



Douglas A. Ducey
Governor

State of Arizona
Oil and Gas Conservation Commission

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Marta Hodan, Oil and Gas Administrator

Commissioners:
Frank Thorwald, Chair
J. Dale Nations, Ph.D., Vice Chair
Stephen R. Cooper
William C. Feyerabend
F. Michael Conway, Ph.D.
Lisa Atkins, Land Commissioner

MINUTES OF MEETING
MARCH 25, 2022

PRESENT

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| Mr. Frank Thorwald, | Chairman, Arizona Oil & Gas Conservation Commission (AOGCC) |
| Dr. Dale Nations, | AOGCC Vice Chairman |
| Mr. Bill Feyerabend, | AOGCC Member |
| Mr. Stephen Cooper, | AOGCC Member |
| Dr. Michael Conway, | AOGCC Member |
| Ms. Jothi Beljan, | AOGCC Counsel, Office of the Attorney General |
| Ms. Marta Hodan, | AOGCC Program Administrator |
| Ms. Tawnya Cook, | Arizona Department of Environmental Quality (ADEQ) |

CALL TO ORDER

Mr. Thorwald called the AOGCC Meeting of March 25, 2022 to order at 10:00 a.m. via virtual meeting at the Arizona Department of Environmental Quality (ADEQ), Phoenix, AZ. No one reported any conflicts of interest and the roll call confirmed a sufficient number were present for a quorum.

DISCUSSION AND APPROVAL OF MEETING MINUTES

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

THE MINUTES OF FEBRUARY 11, 2022 BE ACCEPTED AS PRESENTED

Motion carried unanimously.

NEW MEXICO PRODUCED WATER RESEARCH CONSORTIUM – FACILITY TOUR PRESENTATION (7:18)

Mr. Bill Feyerabend gave a presentation on his tour of the Bureau of Reclamation Brackish Groundwater National Desalination Research Facility. The facility is located in Alamogordo, New Mexico. This location was chosen in part for the fact that the valley groundwater basin has stratified salinity. The facility was designed to be flexible – the intention was for people to come in, complete their experiment, and leave – it has office space, lab space, conference rooms, as well as other amenities.

The facility has pilot scale equipment under a patio roof – here there is equipment set up to test filtration and 2 types of reverse osmosis. There is also an outside pad in a trailer for heat treatment of waters with oil/gas.

Mr. Feyerabend went over various terms associated with the facility, such as brine and Total Dissolved Solids (TDS). He also explained how things are measured (parts per million).

During the visit, Mr. Feyerabend explained they were running tests on the fluids from 2 oil fields. The first one was from a field in the Farmington area, which they did a simple filtration test followed by a reverse osmosis test on. These tests were to experiment with treatments to meet drinking water standards. There was also a sample from the Permian Basin Oil Field – after treatment the water was not fresh, but it was suitable for some industrial and agricultural uses. Mr. Feyerabend went over how to dispose of the concentrate.

Mr. Feyerabend discussed why desalination of water is important now, as opposed to creating another Central Arizona Project. There are other places to look for water – brackish water is naturally in some AZ aquifers – they have not been tapped because as it is, the water is unfit for human or animal consumption, and the required purification has been historically expensive.

The cost of desalination is down about 2% annually, and the cost of fresh water is increasing, which is really driving the interest in desalination.

There was discussion around the alternate uses for the salt and other minerals, aside from injection, as well as costs for the process of making the water drinkable.

PINTA DOME OPERATING, LLC – ASSET TRANSFER (27:15)

Ms. Hodan explained that this agenda item was moved from the February 2022 meeting agenda. Based upon input received by Ms. Hodan from the Commissioners in the last meeting, they would like to wait until all required documentation is received. Ms. Hodan is still working with Pinta Dome Operating at this time to get the last of the documents, as well as sorting out the bond. Ms. Hodan has received the organizational report from them, as well as the letter of release from the previous operator. Ms. Hodan is

planning to move this agenda item to the May meeting, at which point we will have all the required documentation to formally discuss and potentially vote on the transfer of the assets.

