



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
February 17, 2017

PRESENT:

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

CALL TO ORDER

Mr. Thorwald called the OGCC Meeting of February 17, 2017 to order at 10:02 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 January 6, 2017 and February 3, 2017:

Mr. Wagner moved, seconded by Mr. Thorwald:

THAT THE MINUTES OF THE MEETINGS OF January 6, 2017, as amended, and February 3, 2017,
BE APPROVED.

Motion carried unanimously.

RANGER DEVELOPMENT L.L.C. (RANGER) ISSUES TO BE DISCUSSED AND VOTED ON BY THE COMMISSION:

Background Summary: The Oil and Gas Administrator (Turner) met with Mr. Tony Hines (Ranger) on Dec. 7, 2016 and learned that Ranger's intent was to do multiple zone completions (*see* A.A.C. R12-7-116) and commingle production at the surface (*see* A.A.C. R12-7-137). Although Ranger had presented this information during hearings for space deviations in April and November 2016, it was not clear to the Commission, the past and present Oil and Gas Administrators, or Ranger that that these applications were subject to review and hearing not only in the context of well spacing exceptions (R12-7-107), but must also to address the multi-zone completion/ commingle issues.

Multiple zone completions and comingling production of helium gas from the Coconino Sandstone and the Shinarump Conglomerate: Next, Mr. Hines made a brief presentation explaining that three wells, Ranger 3-1, 34-1 and 31-1 all produce from the Coconino Sandstone. His presentation clarified that the 34-1 and 31-1 also produce from the Shinarump Conglomerate in the Chinle Formation in a configuration that meets the conditions for multiple zone completion and comingled production.

The OGCC's determination of what the additional requirements are required for the affected wells:

Additional requirements for commingled production and multiple zone completions: Ranger uses one meter at the surface to measure total production of helium from its wells. Normally, commingled production must remain separated at the surface to discretely measure production from multiple units. The OGCC determined it would be cost prohibitive to require Ranger to retrofit all wells with commingled production with separate metering systems. Mr. Hines believes the company has a good understanding of the volumes of gas derived from both units, so the Commission will accept a reasonable estimate of production based on ratios from the two units.

Additional requirements for multiple zone completions: Dr. Nations moved and Mr. Wagner seconded:

THAT TO RECEIVE AN APPROVAL TO DRILL THE RANGER 28-1 NS, RANGER MUST SATISFY ALL OF THE REQUIREMENTS OF A.A.C. R12-7-116 BY SUBMITTING ADDITIONAL INFORMATION THAT WILL BE INCLUDED IN A LETTER FROM THE OIL AND GAS ADMINISTRATOR.

Motion carried unanimously.

The Administrator sent Ranger a letter on the same day following the meeting. The letter also requires Ranger to meet the requirements of the rule for wells 34-1 PD and 31-1 NS. A copy of the letter is attached to these minutes.

Ranger does not use vacuum pumps in any of its helium fields. Dr. Nations moved, seconded by Mr. Thorwald:

THAT THE METHODS RANGER CURRENTLY EMPLOYS IN MULTIPLE ZONE COMPLETIONS AND COMMINGLING ARE APPROVED.

Motion carried unanimously.

Nomenclature for wells: Dr. Nations stated that conventionally wells are designated with the operator or lease first followed by the number, typically the section in which it is located and the number of the well in that section. A proposed designation of a well as simply NS 28-1 seems inadequate. In other words, standard industry practice in Arizona is to put operator's name or leaseholder's name first, followed by the section number, then well number and any modifiers after that.

The OGCC delegated this matter to the Administrator and asked that Mr. Turner report back his recommendation for standardized nomenclature at a future meeting.

HOLBROOK ENERGY LLC WELLSHortenstine 35-1 (Permit 919): Status, Inspection by the OGCC Administrator and Responsibilities of Interested Parties:

At the Jan. 6, 2017 meeting, Mr. Turner summarized all of the history of the well, including Ranger's recent interest in taking over the well. The Commission's action on transfer of the Hortenstine 35-1 well to Ranger, and forfeiture of Holbrook Energy's bond, was tabled to the Feb. 17th meeting.

The OGCC went into Executive Session at 11:00 a.m. to obtain advice from the Assistant Arizona Attorney General. The OGCC returned to the regular session at 11: 18 a.m.

After returning from the Executive Session, Mr. Cooper moved, seconded by Dr. Nations:

- 1) THAT PERMIT 919, HORTENSTINE 35-1 WAS UNLAWFULLY ABANDONED AND THE BOND IS SUBJECT TO FORFEIT
- 2) THAT RANGER DEVELOPMENT LLC AND HOLBROOK ENERGY LLC SHALL HAVE 60 DAYS TO DEVELOP A LEGAL TRANSFER AGREEMENT FOR OWNERSHIP OF THE HORTENSTINE 35-1 AND

SUBMIT A SIGNED COPY TO THE COMMISSION DEMONSTRATING THAT THE TRANSACTION WAS COMPLETED SUCCESSFULLY.

3). THAT IF THE TRANSFER IS NOT COMPLETED WITHIN 60 DAYS, THE OGCC WILL REVOKE HOLBROOK ENERGY'S BOND, TAKE OVER THE WELL AND PLUG IT.

