

OIL & GAS CONSERVATION COMMISSION
Meeting: February 21, 1975
Mr. John Bannister, Exec. Sec.



OFFICE OF

Oil and Gas Conservation Commission

STATE OF ARIZONA

4515 NORTH 7TH AVE.

PHOENIX, ARIZONA 85013

PHONE: (602) 271-5161

A G E N D A

Meeting
February 21, 1975
4515 N. 7th Avenue, Phoenix, Arizona

10:00 a.m.

Call to order

1. ✓ Approval of minutes of meeting of January 17, 1975
2. ✓ Report of Executive Secretary
3. ✓ Report of Enforcement Section
4. ✓ Report of Geology Section
5. Old Business
6. New Business
7. Adjourn

LEGIS ✓
BUDGETS
BUDG

STATE
DAG 1,150
1.07 mil. acres

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

OIL AND GAS CONSERVATION COMMISSION
4515 N. 7th Avenue
Phoenix, Arizona 85013

Minutes of Meeting
January 17, 1975

Present:

Mr. Ralph W. Bilby, Chairman
Mr. W. Roger Hafford,
Vice Chairman
Mr. Robert A. Bledsoe, Member
Dr. Geoffrey E. H. Ballard,
Member

Absent:

Mr. F. Keith Benton, Member

The regular Commission meeting for the month of January, 1975 was called to order by Chairman Ralph Bilby at 10:00 a.m.

Minutes of the meeting of December 11, 1974 were approved as written.

Reports of Executive Secretary, Enforcement Section and Geology Section were accepted.

Executive Secretary advised that the Director of the Enforcement Section is in northern Arizona to supervise the plugging operations of Eastern Petroleum Company.

Executive Secretary advised that the compulsory retirement date for J. N. Conley, Director of the Geology Section, has been extended by the State Personnel Division to June, 1976.

Mr. Conley advised that Dr. J. J. Wright, who formerly served the Commission as official representative of the Department of Geosciences at the University of Arizona, has been named by the Association of Petroleum Geologists to serve as an advisor to Senator Barry Goldwater on petroleum matters. Mr. Conley then introduced Mr. Allan Cree, who has retired from service with Cities Service Oil Company and is now engaged in petroleum consulting work. Mr. Cree has been named to serve as an advisor to Senator Fannin.

Mr. John T. Kellogg, Chief of the Minerals Section, Minerals and Energy Division of the State Land Department, was introduced as the representative of the State Land Department in the absence of Mr. Andrew Bettwy. Mr. Kellogg elaborated on the policy of the State Land Department on geothermal leases. The State Land Commissioner is reluctant to institute competitive or non-competitive geothermal leases until the Bureau of Land Management

Minutes of Meeting
January 17, 1975
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publicizes the federal policy on federal areas surrounding state lands. After discussion, it was moved and passed that the Executive Secretary direct a letter to U.S. Senator Paul Fannin, requesting that he investigate with the Bureau of Land Management the reason why neither competitive nor non-competitive geothermal leases have been granted.

Executive Secretary advised that, acting on instructions of the State Budget Department, a letter was sent to the owner of the Commission's office building, advising that the Commission was authorized to pay an additional five percent of the \$22,194.00 annual rental fee for the fiscal year 1975-76. The owner of the building, Mr. James B. Phillips, advised that due to vastly increasing costs, a five percent increase would not be acceptable. Mr. Phillips agreed to submit a counter proposal, not yet received, which will be submitted to the State Budget Department for consideration.

The first phase of the proposed plan for the future activities of the Commission was discussed. The Commission ordered the staff to continue with the analysis, as it should prove of benefit.

Due to a schedule conflict, it was agreed that the regular April meeting will be on April 21, 1975. February and March meetings will remain as scheduled.

Meeting adjourned at 11:30 a.m.

