

OIL & GAS CONSERVATION COMMISSION
Meeting: April 15, 1970
Mr. John Rannister, 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
April 15, 1970
Room 204, Arizona State Office Bldg.

- 9:00 a.m. Call to order
- ✓ 1. Approval of minutes of meeting of March 18, 1970
 - ✓ 2. Executive Secretary report
 - ✓ 3. Geologist report
 - ✓ 4. Old business (*Audit Report*)
 - ✓ 5. New business
 6. Adjourn

10:00 a.m. Hearing, Case 40
Eastern Petroleum Company

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

Holbrook May 20th - OK



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April 8, 1970

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

As instructed at our last meeting, I have prepared and forwarded to Mr. P. K. Hurlbut and the Navajo Tribe a letter indicating our support of their attempt to secure a shut-in gas clause in their leases and also indicating our favor of an extension of the lease by diligent drilling at the end of the primary term. I am sorry to report that Mr. Hurlbut apparently failed to secure the support of the Tribal Chairman and, as of this time, apparently his efforts to secure needed changes are at a standstill, however he did indicate that he will continue to pursue these ideas at a more propitious time.

As you know, I recently made a trip to San Francisco to discuss the possibility of investing monies in Arizona's oil and gas with various of the oil funds in that area. I was well received, however, I am somewhat disappointed with the feeling I had upon leaving. The funds, themselves, apparently do not initiate investments but look only to ideas and prospects brought to them. Consequently, though well received, I feel little was accomplished other than indicating to the funds that Arizona was suitable for their purposes should proposals involving Arizona acreage be presented to them.

The funds, in general, operate in two ways: 1. To financially back an operator's entire drilling efforts for a specific year. In this case, the fund is, for all intents and purposes, buying management of a portion of their available monies. They do not attempt, in this case, to in any way influence the operator's selection of prospects or expenditure of funds, but rely heavily on his own individual judgment. Normally, an investment of this sort is primarily in development of known prospects with but little wildcatting being done. 2. The funds will finance a specific adventure into oil and gas drilling and, quite often, in completely wildcat schemes, however, in this case, they are rather highly selective in the prospects brought to them. A

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fund of this sort normally has a thoroughly complete staff of geologists, engineers, etc., upon whom to rely for acceptance or rejection of a specific offer. In 1970 there are some 137 (an all-time high) seeking SEC approval. The majority of these funds are not as yet funded, i.e., the necessary money raised for the current year. In most instances, the fund sets a goal of X-number of dollars to be raised and will abandon its effort unless a specified amount comes in as a minimum. Should a fund fail to be sold, the money is returned to the investor.

In general, I found the operators of California funds to be optimistic as to the future of oil funds, however some have expressed the opinion that with the political atmosphere of Washington being somewhat anti-oil and with the somewhat less favorable tax advantage to oil now in existence, the selling of these funds will become increasingly harder. There was a general opinion that the funds needed to definitely police themselves in order to prevent undue federal control of their efforts.

You will notice on the agenda that a hearing for Eastern Petroleum Company has been scheduled for 10:00 a.m. on the 15th. This is the hearing I spoke to you about at our last meeting. Eastern is attempting to secure 160 acre spacing in approximately a township and a half for Coconino and Shinarump exploration. As reported, this is a portion of Eastern's attempt to salvage Arizona Helium Corporation through the means of a newly incorporated Western Helium Company. The general plan for Western is to operate the Arizona Helium plant under contract to Arizona Helium and to engage in a sizeable exploration program to deliver helium gas to the plant.

In the area set forth in Eastern's application, Eastern and Crest Oil Company are the only operators of producing wells at present. Immediately to the West of the area and extending into the area is the Navajo Springs unit. This unit, you will recall, set forth future development of the Coconino formation. As the Navajo Springs unit intrudes into the area, which is the subject of this hearing, it has been excluded as to the Coconino formation. Eastern asks permission to drill within the designated area on 160 acre spacing and to dually complete to both Coconino and Shinarump formations. I have discussed this proposition at length with Mr. Scurlock and both of us are of the opinion that Eastern's request is not unreasonable and we feel if supporting geological data can be submitted should basically be approved. The area involved would, of course, be open to anyone drilling within it on the same basis as it would be opened to Eastern, that is, if Eastern's request is granted, anyone drilling within the area could drill 160 acre spacing and dually complete their wells.