4) THAT RANGER SHALL POST A NEW BOND, OR ASSIGN THE WELL TO AN EXISTING BLANKET BOND UPON RECEIVING OWNERSHIP AND SHALL PLUG AND ABANDON THE WELL PURSUANT TO AAC R12-7-126 AND R12-7-127 WHEN FINISHED WITH THE WELL.

Motion carried unanimously.

A copy of the letter from the OGCC directing both parties create and implement a transfer agreement is appended to these minutes. Upon completion of the transaction, the OGCC will review the materials submitted. If successful, the OGCC will vote to return the \$10,000 Holbrook Energy bond. The 60 days will expire on April 24, 2017.

Holbrook Energy 17-1 NZOG (Permit 924) well.

Mr. Turner presented a brief review of the well file contents, followed by discussion. Dr. Nations said that, considering the confusing history of this well and despite the failure of the operators for a long period of time to file required reports and forms being inexcusable, the most recently submitted test report of January 3, 2017 should qualify for a one year extension of confidentiality in the interest of encouraging ongoing development activity in the region.

Dr. Nations moved, seconded by Mr. Thorwald:

THAT THE OGCC GRANT A ONE-YEAR EXTENSION OF CONFIDENTIALITY FOR THE Holbrook Energy 17-1 NZOG, WITH THE CAVEAT THAT ANY FUTURE DEVELOPMENT BY THIS OPERATOR MUST MEET THE AZOGCC RULES TO THE LETTER.

Motion carried unanimously.

KINDER-MORGAN – RENEWAL OF TEMPORARY ABANDONMENT STATUS.

At the Jan. 6th meeting, the Commission directed Kinder-Morgan CO₂ Company (Kinder-Morgan) to send the OGCC a letter demonstrating the future beneficial use of the St. Johns Gas Unit. The OGCC would then vote on the matter for final approval at the Feb. 17th meeting. The Administrator received Kinder-Morgan's letter on Jan. 19, 2017.

Dr. Nations moved, seconded by Mr Thorwald:

THAT THE FIVE YEAR TEMPORARY ABANDONMENT STATUS FOR THE WELLS IN KINDER-MORGAN'S ST. JOHNS GAS UNIT BE RENEWED.

Motion carried unanimously.

Ranger's intended use for the well was first to test zones for helium, then if unsuccessful, the company may use it for salt water disposal from a nearby well with production from the Coconino.

FIVE YEAR RULE REVIEW REPORT

March 9, 2017 was established as the meeting date for a final discussion of the Five Year Rule Review Report. Mr. Turner updated the Commissioners on the content of the report and asked for a final review of it, so that the OGCC can vote its approval on the March 9th meeting. Following that, the Administrator will compile all necessary attachments and cover letter with the report and submit to the Governor's Regulatory Review Council (GRRC). GRRC's due date is March 30th, but will be submitted by March 24th.

NOTE: After the meeting, the meeting date was changed to March 16, 2017.

OIL AND GAS DRILLING ON TRIBAL LANDS

There was lengthy discussion about past practice of issuing permits on various types of Tribal lands (lands with or without surface rights, with or without mineral rights and lands where Navajo or Hopi tribal members have been relocated). In short, the OGCC does not have jurisdiction to authorize the disturbance of any land owned by a Native American Indian Tribe in Arizona.

Therefore, the OGCC will not grant a permit to drill on any Tribal land without evidence of formal agreement with the appropriate Tribal authority to drill on the Tribe's land, submitted to the OGCC in advance.

OGCC ACTION ITEMS ON THE PROCEDURES AND RULE INTERPRETATIONS;

All of the items listed on the Feb. 17, 2017 OGCC agenda were tabled for a future meeting.

ANNOUNCEMENTS

The next regularly scheduled meeting of March 31 was changed to April 14, 2017. The OGCC will meet in Tucson to evaluate the limited sample storage space situation in the basement of the former AZGS building, 416 West Congress. The standard meeting time remains unchanged at 10:00 a.m.

ADJOURNMENT

Mr. Thorwald moved, seconded by Mr. Cooper:

THAT THE MEETING BE ADJOURNED

Motion carried unanimously. Time of adjournment: 12:27 p.m.

REVIEWED



FRANK THORWALD
CHAIRMAN



DATE

GUESTS IN ATTENDANCE:

Joe Dixon, AZ State Land Dept.
Mike Dennis, AZ State Land Dept.
Keenan Murray, AZ State Land Dept.
Thomas White, Kinder-Morgan CO₂ Co.
Tony Hines, V.P., Ranger Dev.
Rick Porter, Ranger Development, LLC

John Schieffer, AZ State Land Dept.
Jennifer Gerwitz, AZ State Land Dept.
Gordon LeBlanc, Arizona Energy Partners
Gordon Dudley, United Helium
Teresa Harris, ATC Assoc.



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Public Meeting of the Oil & Gas Conservation Commission
10:00 a.m., Feb. 17, 2017, Room 3100B

Name / Organization – please print	email	phone
Frank THORWALD		
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DALE NATIONS (by PHONE)		
STEVE COOPER		
ROBERT WAGNER		