

OIL & GAS CONSERVATION COMMISSION
Meeting: December 17, 1969
Mr. John Bannister, Exec. Sec.



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

A G E N D A

Meeting
 December 17, 1969
 Room 204, Arizona State Office Bldg.

- 10:00 a.m. Call to order
1. Approval of minutes of meeting of November 19, 1969
 2. Executive Secretary report
 3. Geologist report
 4. Old Business
 5. New Business
 6. Adjourn

10:30 a.m. Meet with Governor Williams

*Maybe - No Budget Hearing
 Mobils visit*

IF YOU ARE UNABLE TO ATTEND THIS MEETING, PLEASE NOTIFY THIS OFFICE AS SOON AS POSSIBLE.

REMINDER: HEARING WILL BE HELD ON CASE 39 FOLLOWING MEETING OF JANUARY 21, 1969.

Cancelled



OFFICE OF
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ROOM 202
1624 WEST ADAMS
Phoenix, Arizona 85007
PHONE: 271-5161

December 11, 1969

Memo: Commissioners
From: John Bannister
Re: Report of Activity

The Interstate Oil Compact Commission had its December meeting on December 8 through 10 in Salt Lake City. This meeting was attended by Chairman Bilby and the Executive Secretary. Many interesting papers were given and the meeting was, as usual, well attended and successful. Governor Dewey Bartlett of Oklahoma was elected Chairman for the forthcoming year. Mr. Ben Ramsey, Chairman of the Texas Railroad Commission, was elected the First Vice President and Mr. Fred Bartlett, Governor's Representative from West Virginia, was made Second Vice President. The June meeting will be held in Columbus, Ohio.

The physical work involved in the first step of arriving at a monitor program for the salt project has been completed. This work included gathering water samples from all wells within a mile of the site and conducting of core acquisition of soil samples within the ponding area. The information gathered from these tests will be compiled and presented and, upon presented information, a monitoring program will be determined. This phase, while necessarily slow in that samples taken must be submitted for analyzation, is being pursued as rapidly as possible. I am pleased to report that the operator, Southwest Salt Company, is giving its utmost cooperation in our endeavors.

I would like to take this opportunity to remind you that Case No. 39 will be held on January 21, 1970, the day of our meeting. This case was held over at the request of Consolidated Oil and Gas.

I would further remind you that pursuant to your instructions an appointment has been secured with Governor Williams at 10:30 a.m. on Wednesday, December 17, the day of our meeting.

Pursuant to the instructions given me, I am attaching an investigation made by me concerning potential incentives for the encouragement of exploration and drilling within the State.

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Executive Secretary Report
12-11-69

New Permits:

- 522 - Union Oil Company #1-17 Navajo (2346), SW/4 SW/4
17-36N-29E, Apache County.
- 523 - Eastern Petroleum Co. #1 Navajo (2601), NE/4 SW/4
30-20N-28E, Apache County.
- 524 - Consolidated Oil & Gas #3 Navajo (227), SW/4 NE/4
11-41N-28E, Apache County.
- 525 - Mesa Petroleum Company #1 Navajo (8888), NW/4 NW/4
4-35N-30E, Apache County.

12-11-69

DISCUSSION OF POTENTIAL INCENTIVES TO ENCOURAGE
EXPLORATION AND DRILLING WITHIN THE STATE OF ARIZONA

In the past, several sessions of our Legislature have had introduced so-called incentive bills to encourage exploration of Arizona's oil and gas resources. With one exception the bills have been in the nature of a financial payment for the first discovery. Normally, the bill advocated payment from the State Treasurer of \$250,000 for the first discovery of oil and/or gas off the Indian Reservations, which discovery would produce oil at the rate of at least 50 barrels a day for 90 days or for a gas well which produced at the rate of 100,000 Mcf of gas per day for 90 days. The plan was to make the award pending verification and recommendation of the Oil and Gas Conservation Commission.

The only other type of incentive bill which has been introduced in this State is one whereby \$100,000 would be made available to the Commission to support wells completed as dry holes up to the amount of \$1 per foot for the total depth drilled. The theory behind this being that a producing well was sufficient reward within itself. The Commission would have been empowered by this bill to select areas, etc., where this support would be granted. As with other incentive bills, this, too, has failed.

