

OIL & GAS CONSERVATION COMMISSION
Meeting: February 16, 1978
Mr. John Bannister, Exec. Sec.



OFFICE OF
Oil and Gas Conservation Commission
STATE OF ARIZONA
1645 WEST JEFFERSON, SUITE 420
PHOENIX, ARIZONA 85007
PHONE: (602) 271-5161

A G E N D A

Meeting
February 17, 1978
Room 800 - Capitol Tower
1700 West Washington Street
Phoenix, Arizona

10:00 a.m.

Call to order

- 1 ✓ Approval of minutes of meeting of December 16, 1977
- 2 ✓ Report of Executive Secretary
- 3 ✓ Report of Enforcement Section
- 4 ✓ Report of Geology Section
5. Old Business
Meeting Date
6. New Business
Tampa + Kerr
7. Adjourn

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

get Map
of Anshutz's
lease plat

Kerr Hearing Apr. 21st



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ACTIVITY REPORT

February 8, 1978

John Bannister
Executive Secretary

Please note that the meeting of the Commission will be on February 17, 1978 at 10:00 a.m. The only meeting room available at that time is Room 800 in the Capitol Tower. Arrangements are being made so that future meetings should be in our office building. As previously advised, the conference room next to our office, Room 421, is to be converted into additional office space.

Since the last meeting of the Commission, much of my time has been involved with the State Legislature. At the time of our meeting, I hope to have available for you gentlemen copies of bills in which this Commission is interested.

As you are aware, the Commission is introducing two housekeeping measures. One, House Bill 2027, redefines a well under the jurisdiction of the Commission so as to strengthen and remove any question as to our authority over wells drilled for storage purposes, disposal or secondary and tertiary recovery methods. This bill was unanimously passed out of the House Natural Resources Committee on January 23rd and is now awaiting hearing before the Commerce Committee.

House Bill 2325 is the Commission's bill to spell out state policy concerning geothermal operations. This bill has just been introduced and I do not know to which committees it has been assigned.

House Bill 2168 is the bill concerning recycling of used oil, wherein the enforcement authority is assigned to the Oil and Gas Conservation Commission. This bill has been assigned to the House Natural Resources Committee and the Appropriations Committee. After a meeting with a subcommittee of the Natural Resources Committee, the legislative staff was instructed to redraft the bill so that a pilot project would be established within State

Page 2
Enforcement Section
February 8, 1978

Government and its subdivisions. Work is progressing on this phase and we anticipate that the Natural Resources Committee, as a whole, will hear the bill around February 20th.

Senate Bill 1183 establishes an Arizona Department of Energy, incorporating the functions of the Department of Mineral Resources, the Office of Energy Programs, the Oil and Gas Conservation Commission and the Solar Energy Research Commission.

The House has introduced a bill setting up an energy advisory commission type agency. As yet, this bill has not come from the printers and I do not know the total contents thereof. However, the Oil and Gas Commission will be involved in such an agency.

Other pertinent bills will be made available for discussion as soon as possible.

As previously mentioned, this Commission, in conjunction with the Bureau of Geology and Mineral Technology, Arizona State University, University of Arizona and Northern Arizona University, is seeking funds to update the state geological map and to secure a new gravity anomaly map and a tectonic map. It was originally intended to introduce legislation for this purpose, however the Chairman of the House Natural Resources Committee suggested that we secure an addendum to the Commission budget for this purpose. In discussing this matter with Mr. Ray Roles of the Governor's Office, it was requested that we initially seek funds for this work through Dr. Brent Brown of the Office of Economic Planning and Development.

At this time, the proposal for funding is ready to be submitted and the initial funding to be requested is in the amount of \$225,000. This covers the first year's effort, which will result in the preparation of the gravity and tectonic maps and research and compilation of available data for the ultimate preparation of the updated state geological map.

It is our intention to meet as soon as possible with Dr. Brent Brown, a representative of the Governor's Office, and representatives from the Joint Legislative Budget Office and the Governor's Budget Office so that we can know how to proceed with the funding; with the consent of the various sources of funds which may be involved.

In May of 1976, this Commission sought funds in the amount of \$5000 from the Four Corners Regional Commission to participate in and expand a study being done by GS Laboratories, in conjunction with the United States Geological Survey, in the northeastern

Page 3
Executive Secretary
February 8, 1978

quarter of Arizona. This project was submitted but at the time no Four Corners funds were available. Governor Castro's representative to the Four Corners Regional Commission, Mr. Carr Phalen, decided to hold the request and resubmit it this year. Since Governor Bolin has assumed office, Mr. Morris Richards has become the representative to the Four Corners Regional Commission. We have contacted Mr. Richards and this proposal is being resubmitted.

I appeared before a subcommittee of the House Appropriations Committee concerning the Commission's budget for the 1978-79 fiscal year and they approved the Commission's revised budget in the amount of \$160,300. As yet, I have not been called to appear before the Senate Appropriations Committee, however I anticipate this revised budget will be approved by them, inasmuch as there is concurrence by both the Governor's budget people and the Joint Legislative Budget Committee.

You have been kept advised of the rigmarole through which this Commission has gone in arriving at our budget request. Our last revised budget, as submitted, was \$156,300 and the Joint Legislative Budget Committee added \$4000 to this request. This money will go into our other operating expenses. The budget as approved by the House subcommittee is made up as follows:

Personal Services	\$111,200
Employee Related Expenses	20,200
Professional & Outside Services	3,000
Travel - State	7,500
Travel - Out of State	2,000
Other Operating Expenditures	16,400
	<u>\$156,300</u>

A meeting of the Executive Committee of the Interstate Oil Compact Commission has been called for March 3rd in Tampa, Florida. The chairmen of the various committees of the IOCC have been requested to meet at the same time. As you are aware, I am Chairman of the Environmental Protection Committee, as well as a member of the Executive Committee. This trip has been budgeted in our 1977-78 budget and permission is requested to attend.

