

OIL & GAS CONSERVATION COMMISSION
Meeting: April 28, 1965
Mr. John Bannister, Executive Secy

ACCO

State of Arizona
Senate
Twenty-seventh Legislature
First Regular Session

PRINTED AND BOUND BY
WILHELM BOHR
SECRETARY OF STATE
for the State of Arizona

CHAPTER 38

SENATE BILL NO. 185

AN ACT

RELATING TO OIL AND GAS; DEFINING "WELL", AND AMENDING SECTION 27-501,
ARIZONA REVISED STATUTES.

Be it enacted by the Legislature of the State of Arizona:

Section 1. Sec. 27-501, Arizona Revised Statutes, is amended to
read:

27-501. Definitions

In this article, unless the context otherwise requires:

1. "Certificate of clearance" means a permit approved and
issued or registered by the commission for transportation or delivery
of oil, gas or products thereof.

2. "Certificate of compliance" means a certificate issued by
the commission prior to connection of an oil or gas well with a pipe
line, showing compliance with the conservation laws of the state and
conservation rules, regulations and orders of the commission.

3. "Commission or commissioner" means the oil and gas con-
servation commission.

4. "Developed area" or "developed unit" means a drainage unit
having a well completed therein capable of producing oil or gas in
paying quantities.

5. "Drainage unit" or "drilling unit" means the maximum area
in a pool which may be drained efficiently by one well to produce
the reasonable maximum amount of recoverable oil or gas in the area.

6. "Field" means the general area which is or appears to be
underlaid by not less than one pool, including underground reser-
voirs containing oil or gas or both.

7. "Fund" means the oil and gas conservation fund.

8. "Gas" means natural gas, casinghead gas, and all other
hydrocarbons not defined as oil, and helium or other substances of a
gaseous nature. Natural gas and casinghead gas are further defined
as follows:

(a) "Natural gas" means any combustible gas or vapor composed
chiefly of hydrocarbons occurring in gaseous or vapor phase at
initial reservoir conditions.

(b) "Casinghead gas" means any gas or vapor indigenous to an oil stratum and produced from such stratum with oil.

9. "Illegal product" means any product derived, in whole or in part, from illegal oil or gas.

10. "Illegal oil" and "illegal gas" means oil or gas produced within the state from any well during any time in which the well has produced in excess of the amount allowed by law or any rule, regulation or order of the commission or the production of which shall cause waste.

11. "Net drainage" means drainage not equalized by counter-drainage.

12. "Oil" means crude petroleum oil and all other hydrocarbons, regardless of gravity, produced at a well in liquid form by ordinary production methods and which are not the result of condensation of gas.

13. "Owner" means the person having the right to drill into, produce, and appropriate production of oil or gas or both from a pool.

14. "Person" includes corporation, association, partnership, receiver, trustee, guardian, executor, administrator, fiduciary, representative, or any group acting as a unit, and includes any department, agency or instrumentality of the state or any governmental subdivision thereof.

15. "Pool" means an underground reservoir containing a common accumulation of oil or gas or both and includes each zone of a general structure completely separated from any other zone in the structure.

16. "Producer" means the owner of a well capable of producing oil or gas.

17. "Product" means oil, gas, or any product, by-product, mixture or blend thereof.

18. "Royalty owner" means a person possessing an interest in the production, but who is not an owner.

19. "Waste" means and includes:

(a) Physical waste, as that term is generally understood in the oil and gas industry.

(b) The inefficient, excessive or improper use of, or the unnecessary dissipation of reservoir energy.

(c) The locating, spacing, drilling, equipping, operating or producing of any oil or gas well or wells in a manner which causes or tends to cause reduction in the quantity of oil or gas ultimately recoverable from a pool under prudent and proper operations, or which causes or tends to cause unnecessary or excessive surface loss or destruction of oil or gas.

(d) The inefficient storing of oil or gas.

(e) The production of oil or gas in excess of transportation or marketing facilities.

(f) The production of oil or gas when it is unprofitable to dispose of such production.

