

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

Oct. 21, 2016

PRESENT:

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

CALL TO ORDER

Mr. Thorwald called the OGCC Meeting of Oct. 21, 2016 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 MEETING OF Sept. 22, 2016

Mr. Cooper moved, seconded by Dr. Nations:

THAT THE MINUTES OF THE MEETING OF September 22, 2016, BE APPROVED.

Motion carried unanimously.

DRAFT IOGCC RESOLUTION TO SUPPORT HYDROCARBON EXPLORATION ON THE ANICLA (ALASKA NATIONAL INTERESTS LANDS CONSERVATION ACT) AUTHORIZED COASTAL PLAIN OF ANWR (ARCTIC NATIONAL WILDLIFE REFUGE)

The Commissioners discussed the draft resolution to support the IOGCC to urge Congress and the President to open the 1002 area of the Coastal Plain of ANWR to hydrocarbon exploration and development. Language in the draft resolution states that a spacing of only 10 feet between wells is now required in contrast to 160 feet for wells drilled in the 1970s. The Commissioners decided that this may be a typographical error, but Dr. Nations will ask for clarification of the 10 foot spacing during the teleconference/ business meeting on Oct. 28.

Dr. Nations, the Governor's official representative for Arizona on the IOGCC (Interstate Oil and Gas Compact Commission), made the motion to vote in favor of the resolution. Mr. Cooper objected, raising the concern about the potential for increased pollution in an environmentally sensitive area if drilling was allowed. Mr. Cooper also noted in all likelihood the oil and/or natural gas would be exported and not used domestically given the fact we are currently exporting oil and gas and given the environmental

concerns this is questionable public policy. The Commissioners agreed that oil and gas production from this area of the ANWR is not a critical need at this time, but would be necessary in 10 to 25 years. Mr. Cooper agreed with Dr. Nations that the market will dictate the need. In the end, the Commissioners vote was unanimous to support the resolution. On Oct. 28, Dr. Nations will vote in support of the resolution.

NOTE: During the IOGCC conference call on Oct. 28, the 10 foot spacing issue was explained that with the capabilities of modern drill rigs to drill several holes directionally from one drill pad, the 10 foot spacing is not a typographical error.

The final resolution, passed on Oct. 28, 2016, is appended to these minutes.

ADEQ FIVE YEAR RULE REVIEW OF A.A.C. TITLE 12, CHAPTER 7, THE OIL AND GAS RULES

ADEQ will be conducting a five-year review of the oil and gas rules, according to a very structured format required by the Governor's Regulatory Review Council (GRRC). Owing to a continuing moratorium on new rules, it is yet to be determined whether or not the current O & G rules can be changed and to what extent. Mr. Turner will probably request of the Commissioners that suggested revisions to the rule be in writing, according to some matrix or outline format. More details will be forthcoming on this matter.

The original due date is November 30, 2016, but ADEQ has requested an extension to March 25, 2017.

Underground gas storage facilities – new interim rule from PHMSA: A special workshop at the IOGCC Annual Meeting in Little Rock met to develop technical guidance for underground natural gas storage. The IOGCC guidance is being created in part due to an interim rule regulating interstate underground natural gas storage to be promulgated by the Pipeline Hazardous Materials and Safety Administration (PHMSA), an agency within the U.S. Dept. of Transportation (USDOT). The interim rule is a reaction to the gas leaks in Aliso Canyon in the northern Los Angeles area of southern California. SoCalGas announced the leak was attributable to the underground gas storage facility in late October 2015.

The intent of the rule is to tighten regulations regarding these facilities to prevent catastrophic leaks of this kind in the future. Mr. Turner asked several participants at the workshop, including Zach Barrett, Director of State Programs Division of PHMSA, how Arizona's two facilities might be affected by the new rule. None are certain how the interim rule would affect an intrastate underground natural gas facility (such as Arizona's). The IOGCC should watch the rule's development, as it may affect revisions to Arizona's regulations on underground storage facilities.

Other potential rule revisions may include clarifications on standards of engineering practices that must be followed for drilling oil and gas wells in Arizona, mechanical integrity testing, shut-ins and plugging and abandonments. The IOGCC is one resource that we can use when making revisions.