Mr. Thorwald asked Mr. Todd Dallegge, a geologist from the Arizona State Land Department, who has handled the lease in discussion here, to comment. Mr. Dallegge gave a background on the lease – it was originally with Rare Earth Exploration, then was assigned over to Phoenix Minerals, LLC in February 2022. Mr. Dallegge explained that Phoenix Minerals and Pinta Dome Operating are working together, and have been informed of what is required from them.

INTRODUCTION AND UPDATE FROM THE ADEQ DIRECTOR (2:38)

Mr. Misael Cabrera, ADEQ Director, spoke regarding the support from ADEQ for the Oil & Gas Commission and the grant efforts they are seeking. Director Cabrera shared that both the Governor and ADEQ agree that this is a priority to help secure the funds from the Department of Interior (DOI). ADEQ has put a small team together and is working with the Governor's Office.

Mr. Thorwald thanked Director Cabrera for not only joining the meeting, but for efforts from ADEQ and the team that has been put together. Mr. Thorwald asked Director Cabrera to provide a few specifics on what the team ADEQ put together includes.

Director Cabrera explained that we have spoken with our Chief Procurement Office so that we can leverage existing contracts for the well plugging scope. We have assigned a Senior Program Manager (who runs all our remediation work) to mentor Ms. Marta Hodan, the Air Quality team has been asked to provide more administrative help, and Mr. Daniel Czecholinski, Air Quality Division Director, has been asked to work with Ms. Hodan directly to eliminate any other obstacles that might come up. Additionally, we have a request in with the Office of Strategic Planning & Budgeting (OSPB) asking them to set up a specific fund to receive these monies so that the Oil & Gas Commission can have a separate fund specifically and clearly for the Oil & Gas Commission for making decisions on how to fund the projects for well identification and plugging, as well as administrative support.

REPORT BY THE OIL & GAS ADMINISTRATOR

DRILLING & COMPLETIONS ACTIVITY UPDATE:

DESERT MOUNTAIN ENERGY MCCAULEY 10-1: Reviewed and approved and drilled.

DESERT MOUNTAIN ENERGY MCCAULEY 3-1: Reviewed and approved and drilled.

DESERT MOUNTAIN ENERGY MCCAULEY 1-1: Drilling is complete.

NEW OPERATOR PRE-APPLICATION INTRODUCTION MEETINGS: We have seen an increase in activity and interest from new operators in the last few months. Ms. Hodan has held several new operator introduction meetings so far this year. Ms. Hodan wanted to make the Commission aware that with the uptick in interest, there will also be an increase in activity levels in the future, along with more applications.

FEDERAL FUNDING OPPORTUNITIES:

INITIAL GRANT UPDATE: The Letter of Intent was submitted December 29th, 2021 for the Formula Grant. The Department of Interior (DOI) indicated that Arizona is eligible for \$25,000,000 in Initial Grant funding. In the last few months since the letter of intent was submitted, we have been working with the DOI as well as the IOGCC, as well as other interested States. Since the last meeting, draft guidance for the initial grant application has been published by the DOI. Before the draft guidance was released, DOI asked States for their comments. We submitted questions and comments on what they presented, and addressed some of the concerns we had. At this time the DOI is waiting for feedback from the rest of the States as well as the public on the draft guidance language. It is anticipated that the final guidance will be issued in the first week or so of April. Once we have received the final guidance, we can start compiling our application. What we know based on the draft guidance is that the deadline for submission of the application for the Initial Grant fund will be May 13th. Working closely with ADEQ to get a team in place to get the right people to compile the application. This application can be very detailed, there is a lot of both required and recommended information.

Ms. Hodan explained, per Mr. Thorwald's recommendation, that we are working with the Department of Energy – they have a slightly different bucket of funds that are specific to undocumented, orphaned wells. The funds for the Initial Grant are for documented, orphaned wells.