20. "Well" means and includes any hole drilled or spudded in for the purpose, with the intention, or under the representation of penetrating oil or gas bearing strata, or of penetrating any strata in search of stratigraphic data pertinent to the location of oil or gas bearing strata, whether or not in either case, oil or gas is actually discovered. The commission may, as it shall deem to be to the best interests of the state, determine that any hole drilled or spudded in shall be included within the above definition to the extent necessary for the administration and enforcement of the rules required by section 27-516. The determination of the commission shall be final in any circumstance involving the question of purpose, intent or representation provided such determination shall be subject to appeal as provided by section 27-526.

Sec. 2. Emergency

To preserve the public peace, health and safety it is necessary that this act become immediately operative. It is therefore declared to be an emergency measure, to take effect as provided by law.

Approved by the Governor - April 6, 1965

Filed in the Office of the Secretary of State - April 6, 1965

OIL DAILY, FRIDAY, MARCH 26, 1965

El Paso Cites Cut In Gas Prices if Proposed Line OK'd

Special to The OIL DAILY
SAN FRANCISCO—El Paso Natural Gas Co. told the state Public Utilities Commission Thursday that new low cost gas supplies it proposes to bring into Southern California will, if approved by the Federal Power Commission, result in additional reductions of \$8.2 million per year in the price of gas it furnishes to California and the Southwest.

In hearings before the California PUC, the company said that \$6.5 million per year of these rate reductions would go to California gas users and the remainder to users in Arizona, New Mexico, West Texas and southern Nevada.

The company also said that, if larger amounts of gas are required, it has an alternative proposal which would make possible price reductions of \$12 million a year, of which almost \$10 million would go to consumers in both Southern and Northern California and the rest to users east of California.

El Paso Natural said its proposed new supplies could be brought to Southern California at far lower costs to consumers than would be possible under a competitive proposal by Gulf Pacific Pipeline Co.

In just one representative year alone, the company said, cost to consumers for 865 million cubic feet of gas per day under the Gulf Pacific plan would be approximately \$30 million higher than if the same amount of gas were furnished by pipeline companies now serving the state.

The new supplies from El Paso Natural, which has larger gas reserves than any other pipeline company, would be made available to gas distribution companies for any purpose considered in the public interest by regulatory authorities, including smog prevention.

The company told the PUC, meeting here to determine its position on the question of new gas supplies for Southern California, that the Gulf Pacific project was designed to evade both federal and state regulation.

By contract, gas from Gulf Pacific could be used only as boiler fuel in electric generating plants, and regulatory authorities would be powerless to allocate any part of the gas for other essential public purposes.



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GOVERNOR
LYNN LOCKHART
CHAIRMAN
R. KEITH WALDEN
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LUCIEN B. OWENS
MEMBER

OFFICE OF
Oil and Gas Conservation Commission
STATE OF ARIZONA
ROOM 202
1624 WEST ADAMS
Phoenix, Arizona 85007
PHONE: 271-5161

JOHN BANNISTER
EXECUTIVE SECRETARY
J. R. SCURLOCK
PETROLEUM GEOLOGIST

A G E N D A

April 28, 1965

Commission Hearing Room
Room 204

9:30 a.m. Call to order

1. Approval of minutes
2. Approval of report by Executive Secretary
3. Approval of report by Geologist
4. Old business
5. New business:
 - a. Report on 1965-66 budget (if available)
 - b. Attorney General's Opinion on SB-185 (if available)
 - c. Discussion of Rules & Regulations changes
 - d. IOCC June meeting
6. Adjourn

Bonds
Rules & Regulations
Permit

OIL AND GAS CONSERVATION COMMISSION
1624 West Adams - Suite 202
Phoenix, Arizona

Minutes of Meeting
March 24, 1965

Commissioners present:
Lynn Lockhart, Chairman
R. Keith Walden
Orme Lewis
L.B. Owens

Others Present:
John Bannister, Executive Secretary
J.R. Scurlock, Geologist
F.C. Ryan, State Land Department
J.K. Petty

Meeting was called to order at 9:45 a.m. in the Commission Hearing Room, Room 204.

