

OIL & GAS CONSERVATION COMMISSION
Meeting: February 24, 1984
A. K. Doss, Exec. Director

February 24, 1984



OFFICE OF
Oil and Gas Conservation Commission
STATE OF ARIZONA
1645 WEST JEFFERSON, SUITE 420
PHOENIX, ARIZONA 85007
PHONE: (602) 255-5161

A G E N D A

Meeting
February 24, 1984
1645 West Jefferson, Room 420
Phoenix, Arizona

10:00 A.M.

Call to order

1. Approval of Minutes of
Meeting of November 18, 1983
2. Report of Executive Director
3. Report of Enforcement Section
4. Old Business
5. New Business
6. Adjourn

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



OFFICE OF
Oil and Gas Conservation Commission
STATE OF ARIZONA
1645 WEST JEFFERSON, SUITE 420
PHOENIX, ARIZONA 85007
PHONE: (602) 255-5161

TO THE HONORABLE SECRETARY OF STATE
AND THE CITIZENS OF THE STATE OF ARIZONA

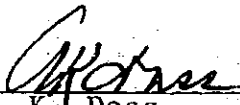
Pursuant to A.R.S. § 38-431.02, notice is hereby given that a regular meeting of the Oil and Gas Conservation Commission will be held at 10:00 a.m. on February 24, 1984 at the Commission offices at 1645 West Jefferson Street, Suite 420, Phoenix, Arizona.

Notice is hereby also given pursuant to A.R.S. § 38-431.02.B. that in the course of the regular meeting, the Commission may go into Executive Session for advice from legal counsel pursuant to A.R.S. § 38-431.03.A.3.

Dated this tenth day of February 1984.

OIL AND GAS CONSERVATION COMMISSION

By


A. K. Doss
Executive Director

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

Minutes of Meeting
November 18, 1983

Present:

Dr. J. Dale Nations, Vice-Chairman
Mr. L. A. Palmer, Member
Mr. Forrest R. Rickard, Member
Mr. Watson M. Tomerlin, Member

Guest: Mr. Hector Villalobos, Geologist
Mineral Resources
Bureau of Land Management

The regular Commission meeting of November 18, 1983 was called to order by Dr. J. Dale Nations, Vice-Chairman, in the absence of Ralph W. Bilby, Chairman.

Minutes of the September 23, 1983 meeting were approved as written.

A. K. Doss, Executive Director, reviewed his Activity Report.

BROOKS EXPLORATION

Mr. Doss and Mr. Ybarra visited well No. 1-27 Mohave Federal in the Cane Beds area in early October. Streamers of free oil were found in the samples taken from the shallow interval. No further word has been received from Brooks, and their future plans are unknown on the drilling of the second well, the No. 1-4 Mohave Federal.

DOWLING PETROLEUM

According to the vice-president, Mr. Sam Bakke, Dowling finally sold its deal, and is to begin work in the Yuma area soon (but still has not started.)

REDBIRD OIL COMPANY

The lands involved in this venture belong to Arizona, but are located on the California side of the present AZ/CA state boundary line (mid-channel of the Colorado River.) This

Minutes of Meeting
November 18, 1983
Page 2

isolation of Arizona lands occurred when the course of the Colorado River changed in the Thirties. This area is known as The Island.

Mr. Joe Faull obtained a farm-out interest on some of these lands, but was uncertain in which state to file for an application to drill. He was advised to file in Arizona since the location is on Arizona State Trust Lands. He got a permit from us, and was also trying to get a permit to drill the well as a low-temperature geothermal hole from the State of California because lands in this area are zoned only for agriculture and geothermal. He thought he would get around that by getting a geothermal permit in California which is easier to get, but it will require all kinds of environmental statements and assessments. He may never get a permit from California. California can't zone an activity on Arizona State Trust minerals.

Mr. Ybarra interjected and said that while in California he learned that Mr. Faull's application to drill in Imperial County under the guise of a geothermal well was very near to being approved. The county is to have a meeting to change the zoning to include drilling for oil and gas. The projected depth of the Redbird well is 3500'.

ENERGY AWARENESS WEEK

The Commission prepared a display in the Capitol lobby for The Governor's Energy Awareness Week which attracted a lot of attention. Samples of Arizona crude oil were included in the exhibit.

Mrs. Sheila Burgan was welcomed as the new secretary with the Commission.

In response to Dr. Nations' inquiry about Shell Oil Company, Mr. Doss advised that Shell has taken out a large number of leases in the state. The largest block of land is in Mohave County from Lake Mead to the Bill Williams River. Over 40,000 acres have been secured in the Safford area. Leases have also been obtained in western Maricopa County, La Paz County, and in northern Yuma County. Numerous seismic crews are active in the Kingman area, indicating that exploration drilling is contemplated. No further information has been received from Bob Walker in the Tombstone area, so his intentions are not known.