There was discussion around how we came to the decision to apply for the \$25 million-dollar grant. Ms. Hodan explained that as we were putting together the letter of intent for the Formula Grant, and based on the estimated number of orphaned wells, and the estimated depth of the wells and plugging costs, it would cost around \$14 million just to do the plugging of the wells, and nothing else. There would still be additional administrative costs.

FORMULA GRANT UPDATE: We have submitted the letter of intent for the formula grant – the Department of Interior (DOI) indicated that in the Phase One of the grant Arizona is eligible for \$1.262 million. This is in addition to the \$25 million, for a total of \$26.26 million. They have also indicated that there will be a Phase Two of the Formula Grant, where Arizona is eligible for \$3 million dollars. This would bring the total to just over \$29 million in federal funding for the documented orphaned well program.

The purpose of both the Initial Grant & Formula Grant funds are similar, however the Formula Grant has a bit more of a rigorous application process. The items in the Initial Grant that in the guidance are recommended at this point, may be required for the Formula Grant.

PERFORMANCE GRANT UPDATE: There is another broad spectrum of grants that are going to be covered under the Infrastructure Investment and Jobs Act (IIJA) – specifically for Arizona, we are interested in performance grants that are specific to regulatory improvements. There is funding that is going to be available for states to improve their regulations to prevent future orphaned and abandoned wells.

WEBSITE REDESIGN PROGRESS UPDATE AND TIMELINE: Ms. Hodan has had frequent discussions with ADEQ regarding publishing the website. At this point, given the high priority of the grant funding and orphaned and abandoned wells program, it has been decided to move forward with publishing the new website, but specific to the new code language. The website may appear very similar to what it looks like now, but on the back end, the new code language will be much easier to make changes and updates. One of the big things we are actively working on right now is getting the recordings of our meetings published on our website, as well as making publishing of production data a live change on the new website. The appearance changes will happen slowly in the future.

There was discussion around how the website redesign fits with the grant funding we are applying for. Ms. Hodan explained that within the Initial and Formula grants, there is language to indicate some of the requirements regarding reporting of the information and status of the program. Within the grant guidance, there is room to use funds for making information available to the public, which can be interpreted to mean that this can be used to update our website in order to make all required information available to the public.

We do intend to include on the website some links and information to the public or landowners who may be aware of a well on their property that they don't have any record for – they can report the wells to us through the contact information provided on the website. Through this process, the wells can be assessed and it can be determined if they are under the jurisdiction of the Oil & Gas Commission.

There was discussion around the concern for finding vendors in the tight timeline of the grant. One of the options that was discussed was to use existing contracts since the ADEQ procurement process can tend to take some time to complete. Mr. Thorwald mentioned that the Governor's Office has assigned a point person to help streamline things.

RULES UPDATE:

5 YEAR RULE REVIEW (5YRR): Due to limited capacity, we are drafting an additional 120-day extension. Ms. Hodan expects to have that out to GRRC today. The request is simply to allow us to get past the time crunch surrounding the grant applications.

PROPOSED STATUTE CHANGES & RULE PACKAGE STATUS: The hope is to bring these items off the priority list as soon as the federal funding application is complete.

WEB PORTAL: No specific updates regarding the web portal. Mr. Thorwald discussed that he had a conversation with the Director of Office Environment Policy & Compliance with DOI, who is in charge of the grants regarding questions that we have, and they let him know that using funding from the grant would be allowed for the website and the web portal. We do not have this in writing yet, but we are looking for it in the next steps.

PROCEDURES MANUAL/SOPs: No updates at this time.

REPORT BY THE AOGCC CHAIRMAN

INTERSTATE OIL & GAS CONSERVATION COMPACT (IOGCC): IOGCC is taking the lead with States in working with the Department of Energy and the Department of Interior as an advisor role – there have been many discussions and email communications with them. The next meeting is in Oklahoma City in May.

NEW MEXICO PRODUCED WATER RESEARCH CONSORTIUM (NMPWRC) UPDATE: Mr. Thorwald & Ms. Hodan have been continuing to meet with NMPWRC to discuss the produced water and the guidance to various states.