APPROVED February 21, 1975

Ralph W. Bilby, Chairman

Also present:

Mr. Allan Cree

Mr. John T. Kellogg
State Land Department

Dr. Joseph F. Schreiber, Jr.
Department of Geosciences
University of Arizona
Tucson, Arizona



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February 11, 1975

Memo: Commissioners
From: John Bannister

As you have previously been advised, the Commission has been requested to prepare a proposed decrease in its budget request for the 1975-76 year. The Commission originally requested a budget of \$199,000. The Budget Office of the Finance Division prepared their recommendation, which amounted to \$194,000. With this as a starting figure, the Commission was then requested to cut the proposed budget by 10% and, should we feel we could not live within a 10% decrease, to prepare a budget based upon a 5% decrease. The staff's recommendations for these two reduced requests for our 1975-76 funds have been previously furnished to you. Inasmuch as we had to have these suggested budgets in by February 7th, the suggestion as sent to you was sent to the Budget Office with the explanation that these were merely the staff's suggestion and we would not have Commission approval or recommendation until the next meeting on February 21.

All agencies were further requested to attempt to reduce expenditures for the remainder of the 1974-75 budget year, based on decreasing expenditures by 5% of the total budget. Attached is a copy of the staff's suggestion on how the Commission can achieve its major savings. It should be noted that we anticipate the possibility of saving only 2.7%. Funds have been earmarked at an earlier date and expenses such as drafting, printing, etc., have been contracted. Consequently, it will be extremely difficult to achieve the savings proposed, however the utmost effort will be made to accomplish this. Again, this proposed budget cut had to be in by February 10th. It, too, was submitted with the explanation that it was merely the staff's recommendation and full Commission approval would not be forthcoming until the next meeting on February 21.

As previously reported to you, Mr. James Phillips, the lessor of our office building, has advised his intention to raise the rental by some 40%±, i.e., from \$1849 per month to \$2518. Consequently, his proposal was submitted to Mr. George Leiphart, Manager of the

Memo: Commissioners
February 11, 1975
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Planning Office, who must approve all rental agreements; to the Joint Legislative Budget Committee; and to the Director for Finance of the Department of Administration. After a meeting, we were informed that the Commission would not, at this time or in the foreseeable future, be housed at the Capitol. We were further advised that in no way could we meet Mr. Phillips' requested rental. Consequently, we were instructed to secure new quarters. Mr. Leiphart's office furnished the Commission with a suggested list of suitable offices. Among them is an office located at 8686 North Central Avenue. This is a new building. It is within the limits set by the Finance Department. For your information, I am enclosing two sketches giving some idea of the building and the parking situation. While this building is considerably north of our present location, it is readily accessible from the freeway and it is estimated that by taking the freeway from the airport you could arrive at this office at approximately the same time it would take to come to our current office through traffic.

Consequently, it is the staff's recommendation that we be authorized to secure suitable space in this building. The biggest drawback is our distance from the Capitol, however by using the freeway, time-wise the difference would not be too great. The building is brand new and would be arranged to our specifications.

It should be pointed out that in our effort to save rental monies we are reducing our space requirements by placing our sample library in the quonset hut now provided to us by the Highway Department at a rental of \$1 per year.

Legislation:

House Bill 2110 was introduced on January 28th. This bill proposes to combine the Oil and Gas Commission, Atomic Energy and Arizona Power Authority into a Department of Energy, with each of the commissions being a division thereof. This bill has been assigned to Rules, Natural Resources and Government Operations Committees but has not yet been placed on the calendars of these committees.

Senate Bill 1032 cuts the depletion allowance for oil and gas produced in the State from 27.5% to 22%. This is in line with the Federal income tax deduction. This bill passed the Finance Committee and is now assigned to the Committee as a Whole. It is not at this time on the calendar of this committee.

Senate Bill 1123 establishes a 4% severance tax in addition to the other taxes now existing upon the production of minerals, oil and gas, etc. This has been assigned to the Finance and Government Committees but has not yet been placed on the calendars.

Memo: Commissioners
February 11, 1975
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The bill being requested by this Commission, i.e., establishing a 5% severance tax in lieu of any other tax on production, together with its incentive provision, is currently being drafted and will be introduced shortly. Indications are that Senator Stan Turley and Senator Ed Sawyer will sponsor this bill.

The Executive Committee of the Interstate Oil Compact Commission is meeting in New Orleans on Friday, February 28th. Permission is requested that the Executive Secretary be allowed to attend. This is one of the scheduled out-of-state trips for which we have budgeted.