In reviewing the history of incentives, it has been noted that in the United States the only incentive bills ever offered by the states have been in the nature of that first previously discussed, i.e., the payment of a certain amount of money for a successful discovery. In no case has this type of incentive occasioned the desired results and on only two occasions am I able to discover that the moneys so offered have ever been paid out.

Among other undesirable factors of these proposals are:

1. The type of money here offered represents ordinary income to the operator and is viewed by an oil operator with alarm in that it is a most upsetting factor to his tax picture, in many cases demanding the use of tax credits or deductions which he had otherwise planned to use. In most cases the operator does not want ordinary income and, in truth, in their tax structure cannot handle such.
2. Such an incentive payment offers good publicity to unscrupulous promoters and gives them additional ammunition in their promoting schemes by promising a chance at additional rewards.

As to a Governmental Agency involving itself directly in the financing or payment of a well drilled for oil and gas purposes, I know only two occasions where this has occurred:

INCENTIVES TO ENCOURAGE
EXPLORATION & DRILLING
WITHIN STATE OF ARIZONA
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1. Australia, in its attempt to get its exploration and drilling programs under way, underwrote to the extent of 50% the entire cost of exploration and drilling within its boundaries. It should be pointed out that the cost of drilling in Australia was extremely high and that a national treasury was behind this effort rather than that of an individual state. In addition, Australia was most generous in providing and helping as to the leasing of its lands, granting huge tracts of acreage to operators who would guarantee exploration thereon and they then were backed by the government's offer to share 50-50 the cost involved. It was further provided that in the event of the discovery of oil and gas, the money paid on behalf of the Government would be recouped. However, if the hole was a dry hole, the government's proportion was lost.
2. Ireland has found a successful use of the oil industries' contribution program in that the Irish states have supported certain wells of their choice by X number of dollars per foot contribution to the operator.

In my opinion, neither of the above-discussed approaches are appropriate for the State of Arizona. The finances of the State are not such that they could assume 50% or any percentage of the exploration program, nor do I feel a footage contribution is acceptable. Again, in my opinion this State can well do without both of these types of promotion.

I have investigated the possibility of encouraging drilling of wells on State land by some method of lowering the State's royalty share for some period of time, however the Constitution and Enabling Act of this State very specifically provide that State royalty shall not be less than 12-1/2%, consequently an approach of this nature cannot be used.

The only methods I see available to this State to encourage exploration is through its tax structure and allowing the Oil and Gas Conservation Commission to assemble and disseminate new geology information. To my mind, one of the greatest incentives we could offer the oil industry is a favorable tax climate. As our oil and gas production taxes are now set, an oil company cannot know with certainty what tax burdens it must face. As recently pointed out, ad valorem tax districts vary greatly in the percentage of taxes collected. In some of the poorer districts, ad valorem tax rates will range as high as 15%. In such a district, ad valorem tax, coupled with State tax of 1-1/2%, make an unreasonable burden upon a producing company. Unfortunately, some of these poorer districts are the ones wherein oil and gas can reasonably be expected to be found.

INCENTIVES TO ENCOURAGE
EXPLORATION & DRILLING
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It is my feeling that oil and gas, and perhaps other extractive industries, could be encouraged by the imposition of flat severance tax in lieu of all other taxes upon production. In the case of oil and gas, it is my feeling that the amount of this tax should be 5%. Taxwise, this would place us in a somewhat more favorable tax light than New Mexico, which collects production taxes of approximately 6-1/4%; Colorado collects a straight 5%; and Utah's taxes vary somewhat according to a specific taxing district, generally in the neighborhood of 5-1/4%.

I further feel that additional incentive could be obtained by providing that the operator who makes the initial discovery of a field may recover 200 to 300% of the cost of his well prior to the imposition of this tax. This would apply only to the discovery well. In this particular case, the award to the operator would be an award of a greater amount of production upon which would be applicable his various deductions and depletion allowances - it would be in the nature of production income and not ordinary income and would be a direct incentive to him.

I further feel that if the State should take such a taxing position, it would be a simple matter for this Commission to bill each operator monthly the amount of this tax, based upon his production for the prior month. Billings could be sent monthly and the collection of production taxes would thus stay current. The problem, of course, is not quite this simple, in that in our present method of taxation the taxes for a given year are collected a year later and provisions would have to be made to bring the back taxes up to date and then the new system would begin. If an approach such as this is considered, much thought must be given to such matters as:

1. The time wherein the tax, once billed, must be paid, penalties for failing to pay the tax, penalties for filing false production information, etc., etc.
2. I further feel that inasmuch as ad valorem taxes to the county would be reduced by imposition of such a severance tax in lieu of all other forms of taxation upon production, the county would, of course, lose some ad valorem taxes. This could easily be handled by a provision to the effect that the State would pay a certain percentage of the taxes so collected to all counties or to the county wherein production originated.