Minutes of the December 16, 1964 meeting were approved.

Mr. Bannister reported that in response to the directive concerning the well naming policy, there had been only one adverse comment, from Pan American Oil Company, on the ground that in some instances they would have to designate a well in two ways.

It was moved by Mr. Lewis and it was passed that this letter be made the policy for naming wells in Arizona.

Mr. Bannister showed a new "brief" form for the well files which shows the complete history of the well. Mr. Lewis pointed out that in the next 10-20 years there will be no legal-sized paper or files, except in extremely few exceptional cases and brought this up for consideration now since it is easier to plan accordingly rather than to make a change from legal size ten years from now.

Mr. Bannister called attention to the low balance in the Travel-out of State fund in relation to the June Interstate Oil Compact Commission meeting. Chairman Lockhart is the Governor's representative to IOCC and Mr. Bannister and Mr. Scurlock are on Committees.

Mr. Lockhart reported on the IOCC Executive Committee meeting in Austin, Texas, February 23, at which Governor Connolly of Texas was elected to attend the Secretary of Interior's meeting.

Mr. Walden asked about the financial condition of the Commission. Mr. Bannister replied that the only place right now where the Commission is cramped is in Travel-out of State and that we probably would close out the current year even. However, Professional Services, which currently has about a \$1,200 balance, and Current Expenditures Other, with \$2,700 for office supplies

Minutes of Meeting
March 24, 1965
Page 2

through June 30, will probably not be depleted and much of this will revert.

Mr. Walden asked, that if in the event we plug the McCauley well, running into an expenditure beyond the amount of the bond, what would this do to the budget.

Mr. Bannister replied that the bonding company would be ordered to plug; and that in his opinion the State could not contract for this work. Where any expenditure in excess of the bond amount would come from, Mr. Bannister does not know.

Mr. Lewis pointed out that the Commission has no system, no method of handling plugging and questioned what would happen if ten cases requiring plugging came up all at once. Mr. Bannister pointed out that bonding requirements of \$2,500 for one well, or \$10,000 blanket, were insufficient and suggested that a minimum of \$5,000 per well, or \$25,000 blanket be set.

Mr. Lockhart suggested graduating bond amounts to the depth of the well. Mr. Bannister felt that it would be simpler and more clear cut to set a straight amount. Mr. Lewis pointed out that if an operator was in no position to get a bond, perhaps he should not drill any wells and suggested that this problem be listed as one of the myriad things to take up when we have a hearing.

Mr. Bannister reported on the current status of SB-185, as amended, defining a well, currently in the House.

Mr. Ryan commented there was no conflict, actually, between the Land Department and the Commission. In the Statutes the Land Department has certain responsibility under the water code and that the Commission has different areas of responsibility. The prime responsibility of the Land Department in the current water deal is to act as a depository for the records of all ground water for the Legislature. The all-inclusive angle pertaining to the Coconino formation could throw a hardship on all the cowpunchers and people hunting water in the Coconino formation in Apache and Navajo Counties because, the bill was written could indeed have made any hole into the Coconino formation subject to permit and bond until the hole was plugged. Mr. Ryan felt it wasn't the Commission's intent to enforce the bill to the hilt each time, still the bill reads that way and he thought the Commission would be in jeopardy of being mandamus'd into having to comply fully. The Land Department is still beating the drums for a special omnibus water bill. This year the Land Department started out in the same direction but held off because of the tenderness of the subject in relation to California Arizona Project.

Chairman Lockhart asked if any mining company or anyone else would have any objection to the language as it is now amended.

Minutes of Meeting
March 24, 1965
Page 3

Mr. Ryan replied that except for Duval, all companies the Land Department had contact with were "foreign" companies. In talking with Ben Messer of Duval he didn't seem to have any particular objection but was going to have it checked. Their biggest fear was having to make public mining company information.