OFFICE OF

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ACTIVITY REPORT

February 11, 1975

Memo from W. E. Allen, Director
Enforcement Section

During the month of January, 20 days were spent in the Navajo Sanders area supervising the plugging operations on 14 wells operated by Eastern Petroleum Company. Six of these wells were plugged back to the surface casing. The ranchers on whose land these wells are located want to use them for water wells. The contractor that did the plugging is still in the area salvaging surface equipment and making cleanups. When the cleanups are completed and all dry hole markers are in place, a final check will be made in the area.

It is my understanding that Kerr-McGee has plans to take over all of Eastern's wells in the Navajo Springs Coconino Unit. When this plan is finalized, Eastern will have completely divested themselves of all operations in Arizona.

While supervision of the plugging of Eastern's wells by a representative of this Commission may have not been absolutely necessary from a practical standpoint, it was surely appreciated by the three ranchers on whose land the wells were located. These ranchers felt that this Commission had an interest in their operations by being sure the wells were properly plugged thereby insuring the protection of the fresh water aquifers.

There have been two recent, and I believe serious, inquiries regarding drilling within the state. One inquiry has been received from a consulting firm that has an interest in the Heber area. The other area of interest is Yavapai County.

Northwest Pipeline Corporation has abandoned and plugged their test in the SW/SE Section 30-T41N-R30E, Apache County. This test reached a total depth of 6750'. Northwest has been issued another permit to drill a 5700' test in the SW/NW Section 28-T38N-R24E, Apache County.

St. Joe American Exploration Corp. completed two of their potash tests in the Navajo Springs area and are drilling their third test.

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Activity Report - W. E. Allen
February 11, 1975

Duval has been issued a permit to drill a potash test in the SE/NE Section 18-T18N-R26E, Apache County. Duval is presently waiting on a rig for the drilling of this test.

Reed Nix informed this office recently that he is planning to continue drilling on his geothermal test in the near future. This is the hole he started last year near Indian Hot Springs.

I have received information that Home Oil Company is about ready to start geophysical operations in the Strip Country.

Morton Brothers, independent operators from Casper, Wyoming, have cancelled the vast majority of their lease applications in the lower portion of the Holbrook Basin. At one time they had applied for some 250,000 acres of oil and gas leases in southwest Navajo County.

The state of Idaho has joined with the Atomic Energy Commission in a geothermal project. This project calls for the drilling of a geothermal test 37 miles southeast of Burley, Idaho. It is anticipated that 320° F water will be encountered at the depth. If this test is successful, a power generating system will be designed to generate electricity with 300° F water. The state of Idaho is contributing \$200,000 to the venturer. The starting cost is estimated to be \$700,000.



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ACTIVITY REPORT

February 11, 1975

J. N. Conley
Director, Geology Section

PUBLICATIONS

Sales of publications this past month totaled \$67.00. The three largest sales were to Joseph Smith, Abilene, Texas, \$31.00; John Kinard, Billings, Montana, \$13.00; and Kennecott Exploration, Salt Lake City, Utah, \$12.00.

AAPG "COMMUNICATOR" PROGRAM

Dr. Allan Cree and I visited Dirk Thomas, Special Assistant to Senator Paul Fannin, after the Commission meeting last month. Thomas seemed to be very interested, and since then we have received a letter from the Senator expressing his interest in the program. Cree plans to attend our meeting this month and visit Thomas or Fannin after the meeting.

SENATE BILL 1032

The purpose of this bill is to reduce the present State depletion allowance of 27½% for oil and gas to the Federal figure of 22%. I attended the hearing and testified for retention of the 27½% figure. A lobbyist representing several major companies also testified against the reduction. The bill received a "Do Pass" vote; three "No" votes were cast.