Minutes of Meeting
November 18, 1983
Page 3

GEOHERMAL KINETICS

Still no word from John Bannister in response to Mr. Doss' request for information on the two temporarily abandoned geothermal wells near Higby. Mr. Doss made a trip to this location to inspect the well sites, and showed pictures of them. He will continue to try to contact Mr. Bannister and give him a time limit. Our only recourse would be to issue an Order to Show Cause through the Attorney General's office. If this situation isn't resolved, it could prove very embarrassing to the Commission.

Mr. Doss advised he received a subscription from a new firm in Arizona called Galleria Energy. They are trying to sell 32 units in a drilling project in West Virginia.

R. A. Ybarra, Enforcement Director, reviewed his Activity Report.

He returned to the Brooks' well for drilling to 2500'. The deeper interval was tested without success and then the well was abandoned. Mr. Ybarra had a telephone call from Steve Trammel of Petroleum Information who had talked with Mr. Faull of Redbird Oil. He was going to modify the location of the well to the Arizona side of the state line. Mr. Ybarra showed a map of this area. He also presented a map showing the portion of the Teec Nos Pos field where Mountain States Resources is operating. A sundry report received from MSR revealed that well No. 16 Navajo is capable of 2,300,000 cubic feet of gas a day and 125 barrels of condensate per day. Arrangements are being pursued to negotiate a gas contract with El Paso Natural Gas Company, but without success. New gas is costly, and there is ready access to lower-priced old gas. This situation has resulted from implementation of the Natural Gas Policy Act.

Mr. Ybarra advised that he attended an EPA hearing on October 11, 1983 on the proposed implementation of an Underground Injection Control (UIC) program for the State of Arizona. Arizona is one of 23 states without an approved program. According to Mr. Doss, the only rule that wasn't approved was the Natural Gas Policy Act of 1978. It is being held up by the Attorney General's office because of lack of knowledge regarding this subject.

On November 15, 1983 Mr. Ybarra advised of his tour to the geothermal field of Cerro Prieto in Baja, California, Mexico which is about 35 miles south of Calexico, CA. Since the plant was

Minutes of Meeting
November 18, 1983
Page 4

down for maintenance repairs, the steam from about 30 wells was being vented instead of being shut in. Shutting in the wells affects adversely the productivity when the wells are returned to service. The well involved created a fantastic sight of steam clouds. The steam is used to generate electricity under normal circumstances. Two new 200MWe (mega watts) plants are under construction. One is scheduled for completion in June 1984, and the other will be ready a year later. The power from the last unit is scheduled for Southern California. Other geothermal-related projects include three large hydroponic greenhouses where zucchini squash was being grown and four fish ponds. The fish being raised include carp, novena and talapia. Langostina is in one of the ponds. Mr. Doss advised that talapia, which was imported from Africa, has taken over all the canals in the Yuma area. It survives strictly on vegetation. All of the game fish are being eliminated due to the production rate of the talapia. There are no environmental constraints in Cerro Prieto, and all the effluent goes into nearby evaporation ponds.

Dr. Nations inquired about our geothermal exploration and that of Phillips Petroleum. Mr. Doss advised that Phillips is shut down completely, and that they fired almost all of their geothermal group including the geologist who was working Arizona.

Mr. Palmer inquired about the geothermal endeavor in the Alpine area. Mr. Doss stated that this was Pan American's project, and there is no activity there. Mr. Doss reported that Phillips plans to continue its Roosevelt Hot Springs project in southwest Utah, but that their exploration group has been eliminated.

NEW BUSINESS

We have been notified by Russ Kolsrud, our Attorney General, that we do not have a rule calling for hearings and rehearings. A statute was passed in the early 1970's that required each agency adopt rules pertaining to hearings and rehearings. He sent a draft of rules for our consideration. Mr. Doss advised that he found two technical mistakes in the draft. He felt that the proposal could be adopted with proper format, since it is required by law. In other words, according to Mr. Palmer, we are making legal what we are already doing. A public hearing will have to be held for the adoption of this rule. Mr. Doss said that before our next meeting, this will be in final form and copies of the rule will be mailed to the Commission so that all may have the opportunity to understand it.

Minutes of Meeting
November 18, 1983
Page 5

At the next meeting we will have a public hearing to adopt the rule. The members had copies of the rule which they are to review, and if there are questions before the next meeting, Mr. Doss would be happy to answer them.

It was moved by Mr. Palmer that the next Commission meeting be on Friday, January 20, 1984. Mr. Rickard seconded the motion. Motion carried. There is a possibility that the meeting would take place in Yuma if the Dowling well should be successful. The members will be contacted to determine if this arrangement would be agreeable.

Hector Villalobos expressed his gratitude for being permitted to attend the meeting on behalf of the Bureau of Land Management.

A motion was made by Mr. Rickard to adjourn the meeting at 11:05 a.m. It was seconded by Mr. Palmer. Motion carried.