BUDGET: As Ms. Hodan indicated, the budget is going to be changing. There will be further discussion on that in the future.

OFFICE OF NAVAJO & HOPI INDIAN RELOCATION (ONHIR): Mr. Thorwald congratulated Mr. Jim Ballard regarding his assistance with the Commission in getting another \$5 - \$6 million dollars in addition to the \$29 million. Mr. Thorwald has been working with the DOI and the Department of Energy and a few other organizations to find out who is going to have authority on the split estates on the Navajo & Hopi Indian land. Mr. Thorwald is still waiting to have a conversation with the Navajo Nation's Attorney General's Office. The direction we received from the DOI is that because it is a split estate, and ONHIR has the surface rights and the State has the mineral rights below, that the State would be eligible for the funds to plug those. There would be coordination between the State and Navajo Nation in order to do that.

LEGISLATION AFFECTING THE ARIZONA OIL & GAS CONSERVATION COMMISSION: There are a number of legislations that don't appear to be going anywhere. The Hydrogen Study Committee does look like it will pass. We will interact with this one due to our underground storage.

LOBBYIST REGISTRATION: The way the State law is setup, if one of the Commission members wants to go talk to the legislators, they will need to be registered as a lobbyist. Mr. Thorwald is proposing that he will register as a lobbyist to allow him to go before the legislators to talk these subjects affecting the Commission. Mr. Thorwald is seeking the Commission's approval for him to do that. Mr. Cooper suggested that Mr. Thorwald designate another person on the Commission or the Administrator due to the possibility that Mr. Thorwald would not be available to the Commission because he would be performing the duties of a lobbyist. There was discussion surrounding an additional Commission member serving as a lobbyist. Mr. Thorwald explained that he didn't think Administrator Hodan would be able to register as a lobbyist due to the complexities with ADEQ and such. Dr. Nations suggested that Mr. Thorwald be the

primary lobbyist, but that Mr. Cooper should also serve. Mr. Cooper suggested maybe someone with more experience in Oil & Gas, however he did say that he would be willing to do so. Commissioners Feyerabend and Conway were both in agreement with Dr. Nations suggestion.

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

MR. THORWALD REGISTER AS PRIMARY LOBBYSIT AND MR. COOPER SERVE AS SECONDARY
Motion carried unanimously.

REVIEW AND CONSIDER FUTURE AGENDA ITEMS:

Mr. Feyerabend suggested that the deposit money receiving for people drilling and be sure that there is enough money to cover costs. Mr. Thorwald explained that is part of the rules package, however Ms. Hodan will put it on the agenda for the next meeting for further discussion.

EXECUTIVE SESSION

Mr. Thorwald moved, seconded by Dr. Nations that

WE GO IN TO EXECUTIVE SESSION REGARDING AGENDA ITEM #11 TO OBTAIN LEGAL ADVICE

Motion carried unanimously, and the AOGCC convened an Executive Session at 11:29 a.m.

The purpose of the Executive Session was to:

- Obtain legal advice.

The AOGCC returned to Regular Session at 12:10 p.m.

ADJOURN

Mr. Cooper moved, seconded by Mr. Thorwald that

THE MEETING BE ADJOURNED

Motion carried unanimously. The meeting was adjourned at 12:12 p.m.

REVIEWED



FRANK THORWALD
CHAIRMAN

5/20/2022

DATE

GUESTS IN ATTENDANCE

Bob Shear
David Haag, AZ State Land
Joe Dixon, AZ State Land
Mike Dickinson
Brooke Bolger, ADEQ
Noa Bruhis, ASU
Jim Ballard
Patrick Kane
Wayne Pearce

Jake Laramie
Todd Dallegge, AZ State Land
Jessica Davey
Thomas White, Operations Manager, Proton Green
Misael Cabrera, Director, ADEQ
Lou Rozs
Aaron Cain
Mallory Rakowski
Tony Hines