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Mr. John Hazelett, Member of the Tax Commission, and Mr. Robert Houk, his employee, have contacted this Commission several times regarding an appearance before us at our April meeting. On April 6th both Mr. Hazelett and Mr. Houk came to the office and we had a long discussion. Briefly, Mr. Hazelett indicated that when they started this project they had no realization of its complications and of its magnitude. Mr. Hazelett indicated he felt more than one appearance before the Commission would be necessary and his initial appearance would have to be very limited in scope. He further indicated that at the conclusion of his investigation a formal "paper" would be issued and made available to the Commission. He further indicated his utmost interest in the problems which we have presented to him and his desire to bring about a solution, not only for our portion of the problem but as to his problem, also.

Mr. Hazelett again indicated it appeared his department is still unable to separate and specifically identify at this time the amount of taxes generated from oil and gas production, however it is his belief that once their investigation has been completed he can come up with specific figures. One of the problems involved is that currently in production taxation there are three agencies whose actions are more or less inter-related - one, being the Oil and Gas Commission, whose prime interest is total production from the state and being less concerned with dollar volume than the other two agencies. Two, the Department of Property Valuation, whose prime interest is dollar amount generated to the operator; and three, the Tax Commission, whose prime interest is collection of taxes based upon the Department of Property Valuation dollar value of production.

In his initial contacts with the Department of Property Valuation, Mr. Hazelett was surprised that they would not reveal information to him and consequently a roadblock has been reared in his efforts to get to the heart of the problem.

I do not know at this time if Mr. Hazelett will actually appear before the Commission on April 15th. He indicated, as above mentioned, that the problems presented to him on oil taxation are much larger and more complex than he realized. He must be in Chicago on the 16th for a meeting which deeply involves the question he is studying for this Commission. He further indicated that he may be better prepared at a later meeting to talk to us, however he said that prior to our meeting on April 15th he will definitely let me know if he will be with us. I found his attitude most cooperative and he seemed most interested. I feel we would be better off not to push him in any way until he is ready to speak to us.

From all indications I have received, our budget seems to have

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full approval of the House and the sympathy of the Senate, but the Senate feels that the necessary money is not available at this time. Consequently, I have no idea where we do stand on the budgets.

Senate Bill 186 has passed both House and Senate and is now awaiting the Governor's signature. You will recall this is the bill to remove the limitation on the amount of state acreage that one applicant can hold.

New Permit:

532 - Aritex Development Corp. #2 Fee Strat, SE/4 NE/4
6-17N-21E, Navajo County.



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GEOLOGIST'S REPORT

FROM: JAMES SCURLOCK
TO : COMMISSIONERS

APACHE COUNTY

Thoureen #1 Santa Fe
T21N, R26E, G & SRM
Sec. 27: NE/4 SW/4
Permit #504

"TIGHT HOLE"

Shut down. No rig on location.
Will attempt Shinarump location.

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.

NAVAJO COUNTY

Aritex Development Corporation #1 Fee Strat
T17N, R21W, G & SRM
Sec. 6: NE/4 SE/4
Permit #530

and

Aritex Development Corporation #2 Fee Strat
T17N, R21E, G & SRM
Sec. 6: SE/4 NE/4
Permit #532

Aritex reports good progress. They have completed one permanent brine pit and partially completed the second. The pits which measure about 164' by 374' are enclosed by earthen dikes

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NAVAJO COUNTY (Cont.)

Aritex Development #1 and #2 Fee Strat (Cont.)

which measure 8' high from the inside and 6' high from the outside. It is planned that these ponds will hold brine to a maximum depth of 5'. We are told that the climate in Holbrook is ideal for this type of operation because of the fast rate of evaporation caused by wind. The #1 cavern is now in the process of being excavated by water circulation. Plans call eventually for a total of 3 caverns. No immediate plans have been set forth for drilling the next brine hole; however, the operator presently is preparing to drill a water well which we will permit. The operator hopes to start storing propane gas sometime in July.

MOHAVE COUNTY

Harris #1 Federal 3758A
T38N, R7W, G & 3RM
Sec. 29: NW/4 NE/4
Permit #502

Present depth is 1010'. Temporarily abandoned.