APPROVED

Dale Nations

Dr. J. Dale Nations
Vice-Chairman



OFFICE OF
Oil and Gas Conservation Commission
STATE OF ARIZONA

1645 WEST JEFFERSON, SUITE 420
PHOENIX, ARIZONA 85007
PHONE: (602) 255-5161

ACTIVITY REPORT

February 10, 1984

A. K. Doss
Executive Director

LEGISLATIVE

No bills have been introduced this session that have real direct impact on the OGCC. Appearances have been made before the House and Senate Appropriation Subcommittees for budget consideration. The Joint Legislative Budget Committee (JLBC) and the Executive Budget Office (EBO) recommend a lump-sum appropriation of \$138,000.00. As last year, this is a bare-bones budget that we can just barely get by with. We requested an additional \$1,000.00 from both Subcommittees for updating and reprinting our maps and reports which we consider vital to our services.

IPAMS

The Independent Producers Association of Mountain States held their annual conference at the Mountain Shadows resort in January. John Karabees is the Arizona Vice-President of the organization. I attended a breakfast business session at which an economic analyst with Smith Tool Co. predicts 1984 to be one of the busiest of recent years in exploration drilling. The meeting gave me the opportunity to visit with many friends and associates in the oil business I've known over the years.

OIL AND GAS LEASING

Shell Oil Company is still taking out leases in the southern Graham and northern Cochise counties where they very recently got an additional 133,000 acres. It is my understanding Shell now has over 500,000 acres of state lands under lease.

An individual, Donald Dalbasko, from Houston has taken oil and gas leases from Florence to Oracle Junction. Most of the leases are east of the highway. It is not known at this time whether or not he will be making assignments to a company.

Activity Report
Executive Director
February 10, 1984
Page 2

REPORTS

Dr. Nations, Mr. Ybarra and I recently completed a report for the Four Corners Geological Society covering explanation activity, field and production statistics and highlights of the past few years. A copy of this report will be sent to the American Association Petroleum Geologists for publication and free distribution along with similar reports from other oil producing states.

AUDIT

A team of auditors from the Auditor General's office is conducting a performance audit and a sunset review on the Commission. This audit will probably be ongoing until the end of August. The auditors are young ladies who have no knowledge whatsoever of the oil and gas business. It would be interesting to see an audit of the cost/benefits justification of this type of activity.



OFFICE OF
Oil and Gas Conservation Commission
STATE OF ARIZONA
1645 WEST JEFFERSON, SUITE 420
PHOENIX, ARIZONA 85007
PHONE: (602) 255-5161

ACTIVITY REPORT

February 6, 1984

R. A. Ybarra
Enforcement Director

During this report period one application to drill was cancelled, two new applications to drill were approved, and one well was abandoned.

Redbird Oil Company cancelled its application to drill Well No. 1-12 State in Sec. 12, T.8S., R.23W., in Yuma County. The purpose of the cancellation was to avoid unforeseen delays and implications because of the well's location inside the political boundaries of California. The operator then filed and received approval to drill Well No. 1-7 State, on the Arizona side of the line, in Sec. 7, T.8S., R.22W. The planned total depth for the well is 4,500'.

The second application approved was filed by Black Gold Petroleum Company, Inc., (catchy!) for Well No. 1 Federal in Sec. 20, T.18N., R.18W., in Mohave County. This well is scheduled to be drilled in March to a depth of 4,800'(?).

On January 24, I traveled to the Black Rock Field (inactive) to witness the abandonment operations on Amerada Hess Corporation's Well No. 1 Navajo-B in Apache County. This well was drilled in 1973 and a production string (5-1/2") cemented at 5,865'. The upper interval 4,814' - 4,822' (lower Ismay) tested at 12 barrels of 38° gravity oil and 220,000 cubic feet of gas per day before being shut in. I witnessed the placing of cast iron bridge plugs above each of the perforated intervals and the dumping, by bailer, of two batches of cement (\pm 5 sacks) on top of each bridge plug. Holes were shot in the 5-1/2" casing at 1,050' (below shoe of 8-5/8" casing) and the annular space between the 5-1/2" and 8-5/8" casings was cemented to the surface with 175 sacks of cement. A 100-foot cement plug was pumped through drill tubing hanging at 120'. A 3/4" steel plate was welded on top and the monument set as required.

Also in January, A. K. and I visited the Redbird well location in Yuma, as well as the shut-in Dowling well.

Permit 840

February 3, 1984

Mr. Paul Dowling
Dowling Petroleum, Inc.
Three Petroleum Center
P. O. Box 3846
Midland, TX 79702

Re: Dowling Petroleum, Inc.
1 A State
NW NW 34-10S-23W
Yuma County, Arizona

Dear Mr. Dowling:

Inasmuch as this Commission has received criticism for allowing the unusually long period of inactivity of the above-referenced well, this is to advise you that the Commission at its next regularly scheduled meeting to be held at the Commission's offices at 10:00 A.M., February 24, 1984 will consider whether the above-mentioned well should be plugged and abandoned in accordance with the provisions of Rule 12-7-127.