Chairman Lockhart asked if there would be any organized objection and Mr. Ryan replied that he had no idea. Mr. Bannister felt that no big objection would develop now.

Mr. Bannister called attention to the period of confidentiality (six months) and compared it to New Mexico's 90-day period. Upon Mr. Bannister's affirmation that New Mexico's 90-day period did apply to mining interests if they became subject to New Mexico's Oil & Gas Conservation Commission Rules, Mr. Lewis indicated that this could be a good answer to any complaints about Arizona law.

Mr. Walden queried whether the Bill as amended would cause any problem for the Land Department, and Mr. Ryan replied only that it might scare someone off from exploring for potash; but even then, since they know already the centers of interest, they probably would come back in.

Chairman Lockhart questioned whether it would entail any more work for the Land Department and Mr. Ryan replied that he felt it would not. At the present time the Land Department does not ask for information from a permittee who has a license to explore reporting everything that was found that particular day. The Land Department felt content to wait until the man makes a move to take a lease. Then, in keeping with the law, then we want to know 10% of exactly what he has found. Mr. Ryan did not think that anything the Commission was going to have to have in way of protecting Coconino or other horizons or water is going to interfere with that. The instances where the Commission is going to take after a water well will be few.

Mr. Bannister stated that there has been a conflict of interest or ideals or opinion, between the Land Department and himself, but at no time has there been any personal animosity. Mr. Ryan concurred.

Mr. Bannister reported that the Registrar of Contractors does not know if a driller for oil and gas comes under their regulations or not. Mike O'Donnell went in because he was thinking of doing some water work and kicked off quite a controversy. Right now the Registrar is deciding that oil and gas drilling contractors does come under them. This would mean that an outfit coming in from Farmington to drill one well is going to be coming in illegally. It is not likely that a contractor will come to Phoenix, take a test, put up a bond, just to drill a single well.

Minutes of Meeting
March 24, 1965
Page 4

Mr. Lewis cited many of the other facets of the Registrar's regulations and pointed out that originally the purpose of this registration was to keep the business in the hands of local contractors.

Mr. Bannister pointed out that 90% or better of the wells drilled in this state have been drilled in violation of the Registrar of Contractors regulations. One man in the Registrar's office held that in an old Attorney General's opinion oil and gas drilling did not come under them. Mike O'Donnell went in the next day, talked to another man who got out the same Attorney General's opinion and said that very definitely oil and gas drilling does come under them.

The Registrar is asking the Attorney General for a new opinion. In talking to the Attorney General's office, Mr. Bannister said, they decided the original opinion was very ambiguous, but if they do render another opinion oil and gas would come under the Registrar's regulations.

Laws in other States are probably set up in the same way. But the problem here is that one drilling company is set up in Arizona. The rest of the drilling is coming out of California and New Mexico. This service is needed.

Mr. Lewis suggested that the Chairman of the Commission, but not officially, go over and talk with the Deputy Attorney General, Bill Eubanks. Tell him that you understand there is a request for an opinion, you recognize that all he can do is to interpret the law; but on the other hand it is your understanding, and you're not a lawyer, that there is confusion in the Law and you would like him to know first hand the real problems --that there is only once contractor in the State and the only reason he is licensed is that he was planning to do some water work, and that it is not unusual for drillers to come into the State, that generally where a situation like this exists a local contractor complains; but in this incidence, O'Donnell is complaining because they are being required to have a license; and that if in interpreting the law he has a problem of deciding which way it goes, please bear in mind these facts because it would be of great help if these people did not have to have licenses. Then later, if the time comes when there is a real reason for them to be licensed, the law could be clarified. Mr. Eubanks is a very intelligent young man. He will give all the cooperation he can, but he will not bend the law.

Mr. Walden questioned whether the law was ambiguous and Mr. Bannister replied it was the interpretation.

After further discussion Mr. Lewis stated it was his opinion then that we should not go to the Attorney General, but to talk to the appropriate man in the Governor's office who can explain the situation to the man in the Registrar's office.