GEO THERMAL

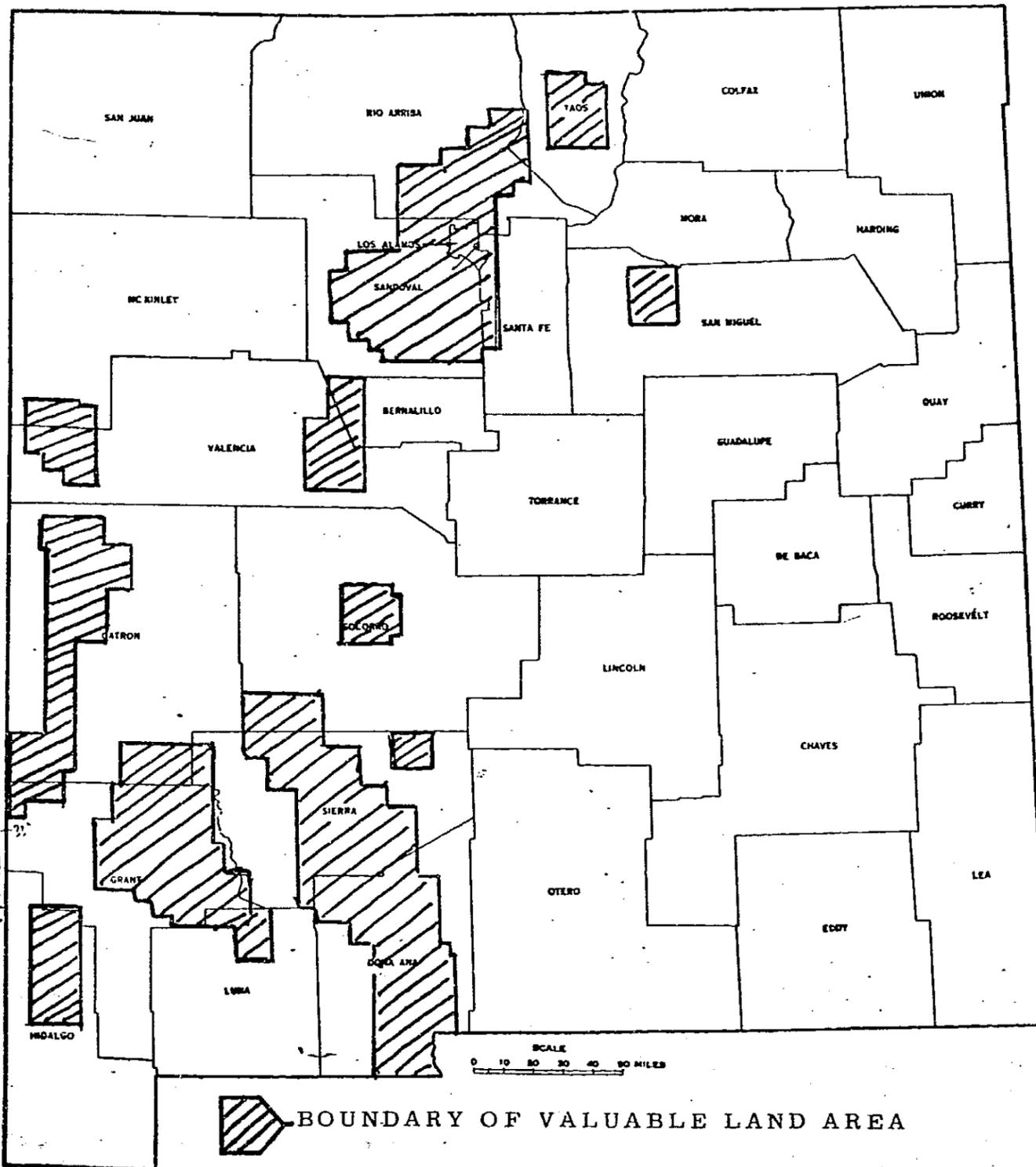
In the first competitive geothermal bidding held by the State of New Mexico, \$146,000 in bonus bids were accepted. Most of the tracts were in the western counties, such as Sandoval, Catron, Grant, Hidalgo, Sierra, and Donna Ana (see attached Exhibit A). The per acre bonus bids received were low. In Hidalgo County, which is adjacent to Cochise County, Arizona, the results were as follows:

108 tracts offered, ranging from 40 acres to 640 acres in size
Bids received from Burmah Oil & Gas, Phillips Petroleum, Amax
Exploration, and Chevron
Tracts bid on ... 58
Burmah and Amax submitted the highest bids on 40 of the 58 tracts
Highest per acre bids ... 1 tract, \$26.07; 2 tracts, \$16.07
Average, all bids, \$4.71

No bids were submitted, or else were rejected, for tracts in Catron, Valencia,

GEOTHERMAL RESOURCES LAND
NEW MEXICO

EXHIBIT "A"



Geothermal lease sale, competitive sealed
bids, August 14, 1974.