You and any of your staff are invited to be present at the meeting.

Sincerely,

A. K. Doss
Executive Director

/kb

Teal Stockman

Ch. 7 OIL AND GAS CONSERVATION COMMISSION R12-7-128

1. The bottom of the hole shall be filled to, or a bridge shall be placed at, the top of each producing formation open to the well bore, and in either event a cement plug not less than 50 feet in length shall be placed immediately above each producing formation open to the well bore.
2. A continuous cement plug shall be placed through all fresh-water strata and shall extend at least 50 feet above and 50 feet below said strata.
3. A plug not less than 20 feet in length shall be placed at or near the surface of the ground in each hole.
4. The interval between plugs shall be filled with heavy drilling mud.
5. An uncased hole shall be plugged with heavy mud up to the base of the surface string, at which point a plug of not less than 50 feet of cement shall be placed in and out of the bottom of the surface pipe. See Rule R12-7-127.A.2. above.
6. The method of placing cement in the hole shall be by pumping through tubing, pump and plug, or other method approved by the Commission.
7. The exact location of each abandoned well shall be marked by a piece of pipe not less than 4 inches in diameter securely set in cement and extending at least 4 feet above the general ground level. A permanent sign of durable construction shall be welded or otherwise permanently attached to the pipe, and shall contain information required in Rule R12-7-106.A. An abandoned well location on tilled land shall be marked in a manner approved by the Commission.
8. The drill site of an abandoned well shall be restored as nearly as possible to its natural state, to the satisfaction of the Commission. All pits shall be filled and all equipment and debris shall be removed from the location.
 - B. When drilling operations have been suspended for 60 days, the well shall be plugged and abandoned unless written permission for temporary abandonment shall be obtained from the Commission.

Prior to reentering any temporarily abandoned well, the owner or operator shall give written notice on Form 9 or Form 25 (see Appendix 1) detailing the proposed activity.
 - C. Within 30 days after plugging of any well, the owner, operator, or producer responsible therefor shall file with the Commission an affidavit on Form 10 (see Appendix 1) setting forth in detail the method used in plugging the well.

*Copy on #1 State Name
has been submitted
p. # 537*

Historical Note

Former Rule 202: Amended eff. Sept. 29, 1982 (Supp. 82-5).

R12-7-128. Stratigraphic exploratory holes

- A. Any hole drilled for stratigraphic purposes must comply with all rules and regulations pertaining to the drilling of a well except those provisions of Rule R12-7-107, pertaining to spacing. Samples and cores shall be submitted within 30 days following the date of completion. If requested by the operator, the Commission

Close, "Drilling Funds: The 1977 Perspective," 28 Sw. Legal Fdn. Oil & Gas Inst. 421 (1977);

Welter, "Tax Structuring the Drilling Deal," 19 Rocky Mt. Min. L. Inst. 81 (1974);

Record, "Recent Developments in Exploration Financing," 24 Sw. Legal Fdn. Oil & Gas Inst. 111 (1973);

Cossey, "Financing Oil and Gas Exploration—Past, Present, and Future," *Id.* at 135;

Mosburg, "Regulation of Tax Shelter Investments," 25 Okla. L. Rev. 207 (1972);

Rathwell, "Problems Related to the Registration in Western Canada of Foreign Limited Partnerships and the Ownership by Such Partnerships of Interests in Oil and Gas Leases," 10 Alberta L. Rev. 477 (1972).

See also, FUNCTIONAL ALLOCATION SHARING ARRANGEMENT; LEVERAGED DRILLING FUND; MONEY MANAGEMENT FUND; PLATO; POGO PLAN; PRIVATE PLACEMENT DRILLING FUND; PUBLIC DRILLING FUND; THIRD FOR A QUARTER DEAL.

For a detailed discussion of several varieties of drilling funds, see *Brounias v. Commissioner*, 73 T.C. 491 (1979) 74 T.C. 1062, 67 O.G.R. 477 (1980).

Drilling log

See DRILLER'S LOG.

Drilling mud

See MUD.

Drilling operations

Any work or actual operations undertaken or commenced in good faith for the purpose of carrying out any of the rights, privileges or duties of the lessee under a lease, followed diligently and in due course by the construction of a derrick and other necessary structures for the drilling of an oil or gas well, and by the actual operation of drilling in the ground. Under various lease clauses (e.g., the delay rental, the drilling operations clause), the question may arise whether drilling operations have commenced or whether such operations have been prosecuted with reasonable diligence, or whether such operations have ceased for a given period of time. See *Ariz. R.S. § 27-551*; *Rogers v.*

ANNOTATED

Osborn, 152 Tex. 540, 261 S.W.2d 311, 2 O.G.R. 304, 1439 (1953). See also, ACTUAL DRILLING OPERATIONS; COMMENCEMENT OF DRILLING; DRILLING.