There is confusion as to the dates of the Commission meetings. At one time, to accommodate Commissioner Geoffrey Ballard, the Commission meeting date was set as of the second Friday of the meeting month. However, we have been meeting on the more established date of the third Friday of the month. According to statutes, I have advised the Secretary of State that the regular Commission meetings will be the third Friday of the months of February, April, June, August, October and December. If there is any dissatisfaction with our meeting date on the third Friday, I feel this question should be settled during our February meeting.



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ACTIVITY REPORT

February 8, 1978

W. E. Allen
Enforcement Section

It now appears that the oil pipeline across the southern part of the State has gone by the wayside. You will recall that El Paso Natural Gas Company was going to lease one of their 30 inch gas lines, which was no longer needed to transport gas to the West Coast, to Sohio Oil. Sohio was going to use this line to transport Alaskan crude to Midland, Texas. From Midland, the crude could then be distributed by pipeline to wherever needed.

The old Federal Power Commission, now the Federal Energy Regulatory Agency, had placed such heavy restrictions on El Paso taxwise that they could not afford to lease the line as a crude oil carrier. I understand that El Paso is appealing FPC's ruling.

Activity has been very slow so far this year. Visitors have been few and requests for information have been below normal.

We have recently been involved in gathering data and information in support of the recycling oil bill which has been introduced in the House of Representatives. I'm sure that John will comment further on this, as well as other pending legislation affecting this Commission.

Energy Reserves Group's plan to drill a total of fourteen wells in Teec Nos Pos field has come to a halt, at least temporarily. This operator has plugged its No. 7 well, temporarily abandoned the Nos. 6 and 9 wells, and is in the process of recompleting the No. 5 well. This operator has staked a location in the NE/SW/4 Sec. 19, T41N, R31E, Apache County. This is a diagonal offset to the old El Paso Bita Peak well drilled in 1956, which produced 12,531 barrels of oil and 2,376,743 MCF gas. The well was plugged in 1969.

Page 2
Enforcement Section
February 8, 1978

Energy Reserves has staked this well location but has not applied for a permit to drill.

Merrion and Bayless have staked a location to drill a Coconino test in the East Boundary Butte field. The proposed test is located in the NE/NW/4 Sec. 4, T41N, R28E, Apache County. The East Boundary Butte field has production from the Pennsylvanian, Hermosa and Paradox sections. Merrion and Bayless have not filed an application to drill this test.



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ACTIVITY REPORT

February 7, 1978

J. N. Conley
Director, Geology Section

PUBLICATIONS

Sales since January 11, 1978, total \$90.50.

New State Map. Our new map showing wells drilled for oil, natural gas, helium, and selected wells drilled for stratigraphic information should be available soon. The accompanying tabulation listing well data not shown on the map has been printed.

ENERGY RESOURCE & MINERAL EXPLORATION

Oil and Gas. No physical exploration reported.

Uranium. Continued active.

Geothermal. Exploration program reportedly still in progress in Mohave County.

ENERGY-RELATED CURRENT PROJECT

Geothermal - ERDA/DGE. Completion of this investigation of the low-to-moderate geothermal resources of the Basin and Range province, based on well-temperature data in our files, has been postponed until later this month. The reason for the postponement was a decision to amplify the scope of the final report.

LEASING

Oil and Gas. None reported.

Geothermal. None reported but we received one phone call from a geologist in Tulsa, Oklahoma, inquiring as to the procedure to acquire geothermal leases on state lands in Cochise County.

VISITORS

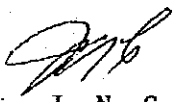
Representing

L. V. Robertson	Southwest Gas Corp.
A. W. Dames	Platte Valley Oil Co.
G. A. Miller	Dept. of Mineral Resources
J. S. Calhoun	American Petroleum Institute

Representing

S. T. Remeke	Self
F. J. Healey	Self
T. A. D. Hadow	Self
J. M. Chinneck	Self
W. L. Hammer	Self

JNC:os


J. N. C.

AGENCY Oil & Gas Conservation Commission

DIVISION

IDENTIFICATION CODE NO.

1	2	3	4
CLAIMS PAID YEAR TO DATE	OBJECT CODE NO.	DISTRIBUTION OF EXPENDITURES CLASSIFICATION	CLAIMS PAID MONTH OF Jan 1978
570 00	71140	1 Per Diem: Commission Members	1
53,973 86	71150	2 Salaries: Staff	2 8,192 18
356 98	71510	3 Emp. Related: Workmens Comp	3 56 08
317 94	71520	4 Unemployment Insurance	4 49 14
2,116 32	71530	5 F.I.C.A.	5 495 62
3,708 18	71542	6 Retirement	6 573 46
1,431 00	71550	7 Health Insurance	7 243 75
312 00	71552	8 D & L Insurance	8 36 00
135 00	71570	9 Personnel Comm. Pro Rata Charges	9 -
595 52	72169	10 Professional Serv: Cartographic Symbols	10
	72169.1	11 Cartographic Symbols (U of A)	11
1,356 75	72199	12 Cartographer	12 98 00
341 75	72199.1	13 Cartographer (U of A)	13 197 25
407 70	72511	14 Travel-State: Mileage - Private Vehicles	14 7 50
2,509 95	72512	15 Mileage - State Vehicles	15 743 25
862 94	72520	16 Subsistence	16 10 50
56 00	72531	17 Air Fare	17
53 10	72541	18 Registration Fees	18
7 00	72543	19 Parking	19
50	72549	20 Misc.	20
561 95	72560	21 Travel-Out of State: Subsistence	21
761 64	72571	22 Air Fare	22
78 50	72574	23 Taxis	23
65 00	72581	24 Registration Fees	24
90	72589	25 Other-Telephone, etc.	25
2,500 00	72711	26 Occupancy: Office Rent	26 2,500 00
	72713	27 Warehouse Rent	27
25 13	72821	28 Mtn. & Repairs: Furniture	28
	72823	29 Adders & Calculators	29
43 00	72824	30 Typewriters	30
168 00	72826	31 Copy Machine, Other	31
	72827	32 Mimeo, Reader-Printer, etc.	32
	73111	33 Office Supplies: Printed Stationery & Envelopes	33
	73113	34 Carbon & Ribbons	34
67 32	73117	35 Reproduction Supplies	35
749 13	73119	36 Misc. & Blue Prints	36 27 71
150 39	73119.1	37 Misc. & Blue Prints (U of A)	37 30 45
	73259	38 Field Supplies: Logs, etc.	38
	73514	39 Printing - Large Maps, etc.	39
	73514.1	40 Large Maps, etc. (U of A)	40
115 35	73519	41 Misc.	41
53 91	73524	42 Legal Advertising	42
	73531	43 Subscriptions: Newspaper	43
29 00	73533	44 Technical Journals	44
325 00	73541	45 Postage Stamps	45
178 67	73551	46 Telephone Service: Central System	46 31 41
563 85	73552	47 Equipment Rental	47 80 55
168 78	73553	48 Long Distance	48 43 77
262 35	73554	49 ATS Service Charge	49 27 92
1,569 50	73720	50 Organization Dues	50
98 80	73730	51 Technical or Reference Books	51
600 00	73741	52 Insurance	52
250 00	79220	53 Revolving Fund	53
502 26	74312	54 Capital Outlay: Map Cabinet	54
287 96	74313	55 Light Table	55
78,288 88		TOTAL	13,444 54

