



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
Robert L. Wagner, Vice Chair
Stephen R. Cooper
William C. Feyerabend
J. Dale Nations, Ph.D.

MINUTES OF MEETING
January 6, 2017

PRESENT:

Mr. Frank Thorwald, Chairman of the Oil & Gas Conservation Commission (OGCC)
Mr. Bill Feyerabend, Member
Mr. Robert Wagner, Member
Mr. Stephen R. Cooper, Member
Dr. Dale Nations, Member (via telephone)
Mr. Rick Zeise, OGCC Counsel
Mr. Nyal Niemuth, ADEQ
Mr. Dennis Turner, Oil & Gas Program Administrator

CALL TO ORDER

Mr. Thorwald called the OGCC Meeting of January 6, 2017 to order at 10:01 a.m. in Room 3100B, Arizona Department of Environmental Quality, Phoenix, Arizona.

DISCUSSION AND APPROVAL OF THE MINUTES OF THE MEETINGS

For the meetings of October 21, 2016 and November 15, 2016:

Mr. Cooper moved, seconded by Mr. Wagner:

THAT THE MINUTES OF THE MEETINGS OF October 21, 2016, as amended, and November 15, 2016, BE APPROVED.

Motion carried unanimously.

DISCUSSION OF RANGER'S COMINGLING PRODUCTION FROM THE COCONINO SANDSTONE AND THE SHINARUMP CONGLOMERATE PURSUANT TO MULTIPLE ZONE COMPLETIONS, A.A.C. R12-7-116 AND COMMINGLING OF PRODUCTION RECORDS FROM POOLS, A.A.C. R12-7-137.

Mr. Turner recommended this topic be discussed at the upcoming February meeting as the key technical person, Tony Hines, Ranger Development LLC (Ranger), was unable to attend this meeting. There was only limited discussion. Mr. Dixon enquired if R12-7-137 applied only to oil. Dr. Nations reported that it applied also to gas.

Mr. Cooper moved, seconded by Mr Feyerabend:

DISCUSSION OF RANGER'S COMINGLING OF PRODUCTION IS TABLED UNTIL THE FEB. 17 MEETING.

Motion carried unanimously.

HORTENSTINE 35-1 (PERMIT 919): STATUS, INSPECTION BY THE OGCC ADMINISTRATOR AND RESPONSIBILITIES OF INTERESTED PARTIES

Mr Turner summarized the OGCC's April 16, 2016 discussion of Holbrook Energy's failure to plug and abandon the Hortenstine 35-1 and his recent inspection of the well. The well is cased (at least at the surface) and has a locked valve.

Mr. Zeise asked both Mr. Niemuth (former OGCC Program Administer) and Mr. Turner if they had received any response to the OGCC's letter April 21, 2016. Neither received any formal response from the bond holder, Holbrook Energy, to the OGCC's letter.

Mr. Gordon LeBlanc, formerly with Holbrook Energy, reported having a discussion with Ranger about their interest in taking over the well. Mr. Zeise reported that OGCC still holds the bond for plugging and abandoning the well. Mr. Tom Wallace, Ranger, reported that the company has the Fee Mineral tract leased that contains the well and also holds a surface use agreement. Ranger, if they acquired the well, intends to cover it with their existing blanket bond and would accept all liability. The well has value to the company and is understood to be open. They would perforate the casing, test formation(s), and either put it into production or plug and abandon it.

Mr. Zeise asked what the Commission's intent was with the Holbrook Energy bond. Dr. Nations stated that the OGCC was within their rights to revoke the bond. Mr. Cooper suggested any motion be delayed as the agenda did not mention the board's voting on Holbrook Energy forfeiture of the bond. This will allow Holbrook Energy the opportunity to have notice and to present a response to the OGCC on the possible revocation of the bond.

Mr. Cooper moved, seconded by Mr Feyerabend:

THAT ACTION ON TWO MATTERS; TRANSFER OF THE HORTENSTINE 35-1 WELL TO RANGER, AND FORFEITURE OF HOLBROOK ENERGY'S BOND, BE TABLED TO THE FEB. 17 MEETING.

Motion carried unanimously.

Tom Wallace said Ranger would prepare notice of intent to acquire the well and accept liability, but would not request transfer of the existing bond. Mr. Turner will review rules and give guidance to Ranger as to forms for the transfer. There was discussion that if everything is prepared, the transfer could occur at the next meeting.

