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Oil and Gas Conservation Commission

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

MINUTES OF HEARING
PRIZE ENERGY 40 ACRE SPACING EXCEPTION
JANUARY 24, 2020

PRESENT

Mr. Frank Thorwald,
Dr. Dale Nations,
Mr. Bill Feyerabend,
Mr. Stephen Cooper,
Mr. Jay Skardon,
Mr. Dennis Turner,
Ms. Tawnya Cook,

Chairman, Arizona Oil & Gas Conservation Commission (AOGCC)
AOGCC Vice Chairman (via phone)
AOGCC Member
AOGCC Member
AOGCC Counsel, Office of the Attorney General
AOGCC Program Administrator
Arizona Department of Environmental Quality (ADEQ)

CALL TO ORDER

Mr. Thorwald called the AOGCC Public Hearing of January 24, 2020 to order at 10:03 a.m. in Room 3100B at the Arizona Department of Environmental Quality (ADEQ), Phoenix, Arizona. No one reported any conflicts of interest and the roll call confirmed a sufficient number were present for a quorum.

DISCUSSION AND VOTE ON PRIZE ENERGY 40 ACRE SPACING EXCEPTION

Prize Energy, LLC (Prize Energy) presented a plan to the Commission to drill on 40 acre spacings that would be confined only to the Shinarump Conglomerate member of the Chinle Formation. Prize Energy requests AOGCC approval of a 40 acre well spacing exception covering approximately 766 square miles that lies immediately east of the Ranger Development LLC (Ranger) 40 acre spacing. See Map 1. The AOGCC approved Ranger' spacing exception in April 2018. Mark Hanson, Senior Geologist, Chris Robinson, Landman and Blake Van Patten, Reservoir Engineer, represented Prize Energy at today's hearing. Given the complexity of the braided stream channel model (the same model Ranger presented), Prize Energy believes their request is very similar to that of Ranger's. Helium exploration has a much greater chance of success on the 40 acre spacing model. Prize Energy has not drilled or applied to drill any wells.

For purposes of this hearing, Prize Energy's area was referred to as the "box." Prize Energy owns 320,000 acres of long-term leases with over 30 years remaining in large blocks and a very complex land situation. Because they control a very large portion of the box, Prize Energy stated that it seems most appropriate to seek approval of the entire area at one hearing.

Considerable discussion ensued pertaining to mineral rights, and what surface and mineral rights Prize Energy has within the box. Members of the Commission expressed concern with how much land Prize Energy has under control in contrast to what parcels within the box are unleased. Prize Energy argued that, although they hold mineral and surface rights to a significant amount of land within the box, the amount of acreage Prize Energy controls is irrelevant; instead it is a geologic concept that would apply to every operator regardless. Prize Energy cautioned the AOGCC not to get too distracted with mineral ownership and focus instead on what model is best able to efficiently develop the Shinarump on 40 acre spacing. During the conversation, Mr. Turner shared on the projection screen the State Land

Department's parcel map of Apache and Navajo Counties showing land ownership as a means of clarifying the relative location of Prize Energy's box in that part of Arizona.

The discussion moved to how the Commission can authorize drilling when the operator does not have control of surface and mineral rights of the land. The Commission indicated it would need specific details of what areas that Prize Energy does have mineral rights. Mr. Thorwald asked if Prize Energy had approached any of the mineral and surface rights owners in those areas. Mr. Robinson reiterated that this is a geologic concept independent of any mineral rights. The company follows a process, from geologic evaluation to land acquisition to application to drill, wherever they do business and will comply with the Commission rules and regulations. As prudent operators, they will acquire the appropriate agreements with the mineral and surface rights owners.

There was discussion regarding these lease agreements that if the spacing exception were granted, would Prize Energy agree not to apply for a drilling permit before acquiring the lease on a given parcel. The Commission wants to make sure that Prize Energy has acquired the lease beforehand. Prize Energy's leases are public record in Apache County and can be sent to the Commission prior to getting approval for a drilling site, with their application to drill. Additionally, Prize Energy confirmed that they agree to never apply for an APD unless they have the mineral rights, as well as documentation from their attorneys that they own the mineral rights, where appropriate.