In *Reid v. Gulf Oil Corp.*, 323 S.W.2d 107, 10 O.G.R. 830 (Tex. Civ. App. 1959), *aff'd*, *Gulf Oil Corp. v. Reid*, 161 Tex. 51, 337 S.W.2d 267, 12 O.G.R. 1159 (1960), the court discussed the meaning of the term "drilling operations" as used in a lease clause:

"It may be—though there is no affirmative evidence to that effect—that drilling operations are not normally thought of, either inside or outside the oil and gas industry, as embracing the installation of marketing facilities, but we are nonetheless of the opinion that, as used in the lease, the term 'drilling operations' was intended to embrace all of the physical and mechanical aspects of bringing about the production of oil or gas in paying quantities. A pipe line was as essential to production in the circumstances as was the casing that was placed in the well itself. . . . We are therefore impelled to the conclusion that the term 'drilling operations' was intended to have the broad meaning we have indicated, because the parties are presumed to have known, and to have executed the lease knowing that the reasonable-time doctrine would not be available to bridge a gap between the capping stage and the production stage in a well's program. . . . It would be idle to argue that the term was intended to embrace nothing more than the mere cutting of hole; and once past that point, there would seem to be no justification for excluding from its meaning any intervening step necessary to ultimate production." 10 O.G.R. at 838-839.

See also, REWORKING OPERATIONS.

Drilling operations clause

A savings clause which operates to keep the lease alive after the expiration of the primary term despite the failure to obtain production by that time if drilling operations are then being pursued. There is limited authority that without such a clause, a lease may be kept alive by drilling operations begun before the expiration of the primary term and pursued with reasonable diligence thereafter until production is obtained [*Simons v. McDaniel*, 154 Okla. 168, 7 P.2d 419 (1932)], but by the weight of authority, if there is no production at the expiration of the primary term the lease then terminates even though drilling operations then being pursued result in production shortly after the expiration of the primary term.

§ 27-551

MINERALS, OIL AND GAS

ARTICLE 2. LEASE STATE LANDS FOR OIL AND GAS

§ 27-551. Definitions

In this article, unless the context otherwise requires:

1. "Arizona refinery business" means a firm which markets in this state the product refined from royalty oil purchased under this article and owns and controls an oil refinery located within this state.
2. "Completion operations" means work performed in an oil or gas well after the well has been drilled to the point where the production string of casing is to be set, including setting the casing, perforating, artificial stimulation, production testing and equipping the well for production, all prior to the commencement of the actual production of oil or gas in paying quantities, or in the case of an injection or service well, prior to when the well is ready for use, or in the case of a dry hole, prior to when the well is plugged and abandoned.
3. "Department" means the state land department.
4. "Drilling operations" means any work or actual physical or mechanical operations undertaken or commenced in good faith for the purpose of bringing about the production of oil or gas in paying quantities, including the preparation of drill sites, followed diligently and in reasonable due course by the mobilization of a drilling rig and other necessary structures for the drilling of an oil or gas well and by actual drilling in the ground.
5. "Lease" means an oil and gas lease issued, extended or amended pursuant to the provisions of this article.
6. "Lessee" means the holder of an oil and gas lease issued pursuant to this article and includes any assignee of an original lessee.
7. "Oil and gas" and "oil or gas" includes oil, gas, other hydrocarbon substances, and helium or other substances of a gaseous nature.
8. "Produced" includes the words "procured and produced".
9. "Refinery charge stocks" means crude oil, liquid petroleum or gas condensate and blends of such products and all other products charged or chargeable to petroleum refinery facilities.
10. "Reworking operations" means work performed at any depth on a well after its initial completion in an effort to secure production where there has been none, or to restore production that has ceased or to increase production.
11. "Royalty oil" means crude oil, liquid petroleum products or gas condensates from wells or lease plants or a mixture of such products.
12. "State lands" means any land or any interest therein owned or held in trust or otherwise by the state, including but not limited to leased school or university lands.
13. "Surface lease" means a lease on the surface of any state land for grazing, agricultural, commercial or homesite purposes.
14. "Surface lessee" means the holder of a lease on the surface of any state land for grazing, agricultural, commercial or homesite purposes.

Amended by Laws 1980, Ch. 80, § 1; Laws 1982, Ch. 299, § 2.

Laws 1980, Ch. 80, § 6 provides:

"Notwithstanding the provisions of this act, the legislature intends that if the provisions of title 41, chapter 20 [§ 41-2351 et seq.], Arizona Revised Statutes, operate to terminate an agency, any provisions regarding powers, duties, functions or personnel added or amended by this act terminate on the date of termination of the particular agency."