INTERPRETATION OF A.A.C. R12-7-121(C) [CONFIDENTIAL RECORDS]

The Commission opened for discussion, what is the meaning of "unproven territory" in R12-7-121(C)? Dr. Nations explained that unproven territory applies to wells that are drilled outside of an established unit or producing field. Its application to confidential records means an operator is automatically granted confidential status for one year, if the well is in a new area, not yet established as a proven field or producing unit.

The Commissioners agreed that a well can have multiple submittals of confidential well completion over time, even if the well was drilled several years ago. An operator may re-enter a well multiple times to test different zones. The status of the well in between these times, however, must be approved as shut in or temporarily abandoned.

EXTENDING KINDER-MORGAN'S BLANKET TEMPORARY ABANDONMENT (TA) STATUS

Kinder-Morgan CO₂ Company's blanket temporary abandonment (TA) status expired in January 2017. The company renewed their five year field-wide unitization agreement with the Arizona State Land Dept. in January, but failed to notify the OGCC of these facts. OGCC's blanket TA status is linked to the five-year life of the unit and expired with the old unitization agreement. Pursuant to A.A.C. R12-7-125,

renewal of the TA status must be reviewed and approved after the operator demonstrates to a quorum of the Commission that the well(s) have a future beneficial use.

After a brief discussion led by the O & G Administrator with the Commission members and the Kinder Morgan representative, the OGCC directed the company to send a letter demonstrating the future beneficial use of the St. Johns Gas Unit. The OGCC will take this matter up for final approval at the next meeting, Feb. 17, 2017.

For background information, see the OGCC minutes of January 21, 2011 and January 18, 2013.

REPORT OF THE OIL AND GAS ADMINISTRATOR ON NEW PERMITS AND DRILLING ACTIVITY

- Twin Bridges, LLC (Ranger Dev., LLC) – permit applications & well spacing exceptions approved on Nov. 18, 2016; inspected Dec. 8, 2016.
- Kinder-Morgan will plug three wells in TA status that recently failed casing pressure tests.
- Other helium explorationists continue to express interest in drilling in Arizona

STATUS OF DRILL CUTTING SAMPLES, WELL FILES, MISC. FILES AND OGCC WEB SITE

Mr Turner has asked Ranger to continue to hold on to all cutting samples from their 2016 drilling activity until space can be made available in the basement storage area of 416 W. Congress St, Tucson. The well files have been moved successfully from the Tucson location to ADEQ's Records Management Center, Phoenix. The OGCC web site continues to be maintained by ADEQ.

ANNOUNCEMENTS

Frank Thorwald, the Chairman of the Commission announced that the Five Year Rule Review of A.A.C. Title 12, Chapter 7 will be opened for discussion at a future meeting (date undetermined at this meeting). At the time of this meeting, Dr. Nations said he would once again contact the Interstate Oil & Gas Compact Commission (IOGCC) about providing a review of the Arizona OGCC's rules. Subsequent to this meeting, Mr. Turner spoke to Gerry Baker, Associate Executive Director of the IOGCC about this. The IOGCC rule review process is in-depth, consuming six months or more and Turner and Baker agreed it was not either organization's best use of time to indulge in this exercise for the Five Year Rule Review, owing to the current Governor's rule moratorium and the short time frame for completing the report. The Arizona OGCC will revisit this matter again in the indeterminate future.

NOTE: a meeting on the Five Year Rule Review was held on Feb. 6th. See meeting minutes for details.

ADJOURNMENT

Mr. Thorwald moved, seconded by Mr. Feyerabend

THAT THE MEETING BE ADJOURNED

Motion carried unanimously. Time of adjournment was 11:35 a.m.

REVIEWED

FRANK THORWALD
CHAIRMAN

DATE

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GUESTS IN ATTENDANCE:

Joe Dixon, AZ State Land Dept.
Ray Hobbs, United Helium
Tom Wallace, Ranger Development, LLC
Rick Porter, Ranger Development, LLC
Gordon LeBlanc, Arizona Energy Partners

Gordon Dudley, United Helium
Thomas White, Kinder-Morgan CO₂ Co.
Mike Hannigan, Kinder-Morgan CO₂ Co.
Tony Hines, V.P., Ranger Dev.