SCUTTLEBUTT:

We hear rumors that we may soon have a drilling rig on the old Harless diggings west of Sedona. Dick Harless' nephew, Mr. Cecil Cope a Phoenix wholesale jeweler, is reported to be negotiating for a heavy rig to drill a 3500' test in Section 32-T18N-R4E, Yavapai County. Cope is said to have borne the expense over the past years for much of the rental payments. It is said that he has sunk about \$50,000 in the Harless operations so far.

We understand that Western Helium expects an answer from the SEC by May 1 regarding their proposal to take over Arizona Helium Corporation. The proposal provides that Western Helium (Scottsdale) in return for 65% of Arizona Helium stock would undertake an exploratory drilling program in the Navajo Springs area. This program would consist of two phases, the first being a ten-well program covering about 10,000 acres of Arizona Helium leases. The second phase,

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SCUTTLEBUTT: (Cont.)

provided the first is successful, will consist of a fifteen-well program covering 50 to 55,000 acres of Arizona Helium leases. Jim LaFleur, the cryogenics engineer from California who designed the Arizona Helium plant, is reported to support this proposal.

As part of this picture, Eastern now desires a hearing by which they hope to secure a favorable ruling from the Commission permitting them to more easily explore and exploit the helium potential in the Navajo Springs area. My feeling is that we should grant Eastern's application. I dare say that the hearing will involve mainly the presentation of geologic data and argument. I think, however, that the issue here is not so much one of geology as it is of addressing ourselves to the dire need of the moment; that is, the desperate need of Arizona Helium to establish gas reserves. I believe, perhaps, that we should bend over backwards to accommodate Eastern and to encourage them in any way that we can. Even with what encouragement we can provide, Eastern will still need a lot of luck to salvage the situation because, frankly, the geologic prospects in the area do not look promising.

Quote from Petroleum Information News Service: "For several weeks the count of active rotaries in the United States has been flirting with the 27 year low. A downtrend has persisted with but two interruptions since late last year. As March began, the domestic count dropped below 1000 for the first time since 1943. This week it fell to 915. The 27 year low . . . 913 . . . was recorded in June of 1943". Thus, while exploratory drilling is diminishing, total United States production is increasing in the face of steadily rising demands for energy. Demand for oil and gas is rising at the rate of 5% per year. Another quote from Petroleum Information: "During the first three weeks of March, more oil was produced in the United States than in any comparable period in history. Production of crude oil and condensate climbed to a record average of 9,622,000 bbls a day the week ending March 6. In the two succeeding weeks producers posted averages of 9,604,000 and 9,619,000 bbls per day. Crude production broke the 9,600,000 bbl a day mark the first time the week of February 6 with a daily average of 9,616,000. The previous record of 9,561,000 bbls a day was set in February, 1968. Output in 1969 reached no higher than 9,537,000 bbls per day". Again this month no active drilling in the State.

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March 8, 1970

SCUTTLEBUTT: (Cont.)

Texaco has recently leased about 8,000 acres in the north San Simon area in Cochise County, 12S-30E. Hughes and Carpenter (of Phoenix) leased 2 blocks in Cochise County totaling about 20,000 acres. These blocks lie in the Wilcox and San Simon areas. Meanwhile, E. R. Richardson, James Vandiver, and J. R. Pickett have recently leased an additional 16,000 acres of fee lands in Cochise County located about T23 and 24S and R26 and 27E. These leases are ten-year term, \$10 cash, and one-year drilling commitment with a yearly penalty of 50¢ per acre if no well is drilled. In the last few days, El Paso has leased about 5,000 acres lying approximately 30 miles northwest of Wickenburg. I am guessing that this is another one of their gas storage projects.

The Navajo Tribe will have another lease sale (sealed bids) on April 23 at Window Rock. About 47,000 acres of Tribal lands are to be put up for lease. Most of the acreage lies within a 20-mile radius of the Dineh Bi Keyah Field.