Minutes of Meeting
March 24, 1965
Page 5

Mr. Lockhart asked if a change in the Chairmanship was desired. It was unanimous that Mr. Lockhart should continue as chairman as he was doing a very good job, he had various experiences in his time, and he had time and inclination.

Mr. Bannister reviewed expenditures and pointed out that the salary budget would have an excess of \$1,700 and that the Commission could go ahead and use some of this for salary raises.

Mr. Walden felt that the Commission should wait at least until the new budget was approved, that the budget for the current year was set up and approved on a salary scale.

Mr. Lewis was opposed to raising salaries at present; the only basis on which he would be willing to see it done would be for the Chairmen of the two Appropriation Committees to approve it in view of the new salary schedule.

Mr. Owens felt that if and when the new budget is approved, and if the Appropriation Committees approve, and if there would be a reversion of money anyhow, he could see no objections.

Mr. Lockhart suggested that no action be taken until the next meeting and when it is known whether the new budget is approved.

Mr. Lewis felt it an unwise way to start out, not wrong, but unwise. We would be much stronger as we approach the Legislature in the future if we did not do this. Mr. Walden concurred and no further action was taken.

The Post Auditor's Report was discussed. Mr. Walden commented upon Mr. Bannister's written comment that comments of the Auditor were because he did not understand the operation of the Commission; and his reaction was that it was Mr. Bannister's responsibility to see that the auditor did understand the operation. Mr. Bannister replied that he was working with the post auditor on this.

Current mechanics of issuing permits to drill, as commented upon by the Post Auditor, were discussed. Mr. Walden moved and it was voted that the suggestion of the Post Auditor, that a pre-numbered permit to drill be issued, be made effective. Chairman directed that the Post Auditor be advised by letter that the Commission was complying with his recommendation.

Meeting adjourned at 11:30 a.m.



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PHONE: 271-5151

JOHN BANNISTER
EXECUTIVE SECRETARY

J. R. SCURLOCK
PETROLEUM GEOLOGIST

April 19, 1965

Memo to: Commissioners
From: John Bannister, Executive Secretary
Re: Report of Activities

The weather in northern Arizona seems to have been a big factor in the delay of exploration in that part of the State. With the signs that it is clearing, activity is picking up, particularly on the Hopi Reservation. (See New Permits.)

The Amerada well is rigging up and should be spudded by the time of the meeting. Texaco and Skelly should be on location by the end of the month. Atlantic has advised of an intended well in SE/4 S-9-T28N-R15E, Navajo County, approximately 15 miles northwest of the Texaco well, and, 15 miles southwest of the Skelly location. Kerr-McGee will bring in a completion rig to do further work on its rumored discovery in Apache County (SW/4 S32-T36N-R30E).

Senate Bill 185 (as amended) became law on April 6, 1965. A copy of this bill has been sent to the office of the Attorney General for comment in order that the office will be in a secure position when we begin to apply the new provisions.

There has been considerable leasing activity in Pinal County, southeast of Florence. The leasing is being done by some of the people associated with Silas Newton (Sedona). It is rumored that this will be an attempt to recoupe some of the losses from the Sedona venture.

The Ram well in Graham County has been inactive since approximately the first of April.

Considerable leasing has been done in Graham County. T10S-R22E, by Roy Sharp and I am informed that he intends to drill here soon--possibly within a month. His partner is Mr. Al Ward, a large and prominent independent from Colorado with production in Colorado, New Mexico, Kansas, and Oklahoma. This information must be kept confidential.

There has been interest expressed as to the feasibility of constructing a \$10 million refinery near Kingman. The Governor's office has cooperated with PARCO, the company making the study. PARCO is an engineering and design firm which has specialized in promoting and constructing refineries primarily outside the United States.

It is my understanding that our requested budget was largely passed with the requested new position being denied and a portion of the requested increase in Out-of-State Travel being denied. Most adjoining departments have had requests for salary increases denied as well as increases in personnel and other items of expenditure. It is possible that our allowed budget will be known prior to our meeting on April 28, 1965.