Mr. Cooper was not comfortable with approving this request without having a map of Prize Energy's mineral holdings in front of him, being concerned chiefly with making sure that the property owners are notified. He expressed concern whether proper notice would be given to the property owners. Mr. Robinson explained that this plan will benefit anyone who has mineral rights to develop. Even though the mineral owner is the dominant estate, Prize Energy has every interest in wanting to protect the surface owner by working with them to come to an agreement to properly develop the mineral rights.

Prize Energy then returned to its presentation, which discussed the complexity of exploration of helium in the braided stream model. Mr. Thorwald asked if there is no well log, how does an operator determine whether a proposed drill location is worthwhile? Although Prize Energy does use seismic data, with this spacing proposal, it is cheaper and more predictive to drill a well than to run seismic lines. Due to the complexity of the channels, a 40 acre spacing gives the operator an advantage to see the maximum number of channels and whether they will produce helium.

In regards to Prize Energy's aquifer protection permit (APP), Mr. Robinson explained that the company properly protects the drinking water sources with steel casing and cement, and they follow what the AOGCC's and ADEQ's regulatory requirements to properly protect the aquifer. The Shinarump (1,000 foot depth) is below the known shallow fresh water aquifers in the area (surface to 300 feet). Mr. Naveen Savarirayan, ADEQ Water Quality Unit Manager, briefly summarized Prize Energy's APP application.

Mr. Feyerabend suggested that instead of giving approval for the entire box, that they be given approval for a smaller area, so that it does not appear that they are being given approval to drill thousands of wells. Mr. Hanson replied that they will still be required to apply for a permit for each well they intend to drill, regardless of the amount of acreage approved. This 40 acre spacing is not exclusive to Prize Energy – it opens the area up for other competitors. For Prize Energy it also comes back to funding, and if the Commission only grants a partial area, with option to apply for more, the company may decide not to allocate the funds for the entire project. Prize Energy needs the freedom to move freely to chase prospects as drill and other geologic data becomes available.

The public was invited to make comments, and Mr. Jim Ballard commented that he supports Mr. Thorwald's comments – this has been done by the Commission before and the geology is the same, and

feels that it is very logical to allow the 40 acre spacing units. He feels that it does give the operators the certainty to economically develop all potential Shinarump prospects. In his opinion, he thinks the State and the area would benefit by encouraging more drilling by large companies.

The Commission members discussed the merits of approving a 40 acre spacing request of this magnitude. Dr. Nations suggested the request could be approved, if valid leases precede any permit to drill. Mr. Cooper expressed two concerns: 1) that he isn't sure he can give a spacing exception to someone that doesn't own the land or have a right to use it, without giving the owner of the land appropriate fair notice of what is going on; and 2) that there could be a common pool near the Ranger area and he would like assurance that Commission's action is fair to both operators about how it is being used. It appears to him that we are trying to master plan this basin, and he isn't sure that the Commission has the authority to do that. Mr. Cooper further stated he is concerned that all the necessary materials for approval of this request were not submitted, but is open to continuing the discussion to give them the opportunity to provide all the materials at a future meeting.

The question of AOGCC's legal authority to grant a spacing exception on land that doesn't have a permit to drill yet was raised. Mr. Skardon explained that there is no legal problem because Prize Energy still cannot drill unless they have a permit, which is a separate issue from the one being decided here. Mr. Cooper expressed that he is not comfortable with granting someone the right for spacing exceptions on someone else's property that the property owner hasn't agreed to – the land owner has the right to have some notice. Mr. Thorwald agreed with those concerns, however before any drilling can happen, Prize Energy would have to come back before the Commission and show the proper documents in order to get the permit to drill. Prize Energy explained that they will obtain a surface-use agreement in order to drill on land they do not own the surface rights to.

Mr. Thorwald is fine with granting the whole box – whether or not Prize Energy has the lease hold, for them, or anyone else, to come back and drill in this area, they will have to demonstrate that they have a proper lease, that they have the mineral rights and that they have talked to the other property owners around the area before the Commission will give them a permit to drill. This discussion is only for a spacing exception for this particular area. Mr. Skardon stated there is no legal issue with that – that the Commission has the authority to approve the spacing exception.