OFFICE

(DO NOT WRITE BELOW THIS LINE)

FIELD

MONTHLY FINANCIAL REPORT

1 RECEIPTS MONTH OF Jan 1978	2 CLASSIFICATION	3 APPROPRIATED RECEIPTS	4 UNAPPROPRIATED RECEIPTS	5 TOTAL ALL RECEIPTS YEAR TO DATE
-0-	1 Permits to Drill		-0-	2 00 00
	2			
	3			
	4			
	5			
	6			
	7			
	8			
	9			
	10			
	11			
	12			
	13			
	14			
	15			
	16			
	17			
-0-	TOTAL CURRENT MONTH RECEIPTS		-0-	XXXXXX
	TRANSFERS IN			
XXXXXX	BALANCES BROUGHT FORWARD		3,901 83	XXXXXX
-0-	TOTALS - MONTH AND YEAR TO DATE		3,901 83	200 00

6 CLAIMS PAID MONTH OF Jan 1978	7 EXPENDITURES FUND TITLES	8 TOTAL AMOUNT AVAILABLE YEAR TO DATE	9 CLAIMS PAID YEAR TO DATE	10 OUTSTANDING ENCUMBRANCES	11 UNENCUMBERED BALANCE
8,192 18	1 Personal Services	83,450 00	53,543 86		29,906 14
1,454 05	2 Emp. Related Exp.	14,380 00	8,377 42		6,002 58
295 25	3 Professional Services	3,275 00	2,294 02		980 98
761 25	4 Travel - State	5,175 00	3,897 19		1,277 81
-	5 Travel - Out of State	2,000 00	1,467 99		532 01
2,741 81	6 Other Operating Exp.	14,473 61	7,918 18	460 40	6,095 03
-	7 Capital Outlay-Equipment	800 00	790 22		9 78
	8				
	9				
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	26				
	27				
	28				
	29				
	30				
13,444 54	TOTALS	123,553 61	78,288 88	460 40	44,804 33



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ACTIVITY REPORT

January 11, 1978

John Bannister
Executive Secretary

The Legislature convened on Monday, January 9, 1978. From all appearances, both houses hope to keep this session comparatively short, indicating that they hope to wind up no later than May. As I have previously indicated, much committee work has been done prior to the official opening of this session and things currently seem to be moving rather rapidly.

I have already been scheduled to appear before the House Appropriations Committee on Thursday, January 12th at 8:30 a.m. concerning the Commission's budget. This is our record for early appearance on our budget. We have not as yet been scheduled to appear before the Senate Appropriations Committee, however I anticipate this will probably be accomplished before our next Commission meeting.

As previously advised, the Commission will be directly interested in three bills which will be introduced. There are two housekeeping bills, one concerning a change of the well definition as appearing in the statutes. This is the outgrowth of an Attorney General opinion that we should straighten and make more clear the Commission's jurisdiction as to injection wells for secondary and tertiary purposes, as well as injection wells used in connection with the storage of product.

The second bill merely inserts a policy statement in our existing geothermal laws.

The remaining bill would grant the Commission new authority in the area of recycling of used oil. Should this bill pass, it will be necessary that some new personnel be engaged and new programs outlined. This bill, as it will be introduced, will carry an appropriation to accomplish this purpose. This appropriation would be above and beyond the budget we have adopted.

Page 2
Executive Secretary
January 11, 1978

In all likelihood, an effort will be made to again create some sort of joint energy agency. In the past, all bills entered for this purpose have involved the Oil and Gas Commission and I am sure we will be involved in any bill which may be introduced.

In addition to these as I have briefly reported, the Commission, in conjunction with our three universities and the Bureau of Geology and Mineral Technology, will seek funds for a geological mapping project of our state, as well as conducting certain geophysical operations.

I have contacted the Attorney General, asking the question as to whether or not this Commission has authority to enter a proposed project wherein several of our state agencies will join in studying state-owned acreage for geothermal purposes, with the conclusion being the actual drilling of a geothermal well. The Attorney General advised me that since the questions I asked him would pertain to other agencies concerned with this project, he will take the time to issue a formal opinion. I will keep you advised as to these results.

For your information, I am enclosing copy of a page from the Rocky Mountain Region Report of Petroleum Information. I particularly invite your attention to the second paragraph, wherein it is indicated the possibility that states may lose their authority to tax production generated on Indian reservations.