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
32,042.00	110	1 Salaries, wages: employees	March 1970
1,700.00	150	2 Per diem: board members	3,348.00
		3	150.00
320.24	211	4 Postage	-
1,050.60	212	5 Telephone, telegraph	118.14
1,182.53	221	6 Travel -State meals and lodging	90.45
830.88	222	7 mileage reimbursed private car	76.60
360.00	223	8 fares for planes, trains, etc.	32.00
1,014.98	224	9 State-owned auto expense	91.68
29.20	225	10 telephone, taxi, etc.	4.65
19.00	226	11 registration fees at meetings	
		12	
		13	
637.05	231	14 Travel-out of State meals and lodging	38.00
1,236.40	233	15 fares for plane, train	96.00
	234	16 State-owned auto expense	
145.30	235	17 telephone, taxi, etc.	20.90
98.00	236	18 registration - meetings	
		19	
549.00	240	20 Professional services	
		21	
51.60	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)	
3,752.07	299	25 Miscellaneous (blueprint service, Ariz Bu	
		26 Mines, Museum N. Arizona)	
		27	
		28	
499.68	310	29 Office supplies	56.61
446.73	360	30 Scientific supplies	143.49
35.18	370	31 Mntns supplies (duplicate keys)	
70.40	390	32 Other supplies (film)	
		33	
		34	
360.00	411	35 Rent, office equip: copy machine	360.00
		36	
	421	37 Bond (notary public)	
73.10	430	38 Subscription/organization dues	28.60
		39	
		40	
480.17	611	41 Office equipment/furniture	
1,896.70	616	42 Automobile	
		43	
		44	
		45	
250.00	995	46 To create revolv fund	
		47	
		48	
		49	
226.87		50 Transfer of Funds to Purchase Auto:	
		51 Current Expenditures 26.87	
		52 Professional Services 200.00	
		53	
		54	
		55	
49,648.02		TOTAL	4,555.12

MONTHLY FINANCIAL REPORT

1 RECEIPTS MONTH OF <i>March 1970</i>	2 RECEIPTS CLASSIFICATION	3 APPROPRIATED RECEIPTS	4 UNAPPROPRIATED RECEIPTS	5 TOTAL ALL RECEIPTS YEAR TO DATE
25 00	1 Permits to drill		25 00	625 00
	2			
	3			
	4			
	5			
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	9			
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	11			
	12			
	13			
	14			
	15			
	16			
	17			
25 00	TOTAL CURRENT MONTH RECEIPTS		25 00	XXXXXX
	TRANSFERS <i>Out</i>		(150 00)	
XXXXXX	BALANCES BROUGHT FORWARD		2,820 25	XXXXXX
25 00	TOTALS - MONTH AND YEAR TO DATE		2,695 25	625 00

6 CLAIMS PAID MONTH OF <i>March 1970</i>	7 EXPENDITURES FUND TITLES	8 TOTAL AMOUNT AVAILABLE YEAR TO DATE	9 CLAIMS PAID YEAR TO DATE	10 OUTSTANDING ENCUMBRANCES	11 UNENCUMBERED BALANCE
	1 Personal Services:				
3,248 00	2 General Fund	34,296 00	32,042 00	-	2,254 00
150 00	3 Conservation Fund	2,250 00	1,700 00	-	550 00
318 24	4 Current Expenditures	4,511 25	3,180 41	409 90	920 94
295 38	5 Travel - State	6,090 00	3,349 89	658 71	2,081 40
154 90	6 Travel - Out of State	3,496 00	2,066 75	-	1,429 25
388 60	7 Current Fixed Charges	500 00	433 10	-	66 90
-	8 Professional Services	2,000 00	749 00	250 00	1,001 00
-	9 Capital Outlay	2,376 87	2,376 87	-	-0-
-	10 Museum N. Arizona	1,875 00	1,875 00	-	-
-	11 Arizona Bureau Mines	1,875 00	1,875 00	-	-
	12				
	13				
	14				
	15				
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	26				
	27				
	28				
	29				
	30				
4,555 12	TOTALS	59,270 12	49,648 02	1,318 61	8,303 49

Bentson

John Hozellette

Bob Hawk

Nest Treason

Willard Pge

Owens

Bilby

Moore

Bannister

Saurlock

Bledsoe

Lease - State -

Fed 88,000, 69,000, 69,000

State Royalty -

Sales Tax Rev. - 160,000

Vehicle Taxes - ?

Income Tax -

Ad Valorem Tax -

Filing Fees -

\$ 8.2 mil x 6.5

Personal Property

2.0% Sales Tax Rev. to State Gross & Royalty
6.5% County Gross after Royalty deduction

~~Lost Revenue~~

Ownership - ?