Laws 1982, Ch. 299, §§ 1 and 6 provide:

"Section 1. Purpose

"The purpose of this act is to promote competition within this state for royalty oil produced by a

lessee which is to be refined in this state, to establish the highest and best bidder and provide definitions.

"Sec. 6. Intent regarding termination

"Notwithstanding the provisions of this act, the legislature intends that, if the provisions of title 41, chapter 20, [Section 41-2351 et seq.] Arizona Revised Statutes, operate to terminate the state land department, any provisions regarding powers, duties, functions or personnel added or amended by this act terminate on the date of termination of the department."

MINERALS, OIL AND GAS

§ 27-555. Lease of state lands not to producing oil and gas field; application for withdrawal of lands from leasing

A. When state lands are not located producing oil and gas field, as determined by first application for the lease shall be issued by bidding.

B. The noncompetitive leases shall provide twelve and one-half per cent of the oil, gas or other products determined at the price prevailing at the time of production, otherwise removed from the leased premises.

C. Royalties, including shut-in gas royalties, on any state lands leased pursuant to this article by virtue of a unit agreement shall be paid to the owner of such state lands or any part of the state lands by unit agreement.

D. The leases shall provide for the payment of one dollar per acre per year for each year of the lease, or provide for a minimum rental of forty dollars per acre per year.

E. Each lease issued under this section shall remain in force as long thereafter as oil or gas is produced in paying quantities, except that:

1. If oil or gas is not being produced in paying quantities during the primary term of the lease, the lessee shall be entitled to an extension of the lease for an additional term of five years, during which time the lessee shall be paying quantities from the leased premises. If the lease is not extended, the rental payable during the primary term shall be further right to any additional extension of the lease. The provisions of § 27-556 relating to the bid shall not apply in any case, but all conditions contained in the original lease shall be as provided in this paragraph, and the term of any lease amended pursuant to this subsection.

2. If oil or gas is not being produced in paying quantities during the primary term of the lease or any extension of the lease, the owner of the lease is diligently engaged in the lease continues in force for a period of two years after the lease has otherwise expired and as long thereafter as oil or gas is produced from the lands. If oil or gas is produced during any two year extension, the lease shall be extended as long as oil or gas is produced in paying quantities, except that rental requirements at the beginning of the extension shall be in existence at that time.

3. Oil or gas that is produced from any lease shall be produced by virtue of a unit agreement and that the lease shall be terminated pursuant to the terms and conditions of the unit agreement on the state lands or that part of the state lands.

4. If for any reason production of oil or gas ceases during the primary term or after extension of the lease, the lessee shall commence drilling, completion or reworking operations from cessation of production, and if drilling, completion or reworking operations are conducted with reasonable diligence, the lease shall be extended as long as oil or gas is produced in paying quantities beyond two years if production is not resumed.

OIL AND GAS CONSERVATION COMMISSION
STATE OF ARIZONA

PERMIT 837

REPORT ON PROPOSED OPERATIONS

DOWLING PETROLEUM, INC.
P.O. Box 3846
Midland, TX 79401

Phoenix, ARIZONA
February 11, 1983

Your proposal to drill well 1 State
A.P.I. No. 02-027-20033, Section 34, T. 10S, R. 23W, G&SR H. & M.,
field, area, pool,
Yuma County, dated 1-10-83, received 2-2-83 has been examined in conjunction with records
filed in this office.

THE PROPOSAL IS APPROVED PROVIDED:

1. Drilling mud consistent with sound drilling practices shall be used at all times.
2. The well is cased and cemented in such a manner as to protect all zones that contain oil, gas, or fresh water, so as to provide well control during drilling operations.
3. Blowout prevention equipment shall be installed, used, maintained, and tested in a manner necessary to assure well control throughout the drilling, completion or abandonment of the well.
4. The status of completed drilling operations (Form 25) shall be filed with the Commission on a timely basis.
5. Samples taken of this well shall be shipped or mailed, charges prepaid, to:
 - a. Oil & Gas Conservation Commission, Phoenix office.
 - b. Bureau of Geology & Mineral Technology, University of Arizona
845 N. Park, Tucson, AZ 85719
6. THIS COMMISSION SHALL BE NOTIFIED:
 - a. Immediately when drilling operations commence.
 - b. To witness the running and cementing of the surface casing.
 - c. To inspect the installed blowout prevention equipment prior to drilling below the shoe of the surface casing at 400 feet.

BOND SLR 7503876

A. K. BOSS, Executive Director

By R. G. Ybana
Enforcement Director

A copy of this report and the proposal must be posted at the well site prior to commencing operations.

Records for work done under this permit are due within 30 days after the work has been completed or the operations have been suspended.

Arizona expects more wildcat drilling

by Kris Stremel

Wildcatting is on the rise in Arizona. Shallow shows in several remote tests have drawn a considerable amount of industry attention and could account for a moderate increase in activity throughout the state. At least two major geophysical surveys underway also may affect future exploration.