I would like to remind you that the next regular Commission meeting will be Friday, February 17th. It is likely that the meeting room we have been using will be converted to other offices. I am unable to tell you at this time in what room our meeting will actually be held. Indications are that the conference rooms within our own building will not be available for our February meeting and we have tentatively made arrangements to meet in Room 800 in the Capitol Tower. Should there be any change, I will certainly advise you.



This Week

PROPOSED CHANGES IN REGULATIONS covering rights of way on public lands will be discussed at a public meeting to be chaired jointly by the Bureau of Land Management and the U. S. Forest Service at the Salt Palace in Salt Lake City January 11. Rights of way must be obtained for roads, railroads, communications, water development, electric power and pipelines, other than oil and gas...which are covered under another law. The two agencies now have basically the same authorities for granting rights of way, but regulations differ. A change required by the Federal Land Policy and Management Act of 1976 is that communities, counties and state and federal agencies now must obtain right of way permits for public roads on BLM-administered lands. These are already required on National Forest lands. Further information is available from the BLM Utah State Office, 136 East South Temple, Salt Lake City, 84111; the Regional Forest Service Office, Federal Building, Ogden, Utah, or from the BLM or Forest Service in Washington, D. C. Written comments should be submitted before February 1, 1978 to the Chief of the Forest Service (5400), Box 2417, Washington, D. C. 20013, or the Director, (321), Bureau of Land Management, Washington, D. C. 20240.

WESTERN STATES STAND TO LOSE REVENUES from Indian land mineral taxes under a ruling by a Department of the Interior solicitor, and the oil industry may also be affected. The opinion could result in putting an end to millions of dollars in tax revenue now going to the states. According to the Interior message to the Assistant Secretary for Indian Affairs, Montana has no authority "to apply its production tax to oil and gas produced from mineral leasing of tribal lands on the Fort Peck Indian reservation." About \$3 million in taxes now being paid to Montana are at stake under the specific ruling. The indication is that any leases made under the 1938 Indian Minerals Leasing Act are not taxable by the states. The opinion presumably will apply to minerals on all reservations in the western states. For instance, it is estimated that in New Mexico such a ruling would deprive the state of about \$5 million in currently generated revenues. Since the question of tribal sovereignty has been raised, there is corollary speculation that the tribes may also levy their own taxes on minerals.

ENERGY RESOURCES CORP has signed a joint venture agreement with Hunt Oil for exploration and development of uranium and vanadium mineralization on about 5000 acres northeast of Blanding, Utah. The companies have also agreed to joint ventures on Energy Resources' Black Mesa property. Preliminary exploration of the latter indicates deposits of both uranium and vanadium. Funding from Hunt is to permit further exploration and construction of an in situ pilot leaching plant on the property. Energy Resources owns approximately 42,000 acres of federal and state mining claims and has options to purchase an additional 38,000 acres of claims southwest of Blanding.

ATLANTIC RICHFIELD'S BLACK THUNDER MINE, expected to become the largest coal operation in the United States, started production with an 11,000 ton shipment from the mine site about 50 miles south of the town of Gillette. The 110-car unit train was headed for Amarillo, Texas for generation of electricity by Southwestern Public Service. Initial output capability of more than five million tons a year is planned, rising to 20 million tons yearly by the early 1980's. Controlled surface mining processes are to be used to remove coal lying from 10 to 200 ft below surface in seams up to 70 ft thick. Shovels taking 40 cubic yard bites load the coal into 170 ton trucks for transfer to a processing area where sizes are reduced progressively and unit trains can be loaded continuously. From 150 to 200 acres will be mined annually at full capacity. The mine area covers more than 7000 acres of federal and state leases. Continuous restoration to original or better condition is planned, according to a spokesman for the operator, Thunder Basin Coal, an Atlantic Richfield subsidiary. Originally, production was scheduled to start in 1975, but litigation between the Sierra Club and the Secretary of the Interior brought long delays before final permits were approved. Preparations for production from a second surface mine, Coal Creek, have started. This is about 15 miles north of Black Thunder. Coal Creek mining is expected to start as early as 1980, depending on necessary permits.



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ACTIVITY REPORT

January 11, 1978

W. E. Allen
Enforcement Section

My last report mentioned the Sierra Club has filed a protest with the Forest Service requesting suspension of all oil and gas leases on huge sections of land in the West. Attached to this report is a copy of an editorial from the Oil and Gas Journal commenting on this matter.

It never rains but it pours - now a Department of the Interior solicitor has found that the State of Montana has no authority to apply its production tax to oil and gas produced from mineral leasing on tribal lands. This ruling, in all probability, will be tested in the courts. If upheld by the courts, all other tribes will soon follow the Fort Peck Indian reservation lead. In effect, this will mean the State of Arizona will have no oil or gas production.

Pyramid Oil Company has suspended operations on its Federal No. 1 well located in the NE/SE/4 Sec. 28, T41N, R9W, Mohave County. Total depth reached when operations were halted was 4145 feet. Operations will be resumed in the Spring.

Energy Reserves Group is encountering considerable difficulty in completing its Navajo "O" No. 6 and No. 9 wells. Both of these wells are in the Teec Nos Pos field of Apache County.

During 1977, the Commission issued 17 drilling permits. Ten of these permits were issued for the drilling of oil test. Seven were issued for strat test. The drillers of these strat test were seeking potash in Apache County. Of the ten oil and gas permits, seven have been drilled or are drilling, three wells have yet to be spudded. Of the seven oil test drilled, three will probably be producers of some kind.

Page 2
Enforcement Section
January 11, 1978

1977 saw the plugging and abandonment of twenty wells which had originally been completed as helium producers. Ten of these holes were plugged by Kerr-McGee Corporation and the remainder plugged by Eastern Petroleum Company.

While not exactly a best seller, we had forty-five requests for copies of our rules and regulations during the year.

Winning Overthrust Belt suit vital for U.S. energy future

THE SIERRA CLUB has lost the first round in its battle to suspend oil and gas leases issued since 1970 in a large portion of the Rocky Mountains.