All affected operators will be sent letters explaining the provisions of the ruling, based on all the discussion. He will first send a draft to all the Commissioners for review and comment to verify that all the points were captured.

After lengthy discussion, consideration and questioning of Prize Energy's proposal, the Commission voted to approve Prize Energy's request to drill to the Shinarump on 40 acre spacings within the Townships stated in the Hearing announcement (and set forth in Table 1, below).

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

THE REQUEST OF PRIZE ENERGY FOR A 40-ACRE SPACING BE APPROVED AND BE RESTRICTED TO THE SHINARUMP DEVELOPMENT DRILLING ONLY WITH THE PROVISION THAT VALID LEASES PRECEDE ANY PERMIT TO DRILL ANY 40 ACRE PARCEL (APPLIED TO THE AREA OUTLINED IN RED ON THE MAP)

Motion passed 3-1.

The dissenting vote was from Stephen Cooper.

The meeting adjourned at 12:08 p.m.

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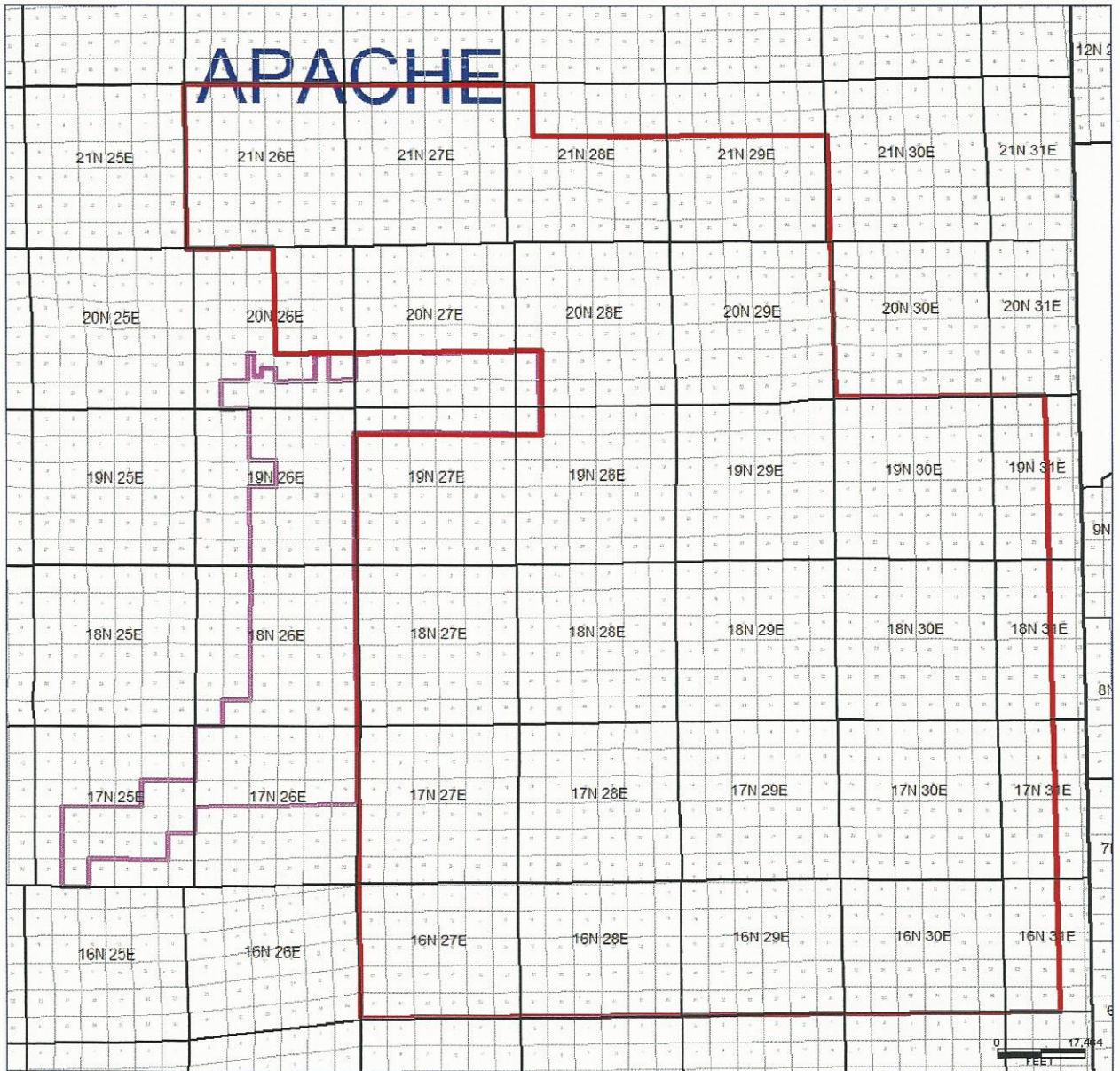
Following the meeting, the Commission’s Administrator, Chairman and counsel met to develop six criteria that all operators must follow when applying to drill within the two 40 acre spacings so far approved (Prize Energy and Ranger). All operators:

