Mechanical integrity testing and sonar on the 5-year cycle for Cavern #1 was scheduled for completion by February 27, 2020; no reports of problems; final report is forthcoming.

Pinta South Operating Company – New company, which purchased State Land Dept. leases from Ranger south of their main activity in Pinta Dome, is preparing to submit drilling permit applications.

Arizona Energy Partners – Another email from AEP is not clear regarding a road maintenance problem if they have since resolved it. The issue came about when a local resident complained about their roads being damaged by AEP's equipment that use the roads to get to the well site. Mr. Turner asked that Mr. LeBlanc address the resident's concern and he has not heard anything further from the resident.

Rare Earth Exploration, LLC 12-1 State – The Commission ordered plug and abandonment of the 12-1 well; the due date was extended to 5/1/2020. Mr. Turner has not heard from the operator or seen an application yet. We may be talking at the next meeting about another bond confiscation that the Commission will have to conduct.

Castleton Commodities International (CCI) San Juan LLC – Production has ceased, the San Juan River Processing Plant has shut down. Monthly production reports will no longer be sent.

REPORT BY THE AOGCC CHAIRMAN

Legislation – The legislation banning hydraulic fracturing was not assigned to any committee, so it died in both the House and the Senate. Additionally, some legislation was proposed that would combine sunset reviews for the AOGCC and ADEQ into the same date, instead of at different times. That legislation probably will not go through because the legislature will suspend session March 23.

Website – Mr. Turner and Mr. Thorwald have met with ADEQ's IT Department about creating a web portal for electronic filing of permits and submitting reporting requirements online. ADEQ will give a 2-hour presentation at the next meeting about the proposed web portal, its operation and use by the Administrator and oil and gas permittees. The Commission's input is vital. One more meeting is needed about electronic notifications (reminders) and a portal for operators to submit required reports.

Rules Update – Mr. Thorwald and Mr. Turner had one meeting on the rule update – due to current circumstances they have not been able to meet since; however Mr. Thorwald has been working on them on his own time and will hopefully have those done soon and out for review.

Procedures manual/SOPs – Mr. Turner continues to work on this. Commissioners will be asked to review and comment on a draft.

Cement seminar cancelled – The Halliburton presenter is no longer with the company, however Mr. Turner will send Mr. Thorwald a list of contacts to try and get one of the other companies to provide that to the Commission.

ADJOURN

Mr. Feyerabend moved, seconded by Mr. Thorwald that

THE MEETING BE ADJOURNED

Motion carried unanimously. The meeting was adjourned at 11:20 a.m.

REVIEWED

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FRANK THORWALD
CHAIRMAN

May 15, 2020
DATE

GUESTS IN ATTENDANCE

Jim Ballard
Dave Cherry, AZ State Land Dept.
Tony Hines, Ranger Development (via phone)
Scott Bowles, Cobalt Group (via phone)
Jim Kelly, Cobalt Group (via phone)
Unidentified person from ASU (via phone)

Todd Clement, Cobalt Group (via phone)
Ren Gardner, Welter Consulting (via phone)
Chris Caliendo, Cutter Wireline (via phone)
Mark Hanson, Prize Energy (via phone)
Chris Robinson, Prize Energy (via phone)