But it is only the first round. Rejection of the petition filed with the U.S. Forest Service was on technical grounds that had nothing to do with the substance of the issue. A corrected petition will be filed and the case will be heard.

The outcome is of utmost importance to the U.S. energy future.

There is much more at stake than the simple issue of whether the Forest Service must file lengthy environmental-impact statements before permitting leasing in areas considered for wilderness designation. The clear objective of the Sierra Club is to ban drilling from still more millions of acres in the Overthrust Belt which contains some of the best unexplored prospects in the country.

SHOULD anyone doubt this, it is worth recalling the woeful history of the trans-Alaska crude line. There are disquieting parallels between the Forest Service petition and the suit which blocked construction of the Alyeska project for 4 years.

Both alleged violation of the National Environmental Policy Act, which went into effect on Jan. 1, 1970. Even after the Department of Interior filed the required impact statement for the pipeline, it remained hopelessly tied up in litigation. An angry Congress, at the end of its patience over the use of NEPA to lock up the largest oil field ever discovered in the U.S., had to intervene directly in order to rescue the project.

Before Congress acted, one of the Alaska pipeline litigants was honest enough to state its real purpose. It supported a Canadian overland alternative to the Alyeska pipeline, he admitted, not because that route might be environmentally superior, but in order to prevent development and production of the

Prudhoe Bay oil and gas reserve. The U.S., he said, could always go back and tap the field "if we ever needed the oil and gas"!

What is sought in the new Sierra Club review is not just compliance with NEPA machinery as the group interprets it. At the very least the action is aimed at blocking leasing, exploration, or drilling in national forest areas which may be added to the wilderness system.

As such it is part of a broader attack on the principle of multiple use under which public-land resources are administered for the benefit of all citizens—not just a select few.

If environmental protection is the concern, the Forest Service has that problem well in hand. The agency has set up and enforced strict regulations to guard against undue impact from petroleum development or any other activity.

SOME 47% of the federal lands in the Overthrust Belt already are effectively closed to petroleum exploration and development, or have been restricted in other ways, according to the American Petroleum Institute. And Congress is considering withdrawing many more millions of acres from development in the Rockies and Alaska.

The American Association of Petroleum Geologists points out that of some 877 million acres in the federal domain, 546 million or 62% are either closed to, or so burdened by restrictions as to preclude, energy-minerals exploration and development. "Federal lands," AAPG Pres. Edd Turner declared recently, "benefit no one unless they are used." To that we say amen.

If there is to be any hope of reducing reliance on imported energy, the U.S. must call a halt to this tuck-it-away mania. The job is difficult enough under the best of circumstances. Without access to acreage overlying the best prospects, it will be impossible.



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January 11, 1978

ACTIVITY REPORT

J. N. Conley
Director, Geology Section

PUBLICATIONS

Sales since December 7, 1977, total \$77.55.

OIL & GAS LEASING ACTIVITY

The State Land Department reports that Sanchez-O'Brien Corp. is taking assignments on the State oil and gas leases in Cochise County acquired by P. J. Farrelly and others.

ENERGY RESOURCE & MINERAL EXPLORATION

Oil and Gas. No on-the-ground exploration reported.

Uranium. Active

Geothermal. Exploration programs in progress in Mohave County.

ENERGY-RELATED PROJECTS

GEOTHERMAL - ERDA/DGE Project. - Evaluation of Arizona's Non-Electrical Geothermal Energy Potential. As previously reported, the Department of Energy (DOE), Division of Geothermal Energy (DGE), has charged the Bureau of Geology and Mineral Technology, Geological Survey Branch, with the development of a cost-effective exploration program for low- to moderate-temperature geothermal resources. Hot-water systems (from 194° to 302°F) potentially have great usefulness for non-electrical purposes such as space heating, agribusiness, and industrial processes.

One phase of the project involves the compilation of published and unpublished temperature data available from wells (principally water) drilled in Arizona. Our Commission is one of the principal contributors of this information. The compilation, including the computation of the thermal gradients, has been completed but not checked for final typing. An analysis of the data assembled has been completed. Numerous geothermal anomalies have been identified in all of the Basin and Range counties, excepting Mohave, where we have very little well information. A first draft of a report has been written. Drafting of the accompanying maps and illustrations will be completed soon.

Federal - Supreme Court OK's U.S. Mineral Rights. On October 31, 1977, the U.S. Supreme Court cleared the way for the Federal Government to assert ownership

Activity Report
January 11, 1978
Page 2

of geothermal reserves under some private lands at The Geysers (steam field with electricity generation plants north of San Francisco) and elsewhere in the West.

At issue was an interpretation of the 1916 Homestead Act which made it possible for affected lands in The Geysers area to pass from the federal domain to private ownership. The 1916 law opened 35-million acres in the West to cattle raising. Individuals could gain title to 640 acres for this purpose. However, in drafting the statute, Congress reserved for the Federal Government the title to coal and "other minerals" under these lands.

In 1965 the deputy solicitor for the Department of the Interior stated that geothermal steam was not a mineral and the government thus could not claim title to it. In 1972 the department sued the private owners of The Geysers for recovery of damages - namely the royalties. After extensive litigation the U.S. Ninth Circuit Court of Appeals held that the Congress back in 1916 intended to give up only surface rights to encourage agriculture.

This decision will further the Federal Government's control of lands in Arizona.

Department of Energy Funds Possibly Available for Geothermal Exploration and Site Testing in Arizona. Mike Castro, Remote Sensing Specialist, Arizona Resources Information System, Department of Revenue, has informed us that the Division of Geothermal Energy (DGE), Department of Energy, may be interested in funding remote sensing investigations of a prospective geothermal anomaly developed by State agencies. If the results of such investigations confirmed the anomaly, DGE would fund the drilling of a test hole. From the State's standpoint, it would be desirable for the prospect to be tested to be situated on State lands. John Bannister will discuss this phase of the project.