The problems herein involved would be totally legislative in nature. If an approach such as this is used, I feel that the Commission should have a strong voice in the preparation of such tax bill and that an ultimate limitation be placed upon the length of time during which the incentive portion of the bill would be in force, say for a ten year period.

Should you have any questions or desire information on any point herein submitted, please advise.



OFFICE OF

Oil and Gas Conservation Commission

STATE OF ARIZONA

ROOM 202

1824 WEST ADAMS

Phoenix, Arizona 85007

PHONE: 271-5161

December 9, 1969

GEOLOGIST'S REPORT

FROM: JAMES SCURLOCK
TO : COMMISSIONERS

APACHE COUNTY

Consolidated #3 Navajo 227
T41N, R28E, G & SRM East Boundary Butte Field
Sec. 11: SW/4 NE/4
Permit #524

Location. Contractor: Loffland Brothers.

Consolidated #2-11 Navajo 227
T41N, R28E, G & SRM East Boundary Butte Field
Sec. 11: SW/4 NW/4
Permit #518

Installed pump. Pumped 43 barrels of oil plus 292 barrels of water in 26 hours. Tubing pressure - 150 psi; casing pressure - 160 psi. Gas estimated at 500 MCF per day.
Well put on production and completed as of 12-4-69.

Humble #3 Navajo (413)
T41N, R28E, G & SRM East Boundary Butte Field
Sec. 4: SW/4 SE/4
Permit #515

Formation tops:
Ismay 4573'
Lower A₂ 4644'
Desert Creek 4737'
Aka 4839'
Total depth 5010'

No cores cut; no drill stem tests taken. Set 5-1/2" casing to 5000' with 178 sacks of cement. Plugged back to 4965'. Perforations 4717-23' (Ismay) and 4763-68' (Desert Creek). Well completed 11-30-69. Pumping 72 barrels of oil, 172 barrels of water, and 179 MCF gas per day; GOR 2487.

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Geologist's Report
December 9, 1969

APACHE COUNTY (Cont.)

AAA Fishing Tool #E-1 Navajo (597)
T41N, R28E, G & SRM
Sec. 9: NW/4 NE/4
Permit #511

East Boundary Butte Field

Formation tops:

Entrada	Surface
Carmel	10'
Navajo	105'
Kayenta	275'
Wingate	285'
Chinle	966'
Shinarump	2014'
De Chelly	2068'
Organ Rock	2396'
Lower Cutler	3135'
Hermosa	3979'
Ismay	4550'
Desert Creek	4721'
Akah	4940'
Total depth	5000'

Set 5-1/2" casing at 5000' with 200 sacks.
Perforation 4732-4798' (Desert Creek Zone). Acidized with
2500 gallons of 15% HCL.
Completed on pump 11-10-69. Pumping 175 barrels of oil per day,
(gas TSTM), plus 300 barrels of water per day.
Gravity of oil is 40° API.

Buttes #1-24 Navajo (2200)
T37N, R28E, G & SRM
Sec. 24: NE/4 SE/4
Permit #520

Wildcat

Formation tops:

Shinarump	825'
Moenkopi	928'
De Chelly	1185'
Organ Rock	1880'
Hermosa	3122'
Molas	3762'
Mississippian	3855'
Total depth	3920'

Two Drill Stem Tests were made in the Hermosa formation. Recovered
mud, no shows. No cores taken. Plugged and abandoned.

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December 9, 1969

Union #1-4 Navajo (8833)
T36N, R29E, G & SRM
Sec. 4: SE/4 SE/4
Permit #521
Drilling at 2198'.

Wildcat
"TIGHT HOLE"

Union #1-17 Navajo (2346)
T36N, R29E, G & SRM
Sec. 17: SW/4 SW/4
Permit #522
Preparing roads and location.

Wildcat
"TIGHT HOLE"

Mesa Petroleum #1 Navajo (8888)
T35N, R30E, G & SRM
Sec. 4: NW/4 NW/4
Permit #525
Location; contractor is Loffland Brothers.