Development of reservation lands, however, appears to be declining. Several locations have been staked, but drilling to retain leases is all that's expected.

Further testing is scheduled for the northwestern Arizona Strip Country near a 1983 test that indicates shallow oil production potential similar to southern Utah's Virgin Field.

Brooks Exploration Inc. abandoned its 1-26 Mohave-Federal in NW NW 26-40n-6w of Mohave County, but swab and drillstem tests of the 7064-ft wildcat in Triassic Moenkopi and Permian Toroweap recovered oil and water. Brooks attempted completion in Moenkopi between 573 and 586 ft, but the well was abandoned due to low permeability.

Two additional 2500-ft tests have been staked: the 1-4 Federal A-8929 in NW NE 4-40n-6w; and the 1-27 Federal A-8731 in NE NE 27-40n-6w. Drilling is expected to commence this summer.

Forty miles east in Coconino County, independent Jay Shields is continuing evaluation of several shallow tests. Two more locations have been staked, but drilling plans are indefinite.

Elsewhere in Mohave County, Shell Oil Co. has an extensive geophysical survey underway. The company also recently acquired several thousand lease acres across the state in the Pedregosa Basin. The large acreage position is directly across the border from Arco and Phillips Petroleum tests in New Mexico. Geophysical and drilling plans have not been released.

The Holbrook Basin, where recent gas shows indicate commercial production potential, has attracted the exploratory efforts of several independents.

A 3900-ft Devonian test is planned on High Plains Petroleum Corp.'s Apache County acreage south of the Navajo reservation. According to president John Somers, the wildcat will tap the largest closed structure in the basin.

Somers notes that two shallow mineral potash tests drilled on the flank of the structure in the 1960s encountered oil and gas in two separate Supai zones.

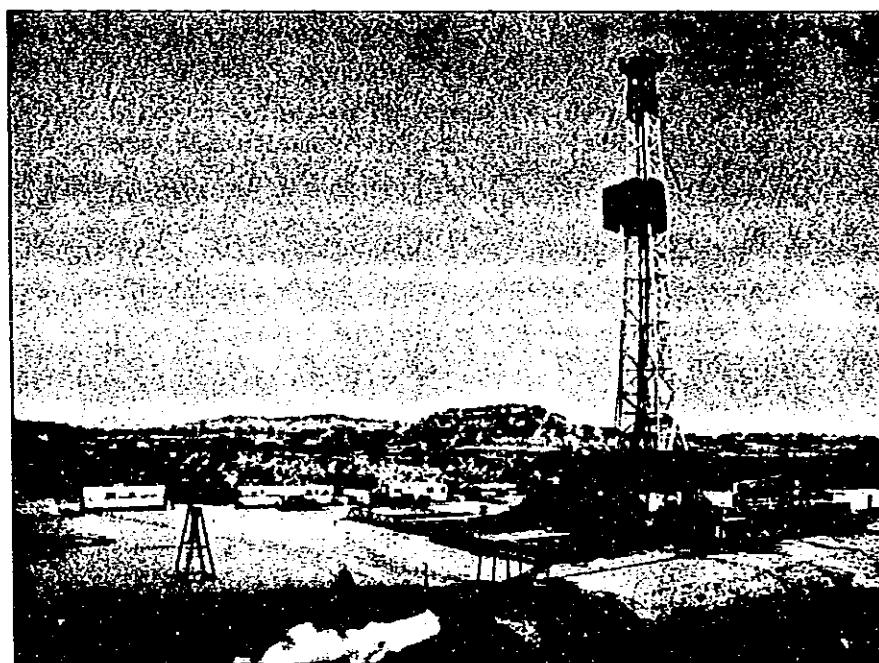
Resources Operating Inc. plans geophysical and geochemical work on the 60,000 lease acres it holds in the Holbrook Basin. A test of the company's

the company hopes to stake at least four drilling locations this spring.

In Yuma County, Dowling Petroleum Corp.'s 1 State wildcat in SW SW 16-18s-20w seems to have attracted new operators to the area. Sources say two other companies, Redbird Oil Co. and Bradco, have staked nearby locations.

Dowling plans to complete the 5006-ft wildcat this spring. Drilling of two nearby locations is dependent upon the outcome of the well, the company says.

Development of Navajo lands in the



Shallow shows

Several remote tests have drawn a considerable amount of industry attention, and could account for a moderate increase in activity.

2 Federal in SW SW 29-11n-22e of Apache County last year recovered gas shows, but the well was plugged and abandoned because of gas marketing problems. Some drilling may occur this fall.