Geological/Geophysical Mapping Project - Arizona. This proposed program was discussed in last month's activity report. As a result of a meeting December 20, 1977, with U.S. Geological Survey personnel representing the Branch of Western Mineral Resources, Office of Geochemistry and Geophysics, and Office of Environmental Geology of the Geology Division, it appears that the cost of producing the envisioned high-quality geologic map is prohibitively high for a State undertaking. An attempt will be made to obtain State funding for a portion of the proposed mapping program.

GENERAL

U.S. Department of Energy Adequately Staffed and Funded! The new U.S. Department of Energy has 20,000 employees and a yearly budget of \$10.6 billion. C. W. McCoy of the Louisiana National Bank has placed this expenditure in perspective. The nation's seven largest oil companies required a work force of 1.7-million employees last year to turn a collective profit of \$10-billion, but only 20,000 government employees are needed to spend that amount.

The 15 people holding the major policy-making positions, including the Secretary, have accrued governmental service of some 187½ years. Exactly two have made their principal livings over the years working for profit-making organizations, one in aerospace and one in law.

Leasing/Divestiture Bill Approved. The House Interior Subcommittee on Energy and Environment has approved a bill barring the eight largest U.S. integrated oil companies from obtaining future federal energy leases. If approved, legislation

Activity Report
January 11, 1978
Page 3

would not allow Exxon, Shell, Gulf, Mobil, Socol, and Amoco to obtain leases unless they divest horizontally and vertically. Further, no other company seeking leases could enter into joint ventures with any of the eight companies.

Most of the nation's undiscovered energy resources, such as oil, gas, coal, uranium, and thermal occur in the Western States, with vast areas of federal lands in the western states and on the Outer Continental Shelf (OCS). The General Accounting Office says production and import projections of the President's National Energy Plan need revising and that the program developing in Congress is not likely to achieve Carter's goals. Historically, the major companies have discovered most of the giant and major oil fields throughout the world. Banning the major companies from exploration on federal lands, singly or jointly with smaller companies or independents, will severely curtail development of domestic crude oil and other energy resources. It could very seriously affect exploration in Arizona.

No Mexican Natural Gas for Arizona? The big package deal to import Mexican gas is in trouble. Some of the gas was to be purchased by El Paso Natural Gas Co. for distribution in Texas, Arizona, and other western states. The Department of Energy is insisting that the contract price be reduced to \$2.16 from \$2.60. The Mexican government is standing firm on the higher price. DOE's proposed national energy plan specifies a maximum price of \$1.75/mcf.

VISITORS

Kevin Kelly, National Regulatory Research Institute
Edgar McCullough, Acting State Geologist, Bureau of Geology & Mineral Technology
Ken Schmidt, State Health Department
Mike Castro, ARIS
Ken Bruno, S.S. Department of Energy

JNC:os

JNC
J.N.C.

OIL AND GAS CONSERVATION COMMISSION
1645 West Jefferson Street
Suite 420
Phoenix, Arizona 85007

Minutes of Meeting
December 16, 1977

Present:

Mr. Ralph W. Bilby, Chairman
Mr. Hal Butler, Vice Chairman
Mr. Robert A. Gallaher, Member
Mr. Norman D. Levitt, Member

Absent:

Dr. J. Dale Nations, Member

The regular Commission meeting of December 16, 1977 was called to order by Chairman Ralph Bilby at 10:00 a.m. in Room 421, 1645 West Jefferson Street, Phoenix, Arizona.

Approval of the minutes of the meeting of October 21, 1977 was tabled as the transcribed copy of the minutes was not at hand.

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

Executive Secretary advised that Kerr-McGee Corporation did not follow through with its tentative request for a hearing to allow infill drilling in the Dineh-bi-Keyah field. This was probably due to inclement winter weather and it is anticipated that a hearing will be requested at a later date.

Status of the budget requested by the Commission for 1978-1979 was discussed.

Executive Secretary reviewed several proposed legislative bills involving the Oil and Gas Conservation Commission which are being prepared for introduction at the next session of the Legislature.

Executive Secretary advised that representatives of Arizona State University, Northern Arizona University and the University of Arizona and the Executive Secretary and the Director of the Geology Section of the Oil and Gas Conservation Commission held a planning session to formulate plans for a formal request to the State Legislature for funds for the compilation and acquisition of geologic and other resource information to assess the natural resources of the State. Arizona Resources Information Systems of the Department of Revenue, the Department of Mineral Resources, Department of Transportation, Land Department and Water Commission have been invited to join in the request for this project. If the request is granted, a contract will be

Minutes of Meeting
December 16, 1977
Page 2

made with the Board of Regents for the services of the Board of Geology and Mineral Technology for the work, with the funds to be controlled by the Oil and Gas Conservation Commission.

Another project has been proposed by Arizona Resources Information System for a geothermal development to be made on state land, the lease to be granted by the State Land Department and drilling to be under the direction of the Oil and Gas Conservation Commission. Should the drilling be successful, the well would revert to the State Land Department and subsequently be put up for bid. This would serve as a test of the state laws governing geothermal development.

The next meeting of the Commission will be February 17, 1978.

Meeting adjourned at 11:30 a.m.