1. are restricted to drilling only in the Shinarump Conglomerate;
2. are restricted to drilling only in the townships in southern Apache County listed in Table 1 below. The authorization to drill on 40 acre spacings in the Shinarump only shall be confined within the red and purple borders on Map 1 below. For reference only, the purple border marks AOGCC approval of Ranger Development LLC 40 acre spacing for the Shinarump;
3. shall submit with each APD proof of the mineral rights owner and surface owner permissions to access, where applicable. This requirement applies to ONHIR land (Office of Navajo and Hopi Indian Relocation), State Trust Land and fee land. A copy of the OHNIR Surface Use and Damage Agreement, covering the applicable acreage, is required to demonstrate permission. A memorandum of oil & gas lease will suffice for all other mineral owners (State Land and fee ownership).
4. shall provide, for each APD, a geologic basis that justifies the drilling location. This is already a requirement in the Application checklist, which was discussed and copies shared with you at our meetings of October 31, 2019 and January 9, 2020;
5. shall include, with each APD, a plat prepared and certified by a registered surveyor, bearing the surveyor's certificate number and showing all other completed, drilling and permitted wells on the property and all adjoining properties and wells. See A.A.C. R12-7-107(E)(1); and
6. shall send a copy of each APD and a copy of this letter to all adjoining lessees, by certified mail. The certified mailing shall include instruction to each recipient that they should contact the AOGCC Administrator, as set forth below, within 30 days of receipt of the mailing if they have any objection or concern with respect to the APD. Prize Energy shall submit proof of all such mailings to adjoining lessees, when submitting the APD to the Commission.

TABLE 1

Township	Range	Section	Township	Range	Section	Township	Range	Section
						T20N	R26E	1-3, 10-15, 22-24
T16N	R27E	1-36	T18N	R27E	1-36	T20N	R27E	1-24
T16N	R28E	1-36	T18N	R28E	1-36	T20N	R28E	1-24, 25-29, 32-36
T16N	R29E	1-36	T18N	R29E	1-36	T20N	R29E	1-36
T16	R30E	7-36	T18N	R30E	1-36			
T16	R31E	7, 8, 17-20, 29-32	T18N	R31E	5-8, 17-20, 29-32			
						T21N	R26E	1-36
T17N	R27E	1-36	T19N	R27E	7-36	T21N	R27E	1-36
T17N	R28E	1-36	T19N	R28E	1-5, 7-36	T21N	R28E	6-7, 13-36
T17N	R29E	1-36	T19N	R29E	1-36	T21N	R29E	13-36
T17N	R30E	1-36	T19N	R30E	1-36			
T17N	R31E	5-8, 17-20, 29-32	T19N	R31E	5-8, 17-20, 29-32			

MAP 1



REVIEWED

Frank Thorwald

FRANK THORWALD
CHAIRMAN

3/24/2020

DATE

GUESTS IN ATTENDANCE

David Haag, ASLD
Noa Bruhis, ASU
Jim Ballard

Louis Rozs, ASLD
Gordon LeBlanc Jr, Petro Sun
Naveen Savarirayan, ADEQ