There has been no word as to the selection of a new Commissioner for this Commission.

Rules and Regulations. I feel that the Commission should soon consider a review of its Rules and Regulations with the idea in view of changing same and removing existing conflicts, etc., therefrom.

New Permits

- 309: Skelly #1 Hopi A 5202, SW/4NW/4 S35-30N-17E, Navajo County, estimated TD 8,000 feet.
- 310: Amerada #1 Hopi 5075, SE/4NE/4 S8-T29N-R19E, Navajo County, estimated TD 9,400 feet.
- 311: Blackburn #8-1 Navajo, SE/4SE/4 S8-T37N-R27E, Apache County, estimated TD 5,000 feet.



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EXECUTIVE SECRETARY
J. R. SCURLOCK
PETROLEUM GEOLOGIST

April 19, 1965

Memo to: Commissioners
From: J.R. Scurlock, Petroleum Geologist
Re: Report of Activities

April 1-4

Geological field trip with University of Arizona students to Cochise County. The Cretaceous sandstones and the Paleozoic limestones of this area represent potential oil horizons. (Mr. Bill Wilson of Phoenix is currently putting a block of acreage together with the idea of promoting a deep well, approximately 10,000-12,000 feet, on one of the magnetic anomalies in here.)

April 15-16

To Winslow to scout Ferrin #1 State well. Well had slight show of oil in the Coconino. Apparently wet. Logs have been run but no interpretation is available at this time.

Hopi Reservation:

Permit 310: Amerada. Moving in. (Exeter is contractor)
Permit 307: Texac. Expected to move in soon. (Brinkerhoff is contractor)
Permit 309: Skelly. Expected to move in soon. (Moran is contractor)

Other wildcats:

Permit 308: Tenneco Navajo 8939 in NE/4NW/4, S2-T35N-R22E, Apache County. Dry hole.

STATEMENT OF LEDGER TRANSACTIONS
MARCH 1965

	Expenditures to date	Outstanding Encumbrances	Expenditures Mar. 1965	Appropriation	Unencumbered Balance
Personal Services: Staff Commissioners			\$ 2,050.00	\$ 2,400.00	\$ 1,300.00
TOTAL	\$20,450.00		\$ 2,400.00	\$21,750.00*	\$ 1,300.00
Current Expenditures-Other: Telephone (Mar. 15 billing) Printing: letterhead Miscellaneous			\$ 64.35 100.00 \$164.35	100.59 47.04 147.63	\$ 4,762.50* \$ 1,146.33
TOTAL	\$ 3,451.82		\$ 164.35	\$ 150.00	\$ 34.80
TOTAL Subscription-Orgn Dues	\$ 97.00	\$ 18.20			
Travel - State Staff Commissioners Car repairs, SI995 Gasoline-related expense		\$200.00	\$ 60.14 96.00 458.24 173.55 787.93		\$ 1,991.29
TOTAL	\$ 2,808.71	\$200.00	\$ 787.93	\$ 5,000.00	\$ 1,991.29
TOTAL Travel-out of State	\$ 1,974.59	\$ 75.00	\$ 544.95	\$ 2,500.00	\$ 450.41
TOTAL Capital Outlay Equipment	\$ 617.69			\$ 685.00	\$ 67.31
TOTAL Fixed Charges	\$ 191.26		49.51	\$ 350.00	\$ 158.74
TOTAL Professional Services	\$ 232.60			\$ 1,500.00	\$ 1,267.40
TOTAL Museum Northern Arizona	\$ 1,875.00			\$ 1,875.00	
TOTAL Arizona Bureau Mines	\$ 1,875.00			\$ 1,875.00	
TOTALS	\$33,573.67	\$457.55	\$ 3,930.02	\$40,447.50	\$ 6,416.28
LUMP SUM	\$ 60.79			\$ 61.21	\$.42
RECEIPTS	to date \$ 575.00		March \$50.00		\$ 7,620.25

*Quarterly allotments to date