Basic Resources Corp., a New York-based international operator, is conducting a large-scale Landsat geophysical survey in the area and sources say

northeastern portion of the state seems to be slowing. MSR Exploration Ltd. will drill at least five wells this year developing Apache County's Teec Nos Pos Field. Three locations on the west side of the field have been approved. Kerr-McGee Corp. has seven locations staked in Apache County's Dineh-Bi-Keyah Field, but plans no development this year. □

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 JANUARY 19 84
34,663 15	6011	1 Salaries: Staff	4,915 27
14,976 15	6057	2 Appointed Official	2,824 51
270 00	6058	3 Per Diem: Commission Members	
3,684 37	6111	4 Emp. Related: F.I.C.A.	542 08
2,162 01	6113	5 Health Insurance	337 84
282 00	6115	6 D&L Insurance	48 00
258 15	6117	7 Unemployment Insurance	33 54
271 03	6119	8 Workmen's Comp	38 29
3,824 87	6155	9 Retirement	541 79
626 09	6183	10 Personnel Com. Pro Rata Chg.	81 70
281 09	6118	11 Dental Insurance	43 72
	6293	12 Prof. Serv.: Court Reporter	
	6499	13 Cartographic Symbols	
	6499	14 Cartographer	
	6511	15 Travel-State: Air Fare	
	6531	16 Taxi	
575 40	6541	17 Mileage-Private Vehicles	
994 36	6551	18 Mileage-State Vehicles	105 75
2 00	6569	19 Parking	
	6569	20 Telephone	
884 42	6581	21 Subsistence	170 00
	6599	22 Registration Fees; Other	
	6611	23 Travel-Out of State: Air Fare	
	6631	24 Taxi	
	6639	25 Rail Fare	
	6641	26 Personal Auto	
	6669	27 Parking	
	6669	28 Telephone; Other	
	6681	29 Subsistence	
	6699	30 Registration Fee	
	7019	31 Legal Advertising	
132 98	7036	32 Postage Stamps	
236 10	7044	33 Telephone Service: ATS Service (WATS)	39 00
155 85	7045	34 Central System	26 30
133 58	7046	35 Toll Service	1 05
98 98	7047	36 Taxes, Dir. Assistance	14 59
	7047	37 Miscellaneous	
509 18	7066	38 Insurance (Risk Management)	
	7103	39 Occupancy: Office Rent	
172 68	7188	40 Telephone Equip.: Lease/Rent	112 28
	7311	41 Printing	
42 38	7532	42 Furniture	
	7532	43 Adder/Calculator	
	7532	44 Reader/Printer	
70 00	7553	45 Typewriter	
247 50	7553	46 Copy Machine	
	7607	47 Library Supplies	
	7621	48 Stationery/Envelopes	
14 17	7623	49 Printed Forms	
27 56	7624	50 Reproduction Supplies	
150 23	7625	51 Blue Prints/Office Supplies	159 00
	7628	52 Printing Maps	
69 56	7628	53 Printing Miscellaneous	
	7962	54 Revolving Fund	
	7967	55 Books	
71,417 54		TOTAL	10,034 71

OFFICE
AUDIT

(DO NOT WRITE BELOW THIS LINE)

FIELD
AUDIT

MONTHLY FINANCIAL REPORT

1 RECEIPTS MONTH OF JANUARY 1984	2 RECEIPTS CLASSIFICATION	4 APPROPRIATED RECEIPTS	5 UNAPPROPRIATED RECEIPTS	6 TOTAL ALL RECEIPTS YEAR TO DATE
	1 Permits to Drill			3,902 00
	2			
	3			
	4			
	5			
	6			
	7			
	8			
	9			
	10			
	11			
	12			
	13			
	14			
	15			
	16			
	17			
	TOTAL CURRENT MONTH RECEIPTS			XXXXXX
XXXXXX	TRANSFERS IN			
	BALANCES BROUGHT FORWARD		3,902 00	XXXXXX
	TOTALS - MONTH AND YEAR TO DATE		3,902 00	

6 CLAIMS PAID MONTH OF JANUARY 1984	7 EXPENDITURES FUND TITLES	8 TOTAL AMOUNT AVAILABLE YEAR TO DATE	9 CLAIMS PAID YEAR TO DATE	10 OUTSTANDING ENCUMBRANCES	11 UNENCUMBERED BALANCE
7,139 78	1 Personal Services	102,100 00	54,909 50		47,190 50
1,666 96	2 Emp. Related Exp.	22,200 00	11,384 61		10,815 39
	3 Professional Services	400 00			400 00
275 75	4 Travel - State	7,700 00	2,456 68		5,243 32
	5 Travel - Out of State				
352 22	6 Other Operating Exp.	3,800 00	2,661 75		1,138 25
	7 Capital Outlay-Equipment				
	8				
	9				
	10				
	11				
	12				
	13				
	14				
	15				
	16				
	17				
	18				
	19				
	20				
	21				
	22				
	23				
	24				
	25				
	26				
	27				
	28				
	29				
10,034 71	TOTALS	136,200 00	71,417 54		64,782 46