IOGCC FEE PROPOSAL SUBMITTED TO GOVERNOR'S OFFICE IN 2015

Mr. Turner discussed the results of his research into just what was submitted to the Governor's office or the Legislature requesting an increase in the fees charged for new permits to drill. The files indicate that Dr. Lee Allison, former director of the Arizona Geological Survey (AZGS), prepared an annual budget review and proposal in which he said the volume of permitting activity in the state could not be covered by any reasonable fee increase, such as \$500, and would need to be supplemented by the state's

General Fund. Minutes dated Oct. 17, 2014 and April 17, 2015, indicated that the OGCC discussed and received updates about this matter.

The Oct. 17, 2014 minutes stated that “a decision package [was] submitted to the legislature [requesting] additional funding of \$55,000 to help cover the cost of administering the Commission,” which included a proposal to raise the permit fee from \$25 to \$500. The April 17, 2015 reported that funding levels from the General Fund would remain unchanged from FY 2015 levels and that “there was no word on the decision package requesting additional funding to support the Commission.”

A summary of other states’ permitting fees, compiled in 2014 by Mr. Steve Rauzi, former OGCC Administrator, was presented to the Commission for discussion. The table (“Permit Fees”) is appended to these minutes.

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

- Hearing scheduled for three permits submitted by Ranger Development, L.L.C.; hearing date Nov. 15, 2016, room 3100B, ADEQ.
- Arizona Energy Partners posted a \$25,000 blanket bond (cashier’s check) for drilling 10 helium wells. No application had been received by the date of this meeting. There was no discussion; simply mentioned by Mr. Turner.

MISCELLANEOUS:

Future meeting dates: Per discussion at the meeting, future meeting dates are now established for all of 2017, which appear below. All regular meetings (public meetings) are scheduled for 10:00 a.m., Fridays, every 6 weeks, beginning January 6, 2017. All meetings will be at ADEQ’s main building, conference room 3100B, 1110 W. Washington Street, Phoenix. Agendas for Friday meeting dates will be posted no more than a week in advance.

**2017 SCHEDULE of REGULAR MEETING DATES
ARIZONA OIL and GAS CONSERVATION COMMISSION***

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|-------------|--------------|
| Jan 6, 2017 | Aug 4 |
| Feb 17 | Sep 15 |
| Mar 31 | Oct 27 |
| May 12 | Dec 8 |
| Jun 23 | Jan 19, 2018 |

* All meetings will be held on Fridays at 10:00 a.m. in ADEQ’s Room 3100B, 1110 W. Washington Street, Phoenix.

As a contingency, Room 3100B is also reserved at 6 week intervals on Thursdays at 10:00 a.m., starting January 26, 2017. These dates are reserved for special meetings, such as Public Hearings. Most Thursday meeting dates will not be used, so they will be cancelled approximately a week before the Thursday meeting date. If a special meeting of the OGCC will occur, agendas for Thursday the meeting dates will be announced and posted well in advance.

Posting OGCC activity on the Web / Use of OGCC web page vis à vis ADEQ: Mr. Turner provided a brief demonstration on the projection screen of how to find public meeting announcements on the OGCC web site and ADEQ web site. The announcements can be viewed through the ADEQ web site (Home page) or the OGCC web site (click on "View ADEQ website for most recent notices", upper right).

CALL TO THE PUBLIC

No issues were raised.

ANNOUNCEMENTS

The next OGCC meeting is scheduled for January 6, 2017 at 10:00 a.m. at ADEQ, 400 W. Congress Street, Tucson. The primary purpose will be to view and discuss the sample storage situation in the basement of 416 W. Congress (former offices of AZGS). Further details will appear in the agenda for Jan. 6, 2017.

ADJOURNMENT

Mr. Cooper moved, seconded by Mr. Wagner

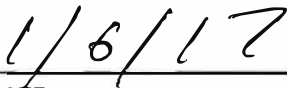
THAT THE MEETING BE ADJOURNED

Motion carried unanimously. Time of adjournment was 11:23 a.m.

REVIEWED



FRANK THORWALD
CHAIRMAN



DATE

GUESTS IN ATTENDANCE:

Joe Dixon, AZ State Land Dept.
Thomas White, Kinder-Morgan
Dennis Hall, EL Montgomery & Assoc.

Teresa Harris, ATC Associates
Michele Van Quathem, Attorney