APPROVED

AGENCY Oil & Gas Conservation Commission

DIVISION _____

IDENTIFICATION CODE NO. _____

1	2	3	4
CLAIMS PAID YEAR TO DATE	OBJECT CODE NO.	DISTRIBUTION OF EXPENDITURES CLASSIFICATION	CLAIMS PAID MONTH OF Dec 19 77
570 00	71140	1 Per Diem: Commission Members	1 210 00
44,781 68	71150	2 Salaries: Staff	2 8,140 00
300 90	71510	3 Workmens Comp.	3 56 24
268 80	71520	4 Unemployment Insurance	4 48 84
1,620 70	71530	5 F.I.C.A.	5 169 94
3,134 72	71542	6 Retirement	6 569 80
1,187 25	71550	7 Health Insurance	7 259 50
135 00	71570	8 Personnel Comm. Pro Rata Charges	8 75 00
595 52	72169	9 Professional Services: Cartog. Symbols	9
1,258 75	72199	10 Professional Services: Cartographer	10 479 50
400 20	72511	11 Travel-State: Mileage - Private Vehicles	11 122 10
1,766 70	72512	12 Mileage - State Vehicles	12 38 55
852 44	72520	13 Subsistence	13 181 00
56 00	72531	14 Air Fare	14
53 10	72541	15 Registration Fees	15
7 00	72543	16 Parking	16 3 00
561 95	72560	17 Travel-Out of State: Subsistence	17 179 60
761 64	72571	18 Air Fare	18 102 00
78 50	72574	19 Taxis	19 23 25
65 00	72581	20 Registration Fees	20 40 00
90	72589	21 Other-Telephone, etc.	21
	72711	22 Occupancy: Office Rent	22
	72713	23 Warehouse Rent	23
25 13	72821	24 Mtn. & Repairs: Furniture	24
	72823	25 Adders & Calculators	25
168 00	72826	26 Copy Machine, Other	26
	72827	27 Mimeo, Reader-Printer, etc.	27
	73111	28 Office Supplies: Printed Stationery & Envelopes	28
	73113	29 Carbon & Ribbons	29
67 32	73117	30 Reproduction Supplies	30
721 42	73119	31 Misc.	31 99 26
	73259	32 Field Supplies: Logs, etc.	32
	73514	33 Printing - Large Maps, etc.	33
53 91	73524	34 Legal Advertising	34
	73531	35 Subscriptions: Newspaper	35
29 00	73533	36 Technical Journals	36
325 00	73541	37 Postage Stamps	37 170 00
147 26	73551	38 Telephone Service: Central System	38 56 09
483 30	73552	39 Equipment Rental	39 161 10
125 01	73553	40 Long Distance	40 45 84
234 43	73554	41 ATS Service Charge	41 104 97
1,569 50	73720	42 Organization Dues	42
98 80	73730	43 Technical or Reference Books	43
600 00	73741	44 Insurance	44
250 00	79220	45 Revolving Fund	45
502 26	74312	46 Capital Outlay: Map Cabinet	46
287 96	74313	47 Light Table	47
		48	48
276 00	71552	49 D&L Ins.	49 72 00
50	72549	50 Travel-State: Misc.	50
43 00	72824	51 Mtn. & Repairs: Typewriter	51
115 35	73519	52 Printing, Misc.	52
264 44	73119.1	53 Fed. Grant -	53 25 50
		54	54
		55	55
64,844 34		TOTAL	11,433 08

OFFICE

(DO NOT WRITE BELOW THIS LINE)

FIELD

MONTHLY FINANCIAL REPORT

1 RECEIPTS MONTH OF Dec 1977	2 CLASSIFICATION	3 APPROPRIATED RECEIPTS	4 UNAPPROPRIATED RECEIPTS	5 TOTAL ALL RECEIPTS YEAR TO DATE
25 00	1 Permits to Drill			200 00
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	7			
	8			
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	10			
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	16			
	17			
25 00	TOTAL CURRENT MONTH RECEIPTS		25 00	XXXXXX
	TRANSFERS IN			
XXXXXX	BALANCES BROUGHT FORWARD		3,876 83	XXXXXX
25 00	TOTALS - MONTH AND YEAR TO DATE		3,901 83	200 00

6 CLAIMS PAID MONTH OF Dec 1977	7 EXPENDITURES FUND TITLES	8 TOTAL AMOUNT AVAILABLE YEAR TO DATE	9 CLAIMS PAID YEAR TO DATE	10 OUTSTANDING ENCUMBRANCES	11 UNENCUMBERED BALANCE
8,350 00	1 Personal Services	54,250 00	45,351 68		8,898 32
1,251 32	2 Emp. Related Exp.	9,350 00	6,923 37		2,426 63
505 00	3 Professional Services	2,350 00	1,998 27	38 50	312 73
344 65	4 Travel - State	3,450 00	3,135 94	290 86	23 20
344 85	5 Travel - Out of State	2,000 00	1,467 99		532 01
637 26	6 Other Operating Exp.	10,086 76	5,176 37		4,910 39
-	7 Capital Outlay-Equipment	800 00	790 22		9 78
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11,433 08	TOTALS	82,286 76	64,844 34	329 36	17,113 06

Agencies trim fund requests by \$25 million

By whittling \$25 million from their budget requests, most state agencies have done "a good job" of complying with the governor's call for economy, the state budget manager said Wednesday.

"There are a few that were not able to," said Budget Manager Donald Olson. "The governor has asked us to find out why and come as close to compliance as we can."

Olson said compliance by appointed agency heads has been excellent.

"Of course, agencies with independently elected heads could not be given direct orders to cut their requests, and most did not, though they were invited to join in the economy effort," Olson said.

He said compliance in agencies headed by appointed board or commission members serving staggered terms ranged from excellent to none.

"The universities, for example, did not comply," he said. "Some agencies felt their original requests already were as low as they could be without curtailing essential services. The budget office will look into the validity of these feelings."

"We asked agencies to cut only those expenditures which are within their control. Some state spending is beyond their control because it is required by state or federal statutes," Olson said.

A preliminary tabulation by Olson's office shows that agency requests for the fiscal year starting in July, which totaled \$1,094,988,800, have been trimmed to \$1,068,793,900.

Their original requests represented an increase of \$169.1 million from this year's estimated expenses. The revised requests are up \$143.9 million from the current year.

With their original 1978-79 general fund requests followed by their revised requests in parentheses, the tabulation for some representative agencies shows:

Administration Department, \$13.1 million, (\$11.2 million), attorney general's office, \$4.7 million, (\$4.9 million), Economic Security Department, \$112.7 million, (\$112 million), Health Services Department, \$47.4 million, (\$43.4 million), Education Department, \$442.9 million, (\$442.9 million), Corporation Commission, \$5.7 million, (\$5.7 million), Corrections Department, \$45 million, (\$40.7 million), Public Safety Department, \$24.3 million, (\$13.7 million).