5-30-74 K

Activity Report
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and McKinley Counties. In the other counties there was almost no competition for the offered tracts receiving bids - most went for prices less than \$1.60 per acre, many for less than 35¢ per acre.

The generally low per acre bids received in Hidalgo County may be indicative of price-range bids that might be anticipated for Arizona State land geothermal leases in the Whitlock Valley KGRA in Graham County.

Another New Mexico offering of geothermal leases in the same areas is scheduled for March 12, 1975.

* * *

In September 1974 more than 12,000 acres (federal lands) in the Brady Hot Springs area of Churchill County, Nevada, were put up for bid. There were only six bids on five of the leasing units and offers were low.

In the second federal lease sale for Nevada, held December 19, 1974, bids were made on 21,603.16 acres - total high bids, \$1,001,063.75; average, \$4.50+. The highest per acre bid was \$203.77 made by Chevron Oil.

EXPLORATION

To our knowledge, there are no geophysical crews exploring for petroleum or geothermal resources in the state at this time. A U. S. Forest Service official, however, did contact us recently relative to what damage, if any, could be expected from gravity meter surveys in forested lands. He had been informed by Wichita Industries of a proposed gravity survey in the Morman Lake anticline area southeast of Flagstaff. This is the area where James Taylor, Mountain States Exploration Company, Denver, Colorado, leased 200,000-plus acres of federal lands earlier this year. I assume that Taylor has made a deal for exploration on this block with Wichita Industries.

Gravity (and ground magnetic) surveys can be conducted without any injury to the ecology or environment.

VISITORS & PHONE REQUESTS

John C. Kinard, independent geologist and oil operator, Billings, Montana, visited us recently. In addition to operating in the United States, Kinard has interests in foreign explorations, including an offshore venture in the North Sea. He purchased copies of most of our publications.

William Allen reports that Home Oil, according to a usually reliable source, is planning on doing some geophysical work in northern Mohave County.

Ganesh Bhuyan, Arizona Department of Revenue, Utilities & Mines office, is interested in availability of petroleum production reports and publications of this Commission.

Dean F. Smith, lease broker, Scottsdale, Arizona, informed me that he had been doing some leasing in southeast Arizona for some unidentified clients and that he is considering acquiring some leases for his own account. On some of the maps accompanying our Report of Investigation No. 3 he had outlined some areas that he thought had some petroleum potential. He was interested in ascertaining which ones

Activity Report
February 11, 1975
Page 3

I thought had the most merit.

Richard Rush, local consulting geologist, visited James Scurlock twice to discuss basic geologic problems in Arizona.

Phone requests were varied. One person was interested in the feasibility of re-entering an old abandoned oil test for a water well re-completion attempt. Another was trying to find a consulting geologist familiar with the geology of the Permian Supai salt basin in the general Holbrook area. One attorney wanted some information concerning oil and gas division orders in Texas and to whom to write for such information. One call was from a geologist in Liberal, Kansas, inquiring about the integrity of a local oil group. Most of the other calls were about the availability of drill-bit cuttings and publications.

GENERAL

Our forthcoming move to smaller quarters will necessitate transferring our well-sample library to the Quonset Hut on East Van Buren, where we presently store out-of-state samples and duplicate sets of Arizona samples. Storage space in the hut may not be adequate to permit keeping the out-of-state samples. Past efforts to dispose of these samples to other libraries and academic institutions have met with only limited success.

JNC:os


J.N.C.