Thoureen #1 Santa Fe
T21N, R26E, G & SRM
Sec. 27: NE/4 SW/4
Permit #504
Total depth 1237 in Coconino.
Well shut down. It has been temporarily abandoned.
Will attempt Shinarump completion.

Wildcat
"TIGHT HOLE"

Eastern #1 Navajo (2601)
T20N, R28E, G & SRM
Sec. 30: NE/4 SW/4
Permit #523
Location. Well will be drilled with the company rig.

MOHAVE COUNTY

Harris #1 Federal 3758A
T38N, R7W, G & SRM
Sec. 29: NW/4 NE/4
Permit #502
Drilling at 750' in the Toroweap formation.

Wildcat

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December 9, 1969

GILA COUNTY

Kerber #1 Federal (A-2719-A)
T4N, R13E, G & SRM
Sec. 5: SE/4 NW/4 Wildcat
Permit #516
Drilling 12" hole at 450'. Still in valley fill.

SCUTTLEBUTT:

Background noises from Midland indicate that Virginia Gas & Oil may be having some success in promoting their Cochise County wildcat. We understand that the Sun Oil Company office has recommended to their management that their company participate with Virginia in a wildcat on the old Guadalupe structure in Section 16, T22S, R31E (extreme southeastern Cochise County). We understand that this Conoco and American Petrofina also are seriously considering this proposition. This is confidential information.

Mr. Jerry Grott is planning another salt well. This well is to be located in the Holbrook area (Section 1, T19N, R25E, Apache County), where he holds a lease consisting of 403 acres. Mr. Grott hopes to find a thickness of about 100 feet of salt. He would market the salt much of which would go into uranium refining in the Grants area. The cavity would be used to store LPG gas for the Eagleton Engineering Company of Houston. The LPG gas would be transported in by truck from Gallup and Farmington and would be stored here during the off season and thence to the west coast market during the winter. This project would entail the use of clay-lined evaporating pits such as those constructed by Southwest Salt Company at Litchfield.

The last Navajo lease sale elicited such a weak response from the industry that the Navajo geologist, Mr. P. K. Hurlbut, called a meeting with representatives of the local companies in Farmington on Tuesday, December the 2nd, in order to ascertain what might be done to improve relations between the Tribe and the industry.

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Geologist's Report
December 9, 1969

SCUTTLEBUTT: (Cont.)

As a result of this meeting, which was attended by thirteen major companies and six independents, Mr. Hurlbut agreed to review the following points with the Tribal Council. The possibility of

1. eliminating the minimum bonus of \$2.50 per acre, and
2. bringing the term of the lease back to ten years, and
3. changing the Tribal Lease Regulations so as to allow an operator to hold his leases with a shut-in gas well.

RUTH ADAMS
3315 E. WELDON
PHOENIX, ARIZONA 85018



Arizona House of Representatives
Phoenix, Arizona
TWENTY-NINTH LEGISLATURE
1969-1970

COMMITTEES:

APPROPRIATIONS, CHAIRMAN
PUBLIC HEALTH AND WELFARE
RULES

JOINT LEGISLATIVE
BUDGET COMMITTEE, CHAIRMAN
JULY 15, 1969 - JAN. 31, 1970

TO ALL STATE AGENCIES

This year the House Appropriations Committee will concern itself mainly with those programs which you consider essential to the successful operation of your agencies, particularly those items which may have been eliminated from your budget request by either the Executive Budget recommendations or those of the Joint Legislative Budget Committee Analyst.

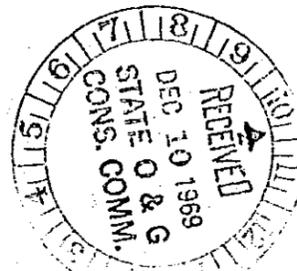
Our questions will be in these areas and we would appreciate your cooperation so that we do not waste time by going through each category as we have in the past.

As always, we will be especially interested in requested additions to your staff and the justification for these new positions.