These agency-by-agency figures are operating budget requests. Agency requests for land and building appropriations amount to \$87.8 million of the \$1,068,793,900 total now sought from the general fund, according to Olson's office.

ARIZONA REPUBLIC 11-17-77 pg B-1

Energy chief adamant on control of all natural gas

Associated Press

WASHINGTON — Energy Secretary James R. Schlesinger said Monday the administration will not back off from its insistence on extending natural gas price regulation nationwide, including sales within producing states.

Holding a news conference while a House-Senate conference committee on energy legislation was in recess, Schlesinger said, "I don't think there is any ground for retreat on that issue."

But he hinted that the Carter administration might be willing to swallow a somewhat higher regulated gas price ceiling than the \$1.75 per thousand cubic feet it has proposed.

And Schlesinger also hinted that it might offer the oil industry a backdoor form of price increase to gain its support for Carter's plan of taxing U.S. crude oil up to the equivalent of the world market price, instead of letting the industry itself charge that price.

The issues of natural gas regulation and crude oil pricing and taxes are the most controversial of Carter's proposals that were adopted by the House but rejected by the Senate.

The conference committee was just beginning to seek some reconciliation between the conflicting versions of the energy bill when it recessed for a 10-day Thanksgiving holiday.

Schlesinger was questioned about prospects of getting a complete energy bill out of the committee by the end of December, and the compromises which the administration might accept.

Natural gas sold across state lines is regulated by the Federal Energy Regulatory Commission, formerly the Federal Power Commission, at the most recent ceiling price of \$1.42 per thousand feet at the wellhead. But gas sold "intrastate," that is, within the same state where it is produced, is not federally regulated and has

been commanding prices in that market close to \$2 per thousand cubic feet.

The Carter administration proposed to correct this imbalance by extending federal regulation into the producing-state market, while raising the national price ceiling to about \$1.75.

Carter also has opposed early removal of federal price controls from domestic crude oil, and proposed instead a federal tax on crude oil at the wellhead to encourage fuel saving, coupled with a rebate of the money to the public to avoid serious economic impact.

Asked about incentives for industry to support Carter's program, Schlesinger mentioned the offering of world oil prices to the newest oil production, then added: "There may have to be some adjustment of the decline rates of upper tier old oil."

That means the administration may allow producers to write off more rapidly than before the portion of their annual

production which is now limited to a ceiling price of \$11.28 per barrel, plus inflation.

And to the extent that more of this production is set free from that ceiling price, it may be reclassified as "new-new oil" which can claim the world market price, now around \$13.50 per barrel.

It was not clear whether Schlesinger meant that this backdoor price increase could be applied by Congress — the "decline rate" is not touched in the present energy bills — or whether it might be offered by adjustment under present Energy Department regulations.

Schlesinger said the

administration looks unfavorably on high-priced imports of natural gas and will consider within the next two months how to deal with them.

"We have in the back of our minds a benchmark," Schlesinger said, based on the equivalent price of oil, or around \$2.50 per thousand cubic feet for imported liquified natural gas.

prices much higher than that, he said, "will be looked at very critically."

ARIZONA REPUBLIC 11-22-77 A2

New Mexico to study refinery plan

Associated Press

SANTA FE, N.M. — The New Mexico Energy Resources Board will consider a proposal Wednesday for a \$100 million oil refinery to be built in the Las Cruces area to process Alaska crude oil.

Board members are expected to receive the proposal informally this afternoon. A formal meeting on the matter is scheduled Wednesday.

Negotiations are underway between the group proposing the refinery and Standard Oil of Ohio (Sohio), the supplier of the Alaskan oil. Sohio plans to pipe 500,000 barrels of oil from Long Beach, Calif., to Midland, Texas, passing through southern New Mexico.

Sohio agreed to let New

Mexico have 50,000 barrels a day for two years in exchange for backing the abandonment of a natural gas pipeline that would be used in the oil pipeline system.

The State was given two years to come up with a proposal for use of the oil.

That time is up Nov. 30, but the board's Deputy Director Ernest Coriz said the state asked for an extension. He said he believes Sohio will grant one because it is stalled by a new environmental impact statement pending in California.

Coriz also said the federal government's entitlement law comes into play in the negotiations — if New Mexico doesn't make its move before the Sohio deadline, the oil

could be dedicated into the interstate market with New Mexico unable to claim it in the future.

The proposed refinery, to be located 26 miles west of Las Cruces, would be a joint venture of the Strauss Cattle Co., of University Park, N.M., Williams Brothers Urban Ore Corp. of Tulsa, Okla., and the Tipperary Corp. of Midland, Texas.

Ralph Freeman of Tipperary said he could not comment on the project but said his group would be ready with a final proposal for the energy board Wednesday.

The plant would handle 50,000 barrels a day, making it the largest refinery in New Mexico and increasing the state's refining capacity by a third.

Coriz said existing state refineries did not approach the board with plans for the Alaskan crude.

The area being studied near Las Cruces is heavily agricultural, and a study prepared for the board indicates it is "highly probable" the establishment of a refinery in the southwestern part of New Mexico will meet resistance from environmental groups.

The study said the Las Cruces area has a history of environmental actions and that two major industrial projects, including the Farnsworth Oil Refinery now located in Lovington, were turned back on environmental grounds.

The report indicated the best investment would be a flexicoking refinery — one that would produce 70 percent gasoline and 30 percent distillates.

The study also said 50 percent of the gasoline produced by the refinery could be marketed in New Mexico, while the remaining half could be marketed in Arizona.

Lordburg and Deming also were discussed as potential sites along the Sohio line. Las Cruces was rated highest in labor, housing, water and transportation studies, but lower in regard to land, electricity cost and environment.