MONTHLY FINANCIAL REPORT

RECEIPTS MONTH OF	CLASSIFICATION	APPROPRIATED RECEIPTS	UNAPPROPRIATED RECEIPTS	TOTAL ALL RECEIPTS YEAR TO DATE
Jan 1974 50 00	1 Permits to Drill		50 00	400 00
	2			
	3			
	4			
	5			
	6			
	7			
	8			
	9			
	10			
	11			
	12			
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	16			
	17			
50 00	TOTAL CURRENT MONTH RECEIPTS		50 00	XXXXXX
XXXXXX	TRANSFERS IN			
XXXXXX	BALANCES BROUGHT FORWARD		3,626 83	XXXXXX
	TOTALS - MONTH AND YEAR TO DATE		3,676 83	400 00

CLAIMS PAID MONTH OF	FUND TITLES	TOTAL AMOUNT AVAILABLE YEAR TO DATE	CLAIMS PAID YEAR TO DATE	OUTSTANDING ENCUMBRANCES	UNENCUMBERED BALANCE
Jan 1975 8,885 13	1 Personal Services	89,698 00	64,126 38		25,571 62
1,257 37	2 Emp. Related Exp.	16,690 00	7,699 81		3,990 19
2,578 30	3 Other Operating Exp.	32,493 87	22,653 97	2,763 36	7,076 54
581 47	4 Prof. & Outside Serv	2,435 85	1,763 72	93 16	578 97
705 66	5 Travel - State	7,425 00	5,005 99	1,906 00	513 01
-0-	6 Travel - Out of St.	3,200 00	2,310 33		889 67
-0-	7 Cap. Outlay - Equip.	4,100 00	3,722 83		377 17
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	29				
	30				
14,007 93	TOTALS	151,042 72	107,283 03	4,762 52	38,997 17

AGENCY Oil & Gas Conservation Comm.

DIVISION _____

IDENTIFICATION CODE NO. _____

1	2	3	4
CLAIMS PAID YEAR TO DATE	OBJECT CODE NO.	DISTRIBUTION OF EXPENDITURES CLASSIFICATION	CLAIMS PAID MONTH OF <i>Jan 1975</i>
1,650 00	7111	1 Per Diem: Commission Members	1 180 00
62,476 38	7112	2 Salaries: Employees	2 8,705 13
		3	3
221 04	7151	4 Industrial Insurance	4 119 63
59 08	7152	5 Unemployment Insurance	5
2,957 04	7153	6 F.I.C.A.	6 518 03
3,586 40	7155	7 Retirement	7 499 71
280 00	7156	8 Health Insurance	8 120 00
96 25	7159	9 Personnel Comm.	9
		10	10
	7215	11 Professional Services: Engineer	11
1,263 72	7219	12 Professional Services: Other	12 531 47
		13	13
1,026 30	7221	14 Travel-State: Mileage	14 143 40
2,031 50	7222	15 Subsistence	15 334 50
60 00	7223	16 Public Transportation	16
1,460 94	7224	17 Vehicle Expense	17 191 51
427 25	7225	18 Reg. Fees; Parking; etc.	18 36 25
		19	19
787 00	7232	20 Travel-Out of State: Subsistence	20
1,197 86	7233	21 Public Transportation	21
1 02	7234	22 Airport Parking	22
324 45	7235	23 Reg. Fees; Telephone; etc.	23
		24	24
16,645 14	7251	25 Occupancy: Office Rent	25 1,849 46
	7261	26 Warehouse Rent	26
	7263	27 Maintenance & Repairs	27
475 00	7272	28 Mtn. & Repairs: Furniture & Equipment	28
1,827 89	7280	29 Office Supplies	29 158 23
399 50	7280.1	30 Orthophoto Quads.	30
261 61	7300	31 Field Supplies: Film; Am.Strat; P.I.; etc.	31 64 40
208 76	7331	32 Printing: Reports; Large Maps; etc.	32
379 47	7332	33 Legal Advertisement	33
46 25	7333	34 Court Reporter	34
409 24	7334	35 Postage	35 103 64
1,616 81	7335	36 Telephone	36 396 57
	7337	37 Drayage; Express; etc.	37
61 80	7339	38 Rental, Misc.	38
72 50	7360	39 Dues & Subscriptions	39 6 00
		40	40
189 32	7431	41 Capital Outlay: Office Equip.	41
	7434	42 Spec. Equip. (Geol.)	42
3,533 51	7436	43 Automobile	43
		44	44
250 00	7913	45 Revolving Fund	45
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107,283 03		TOTAL	17,007 93

OFFICE

DO NOT WRITE BELOW THIS LINE

FIELD