Sincerely,

Ruth Adams

RUTH ADAMS
Chairman



AGENCY Oil & Gas Conserv Commission

DIVISION _____ IDENTIFICATION CODE NO. 1-7-10-000-0000

1	2	3	4
CLAIMS PAID YEAR TO DATE	OBJECT CODE NO.	DISTRIBUTION OF EXPENDITURES CLASSIFICATION	CLAIMS PAID MONTH OF Nov. 1969
19,050.00	110	1 Salaries, wages: employees	3,850.00
1,025.00	150	2 Per diem: board members	175.00
		3	
	211	4 Postage	
567.56	212	5 Telephone, telegraph	293.81
747.29	221	6 Travel -State meals and lodging	64.00
502.36	222	7 mileage reimbursed private car	53.00
200.00	223	8 fares for planes, trains, etc.	32.00
611.63	224	9 State-owned auto expense	109.85
16.55	225	10 telephone, taxi, etc.	6.15
19.00	226	11 registration fees at meetings	
		12	
		13	
346.41	231	14 Travel-out of State meals and lodging	169.92
820.00	233	15 fares for plane, train	380.00
	234	16 State-owned auto expense	
86.85	235	17 telephone, taxi, etc.	37.25
18.00	236	18 registration - meetings	18.00
		19	
349.00	240	20 Professional services	-
		21	
	262	22 Mntns/repairs to office equip., furniture	
290.34	294	23 Legal advt., notary, court, recording fees	-
	295	24 Transportation of things (well samples)	
2,502.07	299	25 Miscellaneous (blueprint service, Ariz Bu Mines, Museum N. Arizona)	-
		26	
		27	
		28	
244.97	310	29 Office supplies	95.29
232.40	360	30 Scientific supplies	66.96
35.18	370	31 Mntns supplies (duplicate keys)	
	390	32 Other supplies (film)	
		33	
		34	
	411	35 Rent, office equip: copy machine	
		36	
	421	37 Bond (notary public)	
22.00	430	38 Subscription/organization dues	-
		39	
		40	
480.17	611	41 Office equipment/furniture	-
		42	
		43	
		44	
		45	
250.00	995	46 To create revolv fund	-
		47	
		48	
		49	
		50	
		51	
		52	
		53	
		54	
		55	
28,416.72		TOTAL	5,351.78

MONTHLY FINANCIAL REPORT

1 RECEIPTS MONTH OF	2 CLASSIFICATION RECEIPTS	4 APPROPRIATED RECEIPTS	4 UNAPPROPRIATED RECEIPTS	5 TOTAL ALL RECEIPTS YEAR TO DATE
<i>Nov. 1969</i>	1 Permits to drill		150 00	475 00
	2			
	3			
	4			
	5			
	6			
	7			
	8			
	9			
	10			
	11			
	12			
	13			
	14			
	15			
	16			
	17			
150 00	TOTAL CURRENT MONTH RECEIPTS		150 00	XXXXXX
	TRANSFERS <i>In</i> Out		(175 00)	
XXXXXX	BALANCES BROUGHT FORWARD		3,245 25	XXXXXX
	TOTALS - MONTH AND YEAR TO DATE		3,220 25	475 00

6 CLAIMS PAID MONTH OF	7 EXPENDITURES FUND TITLES	8 TOTAL AMOUNT AVAILABLE YEAR TO DATE	9 CLAIMS PAID YEAR TO DATE	10 OUTSTANDING ENCUMBRANCES	11 UNENCUMBERED BALANCE
<i>Nov. 1969</i>	1 Personal Services:				
3,850 00	2 General Fund	22,864 00	19,050 00	-	3,814 00
175 00	3 Conservation Fund	1,500 00	1,025 00	-	475 00
456 56	4 Current Expenditures	3,007 50	1,777 22	381 42	248 86
265 00	5 Travel - State	6,090 00	1,942 07	1,452 90	2,695 03
605 22	6 Travel - Out of State	3,496 00	1,271 26	-	2,224 74
-	7 Current Fixed Charges	500 00	22 00	-	478 00
-	8 Professional Services	2,000 00	349 00	450 00	1,201 00
-	9 Capital Outlay	2,150 00	480 17	-	1,669 83
-	10 Museum N. Arizona	1,250 00	1,250 00	-	-
-	11 Arizona Bureau Mines	1,250 00	1,250 00	-	-
	12				
	13				
	14				
	15				
	16				
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	20				
	21				
	22				
	23				
	24				
	25				
	26				
	27				
	28				
	29				
	30				
5,351 78	TOTALS	44,107 50	28,416 72	2,284 32	13,406 46